

MYCO INDUSTRIES, INC
 T21S, R28E, Section 31: W/2
 Eddy County, NM
 Juneau 31 Federal Com #1

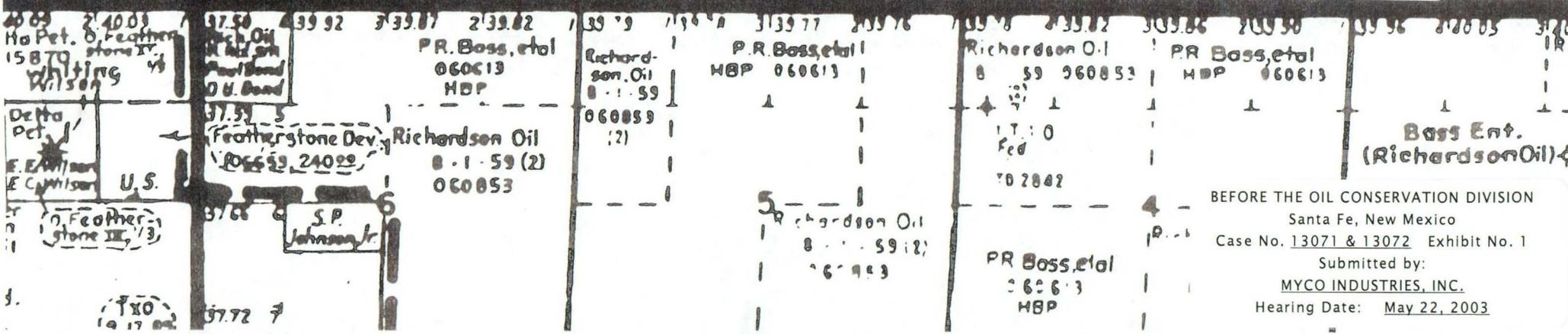
MYCO

Bass



Well

BEFORE THE OIL CONSERVATION DIVISION
 Santa Fe, New Mexico
 Case No. 13071 & 13072 Exhibit No. 1
 Submitted by:
MYCO INDUSTRIES, INC.
 Hearing Date: May 22, 2003



Big Eddy Unit
 Cony. Disc.
 U.S. TO 12457
 P.R. Bass, et al
 9-1-58(2) 066067
 M. Yates, 1/2 S/R
 Ralph Nix, S/R
 U.S.

Apache
 O.F. Featherstone
 3-16-2002
 4-1-2001
 VA 1396
 Myco Ind. City Fee Com.
 Chapparral
 R. Sikes
 Santa Fe
 10-1-2007
 Jan 2050
 Ruth Vernon

R.M. Bass, et al
 HBP
 059365
 Ralph Nix S/R
 Miller
 Nix F. Yates
 30
 Bass Ent
 Big Eddy
 U.F.
 T-170999

HBC
 Joe V. Lusk
 Claude West

Ralph Nix S/R
 Buss Ent
 059365
 39
 R.M. Bass
 (Big Eddy Unit)
 MBR Disc
 9 Mil

(Richardson Oil, et al)
 0406
 (Ralph Nix et al, S/R)
 Bass Ent
 28
 87
 S.M.
 P37
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 Read F. Stevens
 Nix-Fed

Richardson
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 Ralph Nix
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 Read F. Stevens
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Delta Pet
 0 Featherstone II
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Stagner, LLC
 Yates Drig. 3/4
 Bass Ent.
 Big Eddy
 Atoka Disc.
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"Big Eddy"
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MIDLAND
 Prod & Servicing
 Nix-Fed
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Delta
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Parque Farms, et al
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 Rich E.
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 G.C. Mann

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 P.R. Bass
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 M. Yates, 1/2
 Ralph Nix, 1/2
 Rich E. Bass
 HBP 010005
 P.R. Bass
 HBP
 E-5232
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Richardson Oil, et al
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 MYCO INDUSTRIES, INC
 T21S, R28E, Section 31: E/2
 Eddy County, NM
 Panther City 31 Federal Com #1

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 Inc. et al R
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Delta Pet
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Richardson Oil
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P.R. Bass, et al
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 Richardson Oil
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Richardson Oil
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Bass Ent.
 (Richardson Oil)
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MYCO Bass Well

REQUEST HISTORY WITH BASS

DATE	DETAIL	TOPIC
August 7, 2001	SDH trip to Fort Worth. Lunch with Bailey Bailey. Discussed MYCO's desire to make some sort of deal with Bass. Stuart Henry (ex-Tenneco geologist) is the President; Lee Muncy (ex-Tenneco) is the Exploration Manager; Jeff McWright (former OXY attorney) is the V.P. of Land.	General
September 27, 2001	<u>Phone call</u> : Log Request. Tom Robertson requested logs, we told him we had a partner that would not let us release them.	Well Information
October 11, 2001	<u>Phone call</u> : Joe Featherstone (on behalf of himself and MYCO) discussed increasing the 3D to give full fold to Section 19, 30 and 31, maybe even 20, 29 and 32 to earn rights to drill in Section 19, 30 and 31 under a 180 day CDP, carry to CP for ¼. First well would offset Capitol Prospect. Per Wayne, Bass would want a greater carry.	a) <i>Lincoln</i> b) <i>Topeka</i> c) <i>Juneau</i>
December 7, 2001	<u>E-mail</u> : SDH to Bailey. Invited Bass people to YPC Christmas Party. Lee Bass, Stuart Henry, Lee Muncy, Frank McWright and Wayne Bailey	
August 14, 2002	<u>E-mail</u> : SDH told Bailey MYCO was still trying to figure out a way to make a deal with Bass on Sections 5-8, 17-20 and 29-32. Told him we would extend the 3D if Bass would want that.	a) <i>Entire area</i> b) <i>Lincoln</i> c) <i>Topeka</i> d) <i>Juneau</i> e) <i>Panther City</i> f) <i>Throckmorton</i>
August 19, 2002	<u>Letter</u> : F/O Request. Sent a plat showing MYCO acreage and asked for a F/O of Section 5-8, 17-20, 29-32. Offered a 75% NRI BPO, 30% BI APO. 180 day continuous drilling provision. Offered to extend our 3D to cover the subject lands, MYCO to earn 50% of Bass' interest by doing so. After the seismic, MYCO would have a chance to earn the remaining 50% under a 180 day CDP.	a) <i>Lincoln</i> b) <i>Topeka</i> c) <i>Juneau</i> d) <i>Panther City</i> e) <i>Throckmorton</i>
August 22, 2002	<u>E-mail</u> : SDH to Bailey: Will be sending a plat. Terms in proposal letter sent to Bass are not carved in stone.	a) <i>Lincoln</i> b) <i>Topeka</i> c) <i>Juneau</i> d) <i>Panther City</i> e) <i>Throckmorton</i>
August 27, 2002²	<u>Phone call</u> : Bailey to SDH: Thought area was too big. They have a guy doing work because of the activity in the area. SDH mentioned we had lots of information to share, would be willing to do share if there was an agreement that Bass would do something. Told Bailey about Nadel-Gussman well in Section 20, he told SDH that he had not heard anything about it. He said he would get back with us.	a) <i>Lincoln</i> b) <i>Topeka</i> c) <i>Juneau</i> d) <i>Panther City</i> e) <i>Throckmorton</i>
August 19, 2002	<u>E-mail</u> : SDH to Bailey. Informing Bailey that information was being sent to show them our activity in the area.	a) <i>Entire area</i>
August 30, 2002	<u>Letter</u> : Information plat sent to Bass showing MYCO information, including MYCO acreage next to and inside the BEU, MYCO wells and all of this in relation to the Big Eddy Unit. Also shows the Capitol Pipeline.	a) <i>Lincoln</i> b) <i>Topeka</i> c) <i>Juneau</i> d) <i>Panther City</i>

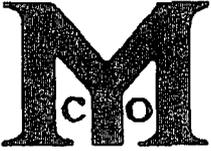
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		e) Throckmorton
September 13, 2002	<u>E-mail:</u> SDH to Bailey, friendly call to touch base	a) Entire Area
September 17, 2002	<u>Phone call:</u> SDH to Bailey: They are having a meeting today, doing some homework. Wouldn't do a checkerboard. Most they would do would be one location.	a) Entire area
September 30, 2002	<u>Phone call:</u> SDH to Bailey. We would like to re-enter well in Section 19, with the option to drill. Drill a well in Section 19 with the option to earn W/2 of Section 18.	a) Lincoln
October 3, 2002	<u>Phone call:</u> SDH to Bailey: Bailey asked what MYCO's main focus was; he thought the area we were asking for was too big. SDH told him that the main focus was Section 18, 19, 30, 31 and 32, right along the Capitol prospect. He said that he would pass it on that his guys were working the area. Asked if he knew about the well in Section 20, he said someone called with a F/O request but he hasn't seen anything in writing.	a) Section 18 b) Lincoln b) Topeka c) Juneau d) Panther City e) Throckmorton
October 4, 2002	<u>E-mail:</u> SDH to Bailey. Update on the Section 20 well.	Well Information
October 16, 2002	<u>E-mail:</u> Tom Robertson (Bass) to SDH. Requested logs.	Well Information
October 18, 2002	<u>Letter:</u> Logs to Tom Robertson. MYCO sent logs for the Augusta 24 Fee #1, Carson City 25 Fee Com #1Y and the Helena 25 Fee Com #1.	Well Information
October 18, 2002	<u>E-mail:</u> SDH to Bailey. Informed Bailey that logs being sent to Tom Robertson to aid his people in working the area and MYCO did not want to get in the way.	Well Information
October 23, 2002	<u>E-mail:</u> SDH to Tom Robertson. In response to Tom's e-mail inviting MYCO to call if he could return the favor from the logs, we asked if he was a contact for a Salt Water Disposal request.	SWD
October 29, 2002	<u>Letter:</u> Term Assignment Request. MYCO proposes a Section 19: S/2 spacing for the drilling of a Morrow well. Sent AFE. Requested a term assignment for \$200/acre, 75% NRI. Requested support in the N/2 of Section 19, all of 18 and All of 30. Plat showing BEU, MYCO leasehold, F/O and option F/O acreage.	a) Section 18 b) Section 19 c) Lincoln d) Topeka e) Juneau f) Panther City
November 4, 2002	<u>Phone call:</u> SDH to Bailey. BEU #2P. Requested the well as a SWD. Offered to send something in writing, Bailey suggested we not send anything because they were talking about it.	a) Section 19 b) BEU #2P
November 13, 2002	<u>Phone call:</u> SDH to Bailey. Informed Bailey that MYCO would be interested in doing any re-entry or recompletion on the well for Bass. Bailey said probably not but it was still under review.	a) Section 19
November 13, 2003	<u>E-mail:</u> Bailey to SDH. Can not respond to the November 13, 2003 e-mail request on the BEU #2P, Bass people are still working on it.	a) Section 19 b) BEU #2P
December 4, 2002	<u>Phone call:</u> SDH to Bailey. After SDH informed Bailey that MYCO saw 2 well stakes in the area (unit O and P), he said that they mean nothing at this point, that there field people jumped the gun. Informed Bailey that a) MYCO wants to drill the area as an extension of its Capitol prospect, b) terms sent to them are negotiable and the c) MYCO hopes no third party drills the deal. Discussed the need to have Nelson Muncy in charge because of the difficult drilling, Bailey agreed.	a) Section 19 b) BEU #140
December 10, 2002	<u>Phone call:</u> SDH to Bailey. Estimated date Bass staked well. Bailey said that it was just his field people jumping the gun. Bass didn't know what they wanted to do in there, no actual plans to	a) Section 19 b) BEU #140

	drill.	
December 12, 2002	<u>E-mail</u> : Asked Bailey if we could meet with his people. He said probably not yet, still under review.	Entire area
December 4, 2003	<u>Phone call</u> : SDH to Bailey. Noticed 2 stakes in the field. Discussed MYCO's experience in the area. Bailey said that they are looking at the area but that doesn't mean they are going to drill. Most they would do would be W/2, not ready to give support.	a) Lincoln
December 14, 2002	Estimated date Bass filed APD for E/2 location. BEU #140	a) Section 19 b) BEU #140
February 4, 2003	<u>E-mail</u> : SDH to Bailey. Asked Bailey if he was at NAPE. He responded yes. Said they were still studying the Big Eddy for Morrow and Strawn, would keep me posted on major events.	Entire area
February 7, 2003	APD. Estimated date APD approved for E/2, Bass location.	a) Section 19
February 24, 2003	<u>Letter</u> : Proposal to Bass: Lincoln 19 Federal Com #1. First time to mention W/2, although we preferred the S/2, because Bass had filed on the E/2 and MYCO felt it had no other option.	a) Lincoln
March ?, 2003	<u>Phone call</u> : Jim Ward (Bass) to A.N. Muncy (MYCO). Ward was calling with regard to drilling costs for a well.	a) Lincoln b) BEU #143
March 12, 2003	<u>Letter</u> : Bailey to SDH. Received a fax from Bailey, informing MYCO that Bass would participate and operate MYCO's Lincoln 19 Federal Com #1, Bass' BEU #143	a) Lincoln b) BEU #143
March 13, 2003	<u>E-mail</u> : Bailey to SDH. Informed MYCO that he had left a message and wrote a letter that Bass will drill the proposed Morrow well at the Lincoln 19 Federal Com #1 location. Will be receiving AFE and APD soon. Asked if all interests had been leased and if there were any overrides.	a) Lincoln b) BEU #143
March 13, 2003	<u>Letter</u> : Bailey to SDH. Received via Federal Express the letter referred to above regarding Bass' decision to operate the Lincoln.	a) Lincoln b) BEU #143
March 17, 2003	<u>E-mail</u> : SDH to Bailey. MYCO is having a Capitol meeting and will discuss recent Bass proposal.	a) Lincoln
March 17, 2003	<u>E-mail</u> : Bailey to SDH. Asked that MYCO inform them as to when the permit can be switched so the well can be started as soon as the permit can be processed.	a) Lincoln b) BEU #143
March 19, 2003	<u>E-mail</u> : Bailey to SDH. Asked if the Title Opinion had been ordered. If not, he would order one on the drillsite lease for the joint account. Is sending AFE and OA today.	a) Lincoln b) BEU #143
March 20, 2003	<u>Letter</u> : Bailey to SDH. MYCO received letter from Bass on including AFE and OA for Bass' BEU #143, MYCO's Lincoln	a) Lincoln b) BEU #143
March 26, 2003	<u>E-mail</u> : SDH to Bailey. SDH informed Bailey that she had been out of town but will draft a letter with respect to a conversation regarding the S/2 of Section 19, W/2 of Section 30, all of Section 31 and the N/2 of Section 32.	a) Lincoln b) Topeka #1 c) Topeka #2 d) Panther City Fee d) Panther City Fed e) Throckmorton
March 27, 2003	<u>E-mail</u> : Bailey to SDH. Bailey informed SDH that in principal, Bass is not opposed to the type of plan MYCO has mentioned. They don't have enough information yet. Asked for additional information. They assume that the initial well will be in the SE/SW of Section 19.	a) Lincoln b) Topeka #1 c) Topeka #2 d) Panther City Fee d) Panther City Fed e) Throckmorton
March 31, 2003	<u>Letter</u> : Bill Carr to OCD. Force Pool Application on the Juneau	a) Juneau #1

	#1 in Unit L of Section 31. (1980' FSL & 660' FWL)	
March 31, 2003	<u>Letter:</u> Bill Carr to OCD. Force Pool Application on the Panther City Federal #1 in Unit P of Section 31. (882' FSL & 660' FEL)	a) Panther City Fed
April 8, 2003	<u>Letter:</u> SDH to Bailey. MYCO proposed two locations NE/NW or the NW/SW of Section 30. Asked that Bass consider a) participation, b) farmout (75% NRI, 30% back-in, 180 day CDP, c) seismic trade (3D in exchange for a 50% interest in leases), or d) term assignment (2 years, \$200/ac, 80% NRI). OA provides to drill the well by January 31, 2004. Bass received the letter on April 10, 2003.	a) Topeka #1 b) Topeka #2 c) BEU #144
April 8, 2003	<u>Letter:</u> SDH to Bailey. MYCO proposed two locations NW/NW or the NW/SW of Section 31. Asked that Bass consider a) participation, b) farmout (75% NRI, 30% back-in, 180 day CDP, c) seismic trade (3D in exchange for a 50% interest in leases), or d) term assignment (2 years, \$200/ac, 80% NRI). OA provides to drill the well by January 31, 2004. Bass received the letter on April 10, 2003.	a) Juneau #1 b) Juneau #2
April 8, 2003	<u>Letter:</u> SDH to Bailey. MYCO proposed two locations SE/NE or the SE/SE of Section 31. Asked that Bass consider a) participation, b) farmout (75% NRI, 30% back-in, 180 day CDP, c) seismic trade (3D in exchange for a 50% interest in leases), or d) term assignment (2 years, \$200/ac, 80% NRI). OA provides to drill the well by January 31, 2004. Bass received the letter on April 10, 2003.	a) Juneau #1 b) Juneau #2
April 8, 2003	<u>Letter:</u> SDH to Bailey. MYCO proposed a location NE/NE of Section 32. Asked that Bass consider a) participation, b) farmout (75% NRI, 30% back-in, 180 day CDP, c) seismic trade (3D in exchange for a 50% interest in leases), or d) term assignment (2 years, \$200/ac, 80% NRI). OA provides to drill the well by January 31, 2004. Bass received the letter on April 10, 2003.	a) Throckmorton
April 23, 2003	<u>E-mail:</u> Bailey to SDH. Bailey asked if the Bass technical staff could meet with MYCO. Asked for the following week.	a) Lincoln b) Topeka #1 c) Topeka #2 d) Panther City Fee d) Panther City Fed e) Throckmorton
April 24, 2003	<u>E-mail:</u> SDH to Bailey. MYCO will be glad to meet, suggest 4/28, 4/29 or 4/30. Asked Bass' expectations, Bass' contribution to the meeting, asked who would be there, how long before we get an answer from Bass.	a) Lincoln b) Topeka #1 c) Topeka #2 d) Panther City Fee d) Panther City Fed e) Throckmorton
April 25, 2003	<u>E-mail:</u> Bailey to SDH. Will call SDH in response to 4.24.2003 e-mail.	a) Lincoln b) Topeka #1 c) Topeka #2 d) Panther City Fee d) Panther City Fed e) Throckmorton
April 30, 2003	<u>Meeting:</u> MYCO's Nelson Muncy and Shari Hodges met with Lee Muncy (Exploration Manager), George Hillis (geologist), Simianne Hayden (geologist) and Wayne Bailey (Landman) in MYCO's	a) Lincoln b) Topeka #1 c) Topeka #2

	office in Midland, TX.	d) Panther City Fee d) Panther City Fed e) Throckmorton
May 3, 2003	<u>Fax:</u> Received copy of fax from Bass to Jim Bruce. Fax was of the two force pool applications on Juneau and the Panther City. d) JUNEAU	a) Juneau b) Panther City Fed
May 20, 2003	<u>Letter:</u> SDH to Bailey. Letter asking for decisions on the wells, offered to postpone everything if they wanted to make a trade on the 3D.	a) Entire area
May 21, 2003	<u>Phone call:</u> SDH to Bailey. After a meeting with Frank Yates, asked that Bass 1) make a decision on the Juneau (to participate or term assignment) and 2) agree to a 30 day delay decision on the Panther City then we would give them logs on the Austin 36 #2.	a) Juneau b) Panther City Fed



MYCO INDUSTRIES, INC.
 OIL PRODUCERS
 POST OFFICE BOX 840
 ARTESIA, NEW MEXICO 88211-0840
 Phone (505) 748-1471

FAX TRANSMITTAL

To: Wayne Bailey/Bass Enterprises
Phone: 817.390.8671 **Fax:** 817.390.8626
From: Shari Darr Hodges
Phone: 505.748.4290 **Fax:** 505.746.4290
Date: May 20, 2003 **Total # of Pages:** 4
Re: T22S, R27E, N.M.P.M.
Subject: Force Pool Negotiations

Wayne: Let's try this, I hope this takes care of it all. Let's get this resolved.
 Thanks, S.

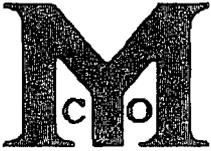
Cell #: 505.626.3262

*On my way home sick - call
 my cell,
 S.*

5.20.2003 Wayne and SH

.w/z -

... on w/z and \$300/est -> probably work



MYCO INDUSTRIES, INC.
OIL PRODUCERS
POST OFFICE BOX 840
ARTESIA, NEW MEXICO 88211-0840
Phone (505) 748-1471

May 20, 2003

VIA FACSIMILE

Mr. Wayne Bailey
Bass Enterprises
201 Main
Fort Worth, TX

Re: **Pending Force Pool Hearing**
T21S, R28E, N.M.P.M.
Sec. 31: W/2 (Juneau 31 Fed Com #1)
Sec. 31: E/2 (Panther City 31 Fed Com #1)

Dear Wayne:

This letter shall serve to confirm my conversation with you on Friday, May 16, 2003 and Monday, May 19, 2003 regarding the force pool hearing scheduled for Thursday, May 22, 2003 in Santa Fe, New Mexico on the above captioned wells, the outstanding well proposals submitted to Bass, et al on April 8, 2003, namely the Topeka 30 Federal Com #1, the Panther City 31 Fee Com #1, the Juneau 31 Federal Com #2 and the Throckmorton 32 Federal Com #1, and the Lincoln 19 Federal Com #1.

MYCO Industries, Inc. (MYCO) is agreeable to the following:

1. **Lincoln 19 Federal Com #1 (T21S, R28E, Section 19: W/2)**: Bass has submitted a like proposal to MYCO's proposal to drill a well 660'FSL & 1896'FWL. MYCO has repeatedly requested that Bass consider drilling this well on a S/2 proration to avoid the drilling of unnecessary wells. This request stems from Bass' staked well in Unit O of Section 19. MYCO will agree to Bass' operating a well 660'FSL & 1896'FWL on the W/2, assuming that a) Bass is agreeable to certain changes to its Operating Agreement, b) if Bass is committed to drilling the well by August 31, 2003, c) if Bass compensates MYCO for monies it has spent to prepare to drill its Lincoln, which includes title work and a scheduled archeological survey, and d) if Bass agrees to include MYCO and its technical staff in the day to day drilling decisions. However, should Bass not commence drilling the well by August 31, 2003, Bass agrees to let

MYCO step in as operator. We have informed you and you have agree that Bass would be agreeable to using a rig that MYCO has available and that Bass would communicate and work with MYCO in an effort to avoid potential downhole drilling catastrophes which are inherent when drilling in this area.

2. **Juneau 31 Federal Com #1 (T21S, R28E, Section 31: W/2):** If Bass has well information that MYCO believes is comparable to its Austin 36 State #2 (i.e. recently drilled deep wells in the area) then MYCO is agreeable to providing Bass with the logs on its Austin 36 State #2, if on or before May 21, 2003, Bass agrees a) in writing to the terms and conditions of this letter, b) agrees in writing to sign MYCO's Operating Agreement, naming MYCO the operator on the W/2 of Section 31, and c) agrees in writing that within thirty (30) days of delivery of the well logs, Bass will confirm in writing that it will either: 1) participate with all or a portion of its 25% working interest in the well (in the event Bass decides to participate with less than all of its 25%, the difference shall be included under the Term Assignment terms described herein), or 2) grant MYCO a one year, no bonus, 75% net revenue interest term assignment, which terms and conditions shall be agreed upon prior to MYCO's providing the Austin 36 State #2 well logs.

If Bass is does not have comparable logs to trade, MYCO assumes that on or before May 21, 2003, Bass would be willing to make a decision to either: 1) participate with all or a portion of its 25% working interest in the well (in the event Bass decides to participate with less than all of its 25%, the difference shall be included under the Term Assignment terms described herein), or 2) grant MYCO a one year, no bonus, 75% net revenue interest term assignment based on mutually acceptable terms.

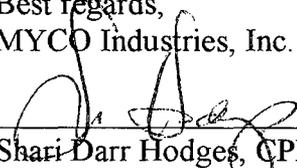
3. **Panther City 31 Federal Com #1 (T21S, R28E, Section 31: E/2):** As to MYCO's proposal in the E/2 of Section 31, Bass agrees that within thirty (30) days of reaching total depth and receipt of logs on a well drilled in the W/2 of Section 31, Bass will confirm in writing that it will either: a) participate with all or a portion of its 75% working interest in a well in the E/2 (in the event Bass decides to participate with less than all of its 75%, the difference shall be included under the Term Assignment terms described herein), or b) grant MYCO a one year, no bonus, 75% net revenue interest term assignment based on mutually acceptable terms.
4. **Topeka 30 Federal Com #1 (T21S, R28E, Section 30: W/2):** As to MYCO's proposal in the W/2 of Section 30, Bass agrees that within thirty (30) days of reaching total depth and receipt of logs on a well drilled in the W/2 of Section 19 or the W/2 of Section 31 (whichever is the sooner), Bass will confirm in writing that it will either: a) participate, either as operator or non-operator, with all or a portion of its 87.5% working interest in the well (in the event Bass decides to participate with less than all of its 87.5%, the difference shall be included under the Term Assignment terms described herein), or b) grant MYCO a two year, no bonus, 75% net revenue interest term assignment based on mutually acceptable terms.

5. **Throckmorton 32 Federal Com #1 (T21S, R28E, Section 32: N/2):** As to MYCO's proposal in the N/2 of Section 32, Bass agrees that within thirty (30) days of reaching total depth and receipt of logs on a well drilled in the W/2 of Section 31, Bass will confirm in writing that it will either: a) participate, either as operator or non-operator with all or a portion of its 87.5% working interest in the well (in the event Bass decides to participate with less than all of its 87.5%, the difference shall be included under the Term Assignment terms described herein), or b) grant MYCO a two year, no bonus, 75% net revenue interest term assignment based on mutually acceptable terms.

As another alternative, MYCO is willing to enter into an agreement whereby it would postpone for an agreed upon time all pending and upcoming force pool matters on Section 30, 31 and 32 and deliver to Bass its 3D seismic survey covering these sections and several sections to the west (approximately 10.5 sections). In exchange for such 3D seismic survey, Bass would deliver to MYCO a twenty five percent (25%) Term Assignment on the subject federal leases. After Bass has had a sufficient time to interpret the data, MYCO would request well decisions. Bass would agree not to propose any wells under the subject sections.

Should Bass be agreeable to the above, MYCO would be willing to postpone the force pool hearing scheduled for Thursday, May 22, 2003. If the above terms and conditions are acceptable, please sign, date and return one to 505.746.6038. Your prompt reply will be appreciated.

Best regards,
MYCO Industries, Inc.



Shari Darr Hodges, CPL
Land Manager

Bass Enterprises, as a representative of 100% of the leasehold owners in the subject federal leases, hereby agrees to the terms and conditions contained in this letter.

By: _____

Print: _____

Title: _____

Date: _____



MYCO INDUSTRIES, INC.
OIL PRODUCERS
POST OFFICE BOX 840
ARTESIA, NEW MEXICO 88211-0840
Phone (505) 748-1471

May 12, 2003

VIA FEDERAL EXPRESS #8370.7498.3296

Mr. Wayne Bailey
Bass Enterprises
201 Main
Fort Worth, TX

Re: **Drilling Proposals**
Juneau 31 Federal Lease
W/2 Section 21, T21S-R28E
Eddy County, New Mexico

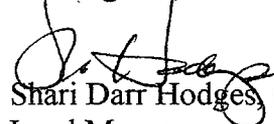
Ladies and Gentlemen:

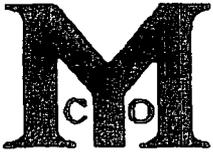
MYCO Industries, Inc. (MYCO) is in receipt of Bass Enterprises Production Co. letter dated May 7, 2003. Although it is unclear to MYCO the connection between the first sentence in Bass' letter being "two locations stated therein on a W/2 Section 30 proration unit in which Bass owns 12.50% working interest" and the balance of Bass' letter which references wells in Section 19 and 31; it is abundantly clear to MYCO that Bass has requested propriety information which we are not accustomed to releasing to outside parties on terms such as those presented in your letter.

MYCO is not agreeable to releasing well information on the Austin 36 State #2 or its proprietary 3-D data without some sort of commitment/compensation greater than an agreement to elect within a thirty (30) day period to participate in one well and/or grant a one year, \$200/acre, 75% NRI term assignment on 320 acres. Further, it is not clear in the reading of Bass' proposal exactly when that thirty (30) day period would commence and/or expire. As Bass is aware, MYCO's recent proposals include seven (7) wells in four (4) different sections. MYCO is ready, willing and able to drill these wells.

It is unfortunate that Bass is not as interested in seeing the area of discussion developed as quickly as MYCO. Should Bass decide to communicate its intentions on all the proposals presented before it, MYCO is certainly willing to listen. Short of such immediate communication from Bass, MYCO has no option other than to proceed.

Best regards,


Shari Darr Hodges, CPL
Land Manager



MYCO INDUSTRIES, INC.
OIL PRODUCERS
POST OFFICE BOX 840
ARTESIA, NEW MEXICO 88211-0840
Phone (505) 748-1471

FILE COPY

April 8, 2003

VIA FEDERAL EXPRESS/8370.7498.3150

Mr. Wayne Bailey
Bass Enterprises
201 Main
Fort Worth, TX 76102-3105

Re: **T21S, R28E, N.M.P.M.**
Section 31: W/2
Eddy County, New Mexico
MYCO's Juneau 31 Fee Com

Dear Wayne:

Recall that MYCO Industries, Inc. (MYCO) has contacted Bass Enterprises several times expressing its desire to enter into an arrangement on the above-described acreage. As discussed, MYCO proposes to drill a Morrow test in the W/2 of Section 31, its Juneau 31 Fee Com, either in the NW/4 NW/4 or the NW/4 SW/4 of Section 31, T21S, R28E, Eddy County, New Mexico.

As support for this test, MYCO respectfully requests Bass' support in the form of: a) participation, b) farmout, c) seismic trade or d) term assignment. Along these lines, MYCO proposes the following options:

1. **Bass Participation as a Working Interest Owner**

MYCO, et al and Bass, et al enter into a mutually agreeable A.A.P.L. Form 610-1977 Model Form Operating Agreement, naming MYCO as Operator and participate in the drilling of a Morrow test. MYCO is enclosing an operating agreement and an AFE. Should Bass, et al decide to participate we ask that you sign, date and return one copy of the AFE and Operating Agreement signature page. MYCO has commenced title work on the W/2 of Section 31. Should you have any question, please let us know.

2. **Bass Farmout to Myco Industries, Inc.**

MYCO, et al and Bass will enter into a mutually acceptable formal Farmout Agreement on the W/2 of Section 31 ("Subject Lands") that would include an A.A.P.L. Form 610-1977 Model Form

Operating Agreement, naming MYCO as Operator and setting out the following terms (which are negotiable):

a. On or before March 1, 2004, MYCO as Operator would commence the drilling of an initial test well at an orthodox location for a Morrow test on the Subject Lands.

b. Upon completion of the initial test well, Bass will deliver an assignment of 100% of its interest in the Subject Lands, reserving as an overriding royalty interest, the difference between present burdens and 25% (delivering a 75% net revenue interest assignment to MYCO).

c. Upon payout of the initial test well, Bass would have the option to convert its retained overriding royalty interest to a thirty percent (30%) working interest. All interests would be proportionately reduced.

d. Within one hundred and eighty days (180) of completion of the initial test well, MYCO would have the right to commence a one hundred and eight day (180) continuous drilling program on the Subject Lands based on the same terms as the initial test well.

3. Seismic Trade

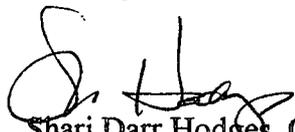
MYCO has 3-D seismic information on the lands contiguous to the above described acreage in T21S, R27E. MYCO would be willing to trade the 3-D for a fifty percent (50%) interest in the Bass lease under the above-described acreage with the understanding that after Bass has had sufficient time to evaluate the seismic, it would make its decision to either: a) participate as described in #1 above or b) farmout as described in #2 above.

4. Term Assignment

In the event Bass prefers not to participate in the drilling of the proposed well, or farmout or enter into a seismic trade, MYCO would be willing to accept a term assignment of Bass' rights in the above-described lands. Although terms would be negotiable, MYCO suggests a 2 year term assignment, \$200/acre, with Bass delivering an 80% net revenue interest assignment.

We will look forward to hearing from you. Although we believe we have furnished you with all the information you have requested, if you need/want any additional information, please let us know.

Best regards,



Shari Darr Hodges, CPL
Land Manager

SDH/me

Enclosures:

1. Plat
2. JOA with extra signature page
3. AFE with extra AFE

U.S.

HBP
E 5232

State

Big Eddy
T011870
MTR 12 25
DIA 1 12 75

Boss Ent.
HBP
359365
Ralph Nix S/R

(Cactus Ener, etal)
9.7.2003

Richardson Oil
Ralph Nix, etal, S/R
0406

Yates Pet.
Garretson 3-AMM
Fed.
TO 6000

Model E
Garretson
S/R
7.5 Mil.
Mamie West

19
Myco Ind.
1.10.2005

Boss Ent.
(R. Lee Tr)

PR. Boss
Big Eddy UT
Bone Spr Disc
T/A C. 2 15 79

21
Yates Pet
Garretson Fed.
1-AMM 79
P52
Yates Nix
Big Eddy UT
Morr Disc
T/A 3592
Yates Pet
Big Eddy UT
U.S.

O Featherstone
1.10.2005
Pan Amer.
Big Eddy Unit
Cory Disc
U.S. TO 12487
PA 1000

Joe V. Lusk
Claude West

PR. Boss, etal
9-1-50(2) 066067
M. Yates, 1/2 S/R
Ralph Nix, S/R
U.S.

HBC

Ralph Nix S/R
Boss Ent

(Richardson Oil, etal)

R.M. Boss, etal
HBP
059365
Ralph Nix S/R
Miller
M.L.P. Yates

Joe V. Lusk
Claude West

059365

0406
(Ralph Nix etal, S/R)
Boss Ent

30
Boss Ent
Big Eddy
UT
7917099

29

39
PR. Boss
Big Eddy UT
Morr Disc
9 Mil

28

87
S.M.
P37
P25
Read, Stevens
Nix Fed.

Stagner, LLC
Yates Orig. 1/4
11-16-2005
15-25-2005
Boss Ent.
Big Eddy
Acho Disc
S. 1-21-01
Fig. 11-11-00
U.S.

54

"Big Eddy"
U.S.

"Big Eddy"
U.S.

Richardson Oil etal
5-1-80
Parque Farms, etal

O Featherstone II
4-29-2002
F.F.
Docap Est.

Richardson Oil etal
5-1-80 01160
(1)
U.S.

Richardson Oil etal
5-1-80 01160
(1)
U.S.

Richardson Oil, etal
Boss Ent
01160
P.M.I.

O Featherstone II
3-16-2002
Myco Ind.

Stagner
Orig. 1/4
Parque
Farms,
etal

Battis
Bros.
1-27-98
S.C. Mann

P.R. Boss
HBP
E 5232

Richardson Oil, etal
Boss Ent
070061
Thru Line Inc. etal

Richardson Oil
5-1-80
S. 1-21-80

Richardson
5-1-80
S. 1-21-80

Rich E.
Boss
HBP
0-10788

M. Yates, 1/2 S/R
Ralph Nix, S/R
Rich E. Boss O/R
HBP 010005

PR. Boss
HBP
E 5232
State

33
Boss Ent
070061
Thru Line Inc. etal
Morr Disc
T/A U.S.

PR. Boss, etal
060613

Richardson Oil
PR. Boss, etal
HBP 060613

Richardson Oil
PR Boss, etal
HBP 060613

MYCO INDUSTRIES, INC.

Juneau 31 Fee Com
T21S, R28E, Section 31: W/2
Eddy County, New Mexico

Featherstone Dev.
Richo
06559, 24022
S.P.
Johnson

Richardson Oil
Boss, etal
0-59(2)
060613
HBP



MYCO INDUSTRIES, INC.
 P.O. Box 840 / 331 West Main, Suite C
 Artesia, New Mexico 88210-0840
 Phone (505) 748-1471

AUTHORITY FOR EXPENDITURE
 NEW DRILLING, RECOMPLETION & RE-ENTRY

AFE NO. _____
 AFE DATE **4/8/2003**
MAFEND (rev 8/00)

AFE Type:	Well Objective:	Well Type:
<input checked="" type="checkbox"/> New Drilling	<input type="checkbox"/> Oil	<input checked="" type="checkbox"/> Development
<input type="checkbox"/> Recompletion	<input checked="" type="checkbox"/> Gas	<input type="checkbox"/> Exploratory
<input type="checkbox"/> Re-entry	<input type="checkbox"/> Injector	

AFE STATUS:

<input checked="" type="checkbox"/> Original	_____
<input type="checkbox"/> Revised	_____
<input type="checkbox"/> Final	_____
<input type="checkbox"/> Supplemental	_____

LEASE NAME	Juneau 31 Fee Com	PROJ'D DEPTH	12 500'
COUNTY	Eddy	STATE	NM
FIELD	Carlsbad Morrow, East	HORIZON	Morrow
LOCATION	Legal Location NW/4 NW/4 or NW/4 SW/4	S31-T21S-R28E	
DIVISION CODE	100	DIVISION NAME	Oil & Gas Division
DISTRICT CODE		DISTRICT NAME	
BRANCH CODE		BRANCH NAME	

PROGNOSIS: **Drill, test and if successful, complete a 12,500' Morrow test.**

INTANGIBLE DRILLING COSTS:		DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees	10,500	12,500
920-110	Location, Right-of-Way	35,000	35,000
920-120	Drilling, Footage 9100 Feet @ \$21/Ft	191,100	191,100
920-130	Drilling, Daywork 25-Days @ \$7250/Day	181,300	181,300
920-140	Drilling Water, Fasline Rental	20,000	20,000
920-150	Drilling Mud & Additives	26,000	28,000
920-160	Mud Logging Unit, Sample Bags	22,500	22,500
920-170	Cementing - Surface Casing & Intermediate Casing	34,000	34,000
920-180	Drill Stem Testing, OHT	0	0
920-190	Electric Logs & Tape Copies including Sonic	36,000	36,000
920-200	Tools & Equip. Rntl., Trkg. & Welding & rig move	33,500	34,500
920-205	Control of Well-Insurance	8,800	8,800
920-210	Supervision & Overhead	10,500	10,500
920-220	Contingency	2,000	2,500
920-230	Coring, Tools & Service	0	0
920-240	Bits, Tool & Supplies Purchase Bits 9100' - TD	32,000	32,000
920-350	Cementing - Production Casing	0	55,000
920-410	Completion Unit - Swabbing	0	18,500
920-420	Water for Completion	0	7,500
920-430	Mud & Additives for Completion	0	500
920-440	Cementing - Completion	0	0
920-450	Elec. Logs, Testing, Etc. - Completion	0	7,500
920-460	Tools & Equip. Rental, Etc. - Completion	0	8,000
920-470	Stimulation for Completion Morrow Zone Acid & Frac	0	115,000
920-480	Supervision & O/H - Completion	0	5,500
920-490	Additional LOC Charges - Completion	0	1,500
920-495	Control of Well-Insurance - Completion	0	0
920-510	Bits, Tools & Supplies - Completion	0	1,500
920-500	Contingency for Completion	0	5,000
TOTAL INTANGIBLE DRILLING COSTS		643,200	874,200

TANGIBLE EQUIPMENT COSTS:		DRY HOLE	COMP'D WELL
930-010	Christmas Tree & Wellhead	3,500	18,500
930-020	Casing 13-3/8" 48 # 500' @ \$17.00/Ft.	8,500	8,500
	9-5/8" 36# 3200' @ 13.35/Ft.	42,800	42,800
	5-1/2" 17# 12,500' @ 7.60/Ft.	0	95,000
		0	0
930-030	Tubing 2-7/8" N-80 12,500' @ 3.65/Ft.	0	45,600
930-040	Packer & Special Equipment	0	10,500
940-010	Pumping Equipment	0	0
940-020	Storage Facilities 2-300 BBL STOCK TANKS/1-300 BBL F/G WTR TANK	0	18,500
940-030	Separation Equip., Flowlines, Misc.	0	30,500
940-040	Trucking & Construction Costs	0	18,500
TOTAL TANGIBLE EQUIPMENT COSTS		54,800	288,400

TOTAL COSTS 698,000 1,162,600

IT IS RECOGNIZED THAT THE AMOUNTS PROVIDED FOR HEREIN ARE ESTIMATED ONLY AND APPROVAL OF THIS AFE SHALL EXTEND TO THE ACTUAL COSTS INCURRED IN CONDUCTING THE OPERATIONS SPECIFIED WHETHER MORE OR LESS THAN HEREIN SET OUT.

Prepared By	A.N. Muncy	Operations Approval	<i>A.N. Muncy</i>	Operations & Engineering Mgr.
BY		DATE		
BY		DATE		
BY		DATE		

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

MODEL FORM OPERATING AGREEMENT

This operating agreement is published by the American Association of Petroleum Landmen, Inc. as a model form and is not intended to constitute an offer of legal advice. It is the responsibility of the user to consult with legal counsel before using this form.

JUNEAU 31 WORKING INTEREST AREA (W.I.A.)

OPERATING AGREEMENT

DATED

January 30, 2003,

OPERATOR MYCO INDUSTRIES, INC.

CONTRACT AREA _____

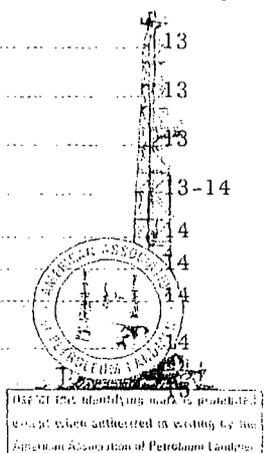
SEE EXHIBIT "A" - ATTACHED HERETO

COUNTY ~~OKLAHOMA~~ OF Eddy STATE OF New Mexico

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AMERICAN ASSOCIATION OF PETROLEUM LANDMEN
APPROVED FORM. A.A.P.L. NO. 610 - 1977 REVISED
MAY BE ORDERED DIRECTLY FROM THE PUBLISHER
KRAFTBILT PRODUCTS, BOX 800, TULSA, OK 74101

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between MYCO INDUSTRIES, INC., a New Mexico corporation, 423 West Main, Artesia, NM 88210, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators",

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I. DEFINITIONS

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

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

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

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

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

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

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

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

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

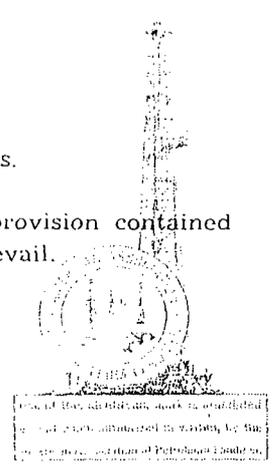
Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

ARTICLE II. EXHIBITS

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

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

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



ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B. Interest of Parties in Costs and Production:

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

ARTICLE IV.
TITLES

A. Title Examination:

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

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

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

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

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

B. Loss of Title:

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

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

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

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

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

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

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

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

24
25 2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight,
26 any rental, shut-in well payment, minimum royalty or royalty payment, is not paid or is erroneously
27 paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against
28 the party who failed to make such payment. Unless the party who failed to make the required payment
29 secures a new lease covering the same interest within ninety (90) days from the discovery of the fail-
30 ure to make proper payment, which acquisition will not be subject to Article VIII.B., the interests of
31 the parties shall be revised on an acreage basis, effective as of the date of termination of the lease in-
32 volved, and the party who failed to make proper payment will no longer be credited with an interest in
33 the Contract Area on account of ownership of the lease or interest which has terminated. In the event
34 the party who failed to make the required payment shall not have been fully reimbursed, at the time of
35 the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an
36 acreage basis, for the development and operating costs theretofore paid on account of such interest, it
37 shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the
38 cost of any dry hole previously drilled or wells previously abandoned) from so much of the following
39 as is necessary to effect reimbursement:

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

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

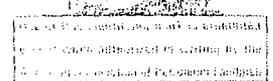
48 (c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or
49 becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or be-
50 coming a party to this agreement.

51
52 3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2.
53 above, shall not be considered failure of title but shall be joint losses and shall be borne by all parties
54 in proportion to their interests. There shall be no readjustment of interests in the remaining portion of
55 the Contract Area.

56
57 **ARTICLE V.**
58 **OPERATOR**

59
60 **A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:**

61
62 MYCO Industries, Inc., 423 West Main, Artesia, New Mexico 88210 shall be the
63 Operator of the Contract Area, and shall conduct and direct and have full control of all operations on
64 the Contract Area as permitted and required by, and within the limits of, this agreement. It shall con-
65 duct all such operations in a good and workmanlike manner, but it shall have no liability as Operator
66 to the other parties for losses sustained or liabilities incurred, except such as may result from gross
67 negligence or willful misconduct.

68
69
70


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

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

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

C. Employees:

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

D. Drilling Contracts:

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

**ARTICLE VI.
DRILLING AND DEVELOPMENT**

A. Initial Well:

On or before the 1st day of March, 2004, Operator shall commence the drilling of a well for oil and gas at the following location:

Township 21 South, Range 28 East, N.M.P.M.
Section 31: NW/4 NW/4 or NW/4 SW/4

and shall thereafter continue the drilling of the well with due diligence to 12,500' or to the base of the Morrow formation, whichever is the lesser.

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

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

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

Operator's only liability for failure to commence said initial well shall be the ipso facto termination of this agreement.

1 **B. Subsequent Operations:**

2
3 1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area
4 other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled
5 at the joint expense of all parties or a well jointly owned by all the parties and not then producing
6 in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the
7 other parties written notice of the proposed operation, specifying the work to be performed, the loca-
8 tion, proposed depth, objective formation and the estimated cost of the operation. The parties receiv-
9 ing such a notice shall have thirty (30) days after receipt of the notice within which to notify the
10 parties wishing to do the work whether they elect to participate in the cost of the proposed operation.
11 If a drilling rig is on location, notice of proposal to rework, plug back or drill deeper may be given
12 by telephone and the response period shall be limited to forty-eight (48) hours, ~~exclusive of Saturday,~~
13 ~~Sunday or legal holidays.~~ Failure of a party receiving such notice to reply within the period above fixed
14 shall constitute an election by that party not to participate in the cost of the proposed operation. Any
15 notice or response given by telephone shall be promptly confirmed in writing.

16
17 2. Operations by Less than All Parties: If any party receiving such notice as provided in Article
18 VI.B.1. or VI.E.1. elects not to participate in the proposed operation, then, in order to be entitled to
19 the benefits of this article, the party or parties giving the notice and such other parties as shall elect
20 to participate in the operation shall, within sixty (60) days after the expiration of the notice period of
21 thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period
22 where the drilling rig is on location, as the case may be) actually commence work on the proposed
23 operation and complete it with due diligence. Operator shall perform all work for the account of the
24 Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Op-
25 erator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform
26 the work required by such proposed operation for the account of the Consenting Parties, or (b) desig-
27 nate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when
28 conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms
29 and conditions of this agreement.

30
31 If less than all parties approve any proposed operation, the proposing party, immediately after the
32 expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest
33 of the parties approving such operation, and (b) its recommendation as to whether the Consenting Par-
34 ties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48)
35 hours ~~(exclusive of Saturday, Sunday or legal holidays)~~ after receipt of such notice, shall advise the
36 proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A",
37 or (b) carry its proportionate part of Non-Consenting Parties' interest. The proposing party, at its
38 election, may withdraw such proposal if there is insufficient participation, and shall promptly notify
39 all parties of such decision.

40
41 The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in
42 the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting
43 Parties shall keep the leasehold estates involved in such operations free and clear of all liens and
44 encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such
45 an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole
46 cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions
47 of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall
48 complete and equip the well to produce at their sole cost and risk, and the well shall then be turned
49 over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties.
50 Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such
51 well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party
52 shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and
53 be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's
54 interest in the well and share of production therefrom until the proceeds of the sale of such share,
55 calculated at the well, or market value thereof if such share is not sold (after deducting production
56 taxes, crude oil excise taxes, royalty, overriding royalty and other interest existing on the effective date hereof, payable
57 out of or measured by the production from such well accruing with respect to such interests until it reverts) shall equal
58 the total of the following:

59
60 (a) 200% of each such Non-Consenting Party's share of the cost of any newly acquired surface
61 equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators,
62 treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the
63 cost of operation of the well commencing with first production and continuing until each such Non-
64 Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being
65 agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which
66 would have been chargeable to each Non-Consenting Party had it participated in the well from the be-
67 ginning of the operation; and

68
69 (b) 500% of that portion of the costs and expenses of drilling, reworking, deepening, or plugging
70 back, testing and completing, after deducting any cash contributions received under Article VIII.C. and

1 500 % of that portion of the cost of newly acquired equipment in the well (to and including the well-
 2 head connections), which would have been chargeable to such Non-Consenting Party if it had partici-
 3 pated therein.

4
 5 Gas production attributable to any Non - Consenting Party's relinquished interest upon such Party's
 6 election, shall be sold to its purchaser, if available, under the terms of its existing gas sales con-
 7 tract. Such Non - Consenting Party shall direct its purchaser to remit the proceeds receivable from
 8 such sale direct to the Consenting Parties until the amounts provided for in this Article are recov-
 9 ered from the Non - Consenting Party's relinquished interest. If such Non - Consenting Party has not
 10 contracted for sale of its gas at the time such gas is available for delivery, or has not made the elec-
 11 tion as provided above, the Consenting Parties shall own and be entitled to receive and sell such Non-
 12 Consenting Party's share of gas as hereinabove provided during the recoupment period.

13
 14 During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share
 15 of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of
 16 all production, **crude oil excise taxes, severance, gathering and other taxes, and all royalty, overriding royalty and**
 17 **other burdens applicable to Non-Consenting Party's share of production.**

18
 19 In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall
 20 be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of
 21 all such equipment shall remain unchanged; and upon abandonment of a well after such reworking,
 22 plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the
 23 owners thereof, with each party receiving its proportionate part in kind or in value, less cost of
 24 salvage.

25
 26 Within sixty (60) days after the completion of any operation under this Article, the party con-
 27 ducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an in-
 28 ventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling,
 29 deepening, plugging back, testing, completing, and equipping the well for production; or, at its option,
 30 the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed
 31 statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being
 32 reimbursed as provided above, the Party conducting the operations for the Consenting Parties shall furn-
 33 ish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the
 34 operation of the well, together with a statement of the quantity of oil and gas produced from it and the
 35 amount of proceeds realized from the sale of the well's working interest production during the preceding
 36 month. In determining the quantity of oil and gas produced during any month, Consenting Parties
 37 shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any
 38 amount realized from the sale or other disposition of equipment newly acquired in connection with any
 39 such operation which would have been owned by a Non-Consenting Party had it participated therein
 40 shall be credited against the total unreturned costs of the work done and of the equipment purchased,
 41 in determining when the interest of such Non-Consenting Party shall revert to it as above provided;
 42 and if there is a credit balance, it shall be paid to such Non-Consenting party.

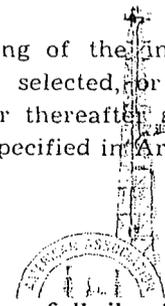
43
 44 If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest
 45 the amounts provided for above, the relinquished interests of such Non-Consenting Party shall auto-
 46 matically revert to it, and, from and after such reversion, such Non-Consenting Party shall own the same
 47 interest in such well, the material and equipment in or pertaining thereto, and the production there-
 48 from as such Non-Consenting Party would have been entitled to had it participated in the drilling,
 49 reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be
 50 charged with and shall pay its proportionate part of the further costs of the operation of said well in
 51 accordance with the terms of this agreement and the Accounting Procedure, attached hereto.

52
 53 Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent
 54 of all parties, no wells shall be completed in or produced from a source of supply from which a well
 55 located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing
 56 well spacing pattern for such source of supply.

57
 58 The provisions of this Article shall have no application whatsoever to the drilling of the initial
 59 well described in Article VI.A. except (a) when Option 2, Article VII.D.1., has been selected, or (b)
 60 to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall
 61 prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article
 62 VI.A.

63
 64 **C. Right to Take Production in Kind:**

65
 66 Each party shall have the right to take in kind or separately dispose of its proportionate share of all oil and gas
 67 produced from the Contract Area, exclusive of production which may be used in development and producing
 68 operations and in preparing and treating oil for marketing purposes and production unavoidably lost. Any extra
 69 expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the
 70 production shall be borne by such party. Any party taking its share of production in kind shall be required to pay for
 only its proportionate share of such part of Operator's surface facilities which it uses.



Each party electing to take in kind or separately dispose of its proportionate share of the production from the Contract Area shall keep accurate records of the volume, selling price, royalty and taxes relative to its share of production. Non-Operators shall, upon request, furnish Operator which true and complete copies of the records required to be kept thereunder whenever, under the terms of this agreement or any agreement executed in connection herewith, it is necessary for Operator to obtain said information. Any information furnished to Operator hereunder shall be used by Operator only to the extent necessary to carry out its duties as Operator and shall otherwise be kept confidential.

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

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

In the event any party hereto is not at any time taking or marketing its share of gas production and Operator is either (i) unwilling to purchase or sell or (ii) unable to obtain the prior written consent to purchase or sell such party's share of gas production, or in the event any party has contracted to sell its share of gas produced from the Contract Area to a purchaser which does not at any time while this agreement is in effect take the full share of gas attributable to the interest of such party, then in any such event the terms and conditions of the Gas Balancing Agreement attached hereto as Exhibit "E" and incorporate herein shall automatically become effective.

D. Access to Contract Area and Information:

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

E. Abandonment of Wells:

1. Abandonment of Dry Holes: Except for any well drilled pursuant to Article VI.B.2., any well which has been drilled under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours ~~(exclusive of Saturday, Sunday or legal holidays)~~ after receipt of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling of such well. Any party who objects to the plugging and abandoning such well shall have the right to take over the well and conduct further operations in search of oil and/or gas subject to the provisions of Article VI.B.

2. Abandonment of Wells that have Produced: Except for any well which has been drilled or reworked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reimbursed as therein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment of such well, all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Any party's failure to timely respond within said thirty (30) days shall be deemed to consent to abandonment. Each abandoning party shall assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and related equipment, together with its interest in the leasehold estate. If the interest of the abandoning party is or includes an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or intervals of the formation or formation within the Contract Area for a term of one year and so long thereafter as oil and or gas is produced from the interval or intervals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit "B". The assignments or leases shall encompass the "drilling unit" upon which the well is located.

1 The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their
2 respective percentages of participation in the Contract Area to the aggregate of the percentages of participation in the
3 Contract Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Contract
4 Area.

5
6
7
8 Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the op-
9 eration of or production from the well in the interval or intervals then open other than the royalties
10 retained in any lease made under the terms of this Article. Upon request, Operator shall continue to
11 operate the assigned well for the account of the non-abandoning parties at the rates and charges con-
12 templated by this agreement, plus any additional cost and charges which may arise as the result of
13 the separate ownership of the assigned well.

14
15 **ARTICLE VII.**
16 **EXPENDITURES AND LIABILITY OF PARTIES**

17
18 **A. Liability of Parties:**

19
20 The liability of the parties shall be several, not joint or collective. Each party shall be responsible
21 only for its obligations, and shall be liable only for its proportionate share of the costs of developing
22 and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are
23 given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall
24 this agreement be construed as creating, a mining or other partnership or association, or to render the
25 parties liable as partners.

26
27 **B. Liens and Payment Defaults:**

28
29 Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security
30 interest in its share of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of
31 expense, together with interest thereon at the rate provided in the Accounting Procedure attached hereto as Exhibit
32 "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the State, Operator
33 shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the
34 obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or
35 otherwise affect the lien rights of security interest as security for the payment thereof. In addition, upon default by any
36 Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or
37 remedies to collect from the purchaser the proceeds from the sale of such Non-Operator's share of oil and/or gas until
38 the amount owed by such Non-Operator, including reasonable attorney fees in the event of suit to collect any
39 delinquency, plus interest has been paid. Each purchaser shall be entitled to rely upon Operator's written statement
40 concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure
41 payment of Operator's proportionate share of expense.

42
43
44 If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of
45 a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by
46 Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the in-
47 terest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimburse-
48 ment thereof, be subrogated to the security rights described in the foregoing paragraph.

49
50 **C. Payments and Accounting:**

51
52 Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses
53 incurred in the development and operation of the Contract Area pursuant to this agreement and shall
54 charge each of the parties hereto with their respective proportionate shares upon the expense basis pro-
55 vided in the Accounting Procedure attached hereto as Exhibit "C". Operator shall keep an accurate
56 record of the joint account hereunder, showing expenses incurred and charges and credits made and
57 received.

58
59 Operator, at its election, shall have the right from time to time to demand and receive from the
60 other parties payment in advance of their respective shares of the estimated amount of the expense to
61 be incurred in operations hereunder during the next succeeding month, which right may be exercised only
62 by submission to each such party of an itemized statement of such estimated expense, together with
63 an invoice for its share thereof. Each such statement and invoice for the payment in advance of esti-
64 mated expense shall be submitted on or before the 20th day of the next preceding month. Each party
65 shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such es-
66 timate and invoice is received. If any party fails to pay its share of said estimate within said time, the
67 amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be
68 made monthly between advances and actual expense to the end that each party shall bear and pay its
69 proportionate share of actual expenses incurred, and no more.

70
One of the following marks of publication
is not authorized in writing by the
American Association of Petroleum Engineers

1 **D. Limitation of Expenditures:**

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

6
7 ~~Option No. 1: All necessary expenditures for the drilling or deepening, testing, completing and~~
8 ~~equipping of the well, including necessary tankage and/or surface facilities.~~

9
10 Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When
11 such well has reached its authorized depth, and all tests have been completed, Operator shall give im-
12 mediate notice to the Non-Operators who have the right to participate in the completion costs. The parties
13 receiving such notice shall have forty-eight (48) hours ~~(exclusive of Saturday, Sunday and legal holi-~~
14 ~~days)~~ in which to elect to participate in the setting of casing and the completion attempt. Such election,
15 when made, shall include consent to all necessary expenditures for the completing and equipping of such
16 well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice
17 to reply within the period above fixed shall constitute an election by that party not to participate in
18 the cost of the completion attempt. If one or more, but less than all of the parties, elect to set pipe and
19 to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or
20 plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to
21 the operations thereafter conducted by less than all parties.

22
23 2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged
24 back except a well reworked or plugged back pursuant to the provisions of Article VI.B.2. of this agree-
25 ment, it being understood that the consent to the reworking or plugging back of a well shall include
26 consent to all necessary expenditures in conducting such operations and completing and equipping of
27 said well, including necessary tankage and/or surface facilities.

28
29 3. Other Operations: Operator shall not undertake any single project reasonably estimated to require
30 an expenditure in excess of FORTY THOUSAND----- Dollars (\$40,000.00)
31 except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plug-
32 ging back of which has been previously authorized by or pursuant to this agreement; provided, how-
33 ever, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different
34 nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with
35 the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emer-
36 gency to the other parties. If Operator prepares "Authority for Expenditures" for its own use,
37 Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project
38 costing in excess of TWENTY-FIVE THOUSAND----- Dollars (\$25,000.00).
39

40 **E. Royalties, Overriding Royalties and Other Payments:**

41
42 Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of
43 1/8th of 8/8ths due on its share of production and shall hold the other parties free
44 from any liability therefor. If the interest of any party in any oil and gas lease covered by this agree-
45 ment is subject to any royalty, overriding royalty, production payment, or other charge over and above
46 the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account
47 for or cause to be accounted for, such interest to the owners thereof.

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

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

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

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

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

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

3
4 **G. Taxes:**

5
6 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad
7 valorem taxation all property subject to this agreement which by law should be rendered for such
8 taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the ren-
9 dition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be
10 limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests con-
11 tributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its
12 being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in
13 ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold
14 estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such
15 reduction. Operator shall bill other parties for their proportionate share of all tax payments in the man-
16 ner provided in Exhibit "C".

17
18 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within
19 the time and manner prescribed by law, and prosecute the protest to a final determination, unless all
20 parties agree to abandon the protest prior to final determination. During the pendency of administrative
21 or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and
22 penalty. When any such protested assessment shall have been finally determined, Operator shall pay
23 the tax for the joint account, together with any interest and penalty accrued, and the total cost shall then
24 be assessed against the parties, and be paid by them, as provided in Exhibit "C".

25
26 Each party shall pay or cause to be paid all production, severance, gathering and other taxes im-
27 posed upon or with respect to the production or handling of such party's share of oil and/or gas pro-
28 duced under the terms of this agreement.

29
30 **H. Insurance:**

31
32 At all times while operations are conducted hereunder, Operator shall comply with the Workmen's
33 Compensation Law of the State where the operations are being conducted; provided, however, that Op-
34 erator may be a self-insurer for liability under said compensation laws in which event the only charge
35 that shall be made to the joint account shall be an amount equivalent to the premium which would have
36 been paid had such insurance been obtained. Operator shall also carry or provide insurance for the
37 benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof.
38 Operator shall require all contractors engaged in work on or for the Contract Area to comply with the
39 Workmen's Compensation Law of the State where the operations are being conducted and to maintain
40 such other insurance as Operator may require.

41
42 In the event Automobile Public Liability Insurance is specified in said Exhibit "D", or subsequently
43 receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for
44 such insurance for Operator's fully owned automotive equipment.

45
46 **ARTICLE VIII.**
47 **ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST**

48
49 **A. Surrender of Leases:**

50
51 The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall
52 not be surrendered in whole or in part unless all parties consent thereto.

53
54 However, should any party desire to surrender its interest in any lease or in any portion thereof, and
55 other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express
56 or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and
57 equipment which may be located thereon and any rights in production thereafter secured, to the parties
58 not desiring to surrender it. If the interest of the assigning party includes an oil and gas interest, the as-
59 signing party shall execute and deliver to the party or parties not desiring to surrender an oil and gas
60 lease covering such oil and gas interest for a term of one year and so long thereafter as oil and/or gas
61 is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B".
62 Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing,
63 but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon,
64 and the assigning party shall have no further interest in the lease assigned and its equipment and pro-
65 duction other than the royalties retained in any lease made under the terms of this Article. The parties
66 assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells
67 and equipment on the assigned acreage. The value of all material shall be determined in accordance
68 with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of rig-
69 ging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall

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

3
4 Any assignment or surrender made under this provision shall not reduce or change the assignor's or
5 surrendering parties' interest, as it was immediately before the assignment, in the balance of the Contract
6 Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter
7 be subject to the terms and provisions of this agreement.

8
9 **B. Renewal or Extension of Leases:**

10
11 If any party secures a renewal of any oil and gas lease subject to this Agreement, all other parties
12 shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt
13 of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such
14 lease affects lands within the Contract Area, by paying to the party who acquired it their several proper
15 proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area,
16 which shall be in proportion to the interests held at that time by the parties in the Contract Area.

17
18 If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it
19 shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of
20 their respective percentage of participation in the Contract Area to the aggregate of the percentages
21 of participation in the Contract Area of all parties participating in the purchase of such renewal lease.
22 Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

23
24 Each party who participates in the purchase of a renewal lease shall be given an assignment without warranty of
25 its proportionate interest therein by the acquiring party.

26
27 The provisions of this Article shall apply to renewal leases whether they are for the entire interest
28 covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease
29 taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after
30 the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted
31 for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal
32 lease and shall not be subject to the provisions of this agreement.

33
34 The provisions in this Article shall apply also and in like manner to extensions of oil and gas
35 leases. The provisions of this Article VIII-B shall only apply to leases, or portions of leases, located within the Contract
36 Area.

37 **C. Acreage or Cash Contributions:**

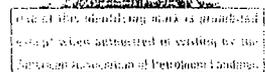
38
39 While this agreement is in force, if any party contracts for a contribution of cash toward the drilling
40 of a well or any other operation on the Contract Area, such contribution shall be paid to the party who
41 conducted the drilling or other operation and shall be applied by it against the cost of such drilling or
42 other operation. If the contribution be in the form of acreage, the party to whom the contribution is
43 made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling
44 Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto
45 are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and
46 be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and
47 accept such tender, such acreage shall not become a part of the Contract Area. Each party shall promptly
48 notify all other parties of all acreage or money contributions it may obtain in support of any well or
49 any other operation on the Contract Area.

50
51 If any party contracts for any consideration relating to disposition of such party's share of substances
52 produced hereunder, such consideration shall not be deemed a contribution as contemplated in this
53 Article VIII.C. This paragraph shall not be applicable to the contribution of acreage by farmout toward the Initial, or
54 any Substitute, or Option Test Well.

55 **D. Subsequently Created Interest:**

56
57 Notwithstanding the provisions of Article VIII.E. and VIII.G., if any party hereto shall, subsequent
58 to execution of this agreement, create an overriding royalty, production payment, or net proceeds inter-
59 est, which such interests are hereinafter referred to as "subsequently created interest", such subsequently
60 created interest shall be specifically made subject to all of the terms and provisions of this agreement, as
61 follows:

62
63 1. If non-consent operations are conducted pursuant to any provision of this agreement, and the
64 party conducting such operations becomes entitled to receive the production attributable to the interest
65 out of which the subsequently created interest is derived, such party shall receive same free and clear
66 of such subsequently created interest. The party creating same shall bear and pay all such subsequently
67 created interests and shall indemnify and hold the other parties hereto free and harmless from any and
68 all liability resulting therefrom.



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

E. Maintenance of Uniform Interest:

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

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

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

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

F. Waiver of Right to Partition:

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

~~**G. Preferential Right to Purchase:**~~

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

**ARTICLE IX.
INTERNAL REVENUE CODE ELECTION**

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provisions herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for Federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election.

1 such party shall give any notices or take any other action inconsistent with the election made hereby.
 2 If any present or future income tax laws of the state or states in which the Contract Area is located or
 3 any future income tax laws of the United States contain provisions similar to those in Subchapter "K",
 4 Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that
 5 provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as
 6 may be permitted or required by such laws. In making the foregoing election, each such party states that
 7 the income derived by such party from Operations hereunder can be adequately determined without the
 8 computation of partnership taxable income.

9
 10 **ARTICLE X.**
 11 **CLAIMS AND LAWSUITS**

12
 13 Operator may settle any single damage claim or suit arising from operations hereunder if the ex-
 14 penditure does not exceed FIFTEEN THOUSAND AND NO/100 Dollars
 15 (\$ 15,000.00) and if the payment is in complete settlement of such claim or suit. If the amount
 16 required for settlement exceeds the above amount, the parties hereto shall assume and take over the
 17 further handling of the claim or suit, unless such authority is delegated to Operator. All costs and ex-
 18 pense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense
 19 of the parties. If a claim is made against any party or if any party is sued on account of any matter
 20 arising from operations hereunder over which such individual has no control because of the rights given
 21 Operator by this agreement, the party shall immediately notify Operator, and the claim or suit shall
 22 be treated as any other claim or suit involving operations hereunder.

23
 24 **ARTICLE XI.**
 25 **FORCE MAJEURE**

26
 27 If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations
 28 under this agreement, other than the obligation to make money payments, that party shall give to all
 29 other parties prompt written notice of the force majeure with reasonably full particulars concerning it;
 30 thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure,
 31 shall be suspended during, but no longer than, the continuance of the force majeure. The affected party
 32 shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

33
 34 The requirement that any force majeure shall be remedied with all reasonable dispatch shall not
 35 require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its
 36 wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party
 37 concerned.

38
 39 The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other
 40 industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood,
 41 explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment,
 42 and any other cause, whether of the kind specifically enumerated above or otherwise, which is not
 43 reasonably within the control of the party claiming suspension.

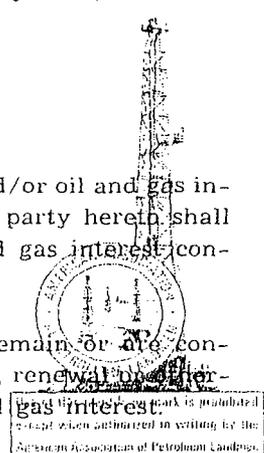
44
 45 **ARTICLE XII.**
 46 **NOTICES**

47
 48 All notices authorized or required between the parties, and required by any of the provisions of
 49 this agreement, unless otherwise specifically provided, shall be given in writing by United States mail
 50 or Western Union telegram, postage or charges prepaid, or by teletype, and addressed to the party to
 51 whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any
 52 provision hereof shall be deemed given only when received by the party to whom such notice is directed,
 53 and the time for such party to give any notice in response thereto shall run from the date the originat-
 54 ing notice is received. The second or any responsive notice shall be deemed given when deposited in
 55 the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid,
 56 or when sent by teletype. Each party shall have the right to change its address at any time, and from
 57 time to time, by giving written notice hereof to all other parties.

58
 59 **ARTICLE XIII.**
 60 **TERM OF AGREEMENT**

61
 62 This agreement shall remain in full force and effect as to the oil and gas leases and/or oil and gas in-
 63 terests subjected hereto for the period of time selected below; provided, however, no party hereto shall
 64 ever be construed as having any right, title or interest in or to any lease, or oil and gas interest con-
 65 tributed by any other party beyond the term of this agreement.

66
 67 Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are con-
 68 tinued in force as to any part of the Contract Area, whether by production, extension, renewal or other-
 69 wise, and/or so long as oil and/or gas production continues from any lease or oil and gas interest.



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

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

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

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

**ARTICLE XV.
OTHER PROVISIONS**

A. REQUIRED OPERATIONS. Notwithstanding any other provisions herein, if during the term of this agreement, a well is required to be drilled, deepened, reworked, plugged back, sidetracked, or recompleted, or any other operation that may be required in order to (1) continue a lease or leases in force and effect, or (2) maintain a unitized area or any portion thereof in force and effect, or (3) earn or preserve an interest in and to oil and/or gas and other minerals which may be owned by a third party or which, failing in such operation, may revert to a third party, or, (4) comply with an order issued by a regulatory body having jurisdiction in the premises, failing in which certain rights would terminate, the following shall apply. Should less than all of the parties hereto elect to participate and pay their proportionate part of the costs to be incurred in such operation, those parties desiring to participate shall have the right to do so at their sole costs, risk, and expense. Promptly following the conclusion of such operation, each of the parties not participating agree to execute and deliver an appropriate assignment to the total interest of each non-participating party in and to the lease, leases, or rights which would have terminated or which otherwise may have been preserved by virtue of such operation, and in and to the lease, leases or rights within the balance of the drilling unit upon which the well was drilled, excepting, however, wells theretofore completed and capable of producing in paying quantities. Such assignment shall be delivered to the participating parties in the proportion that they bore the expense attributable to the non-participating parties' interest.

B. PREPARATION OF EXHIBIT "A". The interests of the parties as set fourth on Exhibit "A" were calculated based on the best information available to the Operator. If the information is found to have been erroneous, or if a mathematical or typographical error has been made in preparing the exhibits, the interest may be recalculated to reflect the correct interests.

C. REGULATORY EXPENSES. Notwithstanding anything to the contrary contained in the Operating Agreement or the Accounting Procedure (Exhibit "C"), the following items pertaining to the Contract Area shall not be considered as Administrative Overhead, but Operator shall be entitle to make a direct charge against the joint account for the same: Fees for legal services, title costs, costs and expenses in connection with preparations and presentations of evidence and exhibits at Governmental Regulatory hearings, preparation and handling of application to and hearings before any and all governmental agencies or regulatory bodies.

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 _____ day of _____, 19_____.

OPERATOR

MYCO INDUSTRIES, INC.

Frank Yates, Jr., Attorney-in-Fact

NON-OPERATORS

CHISOLM TRAIL VENTURES, L.P. a
Texas Limited Partnership

BASS ENTERPRISES PRODUCTION CO.

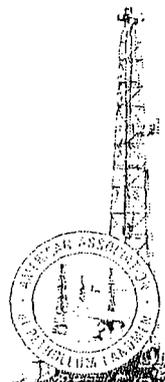
By: BMT Genpar, LLC, Managing
General Partner

By: _____
W. Frank McCreight

By: _____
W. Frank McCreight
Vice President

SID R. BASS
LEE M. BASS, INC.
KEYSTONE, INC.
THRU LINE, INC.

By: _____
W. Frank McCreight
Vice President



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

EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement
dated January 30, 2003, by and between
MYCO Industries, Inc. as Operator and Others as Non-Operators

I. **Identification of Lands Subject to this Agreement:**

Township 21 South, Range 28 East, N.M.P.M.
Section 31: W/2

containing 320.00 acres, more or less in Eddy County, New Mexico

II. **Restrictions as to Depths or Formations:**

NO RESTRICTIONS

III. **Percentages of Parties to this Agreement:**

<u>Operating Rights</u>	<u>Net Acres</u>	<u>Working Interest</u>
Bass Enterprises Production Co.	-0-	-0-
Chisholm Trail Ventures	20.00	.0625000
Keystone, Inc.	15.00	.0468750
Lee M. Bass, Inc.	15.00	.0468750
Sid R. Bass, Inc.	15.00	.0468750
Thru Line, Inc.	15.00	.0468750
MYCO Industries, Inc.	<u>240.00</u>	<u>.7500000</u>
	320.00	1.0000000

IV. **Oil and Gas Leases Subject to this Agreement:**

TO BE COMPLETED AT A LATER DATE

V. **Addresses of Parties to this Agreement:**

Chisolm Trail Ventures
Keystone, Inc.
Lee M. Bass, Inc.
Sid R. Bass, Inc.
Thru Line, Inc.
201 Main
Fort Worth, Texas 76102-3105

MYCO Industries, Inc.
Post Office Box 840
Artesia, New Mexico 88211

EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement
dated January 30, 2003 between
MYCO Industries, Inc. as Operator and others as Non-Operators

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

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

4. Adjustments

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

5. Audits

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

6. **Approval by Non-Operators**

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. **Rentals and Royalties**

Lease rentals and royalties paid by Operator for the Joint Operations

2. **Labor**

- A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
- (2) Salaries of First Level Supervisors in the field.
- (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

3. **Employee Benefits**

Operator's current costs of established plans for employee' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty per cent (20%).

4. **Material**

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

5. **Transportation**

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

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

6. **Services**

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

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

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

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

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

9. **Legal Expense**

- A. Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to

protest or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, paragraph 3.

- B. Expenses incurred by Operator in representing the Joint Property at hearings or proceedings before state or federal regulatory or administrative agencies.

10. **Taxes**

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

11. **Insurance**

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

12. **Other Expenditures**

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

III. OVERHEAD

1. **Overhead – Drilling and Producing Operations**

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

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

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

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

A. **Overhead – Fixed Rate Basis**

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

	Surface to 5,000'	5,001' – 10,000'	10,001' – 15,000'
Drilling Well Rate	\$ 3600	\$ 4800	\$ 6,200
Producing Well Rate	\$ 360	\$ 480	\$ 620

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

(a) **Drilling Well Rate**

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

(b) **Producing Well Rates**

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- [4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
- [5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

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

Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

B. Overhead – Percentage Basis

- (1) Operator shall charge the Joint Account at the following rates:
 - (a) Development
_____ Percent (%) of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 9 of Section II and all salvage credits.
 - (b) Operating
_____ Percent (%) of the cost of Operating the Joint Property exclusive of costs provided under Paragraph 1 and 9 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.
- (2) Application of Overhead – Percentage Basis shall be as follows:
For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, re-drilling, deepening or any remedial operations on any and all wells involving the use of drilling crews and equipment; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as Operating.

2. Overhead – Major Construction

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

- A. 5 % of total costs if such costs are more than \$ 25,000 but less than \$ 100,000 ; plus
- B. 3 % of total costs in excess of \$ 100,000 but less than \$1,000,000; plus
- C. 2 % of total costs in excess of \$1,000,000.

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

3. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

- (1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized in the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.
- (2) Line Pipe
 - (a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.
 - (b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.
- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

B. Good Used Material (Condition B)

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

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

C. Other Used Material (Condition C and D)

(1) Condition C

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

(2) Condition D

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

D. Obsolete Material

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

E. Pricing Conditions

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

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

3. **Premium Prices**

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten (10) days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. **Warranty of Material Furnished by Operator**

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. **Periodic Inventories, Notice and Representation**

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

2. **Reconciliation and Adjustment of Inventories**

Reconciliation of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six (6) months following the taking of the inventory. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. **Special Inventories**

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

4. **Expense of Conducting Periodic Inventories**

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

EXHIBIT "D"

Attached to and made a part of that certain
Operating Agreement dated January 30, 2003,
by and between MYCO Industries, Inc. as Operator and Others as Non-Operators

ADDITIONAL INSURANCE PROVISIONS

Operator, during the term of this agreement, shall carry insurance for the benefit and at the expense of the parties hereto, as follows:

(A) Workman's Compensation Insurance as contemplated by the state in which operations will be conducted, and Employer's Liability Insurance with limits of not less than \$1,000,000.00 per employee.

(B) Public Liability Insurance:

Bodily Injury and Property Damage: \$1,000,000.00 single limit each occurrence.

(C) Automobile Public Liability Insurance:

Bodily Injury: \$500,000.00 each person.

\$1,000,000.00 each person.

Property Damage: \$500,000.00 each accident

(or)

Bodily Injury and Property Damage: \$1,000,000.00 combined single limit.

(D) Control of Well and Extra Expense: \$10,000,000.00 – Limit of Liability

Except as authorized by this Exhibit "D", Operator shall not make any charge to the joint account for insurance premiums. Losses not covered by Operator's insurance (or by insurance required by this agreement to be carried for the benefit and at the expense of the parties hereto) shall be charged to the joint account.

EXHIBIT "E"

Attached to and made a part of that certain
Operating Agreement dated January 30, 2003 by and between MYCO Industries, Inc. as
Operator and Others as Non-Operators

GAS BALANCING AGREEMENT

The parties to the Operating Agreement to which this agreement is attached own the working interest in the gas rights underlying the lands covered by such agreement (the "Contract Area") in accordance with the percentages of participation as set forth in Exhibit "A" to the Operating Agreement (the "participation percentage").

In accordance with the terms of the Operating Agreement, each party thereto has the right to take its share of gas produced from the Contract Area and market the same. In the event any of the parties hereto collectively owning participation percentages of less than 50% are not at any time taking or marketing their share of gas or have contracted to sell their share of gas produced from the Contract Area to a purchaser which does not at any time while this agreement is in effect take the full share of gas attributable to the interest of such parties, this agreement shall automatically become effective upon the terms hereinafter set forth.

1. During the period or periods when any parties hereto collectively owning participation percentages of less than 50% have no market for their share of gas produced from any proration unit within the Contract Area, or their purchaser does not take its full share of gas produced from such proration unit, other parties collectively owning participation percentages of more than 50% shall be entitled to produce each month 100% of the lesser of a) allowable gas production assigned to such proration unit by applicable state regulatory authority or b) the delivery capacity of gas from such proration unit; provided, however, no party who does not have gas in place shall be entitled to take or deliver to purchaser gas production in excess of 200% of the lesser of c) its share of the volumes of gas capable of being delivered on a daily basis or d) its share of allowable gas production. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this agreement is attached, but the party or parties taking such gas shall own all the gas delivered to its or their purchaser.

2. On a cumulative basis, each party not taking or marketing its full share of the gas produced shall be credited with gas in place equal to its full share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost, and less that portion such party took or delivered to its purchaser. The Operator will maintain a current account of gas balance between the parties and will furnish all parties hereto monthly statements showing the total quantity of gas produced, the amount used in lease operations, vented or lost, the total quantity of liquid hydrocarbons recovered therefrom, and the monthly and cumulative over and under account of each party.

3. At all times while gas is produced from the Contract Area, each party hereto will make settlement with all royalty owners to whom royalty is due. Each party hereto agrees to hold each other party harmless from any and all claims for royalty payments asserted by royalty owners paid by each party. The term "royalty owner" shall include owners of royalty, overriding royalties, production payments and other similar interests.

Each party producing and taking and delivering gas to its purchaser shall pay any and all production taxes due on such gas.

4. After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its full share of gas produced from a proration unit under which it has gas in place less such party's share of gas used in operations, vented or lost. In addition to such share, each party, including the Operator, until it has recovered its gas in place and balanced the gas account as to its interest, shall be entitled to take or deliver to its purchaser a share of gas determined by multiplying 50% of the interest in the current gas production of the party or parties without gas in place by a fraction, the numerator of which is the interest in the proration unit of such party with gas in place and the denominator of which is the total percentage interest in such proration unit of all parties with gas in place currently taking or delivering to a purchaser.

5. Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser its full share of the allowable gas production to meet the deliverability tests required by its purchaser, provided that said test should be reasonable in length, normally not to exceed seventy two (72) hours.

6. If a proration unit ceases to produce gas and/or liquid hydrocarbons in paying quantities before the gas account is balanced, settlement will be made between the underproduced and overproduced parties. In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced party or parties attributable to the overproduction which said overproduced party received, less applicable taxes theretofore paid, at the applicable price defined below for the delivery of a volume of gas equal to that for which settlement is made. For gas, the price of which is not regulated by federal, state or other governmental agencies, the price basis shall be the price received for the sale of the gas. For gas, the price of which is subject to regulation by federal, state or other governmental authorities, the price basis shall be the rate collected from time to time, which is not subject to possible refund, as provided by the Federal Energy Regulatory Commission or any other governmental authority, pursuant to final order or settlement applicable to the gas sold from such well, plus any additional collected amount which is not ultimately required to be refunded by such authority, such additional collected amount to be accounted for at such time as final determination is made with respect hereto.

7. Notwithstanding the provisions of paragraph 6, it is expressly agreed that any underproduced party shall have the optional right, with respect to each proration unit, to receive a cash settlement bringing such underproduced party's gas account into balance at any time and from time to time prior to the final settlement, by first giving each overproduced party ninety (90) days' written notice of demand for cash settlement. If such option is so exercised, settlement shall be made (as of 7:00 o'clock A.M. on the first day of the calendar month following the date of such written demands) within ninety (90) days following the actual receipt of such written demands by the overproduced parties, in the same manner provided for in paragraph 6. The option provided for in this paragraph may be exercised, from time to time, by only one time in each calendar year.

8. Nothing herein shall change or affect each party's obligation to pay its proportionate share of all costs and liabilities incurred, as its share thereof is set forth in the Operating Agreement.

9. This agreement shall constitute a separate agreement as to each proration unit approved by the applicable regulatory authority for a pool within the Contract Area, but such proration unit shall not include any producing horizon which is not within the vertical limits of said pool. This agreement shall remain in force and effect so long as the Operating Agreement to which it is attached remains in effect, and shall inure to the benefit of and be binding upon the parties hereto, their heirs, successors, legal representatives and assigns.

EXHIBIT "F"

Attached to and made a part of that certain
Operating Agreement dated January 30, 2003,
by and between MYCO Industries, Inc., as Operator and Others as Non-Operators

EQUAL EMPLOYMENT OPPORTUNITY PROVISION

During the performance of this contract, the Operator agrees as follows:

- 1) The Operator will not discriminate against any employee or applicant for employment because of race, color, religion, national origin or sex. The Operator will take affirmative action to ensure that applicants are employed and that employees are treated during employment, without regard to their race, color, religion, national origin or sex. Such action shall include, but not be limited to the following: employment, upgrading, demotion, or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Operator agrees to post in conspicuous places, available to employees and applicants for employment notices to be provided for the contracting officer setting forth the provision of this non-discrimination clause.
- 2) The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, national origin or sex.
- 3) The Operator will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
- 4) The Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.
- 5) The Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to its books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.
- 6) In the event of the Operator's non-compliance with the non-discrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be canceled, terminated or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulations or order of the Secretary of Labor, or as otherwise provided by law.
- 7) The Operator will include the provisions of Paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Operator will take such action with respect to any subcontractor or purchase order as the contracting agency may direct as a means

of enforcing such provisions including sanctions for non-compliance: Provided, however, that in the event the Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interests of the United States.

Operator acknowledges that it may be required to file Standard Form 100 (EEO-1) promulgated jointly by the Office of Federal Contract Compliance, the Equal Employment Opportunity Commission and Plans for Progress with Joint Reporting Committee, Federal Depot, Jeffersonville, Indiana, within thirty (30) days of the date of contract award if such report has not been filed for the current year and otherwise comply with or file such other compliance reports as may be required under Executive Order 11246, as amended and Rules and Regulations adopted thereunder.

Operator further acknowledges that he may be required to develop a written affirmative action compliance program as required by the Rules and Regulations approved by the Secretary of Labor under authority of Executive Order 11246 and supply Non-Operators with a copy of such program if they so request.

CERTIFICATION OF NON-SEGREGATED FACILITIES

Operator assures Non-Operators that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not and will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. For this purpose, it is understood that the phrase "segregated facilities" includes facilities which are in fact segregated on a basis of race, color, religion, or national origin, because of habit, local custom or otherwise. It is further understood and agreed that maintaining or providing segregated facilities for its employees or permitting its employees to perform their services at any location under its control where segregated facilities are maintained is a violation of the equal opportunity clause required by Executive Order 11246 of September 24, 1965.

Operator further understands and agrees that a breach of the assurance herein contained subjects it to the provision of the Order at 41 CFR Chapter 60 of the Secretary of Labor dated May 21, 1968, and the provisions of the equal opportunity clause enumerated in contracts between the United States of America and Non-Operators.

Whoever knowingly and willfully makes any false, fictitious or fraudulent representation may be liable to criminal prosecution under 18 U.S.C. – 1001.

U.S.

HBP E-5232

State

Big Eddy T011870 N7012135 OMA11278

Boss Ent. HBP 359365 Ralph Nix, S/R

(Cactus Ener, etal) 9.7.2003

Richardson Oil eto Ralph Nix, etal, S/R 0486

Yates Pet. Corretson J. Ann Fed. To 2000

21

19 Myco Ind. 1.10.2005

Boss Ent. (R Lee Tr)

PR Boss Big Eddy UT Bone Spr Disc T/A C. 2 15 79

Yates Pet Corretson Fed. Yates Nix Matthews T 3597

Pan Amer. Big Eddy Unit Cory Dial U.S. TO 12 19 87

Joe V. Lusk Claude West

PR Boss, etal 9.1.50(2) 066067 M. Yates, 1/2 S/R Ralph Nix, S/R U.S.

(Richardson Oil, etal)

H.M. Boss, etal HBP 089345 Ralph Nix S/R

HBC Joe V. Lusk Claude West

Ralph Nix S/R Boss Ent 089365

(Ralph Nix, etal, S/R) Boss Ent

Miller Nix F. Yates

PR M Boss: (Big Eddy UT) Murr Disc 9 M.I.

30 Boss Ent Big Eddy UT - 7917099

29

28

Stagner, LLC Yates Orig. 1/4 Boss Ent. Big Eddy Alpha Disc C. 1-21-81

"Big Eddy" U.S.

"Big Eddy" U.S.

O Featherstone II 3-16-2002 Myco Ind. 12-7-2004

Richardson Oil etal S 1 80 11-16-2005 15-25-2005

O Featherstone II 4-25-2002 F.F. Decap Est Bettis Bros. 1-27-98 S.C. Mann

Richardson Oil etal S 1 80 01-10-80

Richardson Oil etal S 1 80 01-10-80

Richardson Oil, etal Boss Ent 95

Richardson Oil etal S 1 80 5-1-80 5-1-80

Richardson Oil etal S 1 80 5-1-80

Richardson Oil etal S 1 80 5-1-80

Richardson Oil etal S 1 80 5-1-80

W Yates, M 1/2 S/R Ralph Nix, S/R Rich E. Boss D/R HBP 0 10005

Boss Ent (Thru Line Inc. etal) 070061

Featherstone Dev. Richa 06663 24022

PR Boss, etal HBP 060613

Richardson Oil HBP 060613

PR Boss, etal HBP 060613

Richardson Oil HBP 960853 PR Boss, etal HBP 060613

MYCO INDUSTRIES, INC.

Juneau 31 Fee Com T21S, R28E, Section 31: W/2 Eddy County, New Mexico

Boss, etal 0 59(2) 06063 HBP 060859

4.2003

EXHIBIT "B"
(FIVE YEAR PAID UP LEASE)
OIL AND GAS LEASE

THIS AGREEMENT made this _____ day of _____, 2001, by and between _____, as Lessor, and _____, as Lessee.

WITNESSETH:

1. Lessor in consideration of _____ Dollars (\$ _____) in hand paid, of the royalties herein provided and of the agreements of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil or gas, laying pipe lines, building roads, tanks, power stations, telephone lines and other structures thereon and on, over and across lands owned or claimed by Lessor adjacent and contiguous thereto, to produce, save, take care of, treat, transport, and own said products and housing its employees, the following described land in _____ County, _____ to wit:

2. Without reference to the commencement, prosecution or cessation at any time of drilling or other development operations and/or to the discovery, development or cessation at any time of production of oil or gas and without further payments than the royalties herein provided, and notwithstanding anything else herein contained to the contrary, this lease shall be for a term of five years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or land with which said land is pooled hereunder.

3. The royalties to be paid by Lessee are: (a) on oil, _____ of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected. Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefore prevailing for the field where produced on the date of purchase; (b) on gas, including casinghead gas or other gaseous substance, produced from said land, and sold, or used off the premises or for the extraction of gasoline or other product therefore, the market value at the well of _____ of the gas so sold or used, provided that on gas sold at the wells the royalty shall be _____ of the amount realized from such sale; while there is a gas well on this lease or on acreage pooled therewith but gas is not being sold or used, Lessee may pay or tender as royalty, on or before ninety (90) days after the date on which said well is shut in and thereafter at annual intervals the sum of \$1.00 per acre and if such payment is made or tendered, this lease shall not terminate and it will be considered that gas is being produced from this lease in paying quantities. Payment or tender of said shut-in gas royalty may be made by check or draft of Lessee mailed or delivered to the parties entitled thereto on or before the date said payment is due. Lessee shall have free use of oil, gas, coal and water from said land, except water from Lessor's wells, for all operations hereunder and the royalty on oil and gas shall be computed after deducting any so used.

4. Lessee, at its option, is hereby given the right and power to pool or combine the acreage covered by this lease, or any portion thereof as to oil and gas, or either of them with other land, lease or leases in the immediate vicinity thereof to the extent, hereinafter stipulated, when in Lessee's judgment it is necessary or advisable to do so in order properly to explore, or to develop and operate said leased premises in compliance with the spacing rules of the New Mexico Oil Conservation Commission, or other lawful authority or when to do so would, in the judgment of Lessee, promote the conservation of oil and gas in and under and that may be produced from said premises. Units pooled for oil hereunder shall not substantially exceed 40 acres each in area, and units pooled of as hereunder shall not substantially exceed in area 640 acres each plus a tolerance of 10% thereof, provided that should government authority having jurisdiction prescribe or permit the creation of units larger than those specified, unit thereafter created may conform substantially in size with those prescribed by government regulations. Lessee under the provisions hereof may pool or combine acreage covered by this lease, or any portion thereof as above provided as to oil in any one or more strata and as to as in any one or more strata. The units formed by pooling as to any stratum or strata, need to conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument describing and designating the pooled acreage as a pooled acreage as a pooled unit. Lessee may at its election exercise its pooling option after commencing operations for or completing an oil or gas well on the leased premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has theretofore been completed or upon which operations for the drilling of a well or gas have theretofore been commenced. Operations for drilling on or production of oil or gas from any part of the pooled unit which includes all or a portion of the land covered by this lease regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or instruments designating the pooled unit, shall be considered as operations for drilling on or production of oil and gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease, and the entire acreage constituting such unit or units, as to oil and gas, or either of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payment out of production and each of them, shall be entitled on production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in said unit a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled units. Such allocation shall be on acreage basis - that is to say, there shall be allocated to the acreage covered by this lease and include the pooled unit that pro rata portion of the oil and gas, or either of them produced from the pooled unit which the number of surface acres covered by this lease and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be oil and gas, or either of them, so allocated to the land covered by this lease and included in the unit just as though such production were from such land. The production from an oil well will be considered production from the lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and production from a gas well will be considered as production from the lease or gas pooled unit from which it is producing and not from an oil pooled unit. In addition to the foregoing, Lessee at its option is hereby given the right and power from time to time to commit said land or any part of formation or mineral substance covered hereby to any cooperative or unit agreement or plan of development and operation, and to any modifications thereof, which have been approved by the New Mexico Oil Conservation Commission or other lawful governmental authority. In such event, the royalty payable to Lessor hereunder shall be computed and paid on the basis of the oil or gas allocated to such land under the terms of any such agreement or plan of operation, which basis shall be the same by which the royalty due the United States or the State of New Mexico is computed and paid. This lease shall not expire during the life of such agreement or plan and shall be subject to the terms thereof and said agreement or plan of operation shall be filed with the New Mexico Oil Conservation Commission, or other lawful authority, and Lessee shall record in the county in which the lease premises are situated an instrument describing such agreement or plan of operation and reflecting the commitment thereto, and the same may be recorded either before or after the completion of wells.

5. If at the expiration of the primary term oil or gas is not being produced on said land, or from land pooled therewith, but Lessee is then engaged in drilling or reworking operations thereon, or shall have completed a dry hole thereon within 60 days prior to the end of the primary terms, the lease shall remain in force so long as operations on said well or for drilling or reworking of any additional well are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil or gas so long thereafter as oil or gas is produced from said land, or from land pooled therewith. If, after the expiration of the primary term of this lease and after oil or gas is produced from said land, or from land pooled therewith, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within 60 days after the cessation of such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land or from land pooled therewith. Any pooled unit designated by Lessee in accordance with the terms hereof, may be dissolved by Lessee by instrument filed for record in the appropriate records of the county in which the leased premises are situated at any time after the completion of a dry hole or the cessation of production on said unit. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land with 660 feet of and draining the lease premise, or land pooled therewith, Lessee agrees to drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances. Lessee may at any time execute and deliver to Lessor or place of record a release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered.

6. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all pipe lines below ordinary plow depth, and no well shall be drilled within two hundred feet of any residence or barn now on said land without Lessor's consent.

7. The rights of either party hereunder may be assigned in whole or in part, and the provision hereof shall extend to their heirs, successors and assigns but no change or division in ownership of the land or royalties; however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee; and no change or division in such ownership shall be binding on Lessee until thirty (30) days after Lessee shall have been furnished by registered U.S. mail at Lessee's principal place of business with a certified copy of recorded instrument or instruments evidencing same. In the event of assignment hereof in whole or in part liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof who commits such breach. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.

8. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or revision of the estate created hereby nor be grounds for cancellation hereof in whole or in part. In the event Lessor considers that operations are not at any time being conducted in compliance with this lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereto, and Lessee, if in default, shall have sixty days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument. After the discovery of oil or gas in paying quantities on said premises, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator but in discharging this obligation it shall in no way be required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.

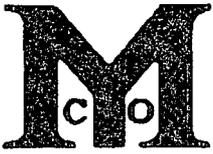
9. Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee at its option may discharge any tax, mortgage or other lien upon said land either in whole or in part and in the event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply royalties accruing hereunder toward satisfying same. Without impairment of Lessee's right under the warrant in the event of failure of title, it is agreed that if Lessor owns an interest in the oil and gas on, in or under said land less than the entire fee simple estate, then the royalties to be paid Lessee shall be reduced proportionately. Should any one or more of the parties named as Lessors fail to execute this lease it shall nevertheless be binding upon the party or parties executing the same.

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

IN WITNESS WHEREOF, this instrument is executed on the date first above written.

Lessor

Lessor



MYCO INDUSTRIES, INC.
OIL PRODUCERS
POST OFFICE BOX 840
ARTESIA, NEW MEXICO 88211-0840
Phone (505) 748-1471

FILE COPY

April 8, 2003

VIA FEDERAL EXPRESS/8370.7498.3150

Mr. Wayne Bailey
Bass Enterprises
201 Main
Fort Worth, TX 76102-3105

Re: **T21S, R28E, N.M.P.M.**
Section 31: E/2
Eddy County, New Mexico
MYCO's Panther City 31

Dear Wayne:

Recall that MYCO Industries, Inc. (MYCO) has contacted Bass Enterprises several times expressing its desire to enter into an arrangement on the above-described acreage. As discussed, MYCO proposes to drill a Morrow test in the E/2 of Section 31, its Panther City 31 Fed Com in the SE/4 NE/4 or SE/4 SE/4 of Section 31, T21S, R28E, Eddy County, New Mexico.

As support for this test, MYCO respectfully requests Bass' support in the form of: a) participation, b) farmout, c) seismic trade or d) term assignment. Along these lines, MYCO proposes the following options:

1. **Bass Participation as a Working Interest Owner**

MYCO, et al and Bass, et al enter into a mutually agreeable A.A.P.L. Form 610-1977 Model Form Operating Agreement, naming MYCO as Operator and participate in the drilling of a Morrow test. MYCO is enclosing an operating agreement and an AFE. Should Bass, et al decide to participate we ask that you sign, date and return one copy of the AFE and Operating Agreement signature page. MYCO has commenced title work on the E/2 of Section 31. Should you have any question, please let us know.

2. **Bass Farmout to Myco Industries, Inc.**

MYCO, et al and Bass will enter into a mutually acceptable formal Farmout Agreement on the E/2 of Section 31 ("Subject Lands") that would include an A.A.P.L. Form 610-1977 Model Form

Operating Agreement, naming MYCO as Operator and setting out the following terms (which are negotiable):

- a. On or before February 1, 2004, MYCO as Operator would commence the drilling of an initial test well at an orthodox location for a Morrow test on the Subject Lands.
- b. Upon completion of the initial test well, Bass will deliver an assignment of 100% of its interest in the Subject Lands, reserving as an overriding royalty interest, the difference between present burdens and 25% (delivering a 75% net revenue interest assignment to MYCO).
- c. Upon payout of the initial test well, Bass would have the option to convert its retained overriding royalty interest to a thirty percent (30%) working interest. All interests would be proportionately reduced.
- d. Within one hundred and eighty days (180) of completion of the initial test well, MYCO would have the right to commence a one hundred and eight day (180) continuous drilling program on the Subject Lands based on the same terms as the initial test well.

3. Seismic Trade

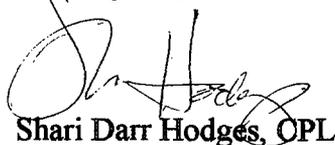
MYCO has 3-D seismic information in T21S, R27E. MYCO would be willing to trade the 3-D for a fifty percent (50%) interest in the Bass lease under the above-described acreage with the understanding that after Bass has had sufficient time to evaluate the seismic, it would make its decision to either: a) participate as described in #1 above or b) farmout as described in #2 above.

4. Term Assignment

In the event Bass prefers not to participate in the drilling of the proposed well, or farmout or enter into a seismic trade, MYCO would be willing to accept a term assignment of Bass' rights in the above-described lands. Although terms would be negotiable, MYCO suggests a 2 year term assignment, \$200/acre, with Bass delivering an 80% net revenue interest assignment.

We will look forward to hearing from you. Although we believe we have furnished you with all the information you have requested, if you need/want any additional information, please let us know.

Best regards,

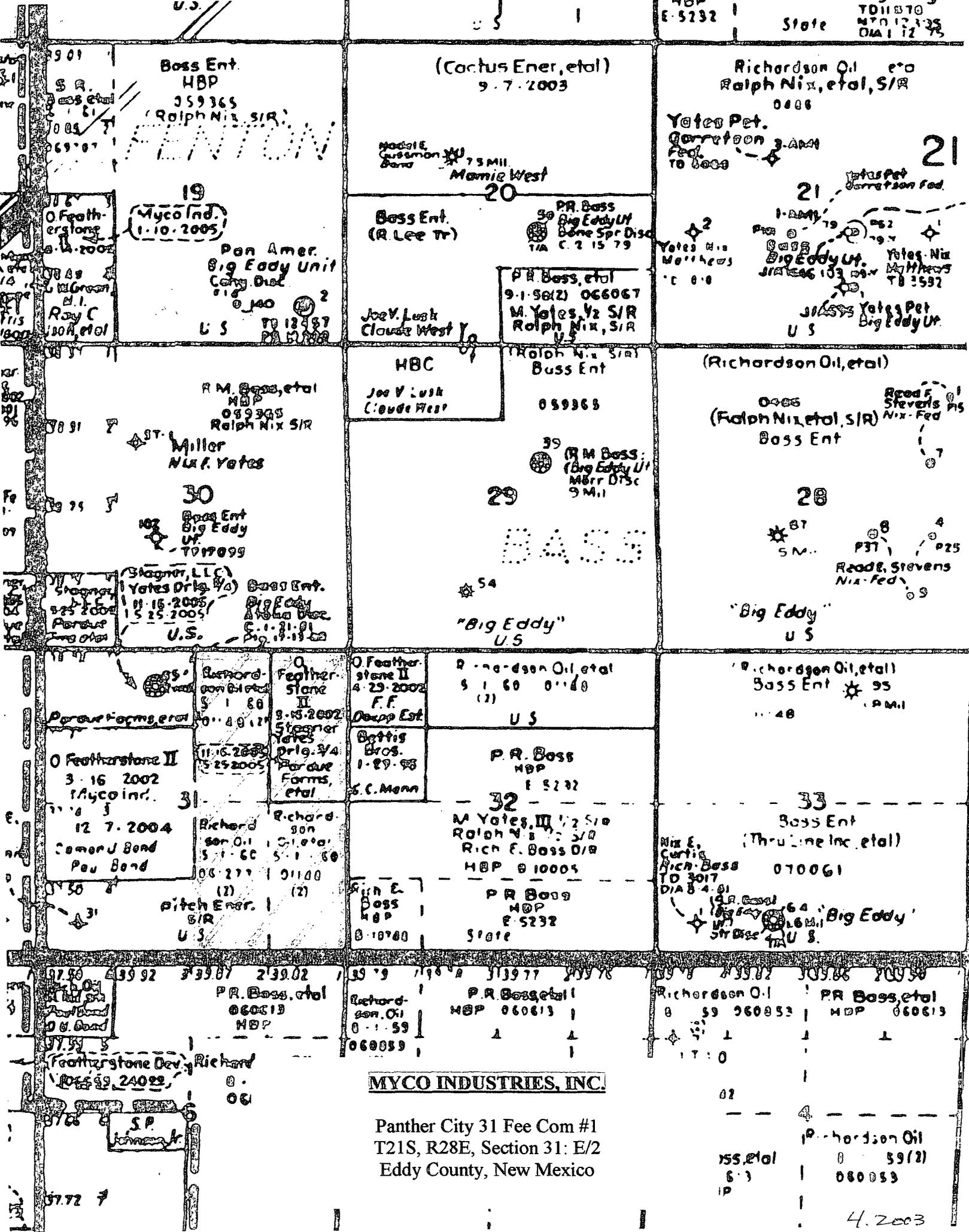


Shari Darr Hodges, OPL
Land Manager

SDH/me

Enclosures:

1. Plat
2. JOA with extra signature page
3. AFE with extra AFE



MYCO INDUSTRIES, INC.

Panther City 31 Fee Com #1
 T21S, R28E, Section 31: E/2
 Eddy County, New Mexico

4.2003



MYCO INDUSTRIES, INC.

P.O. Box 840 / 331 West Main, Suite C
Artesia, New Mexico 88210-0840
Phone (505) 748-1471

AUTHORITY FOR EXPENDITURE
NEW DRILLING, RECOMPLETION & RE-ENTRY

AFE NO.
AFE DATE 4/8/2003
MAFEND (rev 8/00)

AFE Type: [X] New Drilling, [] Recompletion, [] Re-entry
Well Objective: [] Oil, [X] Gas, [] Injector
Well Type: [x] Development, [] Exploratory

AFE STATUS: [X] Original, [] Revised, [] Final, [] Supplemental

LEASE NAME: Panther City 31
COUNTY: Eddy
FIELD: Carlsbad Morrow, East
LOCATION: Legal Location SE/4 NE/4 or SE/4 SE/4 S31-T21S-R28E
PROJ'D DEPTH: 12 500'
STATE: NM
HORIZON: Morrow

DIVISION CODE: 100
DIVISION NAME: Oil & Gas Division
DISTRICT CODE:
DISTRICT NAME:
BRANCH CODE:
BRANCH NAME:

PROGNOSIS: Drill, test and if successful, complete a 12,500' Morrow test.

Table with 3 columns: Description, DRY HOLE, COMP'D WELL. Rows include Staking, Permit & Legal Fees, Location, Right-of-Way, Drilling, Footage, etc., totaling 643,200 for DRY HOLE and 874,200 for COMP'D WELL.

Table with 3 columns: Description, DRY HOLE, COMP'D WELL. Rows include Christmas Tree & Wellhead, Casing, Tubing, Packer & Special Equipment, etc., totaling 54,800 for DRY HOLE and 288,400 for COMP'D WELL.

TOTAL COSTS 698,000 1,162,600

IT IS RECOGNIZED THAT THE AMOUNTS PROVIDED FOR HEREIN ARE ESTIMATED ONLY AND APPROVAL OF THIS AFE SHALL EXTEND TO THE ACTUAL COSTS INCURRED IN CONDUCTING THE OPERATIONS SPECIFIED WHETHER MORE OR LESS THAN HEREIN SET OUT.

Prepared By: A.N. Muncy
Operations Approval: [Signature] Operations & Engineering Mgr.

BY: DATE

BY: DATE

BY: DATE

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

MODEL FORM OPERATING AGREEMENT

of the information made available to the public shall not be used for the purpose of any other legal proceeding.

PANTHER CITY 31 WORKING INTEREST AREA

OPERATING AGREEMENT

DATED

January 30, 2003,

OPERATOR MYCO INDUSTRIES, INC.

CONTRACT AREA _____

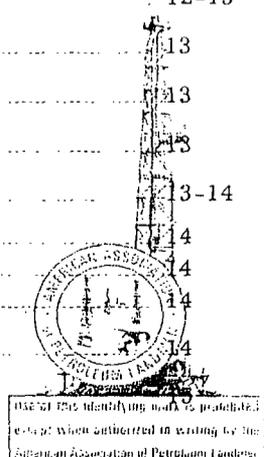
SEE EXHIBIT "A" - ATTACHED HERETO

COUNTY ~~OKFARKSE~~ OF Eddy STATE OF New Mexico

COPYRIGHT 1977 — ALL RIGHTS RESERVED
AMERICAN ASSOCIATION OF PETROLEUM LANDMEN
APPROVED FORM. A.A.P.L. NO. 610 - 1977 REVISED
MAY BE ORDERED DIRECTLY FROM THE PUBLISHER
KRAFTBILT PRODUCTS, BOX 800, TULSA, OK 74101

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between MYCO INDUSTRIES, INC., a New Mexico corporation, 423 West Main, Artesia, NM 88210, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators",

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I. DEFINITIONS

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

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

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

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

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

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

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

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

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

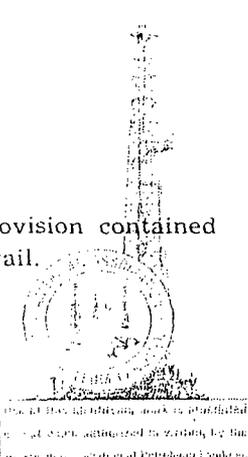
Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

ARTICLE II. EXHIBITS

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

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

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



ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B. Interest of Parties in Costs and Production:

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

ARTICLE IV.
TITLES

A. Title Examination:

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

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

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

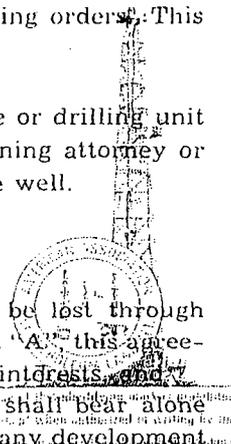
Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with leases or oil and gas interests contributed by such party. The Operator shall be responsible for the preparation and recording of Pooling Designations or Declarations as well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

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

B. Loss of Title:

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

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



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

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

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

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

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

21 (f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection
22 with the defense of the interest claimed by any party hereto, it being the intention of the parties
23 hereto that each shall defend title to its interest and bear all expenses in connection therewith.
24

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

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

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

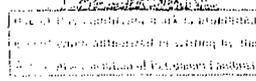
48 (c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or
49 becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or be-
50 coming a party to this agreement.
51

52 3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2.
53 above, shall not be considered failure of title but shall be joint losses and shall be borne by all parties
54 in proportion to their interests. There shall be no readjustment of interests in the remaining portion of
55 the Contract Area.
56

57 **ARTICLE V.**
58 **OPERATOR**

59
60 **A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:**

61
62 MYCO Industries, Inc., 423 West Main, Artesia, New Mexico 88210 shall be the
63 Operator of the Contract Area, and shall conduct and direct and have full control of all operations on
64 the Contract Area as permitted and required by, and within the limits of, this agreement. It shall con-
65 duct all such operations in a good and workmanlike manner, but it shall have no liability as Operator
66 to the other parties for losses sustained or liabilities incurred, except such as may result from gross
67 negligence or willful misconduct.
68
69
70



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

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

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

C. Employees:

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

D. Drilling Contracts:

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

**ARTICLE VI.
DRILLING AND DEVELOPMENT**

A. Initial Well:

On or before the 1st day of February, 2004, Operator shall commence the drilling operations for a well for oil and gas at the following location:

Township 21 South, Range 28 East, N.M.P.M.
Section 31: SE/4 NE/4 or SE/4 SE/4

and shall thereafter continue the drilling of the well with due diligence to 12,500' or to the base of the Morrow formation, whichever is the lesser.

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

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

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

Operator's only liability for failure to commence said initial well shall be the ipso facto termination of this agreement.

1 **B. Subsequent Operations:**

2
 3 1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area
 4 other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled
 5 at the joint expense of all parties or a well jointly owned by all the parties and not then producing
 6 in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the
 7 other parties written notice of the proposed operation, specifying the work to be performed, the loca-
 8 tion, proposed depth, objective formation and the estimated cost of the operation. The parties receiv-
 9 ing such a notice shall have thirty (30) days after receipt of the notice within which to notify the
 10 parties wishing to do the work whether they elect to participate in the cost of the proposed operation.
 11 If a drilling rig is on location, notice of proposal to rework, plug back or drill deeper may be given
 12 by telephone and the response period shall be limited to forty-eight (48) hours, ~~exclusive of Saturday,~~
 13 ~~Sunday or legal holidays.~~ Failure of a party receiving such notice to reply within the period above fixed
 14 shall constitute an election by that party not to participate in the cost of the proposed operation. Any
 15 notice or response given by telephone shall be promptly confirmed in writing.

16
 17 2. Operations by Less than All Parties: If any party receiving such notice as provided in Article
 18 VI.B.1. or VI.E.1. elects not to participate in the proposed operation, then, in order to be entitled to
 19 the benefits of this article, the party or parties giving the notice and such other parties as shall elect
 20 to participate in the operation shall, within sixty (60) days after the expiration of the notice period of
 21 thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period
 22 where the drilling rig is on location, as the case may be) actually commence work on the proposed
 23 operation and complete it with due diligence. Operator shall perform all work for the account of the
 24 Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Op-
 25 erator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform
 26 the work required by such proposed operation for the account of the Consenting Parties, or (b) desig-
 27 nate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when
 28 conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms
 29 and conditions of this agreement.

30
 31 If less than all parties approve any proposed operation, the proposing party, immediately after the
 32 expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest
 33 of the parties approving such operation, and (b) its recommendation as to whether the Consenting Par-
 34 ties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48)
 35 hours ~~(exclusive of Saturday, Sunday or legal holidays)~~ after receipt of such notice, shall advise the
 36 proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A",
 37 or (b) carry its proportionate part of Non-Consenting Parties' interest. The proposing party, at its
 38 election, may withdraw such proposal if there is insufficient participation, and shall promptly notify
 39 all parties of such decision.

40
 41 The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in
 42 the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting
 43 Parties shall keep the leasehold estates involved in such operations free and clear of all liens and
 44 encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such
 45 an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole
 46 cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions
 47 of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall
 48 complete and equip the well to produce at their sole cost and risk, and the well shall then be turned
 49 over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties.
 50 Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such
 51 well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party
 52 shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and
 53 be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's
 54 interest in the well and share of production therefrom until the proceeds of the sale of such share,
 55 calculated at the well, or market value thereof if such share is not sold (after deducting production
 56 taxes, crude oil excise taxes, royalty, overriding royalty and other interest existing on the effective date hereof, payable
 57 out of or measured by the production from such well accruing with respect to such interests until it reverts) shall equal
 58 the total of the following:

59
 60 (a) 200% of each such Non-Consenting Party's share of the cost of any newly acquired surface
 61 equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators,
 62 treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the
 63 cost of operation of the well commencing with first production and continuing until each such Non-
 64 Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being
 65 agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which
 66 would have been chargeable to each Non-Consenting Party had it participated in the well from the be-
 67 ginning of the operation; and

68
 69 (b) 500% of that portion of the costs and expenses of drilling, reworking, deepening, or plugging
 70 back, testing and completing, after deducting any cash contributions received under Article VII.C. and

1 500% of that portion of the cost of newly acquired equipment in the well (to and including the well-
2 head connections), which would have been chargeable to such Non-Consenting Party if it had partici-
3 pated therein.

4
5 Gas production attributable to any Non - Consenting Party's relinquished interest upon such Party's
6 election, shall be sold to its purchaser, if available, under the terms of its existing gas sales con-
7 tract. Such Non - Consenting Party shall direct its purchaser to remit the proceeds receivable from
8 such sale direct to the Consenting Parties until the amounts provided for in this Article are recov-
9 ered from the Non - Consenting Party's relinquished interest. If such Non - Consenting Party has not
10 contracted for sale of its gas at the time such gas is available for delivery, or has not made the elec-
11 tion as provided above, the Consenting Parties shall own and be entitled to receive and sell such Non-
12 Consenting Party's share of gas as hereinabove provided during the recoupment period.

13
14 During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share
15 of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of
16 all production, **crude oil excise taxes, severance, gathering and other taxes, and all royalty, overriding royalty and**
17 **other burdens applicable to Non-Consenting Party's share of production.**

18
19 In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall
20 be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of
21 all such equipment shall remain unchanged; and upon abandonment of a well after such reworking,
22 plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the
23 owners thereof, with each party receiving its proportionate part in kind or in value, less cost of
24 salvage.

25
26 Within sixty (60) days after the completion of any operation under this Article, the party con-
27 ducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an in-
28 ventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling,
29 deepening, plugging back, testing, completing, and equipping the well for production; or, at its option,
30 the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed
31 statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being
32 reimbursed as provided above, the Party conducting the operations for the Consenting Parties shall furn-
33 ish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the
34 operation of the well, together with a statement of the quantity of oil and gas produced from it and the
35 amount of proceeds realized from the sale of the well's working interest production during the preceding
36 month. In determining the quantity of oil and gas produced during any month, Consenting Parties
37 shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any
38 amount realized from the sale or other disposition of equipment newly acquired in connection with any
39 such operation which would have been owned by a Non-Consenting Party had it participated therein
40 shall be credited against the total unreturned costs of the work done and of the equipment purchased,
41 in determining when the interest of such Non-Consenting Party shall revert to it as above provided;
42 and if there is a credit balance, it shall be paid to such Non-Consenting party.

43
44 If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest
45 the amounts provided for above, the relinquished interests of such Non-Consenting Party shall auto-
46 matically revert to it, and, from and after such reversion, such Non-Consenting Party shall own the same
47 interest in such well, the material and equipment in or pertaining thereto, and the production there-
48 from as such Non-Consenting Party would have been entitled to had it participated in the drilling,
49 reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be
50 charged with and shall pay its proportionate part of the further costs of the operation of said well in
51 accordance with the terms of this agreement and the Accounting Procedure, attached hereto.

52
53 Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent
54 of all parties, no wells shall be completed in or produced from a source of supply from which a well
55 located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing
56 well spacing pattern for such source of supply.

57
58 The provisions of this Article shall have no application whatsoever to the drilling of the initial
59 well described in Article VI.A. except (a) when Option 2, Article VII.D.1., has been selected, or (b)
60 to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall
61 prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article
62 VI.A.

63
64 **C. Right to Take Production in Kind:**

65
66 Each party shall have the right to take in kind or separately dispose of its proportionate share of all oil and gas
67 produced from the Contract Area, exclusive of production which may be used in development and producing
68 operations and in preparing and treating oil for marketing purposes and production unavoidably lost. Any extra
69 expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the
70 production shall be borne by such party. Any party taking its share of production in kind shall be required to pay for
only its proportionate share of such part of Operator's surface facilities which it uses.

Each party electing to take in kind or separately dispose of its proportionate share of the production from the Contract Area shall keep accurate records of the volume, selling price, royalty and taxes relative to its share of production. Non-Operators shall, upon request, furnish Operator which true and complete copies of the records required to be kept thereunder whenever, under the terms of this agreement or any agreement executed in connection herewith, it is necessary for Operator to obtain said information. Any information furnished to Operator hereunder shall be used by Operator only to the extent necessary to carry out its duties as Operator and shall otherwise be kept confidential.

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

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

In the event any party hereto is not at any time taking or marketing its share of gas production and Operator is either (i) unwilling to purchase or sell or (ii) unable to obtain the prior written consent to purchase or sell such party's share of gas production, or in the event any party has contracted to sell its share of gas produced from the Contract Area to a purchaser which does not at any time while this agreement is in effect take the full share of gas attributable to the interest of such party, then in any such event the terms and conditions of the Gas Balancing Agreement attached hereto as Exhibit "E" and incorporate herein shall automatically become effective.

D. Access to Contract Area and Information:

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

E. Abandonment of Wells:

1. Abandonment of Dry Holes: Except for any well drilled pursuant to Article VI.B.2., any well which has been drilled under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours ~~(exclusive of Saturday, Sunday or legal holidays)~~ after receipt of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling of such well. Any party who objects to the plugging and abandoning such well shall have the right to take over the well and conduct further operations in search of oil and/or gas subject to the provisions of Article VI.B.

2. Abandonment of Wells that have Produced: Except for any well which has been drilled or reworked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reimbursed as therein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment of such well, all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Any party's failure to timely respond within said thirty (30) days shall be deemed to consent to abandonment. Each abandoning party shall assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and related equipment, together with its interest in the leasehold estate. If the interest of the abandoning party is or includes an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or intervals of the formation or formation within the Contract Area for a term of one year and so long thereafter as oil and or gas is produced from the interval or intervals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit "B". The assignments or leases shall encompass the "drilling unit" upon which the well is located.

1 The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their
2 respective percentages of participation in the Contract Area to the aggregate of the percentages of participation in the
3 Contract Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Contract
4 Area.

5
6
7
8 Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the op-
9 eration of or production from the well in the interval or intervals then open other than the royalties
10 retained in any lease made under the terms of this Article. Upon request, Operator shall continue to
11 operate the assigned well for the account of the non-abandoning parties at the rates and charges con-
12 templated by this agreement, plus any additional cost and charges which may arise as the result of
13 the separate ownership of the assigned well.

14
15 **ARTICLE VII.**
16 **EXPENDITURES AND LIABILITY OF PARTIES**

17
18 **A. Liability of Parties:**

19
20 The liability of the parties shall be several, not joint or collective. Each party shall be responsible
21 only for its obligations, and shall be liable only for its proportionate share of the costs of developing
22 and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are
23 given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall
24 this agreement be construed as creating, a mining or other partnership or association, or to render the
25 parties liable as partners.

26
27 **B. Liens and Payment Defaults:**

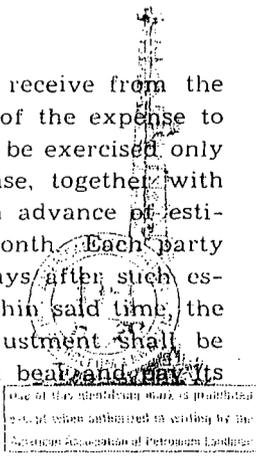
28
29 Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security
30 interest in its share of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of
31 expense, together with interest thereon at the rate provided in the Accounting Procedure attached hereto as Exhibit
32 "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the State, Operator
33 shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the
34 obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or
35 otherwise affect the lien rights of security interest as security for the payment thereof. In addition, upon default by any
36 Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or
37 remedies to collect from the purchaser the proceeds from the sale of such Non-Operator's share of oil and/or gas until
38 the amount owed by such Non-Operator, including reasonable attorney fees in the event of suit to collect any
39 delinquency, plus interest has been paid. Each purchaser shall be entitled to rely upon Operator's written statement
40 concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure
41 payment of Operator's proportionate share of expense.

42
43
44 If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of
45 a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by
46 Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the in-
47 terest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimburse-
48 ment thereof, be subrogated to the security rights described in the foregoing paragraph.

49
50 **C. Payments and Accounting:**

51
52 Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses
53 incurred in the development and operation of the Contract Area pursuant to this agreement and shall
54 charge each of the parties hereto with their respective proportionate shares upon the expense basis pro-
55 vided in the Accounting Procedure attached hereto as Exhibit "C". Operator shall keep an accurate
56 record of the joint account hereunder, showing expenses incurred and charges and credits made and
57 received.

58
59 Operator, at its election, shall have the right from time to time to demand and receive from the
60 other parties payment in advance of their respective shares of the estimated amount of the expense to
61 be incurred in operations hereunder during the next succeeding month, which right may be exercised only
62 by submission to each such party of an itemized statement of such estimated expense, together with
63 an invoice for its share thereof. Each such statement and invoice for the payment in advance of esti-
64 mated expense shall be submitted on or before the 20th day of the next preceding month. Each party
65 shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such es-
66 timate and invoice is received. If any party fails to pay its share of said estimate within said time, the
67 amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be
68 made monthly between advances and actual expense to the end that each party shall bear and pay its
69 proportionate share of actual expenses incurred, and no more.



1 D. Limitation of Expenditures:

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

6
7 ~~Option No. 1: All necessary expenditures for the drilling or deepening, testing, completing and
8 equipping of the well, including necessary tankage and/or surface facilities.~~

9
10 Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When
11 such well has reached its authorized depth, and all tests have been completed, Operator shall give im-
12 mediate notice to the Non-Operators who have the right to participate in the completion costs. The parties
13 receiving such notice shall have forty-eight (48) hours ~~(exclusive of Saturday, Sunday and legal holi-~~
14 ~~days)~~ in which to elect to participate in the setting of casing and the completion attempt. Such election,
15 when made, shall include consent to all necessary expenditures for the completing and equipping of such
16 well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice
17 to reply within the period above fixed shall constitute an election by that party not to participate in
18 the cost of the completion attempt. If one or more, but less than all of the parties, elect to set pipe and
19 to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or
20 plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to
21 the operations thereafter conducted by less than all parties.

22
23 2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged
24 back except a well reworked or plugged back pursuant to the provisions of Article VI.B.2. of this agree-
25 ment, it being understood that the consent to the reworking or plugging back of a well shall include
26 consent to all necessary expenditures in conducting such operations and completing and equipping of
27 said well, including necessary tankage and/or surface facilities.

28
29 3. Other Operations: Operator shall not undertake any single project reasonably estimated to require
30 an expenditure in excess of FORTY THOUSAND----- Dollars (\$40,000.00)
31 except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plug-
32 ging back of which has been previously authorized by or pursuant to this agreement; provided, how-
33 ever, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different
34 nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with
35 the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emer-
36 gency to the other parties. If Operator prepares "Authority for Expenditures" for its own use,
37 Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project
38 costing in excess of TWENTY-FIVE THOUSAND----- Dollars (\$25,000.00).
39

40 E. Royalties, Overriding Royalties and Other Payments:

41
42 Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of
43 1/8th of 8/8ths due on its share of production and shall hold the other parties free
44 from any liability therefor. If the interest of any party in any oil and gas lease covered by this agree-
45 ment is subject to any royalty, overriding royalty, production payment, or other charge over and above
46 the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account
47 for or cause to be accounted for, such interest to the owners thereof.

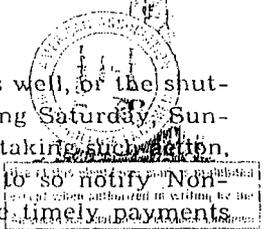
48 No party shall ever be responsible, on any price basis higher than the price received by such party, to any other party's lessor or royalty owners and if any such
49 other party's lessor or royalty owner should demand and receive settlements on a higher price basis, the party contributing such lease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

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

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

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

65
66 Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shut-
67 ting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sun-
68 day and holidays), or at the earliest opportunity permitted by circumstances, prior to taking such action,
69 but assumes no liability for failure to do so. In the event of failure by Operator to so notify Non-
70 Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments.



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

3

4 **G. Taxes:**

5

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

17

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

25

26 Each party shall pay or cause to be paid all production, severance, gathering and other taxes im-
 27 posed upon or with respect to the production or handling of such party's share of oil and/or gas pro-
 28 duced under the terms of this agreement.

29

30 **H. Insurance:**

31

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

41

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

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ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

49 **A. Surrender of Leases:**

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

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

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

3
4 Any assignment or surrender made under this provision shall not reduce or change the assignor's or
5 surrendering parties' interest, as it was immediately before the assignment, in the balance of the Contract
6 Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter
7 be subject to the terms and provisions of this agreement.

8
9 **B. Renewal or Extension of Leases:**

10
11 If any party secures a renewal of any oil and gas lease subject to this Agreement, all other parties
12 shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt
13 of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such
14 lease affects lands within the Contract Area, by paying to the party who acquired it their several proper
15 proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area,
16 which shall be in proportion to the interests held at that time by the parties in the Contract Area.

17
18 If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it
19 shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of
20 their respective percentage of participation in the Contract Area to the aggregate of the percentages
21 of participation in the Contract Area of all parties participating in the purchase of such renewal lease.
22 Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

23
24 Each party who participates in the purchase of a renewal lease shall be given an assignment without warranty of
25 its proportionate interest therein by the acquiring party.

26
27 The provisions of this Article shall apply to renewal leases whether they are for the entire interest
28 covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease
29 taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after
30 the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted
31 for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal
32 lease and shall not be subject to the provisions of this agreement.

33
34 The provisions in this Article shall apply also and in like manner to extensions of oil and gas
35 leases. The provisions of this Article VIII-B shall only apply to leases, or portions of leases, located within the Contract
36 Area.

37 **C. Acreage or Cash Contributions:**

38
39 While this agreement is in force, if any party contracts for a contribution of cash toward the drilling
40 of a well or any other operation on the Contract Area, such contribution shall be paid to the party who
41 conducted the drilling or other operation and shall be applied by it against the cost of such drilling or
42 other operation. If the contribution be in the form of acreage, the party to whom the contribution is
43 made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling
44 Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto
45 are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and
46 be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and
47 accept such tender, such acreage shall not become a part of the Contract Area. Each party shall promptly
48 notify all other parties of all acreage or money contributions it may obtain in support of any well or
49 any other operation on the Contract Area.

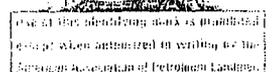
50
51 If any party contracts for any consideration relating to disposition of such party's share of substances
52 produced hereunder, such consideration shall not be deemed a contribution as contemplated in this
53 Article VIII.C. This paragraph shall not be applicable to the contribution of acreage by farmout toward the Initial, or
54 any Substitute, or Option Test Well.

55 **D. Subsequently Created Interest:**

56
57 Notwithstanding the provisions of Article VIII.E. and VIII.G., if any party hereto shall, subsequent
58 to execution of this agreement, create an overriding royalty, production payment, or net proceeds inter-
59 est, which such interests are hereinafter referred to as "subsequently created interest", such subsequently
60 created interest shall be specifically made subject to all of the terms and provisions of this agreement, as
61 follows:

62
63 1. If non-consent operations are conducted pursuant to any provision of this agreement, and the
64 party conducting such operations becomes entitled to receive the production attributable to the interest
65 out of which the subsequently created interest is derived, such party shall receive same free and clear
66 of such subsequently created interest. The party creating same shall bear and pay all such subsequently
67 created interests and shall indemnify and hold the other parties hereto free and harmless from any and
68 all liability resulting therefrom.

69
70



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

E. Maintenance of Uniform Interest:

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

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

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

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

F. Waiver of Right to Partition:

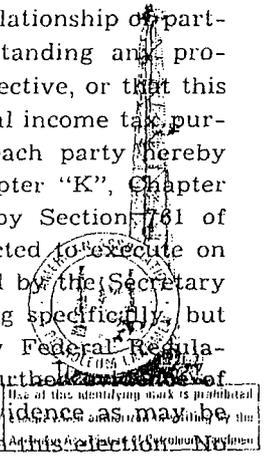
If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided interest therein.

~~**G. Preferential Right to Purchase:**~~

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

**ARTICLE IX.
INTERNAL REVENUE CODE ELECTION**

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provisions herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for Federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidenced this election.



1 such party shall give any notices or take any other action inconsistent with the election made hereby.
2 If any present or future income tax laws of the state or states in which the Contract Area is located or
3 any future income tax laws of the United States contain provisions similar to those in Subchapter "K",
4 Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that
5 provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as
6 may be permitted or required by such laws. In making the foregoing election, each such party states that
7 the income derived by such party from Operations hereunder can be adequately determined without the
8 computation of partnership taxable income.

9
10 **ARTICLE X.**
11 **CLAIMS AND LAWSUITS**
12

13 Operator may settle any single damage claim or suit arising from operations hereunder if the ex-
14 penditure does not exceed FIFTEEN THOUSAND AND NO/100 Dollars
15 (\$ 15,000.00) and if the payment is in complete settlement of such claim or suit. If the amount
16 required for settlement exceeds the above amount, the parties hereto shall assume and take over the
17 further handling of the claim or suit, unless such authority is delegated to Operator. All costs and ex-
18 pense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense
19 of the parties. If a claim is made against any party or if any party is sued on account of any matter
20 arising from operations hereunder over which such individual has no control because of the rights given
21 Operator by this agreement, the party shall immediately notify Operator, and the claim or suit shall
22 be treated as any other claim or suit involving operations hereunder.

23
24 **ARTICLE XI.**
25 **FORCE MAJEURE**
26

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

33
34 The requirement that any force majeure shall be remedied with all reasonable dispatch shall not
35 require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its
36 wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party
37 concerned.

38
39 The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other
40 industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood,
41 explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment,
42 and any other cause, whether of the kind specifically enumerated above or otherwise, which is not
43 reasonably within the control of the party claiming suspension.

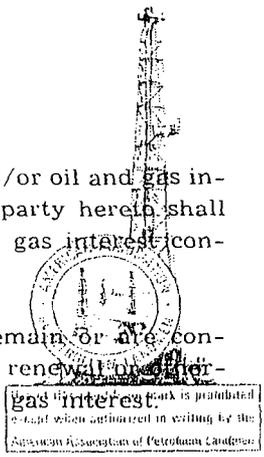
44
45 **ARTICLE XII.**
46 **NOTICES**
47

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

58
59 **ARTICLE XIII.**
60 **TERM OF AGREEMENT**
61

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

66
67 **Option No. 1:** So long as any of the oil and gas leases subject to this agreement remain or are con-
68 tinued in force as to any part of the Contract Area, whether by production, extension, renewal or other-
69 wise, and/or so long as oil and/or gas production continues from any lease or oil and gas interest.



~~1 Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled
 2 under any provision of this agreement, results in production of oil and/or gas in paying quantities, this
 3 agreement shall continue in force so long as any such well or wells produce, or are capable of produc-
 4 tion, and for an additional period of _____ days from cessation of all production; provided, however,
 5 if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in
 6 drilling or reworking a well or wells hereunder, this agreement shall continue in force until such op-
 7 erations have been completed and if production results therefrom, this agreement shall continue in
 8 force as provided herein. In the event the well described in Article VI.A., or any subsequent well
 9 drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil
 10 and/or gas from the Contract Area, this agreement shall terminate unless drilling or reworking opera-
 11 tions are commenced within _____ days from the date of abandonment of said well.~~

12
 13 It is agreed, however, that the termination of this agreement shall not relieve any party hereto from
 14 any liability which has accrued or attached prior to the date of such termination.

15
 16 **ARTICLE XIV.**
 17 **COMPLIANCE WITH LAWS AND REGULATIONS**

18
 19 **A. Laws, Regulations and Orders:**

20
 21 This agreement shall be subject to the conservation laws of the state in which the committed
 22 acreage is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of
 23 said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and
 24 orders.

25
 26 **B. Governing Law:**

27
 28 The essential validity of this agreement and all matters pertaining thereto, including, but not lim-
 29 ited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and in-
 30 terpretation or construction, shall be governed and determined by the law of the state in which the
 31 Contract Area is located. If the Contract Area is in two or more states, the law of the state where most
 32 of the land in the Contract Area is located shall govern.

33
 34 **ARTICLE XV.**
 35 **OTHER PROVISIONS**

36
 37 **A. REQUIRED OPERATIONS.** Notwithstanding any other provisions herein, if during the term of this
 38 agreement, a well is required to be drilled, deepened, reworked, plugged back, sidetracked, or recompleted, or any
 39 other operation that may be required in order to (1) continue a lease or leases in force and effect, or (2) maintain a
 40 unitized area or any portion thereof in force and effect, or (3) earn or preserve an interest in and to oil and/or gas and
 41 other minerals which may be owned by a third party or which, failing in such operation, may revert to a third party, or,
 42 (4) comply with an order issued by a regulatory body having jurisdiction in the premises, failing in which certain
 43 rights would terminate, the following shall apply. Should less than all of the parties hereto elect to participate and pay
 44 their proportionate part of the costs to be incurred in such operation, those parties desiring to participate shall have the
 45 right to do so at their sole costs, risk, and expense. Promptly following the conclusion of such operation, each of the
 46 parties not participating agree to execute and deliver an appropriate assignment to the total interest of each non-
 47 participating party in and to the lease, leases, or rights which would have terminated or which otherwise may have
 48 been preserved by virtue of such operation, and in and to the lease, leases or rights within the balance of the drilling
 49 unit upon which the well was drilled, excepting, however, wells theretofore completed and capable of producing in
 50 paying quantities. Such assignment shall be delivered to the participating parties in the proportion that they bore the
 51 expense attributable to the non-participating parties' interest.

52
 53 **B. PREPARATION OF EXHIBIT "A".** The interests of the parties as set fourth on Exhibit "A" were
 54 calculated based on the best information available to the Operator. If the information is found to have been erroneous,
 55 or if a mathematical or typographical error has been made in preparing the exhibits, the interest may be recalculated to
 56 reflect the correct interests.

57
 58 **C. REGULATORY EXPENSES.** Notwithstanding anything to the contrary contained in the Operating
 59 Agreement or the Accounting Procedure (Exhibit "C"), the following items pertaining to the Contract Area shall not
 60 be considered as Administrative Overhead, but Operator shall be entitle to make a direct charge against the joint
 61 account for the same: Fees for legal services, title costs, costs and expenses in connection with preparations and
 62 presentations of evidence and exhibits at Governmental Regulatory hearings, preparation and handling of application
 63 to and hearings before any and all governmental agencies or regulatory bodies.

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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 _____ day of _____, 19____.

OPERATOR

MYCO INDUSTRIES, INC.

Frank Yates, Jr., Attorney-in-Fact

NON-OPERATORS

**CHISOLM TRAIL VENTURES, L.P. a
Texas Limited Partnership**

BASS ENTERPRISES PRODUCTION CO.

By: **BMT Genpar, LLC, Managing
General Partner**

By: _____
W. Frank McCreight

By: _____
W. Frank McCreight
Vice President

**SID R. BASS
LEE M. BASS, INC.
KEYSTONE, INC.
THRU LINE, INC.**

By: _____
W. Frank McCreight
Vice President

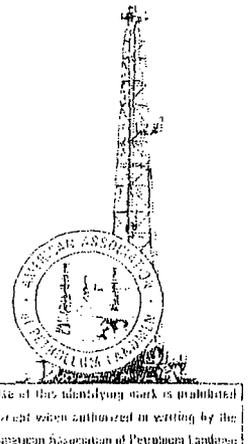


EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement
dated January 30, 2003, by and between
MYCO Industries, Inc. as Operator and Others as Non-Operators

I. **Identification of Lands Subject to this Agreement:**

Township 21 South, Range 28 East, N.M.P.M.
Section 31: E/2

containing 320.00 acres, more or less in Eddy County, New Mexico

II. **Restrictions as to Depths or Formations:**

NO RESTRICTIONS

III. **Percentages of Parties to this Agreement:**

<u>Operating Rights</u>	<u>Net Acres</u>	<u>Working Interest</u>
Bass Enterprises Production Co.	-0-	-0-
Chisholm Trail Ventures	60.00	.1875000
Keystone, Inc.	45.00	.1406250
Lee M. Bass, Inc.	45.00	.1406250
Sid R. Bass, Inc.	45.00	.1406250
Thru Line, Inc.	45.00	.1406250
MYCO Industries, Inc., et al	<u>80.00</u>	<u>.2500000</u>
	320.00	1.0000000

IV. **Oil and Gas Leases Subject to this Agreement:**

TO BE COMPLETED AT A LATER DATE

V. **Addresses of Parties to this Agreement:**

Chisolm Trail Ventures
Keystone, Inc.
Lee M. Bass, Inc.
Sid R. Bass, Inc.
Thru Line, Inc.
201 Main
Fort Worth, Texas 76102-3105

MYCO Industries, Inc.
Post Office Box 840
Artesia, New Mexico 88211

EXHIBIT "B"
(FIVE YEAR PAID UP LEASE)
OIL AND GAS LEASE

THIS AGREEMENT made this _____ day of _____, 2001, by and between _____, as Lessor, and _____, as Lessee.

WITNESSETH:

1. Lessor in consideration of _____ Dollars (\$ _____) in hand paid, of the royalties herein provided and of the agreements of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil or gas, laying pipe lines, building roads, tanks, power stations, telephone lines and other structures thereon and on, over and across lands owned or claimed by Lessor adjacent and contiguous thereto, to produce, save, take care of, treat, transport, and own said products and housing its employees, the following described land in _____ County, _____, to wit:

2. Without reference to the commencement, prosecution or cessation at any time of drilling or other development operations and/or to the discovery, development or cessation at any time of production of oil or gas and without further payments than the royalties herein provided, and notwithstanding anything else herein contained to the contrary, this lease shall be for a term of five years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or land with which said land is pooled hereunder.

3. The royalties to be paid by Lessee are: (a) on oil, _____ of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected. Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefore prevailing for the field where produced on the date of purchase; (b) on gas, including casinghead gas or other gaseous substance, produced from said land, and sold, or used off the premises or for the extraction of gasoline or other product therefrom, the market value at the well of _____ of the gas so sold or used, provided that on gas sold at the wells the royalty shall be _____ of the amount realized from such sale; while there is a gas well on this lease or on acreage pooled therewith but gas is not being sold or used, Lessee may pay or tender as royalty, on or before ninety (90) days after the date on which said well is shut in and thereafter at annual intervals the sum of \$1.00 per acre and if such payment is made or tendered, this lease shall not terminate and it will be considered that gas is being produced from this lease in paying quantities. Payment or tender of said shut-in gas royalty may be made by check or draft of Lessee mailed or delivered to the parties entitled thereto on or before the date said payment is due. Lessee shall have free use of oil, gas, coal and water from said land, except water from Lessor's wells, for all operations hereunder and the royalty on oil and gas shall be computed after deducting any so used.

4. Lessee, at its option, is hereby given the right and power to pool or combine the acreage covered by this lease, or any portion thereof as to oil and gas, or either of them with other land, lease or leases in the immediate vicinity thereof to the extent, hereinafter stipulated, when in Lessee's judgment it is necessary or advisable to do so in order properly to explore, or to develop and operate said leased premises in compliance with the spacing rules of the New Mexico Oil Conservation Commission, or other lawful authority or when to do so would, in the judgment of Lessee, promote the conservation of oil and gas in and under and that may be produced from said premises. Units pooled for oil hereunder shall not substantially exceed 40 acres each in area, and units pooled of as hereunder shall not substantially exceed in area 640 acres each plus a tolerance of 10% thereof, provided that should government authority having jurisdiction prescribe or permit the creation of units larger than those specified, unit thereafter created may conform substantially in size with those prescribed by government regulations. Lessee under the provisions hereof may pool or combine acreage covered by this lease, or any portion thereof as above provided as to oil in any one or more strata and as to as in any one or more strata. The units formed by pooling as to any stratum or strata, need to conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument describing and designating the pooled acreage as a pooled acreage as a pooled unit. Lessee may at its election exercise its pooling option after commencing operations for or completing an oil or gas well on the leased premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has theretofore been completed or upon which operations for the drilling of a well or gas have theretofore been commenced. Operations for drilling on or production of oil or gas from any part of the pooled unit which includes all or a portion of the land covered by this lease regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or instruments designating the pooled unit, shall be considered as operations for drilling on or production of oil and gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease, and the entire acreage constituting such unit or units, as to oil and gas, or either of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payment out of production and each of them, shall be entitled on production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in said unit a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled units. Such allocation shall be on acreage basis - that is to say, there shall be allocated to the acreage covered by this lease and include the pooled unit that pro rata portion of the oil and gas, or either of them produced from the pooled unit which the number of surface acres covered by this lease and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be oil and gas, or either of them, so allocated to the land covered by this lease and included in the unit just as though such production were from such land. The production from an oil well will be considered production from the lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and production from a gas well will be considered as production from the lease or gas pooled unit from which it is producing and not from an oil pooled unit. In addition to the foregoing, Lessee at its option is hereby given the right and power from time to time to commit said land or any part of formation or mineral substance covered hereby to any cooperative or unit agreement or plan of development and operation, and to any modifications thereof, which have been approved by the New Mexico Oil Conservation Commission or other lawful governmental authority. In such event, the royalty payable to Lessor hereunder shall be computed and paid on the basis of the oil or gas allocated to such land under the terms of any such agreement or plan of operation, which basis shall be the same by which the royalty due the United States or the State of New Mexico is computed and paid. This lease shall not expire during the life of such agreement or plan and shall be subject to the terms thereof and said agreement or plan of operation shall be filed with the New Mexico Oil Conservation Commission, or other lawful authority, and Lessee shall record in the county in which the lease premises are situated an instrument describing such agreement or plan of operation and reflecting the commitment thereto, and the same may be recorded either before or after the completion of wells.

5. If at the expiration of the primary term oil or gas is not being produced on said land, or from land pooled therewith, but Lessee is then engaged in drilling or reworking operations thereon, or shall have completed a dry hole thereon within 60 days prior to the end of the primary terms, the lease shall remain in force so long as operations on said well or for drilling or reworking of any additional well are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil or gas so long thereafter as oil or gas is produced from said land, or from land pooled therewith. If, after the expiration of the primary term of this lease and after oil or gas is produced from said land, or from land pooled therewith, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within 60 days after the cessation of such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land or from land pooled therewith. Any pooled unit designated by Lessee in accordance with the terms hereof, may be dissolved by Lessee by instrument filed for record in the appropriate records of the county in which the leased premises are situated at any time after the completion of a dry hole or the cessation of production on said unit. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land with 660 feet of and draining the lease premise, or land pooled therewith, Lessee agrees to drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances. Lessee may at any time execute and deliver to Lessor or place of record a release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered.

6. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all pipe lines below ordinary plow depth, and no well shall be drilled within two hundred feet of any residence or barn now on said land without Lessor's consent.

7. The rights of either party hereunder may be assigned in whole or in part, and the provision hereof shall extend to their heirs, successors and assigns but no change or division in ownership of the land or royalties; however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee; and no change or division in such ownership shall be binding on Lessee until thirty (30) days after Lessee shall have been furnished by registered U.S. mail at Lessee's principal place of business with a certified copy of recorded instrument or instruments evidencing same. In the event of assignment hereof in whole or in part liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof who commits such breach. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.

8. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or revision of the estate created hereby nor be grounds for cancellation hereof in whole or in part. In the event Lessor considers that operations are not at any time being conducted in compliance with this lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereto, and Lessee, if in default, shall have sixty days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument. After the discovery of oil or gas in paying quantities on said premises, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator but in discharging this obligation it shall in no way be required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas in paying quantities.

9. Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee at its option may discharge any tax, mortgage or other lien upon said land either in whole or in part and in the event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply royalties accruing hereunder toward satisfying same. Without impairment of Lessee's right under the warrant in the event of failure of title, it is agreed that if Lessor owns an interest in the oil and gas on, in or under said land less than the entire fee simple estate, then the royalties to be paid Lessor shall be reduced proportionately. Should any one or more of the parties named as Lessors fail to execute this lease it shall nevertheless be binding upon the party or parties executing the same.

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

IN WITNESS WHEREOF, this instrument is executed on the date first above written.

EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement
dated January 30, 2003 between
MYCO Industries, Inc. as Operator and others as Non-Operators

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. **Definitions**

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. **Statement and Billings**

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

3. **Advances and Payments by Non-Operators**

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

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

4. **Adjustments**

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

5. **Audits**

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

6. **Approval by Non-Operators**

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. **Rentals and Royalties**

Lease rentals and royalties paid by Operator for the Joint Operations

2. **Labor**

- A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
- (2) Salaries of First Level Supervisors in the field.
- (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

3. **Employee Benefits**

Operator's current costs of established plans for employee' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty per cent (20%).

4. **Material**

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

5. **Transportation**

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

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

6. **Services**

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

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

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

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

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

9. **Legal Expense**

- A. Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to

protest or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, paragraph 3.

- B. Expenses incurred by Operator in representing the Joint Property at hearings or proceedings before state or federal regulatory or administrative agencies.

10. **Taxes**

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

11. **Insurance**

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

12. **Other Expenditures**

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

III. OVERHEAD

1. **Overhead – Drilling and Producing Operations**

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

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

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

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

A. **Overhead – Fixed Rate Basis**

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

	Surface to 5,000'	5,001' – 10,000'	10,001' – 15,000'
Drilling Well Rate	\$ 3600	\$4800	\$6,200
Producing Well Rate	\$ 360	\$ 480	\$ 620

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

(a) **Drilling Well Rate**

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

(b) **Producing Well Rates**

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- [4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
- [5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

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

Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

B. Overhead – Percentage Basis

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

(a) Development

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

(b) Operating

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

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

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

2. Overhead – Major Construction

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

A. 5 % of total costs if such costs are more than \$ 25,000 but less than \$ 100,000; plus

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

C. 2 % of total costs in excess of \$1,000,000.

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

3. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

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

(2) Line Pipe

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

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

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

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

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

(2) Material moved from the Joint Property

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

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

C. Other Used Material (Condition C and D)

(1) Condition C

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

(2) Condition D

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

D. Obsolete Material

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

E. Pricing Conditions

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

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

3. **Premium Prices**

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten (10) days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. **Warranty of Material Furnished by Operator**

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. **Periodic Inventories, Notice and Representation**

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

2. **Reconciliation and Adjustment of Inventories**

Reconciliation of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six (6) months following the taking of the inventory. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. **Special Inventories**

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

4. **Expense of Conducting Periodic Inventories**

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

EXHIBIT "D"

Attached to and made a part of that certain
Operating Agreement dated January 30, 2003,
by and between MYCO Industries, Inc. as Operator and Others as Non-Operators

ADDITIONAL INSURANCE PROVISIONS

Operator, during the term of this agreement, shall carry insurance for the benefit and at the expense of the parties hereto, as follows:

(A) Workman's Compensation Insurance as contemplated by the state in which operations will be conducted, and Employer's Liability Insurance with limits of not less than \$1,000,000.00 per employee.

(B) Public Liability Insurance:

Bodily Injury and Property Damage: \$1,000,000.00 single limit each occurrence.

(C) Automobile Public Liability Insurance:

Bodily Injury: \$500,000.00 each person.

\$1,000,000.00 each person.

Property Damage: \$500,000.00 each accident

(or)

Bodily Injury and Property Damage: \$1,000,000.00 combined single limit.

(D) Control of Well and Extra Expense: \$10,000,000.00 – Limit of Liability

Except as authorized by this Exhibit "D", Operator shall not make any charge to the joint account for insurance premiums. Losses not covered by Operator's insurance (or by insurance required by this agreement to be carried for the benefit and at the expense of the parties hereto) shall be charged to the joint account.

EXHIBIT "E"

Attached to and made a part of that certain
Operating Agreement dated January 30, 2003 by and between MYCO Industries, Inc. as
Operator and Others as Non-Operators

GAS BALANCING AGREEMENT

The parties to the Operating Agreement to which this agreement is attached own the working interest in the gas rights underlying the lands covered by such agreement (the "Contract Area") in accordance with the percentages of participation as set forth in Exhibit "A" to the Operating Agreement (the "participation percentage").

In accordance with the terms of the Operating Agreement, each party thereto has the right to take its share of gas produced from the Contract Area and market the same. In the event any of the parties hereto collectively owning participation percentages of less than 50% are not at any time taking or marketing their share of gas or have contracted to sell their share of gas produced from the Contract Area to a purchaser which does not at any time while this agreement is in effect take the full share of gas attributable to the interest of such parties, this agreement shall automatically become effective upon the terms hereinafter set forth.

1. During the period or periods when any parties hereto collectively owning participation percentages of less than 50% have no market for their share of gas produced from any proration unit within the Contract Area, or their purchaser does not take its full share of gas produced from such proration unit, other parties collectively owning participation percentages of more than 50% shall be entitled to produce each month 100% of the lesser of a) allowable gas production assigned to such proration unit by applicable state regulatory authority or b) the delivery capacity of gas from such proration unit; provided, however, no party who does not have gas in place shall be entitled to take or deliver to purchaser gas production in excess of 200% of the lesser of c) its share of the volumes of gas capable of being delivered on a daily basis or d) its share of allowable gas production. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this agreement is attached, but the party or parties taking such gas shall own all the gas delivered to its or their purchaser.

2. On a cumulative basis, each party not taking or marketing its full share of the gas produced shall be credited with gas in place equal to its full share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost, and less that portion such party took or delivered to its purchaser. The Operator will maintain a current account of gas balance between the parties and will furnish all parties hereto monthly statements showing the total quantity of gas produced, the amount used in lease operations, vented or lost, the total quantity of liquid hydrocarbons recovered therefrom, and the monthly and cumulative over and under account of each party.

3. At all times while gas is produced from the Contract Area, each party hereto will make settlement with all royalty owners to whom royalty is due. Each party hereto agrees to hold each other party harmless from any and all claims for royalty payments asserted by royalty owners paid by each party. The term "royalty owner" shall include owners of royalty, overriding royalties, production payments and other similar interests.

Each party producing and taking and delivering gas to its purchaser shall pay any and all production taxes due on such gas.

4. After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its full share of gas produced from a proration unit under which it has gas in place less such party's share of gas used in operations, vented or lost. In addition to such share, each party, including the Operator, until it has recovered its gas in place and balanced the gas account as to its interest, shall be entitled to take or deliver to its purchaser a share of gas determined by multiplying 50% of the interest in the current gas production of the party or parties without gas in place by a fraction, the numerator of which is the interest in the proration unit of such party with gas in place and the denominator of which is the total percentage interest in such proration unit of all parties with gas in place currently taking or delivering to a purchaser.

5. Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser its full share of the allowable gas production to meet the deliverability tests required by its purchaser, provided that said test should be reasonable in length, normally not to exceed seventy two (72) hours.

6. If a proration unit ceases to produce gas and/or liquid hydrocarbons in paying quantities before the gas account is balanced, settlement will be made between the underproduced and overproduced parties. In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced party or parties attributable to the overproduction which said overproduced party received, less applicable taxes theretofore paid, at the applicable price defined below for the delivery of a volume of gas equal to that for which settlement is made. For gas, the price of which is not regulated by federal, state or other governmental agencies, the price basis shall be the price received for the sale of the gas. For gas, the price of which is subject to regulation by federal, state or other governmental authorities, the price basis shall be the rate collected from time to time, which is not subject to possible refund, as provided by the Federal Energy Regulatory Commission or any other governmental authority, pursuant to final order or settlement applicable to the gas sold from such well, plus any additional collected amount which is not ultimately required to be refunded by such authority, such additional collected amount to be accounted for at such time as final determination is made with respect hereto.

7. Notwithstanding the provisions of paragraph 6, it is expressly agreed that any underproduced party shall have the optional right, with respect to each proration unit, to receive a cash settlement bringing such underproduced party's gas account into balance at any time and from time to time prior to the final settlement, by first giving each overproduced party ninety (90) days' written notice of demand for cash settlement. If such option is so exercised, settlement shall be made (as of 7:00 o'clock A.M. on the first day of the calendar month following the date of such written demands) within ninety (90) days following the actual receipt of such written demands by the overproduced parties, in the same manner provided for in paragraph 6. The option provided for in this paragraph may be exercised, from time to time, by only one time in each calendar year.

8. Nothing herein shall change or affect each party's obligation to pay its proportionate share of all costs and liabilities incurred, as its share thereof is set forth in the Operating Agreement.

9. This agreement shall constitute a separate agreement as to each proration unit approved by the applicable regulatory authority for a pool within the Contract Area, but such proration unit shall not include any producing horizon which is not within the vertical limits of said pool. This agreement shall remain in force and effect so long as the Operating Agreement to which it is attached remains in effect, and shall inure to the benefit of and be binding upon the parties hereto, their heirs, successors, legal representatives and assigns.

EXHIBIT "F"

Attached to and made a part of that certain
Operating Agreement dated January 30, 2003,
by and between MYCO Industries, Inc., as Operator and Others as Non-Operators

EQUAL EMPLOYMENT OPPORTUNITY PROVISION

During the performance of this contract, the Operator agrees as follows:

- 1) The Operator will not discriminate against any employee or applicant for employment because of race, color, religion, national origin or sex. The Operator will take affirmative action to ensure that applicants are employed and that employees are treated during employment, without regard to their race, color, religion, national origin or sex. Such action shall include, but not be limited to the following: employment, upgrading, demotion, or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Operator agrees to post in conspicuous places, available to employees and applicants for employment notices to be provided for the contracting officer setting forth the provision of this non-discrimination clause.
- 2) The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, national origin or sex.
- 3) The Operator will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
- 4) The Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.
- 5) The Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to its books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.
- 6) In the event of the Operator's non-compliance with the non-discrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be canceled, terminated or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulations or order of the Secretary of Labor, or as otherwise provided by law.
- 7) The Operator will include the provisions of Paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Operator will take such action with respect to any subcontractor or purchase order as the contracting agency may direct as a means

of enforcing such provisions including sanctions for non-compliance: Provided, however, that in the event the Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interests of the United States.

Operator acknowledges that it may be required to file Standard Form 100 (EEO-1) promulgated jointly by the Office of Federal Contract Compliance, the Equal Employment Opportunity Commission and Plans for Progress with Joint Reporting Committee, Federal Depot, Jeffersonville, Indiana, within thirty (30) days of the date of contract award if such report has not been filed for the current year and otherwise comply with or file such other compliance reports as may be required under Executive Order 11246, as amended and Rules and Regulations adopted thereunder.

Operator further acknowledges that he may be required to develop a written affirmative action compliance program as required by the Rules and Regulations approved by the Secretary of Labor under authority of Executive Order 11246 and supply Non-Operators with a copy of such program if they so request.

CERTIFICATION OF NON-SEGREGATED FACILITIES

Operator assures Non-Operators that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not and will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. For this purpose, it is understood that the phrase "segregated facilities" includes facilities which are in fact segregated on a basis of race, color, religion, or national origin, because of habit; local custom or otherwise. It is further understood and agreed that maintaining or providing segregated facilities for its employees or permitting its employees to perform their services at any location under its control where segregated facilities are maintained is a violation of the equal opportunity clause required by Executive Order 11246 of September 24, 1965.

Operator further understands and agrees that a breach of the assurance herein contained subjects it to the provision of the Order at 41 CFR Chapter 60 of the Secretary of Labor dated May 21, 1968, and the provisions of the equal opportunity clause enumerated in contracts between the United States of America and Non-Operators.

Whoever knowingly and willfully makes any false, fictitious or fraudulent representation may be liable to criminal prosecution under 18 U.S.C. - 1001.

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To

To

To

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Shari Hodges

Full Name: Wayne Bailey
Last Name: Bailey
First Name: Wayne
Job Title: Landman
Company: Bass Enterprises

Business Address: 201 Main
Fort Worth, TX 76102-3105

Business: (817) 390-8671
Business Fax: (817) 390-8626

E-mail: wbailey@basspet.com
E-mail Display As: Wayne Bailey (wbailey@basspet.com)

May 20 2003 11:00am

Last Fax

<u>Date</u>	<u>Time</u>	<u>Type</u>	<u>Identification</u>	<u>Duration</u>	<u>Pages</u>	<u>Result</u>
May 20	10:57am	Sent	18173908626	3:05	5	OK

Result:

OK - black and white fax
Okay color - color fax

Shari Hodges

From: Wayne Bailey [wbailey@basspet.com]
Sent: Thursday, March 27, 2003 12:07 PM
To: Shari Hodges
Subject: Re: MYCO/NM: Eddy County Wells

Shari - Thanks for your message. The following is what I have intended to tell you on the phone:

We don't have enough information yet, but, in principal, Bass is not opposed to the type of plan you have previously mentioned. Therefore, your letter will be timely. In order for us to reply, please be as specific as possible and, to the best of your knowledge, include the following:

1. Seven well locations
2. Unit orientation
3. Anticipated order of drilling (We assume the initial well will be in the SE/4 SW/4 of Sec. 19.)

Thank you and I will look forward to receiving your letter.

J. Wayne Bailey
Bass Enterprises Production Co.
(817)390-8671

At 06:15 PM 3/26/2003 -0700, you wrote:

Wayne: I received both of your messages but have been in and out (mostly out) of the office this week. I will be gone all day on Thursday and possibly Friday. If I am in on Friday, I will try to give you a call. In the meantime, I'll try to draft a letter with respect to our conversation about S/2 of Section 19, W/2 of Section 30, All of Section 31 and N/2 of Section 32. Thanks! S.

4/3/2003

✓

Shari Hodges

From: Shari Hodges [sharihodges@mycoinc.com]
Sent: Wednesday, March 26, 2003 6:15 PM
To: 'Wayne Bailey'
Cc: 'Shari Hodges'
Subject: MYCO/NM: Eddy County Wells

Wayne: I received both of your messages but have been in and out (mostly out) of the office this week. I will be gone all day on Thursday and possibly Friday. If I am in on Friday, I will try to give you a call. In the meantime, I'll try to draft a letter with respect to our conversation about S/2 of Section 19, W/2 of Section 30, All of Section 31 and N/2 of Section 32. Thanks! S.

4/3/2003



Shari Hodges

From: Wayne Bailey [wbailey@basspet.com]
Sent: Wednesday, March 19, 2003 12:14 PM
To: Shari Hodges
Subject: RE: Drilling Proposal - SE/4SW/4 sec. 19, 21S-28E, Eddy County

Shari - Did you order a Title Opinion for this well? If not, I will get one on the drillsite lease for the joint account. Today I am sending you an AFE and JOA for Myco's review.

At 12:52 PM 3/17/2003 -0700, you wrote:

>Wayne: We happen to be having a Capitol Area meeting tomorrow (may be
>changed to Wednesday) and I will bring this up. We have received your
>letter via fax and Federal Express. Jim Ward from your office called
>our Nelson Muncy regarding costs. Shari

>
>
>

>-----Original Message-----

>From: Wayne Bailey [mailto:wbailey@basspet.com]
>Sent: Thursday, March 13, 2003 10:30 AM
>To: 'Shari Hodges'
>Subject: Drilling Proposal - SE/4SW/4 sec. 19, 21S-28E, Eddy County

>
>
>

>Shari - I left a message and wrote you a letter advising that Bass will
>drill the proposed Morrow well at the above location. Myco will soon
>receive a cost estimate and JOA for your review and execution for your
>25%. According to our preliminary review, the anticipated costs are
>comparable.

>
>Bass owns the entire 75% WI in the proration unit. When you can,
>please

>
>let me know the exact names of WI owners in the W/2 SW/4. Is all
>interest leased? Are there overrides? Thanks, Wayne

>
>
>

>J. Wayne Bailey
>Division Landman
>Bass Enterprises Production Co.
>(817)390-8671

J. Wayne Bailey
Division Landman
Bass Enterprises Production Co.
(817)390-8671

Shari Hodges

From: Wayne Bailey [wbailey@basspet.com]
Sent: Monday, March 17, 2003 2:05 PM
To: Shari Hodges
Subject: RE: Drilling Proposal - SE/4SW/4 sec. 19, 21S-28E, Eddy County

Shari - Let me know when we can switch the permit (or whatever you guys have filed thus far) so we can start the well as soon as the permit can be processed. Thanks, Wayne

At 12:52 PM 3/17/2003 -0700, you wrote:

>Wayne: We happen to be having a Capitol Area meeting tomorrow (may be
>changed to Wednesday) and I will bring this up. We have received your
>letter via fax and Federal Express. Jim Ward from your office called
>our Nelson Muncy regarding costs. Shari

>
>
>

>-----Original Message-----

>From: Wayne Bailey [mailto:wbailey@basspet.com]
>Sent: Thursday, March 13, 2003 10:30 AM
>To: 'Shari Hodges'
>Subject: Drilling Proposal - SE/4SW/4 sec. 19, 21S-28E, Eddy County

>
>
>

>Shari - I left a message and wrote you a letter advising that Bass will
>drill the proposed Morrow well at the above location. Myco will soon
>receive a cost estimate and JOA for your review and execution for your
>25%. According to our preliminary review, the anticipated costs are
>comparable.

>
>Bass owns the entire 75% WI in the proration unit. When you can,
>please

>
>let me know the exact names of WI owners in the W/2 SW/4. Is all
>interest leased? Are there overrides? Thanks, Wayne

>
>
>

>J. Wayne Bailey
>Division Landman
>Bass Enterprises Production Co.
>(817)390-8671

J. Wayne Bailey
Division Landman
Bass Enterprises Production Co.
(817)390-8671

Shari Hodges

From: Wayne Bailey [wbailey@basspet.com]
Sent: Thursday, March 13, 2003 10:30 AM
To: 'Shari Hodges'
Subject: Drilling Proposal - SE/4SW/4 sec. 19, 21S-28E, Eddy County

Shari - I left a message and wrote you a letter advising that Bass will drill the proposed Morrow well at the above location. Myco will soon receive a cost estimate and JOA for your review and execution for your 25%. According to our preliminary review, the anticipated costs are comparable.

Bass owns the entire 75% WI in the proration unit. When you can, please let me know the exact names of WI owners in the W/2 SW/4. Is all interest leased? Are there overrides? Thanks, Wayne

J. Wayne Bailey
Division Landman
Bass Enterprises Production Co.
(817) 390-8671

Shari Hodges

From: Isabel Lopez [isabel@mycoinc.com]
Sent: Tuesday, March 04, 2003 9:25 AM
To: Shari Hodges
Subject: Re: MYCO/Bass: 2.24.2003 Letter to Bass

— Original Message —

From: Shari Hodges
To: 'Isabel Lopez'
Cc: 'Shari Hodges'
Sent: Tuesday, March 04, 2003 4:19 AM
Subject: MYCO/Bass: 2.24.2003 Letter to Bass

Isabel: have you had a chance to track the Fed Ex to Wayne Bailey? I don't think that I have seen it? Thanks,
S.

dit copy



MYCO INDUSTRIES, INC.
OIL PRODUCERS
POST OFFICE BOX 840
ARTESIA, NEW MEXICO 88211-0840
Phone (505) 748-1471

October 29, 2002

VIA FEDERAL EXPRESS

Mr. Wayne Bailey
Bass Enterprises
201 Main
Fort Worth, TX

Re: **Term Assignment Request**
T21S, R28E, N.M.P.M.
Section 18, 19, 30: All
Eddy County, New Mexico
MYCO's BEU Section 19

Dear Wayne:

As discussed in our Tuesday, October 29, 2002 telephone conversation, Myco Industries, Inc. ("MYCO") proposes to drill a 12,300' Morrow well ("Well") at a legal location within the S/2 of Section 19, T21S, R28E, Eddy County, NM. We are enclosing a copy of MYCO's AFE. We are in the process of negotiating a drilling contract.

MYCO, et al own 100% of the W/SW of Section 19 ("MYCO Acreage"). MYCO is the operator of this tract. Records indicate that the following owners own title to the E/SW, SE/4 of Section 19 ("Bass Acreage"):

- Chisolm Trail Ventures 25.00%
- Keystone 18.75%
- Lee M. Bass 18.75%
- Sid Bass 18.75%
- Thruline, Inc. 18.75%

(MYCO understands that the subject Bass Acreage is committed to the Big Eddy Unit and therefore the working interest ownership would be different than the record title. MYCO respectfully requests that you enlighten it as to the correct working interest ownership. For the sake of this proposal, we will refer to the actual working interest owners as "BEU W.I. Owners")

As support the drilling of this Well, MYCO respectfully requests that the BEU W.I. Owners grant it a 2 year Term Assignment based on a \$200/acre bonus and delivering a 75% NRI.

In addition to the Well support, MYCO respectfully requests that Bass, as operator of the Big Eddy Unit consider allowing MYCO the right to conduct a one hundred and eighty (180) day continuous drilling program on the acreage described as the N/2 of Section 19, all of Section 18 and all of Section 30. MYCO is willing to negotiate the terms of an Option Farmout. We would ask that if agreeable terms can be reached, that Bass present such terms to the BEU W.I. Owners.

Should you have any questions or wish to discuss this in greater detail, as always, please feel free to call me at 505.748.4290. MYCO is open to other suggestions.

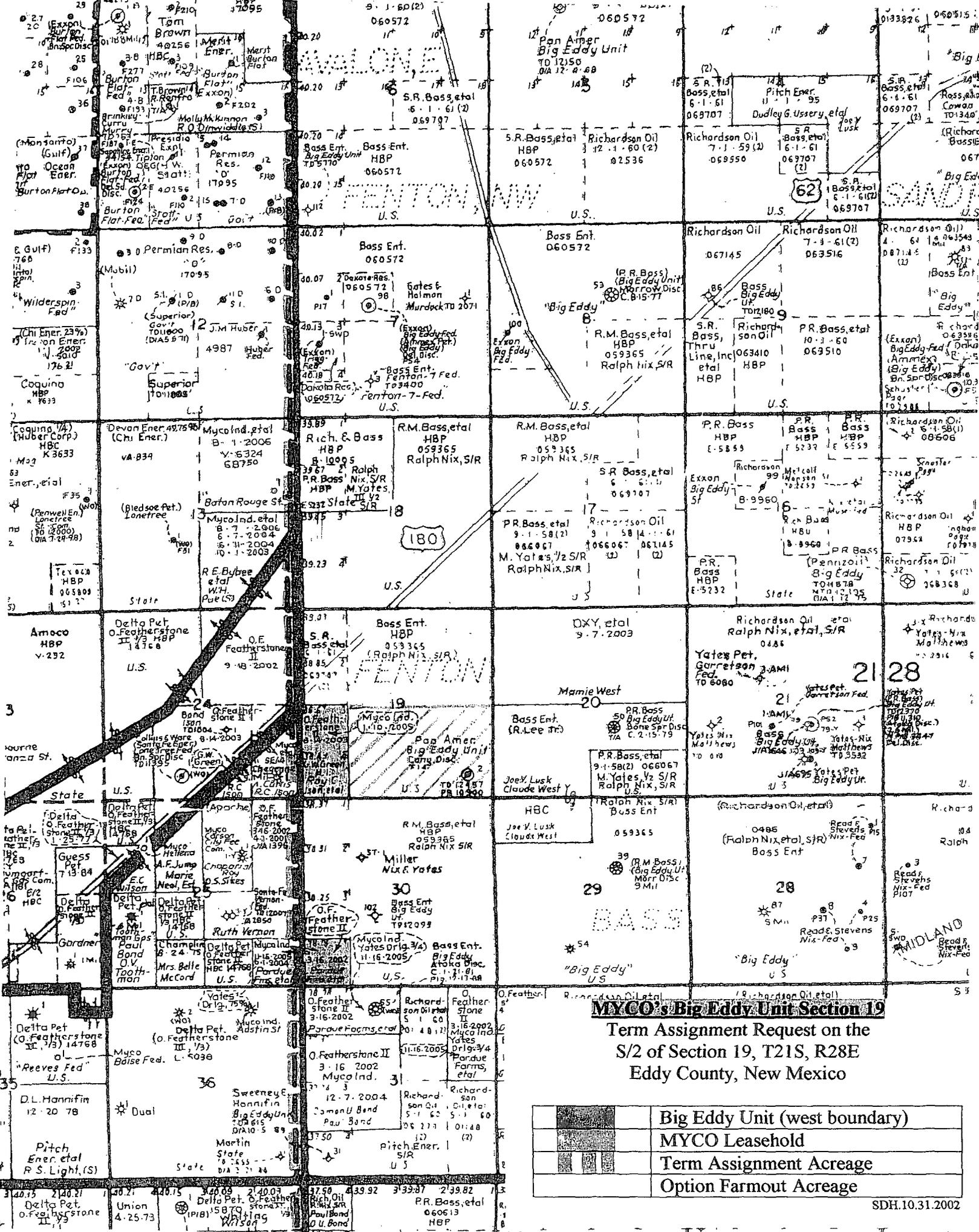
Best regards,

A handwritten signature in black ink, appearing to read 'Shari Darr Hodges', is written over the typed name.

Shari Darr Hodges, CPL
Contract Landman

SDH/me
Enclosures (2)
1. AFE
2. Plat

cc: Featherstone Development Corp.



MYCO's Big Eddy Unit Section 19

Term Assignment Request on the
S/2 of Section 19, T21S, R28E
Eddy County, New Mexico

	Big Eddy Unit (west boundary)
	MYCO Leasehold
	Term Assignment Acreage
	Option Farmout Acreage



MYCO INDUSTRIES, INC.
 P.O. Box 840 / 331 West Main, Suite C
 Artesia, New Mexico 88210-0840
 Phone (505) 748-1471

AUTHORITY FOR EXPENDITURE
 NEW DRILLING, RECOMPLETION & RE-ENTRY

AFE NO. _____
 AFE DATE **10/28/2002**
MAFEND (rev 8/00)

AFE Type:	Well Objective:	Well Type:
<input checked="" type="checkbox"/> New Drilling	<input type="checkbox"/> Oil	<input type="checkbox"/> Development
<input type="checkbox"/> Recompletion	<input checked="" type="checkbox"/> Gas	<input checked="" type="checkbox"/> Exploratory
<input type="checkbox"/> Re-entry	<input type="checkbox"/> Injector	

AFE STATUS:

<input checked="" type="checkbox"/>	Original
<input type="checkbox"/>	Revised
<input type="checkbox"/>	Final
<input type="checkbox"/>	Supplemental

LEASE NAME	Big Eddy Unit Section 19	PROJ'D DEPTH	12,300'
COUNTY	Eddy	STATE	NM
FIELD	Carlsbad Morrow, East	HORIZON	MORROW
LOCATION	S/2 Section 19 (Legal Location)-T21S-R28E Eddy County, NM		
DIVISION CODE	100	DIVISION NAME	Oil & Gas Division
DISTRICT CODE		DISTRICT NAME	
BRANCH CODE		BRANCH NAME	

PROGNOSIS: **Drill out from 9-5/8" Intermediate with 8-3/4" Bit**

INTANGIBLE DRILLING COSTS:		DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees	12,500	15,000
920-110	Location, Right-of-Way	30,000	30,000
920-120	Drilling, Footage 9,100' @ \$23.20/Foot	211,000	211,000
920-130	Drilling, Daywork 22-Days @ \$7,500/day	165,000	165,000
920-140	Drilling Water, Fasline Rental	27,500	27,500
920-150	Drilling Mud & Additives	41,000	41,000
920-160	Mud Logging Unit, Sample Bags	24,500	24,500
920-170	Cementing - Surface Casing & INTERMEDIATE CASING	42,000	42,000
920-180	Drill Stem Testing, OHT		
920-190	Electric Logs & Tape Copies	38,000	38,000
920-200	Tools & Equip. Rntl., Trkg. & Welding	3,500	3,500
920-205	Control of Well-Insurance		
920-210	Supervision & Overhead	26,000	26,000
920-220	Contingency	3,500	5,000
920-230	Coring, Tools & Service		
920-240	Bits, Tool & Supplies Purchase Day Work 9100' - TD	32,000	32,000
920-350	Cementing - Production Casing		42,500
920-410	Completion Unit - Swabbing		18,500
920-420	Water for Completion		9,000
920-430	Mud & Additives for Completion		1,000
920-440	Cementing - Completion		
920-450	Elec. Logs, Testing, Etc. - Completion Perforating		23,500
920-460	Tools & Equip. Rental, Etc. - Completion		2,500
920-470	Stimulation for Completion ONE-ZONE ACIDIZE		28,000
920-480	Supervision & O/H - Completion		14,000
920-490	Additional LOC Charges - Completion		2,500
920-495	Control of Well-Insurance - Completion	8,500	8,500
920-510	Bits, Tools & Supplies - Completion		1,000
920-500	Contingency for Completion		5,000
TOTAL INTANGIBLE DRILLING COSTS		665,000	816,500

TANGIBLE EQUIPMENT COSTS:			
930-010	Christmas Tree & Wellhead	3,500	18,500
930-020	Casing 13-3/8" H-40 48# @ \$17.00/Ft 500'	8,500	8,500
	9-5/8" K-55 36# @ \$13.25/Ft 2700'	35,800	35,800
	5-1/2" N-80/S-95 17# @ \$7.85/Ft 12,300'		97,000
930-030	Tubing 2-7/8 N-80 12,300' @ 3 \$3.85/Ft.		47,500
930-040	Packer & Special Equipment		15,500
940-010	Pumping Equipment		
940-020	Storage Facilities 2-300 BBL STOCK TANKS/1-300 BBL F/G WTR TANK		20,500
940-030	Separation Equip., Flowlines, Misc.		38,500
940-040	Trucking & Construction Costs	18,500	26,500
TOTAL TANGIBLE EQUIPMENT COSTS		66,300	308,300
TOTAL COSTS		731,300	1,124,800

IT IS RECOGNIZED THAT THE AMOUNTS PROVIDED FOR HEREIN ARE ESTIMATED ONLY AND APPROVAL OF THIS AFE SHALL EXTEND TO THE ACTUAL COSTS INCURRED IN CONDUCTING THE OPERATIONS SPECIFIED WHETHER MORE OR LESS THAN HEREIN SET OUT.

Prepared By: ANM Operations Approval: *ANM*

BY _____ DATE _____

Shari Hodges

From: Shari Hodges [sharihodges@mycoinc.com]
Sent: Wednesday, February 12, 2003 10:14 AM
To: 'Brian Reid'
Cc: 'Shari Hodges'; 'Joe Featherstone'; 'Tres Featherstone'
Subject: MYCO/Capitol: BEU.Section 19

Brian: My goal in life today is to get the ball rolling faster on this deal. I just wanted to mention that Bass has 2 wells staked in Section 19 (not an APD, just a stake)...one is the P and the other the O location. We will proceed with your recommendation of O and I with a S/2 (option being the N I guess). I'll keep you all posted. Let me know if you all need anything. S.

4/3/2003

Shari Hodges

From: Wayne Bailey [wbailey@basspet.com]
Sent: Tuesday, February 04, 2003 4:27 PM
To: Shari Hodges
Subject: Re: NAPE: were you there?

Sherry - I was there, but spent most of my time selling some properties at the auction, which was upstairs from Nape. We were not trying to sell anything in N. Mexico. We are still studying the Big Eddy for Morrow and Strawn. I will keep you posted on major events. Wayne

At 11:46 AM 2/4/2003 -0700, you wrote:

>Wayne: I think I saw a Bass booth at NAPE...was that your Bass? Were
>you there and I just missed seeing you? I know of several folks that
>were there that I just missed...big place, lots of people. Trust all
>is well...S.

J. Wayne Bailey
Division Landman
Bass Enterprises Production Co.
(817) 390-8671

Shari Hodges

From: Shari Hodges [sharihodges@mycoinc.com]
Sent: Friday, December 06, 2002 5:07 PM
To: 'Joe Featherstone'; 'Tres Featherstone'
Cc: 'Shari Hodges'
Subject: MYCO/Bass: Conversation with Wayne Bailey.12.4.2002

Gentlemen: I've been reminding myself for two days now to send you a note about my conversation with Wayne...I promised myself I would do it before the week ended....have I made it?

When Wayne heard my voice, he began to tell me that they were still looking at it, it was still a priority, yada yada yada...I told him that I realized it was and that we had seen two stakes out there. He chuckled and said, "Yea, we move fast, don't we?" He then said that they mean nothing at this point, Bass' field guys are trigger happy and anytime they catch wind that Bass is thinking about something they run out and stake it. I told him that I wanted to make sure that through our conversations (which I reminded him started August 2001 when I had lunch with him in his office) that he understood 3 very important things: #1 that MYCO wants to drill that area for them as an extension to the Capitol, #2 that any terms we have sent him are negotiable, that if Bass wants to F/O or whatever and the terms we have seen are not palatable, call me so we can negotiate and #3 that we don't want anyone other than MYCO or Bass to drill up what we have already spent a lot of money on. He assured me that no other party has been contacting him on the area. We discussed (in landman terms) the problems that N&G had on the Goldfinger and that it was a difficult area...they needed Nelson Muncy in charge. He was very agreeable to that. I told him that we would be keeping an eye on the stakes and would be touching base with him again. He said that would be fine.

Just wanted to update you fellows...now, it's time for me to go, I've accomplished my goal, sorry I'm late...have a nice weekend! Best, Shari

Shari Hodges

From: Shari Hodges [sharihodges@mycoinc.com]
Sent: Wednesday, November 06, 2002 6:04 AM
To: PELS Nelson Muncy
Cc: 'Shari Hodges'
Subject: MYCO/Bass: BEU 19.Received proposal

Mr. M: I see that Bass received out proposal on Friday, Nov 1 @ 9:07am. S. <<...>>

SDH copy



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201 Main
Fort Worth, TX

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Section 18, 19, 30: All
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Should you have any questions or wish to discuss this in greater detail, as always, please feel free to call me at 505.748.4290. MYCO is open to other suggestions.

Best regards,



Shari Darr Hodges, CPL
Contract Landman

SDH/me
Enclosures (2)
1. AFE
2. Plat

cc: Featherstone Development Corp.

Shari Hodges

From: Shari Darr Hodges, CPL [shodges@heyco.org]
Sent: Wednesday, October 23, 2002 10:58 AM
To: 'Tom Robertson'
Cc: 'Sharihodges'
Subject: MYCO/Bass: SWD Inquiry

Tom: I assume by your note that you received the logs and you are welcome. Tom, what is your function at Bass? I think I am going to need to contact someone at Bass about a well they own that we would like to use as a Salt Water Disposal. Would you be the contact? S.

-----Original Message-----

From: Tom Robertson [mailto:troberson@basspet.com]
Sent: Wednesday, October 23, 2002 10:09 AM
To: shodges@heyco.org
Subject:

Shari,

Thank you for sending logs on the Myco wells we had previously discussed. When I can be of assistance to you or your company, please don't hesitate to call.

Tom

Tom Robertson
Bass Enterprises Production Co.
voice:(817) 390-8672, fax:(817) 390-8626

Shari Hodges

From: Tom Robertson [trobertson@basspet.com]
Sent: Friday, October 18, 2002 7:24 AM
To: Shari Darr Hodges, CPL
Subject: RE: Myco well logs

Shari,
Thanks for the extra attention. If there is anything I can do to repay the favor, please don't hesitate to contact me.
Tom

At 04:19 AM 10/18/02 -0700, you wrote:

>Tom: I was out yesterday and will be out today. I will have the
>compensated Neutron and Laterolog for each well shipped out today even
>in my absence. Was there anything else? If there is, please respond
>to Isabel@mycoinc.com and she can get ahold of me today on my cell
>phone so we can see what we can do. Thanks! Shari
>

>-----Original Message-----

>From: Tom Robertson [mailto:trobertson@basspet.com]
>Sent: Thursday, October 17, 2002 6:49 AM
>To: Shari Darr Hodges, CPL
>Subject: RE: Myco well logs
>

>Shari,
> Thank you for your cooperation in this matter. You can send
>the
>
>logs to my attention to our Fort Worth office address which is:
>
>Bass Enterprises Production Co.
>201 Main Street
>Suite 2900
>Fort Worth, Texas 76102
>
>When the occasion arises for us to return the favor please don't
>hesitate to contact me.
>

>Regards,

>Tom Robertson
>
>
>
>
>

>At 02:43 PM 10/16/02 -0700, you wrote:

> >Tom: yes, I recall. We will gather a set on each well for you.
> >Where do you want them sent? S.
> >

> >-----Original Message-----

> >From: Tom Robertson [mailto:trobertson@basspet.com]
> >Sent: Wednesday, October 16, 2002 11:46 AM
> >To: shodges@heyco.org
> >Subject: Myco well logs
> >

> >Shari,
> > As you will recall, some time ago I expressed interest in
> >obtaining certain geological information relating to several Myco

> >operated wells in the near vicinity of Bass's Big Eddy Unit. In that
> >regard, I would
> >like to resubmit my request for well logs pertaining to any or all of
> >the
> >wells listed below:
> >
> ># 1Y Carson City 25 Fee (30-015-31908) - 25 / 21S - 27E #1Augusta 24
> >Fee (30-015-32305) - 24 / 21S - 27E #1 Helena 25 (30-015-31909) - 25
> >/ 21S - 27E
> >
> >Thank you in advance for your consideration of this request.
> >
> >Tom Robertson
> >
> >Tom Robertson
> >Bass Enterprises Production Co.
> >voice:(817) 390-8672, fax:(817) 390-8626
> >
> >Tom Robertson
> >Bass Enterprises Production Co.
> >voice:(817) 390-8672, fax:(817) 390-8626

Tom Robertson
Bass Enterprises Production Co.
voice:(817) 390-8672, fax:(817) 390-8626

Shari Hodges

From: Shari Hodges [sharihodges@mycoinc.com]
Sent: Friday, October 18, 2002 5:57 AM
To: 'Wayne Bailey'
Cc: sharihodges@mycoinc.com; PELS Nelson Muncy
Subject: MYCO/BEU: Logs to Bass

Wayne: just thought I'd let you know that Tom Robertson sent a request for some logs of ours. This was his second request actually. About a year ago (or so) he asked and I ran into a brick wall. I learned real quick that trading logs was not something that MYCO liked to do...that was when I had first started. Tom was not pleased.

When Tom asked this time, we thought it was important to go ahead because you told me you had your folks working the area and we didn't want to see MYCO get in the way. So, we should be sending logs on the Carson City, Helena and Augusta today.

Just thought I'd let you know. I'm doing my best not to bug you on this area (although I am getting nudged occasionally from the folks around here), knowing that you'll let me know if you know.

I'll be out today...doing the field trip with 21 second graders. Thanks Wayne, Shari



MYCO INDUSTRIES, INC.
OIL PRODUCERS
POST OFFICE BOX 840
ARTESIA, NEW MEXICO 88211-0840
Phone (505) 748-1471

October 18, 2002

Bass Enterprises Production Co.
201 Main Street, Suite 2900
Fort Worth, Tx 76102
Attn: Tom Robertson

Dear Mr. Robertson,

Enclosed per your request are the logs for the: Augusta 24 Fee #1, Carson City 25 Fee Com #1Y and Helena 25 Fee Com #1. If we may be of further assistance, please do not hesitate to give us a call.

Sincerely,

Isabel Lopez
Engineering Technician

Enc: Logs
Cc: Shari Hodges

COMPANY: MYCO Industries Inc.

WELL: Augusta "24" Fee #1

FIELD: East Carlsbad Morrow

County: Eddy State: New Mexico

County: Eddy Field: East Carlsbad Morrow Location: 660' FNL & 660' FEL Well: Augusta "24" Fee #1 Company: MYCO Industries Inc.	Schlumberger		Platform Express Azimuthal Laterolog Micro-CFL / GR								
	660' FNL & 660' FEL				Elev.: K.B. 3166 ft						
					G.L. 3149 ft						
					D.F. 3165 ft						
Permanent Datum: <u>Ground Level</u>		Elev.: <u>3149 ft</u>									
Log Measured From: <u>Kelly Bushing</u>		17.0 ft above Perm. Datum									
Drilling Measured From: <u>Kelly Bushing</u>											
API Serial No. 30-015-32305		Section 24	Township 21S		Range 27E						
Logging Date		4-Aug-2002		14-Aug-2002							
Run Number		One		Two							
Depth Driller		11469.6 ft		11934 ft							
Schlumberger Depth		11480 ft		11938 ft							
Bottom Log Interval		11472 ft		11930 ft							
Top Log Interval		2381 ft		11475 ft							
Casing Driller Size @ Depth		9.625 in @ 2390 ft		7.000 in @ 11469 ft							
Casing Schlumberger		2381 ft		11475 ft							
Bit Size		8.750 in		6.125 in							
Type Fluid In Hole		Brine / Starch / Salt Gel		Brine / Starch / Salt Gel							
MUD	Density	Viscosity	11.5 lbm/gal	40 s	10 lbm/gal	31 s					
	Fluid Loss	PH	6 cm3	9	4.8 cm3	10.5					
	Source Of Sample		Circulation Tank		Circulation Tank						
RM @ Measured Temperature		0.062 ohm.m @ 104 degF		0.037 ohm.m @ 102 degF							
RMF @ Measured Temperature		0.046 ohm.m @ 104 degF		0.034 ohm.m @ 102 degF							
RMC @ Measured Temperature		@		@							
Source RMF		RMC		Measured							
RM @ MRT		RMF @ MRT		0.042 @ 157		0.031 @ 157		0.022 @ 175		0.020 @ 175	
Maximum Recorded Temperatures		157 degF		175 degF							
Circulation Stopped		Time		4-Aug-2002		9:00		14-Aug-2002		15:00	
Logger On Bottom		Time		4-Aug-2002		17:00		14-Aug-2002		20:00	
Unit Number		Location		3178 Roswell, NM		3049 Roswell, N.M.					
Recorded By		R.Chung / D.Zeltner				R.Chung / A.Hill					
Witnessed By		Nelson Muncy / Randy Dutton				Nelson Muncy					

COMPANY: MYCO Industries Inc.

WELL: Augusta "24" Fee #1

FIELD: East Carlsbad Morrow

County: Eddy State: New Mexico

County: Eddy Field: East Carlsbad Morrow Location: 660' FNL & 660' FEL Well: Augusta "24" Fee #1 Company: MYCO Industries Inc.	Schlumberger		Platform Express Three Detector Litho-Density Compensated Neutron / GR			
	660' FNL & 660' FEL			Elev.: K.B. 3166 ft		
				G.L. 3149 ft		
				D.F. 3165 ft		
Permanent Datum:		Ground Level		Elev.: 3149 ft		
Log Measured From:		Kelly Bushing		17.0 ft above Perm. Datum		
Drilling Measured From:		Kelly Bushing				
API Serial No. 30-015-32305		Section 24	Township 21S		Range 27E	
Logging Date		4-Aug-2002		14-Aug-2002		
Run Number		One		Two		
Depth Driller		11469.6 ft		11934 ft		
Schlumberger Depth		11480 ft		11938 ft		
Bottom Log Interval		11462 ft		11920 ft		
Top Log Interval		200 ft		11475 ft		
Casing Driller Size @ Depth		9.625 in @ 2390 ft		7.000 in @ 11469 ft		
Casing Schlumberger		2381 ft		11475 ft		
Bit Size		8.750 in		6.125 in		
Type Fluid In Hole		Brine / Starch / Salt Gel		Brine / Starch / Salt Gel		
MUD	Density	Viscosity	11.5 lbm/gal	40 s	10 lbm/gal	31 s
	Fluid Loss	PH	6 cm3	9	4.8 cm3	10.5
	Source Of Sample		Circulation Tank		Circulation Tank	
RM @ Measured Temperature		0.062 ohm.m	@ 104 degF	0.037 ohm.m	@ 102 degF	
RMF @ Measured Temperature		0.046 ohm.m	@ 104 degF	0.034 ohm.m	@ 102 degF	
RMC @ Measured Temperature			@		@	
Source RMF	RMC	Measured		Measured		
RM @ MRT	RMF @ MRT	0.042 @ 157	0.031 @ 157	0.022 @ 175	0.020 @ 175	
Maximum Recorded Temperatures		157 degF		175 degF		
Circulation Stopped		Time	4-Aug-2002	9:00	14-Aug-2002	15:00
Logger On Bottom		Time	4-Aug-2002	17:00	14-Aug-2002	20:00
Unit Number	Location	3178	Roswell, NM	3049	Roswell, N.M.	
Recorded By		R.Chung / D.Zeltner		R.Chung / A.Hill		
Witnessed By		Nelson Muncy / Randy Dutton		Nelson Muncy		

COMPANY: MYCO Industries, Inc

WELL: Carson City #1-Y

FIELD: Undesignated Carlsbad Morrow, East

COUNTY: Eddy STATE: New Mexico

Field: Undesignated Carlsbad Morrow Location: 1525' FNL & 1650' FEL Well: Carson City #1-Y Company: MYCO Industries, Inc	Schlumberger				Platform Express Azimuthal Laterolog MCFL / GR				
	LOCATION				1525' FNL & 1650' FEL		Elev.: K.B. 3162.5 ft		
					G.L. 3144 ft		D.F. 3161 ft		
	Permanent Datum: <u>Ground Level</u>		Elev.: <u>3144 ft</u>						
Log Measured From: <u>Kelly Bushing</u>		18.5 ft above Perm. Datum							
Drilling Measured From: <u>Kelly Bushing</u>									
API Serial No. 30-015-31832		SECTION 25		TOWNSHIP 21S		RANGE 27E			
Logging Date		27-AUG-2001							
Run Number		One							
Depth Driller		12040 ft							
Schlumberger Depth		12048 ft							
Bottom Log Interval		12048 ft							
Top Log Interval		2257 ft							
Casing Driller Size @ Depth		9.625 in @ 2258 ft							
Casing Schlumberger		2257 ft							
Bit Size		8.750 in							
Type Fluid In Hole		Brine / Starch / Gel							
Density	Viscosity	10.1 lbm/gal	38 s						
Fluid Loss	PH	12 cm3	10						
Source Of Sample		Circulation Tank							
RM @ Measured Temperature		0.062 ohm.m @ 84 degF							
RMF @ Measured Temperature		0.061 ohm.m @ 84 degF							
RMC @ Measured Temperature		@							
Source RMF	RMC	Measured							
RM @ MRT	RMF @ MRT	0.031 @ 172	0.031 @ 172						
Maximum Recorded Temperatures		172 degF							
Circulation Stopped	Time	26-AUG-2001	23:00						
Logger On Bottom	Time	27-AUG-2001	11:00						
Unit Number	Location	3178	Roswell						
Recorded By	Henry Andres Olarte								
Witnessed By	Brian Reid / Nelson Muncy								

MUD

COMPANY: MYCO Industries, Inc

WELL: Carson City #1-Y

FIELD: Undesignated Carlsbad Morrow, East

COUNTY: Eddy

STATE: New Mexico

Field: Undesignated Carlsbad Morrow
Location: 1525' FNL & 1650' FEL
Well: Carson City #1-Y
Company: MYCO Industries, Inc

LOCATION	Schlumberger		Borehole Compensated Sonic Gamma Ray	
	1525' FNL & 1650' FEL		Elev.:	K.B. 3162.5 ft
				G.L. 3144 ft
				D.F. 3161 ft
Permanent Datum: <u>Ground Level</u>		Elev.:	<u>3144 ft</u>	
Log Measured From: <u>Kelly Bushing</u>		18.5 ft above Perm. Datum		
Drilling Measured From: <u>Kelly Bushing</u>				
API Serial No. 30-015-31832		SECTION 25	TOWNSHIP 21S	RANGE 27E

Logging Date	27-AUG-2001			
Run Number	One			
Depth Driller	12040 ft			
Schlumberger Depth	12048 ft			
Bottom Log Interval	12048 ft			
Top Log Interval	2257 ft			
Casing Driller Size @ Depth	9.625 in	@	2258 ft	@
Casing Schlumberger	2257 ft			
Bit Size	8.750 in			
Type Fluid in Hole	Brine / Starch / Gel			
Density	Viscosity	10.1 lbm/gal	38 s	
Fluid Loss	PH	12 cm3	10	
Source Of Sample	Circulation Tank			
RM @ Measured Temperature	0.062 ohm.m	@	84 degF	@
RMF @ Measured Temperature	0.061 ohm.m	@	84 degF	@
RMC @ Measured Temperature		@		@
Source RMF	RMC	Measured		
RM @ MRT	RMF @ MRT	0.031 @ 172	0.031 @ 172	@ @
Maximum Recorded Temperatures		172 degF		
Circulation Stopped	Time	26-AUG-2001	23:00	
Logger On Bottom	Time	27-AUG-2001	11:00	
Unit Number	Location	3178	Roswell	
Recorded By	Henry Andres Olarte			
Witnessed By	Brian Reid / Nelson Muncy			

MUD

COMPANY: MYCO Industries, Inc

WELL: Carson City #1-Y

FIELD: Undesignated Carlsbad Morrow, East

COUNTY: Eddy STATE: New Mexico

Field: Undesignated Carlsbad Morrow Location: 1525' FNL & 1650' FEL Well: Carson City #1-Y Company: MYCO Industries, Inc	Schlumberger		Platform Express Three Detector LithoDensity Compensated Neutron / GR	
	1525' FNL & 1650' FEL		Elev.: K.B. 3162.5 ft G.L. 3144 ft D.F. 3161 ft	
	Permanent Datum: <u>Ground Level</u>		Elev.: <u>3144 ft</u>	
	Log Measured From: <u>Kelly Bushing</u>		18.5 ft above Perm. Datum	
Drilling Measured From: <u>Kelly Bushing</u>				
API Serial No. 30-015-31832		SECTION 25	TOWNSHIP 21S	RANGE 27E

Logging Date	27-AUG-2001		
Run Number	One		
Depth Driller	12040 ft		
Schlumberger Depth	12048 ft		
Bottom Log Interval	12048 ft		
Top Log Interval	200 ft		
Casing Driller Size @ Depth	9.625 in	@	2258 ft @
Casing Schlumberger	2257 ft		
Bit Size	8.750 in		
Type Fluid In Hole	Brine / Starch / Gel		
Density	Viscosity	10.1 lbm/gal	38 s
Fluid Loss	PH	12 cm3	10
Source Of Sample	Circulation Tank		
RM @ Measured Temperature	0.062 ohm.m	@	84 degF @
RMF @ Measured Temperature	0.061 ohm.m	@	84 degF @
RMC @ Measured Temperature		@	@
Source RMF	RMC	Measured	
RM @ MRT	RMF @ MRT	0.031 @ 172	0.031 @ 172 @ @
Maximum Recorded Temperatures	172 degF		
Circulation Stopped	Time	26-AUG-2001	23:00
Logger On Bottom	Time	27-AUG-2001	11:00
Unit Number	Location	3178	Roswell
Recorded By	Henry Andres Olarte		
Witnessed By	Brian Reid / Nelson Muncy		

MUD

Schlumberger

Company: MYCO Industries, Inc.

Well: Helena "25" FEE Com #1

Field: E. Carlsbad Morrow

COUNTY: Eddy

STATE: New Mexico

COUNTY: Eddy Field: E. Carlsbad Morrow Location: 1340' FNL & 1040' FWL Well: Helena "25" FEE Com #1 Company: MYCO Industries, Inc.	Platform Express Azimuthal Laterolog Micro-CFL / GR			
	LOCATION 1340' FNL & 1040' FWL		Elev.: K.B. 3136 ft G.L. 3119 ft D.F. 3135 ft	
	Permanent Datum: <u>Ground Level</u>		Elev.: <u>3119 ft</u>	
	Log Measured From: <u>Kelly Bushing</u>		17.0 ft above Perm. Datum	
Drilling Measured From: <u>Kelly Bushing</u>				
API Serial No. 30-015-31909		SECTION 25	TOWNSHIP 21 S	RANGE 27 E
Logging Date		5-Jun-2002		
Run Number		One		
Depth Driller		12021 ft		
Schlumberger Depth		12026 ft		
Bottom Log Interval		12018 ft		
Top Log Interval		2295 ft		
Casing Driller Size @ Depth		9.625 in @ 2296 ft @		
Casing Schlumberger		2295 ft		
Bit Size		7.875 in		
Type Fluid In Hole		Brine / Starch / Salt Gel		
MUD	Density	Viscosity	10.4 lbm/gal 37 s	
	Fluid Loss	PH	10	
Source Of Sample		Circulation Tank		
RM @ Measured Temperature		0.067 ohm.m @ 67 degF		@
RMF @ Measured Temperature		0.049 ohm.m @ 70 degF		@
RMC @ Measured Temperature				@
Source RMF	RMC	Measured		
RM @ MRT	RMF @ MRT	0.028 @ 173	0.021 @ 173	@ @
Maximum Recorded Temperatures		171 degF 173		
Circulation Stopped Time		4-Jun-2002 22:45		
Logger On Bottom Time		5-Jun-2002 8:00		
Unit Number	Location	3049 Roswell, N.M.		
Recorded By		Adam Hill		
Witnessed By		Nelson Muncy		

Schlumberger

Company: MYCO Industries, Inc.

Well: Helena "25" FEE Com #1

Field: E. Carlsbad Morrow

COUNTY: Eddy

STATE: New Mexico

Borehole Compensated Sonic Gamma-Ray

COUNTY: Eddy
Field: E. Carlsbad Morrow
Location: 1340' FNL & 1040' FWL
Well: Helena "25" FEE Com #1
Company: MYCO Industries, Inc.

LOCATION

1340' FNL & 1040' FWL

Elev.: K.B. 3136 ft
G.L. 3119 ft
D.F. 3135 ft

Permanent Datum: Ground Level

Elev.: 3119 ft

Log Measured From: Kelly Bushing

17.0 ft above Perm. Datum

Drilling Measured From: Kelly Bushing

API Serial No.
30-015-31909

SECTION
25

TOWNSHIP
21 S

RANGE
27 E

Logging Date		5-Jun-2002	
Run Number		One	
Depth Driller		12021 ft	
Schlumberger Depth		12026 ft	
Bottom Log Interval		11976 ft	
Top Log Interval		2295 ft	
Casing Driller Size @ Depth		9.625 in @ 2296 ft @	
Casing Schlumberger		2295 ft	
Bit Size		7.875 in	
Type Fluid In Hole		Brine / Starch / Salt Gel	
MUD	Density	Viscosity	10.4 lbm/gal 37 s
	Fluid Loss	PH	10
	Source Of Sample		Circulation Tank
RM @ Measured Temperature		0.067 ohm.m @ 67 degF	@
RMF @ Measured Temperature		0.049 ohm.m @ 70 degF	@
RMC @ Measured Temperature		@	@
Source RMF	RMC	Measured	
RM @ MRT	RMF @ MRT	0.028 @ 173	0.021 @ 173 @ @
Maximum Recorded Temperatures		171 degF	173
Circulation Stopped		Time	4-Jun-2002 22:45
Logger On Bottom		Time	5-Jun-2002 8:00
Unit Number	Location	3049	Roswell, N.M.
Recorded By		Adam Hill	
Witnessed By		Nelson Muncy	

Schlumberger

Company: MYCO Industries, Inc.

Well: Helena "25" FEE Com #1

Field: E. Carlsbad Morrow

COUNTY: Eddy

STATE: New Mexico

COUNTY: Eddy Field: E. Carlsbad Morrow Location: 1340' FNL & 1040' FWL Well: Helena "25" FEE Com #1 Company: MYCO Industries, Inc.	Platform Express Three Detector Litho-Density Compensated Neutron / GR				
	LOCATION 1340' FNL & 1040' FWL		Elev.: K.B. 3136 ft G.L. 3119 ft D.F. 3135 ft		
	Permanent Datum: <u>Ground Level</u>		Elev.: <u>3119 ft</u>		
	Log Measured From: <u>Kelly Bushing</u>		17.0 ft above Perm. Datum		
Drilling Measured From: <u>Kelly Bushing</u>					
API Serial No. 30-015-31909		SECTION 25	TOWNSHIP 21,S	RANGE 27 E	
Logging Date		5-Jun-2002			
Run Number		One			
Depth Driller		12021 ft			
Schlumberger Depth		12026 ft			
Bottom Log Interval		12008 ft			
Top Log Interval		200 ft			
Casing Driller Size @ Depth		9.625 in @ 2296 ft @			
Casing Schlumberger		2295 ft			
Bit Size		7.875 in			
Type Fluid In Hole		Brine / Starch / Salt Gel			
MUD	Density	Viscosity	10.4 lbm/gal	37 s	
	Fluid Loss	PH	10		
	Source Of Sample		Circulation Tank		
	RM @ Measured Temperature	0.067 ohm.m @ 67 degF	@		
RMF @ Measured Temperature	0.049 ohm.m @ 70 degF	@			
RMC @ Measured Temperature	@	@			
Source RMF	RMC	Measured			
RM @ MRT	RMF @ MRT	0.028 @ 173	0.021 @ 173	@ @	
Maximum Recorded Temperatures		171 degF	173		
Circulation Stopped	Time	4-Jun-2002	22:45		
Logger On Bottom	Time	5-Jun-2002	8:00		
Unit Number	Location	3049	Roswell, N.M.		
Recorded By	Adam Hill				
Witnessed By	Nelson Muncy				

Shari Hodges

From: Shari Darr Hodges, CPL [shodges@heyco.org]
Sent: Wednesday, October 16, 2002 3:44 PM
To: 'Tom Robertson'
Cc: sharihodges@mycoinc.com
Subject: RE: Myco well logs

Tom: yes, I recall. We will gather a set on each well for you. Where do you want them sent? S.

-----Original Message-----

From: Tom Robertson [mailto:troberson@basspet.com]
Sent: Wednesday, October 16, 2002 11:46 AM
To: shodges@heyco.org
Subject: Myco well logs

Shari,

As you will recall, some time ago I expressed interest in obtaining certain geological information relating to several Myco operated wells in the near vicinity of Bass's Big Eddy Unit. In that regard, I would like to resubmit my request for well logs pertaining to any or all of the wells listed below:

1Y Carson City 25 Fee (30-015-31908) - 25 / 21S - 27E #1Augusta 24 Fee (30-015-32305) - 24 / 21S - 27E #1 Helena 25 (30-015-31909) - 25 / 21S - 27E

Thank you in advance for your consideration of this request.

Tom Robertson

Tom Robertson
Bass Enterprises Production Co.
voice:(817) 390-8672, fax:(817) 390-8626

Shari Hodges

From: shari darr hodes,cpl [shodges@heyco.org]
Sent: Friday, October 04, 2002 9:48 AM
To: 'Wayne Bailey'
Cc: 'shodges@mycoinc.com'
Subject: MYCO/Bass: Section 20, T21S, R28E.Well Drilling

Good morning Wayne. I talked with our guy in the field and he said that that rig in Section 20 of the BEU is up and drilling. Our best guess is that it spud this week. Just thought I'd pass that on. Have a great weekend! Shari

Shari Hodges

From: shari darr hodes,cpl [shodges@heyco.org]
Sent: Thursday, October 03, 2002 1:30 PM
To: PELS Nelson Muncy (E-mail); joe@fdccenergy.com; tres@fdccenergy.com
Cc: Sharihodges (E-mail)
Subject: MYCO/Bass: Conversation with Wayne.10.3.2002

Gentlemen: I just got off the phone with Wayne Bailey. In a previous conversation, Wayne asked if we would get back with him and let him know what our main focus is in the area. Recall he thought the area we originally proposed was too big.

In my conversation today (without getting specific), I told him we were focusing mainly on Section 18, 19, 30, 31 and 32 which are right along our Capitol WIA. He said that he would pass that on, that his guys were suppose to be working on the area and updating their maps.

I asked him if he knew anything about the well in Section 20. He said that someone called him to tell him they were drilling a well and asked for a 320 acre F/O (he didn't say which 320), Wayne told him to send them a request but he has not heard from them. Do we know the status of the Nadle & Gooseman well? S.

Shari Hodges

From: shari darr hodes,cpl [shodges@heyco.org]
Sent: Friday, September 13, 2002 2:49 PM
To: 'Wayne Bailey'
Cc: 'sharihodges@mycoinc.com'
Subject: MYCO/Bass: Just touching base

Wayne: It's a quiet afternoon here so I'm doing some catch up work. Have thought about calling you on our offer but know that you're good about getting back to me when you know something and I don't want to be a pain about it.

There's a great seminar in Santa Fe on Monday at La Posada so I'm going to buzz up there early in morning (with a big cup of Java) then buzz back afterwards.

I'm usually around at 505.748.4290. Looking forward to hearing from you! Shari



MYCO INDUSTRIES, INC.
OIL PRODUCERS
POST OFFICE BOX 840
ARTESIA, NEW MEXICO 88211-0840
Phone (505) 748-1471

30 August 2002

VIA FEDERAL EXPRESS

Mr. Wayne Bailey
Bass Enterprises
201 Main
Fort Worth, TX 76102-3105

Re: **T21S, R28E, N.M.P.M.**
Section 5-8,17-20,29-32, Eddy County, NM

Dear Wayne:

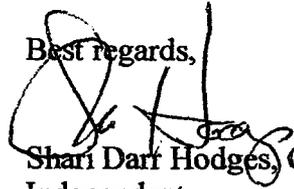
Enclosed is some information that we would like to add to the proposal we submitted to you on August 19, 2002. You will see on the enclosed Plat #1:

1. MYCO, et al's acreage along the west edge of Bass' Big Eddy Unit (green). The red dots denote wells that MYCO has drilled as Operator. The orange dots denote an Oxy operated well and its substitute well MYCO participate in as a non-operator. The Big Eddy Unit boundary in this immediate area is highlighted in pink.
2. MYCO, et al's acreage within Bass' Big Eddy Unit (yellow). This yellow acreage was referred to in our August 19, 2002 proposal.
3. The outline of MYCO, et al's 3D seismic shoot is shown as a black and white crosshatch. Note: the bold black line, which designates a Prospect Area we have among our partners, is for internal purposes only.

As to the enclosed Plat #2, shows MYCO's Capitol Prospect Pipeline. We are enclosing this just to give Bass the full picture of the amount of work that MYCO has done in the area.

We will look forward to hearing from you. If you need/want any additional information, please let us know.

Best regards,



Shari Darf Hodges, CPL
Independent

SDH/me
Enclosures (2)

Shari Hodges

From: shari darr hodes,cpl [shodges@heyco.org]
Sent: Thursday, August 29, 2002 7:21 PM
To: 'Wayne Bailey'
Cc: 'sharihodges@mycoinc.com'
Subject: MYCO/Bass: More info on its way

Wayne: I put a couple of plats in the Federal Express to you today. I think they will complete the picture of what MYCO has been doing offsetting your B.E.U.. I worked real hard getting those colors in the lines! Thanks, call me if you have any questions. Shari

Shari Hodges

From: Joe Featherstone [joe@fdcenery.com]
Sent: Tuesday, August 27, 2002 9:59 AM
To: shari darr hodges,cpl
Subject: Re: MYCO/Capitol: Bass.Update

Shari;

The first thing Bass did with us was cut the amount of acreage back drastically. This seems to be a pattern. Not surprising. I will think about this and get back to you with suggestions.

Joe

----- Original Message -----

From: "shari darr hodges,cpl" <shodges@heyco.org>
To: "'PELS Nelson Muncy (E-mail)'" <anmuncy@pvtnetworks.net>; "'Brian C. and Katherine Reid (E-mail)'" <bcreidge@aol.com>; <joe@fdcenery.com>; <tres@fdcenery.com>
Cc: <sharihodges@mycoinc.com>
Sent: Tuesday, August 27, 2002 10:51 AM
Subject: MYCO/Capitol: Bass.Update

> Gentlemen: Word from Bass this morning. They have received the letter
> and plat. Wayne's first thought was that it was a lot of acreage (it
> was 10 sections). He needs to check the attitude in his shop. He said
> they have

a

> guy that has been doing some work in the unit because of the activity
> so they will have to be on his schedule. I told him that we have lots
> of
> info

> to share, perhaps we had something that you could use (in exchange for
> an agreement to do something).

>

> He will present it and get back with us. I asked him if he knew
> anything about a well in Section 20. He said he has not heard a
> thing.

>

> I would suggest putting an internal time frame on this proposal and if
> we haven't heard from them, follow up and if no positive response,
> perhaps

come

> up with a plan #2, which might be to propose a well in Section 19 or
> something? Thoughts? Shari

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Shari Hodges

From: shari darr hodes,cpl [shodges@heyco.org]
Sent: Thursday, August 22, 2002 10:25 AM
To: 'Wayne Bailey'
Cc: 'sharihodges@mycoinc.com'
Subject: MYCO/Proposal Letter

Wayne: Sorry about the "missing" plat. We will send it out overnight, next business morning today. I just wanted to mention something that I know you know but I'd like to mention it anyway. The terms we included in the letter are not carved in stone. If Bass is open to the idea of working with MYCO, the terms are negotiable. We were not sure what would fit Bass' agenda, we just wanted to open negotiations if Bass was willing. There...I've said it! Thanks Wayne!! S.



MYCO INDUSTRIES, INC.
OIL PRODUCERS
POST OFFICE BOX 840
ARTESIA, NEW MEXICO 88211-0840
Phone (505) 748-1471

19 August 2002

VIA FEDERAL EXPRESS

Mr. Wayne Bailey
Bass Enterprises
201 Main
Fort Worth, TX 76102-3105

Re: **T21S, R28E, N.M.P.M.**
Section 5-8,17-20,29-32
Eddy County, New Mexico

Dear Wayne:

Recall that we have previously visited about MYCO Industries, Inc.'s (MYCO) desire to enter into an arrangement with Bass Enterprises on the above-described acreage ("Subject Lands") which is outlined on the attached plat.

As you can see on the attached plat, MYCO has a leasehold position in Sections 19, 30, 31 and 32. With the understanding that the Subject Lands are within the Big Eddy Unit, reference to Bass shall mean "Bass and the relevant unit owners". As to the Subject Lands, MYCO respectfully requests that Bass consider the following:

1. MYCO, et al and Bass will enter into a mutually acceptable formal Farmout Agreement that would include an A.A.P.L. Form 610-1977 Model Form Operating Agreement, naming MYCO as Operator.
2. On or before February 22, 2003, MYCO would commence the drilling of an initial test well at an orthodox location for a Morrow test on the Subject Lands.
3. Upon completion of the initial test well, Bass will deliver an assignment of 100% of its acreage within the proration unit for the initial test well, reserving as an overriding royalty interest, the difference between present burdens and 25% (delivering a 75% net revenue interest assignment). Upon payout of the initial test well, Bass would have the option to convert its

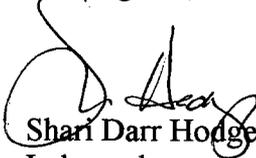
retained overriding royalty interest to a thirty percent (30%) working interest. All interests would be proportionately reduced.

4. Within one hundred and eighty days (180) of completion of the initial test well, MYCO would have the right to commence a one hundred and eight day (180) continuous drilling program on the Subject Lands based on the same terms as the initial test well.

As you know, MYCO has 3-D seismic information on the adjacent lands west of the Subject Lands. As an alternative to the above, MYCO would be willing to extend the 3-D to cover the Subject Lands if that would be Bass' preference. If this would be Bass' preference, we could negotiate terms by which MYCO would earn a portion of Bass' interest the Subject Lands in exchange for assuming the costs of such 3-D seismic extension. As to the Bass interest not earned by the 3-D extension, we would ask that Bass allow MYCO the option to conduct a continuous drilling program based on the terms set out above. Such continuous drilling program would commence after the 3D information has been processed and interpreted. It has been MYCO's experience that the better course is to drill the wells for information as opposed to gathering more seismic but we remain open to the 3D extension idea.

We will look forward to hearing from you. If you need/want any additional information, please let us know.

Best regards,



Shari Darr Hodges, CPL
Independent

SDH/me
Enclosure (1)

Shari Hodges

From: shari darr hodges,cpl [shodges@heyco.org]
Sent: Wednesday, August 14, 2002 9:40 AM
To: 'Wayne Bailey'
Cc: 'shodges@heyco.org'
Subject: RE: Are you there?

Yes, still doing the UFOH20 thing but not quite selling yet...waiting on some legal things (you know how that goes). We did just receive approval to sell it in Australia so that's pretty exciting. Once we get the show on the road it'll really be exciting...we've put a lot of "chips" into this deal. Who would have thought years ago that someone would pay good money for a bottle of water, huh?

So, still doing the water thing AND trying to figure out how to make a deal with you on the acreage in the Big Eddy Unit (T22S, R27E, Sections 5-8, 17-20 and 29-32). Will you be in today? When would be a good time to call? S.

-----Original Message-----

From: Wayne Bailey [mailto:wbailey@basspet.com]
Sent: Thursday, August 08, 2002 6:28 AM
To: shari darr hodges,cpl
Subject: Re: Are you there?

Shari - Indeed, it is. How have you been? Still selling UFOH20? Wayne

At 09:45 AM 8/7/2002 -0700, you wrote:
>Wayne..is this e-mail still good for you? S.

J. Wayne Bailey
Division Landman
Bass Enterprises Production Co.
(817) 390-8671

Shari Hodges

From: shari darr hodges,cpl [shodges@heyco.org]
Sent: Friday, December 07, 2001 12:22 PM
To: 'Wayne Bailey'
Cc: shodges@heyco.org
Subject: Christmas Party

Wayne: Just a follow up to the Yates Petroleum Christmas party that you should have received this week....also Lee Bass, Stuart Henry, Lee Muncy, and Frank McWright. This is probably the largest gathering of oil and gas folks all year in this part of the country. People fly in from all over for this party. There will probably be around 400 people there. Would love to see you guys there. I'll try to give you a call today. All the best, Shari

-----Original Message-----

From: Wayne Bailey [mailto:wbailey@basspet.com]
Sent: Friday, August 10, 2001 10:50 AM
To: sdarr@yintl.com
Subject: RE: Wednesday, 8 August

At 07:13 AM 8/9/2001 -0700, you wrote:

>Wayne: thanks for lunch. It was great seeing you again and glad to
>learn that things (business and personal) are going well for you. Did
>you get your daughter settled into school? Shari
>

>-----Original Message-----

>>From: Wayne Bailey [mailto:wbailey@basspet.com]
>>Sent: Tuesday, August 07, 2001 8:14 AM
>>To: sdarr@yintl.com
>>Subject: Re: Wednesday, 8 August
>

>At 04:43 PM 8/6/2001 -0700, you wrote:

>>Wayne: I still plan to be in Fort Worth on Wednesday...still look
>>good

to
>>you? S.

>>-----Original Message-----

>>>From: Wayne Bailey [mailto:wbailey@basspet.com]
>>>Sent: Wednesday, August 01, 2001 4:08 PM
>>>To: sdarr@yintl.com
>>>Subject: RE: Have time for lunch??
>>

>>At 02:19 PM 8/1/2001 -0700, you wrote:

>>>Wayne: looks like Wednesday, August 8 is going to work for
>>>me....still available for lunch? Do you know how I could find your
>>>old buddy Jens?

>>Shari

>>>-----Original Message-----

>>>>From: Shari Darr Hodges [mailto:sdarr@yintl.com]
>>>>Sent: Monday, July 30, 2001 1:59 PM
>>>>To: 'wbailey@basspet.com'
>>>>Cc: 'sdarr@yintl.com'
>>>>Subject: Have time for lunch??
>>>

>>>>Wayne...I'm back!!! I took a few years and worked in the
>>>>international arena but am back on the domestic side (there's no

Shari Hodges

From: Wayne Bailey [wbailey@basspet.com]
Sent: Thursday, August 08, 2002 7:28 AM
To: shari darr hodes,cpl
Subject: Re: Are you there?

Shari - Indeed, it is. How have you been? Still selling UFOH20? Wayne

At 09:45 AM 8/7/2002 -0700, you wrote:
>Wayne..is this e-mail still good for you? S.

J. Wayne Bailey
Division Landman
Bass Enterprises Production Co.
(817)390-8671

Shari Hodges

From: Tom Robertson [trobertson@basspet.com]
Sent: Wednesday, October 03, 2001 1:03 PM
To: sdarr@yintl.com
Subject: RE: MYCO/Capitol: Log request

Shari,

I did get your earlier message and apologize for not responding sooner. I am disappointed that Myco et al would rather us get their information from the NMOCD. I am sure that the Yates companies have occasional information needs and I hope that we can develop a relationship in that regard. Thank you for your persistence in this matter.

Tom

At 10:16 AM 10/3/01 -0700, you wrote:

>Tom: did you get this message? Don't want you to think I forgot about
>you and your request...thanks, S.

>

> -----Original Message-----

>From: Shari Darr Hodges [mailto:sdarr@yintl.com]

>Sent: Thursday, September 27, 2001 6:20 AM

>To: 'trobertson@basspet.com'

>Cc: 'sdarr@yintl.com'

>Subject: MYCO/Capitol: Log request

>

>Tom: sorry for the delay in getting back to you. I finally tracked
>down Nelson Muncy yesterday. He told me that there is a working
>interest owner that demanded the logs be held tight...but then told me
>that the logs would be public in a few weeks I guess.

>

>Sorry I couldn't be more help. Hope knowing the logs will be public
>helps!! Shari

Tom Robertson
Bass Enterprises Production Co.
voice:(817) 390-8672, fax:(817) 390-8626



MYCO INDUSTRIES, INC.

P.O. Box 840 / 331 West Main, Suite C
Artesia, New Mexico 88210-0840
Phone (505) 748-1471

AUTHORITY FOR EXPENDITURE
NEW DRILLING, RECOMPLETION & RE-ENTRY

AFE NO.
AFE DATE 4/8/2003
MAFEND (rev 8/00)

Table with columns: AFE Type (New Drilling, Recompletion, Re-entry), Well Objective (Oil, Gas, Injector), Well Type (Development, Exploratory)

AFE STATUS: Original, Revised, Final, Supplemental

LEASE NAME: Juneau 31 Fee Com; COUNTY: Eddy; FIELD: Carlsbad Morrow, East; LOCATION: Legal Location NW/4 NW/4 or NW/4 SW/4 S31-T21S-R28E; PROJ'D DEPTH: 12 500'; STATE: NM; HORIZON: Morrow

DIVISION CODE: 100; DIVISION NAME: Oil & Gas Division; DISTRICT CODE; BRANCH CODE

PROGNOSIS: Drill, test and if successful, complete a 12,500' Morrow test.

Table with columns: INTANGIBLE DRILLING COSTS, DRY HOLE, COMP'D WELL. Rows include Staking, Location, Drilling, Cementing, etc.

Table with columns: TANGIBLE EQUIPMENT COSTS, DRY HOLE, COMP'D WELL. Rows include Christmas Tree, Casing, Tubing, Packer, etc.

TOTAL COSTS: 698,000 (Dry Hole), 1,162,600 (Comp'd Well)

IT IS RECOGNIZED THAT THE AMOUNTS PROVIDED FOR HEREIN ARE ESTIMATED ONLY AND APPROVAL OF THIS AFE SHALL EXTEND TO THE ACTUAL COSTS INCURRED IN CONDUCTING THE OPERATIONS SPECIFIED WHETHER MORE OR LESS THAN HEREIN SET OUT.

Approval signature lines for Operations & Engineering Mgr. and other roles.

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Case No. 13071 & 13072 Exhibit No. 3
Submitted by: MYCO INDUSTRIES, INC.
Hearing Date: May 22, 2003



MYCO INDUSTRIES, INC.
 P.O. Box 840 / 331 West Main, Suite C
 Artesia, New Mexico 88210-0840
 Phone (505) 748-1471

AUTHORITY FOR EXPENDITURE
 NEW DRILLING, RECOMPLETION & RE-ENTRY

APE NO. _____
 AFE DATE **4/8/2003**
MAFEND (rev 8/00)

AFE Type:	Well Objective:	Well Type:
<input checked="" type="checkbox"/> New Drilling	<input type="checkbox"/> Oil	<input checked="" type="checkbox"/> Development
<input type="checkbox"/> Recompletion	<input checked="" type="checkbox"/> Gas	<input type="checkbox"/> Exploratory
<input type="checkbox"/> Re-entry	<input type="checkbox"/> Injector	

AFE STATUS:

Original _____

Revised _____

Final _____

Supplemental _____

LEASE NAME	Panther City 31	PROJ'D DEPTH	12 500'
COUNTY	Eddy	STATE	NM
FIELD	Carlsbad Morrow, East	HORIZON	Morrow
LOCATION	Legal Location SE/4 NE/4 or SE/4 SE/4 S31-T21S-R28E		

DIVISION CODE	100	DIVISION NAME	Oil & Gas Division
DISTRICT CODE		DISTRICT NAME	
BRANCH CODE		BRANCH NAME	

PROGNOSIS: **Drill, test and if successful, complete a 12,500' Morrow test.**

INTANGIBLE DRILLING COSTS:		DRY HOLE	COMP'D WELL
920-100	Staking, Permit & Legal Fees	10,500	12,500
920-110	Location, Right-of-Way	35,000	35,000
920-120	Drilling, Footage 9100 Feet @ \$21/Ft	191,100	191,100
920-130	Drilling, Daywork 25-Days @ \$7250/Day	181,300	181,300
920-140	Drilling Water, Fasline Rental	20,000	20,000
920-150	Drilling Mud & Additives	26,000	28,000
920-160	Mud Logging Unit, Sample Bags	22,500	22,500
920-170	Cementing - Surface Casing & intermediate casing	34,000	34,000
920-180	Drill Stem Testing, OHT	0	0
920-190	Electric Logs & Tape Copies including Sonic	36,000	36,000
920-200	Tools & Equip. Rntl., Trkg. & Welding & rig move	33,500	34,500
920-205	Control of Well-Insurance	8,800	8,800
920-210	Supervision & Overhead	10,500	10,500
920-220	Contingency	2,000	2,500
920-230	Coring, Tools & Service	0	0
920-240	Bits, Tool & Supplies Purchase Bits 9100' - TD	32,000	32,000
920-350	Cementing - Production Casing	0	55,000
920-410	Completion Unit - Swabbing	0	18,500
920-420	Water for Completion	0	7,500
920-430	Mud & Additives for Completion	0	500
920-440	Cementing - Completion	0	0
920-450	Elec. Logs, Testing, Etc. - Completion	0	7,500
920-460	Tools & Equip. Rental, Etc. - Completion	0	8,000
920-470	Stimulation for Completion Morrow Zone Acid & Frac	0	115,000
920-480	Supervision & O/H - Completion	0	5,500
920-490	Additional LOC Charges - Completion	0	1,500
920-495	Control of Well-Insurance - Completion	0	0
920-510	Bits, Tools & Supplies - Completion	0	1,500
920-500	Contingency for Completion	0	5,000
TOTAL INTANGIBLE DRILLING COSTS		643,200	874,200

TANGIBLE EQUIPMENT COSTS:			
930-010	Christmas Tree & Wellhead	3,500	18,500
930-020	Casing 13-3/8" 48 # 500' @ \$17.00/Ft.	8,500	8,500
	9-5/8" 36# 3200' @ 13.35/Ft.	42,800	42,800
	5-1/2" 17# 12,500' @ 7.60/Ft.	0	95,000
		0	0
930-030	Tubing 2-7/8" N-80 12,500' @ 3.65/Ft.	0	45,600
930-040	Packer & Special Equipment	0	10,500
940-010	Pumping Equipment	0	0
940-020	Storage Facilities 2-300 BBL STOCK TANKS/1-300 BBL F/G WTR TANK	0	18,500
940-030	Separation Equip., Flowlines, Misc.	0	30,500
940-040	Trucking & Construction Costs	0	18,500
TOTAL TANGIBLE EQUIPMENT COSTS		54,800	288,400
TOTAL COSTS		698,000	1,162,600

IT IS RECOGNIZED THAT THE AMOUNTS PROVIDED FOR HEREIN ARE ESTIMATED ONLY AND APPROVAL OF THIS AFE SHALL EXTEND TO THE ACTUAL COSTS INCURRED IN CONDUCTING THE OPERATIONS SPECIFIED WHETHER MORE OR LESS THAN HEREIN SET OUT.

Prepared By	A.N. Muncy	Operations Approval	<i>A.N. Muncy</i> Operations & Engineering Mgr.
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BY	DATE	
BY	DATE	
BY	DATE	

EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement
dated January 30, 2003 between
MYCO Industries, Inc. as Operator and others as Non-Operators

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

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

4. Adjustments

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

5. Audits

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

6. **Approval by Non-Operators**

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. **Rentals and Royalties**

Lease rentals and royalties paid by Operator for the Joint Operations

2. **Labor**

- A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
- (2) Salaries of First Level Supervisors in the field.
- (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

3. **Employee Benefits**

Operator's current costs of established plans for employee' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty per cent (20%).

4. **Material**

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

5. **Transportation**

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

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

6. **Services**

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

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

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

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

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

9. **Legal Expense**

- A. Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to

protest or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, paragraph 3.

- B. Expenses incurred by Operator in representing the Joint Property at hearings or proceedings before state or federal regulatory or administrative agencies.

10. **Taxes**

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

11. **Insurance**

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

12. **Other Expenditures**

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

III. OVERHEAD

1. **Overhead – Drilling and Producing Operations**

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

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

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

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

A. **Overhead – Fixed Rate Basis**

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

	Surface to 5,000'	5,001' – 10,000'	10,001' – 15,000'
Drilling Well Rate	\$ 3600	\$4800	\$6,200
Producing Well Rate	\$ 360	\$ 480	\$ 620

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

(a) **Drilling Well Rate**

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

(b) **Producing Well Rates**

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- [4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
- [5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

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

Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

B. Overhead – Percentage Basis

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

(a) Development

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

(b) Operating

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

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

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

2. Overhead – Major Construction

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

A. 5 % of total costs if such costs are more than \$ 25,000 but less than \$ 100,000; plus

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

C. 2 % of total costs in excess of \$1,000,000.

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

3. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

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

(2) Line Pipe

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

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

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

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

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

(2) Material moved from the Joint Property

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

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

C. Other Used Material (Condition C and D)

(1) Condition C

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

(2) Condition D

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

D. Obsolete Material

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

E. Pricing Conditions

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

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

3. **Premium Prices**

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten (10) days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. **Warranty of Material Furnished by Operator**

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. **Periodic Inventories, Notice and Representation**

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

2. **Reconciliation and Adjustment of Inventories**

Reconciliation of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six (6) months following the taking of the inventory. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. **Special Inventories**

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

4. **Expense of Conducting Periodic Inventories**

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

EXHIBIT A

**APPLICATION OF
MYCO INDUSTRIES, INC.
FOR COMPULSORY POOLING
W/2 OF SECTION 31, TOWNSHIP 21 SOUTH, RANGE 28 EAST, N.M.P.M.
EDDY COUNTY, NEW MEXICO.**

Chisholm Trail Ventures
Keystone, Inc.
Lee M. Bass, Inc.
Sid R. Bass
Thru Line, Inc.
201 Main
Ft. Worth, Texas 76102-3105

Attention: Wayne Bailey

2899 1005 2099

U.S. Postal Service
CERTIFIED MAIL RECEIPT
(Domestic Mail Only. No Insurance Coverage)

OFFICIAL USE

Postage	\$ 1.60
Certified Fee	2.30
Return Receipt Fee (Endorsement Required)	1.75
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	\$ 4.65



Sent To
 Chrisolm Trail Ventures, et al. Attn: Wayne Bailey
 Box No. 201 Main
 Ft. Worth, TX 76102 3105

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:
 Chrisolm Trail Ventures, et al.
 Attn: Wayne Bailey
 201 Main
 Ft. Worth, Texas 76102-3105

2. Article Number (Copy from sender) **7001 1140 0002 5601 8837**

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly) _____ B. Date of Delivery **MAY 05 2003**

C. Signature *[Signature]*
 Agent
 Addressee

D. Is delivery address different from item 1? Yes
 If YES, enter delivery address below: No

3. Service Type
 Certified Mail Express Mail
 Registered Return Receipt for Merchandise
 Insured Mail C.O.D.

4. Restricted Delivery? (Extra Fee) Yes

HOLLAND & HART^{LLP}
ATTORNEYS AT LAW

DENVER • ASPEN
BOULDER • COLORADO SPRINGS
DENVER TECH CENTER
BILLINGS • BOISE
CHEYENNE • JACKSON HOLE
SALT LAKE CITY • SANTA FE
WASHINGTON, D.C.

P.O. BOX 2208
SANTA FE, NEW MEXICO 87504-2208
110 NORTH GUADALUPE, SUITE 1
SANTA FE, NEW MEXICO 87501-6525

TELEPHONE (505) 988-4421
FACSIMILE (505) 983-6043

William F. Carr

wcarr@hollandhart.com

March 31, 2003

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

ALL AFFECTED INTEREST OWNERS:

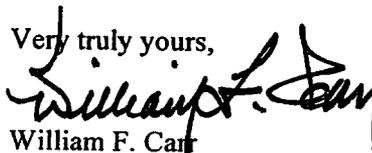
Re: Application of MYCO Industries, Inc. for compulsory pooling, Eddy
County, New Mexico.

Ladies and Gentlemen:

This letter is to advise you that MYCO Industries, Inc. has filed the enclosed application with the New Mexico Oil Conservation Division seeking the compulsory pooling of certain spacing and proration units in the W/2 of Section 31, Township 21 South, Range 28 East, NMPM, Eddy County, New Mexico. Said units will be dedicated to MYCO Industries, Inc. proposed Juneau "31" Fee Com Well No. 1 which it proposes to drill at a standard gas well location in the NW4 SW/4 of said Section 31 to test all formations from the surface to the base of the Morrow formation.

This application has been set for hearing before a Division Examiner on May 22, 2003. You are not required to attend this hearing, but as an owner of an interest that may be affected by this application, you may appear and present testimony. Failure to appear at that time and become a party of record will preclude you from challenging the matter at a later date.

Parties appearing in cases are required by Division Rule 1208.B to file a Pre-Hearing Statement with the Oil Conservation Division's Santa Fe office located at 1220 South Saint Francis Drive, Santa Fe, New Mexico 87505, three days in advance of a scheduled hearing. This statement must include: the names of the parties and their attorneys; a concise statement of the case; the names of all witnesses the party will call to testify at the hearing; the approximate time the party will need to present its case; and identification of any procedural matters that are to be resolved prior to the hearing.

Very truly yours,

William F. Carr

cc: Sheri Hodges
MYCO Industries, Inc.

EXHIBIT A

**APPLICATION OF
MYCO INDUSTRIES, INC.
FOR COMPULSORY POOLING
E/2 OF SECTION 31, TOWNSHIP 21 SOUTH, RANGE 28 EAST, N.M.P.M.
EDDY COUNTY, NEW MEXICO.**

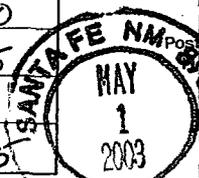
Chisholm Trail Ventures
Keystone, Inc.
Lee M. Bass, Inc.
Sid R. Bass
Thru Line, Inc.
201 Main
Ft. Worth, Texas 76102-3105

Attention: Wayne Bailey

U.S. Postal Service
CERTIFIED MAIL RECEIPT
 (Domestic Mail Only. No Insurance Coverage.)

OFFICIAL USE

WFC/Myco Postage	\$ 1.60
Parther City Certified Fee	2.30
Return Receipt Fee (Endorsement Required)	1.75
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	\$ 4.65



Sent To
 Chisolm Tr. Ventures, et al. Attn: Wayne Bailey
 Street, Apt. No., or PO Box No. 201 Main
 City, State, ZIP+4 Ft. Worth, TX 76102-3105

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Chisolm Trail Ventures, et al.
 Attn: Wayne Bailey
 201 Main
 Ft. Worth, TX 76102-3105

2. Article Number (Copy from service label)

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly) **MAY 05 2003**
 MAY 05 2003
 C. Signature *[Signature]*
 Agent
 Addressee
 D. Is delivery address different from item 1? Yes
 If YES, enter delivery address below: No

3. Service Type

- Certified Mail Express Mail
- Registered Return Receipt for Merchandise
- Insured Mail C.O.D.

4. Restricted Delivery? (Extra Fee) Yes

1140 0002 5601 8844

HOLLAND & HART^{LLP}
ATTORNEYS AT LAW

DENVER • ASPEN
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BILLINGS • BOISE
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March 31, 2003

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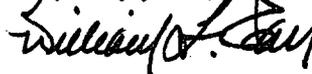
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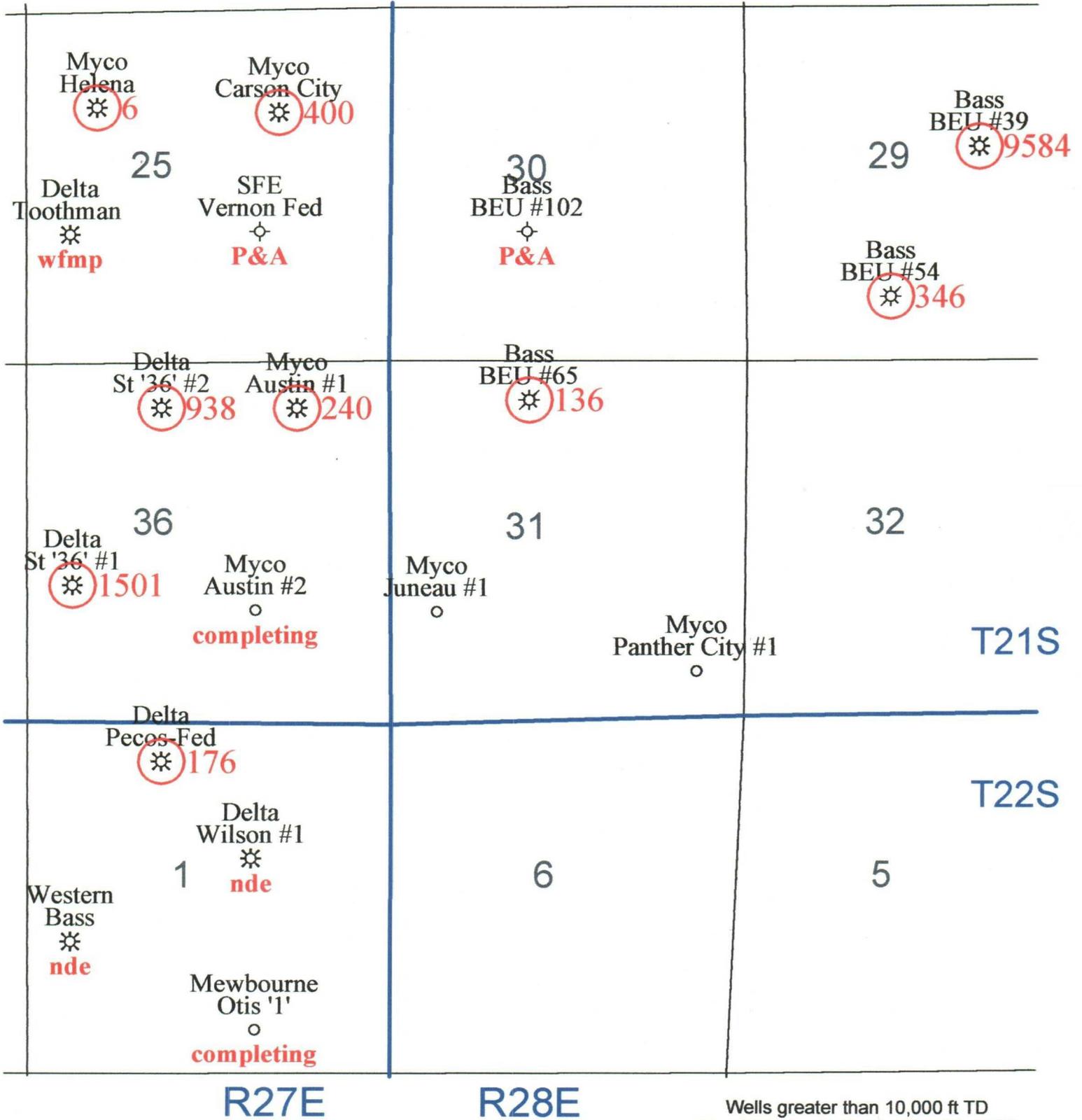
Very truly yours,



William F. Carr

cc: Sheri Hodges
MYCO Industries, Inc.

Morrow Gas Production (millions of cubic feet)



R27E

R28E

Wells greater than 10,000 ft TD
1" = 2000 ft B. Reid May 22, 2003
production thru Feb. 2003

MYCO Industries
Capitol Prospect

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Case No. 13071 & 13072 Exhibit No. 6
Submitted by:
MYCO INDUSTRIES, INC.
Hearing Date: May 22, 2003

BASS ENTERPRISES PRODUCTION CO.

201 MAIN ST.
FORT WORTH, TEXAS 76102-3131
817/390-8400

BEFORE EXAMINER CATANACH	
OIL CONSERVATION DIVISION	
May 19, 2003	EXHIBIT NO. <u>2</u>
CASE NO. <u>13071 + 13072</u>	

FEDERAL EXPRESS / VIA FACSIMILE (505) 748-2368

MYCO Industries, Inc.
423 W. Main Street
Artesia, New Mexico 88210

Attention: Shari Darr Hodges

Re: Drilling Proposals
W/2 Section 31, T21S-R28E
Eddy County, New Mexico

Dear Shari:

In order to verify our conversation of this date, this is to supercede and replace my letter to you dated May 14, 2003. As you know, MYCO has proposed to drill eight (8) Morrow wells affecting various Bass leasehold interest in five (5) 320-acre proration units in T21S-R28E set forth as follows:

1. W/2 Section 19
2. W/2 Section 30
3. W/2 Section 31
4. E/2 Section 31
5. N/2 Section 32

By now, you should have received Bass' written elections to participate in two (2) of the above proration units, being the W/2 of Section 19 and the W/2 of Section 30. Due to Bass' ownership of 75% and 87.50% working interest respectively, Bass has forwarded cost estimates and Operating Agreements to all leasehold owners including MYCO in the above two proration units, and we are currently awaiting their response. In order to support the drilling of the remaining three proration units, Bass proposes an agreement between the parties as follows:

1. Upon the completion of the MYCO-Austin 36 St. No. 2 Well, Bass will be provided with all well information therefrom. On or before thirty (30) days after its receipt thereof, Bass will forward to MYCO its written election to either participate in the first well drilled in the W/2 of Section 31 as to its 25% interest subject to a mutually acceptable Operating Agreement naming MYCO as Operator, or grant to MYCO a Term Assignment affecting its interest in the W/2 of Section 31 for ~~\$300~~ per acre reserving an overriding royalty interest equal to the difference between lease burdens and 25%. On, or before, thirty (30) days after the completion of the initial well in the W/2 of Section 31 and Bass' receipt of all well information therefrom according to a notification and distribution list to be provided, Bass will make a like election affecting its interest in the E/2 of Section 31 according to the same terms and conditions. In the event Bass elects to participate, Bass will be named as Operator.
2. Bass requests the same courtesy of an election from MYCO (and their working interest partners) affecting its interest in the W/2 of Section 19, therefore, within fifteen (15) days after MYCO has received Bass' election for the W/2 of Section 31 set forth in No. 1 above, MYCO will forward to Bass its written election to either participate as to its unitized interest in the W/2 of Section 19 subject to a mutually acceptable Operating Agreement naming Bass, as Operator, or grant a Term Assignment to Bass for \$300 per acre reserving an overriding royalty equal to the difference between lease burdens and 25%. On, or before, thirty (30)

* \$200/ac. by
agmt.
3/20/03

days after the completion of the above well, MYCO will make a like election affecting its interest in the W/2 of Section 30 according to the same terms and conditions.

3. In the event Bass or MYCO agree to grant Term Assignments in Section 19, 30 or 31, each assignment will be for a term of one (1) year and as long thereafter as operations or production are being maintained subject to a mutually acceptable form of assignment.
4. This agreement is subject to the acceptance of MYCO's working interest partners in leasehold interest located in the above sections.
5. MYCO will immediately file a dismissal of any compulsory application currently affecting Bass' interest in the above sections.

According to the above proposal, Bass will have elected to participate or grant a Term Assignment in four (4) of five (5) proration units representing seven (7) of eight (8) wells proposed by MYCO. Therefore, only one (1) unit (N/2 Section 32) remains for which Bass has not made an election. Bass' election concerning this unit will be made in a timely manner based on the drilling and completion results of the prior wells described above. This is a very reasonable proposal based upon the risk and expense of the proposed wells, currently available well information and MYCO's drilling schedule as related to Bass. In the event MYCO is agreeable to the above terms and conditions, please execute one (1) copy of this letter in the space provided below and return to the undersigned. Thank you very much and should you have any questions or comments in the above regard, please advise.

Very truly yours,


J. Wayne Bailey

JWB:ca

AGREED AND ACCEPTED this _____ day of _____, 2003

MYCO INDUSTRIES, INC.

By: _____
Frank Yates, Jr.
Attorney-in-Fact