MARALEX
Resources, Inc.

OIL CONSERVATION DIVISION
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410 17th Street, Suite 220
Denver, Colorado 80202
(303) 571-4220
FAX (303) 571-4217

May 27, 1994

P.O. Box 338
Ignacio, Colorado 81137
(303) 563-4000

State of New Mexico
Energy, Minerals & Natural
Resources Dept.
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87504
Attn: Mr. Michael Stogner

Case 11006

RE: Compulsory Pooling Applications
June 23, 1994 Docket

Dear Mr. Stogner:

Maralex Resources, Inc. hereby requests that you include the following applications for Compulsory Pooling of the Basin Fruitland Coal Formation in the advertisement for the June 23, 1994 hearing. We request that the Order provide for Maralex Resources, Inc. to be designated Operator, that an appropriate risk factor be applied in the drilling of the wells and for the establishment of drilling and producing overhead rates, based upon evidence which will be presented at the hearing.

Applicant's Name: Maralex Resources, Inc.

Drillsite Spacing units to be pooled:

Township 30 North, Range 11 West, NMPM
Section 19: Lots 1, 2, E/2NW/4, NE/4
Containing 327.10 acres
(previously heard Order #R9518)

Township 30 North, Range 11 West, NMPM
Section 19: Lots 3, 4, 5, E/2SW/4, W/2SE/4, NE/4SE/4
Containing 326.26 acres

Thank you for your consideration in this matter. Please contact me at the captioned Denver address if you need any additional information.

Sincerely,

Jennifer A. Ritcher

Jennifer A. Ritcher, CPL
Land Manager

EXHIBIT
A

CASE 11007: **Application of Maralex Resources, Inc. for compulsory pooling, San Juan County, New Mexico.** Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Basin-Fruitland Coal Gas Pool underlying Lots 3, 4 and 5 and the E/2 SW/4, N/2 SE/4 and SW/4 SE/4 of Section 19, Township 30 North, Range 11 West, forming a standard 326.26-acre gas spacing and proration unit for said pool. Said well is to be dedicated to a well to be drilled at a standard coal gas well location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as the operator of the well and a charge for risk involved in drilling and completing said well. Said unit is located approximately 2.5 miles south of the Aztec, New Mexico Municipal Airport.

CASE 11008: **Application of GECKO, Inc. for an unorthodox oil well location, Lea County, New Mexico.** Applicant, in the above-styled cause, seeks approval for an unorthodox oil well location to be drilled 2414 feet from the North line and 1109 feet from the West line (Unit E) of Section 36, Township 16 South, Range 37 East, to test the Shipp-Strawn Pool, the S/2 NW/4 of said Section 36 to be dedicated to said well to form a standard 80-acre oil spacing and proration unit for said pool. Said unit is located approximately 5.5 miles north of Humble City, New Mexico.

CASE 11009: **Application of GECKO, Inc. for an unorthodox oil well location, Lea County, New Mexico.** Applicant, in the above-styled cause, seeks approval for an unorthodox oil well location to be drilled 555 feet from the South line and 1648 feet from the West line (Unit N) of Section 26, Township 16 South, Range 37 East, Casey-Strawn Pool. The S/2 SW/4 of said Section 26 is to be dedicated to said well to form a standard 80-acre oil spacing and proration for said pool. Said unit is located approximately 6.5 miles north of Humble City, New Mexico.

CASE 10996: **(Continued from June 9, 1994, Examiner Hearing.)**

Application of Anadarko Petroleum Corporation for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Morrow formation underlying the W/2 of Section 22, Township 18 South, Range 32 East, forming a standard 320-acre gas spacing and proration unit. Said unit is to be dedicated to its existing Querecho Plains Unit Well No. 1 which was drilled at a standard gas well location 1980 feet from the South and West lines (Unit K) of said Section 22. Also to be considered will be the valuation of the existing wellbore and the cost of recompleting said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as the operator of the well and a charge for risk involved in recompleting said well. Said unit is located approximately 8 miles south-southwest from Maljamar, New Mexico.

CASE 10962: **(Continued from June 9, 1994, Examiner Hearing.)**

Application of Maralo, Inc. for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Delaware formation underlying the NE/4 SE/4 of Section 30, Township 23 South, Range 30 East, NMPM, Eddy County, New Mexico, forming a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre oil spacing within said vertical extent. Said unit is to be dedicated to a well to be drilled and completed at a standard oil well location in the NE/4 SE/4 of said Section 30. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as the operator of the well and a charge for risk involved in drilling and completing said well. Said unit is located approximately 10 miles east of Loving, New Mexico.

CASE 11010: **Application of Nearburg Exploration Company for compulsory pooling, Eddy County, New Mexico.** Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the top of the Wolfcamp formation to the base of the Morrow formation, underlying the S/2 of Section 22, Township 19 South, Range 25 East, forming a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated Cemetery-Morrow Gas Pool. Said unit is to be dedicated to its B&B Well No. 2 to be drilled and completed at a standard gas well location (Unit O) in said Section 22. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as the operator of the well and a charge for risk involved in drilling and completing said well. Said unit is located approximately 6 miles west of Lakewood, New Mexico.

DOCKET: EXAMINER HEARING - THURSDAY - JUNE 23, 1994
8:15 A.M. - MORGAN HALL, STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

Dockets Nos. 20-94 and 21-94 are tentatively set for July 7, 1994 and July 21, 1994. Applications for hearing must be filed at least 23 days in advance of hearing date. The following cases will be heard by an Examiner:

CASE 10976: **(Continued from June 9, 1994, Examiner Hearing.)**

Application of Harvey E. Yates Company for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the E/2 of Section 32, Township 17 South, Range 31 East, forming a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent. Said unit is to be dedicated to a well to be drilled at a standard gas well location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as the operator of the well and a charge for risk involved in drilling and completing said well. Said unit is located approximately 1.5 miles southwest of the junction of U.S. Highway 82 and State Road 529.

CASE 11002: **Application of West Largo Corporation for compulsory pooling, Sandoval County, New Mexico.** Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Rusty-Chacra Pool underlying the SW/4 of Section 4, Township 21 North, Range 6 West, forming a standard 160-acre gas spacing and proration unit for said pool. Said unit is to be dedicated to a well to be drilled at a standard gas well location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as the operator of the well and a charge for risk involved in drilling and completing said well. Said unit is located approximately 9 miles south of Counselor, New Mexico.

CASE 11003: **Application of Hal J. Rasmussen Operating, Inc. for a pressure maintenance project, Lea County, New Mexico.** Applicant, in the above-styled cause, seeks authority to institute a pressure maintenance project on its Farnsworth A Lease in Section 13, Township 26 South, Range 36 East, by the injection of water into the Seven Rivers formation, Scarborough Yates-Seven Rivers Pool, through its Farnsworth A Wells No. 1 and 2 located in Units A and P, respectively, of said Section 13. Said project is located approximately 4 miles south-southwest of Jal, New Mexico.

CASE 11004: **Application of Yates Petroleum Corporation for thirteen unorthodox infill gas well locations, Chaves County, New Mexico.** Applicant, in the above-styled cause, seeks approval of thirteen certain Pecos Slope-Abo Gas Pool infill gas well locations all located within its pilot enhanced gas recovery project, which was the subject of Division Order No. R-9976 and in Division Case No. 10981, comprising portions of Townships 5, 6, and 7 South, Ranges 25 and 26 East.

CASE 11005: **Application of Texaco Exploration and Production Inc. for pool reclassification, vertical extension, horizontal contraction and expansion, special pool rules, and for a special depth bracket allowable, Lea County, New Mexico.** Applicant, in the above-styled cause, seeks to extend the vertical limits of the North Teague-Lower Paddock-Blinebry Gas Pool, presently comprising the N/2 of Section 9, Township 23 South, Range 37 East, to include the Tubb, Drinkard and Abo formations. Applicant also seeks to reclassify said pool as an oil pool and to contract its horizontal limits to delete the E/2 NE/4 of said Section 9 and to expand said boundary to include the N/2 SW/4 of said Section 9 and the E/2 NE/4 of offsetting Section 8. Further, the applicant seeks the promulgation of special pool rules including a gas-oil ratio limitation of 10,000 cubic feet of gas per barrel of oil and the assignment of a special depth bracket allowable of 400 barrels of oil per day. Said pool is located approximately 8 miles south of Eunice, New Mexico.

CASE 10994: **(Continued from June 9, 1993, Examiner Hearing.)**

Application of Enserch Exploration, Inc. for the assignment at a special depth bracket oil allowable, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks a special depth bracket oil allowable, pursuant to General Rule 505(d), of 500 barrels of oil per day for the South Peterson-Fusselman Pool, which is located in portions of Townships 5 and 6 South, Ranges 32 and 33 East, being approximately 14 miles east of Kenna, New Mexico.

CASE 11006: **Application of Maralex Resources, Inc. for compulsory pooling, San Juan County, New Mexico.** Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Basin-Fruitland Coal Gas Pool underlying Lots 1 and 2, NE/4, E/2 NW/4 of Section 19, Township 30 North, Range 11 West, forming a standard 327.10-acre gas spacing and proration unit for said pool. Said well is to be dedicated to a well to be drilled at a standard coal gas well location in the NE/4 of said Section 19. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as the operator of the well and a charge for risk involved in drilling and completing said well. Said unit is located approximately 2.5 miles south of the Aztec, New Mexico Municipal Airport.

LAW OFFICES
TANSEY, ROSEBROUGH, GERDING & STROTHER, P.C.
621 WEST ARRINGTON
FARMINGTON, NEW MEXICO 87401
TELEPHONE: (505) 325-1801

TELECOPIER:
(505) 325-4675

OF COUNSEL
Charles M. Tansey

Douglas A. Echols
Richard L. Gerding
Michael T. O'Loughlin
James B. Payne
Tommy Roberts
Haskell D. Rosebrough
Robin D. Strother
Karen L. Townsend

Mailing Address:
P. O. Box 1020
Farmington, N.M. 87499

OIL CONSERVATION DIVISION
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June 13, 1994

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

Attn: William J. Lemay, Director

Re: Applications of Maralex Resources, Inc.
for Compulsory Pooling
San Juan County, New Mexico
Case Nos. 11006 and 11007

Dear Mr. Lemay:

Enclosed please find an original and two copies each of Applicant's Pre-Hearing Statement for the above referenced cases.

Sincerely,

Tommy Roberts

Tommy Roberts

TR:nk
Enclosure

cc w/enc: Jennifer Ritcher/Maralex Resources, Inc.

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

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

CASE NO. 11006

APPLICATION OF MARALEX RESOURCES, INC. FOR COMPULSORY POOLING, SAN JUAN COUNTY, NEW MEXICO.

PRE-HEARING STATEMENT

This prehearing statement is submitted by Maralex Resources, Inc. as required by the Oil Conservation Division.

APPEARANCES OF PARTIES

APPLICANT	ATTORNEY
Maralex Resources, Inc.	Tommy Roberts
410 17th Street, Suite 220	P.O. Box 1020
Denver, Colorado 80202	Farmington, New Mexico 87499
Attn: Jennifer A. Ritcher	505/325-1801
303/571-4220	

OPPOSITION OR OTHER PARTY	ATTORNEY
NOT KNOWN	

STATEMENT OF CASE

APPLICANT

(Please make a concise statement of what is being sought with the application and the reasons therefore.)

Maralex Resources, Inc. seeks an order pooling all mineral interests in the Basin-Fruitland Coal Gas Pool underlying Lots 1 and 2, E/2NW/4, and NE/4 of Section 19, Township 30 North, Range 11 West, N.M.P.M., San Juan County, New Mexico, forming a standard 327.10 acre gas spacing and proration unit to be dedicated to its Cecil Cast No. 1 Well to be drilled at a standard coal gas well location thereon. Efforts to obtain the voluntary joinder of certain owners of leasehold operating rights and unleased minerals have been unsuccessful.

OPPOSITION OR OTHER PARTY

(Please make a concise statement of the basis for opposing this application or otherwise state the position of the party filing this statement.)

NOT KNOWN

PROPOSED EVIDENCE

APPLICANT

WITNESSES (Name and expertise)	EST. TIME	EXHIBITS
Jennifer A. Ritcher - Landman	15 Minutes	- Lease Ownership Plat - Tabulation of Owners to be Force-Pooled - Correspondence - Proof of Notice
A. M. O'Hare - Petroleum Engineer	15 Minutes	- Authority for Expenditure - Ernst & Young Survey - Isopach Map - Economic Analysis

OPPOSITION

WITNESSES (Name and expertise)	EST. TIME	EXHIBITS

NOT KNOWN

PROCEDURAL MATTERS

(Please identify any procedural matters which need to be resolved prior to the hearing)

NONE

Tommy Roberts

TOMMY ROBERTS, Attorney for
Maralex Resources, Inc.

DATED: June 13, 1994

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

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

APPLICATION OF MARALEX RESOURCES, INC.

CASE NOS. ~~11,006~~
11,007
(Consolidated)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

June 23, 1994

Santa Fe, New Mexico

27 1994

This matter came on for hearing before the Oil Conservation Division on June 23, 1994, at Morgan Hall, State Land Office Building, 310 Old Santa Fe Trail, Santa Fe, New Mexico, before Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

June 23, 1994
Examiner Hearing
CASE NOS. 11,006, 11,007 (Consolidated)

* * *

E X H I B I T S

Case Number 11,006

	Identified	Admitted
Exhibit 1	14	29
Exhibit 2	16	29
Exhibit 3	20	29
Exhibit 4	23	29
Exhibit 5	37	44
Exhibit 6	39	44
Exhibit 7	41	44

* * *

E X H I B I T S (Continued)

Case Number 11,007

	Identified	Admitted
Exhibit 1	24	29
Exhibit 2	24	29
Exhibit 3	26	29
Exhibit 4	27	29
Exhibit 5	38	44
Exhibit 6	39	44
Exhibit 7	41	44

* * *

A P P E A R A N C E S

FOR THE DIVISION:

RAND L. CARROLL
Attorney at Law
Legal Counsel to the Division
State Land Office Building
Santa Fe, New Mexico 87504

FOR THE APPLICANT:

TANSEY, ROSEBROUGH, GERDING & STROTHER, P.C.
Attorneys at Law
By: TOMMY ROBERTS
621 West Arrington
P.O. Box 1020
Farmington, New Mexico 87401

ALSO PRESENT:

NORMAN L. GILBREATH, working interest owner
LORETTA E. GILBREATH, working interest owner

* * *

WHEREUPON, the following proceedings were had at 8:22 a.m.:

EXAMINER STOGNER: We're going to vary from the order of the docket. I understand Case 10,994, Enserch Exploration, is contested today.

With that, we will continue with the uncontested matters.

At this time I'll call Case 11,006.

MR. CARROLL: Application of Maralex Resources, Inc., for compulsory pooling, San Juan County, New Mexico.

EXAMINER STOGNER: Call for appearances.

MR. ROBERTS: Mr. Examiner, my name is Tommy Roberts. I'm with the Tansey law firm in Farmington, New Mexico.

I'm appearing on behalf of the Applicant in Case Number 11,006 and Case Number 11,007.

And Mr. Examiner, we would ask that these cases be consolidated for purposes of testimony.

EXAMINER STOGNER: Are there any other appearances in Cases 11,006?

Are there any objections to the consolidation of both cases, 11,006 and 11,006? I see a hand there. Please -- Do you have a statement at this time?

MR. GILBREATH: Yes, we were concerned. We received a letter from Maralex, Inc., stating that when they wanted to force-pool this unit they wanted to run the surface through the base of the Basin-Fruitland Coal. And we object to that, not to the drilling of the well per se.

EXAMINER STOGNER: And that's Case 11,007?

MR. GILBREATH: 11,006.

EXAMINER STOGNER: For the record, would you please state your name?

MR. GILBREATH: Yes, Norman Gilbreath and Loretta Gilbreath.

MRS. GILBREATH: We are the working interest owners in that lease, part of the lease.

MR. ROBERTS: Mr. Examiner, the cases were both advertised seeking a force-pooling of the mineral interests in the Basin-Fruitland Coal Gas Pool only, and that is what Maralex seeks by these Applications.

The letters to the Gilbreaths may have indicated that they would be seeking force-pooling involving from the surface to the base of the Fruitland Coal formation, but the docket and the advertisements are correct.

EXAMINER STOGNER: For the record, in looking at the May 27th, 1994, letter from Maralex to the Division in which they requested an application for compulsory pooling of the Basin-Fruitland Coal formation -- and I don't see any reference to any other zone of interest or, in fact, know of any zone between the surface and the base of the

Fruitland Coal that is spaced on 320.

Was there any other application made to us, Mr. Roberts, that you know of, other than the May 27th letter?

MR. ROBERTS: No, I believe that would have been the application letter.

EXAMINER STOGNER: Is that satisfactory, or do you all have anything --

MR. GILBREATH: This is compulsory pooling of the north half of 19; is that right? On 11,006?

EXAMINER STOGNER: 11,006?

MR. GILBREATH: Yes.

EXAMINER STOGNER: Okay, that is an unorthodox proration unit in that that's up there in an area that has -- How would you say? An oddball survey.

And I really don't have a plat on that just yet that tells me -- I'm assuming that it is the north-half equivalent. Lots 1 and 2, would probably be the western side of the northwest quarter, and the northeast quarter being standard and the east half of the northwest quarter; is that correct, Mr. Roberts?

MR. ROBERTS: That's correct.

EXAMINER STOGNER: So that would be the north half.

MR. ROBERTS: That's the north-half equivalent.

MR. GILBREATH: I'd like to add, too, that we have 38 acres that belong to the Blancetts, Mr. Richard Blancett and Kenneth Blancett, and Maralex hasn't acknowledged that we are the working interest owners in that 38 acres, in that -- It would be in the northwest quarter.

MR. ROBERTS: Mr. Examiner, the testimony that will be given by the witnesses on behalf of Maralex will indicate that there is a dispute as to ownership of certain leasehold operating rights interests in this particular 38.92-acre tract of land. So that issue will arise during the course of the testimony.

EXAMINER STOGNER: Okay.

MR. ROBERTS: Our position on that particular issue, though, is that the Division does not resolve contractual disputes between parties. What we are here to obtain today is simply an order allowing the drilling of the well under a force-pool order.

EXAMINER STOGNER: Okay. With that, what we'll do is proceed with this matter.

Now, let me make sure I understand. Your interest is in both cases, or just that one?

MR. GILBREATH: In both cases.

EXAMINER STOGNER: In both cases.

MR. GILBREATH: Yes, sir.

EXAMINER STOGNER: Okay. Now, the consolidation in this matter is for testimony purposes only, and there will be two separate orders issued --

MR. GILBREATH: Okay.

EXAMINER STOGNER: -- subsequent to today's hearing or --

MR. GILBREATH: Yes, sir.

EXAMINER STOGNER: -- to the conclusion of these matters.

So since they're so close together and the interest sounds like it's somewhat the same, that's what we will be doing as far as consolidation of testimony.

And it appears to me that Mr. Roberts has supplied you with the exhibits today.

And with that, the way we will proceed -- This is somewhat of an informal hearing process. Mr. Roberts will be calling -- How many witnesses will you have?

MR. ROBERTS: Two witnesses.

EXAMINER STOGNER: -- will be calling a couple of witnesses. I would assume that one is a landman, landperson, and the other one would be a technical individual. And at the conclusion of his questioning, you will be allowed to cross-examine that witness.

And also I -- myself and my attorney today, we will also be asking questions too, to maybe set the record straight or to make things clear, to make the record complete.

So that's how we will proceed. I don't know if you've ever been up here or not.

MR. GILBREATH: Yes, once.

EXAMINER STOGNER: And then at the conclusion of his, if you have anything to say, statements, if you would like to be sworn as a witness, since you're evidently, I would assume, representing yourself --

MR. GILBREATH: Yes, sir.

EXAMINER STOGNER: -- the Attorney General of the State of New Mexico has determined that you have to have legal counsel if you're representing someone else.

But in your case, since you're representing yourself and your own interest, you can take the stand on your own behalf.

So that's the way we proceed. If it becomes awkward or anything, let us know. We'll try to get any questions you have straight and keep the proceedings in line.

With that, that's how we will proceed.

Mr. Roberts, I will at this time have your witnesses stand to be sworn.

(Thereupon, the witnesses were sworn.)

MR. ROBERTS: Mr. Examiner, I call Jennifer Ritcher.

JENNIFER A. RITCHER,

the witness herein, after having been first duly sworn upon her oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. ROBERTS:

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

A. Yes, my name is Jennifer Ritcher. I reside in Denver, Colorado.

Q. What is your occupation?

A. I'm a petroleum landman.

Q. By whom are you employed?

A. Maralex Resources, Inc.

Q. How long have you been employed by Maralex in that capacity?

A. Three and a half years.

Q. Would you briefly describe your job responsibilities?

A. I'm responsible for all of the contractual matters, preparing of farmout agreements and other agreements required in the drilling of oil and gas wells. I'm also responsible for title curative matters, title opinions, all other types of land matters for the company.

Q. Have you testified on any prior occasion before the New Mexico Oil Conservation Division?

A. Yes.

Q. And in what capacity did you testify?

A. As a witness.

Q. As a landman?

A. As a petroleum landman.

Q. And were your qualifications as an expert petroleum landman then accepted and made a matter of record?

A. Yes, they were.

Q. Are you familiar with the subject matter of Case Numbers 11,006 and 11,007?

A. Yes, I am.

Q. Have you prepared certain exhibits to be presented in conjunction with your testimony today?

A. Yes, I have.

MR. ROBERTS: Mr. Examiner, I would tender Ms. Ritcher as an expert petroleum landman.

EXAMINER STOGNER: Are there any objections?

Ms. Ritcher is so qualified.

Q. (By Mr. Roberts) Ms. Ritcher, would you please briefly describe the purpose of the Application in Case Number 11,006.

A. Okay. In Case Number 11,006, we are seeking an order pooling all mineral interests within the Basin-Fruitland Coal Gas Pool underlying the north half of

Section 19 in 30 north, 11 West, San Juan County, New Mexico. This will be a standard proration unit. The well dedicated to that location is at a standard location.

We also will be asking for operating costs, charges for supervision, we will ask for a risk factor. Also, we will ask to designate SG Interests as operator, Maralex Resources is a contract operator for SG Interests in this well.

Q. Now, briefly describe the purpose of the Application in Case Number 11,007.

A. Okay, Case Number 11,007, we're seeking to force-pool all mineral interests within the Basin-Fruitland Coal Gas formation underlying the south half of Section 19, Township 30 North, Range 11 West, San Juan County, New Mexico.

This is a standard proration unit for gas; the locations is at a standard location.

We will also be seeking to be allocated operating costs and charges for supervision, also a risk factor, ask for a risk factor to be applied.

Q. What is the name of the well which you propose to drill that is the subject matter of Case Number 11,006?

A. That well is called the Cecil Cast Number 1.

Q. And am I correct in stating that it is not yet spudded?

A. No, it has not. We're awaiting the force-pooling order.

Q. And what is the name of the well which you propose to drill which is the subject matter of Case Number 11,007?

A. It's called the Flora Vista Number 19-2.

Q. And am I also correct in stating that that well has not yet been spudded?

A. Yes, you are.

Q. Now, you've indicated that the spacing proration units proposed for each of these wells is a standard spacing and proration unit.

Would you identify for the record the amount of acreage contained within the spacing and proration unit proposed for the Cecil Cast well, which is the subject matter of Case Number 11,006?

A. Okay, the total acres within that spacing unit are 327.10.

Q. And so that spacing and proration unit is comprised of odd-acreage lots, in governmental sections; is that correct?

A. Yes, that is correct.

Q. And does that spacing and proration unit constitute the north-half equivalent of Section 19 --

A. Yes.

Q. -- 30 North, 11 West?

A. Yes, it does.

Q. Now, referring to the Flora Vista 19 Number 2 Well, which is the subject of Case Number 11,007, again, you testified that the spacing and proration unit proposed for that well is a standard spacing and proration unit. What is the amount of acreage contained in that proposed spacing and proration unit?

A. The amount of acreage contained within that proration unit is 326.26 acres.

Q. And does that constitute the south-half equivalent of Section 19, Township 30 North, 11 West?

A. Yes, it does.

Q. Now, procedurally here, Ms. Ritcher, I want to go through your Exhibit Numbers 1 through 4 in Case Number 11,006, and then we'll follow up with Exhibit Numbers 1 through 4 in Case Number 11,007.

So beginning with Exhibit Number 1 in Case Number 11,006, would you please identify that exhibit?

A. Yes, that exhibit is a plat showing leasehold ownership within the proration unit, as well as identifying mineral ownership by fee owner name, or, if it's a federal lease, the federal lease number.

Q. Would you go ahead and describe for the record the details that are set forth in that particular exhibit?

A. Yes, I can describe by quarter quarter section the ownership, which would be in the east half of the northeast quarter. That is a fee lease owned by Wright, and it's leased to Koch Exploration, a hundred percent.

The west half of the northeast quarter and the southeast of the northwest quarter is owned by Maralex Resources, a hundred-percent leasehold. It's a federal lease.

The north half of the northwest quarter is actually two tracts. There's a very small tract located within that north half of the northwest quarter, and the larger tract is -- it's fee acreage. The fee owners are Young, Cast and Koogler. It is owned by Maralex, that tract, 92.4987 percent, and Caprock Energy owning 7.5013 percent of that tract. The smaller tract, which is a fee tract, Maralex owns the leasehold on 75 percent and unleased is 25 percent.

Moving down to Lot 2, which is also the southwest of the northwest quarter, that's a fee tract. Mineral owners are Richard and Kenneth Blancett, and Maralex has a leasehold on that, a hundred percent from those mineral owners.

There's a little tiny fee tract at the bottom, and that's also Maralex ownership.

Q. Now Lot 2, that particular part of this spacing and proration unit marked as Lot 2, which is the equivalent of the southwest quarter of the northwest quarter, is that the particular tract of land which Mr. and Mrs. Gilbert have indicated that they believe they have leasehold operating rights --

A. Yes.

Q. -- under a lease from Mr. and Mrs. Blancett?

A. Yes, it is that tract.

Q. And we'll discuss that further in a few minutes.

A. And that's all I have on Exhibit 1.

Q. Okay.

A. Exhibit 2 is just a list of operating rights or leasehold rights owners and the status of their commitment, I guess, to the well.

Q. Would you go ahead and identify the owners by name and describe the status of your negotiations with those parties?

A. Yes, I will.

The first one, Caprock Energy Company, owning a percentage -- this is percentage of the proration unit. They own 1.72730 percent of that proration unit. And the status after sending several letters to them, which I'll go through in Exhibit 3, we're seeking compulsory pooling of their interest.

The next three interests, Gutierrez, Mills and

Payne, they each own .11923 percent of the unit. And at the present time we're attempting to secure leases from those three small interests, and we feel that we probably will secure leases from them so we are not seeking a compulsory pooling order on their interests.

Following those three interests, we have DiTirro with .12330 percent. He's agreed to farm out to Maralex.

We have Taoka with .12330 percent. He's agreed to farm out to Maralex.

We have James Martin, .12330 percent, who has agreed to farm out to Maralex.

Koch Exploration, with 24.457 percent, has agreed to farm out to Maralex.

Henry James Young and Walta Grace Young are currently leased to Caprock, but we included them in this because there's no pooling clause in their lease.

And then the balance of the proration unit is owned by Maralex Resources.

Q. In summary, then, is it accurate to say that you seek to force-pool the interests credited to Caprock Energy Company on this particular summary list?

A. Yes.

Q. And that you also seek to force-pool the royalty interest, which is held by the mineral interest owners, who have leased to Caprock Energy?

A. Yes.

Q. And that is because there is no pooling clause in that particular lease?

A. That is correct.

Q. Now, with respect to the Gutierrez, Mills and Payne interests, your testimony is that you do not seek to force-pool those interests because you have negotiations ongoing with them for the execution of a lease in favor of Maralex?

A. That is correct.

Q. In fact, you have not talked to those particular interest owners about joining in the drilling of this well, have you?

A. No.

Q. I don't see the names of Mr. and Mrs. Norman Gilbreath on this list. Are they affiliated in some way with an interest owner that is listed?

A. Yes, they are the principals of Caprock Energy Company.

Q. Okay. Ms. Ritcher, what -- The percentage interest credited to Maralex resources, Inc., on this summary list, is that owned entirely by Maralex resources, or is it a composite ownership of other companies as well?

A. It would also include ownership by SG Interests.

Q. What is the relationship of SG interests to

Maralex?

A. We are a contract operator for SG for this well and then other wells within the San Juan Basin.

Q. Okay, and do you have a long-standing relationship with them as an agent?

A. Yes, we do.

Q. Ms. Ritcher, what is the basis for the percentage of interest that is tabulated on this summary list? How have you compiled this list? What has been the source of information?

A. It was based on a title opinion prepared by an attorney, plus updates of county records and federal records.

Q. And how current is the title examination by the attorney?

A. The title examination is 1990, and then the county record update is probably only a few months old.

Q. Now, I've referred to a dispute over ownership of leasehold operating rights applicable to Lot 2, which is the southwest quarter of the northwest quarter equivalent of Section 19, and in particular either Mr. and Mrs. Gilbreath or Caprock and/or Caprock Energy, apparently assert ownership of leasehold operating rights under a lease executed by Richard Blancett and Kenneth Blancett. Could you go into that in a little bit more detail?

A. Yes, it's -- The dispute is over an old lease that Caprock feels that they still hold. It's our belief that that lease terminated due to their failure to timely pay shut-in payments to the lessors, and we have secured new leases from the Blancetts, both Kenneth and Richard, covering that tract.

We have a New Mexico attorney's title opinion which supports our belief.

Q. Nevertheless, Caprock Energy does have an ownership interest in this particular spacing and proration unit?

A. Yes, they do.

Q. And it's a matter of the quantum of that interest that may be in dispute between Maralex and Caprock and/or Mr. and Mrs. Gilbreath?

A. Yes.

Q. I want you to refer to what you have marked as Exhibit Number 3 and ask you to identify that exhibit. And I see that it contains a series of communications. Will you go through each item of communication?

A. Okay. The first item of communication, dated March 1st, was a purchase offer to the Gilbreaths, and in this letter we offered to pay them $14,000 plus allow them to retain an override. It was presented on our behalf by a broker in the area that we have used in the past, and it was rejected.

Q. Now, is this correspondence applicable to the 1.7-percent interest credited to Caprock Energy on Exhibit 2?

A. Yes, it is.

Q. Go ahead. The next correspondence is dated March 18th. Again, this was a purchase offer. In this offer we increased our purchase price. We also allowed them to retain an override. This was presented to them in person or over the telephone by our broker, and it was rejected.

The next letter is -- actually, it's the same letter as before, but we sent it directly to the Gilbreaths. They had indicated that they might want to look at it before they rejected it. But it's the same letter. It was mailed March 18th. They received it March 25th, as indicted by the certified card.

And the next item of correspondence, dated May 18th, was a letter to the Gilbreaths from Mr. O'Hare, who's the president of Maralex, and it was really just a letter -- kind of a final attempt to try and negotiate something with the Gilbreaths, and we didn't receive a response to that letter.

The next item of correspondence is dated May 27th, 1994, and in this letter we furnished the Gilbreaths with an AFE and an operating agreement, and we gave them the opportunity to participate in our well. We never had a response to that letter either.

Q. Is it accurate to say, then, that over a period of time you've had negotiations with Mr. and Mrs. Gilbreath in an attempt to secure their voluntary joinder in the drilling of the Cecil Cast Number 1 Well?

A. Yes.

Q. And have you given them the opportunity to sell their interests to you, to farm out their interests to you and to participate in the well?

A. Yes.

Q. I notice that all of your communications have been with Mr. and Mrs. Gilbreath and not with Caprock Energy Company. Can you explain that? Is there any reason for that?

A. Well, it's because Mr. and Mrs. Gilbreath are the principals of Caprock Energy Company, and our last correspondence actually was directed to Caprock, the May 27th letter.

Q. Have you had any verbal communications with Mr. and Mrs. Gilbreath regarding their participation in this well?

A. No, I have not.

Q. What is the current status of those negotiations?

A. There are none.

Q. Okay. I want you to refer to what you've marked as Exhibit Number 4 in Case Number 11,006 and identify that exhibit.

A. Okay, Exhibit Number 4 is the actual notice of this hearing. It was sent certified to both Caprock Energy Company and Henry and Walta Grace Young. The Youngs were the mineral owners with no pooling clause in their lease. And both parties received it. The Youngs received their notice on the 8th of June, and Caprock received their notice on June 6th, as evidenced --

Q. The letter --

A. -- by the certified cards.

Q. The letter is dated June 2nd. Was the letter mailed on June 2nd?

A. Yes, it was.

Q. Ms. Ritcher, in your opinion, have the notice requirements of Rule 1207 of the Rules and Regulations of the Oil Conservation Division been satisfied in this case?

A. Yes, they have.

Q. Now, let's turn to Exhibit Numbers 1 through 4 in Case Number 11,007, which is the Application for force-pooling that pertains to the Flora Vista Number 19-2 well in the south-half equivalent of Section 19.

Would you identify Exhibit Number 1, please, and describe the information depicted on that exhibit?

A. Okay, Exhibit Number 1 is a lease plat that shows leasehold, operating rights, owners and their interests.

It also shows the fee owners, the lessors' names, and I can go through just kind of the same --

Q. Please do.

A. -- the ownership, which would be: The southeast quarter, the leasehold operating rights are owned by Norman Gilbreath and Loretta E. Gilbreath, 100 percent. That's fee acreage within that 160-acre tract.

The southwest quarter, the leasehold operating rights are owned by San Juan Resources with 18.75 percent, David DiTirro with 31.25 percent, George Taoka with 28.125 percent, and James Martin with 21.875 percent. Those are all under fee leases, owned -- The fee owners are Apperson, Kaemph and Wright.

Q. Refer to what you've marked as Exhibit Number 2 and describe the information depicted on that exhibit.

A. Exhibit Number 2 is a list of the owners, their percentage ownership within the proration unit and the status of their participation for the well.

The first company, San Juan Resources, is 9.63750 percent of the proration unit. They have agreed to farm out to Maralex.

David DiTirro owns 16.0625 percent. They have agreed to farm out to Maralex.

George Taoka owns 14.45625 percent. They have agreed to farm out to Maralex.

James Martin owns 11.24375 percent. They have agreed to farm out to Maralex.

And Norman Gilbreath and Loretta E. Gilbreath own 48.60 percent, and we're seeking compulsory pooling of their interest.

Q. What is the basis for the tabulation on Exhibit 2?

A. This was prepared based on checks of both county and federal records. Well, actually in this case all county records, there's no federal acreage in the proration unit.

Q. And how current was that check?

A. This is approximately one month old.

Q. Will SG Interests also have an interest in the farmouts that you have obtained from San Juan Resources, David DiTirro, George Taoka and James Martin?

A. Yes, they will.

Q. So they will have a working interest in this particular well --

A. Yes.

Q. -- as will Maralex?

A. That's correct.

Q. Now, let me have you refer to what's been marked as Exhibit Number 3 in Case Number 11,007 and ask you to identify that exhibit.

A. Okay, Exhibit Number 3 is a grouping of correspondence that has been sent to the Gilbreaths, seeking their voluntary joinder in the drilling of this well.

The first item of correspondence is a letter dated March 1st of 1994. It is an offer to purchase. It also allows them to retain an override.

The next item of correspondence is dated March 18th. This offer was an increase in the purchase price and also allowed them to retain an override.

And the next item, dated March 18th of 1994, is the same offer, basically, as the prior offer, but we sent it directly to the Gilbreaths in hopes that once they received it they might evaluate it and maybe decide that they would like to do that. So that's again a purchase offer with a retained override.

And then the next item, dated April 6th, was a request for a farmout from the Gilbreaths, plus a cash consideration to the Gilbreaths.

The next item, which is dated May 18th, 1994, is a letter to the Gilbreaths from Mr. O'Hare, who's the president of Maralex, and it's a letter just really asking for a final attempt to negotiate something so that we could drill the well prior to going to the hearing.

And then the last item is dated May 27th, 1994, and in this letter we submitted an AFE and an operating agreement to the Gilbreaths, and we gave them the opportunity to participate in our well.

Q. Do you have any response from Mr. and Mrs. Gilbreath to any of your communications?

A. No, I haven't directly. Some of the earlier communications were rejected verbally to our broker.

Q. What is the current status of your negotiations with the Gilbreaths?

A. There are none.

Q. Now, you've indicated, both in Case Number 11,007 and Case Number 11,006, that an AFE for each the respective wells and an operating agreement applicable to each of the respective wells had been delivered to Mr. and Mrs. Gilbreath or Caprock Energy with the May 27th or May 28th letter to them, which again offered them the opportunity to participate in these wells.

Will the AFE and the operating agreements be the subject of testimony by Mr. O'Hare?

A. Yes, they will be.

Q. Now, let me have you turn to what you've marked as Exhibit Number 4, ask you to identify that exhibit.

A. Okay, Exhibit Number 4 is just the formal notice of this hearing. It was sent to Norman and Loretta Gilbreath. It was mailed on June 2nd. They received it on June 6th, as indicated by their certified card.

Q. The letter is dated June 2nd. Was it mailed to them on June 2nd?

A. Yes, it was.

Q. In your opinion, have the notice requirements set forth in Rule 1207 of the Rules and Regulations of the Oil Conservation Division been satisfied in this case?

A. Yes, they have.

Q. When do you plan to spud the Cecil Cast Number 1 Well, which is the well which is the subject matter of Case Number 11,006?

A. We hope to spud that well as soon as we can after the issuance of a force-pooling order. We have an urgency there because we have a lease which expires August 4th of this year, so we really need to get -- start drilling fairly quickly.

Q. And when do you plan to spud the Flora Vista Number 19-2 Well, which is the subject matter of Case Number 11,007?

A. That one will probably be spud right after the Cecil Cast well.

Q. Do you have any factors driving the spud date for that particular well?

A. We do. We've got some in farmout agreements with commitments to drill that take us to September 1st, so we need to get that one done by September 1st.

Q. And as a result of the drilling commitments and lease expiration deadlines that you have, do you ask for the issuance of an expedited order in these two cases?

A. Yes, we do.

Q. Ms. Ritcher, were Exhibit Numbers 1 through 4 in Case Numbers 11,006 and 11,007 either prepared by you or at your direction or under your supervision?

A. Yes, they were.

MR. ROBERTS: Mr. Examiner, I would move the admission of Exhibit Numbers 1 through 4 in each of the case numbers, 11,006 and 11,007.

EXAMINER STOGNER: Exhibits 1 through 4 in both cases will be admitted into evidence at this time.

MR. ROBERTS: I have no further questions at this time.

EXAMINER STOGNER: Thank you, Mr. Roberts.

(Off the record)

EXAMINER STOGNER: Mr. and Mrs. Gilbreath, do you have any questions of the witness at this time? Would you like to ask -- cross-examine this witness on anything?

MR. GILBREATH: I don't think so.

I would like to say this, that we do not oppose the drilling of a well in the south half of Section 19 if they honor the agreements -- existing agreements and overriding royalty interest on record as such, per se, which they should be required to do.

EXAMINER STOGNER: Okay. With that, I'm going to take that as a "no" as far as asking this witness any questions.

MR. GILBREATH: We do not object to them drilling in the south half.

In the north half where there is a question involved, if you don't mind, I can comment on that.

EXAMINER STOGNER: Well, that's sort of out of line at this particular point. You will have a chance to make a statement --

MR. GILBREATH: Okay.

EXAMINER STOGNER: -- after the witnesses have had their time up on the stand.

At this time I'm just asking if you have any questions --

MR. GILBREATH: Sure.

EXAMINER STOGNER: -- and if you don't, I'm going to dismiss her at this time and then let Mr. Roberts call his technical witness up, and then we'll hear his story. At the same time, you'll be able to cross-examine them.

And then, at the conclusion of the witnesses each party will have a chance to make a statement or even you will have a chance to present any testimony that you would like at that time.

So with that, do you have any questions of this witness?

EXAMINATION

BY MR. CARROLL:

Q. Yes, Ms. Ritcher, is it Maralex's intent to honor the overriding royalty interest of the Gilbreaths, that Mr. Gilbreath just brought up, in the south half?

A. In the south half? As opposed to force-pool? Probably. I don't -- I can't really -- I mean, those offers were made at one time, but never accepted.

MR. ROBERTS: Mr. Examiner, I'm not sure I understand -- I understand the question, I think, but I'm not sure I understand that the response is responsive to the question.

May I ask a question of the witness?

EXAMINER STOGNER: Yeah.

MR. CARROLL: Please help clarify, yes.

MR. ROBERTS: Ms. Ritcher, were you interpreting that question to mean whether your offer to purchase the Gilbreath interest in the south half which had a corresponding overriding royalty interest to them -- was that what you were responding to?

Or were you responding to whether you intend to honor outstanding burdens on production in the south half?

THE WITNESS: Oh, the first. Yeah, I thought you were asking if we were going to honor some of our prior offers to him, that we went through --

MR. CARROLL: You will stand by your offer?

THE WITNESS: -- in Exhibit 3.

MR. ROBERTS: Is that what you were asking?

MR. CARROLL: Yes.

MR. ROBERTS: Okay. Well, I misunderstood the question.

THE WITNESS: Yeah, I think he was asking if we would stand by our offer as to the south half.

MR. ROBERTS: Is that the question that the Gilbreaths were asking?

MR. GILBREATH: No.

MR. ROBERTS: Okay, that's what I --

MR. CARROLL: All right.

THE WITNESS: Then I don't know.

MR. GILBREATH: Thank you, Tommy.

MR. ROBERTS: My understanding was that the Gilbreaths were asking whether Maralex intended to recognize burdens on production which are a matter of record, applicable to the south half.

Q. (By Mr. Carroll) And Maralex intends to honor any burdens on record regarding the south half?

A. If they're on record and if they appear in our title review, yes.

Q. Regarding the Blancett interest in the north half, you testified that you received a title opinion from an attorney, but the lease expired due to nonpayment of shut-in royalties?

A. Correct.

Q. When did that expire?

A. Oh, goodness, it was probably late 1991.

Q. And it is my understanding that the Gilbreaths are taking the position that that lease has not expired?

A. That is correct.

Q. And Maralex executed new leases from the Blancetts --

A. Right.

Q. -- regarding that same interest?

A. Correct.

Q. Do you know whether Caprock Energy is a corporation, or is it a d/b/a used by the Gilbreaths?

A. I don't know for sure. I think Tommy may have checked.

Q. Jim Sullins, that's the broker you used --

A. Uh-huh.

Q. -- up in Farmington?

You mentioned an SG Interests?

A. Uh-huh.

Q. What exactly is that company?

A. They're an oil and gas exploration company. We contract-operate wells for SG in the San Juan Basin.

Q. Does Maralex own part of SG Interests?

A. No.

Q. It's a contract operator for Maralex, or Maralex is the operator under contract for SG Interests?

A. Maralex is the operator under contract for SG Interests.

Q. And does SG Interests own any interest in Section 19?

A. Yes, they do, through the interest that's shown on the exhibits, the 1 and 2. It's shown as Maralex, but a portion of that interest is owned by SG Interests as well.

MR. CARROLL: I have no further questions.

EXAMINER STOGNER: Any other questions of this witness?

MR. ROBERTS: No, sir.

EXAMINER STOGNER: We may want to recall her at a later time.

But with that, you may be excused.

Mr. Roberts?

MR. ROBERTS: Call A.M. O'Hare.

A.M. O'HARE,

the witness herein, after having been first duly sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. ROBERTS:

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

A. My full name is Alexis Michael O'Hare. I reside in Ignacio, Colorado.

Q. And what is your occupation?

A. I'm the president of Maralex Resources, Inc.

Q. How long have you been associated with Maralex Resources?

A. We founded the company in December of 1989.

Q. Have you been president of the organization since its inception?

A. Yes, I have.

Q. Briefly describe what your responsibilities are as president of Maralex Resources.

A. I oversee all of the land, legal, engineering, production and operations functions of the company.

Q. Have you testified before the New Mexico Oil Conservation Division on any prior occasion?

A. Yes, I have.

Q. In what capacity?

A. As a Registered Professional Engineer in the State of Colorado.

Q. And were your qualifications as an expert petroleum engineer then made a matter of record and accepted by the Division?

A. Yes, they were.

Q. Are you familiar with the subject matter of Case Numbers 11,006 and 11,007?

A. Yes, I am.

Q. Have you prepared certain exhibits to be submitted in conjunction with your testimony?

A. Yes, I have.

MR. ROBERTS: Mr. Examiner, I would tender Mr. O'Hare as an expert petroleum engineer.

EXAMINER STOGNER: Mr. O'Hare is so qualified.

Q. (By Mr. Roberts) Mr. O'Hare, before we begin an examination of the exhibits which you have prepared, I'd like for you to elaborate a bit on the relationship of Maralex Resources, Inc., with SG Interests.

A. SG Interests I, Limited, is a Texas limited partnership. Maralex has been involved with the partnership since its formation through the operation of properties in the San Juan Basin for the partnership.

We've also supplied engineering and supervision consulting service to the partnership, and we have partnered with the partnership on a number of occasions to drill and complete coal-bed methane wells in the San Juan Basin.

Q. Okay. I'd like for you to refer to what you have marked as Exhibit Number 5 in Case Number 11,006 and identify that exhibit.

A. This is an AFE for the drilling and completion of the Cecil Cast Number 1 well.

Q. What are the total AFE costs?

A. The projected AFE cost for this well, total, is $275,230.

Q. What was the basis for the preparation of this Authority for Expenditure?

A. This was based primarily on the actual costs that we incurred in the drilling of the Brimhall Number 2 well, which is located one mile north of the Cecil Cast well.

Q. And so they're based on actual costs incurred in other operations?

A. That is correct.

Q. Was this Brimhall Number 1 Well a well which was drilled by Maralex and operated by Maralex?

A. Yes, it was.

Q. So you have direct knowledge of the actual costs incurred there?

A. Right.

Q. Would these estimated costs also be reasonable and in line with other actual costs incurred on other operations with which you're familiar, with regard to development of the Fruitland Coal formation?

A. Yes, they are.

Q. I'd like you to now refer to what you've marked as Exhibit Number 5 in Case Number 11,007 and ask you to identify that exhibit.

A. Exhibit Number 5 in Case Number 11,007 is an AFE for the Flora Vista 19-2 well.

Q. What are the total estimated costs for that well?

A. Total estimated cost for this well is $272,530.

Q. And is the basis for this Authority for Expenditure your experience with actual costs incurred on similar operations in the same area?

A. Yes, it is. Again, it is based on the actual costs incurred in the drilling and completion of the Brimhall Number 2 well, approximately one and a half miles north of this location.

Q. And in your opinion, are these costs reasonable and representative of what you have actually incurred in other operations in this area?

A. Yes, they are. The only major difference between the two AFEs that we're presenting is the location and construction cost of the roads and location.

Q. Refer to what you've marked as Exhibit Number 6 in Case Number 11,006 and identify that exhibit.

A. This is an operating agreement. It's a model form 1982 operating agreement, and it has been supplied to the working interest owners or potential working interest owners in the Cecil Cast Number 1 Well.

Q. And who do you propose operate the Cecil Cast Number 1 well?

A. We propose that Maralex Resources, Incorporated be contract operator for SG Interests I, Limited, for the Cecil Cast Number 1 Well.

Q. Is this a standard form operating agreement?

A. Yes, it is.

Q. Commonly in use in the area?

A. Yes.

Q. Are there any unusual provisions contained in this form of operating agreement?

A. No, there are not.

Q. And have there been any additional provisions added that would be unusual in nature?

A. No.

Q. Let me have you refer to what's been marked as Exhibit Number 6 in Case Number 11,007, ask you to identify that exhibit.

A. This is the same model form 1982 operating agreement as it applies to the Flora Vista 19-2 Well and its drill-site spacing unit.

Q. Who do you propose operate the Flora Vista 19-2 well?

A. Again, we propose that Maralex Resources, Incorporated, be the contract operator of the well for SG Interests I, Limited, as the operator.

Q. And again, this is a standard form operating agreement, commonly in use in the area?

A. That is correct.

Q. Any unusual provisions added to this particular form of operating agreement?

A. No.

Q. Mr. O'Hare, would you describe the extent of the operations of SG Interests and Maralex, with respect to Fruitland Coal development?

A. SG Interests currently operates about 165 wells in the New Mexico portion of the San Juan Basin. Maralex operates all of those wells on a contract basis for SG Interests.

In addition, Maralex operates another 35 wells for its own account in the San Juan Basin. All of them are Fruitland Coal wells, all of them are very similar in means of operations as what we propose for the two wells that are the subject of this hearing.

Q. Now, Mr. O'Hare, you've testified that Maralex is the agent for SG Interests, which is a limited partnership, a Texas limited partnership. Do you have the authority as the agent for SG to appear here today?

A. Yes, I do.

Q. And you're also appearing here on behalf of Maralex Resources --

A. Correct.

Q. -- is that correct?

Do you propose supervisory charges for the production and drilling stages on each of these wells?

A. Yes, we propose that the drilling and supervisory charges for each well be allocated at $3500 a month for the drilling and completion phase of the wells and $350 per month for the producing phase of each well.

Q. Are these rates reasonable, in your opinion, for this area and for this type of well?

A. Yes, we pride ourselves on having lower overhead than most operators in the Basin, and we feel very strongly that these rates are considered the low end of the spectrum for operations in the San Juan Basin.

Q. Now, in conjunction with this particular testimony that you're providing regarding supervisory rates, I'd like for you to refer to what you've marked as Exhibit Number 7. This is an exhibit which is common to

Case Numbers 11,006 and 11,007. Would you identify that exhibit, please?

A. Yes, this is the Ernst & Young survey of fixed-rate overheads for 1993.

Q. And why have you provided this as an exhibit?

A. Ernst & Young annually provide a survey of operating costs and overhead rates charged by region of the country and give a mean and median, and we're using this survey to emphasize the point that we feel our overhead costs are in fact lower than most operators in this region of the country.

Q. And in fact, do the rates you propose in each of these cases for each of these wells fall below those median and mean rates --

A. Very significantly.

Q. -- indicated here in the Ernst & Young Fixed Rate Survey?

A. Yes, they do.

Q. Do you propose a risk charge to be assessed against non-joining parties in each of these cases?

A. Yes, we're asking that a standard risk charge of 156 percent be assigned for each case.

Q. And what is the basis for that proposal?

A. That's based on previous wells drilled and risk assessments made in the San Juan Basin of Fruitland Coal and methane wells.

Q. And is it your understanding that the 156-percent risk-assessment value is a value that was established by hearing and testimony before the Oil Conservation Division or Commission?

A. Yes, it is.

Q. And it would be your understanding that that represents a standard risk that would be assumed in the drilling of a Fruitland Coal well in the San Juan Basin?

A. Yes.

Q. And is it your opinion that each of these wells represent standard, ordinary risks --

A. Yes.

Q. -- commensurate with a 156-percent factor?

A. Right.

Q. Mr. O'Hare, will the -- In your opinion, will the granting of this Application be in the interests of conservation and result in the protection of correlative rights and the prevention of waste?

A. Yes.

Q. Were Exhibit Numbers 5, 6 and 7 in Case Numbers 11,006 and 11,007 either prepared by you or at your direction and under your supervision?

A. Yes, they were.

MR. ROBERTS: Mr. Examiner, I would move the admission of Exhibit Numbers 5, 6 and 7 in each of these cases.

EXAMINER STOGNER: Exhibits 5, 6 and 7 in both cases will be admitted into evidence at this time.

MR. ROBERTS: I have no other questions.

EXAMINER STOGNER: Thank you, Mr. Roberts.

Mr. and Mrs. Gilbreath, there again I will allow you to cross-examine this witness if you have any questions of him or anything he's testified to.

MR. GILBREATH: Yes, I'd like to ask a couple questions.

EXAMINER STOGNER: Okay. Could you be a little louder --

MR. GILBREATH: Yes.

EXAMINER STOGNER: -- since this is going to be on the record?

CROSS-EXAMINATION

BY MR. GILBREATH:

Q. On February the 25th of 1991, we received a letter from Mr. O'Hare, and we also met with the Examiner, and -- Mr. Stogner here -- and I believe that was the day of the meeting.

Do you remember that, Mickey?

A. The force-pooling hearing?

Q. Yes.

A. Yes.

Q. Compulsory-pooling.

A. Uh-huh.

Q. We signed a farmout with Maralex at that time to drill the Cecil Cast Number 1. That was in 1991, February 25.

But he still wants us -- He wants us to sign another farmout or sell the lease to him, but he didn't drill than, and that cost my family and I the tax credits that we would receive, as well as Maralex.

EXAMINER STOGNER: Are you asking Mr. O'Hare a question?

Q. (By Mr. Gilbreath) It's kind of a statement too, but yes, I want to know why he didn't drill and why he wants to drill now, it's so important.

A. It was shortly after that date that we discovered that the leases that were subject to the farmout were no longer valid, and we attempted to secure new leases at that time, and indeed did secure new leases.

We had offered you an interest in those leases under our farmout, under the same terms. You rejected that offer.

We were informed by a New Mexico attorney at that point that there was a cloud on title, and we've been working for the last three years to clear the cloud on the title for this particular well, and that is the Cecil Cast Number 1.

Q. Concerning the Blancett portion in the north half of 19, Mr. O'Hare wrote his attorneys in Roswell stating that in 1990 that well did not produce, not one MCF of gas, and at that time that well did produce ten months out of that year.

So he did get a false -- He did get an attorney's opinion, which he gave to Tommy Roberts, stating that that lease was no longer valid, but he falsified the information that was sent to the attorneys in Roswell.

MR. CARROLL: Are you asking a question, Mr. Gilbreath?

Q. (By Mr. Gilbreath) I'm asking a question. I'm asking if he falsified the information that he sent to his attorney.

A. No, I did not falsify any information. The failure of the title occurred due to a lack of timely payment of royalties to the lessor, not lack of production.

Q. In this letter here, dated February 21, that's from you, you stated that you wanted to compulsory pool the Section 24 that you're talking about right now. That was a year after.

A. We're talking about Section 19 in this hearing --

Q. I'm not putting you on trial; we're trying to establish a level here that we can deal with --

MR. CARROLL: Mr. Gilbreath, what letter are you referring to and what year was that written?

MR. GILBREATH: Yes, this was written February 25th, 1991.

MR. CARROLL: And what was the question again?

Q. (By Mr. Gilbreath) The information -- He stated that the reason he didn't go ahead and drill -- the reason he told me originally was that he had an unorthodox location, he had to move it over or slant drill, and he wanted to -- We even signed an extension.

Did we sign an extension with you, Mickey?

A. You did sign an extension, yes.

Q. Yes, sir, and that's...

A. I'm sorry, I missed the question.

Q. You what?

A. I missed your question.

Q. I'm still trying to establish a fact that -- Did you send some false information to the attorney?

A. No, I did not send any false information to the attorney.

Q. Do you agree that the well did produce in 1990, then?

A. Which well are we talking about?

Q. In 24, like your letter states. In 24.

A. Section 24 is not the topic of this hearing.

Q. It does involve 24 because the 38 acres is in that lease, Mr. O'Hare.

A. This hearing is in regard to Section 19.

Q. Yes, that's true. Yes, I understand.

MRS. GILBREATH: May I ask --

MR. CARROLL: Mrs. Gilbreath, do you have --

MRS. GILBREATH: The letters that they're presenting to us as evidence, they're always offering to buy Section 19 plus 24. If you'll notice, they're always including that Section 24. Everything is always unitized in there, plus they always want to put Pictured Cliffs formation always, clear through every equipment, everything we've got, and we cannot sign something like that. Can we, Mickey?

THE WITNESS: I don't know. Can you?

MR. GILBREATH: Well, we haven't so far.

MR. ROBERTS: Mr. Examiner, just maybe a point of clarification. This dispute over the validity of leases does apply to lands in both Section 19 and Section 24.

Of course, Section 24 is not the subject matter of this hearing today, but I think that's the point that the Gilbreaths are attempting to make, is that there are lands in different sections covered by the lease which they maintain their interests fall under, and -- Only for a point of clarification.

(Off the record)

EXAMINER STOGNER: Are there any other questions, Mr. and Mrs. Gilbreath, of Mr. O'Hare?

MR. GILBREATH: No.

EXAMINER STOGNER: Okay. Mr. Carroll?

EXAMINATION

BY MR. CARROLL:

Q. Yeah, I have a few questions regarding SG Interests.

What is the split in interest between Maralex and SG Interests regarding these properties?

A. The Flora Vista well, SG Interests alone, 25 percent; and Maralex alone, 12 1/2 percent.

Q. That's on the Flora Vista?

A. Right. The interests in the Cecil Cast well have yet to be determined.

Q. SG Interests is a Texas limited partnership?

A. Right.

Q. When was that formed?

A. I believe it was 1989 -- or -- no, I'm sorry, 19- -- I think that was 1991.

Q. Who's the general partner in SG Interests?

A. Gordy Gas Corporation.

Q. What was that?

A. Gordy Gas --

Q. Gordy?

A. Right.

Q. Will you spell that, please?

A. G-o-r-d-y.

Q. Is that a corporation?

A. Yes, it is.

Q. New Mexico corporation?

A. Texas.

Q. How many limited partners are in that partnership? Any idea?

A. No, I don't know.

Q. Now, you agree with Ms. Ritcher that the only interests seeking to be compulsory pooled in these two cases is the Fruitland --

A. That is correct.

Q. -- Coal formation?

A. Yes.

Q. But Pictured Cliffs is not --

A. It is not part of this hearing.

EXAMINER STOGNER: Okay, I have no other questions of Mr. O'Hare.

Do you have any other questions, Mr. Roberts, of Mr. O'Hare?

MR. ROBERTS: Just another point of

clarification.

FURTHER EXAMINATION

BY MR. ROBERTS:

Q. Mr. Gilbreath referred to a prior force-pool hearing, and I believe he was referring to a prior force-pool hearing applicable to the north-half equivalent of Section 19?

A. That is correct.

Q. When did that hearing take place?

A. It was in February of 1991.

Q. Okay. And was an order issued as a result of that hearing?

A. Yes, there was an order issued.

I'd like to check my statement. I don't recall if it was February, but it was early 1991.

MR. ROBERTS: Mr. Examiner, I would ask that you take administrative notice of Case Number 10,275. I do have that case number, and I believe that is the case which dealt with the force-pool application for the north half of Section 19. My recollection was that that hearing occurred in March of 1991, but I don't have that information specifically.

EXAMINER STOGNER: I'll take administrative notice of Case 10,275.

Q. (By Mr. Roberts) Mr. O'Hare, was an order issued as a result of the hearing on that case?

A. Yes, there was.

Q. And what was the order?

A. The order was for force-pooling of all lands under the north half of Section 19, granting Maralex as operator, also granting 156-percent risk penalty, risk assessment, and overhead and drilling rates to be charged.

Q. And I take it that Maralex didn't proceed under the terms of that particular order?

A. That is correct.

Q. And why was that?

A. It was because of problems with title.

Q. Okay. And so the time expired under the order for the drilling of the well?

A. Yes. We actually asked for two extensions of the order, and they were granted, but we still could not get the title problems resolved prior to the expiration of the second extension.

MR. ROBERTS: Mr. Examiner, May I have just a second to discuss something with Ms. Ritcher?

EXAMINER STOGNER: Okay.

(Off the record)

MR. ROBERTS: Mr. Examiner --

EXAMINER STOGNER: Yes.

MR. ROBERTS: -- if I may, I'd like to ask a couple more questions.

I think we'll offer some explanation for the ownership in the Flora Vista Number 19-2 well. Mr. Carroll had asked some questions about it, I think, with respect to SG and Maralex's interests.

EXAMINER STOGNER: Are these questions for Mr. O'Hare?

MR. ROBERTS: And they're questions for Mr. O'Hare.

Q. (By Mr. Roberts) Mr. O'Hare -- Maybe we'll have to get Ms. Ritcher up, but I think he's able to answer these questions. If not, we'll do that.

You indicated that the ownership of SG Interests in this particular well, the Flora Vista 19 Number 2 Well, would be 25 percent, and Maralex would be 12.5 percent, I believe?

A. Yes, I did indicate that, but that is incorrect. I think in actuality, SG Interests will own 62.5 percent of the well, Robert L. Bayless will own 25 percent, and Maralex will own 12.5 percent.

Q. And how does Robert L. Bayless come into the ownership picture?

A. Robert L. Bayless is who received the farmout from San Juan Resources, DiTirro and the other interest owners in the southwest quarter of Section 19.

He in turn farmed out his interests to SG Interests and Maralex.

MR. ROBERTS: Okay. Mr. Examiner, does that offer some clarification for you and Mr. Carroll on that particular ownership?

MR. CARROLL: (Nods)

MR. ROBERTS: Okay.

FURTHER EXAMINATION

BY MR. CARROLL:

Q. I have a question regarding the order issued in Case Number 10,275. Was that order limited to the Fruitland formation?

A. Yes, it was.

EXAMINATION

BY EXAMINER STOGNER:

Q. Do you know if that -- Do you recall if that also included an unorthodox location approval?

A. I don't believe so.

Q. So compulsory pooling was the only issue in that particular matter?

A. That's my recollection.

MR. ROBERTS: My recollection also -- I was not involved in those cases, but I did a little bit of research.

I think there were three cases brought by Maralex at that same time dealing with compulsory pooling applications for lands in the same area, and they were all consolidated into that single hearing. And so there -- I guess there's some possibility for confusion as a result of the consolidation of the three cases.

Q. (By Examiner Stogner) Mr. O'Hare, do you remember if the applicant in that matter was SG Interests or Maralex?

A. That was Maralex.

Q. There has been some SG Interests applications filed by name before, if I remember right.

A. Yes, there have.

Q. But not in this particular case?

A. Correct.

EXAMINER STOGNER: Okay. Any other questions of Mr. O'Hare at this time?

We're going to take a ten- to fifteen-minute recess. When we come back, Mr. and Mrs. Gilbreath, I will allow -- And for the sake of time and less confusion, if you'll choose amongst yourselves, I'd like to have one come up and be sworn as a witness, because it sounds like to me there might be some statements made, that you really need to be sworn as a witness, one of you

So talk amongst yourselves, which one that will be, and we'll be back in ten or fifteen minutes to hear your side.

With that, let's take a recess.

(Thereupon, a recess was taken at 9:33 a.m.)

(The following proceedings had at 9:52 a.m.)

EXAMINER STOGNER: Hearing will come to order.

At this time I'll ask one of the parties with Caprock to approach the bench.

Mr. Gilbreath, would you please take a seat?

I'm going to ask you to remain standing and be sworn at this point.

NORMAN L. GILBREATH,

the witness herein, after having been first duly sworn upon his oath, was examined and testified as follows:

MR. CARROLL: Okay, Mr. Gilbreath, I believe you expressed an intent to make a statement after the presentation of Maralex's case, and we will let you make that statement, and then we may have some questions following that statement.

MR. GILBREATH: Yes. Part of that statement has been made, but I will brief the hearing.

The compulsory pooling in February of 1991, February 25, included Section 24, all of section. I realize today we're only dealing with Section 19, all of Section 19.

But at that time we did agree to a farmout with

Mr. O'Hare and Maralex, and they did make the statement that they would drill on that acreage, this Cecil Cast Number 1, that's the top half.

They never drilled, so thereby we lost our tax credit that the government was offering at that time. It expired in 1992 at the end of the year.

We did sign a farmout. We signed an extension or two, and the statement that -- the reason for not drilling that was given to us was that Mr. O'Hare could not receive the proper well location at that time. He was having to drill on Federal land or something to that nature.

He says that the leases were beginning to expire, and he's right.

And when he did not drill the well, then he went behind our back, told some of the mineral interest owners that he couldn't work with us, that we were too hard-headed, he didn't want to deal with us.

So he cut us out, he leased some of the leases that did ex- -- And he's right, they did expire. They expired after -- after, though, that farmout was signed and he was to have drilled the Cecil Cast Number 1.

MR. CARROLL: Is that your statement?

MR. GILBREATH: Yes.

MR. CARROLL: Mr. Roberts, do you have any questions?

MR. ROBERTS: No, sir.

EXAMINATION

BY MR. CARROLL:

Q. Mr. Gilbreath, you realize that these two cases are limited to the Fruitland -- Basin-Fruitland Coal Gas --

A. Yes, I do now, yes, sir.

Q. And you understand if there's an order issued, compulsory-pooling the interests, that you'll be given the option of going consent or nonconsent as to your interest?

A. No, I thought when you issued the final decision on a compulsory pooling that he could go ahead and drill.

Q. He can go ahead and drill, but you have the option of participating in the drilling --

A. Okay.

Q. -- and not being assessed risk penalty, or going nonconsent and then being assessed a risk penalty.

A. Yes.

Q. Do you understand that?

A. Yes, yes, I understand that.

Q. What is Caprock Energy? Is that a corporation?

A. Yes, it is, Sub S.

Q. And you and your wife are the owners?

A. No, it's a family matter. I have two brothers and one sister.

EXAMINER STOGNER: Mr. Gilbreath, do you have anything further that you would like to add?

MR. GILBREATH: No.

EXAMINER STOGNER: Okay. I have no other questions.

If there's no other questions of Mr. Gilbreath, he may be excused.

MR. CARROLL: Thank you.

EXAMINER STOGNER: Mr. Gilbreath, before you take off today, if you would provide the court reporter a copy of your address --

MR. GILBREATH: Yes, sir.

EXAMINER STOGNER: -- and also I assume the address of Caprock Energy Company, P.O. Box 208, in Aztec, is your current address.

If there's nothing further in either Case 11,006 or 11,007, then these matters will be taken under advisement at this time.

(Thereupon, these proceedings were concluded at 9:59 a.m.)

* * *

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case Nos. 11006 and 11007 heard by me on 23 June 1994.

Examiner
Oil Conservation Division

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL June 25, 1994.

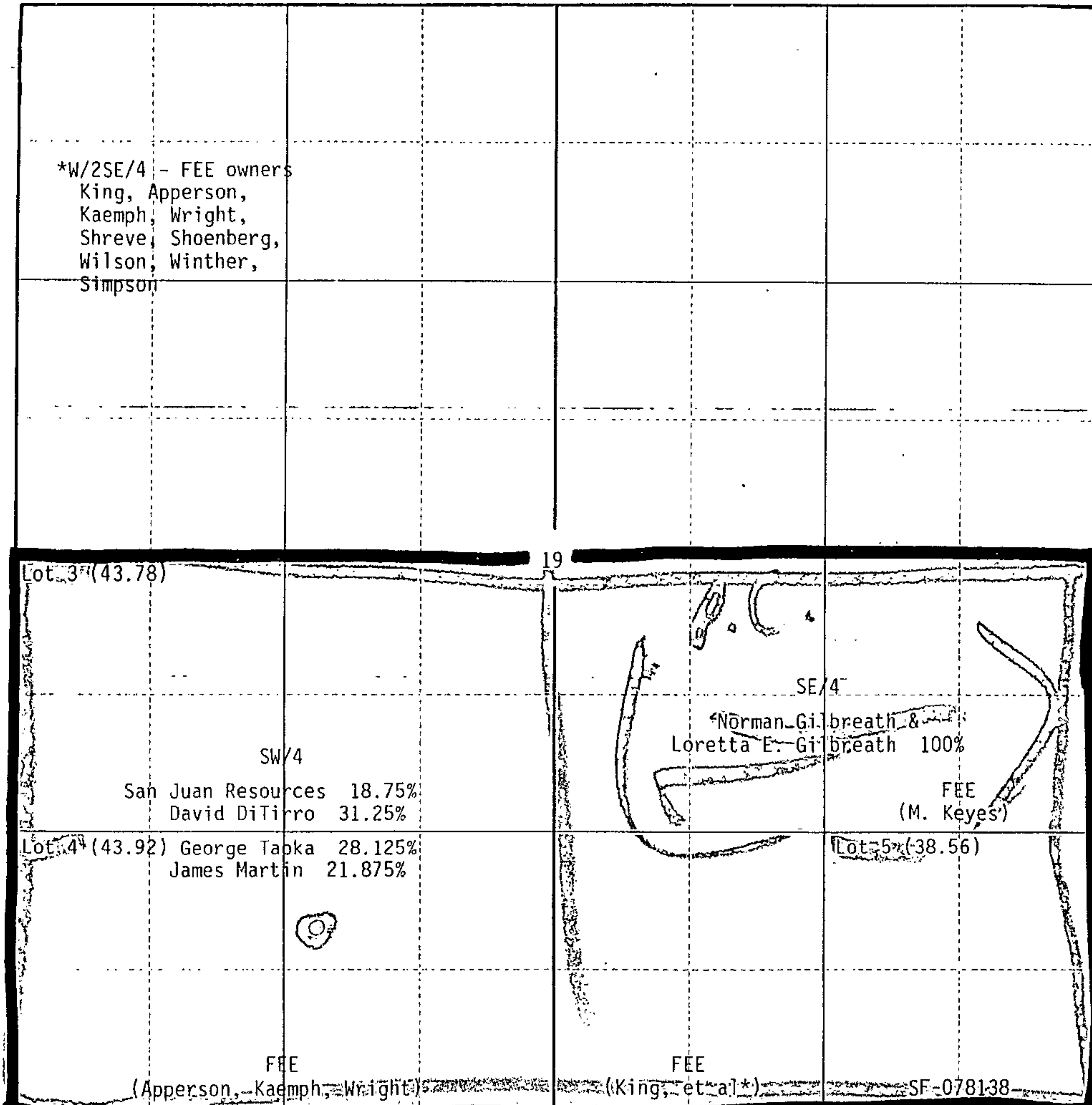
STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1994

FLORA VISTA #19-2 not yet spudded

Township 30N, Range 11W, County San Juan, State New Mexico

S/2 Section 19 (326.26 acres)



FORM 45-8

Application of Maralex Resources, Inc.
for Compulsory Pooling
Case #11007, June 23, 1994
Exhibit 1

Flora Vista #19-2

List of Owners
Status of Participation

	% of Unit	Status
San Juan Resources Suite 400 1801 Broadway Denver, CO 80202	9.63750%	Farmout to Maralex
David DiTirro 531 McKinley Ave. Ft. Lupton, CO 80621	16.06250%	Farmout to Maralex
George Taoka #49 3127 Weld County Road Hudson, CO 80642	14.45625%	Farmout to Maralex
James Martin RR 1, Box 32 Council Grove, KS 66846-9759	11.24375%	Farmout to Maralex
Norman Gilbreath and Loretta E. Gilbreath P.O. Box 208 Aztec, NM 87410	48.60000%	Seek Compulsory Pooling
	100.00000%	

51.4
48.6

Application of Maralex Resources, Inc.
for Compulsory Pooling
Case #11007 June 23, 1994
Exhibit 2

P 159 436 899

Receipt for Certified Mail

No Insurance Coverage Provided

Norman and Loretta Gilbreath
P.O. Box 208
Aztec, NM 87410

Postage	$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt Showing to Whom & Date Delivered	
Return Receipt Showing to Whom, Date, and Addressee's Address	
TOTAL Postage & Fees	$
Postmark or Date	

PS Form **3800**, June 1991

Application of Maralex Resources, Inc.
for Compulsory Pooling
Case #11007 June 23, 1994
Exhibit 4

Is your RETURN ADDRESS completed on the reverse side?

SENDER:
- Complete items 1 and/or 2 for additional services.
- Complete items 3, and 4a & b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece below the article number.
- The Return Receipt will show to whom the article was delivered and the date delivered.

I also wish to receive the following services (for an extra fee):

1. ☐ Addressee's Address
2. ☐ Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

Norman and Loretta Gilbreath
P.O. Box 208
Aztec, NM 87410

4a. Article Number
P159-436-899 5/2 19

4b. Service Type
☐ Registered ☐ Insured
☒ Certified ☐ COD
☐ Express Mail ☐ Return Receipt for Merchandise

7. Date of Delivery
6-6-94

5. Signature (Addressee)
Loretta Gilbreath

6. Signature (Agent)

8. Addressee's Address (Only if requested and fee is paid)

Thank you for using Return Receipt Service.

PS Form **3811**, December 1991 ☆ U.S.G.P.O.: 1992-307-530 **DOMESTIC RETURN RECEIPT**

MARALEX
Resources, Inc.

410 17th Street, Suite 220
Denver, Colorado 80202
(303) 571-4220
FAX (303) 571-4217

P.O. Box 338
Ignacio, Colorado 81137
(303) 563-4000

June 2, 1994

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

TO: All Working Interest Owners
Unleased Mineral Owners
Royalty Owners not
Subject to Pooling Clauses
(See Attached Exhibit "A")

RE: Compulsory Pooling
T30N-R11W
Sec. 19: Lots 3, 4,
5, E/2SW/4, W/2SE/4,
NE/4SE/4 (S/2)
San Juan Co.,
New Mexico

To Whom It May Concern:

You are hereby notified that on May 27, 1994, Maralex Resources, Inc. filed an application with the State of New Mexico Energy, Minerals and Natural Resources Department, Oil Conservation Division for an order authorizing the compulsory pooling under Section 70-2-17 NMSA 1978, as amended, of uncommitted owners of interests in the captioned spacing unit. Our records indicate that you own an uncommitted interest in the captioned spacing unit.

Maralex proposes to locate a new well in the SW/4 of Section 19, Township 30 North, Range 11 West. This well will be drilled to a depth sufficient to test the Basin Fruitland Coal Formation and the pooling shall cover from the surface to the base of the Basin Fruitland Coal Formation.

You are further notified that the matter will be heard by the State of New Mexico Energy, Minerals and Natural Resources Department, Oil Conservation Division, 310 Old Santa Fe Trail, Santa Fe, New Mexico 87503 on Thursday, the 23rd of June, 1994, at 8:15 a.m. Failure to appear at that time will preclude you from contesting at a later date.

Sincerely,

MARALEX RESOURCES, INC.

Jennifer A. Ritcher

Jennifer A. Ritcher, CPL
Land Manager

cc: See Attached Exhibit "A"

EXHIBIT "A"

Attached to and made a part of that certain Letter dated June 2, 1994, from Maralex Resources, Inc.

Norman and Loretta E. Gilbreath
P.O. Box 208
Aztec, NM 87410

AUTHORITY FOR EXPENDITURE (AFE)

WELL NO. 19-2	WELL NAME: Flora Vista		DATE: May. 26, 1994
FIELD: Basin Fruitland	COUNTY: San Juan		STATE: New Mexico
LOCATION: SW Qtr. S19-T30N,R11W			PROP. TD: 2100'
Purpose of Exp.: Drill Complete, & Equip Coal Well		FORMATION:	Fruitland Coals

AFE CODE	INTANGIBLE EXPENSE	DRILLING COST	COMPLETION COST	TOTAL COST
220/101	Staking and Permitting	3,000		3,000
220/102	Location, Roads, Pits, & Damages	10,500	2,500	13,000
220/103	Mobilization / Demobilization			
220/104	Contract Drilling - Daywork. 12 Hr. 150 $/Hr.	1,800		1,800
220/105	Contract Drilling - Footage 2100Ft. 11.5$/Ft.	24,150		24,150
220/001	Contract Drilling - Turnkey			
220/301	Completion Rig		9,500	9,500
840/110	Workover Rig			
220/106	Fuel, Power & Lubricants			
220/107	Bits, Reamers & Stabilizers			
220/108	Drllng & Completion Fluids	1,000	2,800	3,800
220/302	Casing Crews, Tongs, Handling Tools		1,200	1,200
220/109	Misc. Labor, Contract Services	1,000	2,200	3,200
220/110	Cement, Cmt Services, Mech Aids & Devices	2,500	6,800	9,300
220/111	Conventional Coring & Coring Services			
220/303	Water & Hauling	1,200	3,600	4,800
220/112	Mud Logging			
220/113	Logging-Open Hole-SWC's & Dipmeter	6,800		6,800
220/304	Cased Hole Logs, Perf. & Other Wireline Serv.		3,800	3,800
220/305	Inspection & Testing	500	800	1,300
220/307	Acidization, Fracturing & Stimulating		50,000	50,000
220/114	Rental Tools & Equipments	1,000	2,200	3,200
220/115	Directional Drilling Services			
220/117	Communications	25	50	75
220/120	Overhead per Operating Agreement	1,000	3,000	4,000
220/119	Supervision	1,600	3,200	4,800
220/121	Contingencies (10%) & Misc.	5,610	9,170	14,780
	TOTAL INTANGIBLE EXPENSE	61,685	100,820	162,505

AFE CODE	TANGIBLE EXPENSE	DRILLING COST	COMPLETION COST	TOTAL COST
230/101	Conductor Casing Ft. In. $/Ft.			
230/102	Surface Casingt. 250Ft. 8-5/8 In. 8.60 $/Ft.	2,150		2,150
230/103	Intermendiate Casin Ft. In. $/Ft.			
230/104	Drilling Liner. Ft. In. $/Ft.			
230/301	Production Liner Ft. In. $/Ft.			
230/302	Production Casing 2100Ft. 5-1/2 In. 5.15 $/Ft.		10,815	10,815
230/303	Tubing 2050Ft. 2-3/8 In. 2.20 $/Ft.		4,510	4,510
230/304	Wellhead Equip., Tree	900	1,800	2,700
230/305	Artificial Lift Eq. Pumping Unit		14,000	14,000
230/306	Separator, Heater, Dehydrator		8,500	8,500
230/307	Meters & Flowlines		13,800	13,800
230/308	Tank Battery & Storage		4,800	4,800
230/309	Subsurface Production Equipment		3,750	3,750
230/310	Misc. Well Equipment		2,600	2,600
230/311	Installation-Production Facilities		4,900	4,900
230/312	Compressor		37,500	37,500
	TOTAL TANGIBLE EXPENSE	3,050	106,975	110,025
	TOTAL WELL COST	64,735	207,795	272,530

OPERATOR APPROVAL

DATE: ____________

Maralex Resources, Inc.

BY: A. M. O'Hare

A. M. O'Hare, P.E.
President

JOINT INT.APPROVAL

COMPANY: ____________

DATE. ____________

APPROVED BY:

WRK INT.: ____________

TITLE:

Application of Maralex Resources, Inc.
for Compulsory Pooling
Case #11007. June 23, 1994
Exhibit 5

FORM 610 - 1982

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

May 27, 19 94.

OPERATOR Maralex Resources, Inc.

CONTRACT AREA Township 30 North, Range 11 West, NMPM

Section 19: Lots 3, 4, 5, E/2SW/4, W/2SE/4,

NE/4SE/4 (S/2)

COUNTY ~~OR PARISH~~ OF San Juan STATE OF New Mexico

Application of Maralex Resources, Inc.
for Compulsory Pooling
Case #11007 - June 23, 1994
Exhibit 6

TABLE OF CONTENTS

OPERATING AGREEMENT

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

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

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

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

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

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

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

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

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

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

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

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

ARTICLE II.
EXHIBITS

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

X A. Exhibit "A", shall include the following information:

(1) Identification of lands subject to this agreement,

(2) Restrictions, if any, as to depths, formations, or substances,

(3) Percentages or fractional interests of parties to this agreement,

(4) Oil and gas leases and/or oil and gas interests subject to this agreement,

(5) Addresses of parties for notice purposes.

XXXXXXXXXXXXXXXXXXXXXXXXXX

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.

XXXXXXXXXXXXXXXXXXXXXXXXXX

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

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B. Interests of Parties in Costs and Production:

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

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

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

C. Excess Royalties, Overriding Royalties and Other Payments:

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

D. Subsequently Created Interests:

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

1. If the burdened party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of said subsequently created interest and the burdened party shall indemnify and save said other party, or parties, harmless from any and all claims and demands for payment asserted by owners of the subsequently created interest; and,

2. If the burdened party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B. shall be enforceable against the subsequently created interest in the same manner as they are enforceable against the working interest of the burdened party.

ARTICLE IV.
TITLES

A. Title Examination:

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

☐ Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including preliminary, 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.

ARTICLE IV
continued

☒ 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 the ~~all Drilling~~ Parties shown ~~xxxxxxxxxx~~ in Exhibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with leases or oil and gas interests contributed by such party. Operator shall be responsible for the preparation and recording of pooling designations or declarations 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", the party contributing the affected lease or interest shall have ninety (90) days from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisition will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining oil and gas leases and interests; and,

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

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

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

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

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

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

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

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

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

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

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

ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

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

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

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

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

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

~~**A. Initial Well:**~~

~~On or before the _______ day of ______________, 19___, Operator shall commence the drilling of~~ a well for oil and gas at the following location:

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

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

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

ARTICLE VI
continued

~~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, the provisions of Article VI.E.1. shall thereafter apply~~.

B. Subsequent Operations:

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

If all parties elect to particiapte in such a proposed operation, Operator shall, within ninety (90) days after expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be), actually commence the proposed operation and complete it with due diligence at the risk and expense of all parties hereto; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties, for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary to obtain permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title examination or curative matter required for title approval or acceptance. Notwithstanding the force majeure provisions of Article XI, if the actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein) and if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accordance with the provisions hereof as if no prior proposal had been made.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VII.D.1. (Option No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of the total interest of the parties approving such operation and its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A" or (b) carry its proportionate part of Non-Consenting Parties' interests, and failure to advise the proposing party shall be deemed an election under (a). In the event a drilling rig is on location, the time permitted for such a response shall not exceed a total of forty-eight (48) hours (inclusive of Saturday, Sunday and legal holidays). The proposing party, at its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk,

ARTICLE VI
continued

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

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

(b) 300 % of that portion of the costs and expenses of drilling/ ~~reworking, deepening~~ recompleting, plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and 300 % of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

An election not to participate in the drilling/ recompletion or the deepening of a well shall be deemed an election not to participate in any reworking or plugging back operation proposed in such a well, or portion thereof, to which the initial Non-Consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment account. Any such reworking or plugging back operation conducted during the recoupment period shall be deemed part of the cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties one hundred percent (100%) of that portion of the costs of the reworking or plugging back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If such a reworking or plugging back operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting Parties in said well.

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

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

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

ARTICLE VI
continued

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

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

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

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

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

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

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

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

C. TAKING PRODUCTION IN KIND:

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

ARTICLE VI
continued

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

Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment directly 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 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 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 not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil 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.

In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with any gas balancing agreement between the parties hereto, whether such an agreement is attached as Exhibit "E", or is a separate agreement.

D. Access to Contract Area and Information:

Each party shall have access to the Contract Area at all reasonable times, at its sole cost and 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 or deepened pursuant to Article VI.B.2., any well which has been drilled or deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after 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 or deepening such well. Any party who objects to 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 in which a Non-Consent operation has been conducted hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well, those wishing to continue its operation from the interval(s) of the formation(s) then open to production shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or intervals of the formation or formations then open to production, for a term of one (1) 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

ARTICLE VI
continued

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

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

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

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

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

B. Liens and Payment Defaults:

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

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

C. Payments and Accounting:

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

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

D. Limitation of Expenditures:

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

ARTICLE VII
continued

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

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

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

3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Twenty-five Thousand Dollars ($ 25,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project costing in excess of Twenty-five Thousand Dollars ($ 25,000.00) but less than the amount first set forth above in this paragraph.

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

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

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

F. Taxes:

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

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

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

ARTICLE VII
continued

G. Insurance:

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

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

ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

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

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

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

B. Renewal or Extension of Leases:

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

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

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

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

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

C. Acreage or Cash Contributions:

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

ARTICLE VIII
continued

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

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

D. Maintenance of Uniform Interest:

~~For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, 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 interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

E. Waiver of Rights to Partition:

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

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

~~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 com~~pany 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 provision herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from operations hereunder can be adequately determined without the computation of partnership taxable income.

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed Fifteen Thousand Dollars ($15,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI.
FORCE MAJEURE

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

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

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

ARTICLE XII.
NOTICES

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

ARTICLE XIII.
TERM OF AGREEMENT

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

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

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

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

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

C. Regulatory Agencies:

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

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

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

ARTICLE XV.
OTHER PROVISIONS

ARTICLE 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

MARALEX RESOURCES, INC.

_______________________ Jennifer A. Ritcher

Jennifer A. Ritcher
Attorney-in-Fact

NON-OPERATORS

_______________________ _______________________
NORMAN GILBREATH

_______________________ _______________________
LORETTA E. GILBREATH

EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated May 27, 1994, by and between Maralex Resources, Inc., as Operator, and Norman and Loretta E. Gilbreath, as Non-Operators.

I. Identification of Lands Subject to this Agreement:

Township 30 North, Range 11 West, N. M. P. M.
Section 19: Lots 3, 4, 5, E/2SW/4, W/2SE/4, NE/4SE/4
San Juan County, New Mexico
Containing 326.26 acres, more or less.

II. Restrictions as to Depths or Formations:

From the surface of the earth to the base of the Basin Fruitland Coal Formation.

III. Percentages or Fractional Interests of the Parties:

Maralex Resources, Inc.	51.40%
Norman and Loretta E. Gilbreath	48.60%

IV. Addresses of Parties for Notification Purposes:

Maralex Resources, Inc.
410 17th Street
Suite 220
Denver, Colorado 80202
(303) 571-4220
(303) 571-4217 (fax)

Norman and Loretta E. Gilbreath
P.O. Box 208
Aztec, NM 87410

THERE IS NO EXHIBIT "B" TO THE
OPERATING AGREEMENT

EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement dated May 27, 1994, by and between Maralex Resources, Inc., as Operator and Norman and Loretta E. Gilbreath, as Non-Operators.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.
"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.
"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.
"Operator" shall mean the party designated to conduct the Joint Operations.
"Non-Operators" shall mean the Parties to this agreement other than the Operator.
"Parties" shall mean Operator and Non-Operators.
"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.
"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.
"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.
"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.
"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies.

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation within fifteen (15) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

B. 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 prime rate in effect at First Interstate Bank of Denver on the first day of the month in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

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

5. Audits

A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.

B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

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. Ecological and Environmental

Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or archaeological nature and pollution control procedures as required by applicable laws and regulations.

2. Rentals and Royalties

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

3. 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.

(4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation of 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 3A of this Section II. Such costs under this Paragraph 3B 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 3A 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 3A and 3B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.

4. Employee Benefits

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies.

5. 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.

6. 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 where like material is normally available or railway receiving point nearest the Joint Property 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 where like material is normally available, or railway receiving point nearest the Joint Property 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, the option to equalize or charge actual trucking cost is available when the actual charge is $400 or less excluding accessorial charges. The $400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

7. **Services**

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 10 of Section II and Paragraph i, ii, and iii, 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.

8. **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 gross investment less accumulated depreciation not to exceed fifteen percent (15 %) 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 8A 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.

9. **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.

10. **Legal Expense**

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

11. **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. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties hereto in accordance with the tax value generated by each party's working interest.

12. **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 Worker'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.

13. **Abandonment and Reclamation**

Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory authority.

14. **Communications**

Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.

15. **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 of direct benefit to the Joint Property and 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 3A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

   ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property:

   ( ) shall be covered by the overhead rates, or
   (X) shall not be covered by the overhead rates.

   iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property:

   ( ) shall be covered by the overhead rates, or
   (X) shall not be covered by the overhead rates.

   A. Overhead - Fixed Rate Basis

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

   Drilling Well Rate $ 3,500.00
   (Prorated for less than a full month)

   Producing Well Rate $ 350.00

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

   (a) Drilling Well Rate

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

   (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work 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 or other units used in workover, commence through date of rig or other unit release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive calendar 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 shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.

   (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 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 10 of Section II and all salvage credits.

(b) Operating

__________ Percent (____ %) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

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

For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, deepening, or any remedial operations on any or all wells involving the use of drilling rig and crew capable of drilling to the producing interval on the Joint Property; 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 be negotiated at a later date.

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

A. ___*___ % of first $100,000 or total cost if less, plus

B. ___*___ % of costs in excess of $100,000 but less than $1,000,000, plus

C. ___*___ % of costs in excess of $1,000,000.

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

3. **Catastrophe Overhead**

To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account for overhead based on the following rates:

A. ___*___ % of total costs through $100,000; plus

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

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

Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead provisions of this Section III shall apply.

4. **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 reasons, 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 basis exclusive of cash discounts:

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

(a) Tubular goods, sized 2⅜ inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.

(b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate truck rate shall be used.

(c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.

(d) Macaroni tubing (size less than 2⅜ inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

(2) Line Pipe

(a) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.

(b) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.

(c) Line pipe 24 inch OD and over and ¾ inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.

(d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.

(3) Other Material 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, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.

(4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2 A (1) and (2).

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

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

(2) Material used on and moved from the Joint Property

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

(3) Material not used on and moved from the Joint Property

At seventy-five percent (75%) of current new price as determined by Paragraph A.

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

C. Other Used Material

(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 A. 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

Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material under procedures normally used by Operator without prior approval of Non-Operators.

(a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.

(b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

(3) Condition E

Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally utilized by 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 or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph 1.A(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.

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

3. **Premium Prices**

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

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

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

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

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

2. **Reconciliation and Adjustment of Inventories**

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to 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, change of interest, or change of Operator 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. In cases involving a change of Operator, all Parties shall be governed by such inventory.

4. **Expense of Conducting Inventories**

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

B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

EXHIBIT "D"

Attached to and made a part of that certain Operating Agreement dated May 27, 1994, by and between Maralex Resources, Inc., as Operator, and Norman and Loretta E. Gilbreath, as Non-Operators.

INSURANCE

Operator shall at all times during the term of this Agreement or an extension thereof, and at all times relative thereto, carry insurance to protect the parties hereto as follows:

a) Statutory Workmen's Compensation Insurance as may be required in the state or states where work under this Agreement, or activities relative thereto, will be performed, plus Workmen's Compensation Insurance as may be required by Federal law, if applicable, plus Employer's Liability Insurance.

b) Personal Injury: $1,000,000 each occurrence and $1,000,000 in the aggregate.

c) Automobile Liability Insurance with bodily injury limits of not less than $1,000,000 for death or injury in the aggregate, for both company and non-company owned vehicles.

d) Insurance coverage of the types and amounts as set out in subsections a), b) and c) hereinabove on subcontractors, service companies and all others who may have been engaged, contracted with or otherwise employed by Operator in the performance of this Agreement with such insurance coverage to cover the subcontractors, service companies or others so employed and all of their employees, except that Operator may require each such subcontractor, service company or other person or organization to provide his, its or their own insurance coverage of the types and in the amounts specified hereinabove naming Operator and Non-operators as additional insureds with waivers of subrogation, and such person or organization, under such circumstances, shall furnish to Operator Certificates of Insurance as evidence of such insurance coverage.

e) Such additional insurance as may be required by law.

f) Excess Liabliity Insurance: At the request of any Non-Operator, or at the insistence of Operator, if in its judgement the same is needed, and if the same is available at premiums which the Operator in its sole discretion feels are justified, umbrella form liability insurance (Excess Liability Insurance), covering the parties hereto in connection with all operations conducted by Operator or the contractor or subcontractors of Operator with combined coverage of Two Million Dollars ($2,000,000.00).

g) All insurance required hereby shall be carried at the joint expense and for the benefit of the parties hereto, except for premiums for automobile public liability and property damage insurance covering Operator's fully-owned automotive equipment, which shall not be charged to the joint account but shall be covered by the flat rate charges assessed for the use of such equipment.

h) Should Operator, in its judgement reasonably exercised, determine that the same is needed, or should any Non-Operator request the same, Operator shall carry fire, windstorm, tornado, explosion, vandalism, malicious mischief,or other extended peril insurance to protect the joint property or the interest of any of the parties herein and in such event, such insurance shall be at the joint expense if it is obtained to protect the joint property, or if it is obtained to protect the interest of less than all parties herein, it shall be at their expense.

i) The joint account shall be charged with all liabilities and expenditures resulting from any claims, damages, or losses against which Operator is not required to carry insurance or which exceeds the limits of insurance which Operator is required to carry.

EXHIBIT " E "

GAS BALANCING AGREEMENT

Attached to and made a part of that certain Operating Agreement, dated May 27, 1994, between Maralex Resources, Inc., as Operator, and Norman and Loretta E. Gilbreath, et al, as Non-Operator.

I. Definitions

A. "Gas" includes natural gas produced from a Well that produces Gas Well Gas, including all constituent parts of such natural gas, except liquid hydrocarbons and condensate recovered by primary separation equipment.

B. "Gas Well Gas" is gas produced from a Well classified as a gas well by the regulatory body having jurisdiction.

C. "Balanced" is that condition which occurs when a party hereto has taken the same percentage of the cumulative volume of Gas production it is entitled to take pursuant to the terms of the Operating Agreement.

D. "Overproduced" is the status of a party when the percentage of the cumulative volume of Gas taken by that party exceeds that party's percentage interest of the volume of cumulative Gas production of all parties to the Operating Agreement under and pursuant to the terms of said Operating Agreement.

E. "Underproduced" is the status of a party when the percentage of cumulative volume of Gas taken by that party is less than that party's percentage interest of the volume of cumulative Gas production of all parties to the Operating Agreement under and pursuant to the terms of said Operating Agreement.

F. "Well" is defined as each well subject to the Operating Agreement that produces Gas Well Gas. If a single Well is completed in two or more reservoirs, such Well shall be considered a separate Well with respect to, but only with respect to, each reservoir from which the Gas produced is not commingled in the wellbore.

II. Application of this Agreement

The parties to the Operating Agreement to which this Gas Balancing Agreement is attached own the working or operating interests in the Gas underlying the Contract Area covered by such Agreement and are entitled to share in the percentages therein as stated in the Operating Agreement.

In accordance with the terms of the Operating Agreement, each party shall take its share of Gas produced from the Contract Area and market or otherwise dispose of same. In the event a party hereto does not take in kind or market its share of Gas or has contracted to sell its share of Gas produced from the Contract Area to a purchaser which, at any time while this Agreement is in effect, fails to take the share of Gas attributable to the interest of such party, the terms of this Gas Balancing Agreement shall automatically become effective.

The Operator has the duty to control Gas production and the responsibility of administering the provisions of this Gas Balancing Agreement. The Operator shall cause deliveries to be made to the Gas purchasers at such rates as may be required to give effect to the intent that the Gas production accounts of all parties are, to the extent practicable, to be or become Balanced.

The provisions of this Agreement shall be applied to each Well separately as if each Well was covered by separate but identical agreements.

III. Storing and Making Up Gas Production

A. Right to Take and Market Gas

During any period or periods when any party hereto does not take, has no market for, or the market of a party is not sufficient to take that party's full share of the Gas produced from any Well located on the Contract Area, or such party's purchaser otherwise fails to take such party's share of Gas produced from any such Well located on the Contract Area, resulting in such party becoming Underproduced (such party being herein referred to as an "Underproduced party") the other party or parties shall be entitled, but not required, to produce from said Well on the Contract Area (and take or deliver to their respective purchaser(s) each month, all or a part of that portion of the allowable Gas production assigned to such Well by the regulatory body having jurisdiction. Any party so taking or delivering Gas which results in such party becoming Overproduced is herein referred to as an "Overproduced party". Irrespective of the other provisions hereof, no Overproduced party may, without the express written approval of the Underproduced party, take or market Gas in quantities in excess of 150% of such Overproduced party's share of the Gas allowable assigned by the regulatory body having jurisdiction over such Well or 150% of such party's share of the then current deliverability of the Well including associated pipeline pressure, whichever is the lesser quantity of Gas.

Those parties which are capable of taking and/or marketing quantities of Gas allocable to an Underproduced party, in the absence of any other agreement between them, shall each take a share of the Gas attributed to the Underproduced party or parties in the direct proportion that their respective interests bear to the total interest of all parties taking Gas who are also considered Overproduced.

All parties hereto shall share in and own the liquid hydrocarbons recovered from such Gas by primary separation equipment in accordance with their respective interests and subject to the terms of the above described Operating Agreement, whether or not such parties are actually taking and/or marketing Gas at such time.

B. Making Up Underproduction

Each party failing to market its share of the total volume of Gas produced or failing to take its full share of the total volume of Gas produced shall be considered Underproduced and shall be credited with Gas in storage equal to its percentage share of the total volume of Gas produced under this Agreement, less that portion of the Gas actually marketed or taken by such party, Gas used in operations, vented, or lost.

Any Underproduced party shall endeavor to bring its taking of Gas into a Balanced condition. Upon written notice to the Operator, any Underproduced party may thereafter begin taking or delivering to its purchaser its full share of the Gas produced from a Well (less any used in operations, vented, or lost). To allow for the recovery of Gas in storage and to balance the Gas account of the parties in accordance with their respective interests, an Underproduced party shall be entitled to take or deliver to a purchaser its full share of Gas produced from such Well (less any used in operations, vented, or lost) plus, (i) for the months of March, April, May, June, July, August, September and October only of any calendar year during which this agreement may be in place, an amount up to an additional fifty percent (50%) of the monthly quantity of Gas attributable to the Overproduced party or parties, or (ii) for the months of November, December, January and February only of any calendar year or years during which this agreement may be in place, an amount up to an additional twenty five percent (25%) of the monthly quantity of Gas attributable to the Overproduced party or parties. If more than one Underproduced party is entitled to take additional Gas, they shall divide the additional Gas in proportion to their respective Underproduced accounts. The first Gas made up shall be assumed to be the first Gas Underproduced.

C. Gas Balance Reporting

Each party taking Gas shall furnish or cause to be furnished to the Operator a monthly written statement of Gas volumes taken and the identity of its Gas purchaser, if any, no later than thirty (30) days after the production month. Operator shall not be required to adjust its Gas accounting statements reflecting a different Gas purchaser until the first day of the month following the month in which such notice is received by the Operator. The Operator will maintain appropriate accounting on a monthly and cumulative basis of the quantities of Gas each party is entitled to take and/or market and the quantities of Gas taken and/or marketed by each of the parties to their respective Gas purchasers. With respect to Gas purchased from or transported for more than one party by or through one pipeline connected to the Well, each party selling to or transporting through such one pipeline shall furnish to Operator or cause the pipeline owner to furnish to Operator monthly volume statements showing the split of ownership through such pipeline's sales or pipeline inlet meter during the preceding calendar month. Within ninety (90) days after the end of each producing calendar month, the Operator shall furnish each party a statement showing the status of the Overproduced and Underproduced accounts of all parties.

To determine respective volumes of Gas taken by separate Gas pipelines connected to the Well, measurement of Gas for overproduction and underproduction shall be accomplished by use of sales meters and lease measurement equipment which shall be in accordance with AGA requirements.

Each party to this agreement agrees that it will not utilize any information obtained hereunder for any purpose other than implementing or administering the terms of this Gas Balancing Agreement.

D. **Royalty and Production Tax**

At all times while Gas is produced from the Contract Area, unless otherwise required by any State or Federal law or regulations, each party shall pay or cause to be paid all royalty due and payable on its share of Gas production as if each party were taking or delivering to a Gas purchaser its share of Gas production. Each party agrees to hold each other party harmless from any and all claims for royalty payments asserted by its royalty owners. The term "royalty owner" shall include owners of royalty, overriding royalties, production payments, and similar interests payable out of production.

Each party producing and taking or delivering Gas to its Gas purchaser shall pay, or cause to be paid, all production and severance taxes due on all volumes of Gas actually taken or sold by such party.

IV. **Cash Settlement**

A. **Volume/Value**

If, at the permanent termination of production of Gas from a Well located on the Contract Area, or change in ownership as described in Paragraph IV D. below, an imbalance exists between the parties, a cash settlement of the imbalance between the parties relative to such Well shall be made. The amount of the cash settlement will be limited to the proceeds actually received by the Overproduced party or parties at the time of overproduction, less transportation and applicable treating charges and production and severance taxes paid on such overproduction. Royalty shall only be deducted from such proceeds attributable to the overproduction if actually paid to royalty owners by the Overproduced party or parties. No interest shall be added to any cash settlement hereunder. If there is more than one Overproduced party, the cash settlement shall be based on a weighted average of the proceeds actually received as above described by all Overproduced parties. If the Overproduced party or parties did not sell its Gas, such Gas will be valued in the same manner used for royalty calculation purposes when produced. That portion of the monies collected by the Overproduced party or parties which is subject to refund by orders of the Federal Energy Regulatory Commission ("FERC") may be withheld by the Overproduced party or parties until such prices are fully approved by FERC, unless the Underproduced party or parties furnish a corporate undertaking acceptable to the Overproduced party or parties agreeing to hold the Overproduced party or parties harmless from financial loss due to refund orders by FERC.

B. **Collection and Distribution**

Operator shall provide within thirty (30) days of permanent termination of Gas production a final accounting of the Gas balance to all parties hereto. Overproduced parties, within thirty (30) days of receipt of the final accounting of the Gas balance, shall provide Operator with a monthly statement of revenue and volume for each month during which overproduction occurred that has not been made-up. Within thirty (30) days after the receipt of such monthly statements from Overproduced parties, Operator shall calculate and invoice each Overproduced party for its share of the cash settlement, based on said revenue and volume statements, due each Underproduced party. Overproduced parties shall make settlement, based on the invoiced amount, to the Operator within thirty (30) days after receipt of said invoice. Such payment shall relieve an Overproduced party of liability to any other party for the sums paid. Operator shall promptly distribute the funds it receives to the Underproduced parties in that proportion that each Underproduced party's volume of Gas in storage bears to the total of all Underproduced parties volumes of Gas in storage. Operator agrees that it will not utilize any information obtained pursuant to this Section IV of this Gas Balancing Agreement for any purpose other than implementing or administering the terms of this Gas Balancing Agreement.

C. **Responsibility and Liability for Collection**

Operator shall not be liable to any Underproduced party for the failure of any Overproduced party to pay any amounts owed pursuant to the terms hereof. In the event that any party fails to pay any sum due under the terms hereof after demand therefor by the Operator, the Operator may turn responsibility for the collection of such sum to the party or parties to whom it is owed, and Operator shall have no further responsibility in the event that such sums are not paid. Any party shall have the right after expiration of thirty (30) days after Operator shall have provided a final accounting of the Gas balance to all parties hereto to demand on thirty (30) days advance written notice to both Operator and all Overproduced parties that any payments due to such party for such party's Underproduced volumes shall be paid directly to such party by the Overproduced party(s), rather than being paid through Operator. In the event that any Overproduced party pays to Operator any sums due to an Underproduced party at any time after thirty (30) days following the receipt of such written notification of a demand that such Underproduced party receive such payment directly, the Overproduced party(s) shall continue to be liable to such Underproduced party for any sums so paid, until such payment is actually received by such Underproduced party. In no event shall Operator be liable or responsible for any amount of cash settlement based on a value asserted by an Underproduced party different than the value calculated based on the revenue and volume statements provided by the Overproduced party or parties.

D. **Ownership Changes**

In the event an Overproduced party intends to sell, assign, exchange or otherwise transfer any of its interest in a Well located on the Contract Area, such Overproduced party shall notify in writing the other working interest owners who are parties hereto in such Well of such fact within forty-five (45) days prior to closing the transaction. Any Underproduced party may demand of such Overproduced party in writing, within twenty (20) days after receipt of the Overproduced party's notice of intent to sell, assign, exchange or otherwise transfer its interest in a Well, a cash settlement of its underproduction attributed to such Overproduced party's overproduction in the Well. Any Underproduced party electing to cash settle with the Overproduced party shall thereby indemnify and hold the Overproduced party harmless against any causes of action, claims, losses or other actions which may be claimed by any third party, including, but not limited to, any purchaser of the Gas of the Underproduced party, as a result of the cash settlement. The Operator shall be notified of any such demand and of any cash settlement pursuant to this Paragraph IV.D., and the Gas balance accounts of the parties shall be adjusted accordingly. Any cash settlement pursuant to this paragraph IV.D. shall be on the same basis as otherwise set forth in paragraphs IV.A. through IV.C. hereof.

The provision of this Paragraph IV.D. shall not be applicable in the event an Overproduced party has mortgaged its interests, or disposed of its interests by merger, reorganization, consolidation, or sale of substantially all of its assets to a subsidiary or parent company, or to any company in which any parent or subsidiary owns a majority of the stock of such company.

V. **Miscellaneous**

A. **Term**

This Agreement shall remain in force and effect as long as the Operating Agreement to which it is attached remains in force and effect, and thereafter until the Gas balance accounts between the parties are settled in full, and shall inure to the benefit of and be binding upon the parties hereto, their heirs, successors, legal representatives and assigns.

B. **Expenses**

Nothing herein shall change or affect each party's obligations to pay its proportionate share of all costs and liabilities incurred in operations on the Contract Area as its share thereof is set forth in the Operating Agreement to which this Agreement is attached.

C. **Well Tests**

Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its Gas purchaser up to 100% of the entire Well stream to meet the deliverability test required by its Gas purchaser, provided that such tests are reasonable in light of overall industry standards.

D. **Monitoring of Takes of Production**

Each party shall, at all times, use its best efforts to regulate its takes and deliveries from each Well on said Contract Area so that no Well will be shut-in for overproducing the allowable assigned thereto by the regulatory body having jurisdiction. Additionally, each party shall communicate, as necessary, the contents of this agreement to its respective Gas purchaser(s) or transporter(s) and shall monitor its deliveries to its respective Gas purchaser(s) or transporter(s) so as to ensure to the greatest extent practicable that its Gas purchaser(s) or transporter(s) does not take Gas in excess of the quantities provided for herein.

EXHIBIT "F"

Attached to and made a part of that certain Operating Agreement dated May 27, 1994, by and between Maralex Resources, Inc., as Operator, and Norman and Loretta E. Gilbreath, as Non-Operators.

EXECUTIVE ORDER 11246 AND EXECUTIVE ORDER 11598

PROVISIONS OF SECTION 202 OF EXECUTIVE ORDER 11246

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

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

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

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

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

(6) In the event of the contractor's noncompliance with the non-discrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be cancelled, terminated or suspended in whole or in part and the contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order No. 11246 of Sept. 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order No. 11256 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by Law.

(7) The contractor will include the provisions of Paragraph (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 No. 11246 of Sept. 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The contractor will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for noncompliance: Provided, however, that in the event the contractor becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the contractor may request the United States to enter into such litigation to protect the interests of the United States."

EXECUTIVE ORDER 11598, 41 CFR 50-250

LISTING JOB VACANCIES WITH THE FEDERAL-STATE EMPLOYMENT SERVICE SYSTEM

"As provided by 41 CFR 50-250, the contractor agrees that all employment openings of the contractor which exist at the time of the execution of the contract, and those which occur during the performance of this contract, including those not generated by the contract and including those occurring at an establishment of the contractor other than the one wherein the contract is being performed but excluding those of independently operated corporate affiliates, shall to the maximum extent feasible, be offered for listing at an appropriate local office of the State Employment Service System wherein the opening occurs and to provide such periodic reports to such local office regarding employment openings and hires as may be required: Provided, that this provision shall not apply to openings which the contractor fills from within the contractor's organization or are filled pursuant to a customary and traditional employer-union hiring arrangement and that the listing of employment openings shall involve only the normal obligations which attach to the placing of job orders."

"The contractor agrees further to place the above provision in any subcontract directly under this contract."

"The above two clauses shall not be operative when the contract or subcontract is for an amount less than $10,000.00, or which will generate less than 400 man-days of employment within the contractor's or sub-contractor's organization or when the provisions of 41 CFR 50-250 are not otherwise applicable hereto. Each man-day consists of any day during which an employee performs more than one hour of work."

Ernst & Young Contacts in Oil and Gas Producing Areas

National Director of Energy Services
Charles O. Buckner
1221 McKinney, Suite 2400
Houston, Texas 77010

Alabama
Birmingham
Lucien P. Mistrot, Jr.
(205) 251-2000

California
Los Angeles
Barry Schehr
(213) 977-3330
San Francisco
Timothy R. Crichfield
(415) 951-3207

Colorado
Denver
Robert C. Caller
(303) 628-4378

Kansas
Wichita
Robert R. Crawford
(316) 265-9537

Kentucky
Louisville
Thomas E. Schoenbaechler
(502) 585-1400

Louisiana
New Orleans
Philip J. Gunn
(504) 581-4200

Ohio
Cleveland
Phillip A. Peters
(216) 861-8803
Canton
Ronald J. Manse
(216) 455-5555

Oklahoma
Oklahoma City
Richard D. Corn
(405) 278-6802
Tulsa
Porter R. Shults
(918) 560-3610

Pennsylvania
Pittsburgh
Albert J. D'Alo
(412) 644-0402

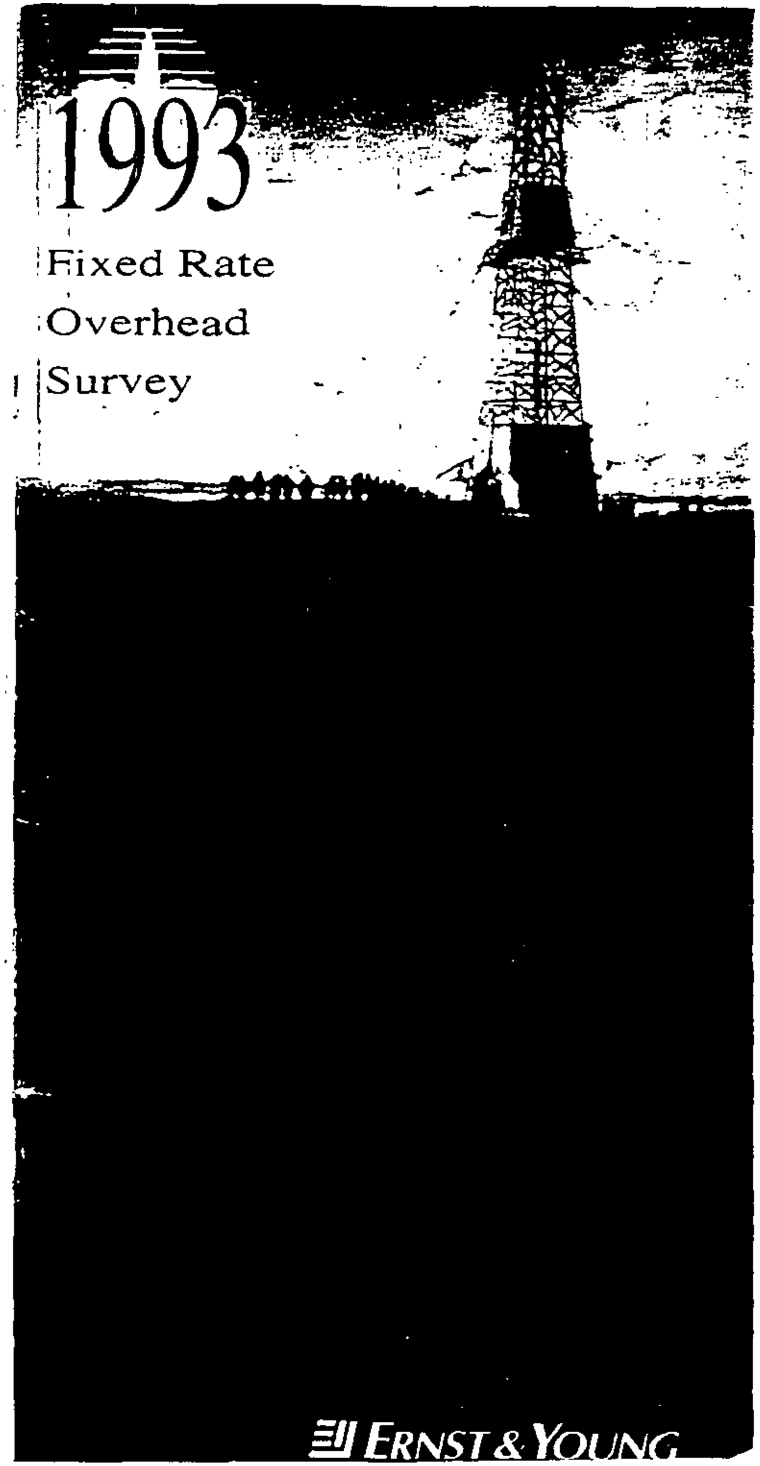
Texas
Dallas
Jack Morris
(214) 969-8421
Fort Worth
J. Turner Almond
(817) 878-7112
Houston
Terry Kiebe
(713) 750-8160
San Antonio
Paul Mangum
(512) 554-0306

Utah
Salt Lake City
Ronald M. Aoki
(801) 350-3360

Virginia
Fairfax
Michael F. Prendergast
(703) 846-5990

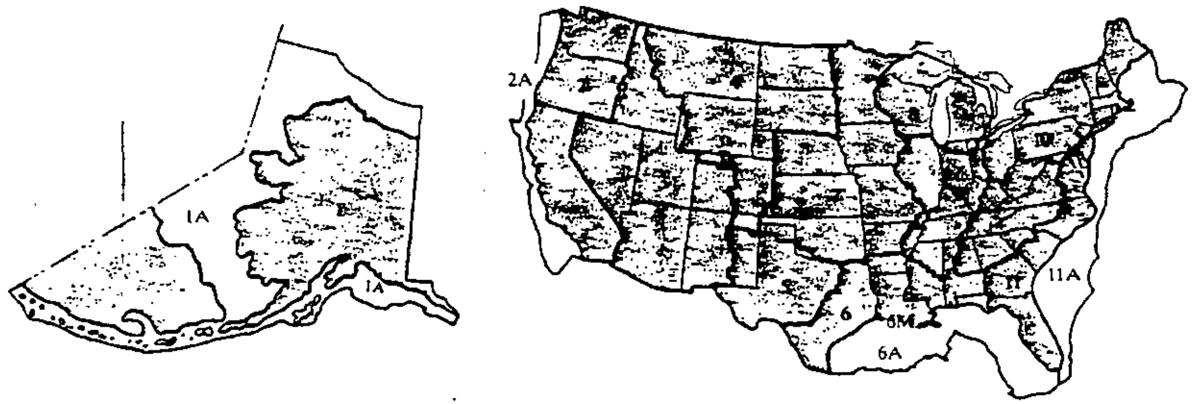
West Virginia
Charleston
Paul E. Arbogast
(304) 343-8971

SCORE Retrieval File No. I00008



Application of Maralex Resources, Inc.
for Compulsory Pooling
Case #11007, June 23, 1994
Exhibit 7

U.S. Department of Interior
Geological Survey Circular 860
Regional Designations



1	Alaska
1A	Alaska Offshore
2	Pacific Coast
2A	Pacific Coast Offshore
3	Colorado Plateau, Basin, and Range
4	Rocky Mountains and Northern Great Plains
5	West Texas and Eastern New Mexico
6	Gulf Coast
6A	Gulf of Mexico
6M	Gulf Coast—Inland Marine*
7	Mid-Continent
8	Michigan Basin
9	Eastern Interior
10	Appalachians
11	Atlantic Coast
11A	Atlantic Coast Offshore

*Added to designate inland marine activity for survey purposes

The United States has not resolved its offshore boundaries with other States concerned. The lines on this chart are for purposes of illustration only and do not necessarily reflect the position or views of the United States with respect to the boundary involved.

Colorado Plateau, Basin, and Range

3 Oil Wells

Responses 1993	Responses 1992	Depth in Feet	Monthly Drilling Well Rates 1993 Mean	Monthly Drilling Well Rates 1993 Median	Monthly Drilling Well Rates 1992 Mean	Monthly Drilling Well Rates 1992 Median	Monthly Producing Well Rates 1993 Mean	Monthly Producing Well Rates 1993 Median	Monthly Producing Well Rates 1992 Mean	Monthly Producing Well Rates 1992 Median
6	9	0 - 5,000	**$5,778**	**$5,000**	$4,688	$4,500	**$387**	**$398**	$491	$441
6	7	5,001 - 10,000	**6,122**	**6,000**	4,436	4,000	**547**	**550**	391	350
3	2	10,001 - 15,000	**7,491**	**6,982**	7,060	7,060	**1,010**	**800**	503	503
1	1	15,001 - 20,000	**6,982**	**6,982**	7,060	7,060	**697**	**697**	705	705
1	1	20,001 -	**7,857**	**7,857**	7,944	7,944	**787**	**787**	796	796
1	2	No Depth Limit	**7,426**	**7,426**	6,005	6,005	**626**	**626**	542	542

Colorado Plateau, Basin, and Range

3 Gas Wells

Responses 1993	Responses 1992	Depth in Feet	Monthly Drilling Well Rates 1993 Mean	Monthly Drilling Well Rates 1993 Median	Monthly Drilling Well Rates 1992 Mean	Monthly Drilling Well Rates 1992 Median	Monthly Producing Well Rates 1993 Mean	Monthly Producing Well Rates 1993 Median	Monthly Producing Well Rates 1992 Mean	Monthly Producing Well Rates 1992 Median
8	14	0 - 5,000	**$4,465**	**$4,000**	$3,882	$4,000	**$393**	**$395**	$342	$335
4	10	5,001 - 10,000	**5,830**	**6,110**	5,012	4,750	**537**	**505**	440	390
3	2	10,001 - 15,000	**6,982**	**6,982**	7,060	7,060	**627**	**593**	653	653
1	1	15,001 - 20,000	**6,982**	**6,982**	7,060	7,060	**697**	**697**	705	705
1	1	20,001 -	**7,857**	**7,857**	7,944	7,944	**787**	**787**	796	796
1	1	No Depth Limit	**7,426**	**7,426**	7,509	7,509	**655**	**655**	662	662

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

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

CASE NO. 11007
ORDER NO. R-10154

APPLICATION OF MARALEX RESOURCES, INC. FOR COMPULSORY POOLING, SAN JUAN COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on June 23, 1994, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 19th day of July, 1994, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof. Further, notice has been given to, and the Division has jurisdiction over, those parties listed on Exhibit "A", attached hereto and made a part hereof.

(2) At the time of the hearing this case was consolidated with Division Case No. 11006 for the purpose of testimony.

(3) The applicant, Maralex Resources, Inc. ("Maralex"), seeks an order pooling all mineral interests in the Basin-Fruitland Coal Gas Pool, listed on said Exhibit "A" that have not agreed to voluntarily pool their interests, underlying Lots 3, 4 and 5 and the E/2 SW/4, N/2 SW/4 and SW/4 SE/4 (S/2 equivalent) of Section 19, Township 30 North, Range 11 West, NMPM, San Juan County, New Mexico, forming a 326.26-acre gas spacing and proration unit for said pool.

(4) The applicant proposes to dedicate said unit to the Flora Vista "19" Well No. 2 to be drilled at a standard coal gas well location in the SW/4 of said Section 19.

(5) The applicant has a right to develop the subject unit and produce coal gas underlying same, at this time however, not all interest owners in the proposed gas spacing and proration unit have agreed to pool their interests.

(6) At the time of the hearing Maralex requested that SG Oil & Gas Interests be named as the contract operator of the proposed well and unit.

(7) Norman L. and Loretta Gilbreath of Aztec, New Mexico, joint interest owners in the proposed 326.26-acre gas spacing and proration unit, appeared at the hearing on their own behalf.

(8) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by pooling all mineral interests of all parties within said unit over whom the Division has jurisdiction.

(9) The applicant's contract operator, SG Oil & Gas Interests, should be designated the operator of the subject well and unit.

(10) Any non-consenting working interest owner pooled by this order should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(11) Any non-consenting working interest owner pooled by this order who does not pay his share of estimated well costs should have withheld from production his share of reasonable well costs plus an additional charge for the risk involved in the drilling of the well.

(12) Based on precedent established in compulsory pooling cases in the Basin-Fruitland Coal Gas Pool, a 156 percent risk penalty has been established as being proper for wells within said coal gas pool.

(13) Any non-consenting interest owner whose interest is pooled by this order should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(14) Following determination of reasonable well costs, any non-consenting working interest owner pooled by this order who has paid his share of estimated costs should pay to

the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(15) $ 3500.00 per month while drilling and $ 350.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest pooled by this order and, in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest pooled by this order.

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

(17) Upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before November 1, 1994, the order pooling said unit should become null and void and of no further effect whatsoever.

(18) Should any of the parties to this force-pooling reach voluntary agreement, this order should thereafter be of no further effect as to those parties.

(19) The operator of the well and unit should notify the Director of the Division in writing of the subsequent voluntary agreement of any party subject to the force-pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, in the Basin-Fruitland Coal Gas Pool, owned by parties over whom the Division has jurisdiction as identified in Exhibit "A", attached hereto and made a part hereof, underlying Lots 3, 4 and 5 and the E/2 SW/4, N/2 SE/4 and SW/4 SE/4 (S/2 equivalent) of Section 19, Township 30 North, Range 11 West, NMPM, San Juan County, New Mexico, are hereby pooled to form a 326.26-acre gas spacing and proration unit to be dedicated to the Flora Vista "19" Well No. 2 to be drilled at a standard coal gas well location in the SW/4 equivalent of said Section 19.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the first day of November, 1994, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Basin-Fruitland Coal Gas Pool.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the first day of November, 1994, Decretory Paragraph No. (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER THAT, should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Decretory Paragraph No. (1) of this order should not be rescinded.

(2) SG Oil & Gas Interests, contract operator for Maralex Resources, Inc., is hereby designated the operator of the subject well and unit.

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

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

(5) The operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; if no objection to the actual well costs is received by the Division from a party subject to this order and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner pooled by this order who has paid his share of estimated

costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

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

(a) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner pooled by this order who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him; and

(b) As a charge for the risk involved in the drilling of the well, 156 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner pooled by this order who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

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

(9) $ 3500.00 per month while drilling and $ 350.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest pooled by this order and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest pooled by this order.

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

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

(12) All proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in San Juan County, New Mexico, to be paid to the

true owner thereof upon demand and proof of ownership; the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(13) Should any party to this force-pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect as to such party.

(14) The operator of the subject well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of any party subject to the force-pooling provisions of this order.

(15) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

WILLIAM J. LEMAY
Director

Exhibit "A"
Case No. 11007
Order No. R-10154

FLORA VISTA "19" WELL NO. 2

List of Owners and Status of Participation
in the S/2 equivalent of
Section 19, Township 30 North, Range 11 West, NMPM,
San Juan County, New Mexico.

Owner	% of Unit	Status
San Juan Resources Suite 400 1801 Broadway Denver, CO 80202	9.63750%	Farmout to Maralex
David DiTirro 531 McKinley Avenue Ft. Lupton, CO 80621	16.06250%	Farmout to Maralex
George Taoka 3127 Weld County Road #49 Hudson, CO 80642	14.45625%	Farmout to Maralex
James Martin RR 1, Box 32 Council Grove, KS 66846-9759	11.24375%	Farmout to Maralex
Norman Gilbreath and Loretta E. Gilbreath P.O. Box 208 Aztec, NM 87410	48.60000%	Seek Compulsory Pooling
	100.00000%	