

NMC-3629

OPERATING AGREEMENT

DATED

JUNE 11, 1973,

FOR UNIT AREA IN TOWNSHIP 20 SOUTH, RANGE 28 EAST,

EDDY COUNTY, STATE OF NEW MEXICO

TABLE OF CONTENTS

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

OPERATING AGREEMENT

THIS AGREEMENT, entered into this 11th day of June, 1973, between

CITIES SERVICE OIL COMPANY

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

WITNESSETH, THAT:

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

NOW, THEREFORE, it is agreed as follows:

1. DEFINITIONS

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

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

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

A. Title Examination:

Each party hereto shall, as to its contribution and upon request, furnish each other party with certified or photostatic copies of all title papers and opinions in its possession.

There shall be no examination of title to leases, or to oil and gas interests, except that title to the drillsite shall be examined on a complete abstract record by Operator's attorney, and the title to the drillsite must be approved by the examining attorney, or accepted by all parties. A copy of the examining attorney's opinion shall be sent to each party immediately after the opinion is written, and, also each party shall be given, as they are written, a copy of all subsequent supplemental attorney's reports. A good faith effort to satisfy the examining attorney's requirements shall be made by the party or parties owning the drillsite.

If title to the proposed drillsite is not approved by the examining attorney or the lease is not acceptable for a material reason, and all parties do not accept the title, the parties shall select a new drillsite for the first exploratory well; provided, if the parties are unable to agree upon another drillsite, this agreement shall, in that case, come to an end and all parties shall then forfeit their rights and be relieved of obligations hereunder. If a new drillsite is selected, title shall be examined, and title shall be approved or accepted or rejected in like manner as provided above concerning the drillsite first selected. If title to the second choice drillsite is not approved or accepted, other drillsites shall be successively selected and title examined, until a drillsite is chosen to which title is approved or accepted, or until the parties fail to select another drillsite. As in the case of the drillsite first selected, so

also with successive choices if the time comes that the parties have not approved title and are unable to agree upon an alternate drillsite, the contract shall, in that case and at that time, come to an end and all parties shall forfeit their rights and be relieved of obligations under this contract.

No well other than the first test shall be drilled in the Unit Area until after (1) the title to the drillsite has been examined by an attorney for one of the participating parties, and (2) the title has been approved by the examining attorney or the title has been accepted by all of the parties who are to participate in the drilling of the well.

The examining attorney under this Section 2. A., may accept title papers and another qualified attorney's opinion as the opinion called for above rather than conduct a separate title examination.

B. Failure of Title:

Should any oil and gas lease, or interest therein, be lost through failure of title, this agreement shall, nevertheless, continue in force as to all remaining leases and interests, and

- (1) The party whose lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid, but there shall be no monetary liability on its part to the other parties hereto by reason of such title failure; and
- (2) 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 Unit Area by the amount of the interest lost; and
- (3) If the proportionate interests of the other parties hereto in any producing well theretofore drilled on the Unit Area is increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such interests (less operating costs attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well; and
- (4) 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, previously paid under this agreement, such amount shall be proportionately paid to the party or parties hereto who in the first instance paid the costs which are so refunded; and
- (5) 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 whose title failed, or if more than one then by the parties whose title failed, in the same proportions in which they shared in such prior production.

C. Loss of Leases for Causes Other Than Title Failure:

If any lease or interest subject to this agreement be lost through failure to develop or because express or implied covenants have not been performed, or if any lease be permitted to expire at the end of its primary term and not be renewed or extended, or if any lease or interest therein is lost due to the fact that the production therefrom is shut in by reason of lack of market, the loss shall not be considered a failure of title and all such losses shall be joint losses and shall be borne by all parties in proportion to their interests and there shall be no readjustment of interests in the Unit Area. (Joint loss only as to losses occurring after the effective date hereof by reason of acts performed, or not performed, after said date.)

3. UNLEASED OIL AND GAS INTERESTS

If any party owns an unleased oil and gas interest in the Unit Area, that interest shall be treated for the purpose of this agreement as if it were a leased interest under the form of oil and gas lease attached as "Exhibit "D" and for the primary term therein stated. As to such interests, the owner shall receive royalty on production as prescribed in the form of oil and gas lease attached hereto as Exhibit "D". Such party shall, however, be subject to all of the provisions of this agreement relating to lessees, to the extent that it owns the lessee interest. (See Section 30 A.)

4. INTERESTS OF PARTIES

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

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

5. OPERATOR OF UNIT

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

6. EMPLOYEES

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

7. TEST WELL

Subject to Section 2 hereof, and as soon as practicable, Operator shall commence the drilling of a well for oil and gas in the following location:

1,830 feet from the south line and 1,980 feet from the west line of Section 14, Township 20 South, Range 28 East, Eddy County, New Mexico,

and shall thereafter continue the drilling of the well with due diligence to a depth sufficient to test the Devonian Formation or to a depth of 12,600 feet, whichever is the lesser,

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

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

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

8. COSTS AND EXPENSES

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

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

9. OPERATOR'S LIEN

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

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

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

10. TERM OF AGREEMENT

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

11. LIMITATION ON EXPENDITURES

Without the consent of all parties: (a) No well shall be drilled on the Unit Area except any well expressly provided for in this agreement and except any well drilled pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the drilling of a well shall include consent to all necessary expenditures in the drilling, testing, completing, and equipping of the well, including necessary tankage; (b) No well shall be reworked, plugged back or deepened except a well reworked, plugged back or deepened pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the reworking, plugging back or deepening of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well to produce, including necessary tankage; (c) Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Ten Thousand Dollars (\$10,000.00) except in connection with a well the drilling, reworking, deepening, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that in case of explosion, fire, flood, or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency and to safeguard life and property, but Operator shall, as promptly as possible, report the emergency to the other parties. Operator shall, upon request, furnish copies of its "Authority for Expenditures" for any single project costing in excess of \$5,000.00, and for any lesser amounts when prepared for Operator's own use.

12. OPERATIONS BY LESS THAN ALL PARTIES

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

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

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

- (A) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this section, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to each Non-Consenting Party had it participated in the well from the beginning of the operation; and
- (B) ~~20%~~^{30%} of that portion of the costs and expenses of drilling, reworking, deepening or plugging back, testing and completing, after deducting any cash contributions received under Section 25, and ~~20%~~^{30%} of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

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

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

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

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

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

13. RIGHT TO TAKE PRODUCTION IN KIND

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

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

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil and gas produced from the Unit Area, ~~Operator~~ shall have the right, subject to revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others for the time being, at not less than the market price prevailing in the area, which shall in no event be less than the price which ~~Operator~~ receives for its portion of the oil and gas produced from the Unit Area. Any such purchase or sale by ~~Operator~~ shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a purchaser. Notwithstanding the foregoing, ~~Operator~~ shall not make a sale into interstate commerce of any other party's share of gas production without first giving such other party sixty (60) days notice of such intended sale. Oil well gas and gas well gas production shall be governed by Exhibit "E", Gas Storage and Balancing Agreement attached hereto.

14. ACCESS TO UNIT AREA

Each party shall have access to the Unit Area at all reasonable times, at its sole risk, to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. ~~Operator shall, upon request, furnish each of the other parties with copies of all drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Unit Area. See Section 30., Paragraph F, for other provisions of this Section 14.~~

15. DRILLING CONTRACTS

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

16. ABANDONMENT OF WELLS

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

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

17. DELAY RENTALS AND SHUT-IN WELL PAYMENTS.

Delay rentals and shut-in well payments which may be required under the terms of any lease shall be paid by the party who has subjected such lease to this agreement, at its own expense. Proof of each payment shall be given to Operator at least ten (10) days prior to the rental or shut-in well payment date. Operator shall furnish similar proof to all other parties concerning payments it makes in connection with its leases. Any party may request, and shall be entitled to receive, proper evidence of all such payments. If, through mistake or oversight, any delay rental or shut-in well 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 pay a rental or shut-in well payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, 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 Unit Area on account of the ownership of the lease which has terminated. In the event the party who failed to pay the rental or the shut-in well 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:

- (1) 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;
- (2) proceeds, less operating expenses thereafter incurred 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 would, in the absence of such lease termination, 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
- (3) any moneys, 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 Unit Area or becoming a party to this contract.

Operator shall promptly notify each other party of any well shut in (and the reason therefore) or placed on production; however, there shall be no liability for inadvertent failure to give said notice.

18. CHANGE OF OPERATOR

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

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

19. MAINTENANCE OF UNIT OWNERSHIP

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this contract, and notwithstanding any other provisions to the contrary, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Unit 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 Unit 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 rights of the other parties.

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

20. RESIGNATION OF OPERATOR

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

21. LIABILITY OF PARTIES

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

22. RENEWAL OR EXTENSION OF LEASES

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

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

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

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

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

23. SURRENDER OF LEASES

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

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

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

24. ACREAGE OR CASH CONTRIBUTIONS

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

25. PROVISION CONCERNING TAXATION

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

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

If any tax assessment is considered unreasonable by Operator, it may at its discretion protest such valuation within the time and manner prescribed by law, and it may at its discretion prosecute, or not prosecute, the protest to a final determination. When any such protested valuation shall have been finally determined, Operator shall pay the assessment for the joint account, together with interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "C".

26. INSURANCE

At all times while operations are conducted hereunder, Operator shall comply with the Workmen's Compensation Law of the State where the operations are being conducted. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as may be outlined in Exhibit "B" attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Unit Area to comply with the Workmen's Compensation Law of the State where the operations are being conducted and to maintain such other insurance as Operator may require.

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

27. CLAIMS AND LAWSUITS

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

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

Damage claims caused by and arising out of operations on the Unit Area, conducted for the joint account of all parties, shall be handled by Operator and its attorneys, the settlement of claims of this kind shall be within the discretion of Operator so long as the amount paid in settlement of any one claim does not exceed thirty-five hundred (\$3500.00) dollars and, if settled, the sums paid in settlement shall be charged as expense to and be paid by all parties in proportion to their interests in the Unit Area.

28. FORCE MAJEURE

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

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

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

29. NOTICES

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

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

30. OTHER CONDITIONS, IF ANY, ARE:

A. Unleased oil and gas interests shall be subject to the terms and provisions of this Agreement only for the term set out in Exhibit "D".

If the assigning party or parties under any applicable Section in this Agreement shall be the owner or owners of an unleased oil and gas interest, such party or parties shall execute an oil and gas lease in lieu of an Assignment as therein provided, using in so doing, the form of lease attached hereto as Exhibit "D" which lease shall be for a primary term of One (1) year from the date of execution thereof and so long thereafter as oil or gas or either of them is produced from said land by the Lessee in paying quantities.

B. Title failure or loss of a lease or unleased oil and gas interest, shall not relieve any party from paying its proportionate share of the cost of (1) drilling, testing, completing and equipping or plugging and abandoning the test well, or (2) operations then being conducted on a well in the Unit Area, provided it has previously agreed to participate in said test well or operations.

C. Notwithstanding anything herein to the contrary, if any working interest owner shall, subsequent to execution of this agreement, create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out if its working interest (herein called "subsequently created interest"), such subsequently created interest shall be specifically made subject to all of the terms and provisions of this agreement. If the working interest owner from which such subsequently created interest is created (a) fails to pay, when due, its share of costs and expenses chargeable hereunder, and its share of production accruing hereunder is insufficient to cover such costs and expenses, or (b) elects to go non-consent under Section 12., or (c) elects to abandon a well under Section 16. hereof, elects to surrender a lease under Section 24. hereof, or otherwise withdraws from this agreement, the subsequently created interest shall be chargeable with a pro-rata portion of all costs and expenses hereunder in the same manner as if such subsequently created interests were a working interest, and Operator shall have the right to enforce against such subsequently created interests the lien and all other rights granted in Section 9. hereof for the purpose of collecting costs and expenses chargeable to subsequently created interests.

D. Joseph Dumigan (hereinafter referred to in this subparagraph D. as "Dumigan") and Howard W. Jennings (hereinafter referred to in this subparagraph D. as "Jennings") have elected not to participate in the drilling of the test well provided for in Section 7. and, in lieu of actual participation, agree to relinquish to the parties participating in the costs of the test well (hereinafter referred to in this subparagraph D. as "drilling party" or "drilling parties"), in the proportion as set forth in Column 3B of Exhibit "A" (Part I), all of their working interest in the drilling unit for the test well, subject to the further provisions of subparagraph D, Section 30.

(1) The test well shall be commenced as provided in Section 7. and shall be drilled at the sole cost, risk and expense of the drilling parties to the depth as specified in said Section 7. or to a depth at which production of oil or gas in paying quantities is encountered, whichever is the lesser depth.

(2) In the event the test well is completed either as a dry hole or if the test well is lost for any reason prior to being drilled to contract depth, the drilling parties are granted the right to commence a substitute well or wells for any well which has been either completed as a dry hole or is lost within thirty (30) days from completion or cessation of operations in the prior well. Any substitute well drilled hereunder shall be drilled subject to the same terms and conditions as provided for the test well and shall be completed in a reasonable time from the date of commencement.

(3) Upon completion of the test well, or any substitute well therefor, as a well capable of producing oil and/or gas in paying quantities, Jennings shall assign to the drilling parties an undivided one-half (1/2) of his interest in the leases contributed hereto in Unit Area B and Dumigan shall assign to the drilling parties an undivided one-half (1/2) of his interest in the leases contributed hereto in Unit Area A. The assignments shall be made to the drilling parties in the percentages set forth in Column 3B of Exhibit "A" (Part I). Dumigan and Jennings shall also in the same aforesaid proportions relinquish to the drilling parties all of their interest in the drilling unit for said well and the drilling parties shall be deemed to own said interests subject to the reservation of a net overriding royalty of an undivided 3.84424% reserved by Dumigan and an undivided 3.12500% reserved by Jennings of one-sixteenth of eight-eighths (1/16 of 8/8) of the production from the test well with the right to elect, as hereinafter provided, either to retain the overriding royalty or convert to a working interest. As a consequence of such assignments, the parties to this agreement will participate in Unit Areas A, B, C and D, in the percentages set forth in Columns 4C, 4D, 5, 6 and 7 of Exhibit "A" (Part I).

(4) Operator shall furnish Dumigan and Jennings notices and well information as provided in this agreement and a monthly itemized statement of the cost of operations, quality and quantity of oil, casinghead gas, gas, condensate and/or distillate and other minerals produced from the test well. Each drilling party shall promptly notify Dumigan and Jennings when the value of all oil, casinghead gas, gas, distillate and/or condensate and other minerals produced and saved from the test well (together with the proceeds of the sale of any material and equipment from the said well) less royalty, overriding royalty and Dumigan's and Jennings' overriding royalty, equals one hundred percent (100%) of such drilling party's share of the total cost and expense of drilling, testing, completing and equipping the test well (including one hundred percent (100%) of the cost of operations incurred up to the time such value equals the total cost). Such notice shall be furnished to Dumigan and Jennings at the addresses reflected in Exhibit "A" and each shall have the option, to be exercised within thirty (30) days from receipt of said notice, either to convert the overriding royalty to a working interest in the percentage as set forth in Exhibit "A" or retain the overriding royalty.

(5) If Dumigan and/or Jennings convert to a working interest, the drilling parties shall release to the party or parties who have elected to convert to a working interest an undivided fifty percent (50%) of the said party or parties' interest in the drilling unit for the test well and in the test well and thereafter the interests of the parties in the test well and Unit Area B shall be in the percentages as set forth in Column 4D, Exhibit "A" (Part I), and the overriding royalty shall be terminated. The effective date of the release of working interest and the termination of overriding royalty shall be the date that the value of production from the test well equals the total cost of the test well as herein provided. (For the purpose of computing the day in which the value of production equals said total cost, the overriding royalty payable to Dumigan and Jennings and the working interest income, together with all costs and expenses shall be calculated on a daily basis for the actual month in which the said value equals the said total cost. Said cost and expenses, including the overriding royalty payable to Dumigan and Jennings and/or the working interest income, shall be apportioned on a daily basis for said month and the costs, expenses and revenue shall be adjusted to the day so calculated). In the event either Dumigan or Jennings does not elect to convert to a working interest, the party or parties not electing shall assign their remaining one-half (1/2) interest in the drilling unit to the drilling parties and the drilling parties shall own the interest of the non-electing party or parties in the test well.

E. In the event the drilling parties fail to commence or complete the test well, or any substitute well, the only liability for such failure will be the loss of right to receive an assignment from Dumigan and/or Jennings.

F. Additional Provisions Pertaining to Section 14. - Access to Unit Area. Operator shall furnish each of the other parties at the earliest possible date, copies of all reports to any Governmental agency; reports of crude oil runs (or copies of run tickets) and stocks; an accurate monthly report showing production and detail disposition of the volumes of oil, condensate, water, associated gas, non-associated gas, and other substances as well as the volumes injected into the Unitized Formation; true and legible copies of all electrical logs, gamma ray logs, mud logs, and other well surveys; copies of all production tests, bottom hole pressure and temperature

surveys, reservoir fluid analyses, core analyses, and any other survey or measurement conducted on said wells.

Operator shall furnish to any party any additional information pertaining to operations on the Unit Area when a special request therefor is made; however, the cost of gathering and furnishing any additional information not ordinarily furnished by Operator to all parties shall be charged to the party who requests the information.

G. In the performance of this agreement, Operator agrees to comply fully with the nondiscrimination provisions of Executive Order 11246, which are set forth in the Equal Opportunity and Nondiscrimination Supplement attached hereto and hereby made a part hereof as Exhibit "y."

H. Non-Operators' Lien. Each non-Operator shall have a lien on the working interest of Operator in the Unit Area and on the oil and gas produced therefrom and on the proceeds thereof to secure the payment of any amount that may at any time become due and payable by Operator to such non-Operator under the terms of this agreement, together with interest thereon as herein provided.

I. The provisions of Section 19. shall not apply in connection with the sale of a carved-out production payment as to all or part of an interest owned by a party for a term not in excess of five (5) years for the purpose of increasing a party's cash flow or for the purpose of increasing a party's working capital.

J. Notwithstanding the provisions of Sections 7, 11 and 12 or any other provision contained herein to the contrary, consent to the drilling of any well shall not be deemed to be consent to the setting of casing and a completion attempt. After any well drilled pursuant to this agreement has reached the depth previously agreed upon by the parties, all testing and logging has been completed and before conducting any further operations, Operator shall give immediate notice to all of the other parties hereto. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturdays, Sundays or legal holidays) in which to elect whether or not they desire to set casing and participate in a completion attempt. Failure of the party receiving such notice to reply within the said forty-eight (48) hour period shall constitute an election by that party not to participate in the cost of the completion attempt. If all parties elect to plug and abandon the well, Operator shall plug and abandon the same at the expense of all parties. If one or more, but less than all of the parties elect to set casing and attempt a completion, all such operations shall be conducted subject to all of the terms and provisions of Section 12.

This agreement may be signed in counterpart, and shall be binding upon the parties and upon their heirs, successors, representatives and assigns, upon execution of all parties, and shall be effective as of the date first hereinabove written; provided, however, this agreement shall not become binding or effective unless it is executed by all parties and returned to Operator within ninety (90) days after

said date unless such time is extended by agreement of all parties.

CITIES SERVICE OIL COMPANY

By Mark E. Payton Attorney-in-Fact

OPERATOR

MOBIL OIL CORPORATION

By _____ Attorney-in-Fact

ATTEST:

Secretary

THE SUPERIOR OIL COMPANY

By _____ President

UNION OIL COMPANY OF CALIFORNIA

By _____ Attorney-in-Fact

ATTEST:

Secretary

FLAG-REDFERN OIL COMPANY

By _____ President

JOSEPH DUNIGAN, an individual

ATTEST:

Secretary

GREAT WESTERN DRILLING COMPANY

By _____ President

ATTEST:

GULF OIL CORPORATION

Secretary

By _____
Attorney-in-Fact

MONSANTO COMPANY

By _____
Attorney-in-Fact

EDWARD R. HUDSON, JR., an individual

RANDALL B. JOHNSTON, and

SHIRLEY A. JOHNSTON, husband & wife

HOWARD W. JENNINGS, an individual

NON-OPERATORS

STATE OF OKLAHOMA)
) SS
COUNTY OF TULSA)

On this 30th day of November, 1973, before me personally appeared Mark F. Payton, to me known to be the person who executed the foregoing instrument as Attorney-in-Fact in behalf of CITIES SERVICE OIL COMPANY, a Delaware corporation, and acknowledged that he executed the same as the free act and deed of said Cities Service Oil Company.

Sherry K. Snow
Sherry K. Snow Notary Public

My Commission Expires:

May 5, 1976

ATTEST:

GULF OIL CORPORATION

Secretary

By _____
Attorney-in-Fact

MONSANTO COMPANY

By _____
Attorney-in-Fact

EDWARD R. HUDSON, JR., an individual

RANDALL B. JOHNSTON, and

SHIRLEY A. JOHNSTON, husband & wife



HOWARD W. JENNINGS, an individual

NON-OPERATORS

STATE OF OKLAHOMA)
) SS
COUNTY OF TULSA)

On this _____ day of _____, 1973, before me personally appeared _____, to me known to be the person who executed the foregoing instrument as Attorney-in-Fact in behalf of CITIES SERVICE OIL COMPANY, a Delaware corporation, and acknowledged that he executed the same as the free act and deed of said Cities Service Oil Company.

Notary Public

My Commission Expires:

said date unless such time is extended by agreement of all parties.

CITIES SERVICE OIL COMPANY

By _____
Attorney-in-Fact

OPERATOR

MOBIL OIL CORPORATION

By _____
Attorney-in-Fact

ATTEST:

Secretary

THE SUPERIOR OIL COMPANY

By _____
President

UNION OIL COMPANY OF CALIFORNIA

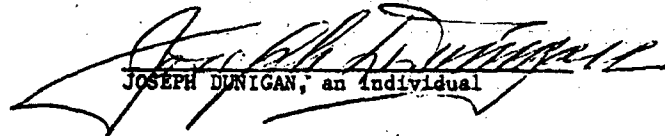
By _____
Attorney-in-Fact

ATTEST:

Secretary

FLAG-REDFERN OIL COMPANY

By _____
President


JOSEPH DUNIGAN, an individual

ATTEST:

Secretary

GREAT WESTERN DRILLING COMPANY

By _____
President

said date unless such time is extended by agreement of all parties.

CITIES SERVICE OIL COMPANY

By _____
Attorney-in-Fact

OPERATOR

MOBIL OIL CORPORATION

By _____
Attorney-in-Fact

ATTEST:

Secretary

THE SUPERIOR OIL COMPANY

By _____
President

UNION OIL COMPANY OF CALIFORNIA

By _____
Attorney-in-Fact

ATTEST:

Secretary

FLAG-REDFERN OIL COMPANY

By _____
President

JOSEPH DUNIGAN, an individual

GREAT WESTERN DRILLING COMPANY

By John D. Dwyer
Vice President



Assistant Secretary

STATE OF _____)
) SS
COUNTY OF _____)

On this _____ day of _____, 19____, before me personally appeared _____, to me known to be the person who executed the foregoing instrument as Attorney-in-Fact in behalf of _____, a _____ corporation, and acknowledged that he executed the same as the free act and deed of said _____.

Notary Public

My Commission Expires:

STATE OF TEXAS)
) SS
COUNTY OF MIDLAND)

On this the 6th day of August, 1973, personally appeared John Hampton, to me personally known, who being by me duly sworn did say that he is the Vice President of Great Western Drilling Company, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said John Hampton acknowledges said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

Gary E. Owen
Notary Public

My Commission Expires:



STATE OF _____)
) SS
COUNTY OF _____)

On this _____ day of _____, 19____, before me personally appeared _____, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

Notary Public

My Commission Expires:

ATTEST:

m B. ...
Asst. Secretary

GULF OIL CORPORATION

By *W B H ...*
Attorney-in-Fact

LAW	
SWR	
EXP	
FROD	

MONSANTO COMPANY

By _____
Attorney-in-Fact

EDWARD F. HUDSON, JR., an individual

RANDALL B. JOHNSTON, and

SHIRLEY A. JOHNSTON, husband & wife

HOWARD W. JENNINGS, an individual

NON-OPERATORS

STATE OF OKLAHOMA)
) SS
COUNTY OF TULSA)

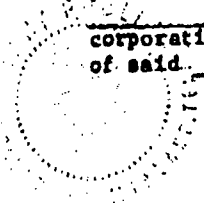
On this _____ day of _____, 1973, before me personally appeared _____, to me known to be the person who executed the foregoing instrument as Attorney-in-Fact in behalf of CITIES SERVICE OIL COMPANY, a Delaware corporation, and acknowledged that he executed the same as the free act and deed of said Cities Service Oil Company.

Notary Public

My Commission Expires:

STATE OF Texas)
COUNTY OF Mitchell) SS

On this 10 day of August, 19 , before me personally appeared _____, to me known to be the person who executed the foregoing instrument as Attorney-in-Fact in behalf of _____, a corporation, and acknowledged that he executed the same as the free act and deed of said _____
W. R. BOWEN



Emily Jones
Notary Public

My Commission Expires:

My Commission Expires: 75

STATE OF _____)
COUNTY OF _____) SS

On this the _____ day of _____, 19___, personally appeared _____, to me personally known, who being by me duly sworn did say that he is the _____ President of _____, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledges said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

Notary Public

My Commission Expires:

STATE OF _____)
COUNTY OF _____) SS

On this _____ day of _____, 19___, before me personally appeared _____, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

Notary Public

My Commission Expires:

ATTEST:

GULF OIL CORPORATION

Secretary

By _____
Attorney-in-Fact

MONSANTO COMPANY



By Justin Tiet
Attorney-in-Fact

EDWARD R. HUDSON, JR., an individual

RANDALL B. JOHNSTON, and

SHIRLEY A. JOHNSTON, husband & wife

HOWARD W. JENNINGS, an individual

NON-OPERATORS

STATE OF OKLAHOMA)
) SS
COUNTY OF TULSA)

On this _____ day of _____, 1973, before me personally appeared _____, to me known to be the person who executed the foregoing instrument as Attorney-in-Fact in behalf of CITIES SERVICE OIL COMPANY, a Delaware corporation, and acknowledged that he executed the same as the free act and deed of said Cities Service Oil Company.

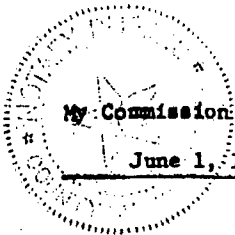
Notary Public

My Commission Expires:

STATE OF TEXAS)
) SS
COUNTY OF HARRIS)

On this 31st day of July, 1973, before me personally appeared FREDERIC GERTZ, to me known to be the person who executed the foregoing instrument as Attorney-in-Fact in behalf of MONSANTO COMPANY, a Delaware corporation, and acknowledged that he executed the same as the free act and deed of said MONSANTO COMPANY.

Mary F. Lipscomb
Notary Public



My Commission Expires:
June 1, 1975

STATE OF _____)
) SS
COUNTY OF _____)

On this the _____ day of _____, 19____, personally appeared _____, to me personally known, who being by me duly sworn did say that he is the _____ President of _____, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledges said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

Notary Public

My Commission Expires:

STATE OF _____)
) SS
COUNTY OF _____)

On this _____ day of _____, 19____, before me personally appeared _____, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

Notary Public

My Commission Expires:

ATTEST:

GULF OIL CORPORATION

Secretary

By _____
Attorney-in-Fact

MONSANTO COMPANY

By _____
Attorney-in-Fact

EDWARD T. HUDSON, JR., an individual

Randall B. Johnston

RANDALL B. JOHNSTON, and

Shirley A. Johnston

SHIRLEY A. JOHNSTON, husband & wife

HOWARD W. JENNINGS, an individual

NON-OPERATORS

STATE OF OKLAHOMA)
) SS
COUNTY OF TULSA)

On this _____ day of _____, 1973, before me personally appeared _____, to me known to be the person who executed the foregoing instrument as Attorney-in-Fact in behalf of CITIES SERVICE OIL COMPANY, a Delaware corporation, and acknowledged that he executed the same as the free act and deed of said Cities Service Oil Company.

Notary Public

My Commission Expires:

JOINT ACKNOWLEDGMENT

THE STATE OF TEXAS,
COUNTY OF MIDLAND

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this day personally appeared RANDALL B. JOHNSTON and SHIRLEY A. JOHNSTON, his wife, both known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they each executed the same for the purposes and consideration therein expressed, and the said SHIRLEY A. JOHNSTON, wife of the said RANDALL B. JOHNSTON having been examined by me privily and apart from her husband, and having the same fully explained to her, she, the said SHIRLEY A. JOHNSTON acknowledged such instrument to be her act and deed, and she declared that she had willingly signed the same for the purposes and consideration therein expressed, and that she did not wish to retract it.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, this the 8th day of October A.D. 19 73

(L.S.)

Laverne M. Saunders
Notary Public in and for Midland County, Texas.
LAVERNE M. SAUNDERS
My Commission Expires June 1, 1975

STATE OF _____)
COUNTY OF _____) SS

On this the _____ day of _____, 19____, personally appeared _____, to me personally known, who being by me duly sworn did say that he is the _____ President of _____, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledges said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

Notary Public

My Commission Expires:

STATE OF _____)
COUNTY OF _____) SS

On this _____ day of _____, 19____, before me personally appeared _____, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

Notary Public

My Commission Expires:

GULF OIL COMPANY

By _____
Attorney-in-Fact

MONSANTO COMPANY

By _____
Attorney-in-Fact

Edward K. Hudson, Jr.
EDWARD K. HUDSON, JR., an individual

Ann F. Hudson

NON-OPERATORS Ann F. Hudson, his wife

STATE OF OKLAHOMA)
) SS
COUNTY OF TULSA)

On this _____ day of _____, 1973, before me personally appeared _____, to me known to be the person who executed the foregoing instrument as Attorney-in-Fact in behalf of CITIES SERVICE OIL COMPANY, a Delaware corporation, and acknowledged that he executed the same as the free act and deed of said Cities Service Oil Company.

Notary Public

My Commission Expires:

STATE OF _____)
) SS
COUNTY OF _____)

On this _____ day of _____, 19____, before me personally appeared _____, to me known to be the person who executed the foregoing instrument as Attorney-in-Fact in behalf of _____, a _____ corporation, and acknowledged that he executed the same as the free act and deed of said _____.

Notary Public

My Commission Expires:

STATE OF _____)
) SS
COUNTY OF _____)

On this the _____ day of _____, 19____, personally appeared _____, to me personally known, who being by me duly sworn did say that he is the _____ President of _____, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledges said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

Notary Public

My Commission Expires:

STATE OF Texas)
) SS
COUNTY OF Tarrant)

On this 29 day of June, 19 73, before me personally appeared Edward R. Hudson, Jr. & Ann F. Hudson to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

Virginia Clark
Notary Public

My Commission Expires:
6/1/75

said date unless such time is extended by agreement of all parties.

CITIES SERVICE OIL COMPANY

By _____
Attorney-in-Fact

OPERATOR

MOBIL OIL CORPORATION

By _____
Attorney-in-Fact

ATTEST:

Secretary


THE SUPERIOR OIL COMPANY

By _____
President

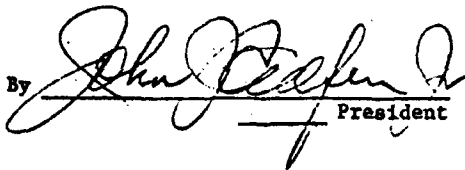
UNION OIL COMPANY OF CALIFORNIA

By _____
Attorney-in-Fact

ATTEST:

 Ernest A. Jones
Secretary

FLAG-REDFERN OIL COMPANY

By 
President

JOSEPH DUNIGAN, an individual

ATTEST:

Secretary

GREAT WESTERN DRILLING COMPANY

By _____
President

STATE OF _____)
) SS
COUNTY OF _____)

On this _____ day of _____, 19____, before me personally appeared _____, to me known to be the person who executed the foregoing instrument as Attorney-in-Fact in behalf of _____, a _____ corporation, and acknowledged that he executed the same as the free act and deed of said _____.

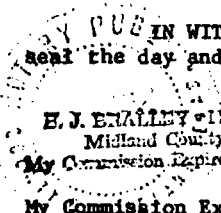
Notary Public

My Commission Expires:

STATE OF Texas)
) SS
COUNTY OF Midland)

On this the 10 day of July, 19 73, personally appeared John J. Redfern, Jr., to me personally known, who being by me duly sworn did say that he is the _____ President of Flag-Redfern Oil Company, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said John J. Redfern, Jr. acknowledges said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

 E. J. BRALLEY, Notary Public
Midland County, Texas
My Commission Expires June 1, 1975

E. J. Bralley
Notary Public

My Commission Expires:

STATE OF _____)
) SS
COUNTY OF _____)

On this _____ day of _____, 19____, before me personally appeared _____, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

Notary Public

My Commission Expires:

said date unless such time is extended by agreement of all parties.

CITIES SERVICE OIL COMPANY

By _____
Attorney-in-Fact

OPERATOR

MOBIL OIL CORPORATION

By _____
Attorney-in-Fact

ATTEST:

Secretary

THE SUPERIOR OIL COMPANY

By _____
President

UNION OIL COMPANY OF CALIFORNIA

By John Hansen _____
Attorney-in-Fact *pu*

ATTEST:

Secretary

FLAG-REDFERN OIL COMPANY

By _____
President

JOSEPH DUNIGAN, an individual

ATTEST:

Secretary

GREAT WESTERN DRILLING COMPANY

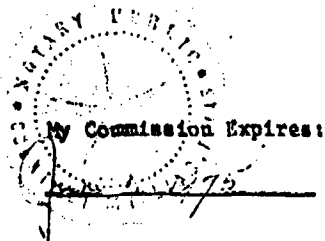
By _____
President

STATE OF)
COUNTY OF) SS

On this 30th day of July, 1973, before me personally appeared JOHN HANSEN, to me known to be the person who executed the foregoing instrument as Attorney-in-Fact in behalf of Union Pacific Corporation, a California corporation, and acknowledged that he executed the same as the free act and deed of said Union Pacific Corporation of California.

ELMA H. SLOAN

Elma Sloan
Notary Public



STATE OF)
COUNTY OF) SS

On this the _____ day of _____, 19____, personally appeared _____, to me personally known, who being by me duly sworn did say that he is the _____ President of _____, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledges said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

Notary Public

My Commission Expires:

STATE OF)
COUNTY OF) SS

On this _____ day of _____, 19____, before me personally appeared _____, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

Notary Public

My Commission Expires:

said date unless such time is extended by agreement of all parties.

CITIES SERVICE OIL COMPANY

By _____
Attorney-in-Fact

OPERATOR

MOBIL OIL CORPORATION

By J. S. Wright
Attorney-in-Fact

APPROVED	
JT. INT.	<i>[initials]</i>
CONTR.	<i>[initials]</i>
N. GAS	<i>[initials]</i>
ENGR.	<i>[initials]</i>
LEGAL	<i>[initials]</i>
LAND	
PIPE R	

ATTEST:

Secretary

THE SUPERIOR OIL COMPANY

By _____
President

UNION OIL COMPANY OF CALIFORNIA

By _____
Attorney-in-Fact

ATTEST:

Secretary

FLAG-REDFERN OIL COMPANY

By _____
President

JOSEPH DUNIGAN, an individual

ATTEST:

Secretary

GREAT WESTERN DRILLING COMPANY

By _____
President

STATE OF Texas)
COUNTY OF Midland) SS

On this 17th day of December, 1973, before me personally appeared J. S. Wright, Jr., to me known to be the person who executed the foregoing instrument as Attorney-in-Fact in behalf of Mobil Oil Corporation, a New York corporation, and acknowledged that he executed the same as the free act and deed of said Mobil Oil Corporation.

Stella J. Pearson
Notary Public
Midland County, Texas

My Commission Expires:
June 1, 1975

STATE OF _____)
COUNTY OF _____) SS

On this the _____ day of _____, 19____, personally appeared _____, to me personally known, who being by me duly sworn did say that he is the _____ President of _____, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said _____ acknowledges said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

Notary Public

My Commission Expires:

STATE OF _____)
COUNTY OF _____) SS

On this _____ day of _____, 19____, before me personally appeared _____, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

Notary Public

My Commission Expires:

said date unless such time is extended by agreement of all parties.

CITIES SERVICE OIL COMPANY

By _____
Attorney-in-Fact

OPERATOR

MOBIL OIL CORPORATION

By _____
Attorney-in-Fact

ATTEST:

THE SUPERIOR OIL COMPANY

By James C. Reed, Jr.
VICE President

UNION OIL COMPANY OF CALIFORNIA

By _____
Attorney-in-Fact

ATTEST:

FLAG-REDYERN OIL COMPANY

Secretary

By _____
President

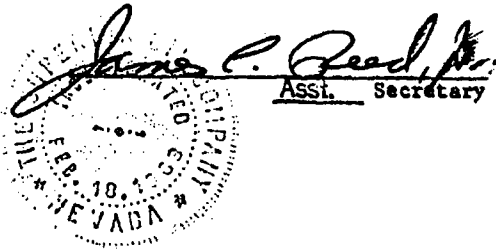
JOSEPH DUNIGAN, an individual

ATTEST:

GREAT WESTERN DRILLING COMPANY

Secretary

By _____
President



STATE OF _____)
COUNTY OF _____) SS

On this _____ day of _____, 19____, before me personally appeared _____, to me known to be the person who executed the foregoing instrument as Attorney-in-Fact in behalf of _____, a corporation, and acknowledged that he executed the same as the free act and deed of said _____.

Notary Public

My Commission Expires:

STATE OF Texas)
COUNTY OF Harris) SS

On this the 22nd day of November, 1973, personally appeared J. L. Norman, to me personally known, who being by me duly sworn did say that he is the V. C. President of THE SUPERIOR OIL COMPANY, and that the seal affixed to the foregoing instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said J. L. Norman acknowledges said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

Corinne Steele
Notary Public
CORINNE STEELE
Notary Public in and for Harris County, Texas
My Commission Expires June 1, 1975

My Commission Expires:

STATE OF _____)
COUNTY OF _____) SS

On this _____ day of _____, 19____, before me personally appeared _____, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate above written.

Notary Public

My Commission Expires:

said date unless such time is extended by agreement of all parties.

CITIES SERVICE OIL COMPANY

By _____
Attorney-in-Fact

OPERATOR

MOBIL OIL CORPORATION

By _____
Attorney-in-Fact

ATTEST:

Secretary

THE SUPERIOR OIL COMPANY

By _____
President

UNION OIL COMPANY OF CALIFORNIA

By _____
Attorney-in-Fact

ATTEST:

Secretary

FLAG-REDFERN OIL COMPANY

By _____
President

JOSEPH DUNIGAN, an individual

ATTEST:

Secretary

GREAT WESTERN DRILLING COMPANY

By _____
President

ATTEST:

GULF OIL CORPORATION

Secretary

By _____
Attorney-in-Fact

MONSANTO COMPANY

By _____
Attorney-in-Fact

EDWARD R. HUDSON, JR., an individual

RANDALL B. JOHNSTON, and

SHIRLEY A. JOHNSTON, husband & wife

HOWARD W. JENNINGS, an individual

NON-OPERATORS

STATE OF OKLAHOMA)
) SS
COUNTY OF TULSA)

On this _____ day of _____, 1973, before me personally appeared _____, to me known to be the person who executed the foregoing instrument as Attorney-in-Fact in behalf of CITIES SERVICE OIL COMPANY, a Delaware corporation, and acknowledged that he executed the same as the free act and deed of said Cities Service Oil Company.

Notary Public

My Commission Expires:

EXHIBIT "A" (Part I) - Attached to and made a part of Operating Agreement dated June 11, 1973, between **CITIES SERVICE OIL COMPANY**, as Operator, and **MOBIL OIL CORPORATION**, et al, as Non-Operators.

(1) **LANDS SUBJECT TO CONTRACT (Unit Area):**

Unit Area A - N/2 of Section 15 and all of Sections 22 and 23, Township 20 South, Range 28 East, Eddy County, New Mexico, limited to rights below the depth of 1,200 feet and to the base of the Devonian Formation.

Unit Area B - S/2 of Section 14, Township 20 South, Range 28 East, Eddy County, New Mexico, limited to rights below the depth of 1,200 feet and to the base of the Devonian Formation.

Unit Area C - N/2 of Section 14, Township 20 South, Range 28 East, Eddy County, New Mexico, limited to rights below the depth of 1,200 feet and to the base of the Devonian Formation.

Unit Area D - S/2 of Section 15, Township 20 South, Range 28, East, Eddy County, New Mexico, limited to rights below the depth of 1,200 feet and to the base of the Devonian Formation.

(2) **ADDRESSES OF PARTIES TO WHICH NOTICES SHOULD BE SENT:**

Cities Service Oil Company
P. O. Box 300
Tulsa, Oklahoma 74102

Mr. Randall B. Johnston
P. O. Box 1824
Midland, Texas 79701

Mr. Joseph Dunigan
Bassett Tower
301 Texas Avenue
El Paso, Texas 79901

Mobil Oil Corporation
Attn: Mr. John D. Howard
P. O. Box 633
Midland, Texas 79701

Flag-Radfern Oil Company
Attn: Mr. Earl A. Rogers
P. O. Box 23
Midland, Texas 79701

cc: Mobil Oil Corporation
Attn: Mr. Jim Posey
P. O. Box 820
Roswell, New Mexico 88201

Great Western Drilling Company
Attn: Mr. John B. Huckabay, Jr.
P. O. Box 1659
Midland, Texas 79701

Monsanto Company
Attn: Mr. Bill Basil
101 North Marienfeld
Midland, Texas 79701

Gulf Oil Corporation
Attn: Mr. Robert E. Griffith
P. O. Box 1150
Midland, Texas 79701

The Superior Oil Company
Attn: Mr. Raymond Parker
P. O. Box 1900
Midland, Texas 79701

Mr. Edward R. Hudson, Jr.
1000 First National Building
Fort Worth, Texas 76102

Union Oil Company of California
Attn: Mr. W. M. Stanley
300 Security Bank Building
Roswell, New Mexico 88201

Mr. Howard W. Jennings
117 Fort Worth National Building
Fort Worth, Texas 76102

(3) CONTRIBUTIONS AND INTERESTS OF PARTIES UNDER AGREEMENT:

Parties	Column 1	Column 2A	Column 2B	Column 2C	Column 2D	Column 3A	Column 3B
	Net Acres	Net Acres Committed to all Unit Areas	Percentage	Net Acres Committed to Unit Area B Only	Net Acres Committed to Unit Area C Only	Drilling Parties' Farmout Participation Acres	Percentage
Cities Service Oil Company	913.3334	913.3334	36.24339%	-0-	-0-	913.3334	49.10395%
The Superior Oil Company	400.0000	400.0000	15.87302%	-0-	-0-	400.0000	21.50538%
Union Oil Company of California	160.0000	160.0000	6.34921%	-0-	-0-	160.0000	8.60215%
Flag-Redfern Oil Company	100.0000	100.0000	3.96825%	-0-	-0-	100.0000	5.37634%
Great Western Drilling Company	80.0000	80.0000	3.17461%	-0-	-0-	80.0000	4.30108%
Gulf Oil Corporation	60.0000	60.0000	2.38095%	-0-	-0-	60.0000	3.22580%
Monsanto Company	60.0000	60.0000	2.38095%	-0-	-0-	60.0000	3.22580%
Edward K. Hudson, Jr.	46.6666	46.6666	1.85185%	-0-	-0-	46.6666	2.50896%
Randall B. Johnston and Shirley A. Johnston, husband and wife	40.0000	40.0000	1.58730%	-0-	-0-	40.0000	2.15054%
Mobil Oil Corporation	560.0000	560.0000	22.22222%	-0-	-0-	-0-	-0-
Joseph Dunlagan	100.0000	100.0000	3.96825%	-0-	-0-	-0-	-0-
Howard W. Jennings*	40.0000	-0-	-0-	10.0000**	10.0000**	-0-	-0-
	2560.0000	2520.0000	100.00000%	10.0000	10.0000	1860.0000	100.00000%

* 20 net acre interest in SW/4 of Section 15 1s not committed to this agreement.
 **10 net acre interest in the E/2 NE/4 and 10 net acre interest in the E/2 SE/4 of Section 14 1s the only portion of Howard W. Jennings' interest committed to the Unit.

Parties	Column 4A*	Column 4B**	Column 4C	Column 4D	Column 5	Column 6	Column 7
	Participation in Test Well Cost and Unit Area B	Prior to Payout	Cost and Unit Area B	After Payout	Unit Area A	Unit Area C	Unit Area D
Cities Service Oil Company	35,11078	+ 3,42217	= 38,53295	36,82186	37,21767	36,05462	34,89157
The Superior Oil Company	15,37698	+ 1,49876	= 16,87574	16,12636	16,29971	15,79034	15,28098
Union Oil Company of California	6,15080	+ .59950	= 6,75030	6,45055	6,51990	6,31615	6,11241
Flag-Redfern Oil Company	3,84424	+ .37470	= 4,21894	4,03159	4,07492	3,94758	3,82024
Great Western Drilling Company	3,07540	+ .29975	= 3,37515	3,22527	3,25995	3,15808	3,05620
Gulf Oil Corporation	2,30655	+ .22481	= 2,53136	2,41896	2,44495	2,36855	2,29214
Monsanto Company	2,30655	+ .22481	= 2,53136	2,41896	2,44495	2,36855	2,29214
Edward R. Hudson, Jr.	1,79398	+ .17486	= 1,96884	1,88141	1,90163	1,84220	1,78278
Randall B. Johnston and Shirley A. Johnston, husband and wife	1,53770	+ .14988	= 1,68758	1,61264	1,62997	1,57903	1,52810
Mobil Oil Corporation	21,52778	+ -0-	= 21,52778	21,52778	22,22222	21,52778	20,83332
Joseph Dumigan	-0-	-0-	-0-	1,92212	1,98413	1,92212	1,86012
Howard W. Jennings	-0-	-0-	-0-	1,56250	-0-	3,12500	6,25000***
	93,03076	6,96924	100,00000	100,00000	100,00000	100,00000	100,00000

* Proportionate share of Unit Area B after deducting Jennings' 3.125% and Dumigan's 3.84424%.

** Proportionate share of Farmout interests.

*** This interest is not committed, but does represent 6.25% of interest in Unit Area D.

EXHIBIT "A" (Part II)
 Schedule of Lands and Leases
 Eddy County, New Mexico

Attached to and made a part of Operating Agreement dated June 11, 1973, between CITTES SERVICE OIL COMPANY, as Operator, and MOBIL OIL CORPORATION, et al, as Non-Operators.

<u>Tract No.</u>	<u>Description</u>	<u>Number of Acres</u>	<u>Lease Serial #, Exp. Date</u>	<u>Basic Royalty and %</u>	<u>Lessee of Record</u>	<u>Int.</u>	<u>Overriding Royalty Owner and %*</u>	<u>Working Interest Owner and %</u>	
1.	T-20-S, R-28-E Section 14: E/2 E/2; Section 15: SW/4	320.00	LC-050797 H.B.P.	12.5% to 32.0%	Barber Oil Company	100%	George D. Riggs Neil H. Wills Barber Oil, Inc. Richard A. Hall James E. Hall Charles L. Hall Albuquerque National Bank, Trustee for Kathryn Rae Brandenburg, a minor Ruble C. Bell Albuquerque National Bank, Trustee of S. W. Crosby III Trust #1 Elyse S. Patterson Sue S. Graham Sally S. Toles	Cittes Service Oil Company Edward R. Hudson, Jr. Howard W. Jennings	72.9166% 14.5834% 12.5000%

*Overriding royalty burden for Tract 1 to be borne as set forth on Page 4.

Tract No.	Description	Number of Acres	Lease Serial #, Exp. Date	Basic Royalty and %	Lessee of Record	Int.	Overriding Royalty Owner and %	Working Interest Owner and %
2.	T-20-S, R-28-E Section 14: W/2 E/2, S/2 NW/4, SW/4	400.00	NM-6856 8/1/73	12.5% to 25.0%	Cities Service Oil Company	100%	None	Cities Service Oil Company
3.	T-20-S, R-28-E Section 23: SE/4 NW/4, E/2 SW/4	120.00	NM-8941 3/1/79	12.5%	Cities Service Oil Company	100%	None	Cities Service Oil Company
4.	T-20-S, R-28-E Section 23: SE/4 SE/4	40.00	NM-15003 3/1/82	12.5%	Cities Service Oil Company	100%	Robert Kunkel 757 Northcliffe Drive Salt Lake City, Utah	Cities Service Oil Company
5.	T-20-S, R-28-E Section 23: SW/4 SE/4	40.00	NM-17099 Ext. 8/29/74	12.5%	Mobil Oil Corporation	100%	Ray Dunn and John Halagan 5787 East Iowa Preston, California	Mobil Oil Corporation
6.	T-20-S, R-28-E Section 22: E/2 NW/4, W/2 NE/4, SE/4 NE/4, NW/4 SE/4, SE/4 SE/4, SE/4 SW/4; Section 23: SW/4 SW/4, NW/4 SE/4	400.00	NM-17101 Ext. 8/29/74	12.5%	The Superior Oil Company	100%	Pauline Swinehart 658 Tam O'Shanter Las Vegas, Nevada	The Superior Oil Company
7.	T-20-S, R-28-E Section 22: W/2 SW/4	80.00	NM-17102 9/1/77	12.5%	Great Western Drilling Company	100%	Joe B. Schutz 116 Valley Drive Santa Fe, New Mexico	Great Western Drilling Company
8.	T-20-S, R-28-E Section 22: W/2 NW/4; Section 23: SW/4 NW/4	120.00	NM-17220 1/1/83	12.5%	Cities Service Oil Company	100%	None	Cities Service Oil Company
9.	T-20-S, R-28-E Section 22: NE/4 NE/4; Section 23: E/2 NE/4, SW/4 NE/4, NE/4 SE/4	200.00	NM-067684 H.B.P.	12.5%	Flag-Redfern Oil and Joseph Dunigan	100%	None	Flag-Redfern and Joseph Dunigan Rights Below 1000'

Tract No.	Description	Number of Acres	Lease Serial #, Exp. Date	Basic Royalty and %	Lessee of Record	Int.	Overriding Royalty Owner and %	Working Interest Owner and %
10.	T-20-S, R-28-E Section 22: NE/4 SW/4, SW/4 SE/4; Section 23: NW/4 SW/4	120.00	NM-0528964 3/31/74		Mobil Oil Corporation	100%	F. V. Gauthage Hope, New Mexico \$750 PP out of 5%	Mobil Oil Corporation 100%
11.	T-20-S, R-28-E Section 14: NE/4 NW/4; Section 15: W/2 NE/4, NE/4 NW/4	160.00	NM-0541580 5/1/74	12.5%	Union Oil Company of California	100%	None	Union Oil Company of California 100%
12.	T-20-S, R-28-E Section 14: NW/4 NW/4; Section 15: E/2 NE/4 SE/4, W/2 NW/4	360.00	NM-0556216 6/30/74	12.5%	Mobil Oil Corporation	100%	Eagle Royalty & Minerals, Box 371 Casper, Wyoming \$750 PP out of 5%	Mobil Oil Corporation 100%
13.	T-20-S, R-28-E Section 15: SE/4 NW/4	40.00	NM-0555440 11/30/74	12.5%	Mobil Oil Corporation	100%	Lucille Hayes 108 East 13th Street Indianapolis, Indiana 5%	Mobil Oil Corporation 100%
14.	T-20-S, R-28-E Section 23: N/2 NW/4, NW/4 NE/4	120.00	NM-18293		Gulf Oil Corporation Monsanto Company	50%	None	Gulf Oil Corporation Monsanto Company 50%
15.	T-20-S, R-28-E Section 22: NE/4 SE/4	40.00	NM-18219	12.5%	Shirley A. Johnston	100%	None	Shirley A. Johnston 100%

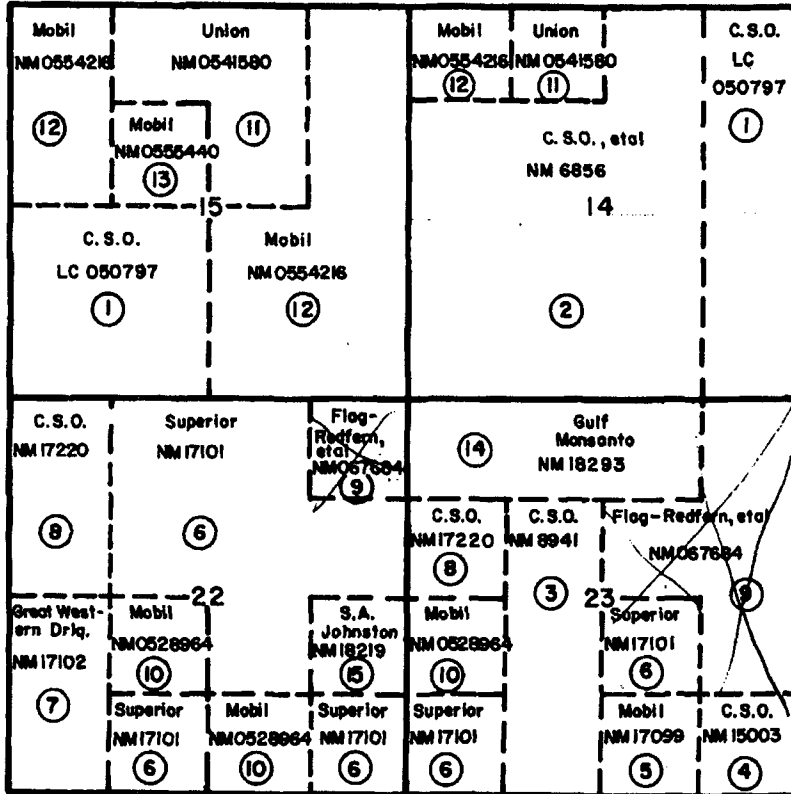
✓ OVERRIDING ROYALTY BURDENS - TRACT 1 ✓

<u>Overriding Royalty Owner</u>	<u>Percentage</u>	<u>Overriding Royalty Burden Borne By</u>
Barber Oil, Inc.	1.0035000	
Richard A. Hall	.2676000	
James E. Hall	.2676000	
Charles L. Hall	.2676000	
Albuquerque National Bank, Trustee for Kathryn Rae Brandenburg, a minor	.2007000	
Rubie C. Bell	.5018000	
Albuquerque National Bank, Trustee of S. W. Crosby III Trust #1	.5018000	
Sue S. Graham	.3345000	
	(3.3491000)	
		Cities Service Oil Company
		100.00000%
Elyse S. Patterson	.7902300	
Sally S. Toles	.7902300	
	(1.5804600)	
		Edward R. Hudson, Jr.
		100.00000%
George D. Riggs	.9500000	
Neil H. Willis	.3562500	
Rubie C. Bell	.0890625	
Albuquerque National Bank, Trustee of S. W. Crosby III Trust #1	.0890625	
Elyse S. Patterson	.0593750	
Sue S. Graham	.0593750	
Sally S. Toles	.0593750	
	(1.6625000)	
		Cities Service Oil Company
		72.91667%
		Edward R. Hudson, Jr.
		27.08333%

Handwritten: 330512

Handwritten:
3.3451
1.6625
5.0076

R - 28 - E



T
20
S

EXHIBIT "A" PART III

O/A DATED JUNE 11, 1973

Eddy County, New Mexico
Scale: 1" = 2000'

② Tract Number

EXHIBIT "B"

Attached to and made a part of Operating Agreement dated June 11, 1973, between CITIES SERVICE OIL COMPANY, as Operator, and MOBIL OIL CORPORATION, et al, as Non-Operators.

INSURANCE

Operator shall also purchase or provide for the benefit of the parties hereto:

<u>Type of Coverage</u>	<u>Liability Limits of Not Less Than</u>
(a) Employers' Liability and extension of Workmen's Compensation and Employers' Liability to cover marine operations where applicable.	- \$100,000 each accident
(b) Comprehensive General Liability (excluding underground property damage but including operation of watercraft where applicable).	- Bodily Injury \$100,000 each person 300,000 each accident
	- Property Damage 100,000 each accident
(c) Comprehensive Automobile Liability	- Bodily Injury \$100,000 each person 300,000 each accident
	- Property Damage 100,000 each accident

It is further understood and agreed that the Operator is not a warrantor of the financial responsibility of the insurer with whom such insurance is carried, and that except for willful negligence, Operator shall not be liable to Non-operator for any loss suffered on account of the insufficiency of the insurance carried, or of insurer with whom carried. Operator shall not be liable to Non-operator for any loss accruing by reason of Operator's inability to procure or maintain the insurance above mentioned. Operator agrees that if at any time during the life of this agreement it is unable to obtain or maintain such insurance, it shall immediately notify Non-operator in writing of such fact.

EXHIBIT " C "

Attached to and made a part of Operating Agreement dated June 11, 1973, between CITIES SERVICE OIL COMPANY, as Operator, and MOBIL OIL CORPORATION, et al, 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.
 "Operator" shall mean the party designated to conduct the Joint Operations.
 "Non-Operators" shall mean the nonoperating parties, whether one or more.
 "Joint Account" shall mean the account showing the charges and credits accruing because of the Joint Operations and which are to be shared by the Parties.
 "Parties" shall mean Operator and Non-Operators.
 "Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.
 "Controllable Material" shall mean material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

2. Conflict with Agreement

In the event of a conflict between the provisions of this Accounting Procedure and the provisions of the agreement to which this Accounting Procedure is attached, the provisions of the agreement shall control.

3. ~~OPERATOR'S OBLIGATIONS~~

~~Whereas the Operator is to be responsible for the operation of the Joint Property and the Non-Operators are to be responsible for the contribution of funds to the Joint Account, the Operator shall be responsible for the operation of the Joint Property and the Non-Operators shall be responsible for the contribution of funds to the Joint Account.~~

4. Statements and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of costs and expenses, for the preceding month. Such bills will be accompanied by statements reflecting the total charges and credits as set forth under Subparagraph C below:

- A. Statement in detail of all charges and credits to the Joint Account.
- B. Statement of all charges and credits to the Joint Account, summarized by appropriate classifications indicative of the nature thereof.
- C. Statement of all charges and credits to the Joint Account summarized by appropriate classifications indicative of the nature thereof, except that items of Controllable Material and unusual charges and credits shall be detailed.

5. Payment and Advances by Non-Operators

Each Non-Operator shall pay its proportion of all such bills within fifteen (15) days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest at the rate of twelve percent (12%) per annum or such maximum rate as permitted by law, whichever is the lesser, until paid.

6. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operators 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 the Joint Property as provided for in Section VII.

7. Audits

A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the accounting hereunder 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 adjustment of accounts as provided for in Paragraph 6 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator.

II. DIRECT CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

Delay or other rentals and royalties when such rentals and royalties are paid by Operator for the Joint Account of the Parties.

2. Labor

- A. Salaries and wages of Operator's employees directly engaged on the Joint Property in the conduct of the Joint Operations, and salaries or wages of technical employees who are temporarily assigned to and directly employed on the Joint Property.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to the employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III; except that in the case of those employees only a pro rata portion of whose salaries and wages are chargeable to the Joint Account under Paragraph 1 of Section III, not more than the same pro rata portion of the benefits and allowances herein provided for shall be charged to the Joint Account. Cost under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III. 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 labor cost of salaries and wages chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.
- D. Reasonable personal expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and for which expenses the employees are reimbursed under Operator's usual practice.

3. Employee Benefits

Operator's current cost 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; provided however, the total of such charges shall not exceed fifteen percent (15%) of Operator's labor costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.

4. Material

Material purchased or furnished by Operator for use on the Joint Property. So far as it is reasonably practical and consistent with efficient and economical operation, only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use; and the accumulation of surplus stocks shall be avoided.

5. Transportation

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

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where like material is available, except by agreement with Non-Operators.
- 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 or railway receiving point, except by agreement with Non-Operators. No charge shall be made to Joint Account for moving Material to other properties belonging to Operator, except by agreement with Non-Operators.
- C. In the application of subparagraphs A and B above, there shall be no equalization of actual gross trucking costs of \$100 or less.

6. Services

- A. The cost of contract services and utilities procured from outside sources other than services covered by Paragraph 8 of this Section II and Paragraph 2 of Section III.
- B. Use and service of equipment and facilities furnished by Operator as provided in Paragraph 5 of Section IV.

7. 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 any other cause, except to the extent that the damage or loss could have been avoided through the exercise of reasonable diligence on the part of Operator. Operator shall furnish Non-Operators written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

8. Legal Expense

All costs and expenses of handling, investigating and settling litigation or claims arising by reason of the Joint Operations or necessary to protect or recover the Joint Property, including, but not limited to, attorneys' fees, court costs, cost of investigation and procuring evidence and amounts paid in settlement or satisfaction of any such litigation or claims; provided, (a) no charge shall be made for the services of Operator's legal staff or other regularly employed personnel (such services being considered to be Administrative Overhead under Section III), except by agreement with Non-Operators, and (b) no charge shall be made for the fees and expenses of outside attorneys unless the employment of such attorneys is agreed to by Operator and Non-Operators.

9. 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.

10. Insurance Premiums

Premiums paid for insurance required to be carried on the Joint Property for the protection of the Parties.

11. Other Expenditures

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

III. INDIRECT CHARGES

Operator may charge the Joint Account for indirect costs either by use of an allocation of district expense items at a fixed rate for administrative overhead, and plus the warehousing charges, all as provided for in Paragraphs 1, 2, and 3 of this Section III OR by combining all three of said items under the fixed rate provided for in Paragraph 4 of this Section III, as indicated next below:

OPERATOR SHALL CHARGE THE JOINT ACCOUNT UNDER THE TERMS OF:

- Paragraphs 1, 2 and 3. (Allocation of district expense plus fixed rate for administrative overhead plus warehousing.)
- Paragraph 4. (Combined fixed rate)

1. District Expense

Operator shall charge the Joint Account with a pro rata portion of the salaries, wages and expenses of Operator's production superintendent and other employees serving the Joint Property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's office located at or near (or a comparable office if location changed), and necessary sub-offices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in connection with the operations of the Joint Property and other properties in the same operating area. The expense of, less any revenue from, such facilities may, at the option of Operator, include depreciation of investment or a fair monthly rental in lieu of depreciation. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.

2. Administrative Overhead

Operator shall charge administrative overhead to the Joint Account at the following rates, which charge shall be in lieu of the cost and expense of all offices of the Operator not covered by Paragraph 1 of this Section III, including salaries, wages and expenses of personnel assigned to such offices. Such charges shall be in addition to the salaries, wages and expenses of employees of Operator authorized to be charged as direct charges as provided in Paragraphs 2 and 8 of Section II.

WELL BASIS (RATE PER WELL PER MONTH)

Well Depth	DRILLING WELL RATES (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		All Wells Over Ten
	Each Well	First Five	Next Five	

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 this Paragraph 2 of Section III, unless such cost and expense are agreed upon between Operator and Non-Operators as a direct charge to the Joint Account.

3. **Operator's Fully Owned Warehouse Operating and Maintenance Expense**
(Describe fully the agreed procedure to be followed by the Operator.)

N O N E

1. **Combined Fixed Rates**

Operator shall charge the Joint Account for the services covered by Paragraph 1, 2 and 3 of this Section III, the following fixed per well rates:

WELL BASIS (RATE PER WELL, PER MONTH)

<u>Drilling Wells</u>	<u>Production All Wells-All Depths</u>
\$1,460	\$205

Said fixed rate (shall) ~~(shall not)~~ include salaries and expenses of production foremen.

5. **Application of Administrative Overhead or Combined Fixed Rates**

The following limitations, instructions and charges shall apply in the application of the per well rates as provided under either Paragraph 2 or Paragraph 4 of this Section III:

- A. Charges for drilling wells shall begin on the date each well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.
 - B. The status of wells shall be as follows:
 - (1) Producing gas wells, injection wells for recovery operations, water supply wells utilized for water flooding operations and salt water disposal wells shall be considered the same as producing wells.
 - (2) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the well schedule at the time the shutdown is effected. When such a well is plugged a charge shall be made at the producing well rates.
 - (3) Wells being plugged back, drilled deeper, converted to a source or input well, or which are undergoing any type of workover that requires the use of a drilling or workover rig shall be considered the same as drilling wells.
 - (4) Temporarily shut-down wells, which are not produced or worked upon for a period of a full calendar month, shall not be included in the well schedule, provided however, wells shut in by governmental regulatory body shall be included in the well schedule only in the event the allowable production is transferred to some other well or wells on the Joint Property. In the event of a unit allowable, all wells capable of producing will be counted in determining the charge.
 - (5) Gas wells shall be included in the well schedule if directly connected to a permanent sales outlet even though temporarily shut in due to overproduction or failure of purchaser to take the allowed production.
 - (6) Wells completed in multiple horizons, in which the production is not commingled down hole, shall be considered as a producing well for each separately producing horizon.
 - C. The well rates shall apply to the total number of wells being drilled or operated under the agreement to which this Accounting Procedure is attached, irrespective of individual leases.
 - D. The well rates shall be adjusted on the first day of April of 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 preceding calendar year 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. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.
6. For the construction of compressor plants, water stations, secondary recovery systems, salt water disposal facilities, and other such projects, as distinguished from the more usual drilling and producing operations, Operator in addition to the Administrative Overhead or Combined Fixed Rates provided for in Paragraph 2 and 4 of this Section III, shall charge the Joint Account with an additional overhead charge as follows:
- A. Total cost less than \$25,000, no charge.
 - B. Total cost more than \$25,000 but less than \$100,000, 2.0% of total cost.
 - C. Total cost of \$100,000 or more, 2.0% of the first \$100,000 plus 1.0% of all over \$100,000 of total cost.
- Total cost shall mean the total 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 wells shall be excluded.
7. The specific rates provided for in this Section III may be amended from time to time by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

IV. BASIS OF CHARGES TO JOINT ACCOUNT

Subject to the further provisions of this Section IV, Operator will procure all Material and services for the Joint Property. At the Operator's option, Non-Operator may supply Material or services for the Joint Property.

1. **Purchases**

Material purchased and service procured shall be charged at the price paid by Operator after deduction of all discounts actually received.

2. **Material furnished from Operator's Warehouse or Other Properties**

A. **New Material (Condition "A")**

- (1) Tubular goods, two inch (2") and over, shall be priced on Eastern Mill base (i. e. Youngstown, Ohio; Lorain, Ohio; and Indiana Harbor, Indiana) on a minimum carload basis effective at date of movement and f. o. b. railway receiving point nearest the Joint Property, regardless of quantity. In equalized hauling charges, Operator is permitted to include ten cents (10c) per hundred-weight on all tubular goods furnished from his stocks in lieu of loading and unloading costs sustained.
- (2) Other Material shall be priced at the current replacement cost of the same kind of Material, effective at date of movement and f. o. b. the supply store or railway receiving point nearest the Joint Property where Material of the same kind is available.
- (3) The Joint Account shall not be credited with cash discounts applicable to prices provided for in this Paragraph 2 of Section IV.

B. **Used Material (Condition "B" and "C")**

- (1) Material in sound and serviceable condition and suitable for reuse without reconditioning, shall be classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material.
- (2) Material which cannot be classified as Condition "B" but which,
 - (a) After reconditioning will be further serviceable for original function as good secondhand Material (Condition "B"), or
 - (b) Is serviceable for original function but substantially not suitable for reconditioning, shall be classified as Condition "C" and priced at fifty per cent (50%) of current new price.
- (3) Obsolete Material or Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use. Material no longer suitable for its original purpose but usable for

some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose.

- (4) 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 prices specified in Paragraphs 1 and 2 of this Section IV 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 procuring such Material, in making it suitable for use, and in moving it to the Joint Property, provided, that 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 10 days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished by Operator

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

5. Equipment and Facilities Furnished by Operator

A. Operator shall charge the Joint Account for use of equipment and facilities at rates commensurate with cost of ownership and operation. Such rates shall include cost of maintenance, repairs, other operating expense, insurance, taxes, depreciation and interest on investment not to exceed six per cent (6%) per annum, provided such rates shall not exceed those currently prevailing in the immediate area within which the Joint Property is located. Rates for automotive equipment shall generally be in line with the schedule of rates adopted by the Petroleum Motor Transport Association, or some other recognized organization, as recommended uniform charges against Joint Property operations. Rates for laboratory services shall not exceed those currently prevailing if performed by outside service laboratories. Rates for trucks, tractors and well service units may include wages and expenses of operator.

B. Whenever requested, Operator shall inform Non-Operators in advance of the rates it proposes to charge.

C. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

V. DISPOSAL OF MATERIAL

The Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus Condition "A" or "B" Material. The disposition of surplus Controllable Material, not purchased by Operator, shall be subject to agreement between Operator and Non-Operators, provided Operator shall dispose of normal accumulations of junk and scrap Material either by transfer or sale from the Joint Property.

1. Material Purchased by the Operator or Non-Operators

Material purchased by either the Operator or Non-Operators shall be credited by the Operator to the Joint Account for the month in which the Material is removed by the purchaser.

2. Division in Kind

Division of Material in kind, if made between Operator and Non-Operators, shall be in proportion to the respective interests in such Material. The Parties will thereupon be charged individually with the value of the Material received or receivable. Proper credits shall be made by the Operator in the monthly statement of operations.

3. Sales to Outsiders

Sales to outsiders of Material from the Joint Property shall be credited by Operator to the Joint Account at the net amount collected by Operator from vendee. Any claim by vendee related to such sale shall be charged back to the Joint Account if and when paid by Operator.

VI. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operators or divided in kind, unless otherwise agreed to between Operator and Non-Operators shall be priced on the following basis:

1. New Price Defined

New price as used in this Section VI shall be the price specified for New Material in Section IV.

2. New Material

New Material (Condition "A"), being new Material procured for the Joint Property but never used, at one hundred per cent (100%) of current new price (plus sales tax if any).

3. Good Used Material

Good used Material (Condition "B"), being used Material in sound and serviceable condition, suitable for reuse without reconditioning:

A. At seventy-five per cent (75%) of current new price if Material was charged to Joint Account as new, or

B. At sixty-five per cent (65%) of current new price if Material was originally charged to the Joint Account as secondhand at seventy-five percent (75%) of new price.

4. Other Used Material

Used Material (Condition "C"), at fifty per cent (50%) of current new price, being used Material which:

A. Is not in sound and serviceable condition but suitable for reuse after reconditioning; or

B. Is serviceable for original function but not suitable for reconditioning.

5. Bad-Order Material

Material (Condition "D"), no longer suitable for its original purpose without excessive repair cost but usable for some other purpose at a price comparable with that of items normally used for such other purpose.

6. Junk Material

Junk Material (Condition "E"), being obsolete and scrap Material, at prevailing prices.

7. Temporarily Used Material

When the use of Material is temporary and its service to the Joint Property does not justify the reduction in price as provided for in Paragraph 3 B of this Section VI, such Material shall be priced on a basis that will leave a net charge to the Joint Account consistent with the value of the service rendered.

VII. INVENTORIES

The Operator shall maintain detailed records of Material generally considered controllable by the Industry.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Material, which shall include all such Material as is ordinarily considered controllable. 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, who shall in that event furnish Non-Operators with a copy thereof.

2. Reconciliation and Adjustment of Inventories

Reconciliation of inventory with charges to the Joint Account shall be made, and a list of overages and shortages shall be jointly determined by Operator and Non-Operators. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable to Non-Operator only for shortages due to lack of reasonable diligence.

3. Special Inventories

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

EXHIBIT "D"

Attached to and made a part of Operating Agreement dated June 11, 1973, between CITIES SERVICE OIL COMPANY, as Operator, and MOBIL OIL CORPORATION, et al, as Non-Operators.

(NO UNLEASED MINERAL INTEREST BEING CONTRIBUTED)

EXHIBIT "E" - Attached to and made a part of Operating Agreement dated June 11, 1973, between CITIES SERVICE OIL COMPANY, as Operator, and MOBIL OIL CORPORATION, et al, as Non-Operators.

GAS STORAGE AND BALANCING AGREEMENT

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

In accordance with the terms of the Operating Agreement, each party thereto has the right to take its share of gas produced from the Unit Area and market the same. In the event any of the parties hereto is at any time not taking or marketing its share of gas or has contracted to sell its share of gas produced from the Unit Area to a purchaser which is unable at any time while this agreement is in effect to take the share of gas attributable to the interest of such party, the terms of this storage agreement shall automatically become effective.

During the period or periods when any party hereto is not taking or marketing its share of gas produced from the Unit Area, or its purchaser is unable to take its share of gas produced from the Unit Area, the other parties shall be entitled to produce each month one hundred percent (100%) of the allowable gas production assigned to such Unit by the New Mexico Oil Conservation Commission and shall be entitled to take and deliver to its or their purchaser all of such gas production; however, no party shall be entitled to take or deliver to a purchaser gas production in excess of three hundred percent (300%) of its current share of the volumes capable of being delivered or of the allowable gas production if assigned thereto by the New Mexico Oil Conservation Commission unless that party has gas in storage. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this gas storage agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser. On an accumulative basis, each party not taking or marketing its share of the gas produced shall be credited with gas in storage equal to its share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost.

Each party taking gas shall furnish the Operator a monthly statement of gas taken. The statement shall show the volume and value of gas utilized (other than for unit operations), the volume of gas sold and the proceeds therefrom, the production taxes due on such gas, and the basic royalty due on such gas. ("Basic royalty" as used herein shall mean the usual one-eighth (1/8) royalty and "excess royalty" as used herein shall mean any royalty in excess of the usual one-eighth (1/8) but not including overriding royalty, production payment, or similar interest.) Each party shall pay or make arrangements to have the basic royalty attributable to the production it receives paid to the Operator. The Operator will make settlement with royalty owners for basic royalty and excess royalty. Each party having an interest burdened with an excess royalty shall reimburse Operator for such excess royalty upon being invoiced therefor. Each party having an interest burdened with any overriding royalty, production payment, or similar interest shall be responsible for the payment of such overriding royalty, production payment, or similar interest. Each party taking gas shall pay or cause to be paid all production taxes due on the gas taken. The Operator will maintain a current account of the gas balance between the parties and will furnish all parties a monthly statement showing the total quantity of gas taken and/or sold by each party and the monthly accumulative over and under delivered of each party. Each party taking gas agrees to hold each other party harmless from any and all claims for basic royalty asserted by royalty owners on such gas.

After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its share of the gas produced from the Unit Area. In addition to its share, each party, including the Operator, until it has recovered its gas in storage and balanced the gas account as to its interest, shall be entitled to take or deliver to a purchaser a volume of gas equal to fifty percent (50%) of the overproduced party or parties' share of gas produced from the Unit Area. If two or more parties are entitled to fifty percent (50%) of the overpro-

duced party or parties' share of gas produced, they shall divide such fifty percent (50%) in accordance with their percentage of participation in the Unit.

Should production of gas be discontinued before the gas account is balanced, a monetary settlement will be made between the underproduced and overproduced parties. In making such settlement, each overproduced party shall remit to the Operator an amount of money that such party received for its overproduction, less royalty and taxes theretofore paid, such amount being at the price hereinafter defined for its last sales and for a volume of gas equal to its overproduction. As to gas sold in interstate commerce, the price basis shall be the rate collected, which is not subject to possible refund, as provided by the Federal Power Commission pursuant to final order or settlement applicable to the gas sold, plus any additional collected amount which is not ultimately required by said Commission to be refunded, such additional collected amount to be accounted for at such time as final determination is made with respect thereto. The Operator shall distribute the total of such amounts among the underproduced parties in the proportion that the underproduction of each bears to the underproduction of all parties.

The parties hereto shall have the right to produce and take or deliver to its purchaser the full well stream for a period not to exceed seventy-two (72) hours to meet the deliverability test required by its purchaser; provided, however, no more than two (2) such tests will be conducted in any twelve (12) month period. Each party shall, at all times, use its best efforts to regulate its takes and deliveries from said Unit so that said Unit will not be shut in for overproducing the allowable or for cancellation of allowable because of underproducing the allowable assigned thereto by the state regulatory body.

The provisions of this agreement shall be applied to each well and/or formation completion as if each well or formation completion were a separate well and covered by a separate but identical gas storage and balancing agreement and shall be and remain in force and effect for a term concurrent with the term of the Unit Operating Agreement between the parties.

This agreement shall become effective in accordance with its terms and shall remain in force and effect as long as the Operating Agreement to which it is attached remains in effect, and shall inure to the benefit of and be binding upon the parties hereto, their successors, legal representatives and assigns.

EXHIBIT "F" - Attached to and made a part of Operating Agreement dated June 11, 1973, between CITIES SERVICE OIL COMPANY, as Operator, and MOBIL OIL CORPORATION, et al, as Non-Operators.

EQUAL EMPLOYMENT OPPORTUNITY PROVISION

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

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

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

3. The Operator will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

4. The Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.

5. The Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to its books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

6. In the event of Operator's non-compliance with the non-discrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be cancelled, terminated or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rules, regulations, or order of the Secretary of Labor, or as otherwise provided by law.

7. The Operator will include the provisions of paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Operator will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for non-compliance: Provided, however, that in the event the Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interests of the United States.

Operator acknowledges that it may be required to file Standard Form 100 (EEO-1) promulgated jointly by the Office of Federal Contract Compliance, the Equal

EXHIBIT "F"
Page Two

Employment Opportunity Commission and Plans for Progress with the appropriate agency within thirty (30) days of the date of contract award if such report has not been filed for the current year and otherwise comply with or file such other compliance reports as may be required under Executive Order 11246, as amended, and Rules and Regulations adopted thereunder.

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

CERTIFICATION OF NON-SEGREGATED FACILITIES

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

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

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