

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

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

September 14, 1983,

OPERATOR Ammex Petroleum, Inc.

CONTRACT AREA Section 28 ; S/2 SE/4, S/2 NE/4

Twp 23 South, Rng 28 East N.M.P.M.

COUNTY OR PARISH OF Eddy STATE OF New Mexico

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

BEFORE EXAMINER STOGNER
OIL CONSERVATION DIVISION
Ammex EXHIBIT NO. 5
CASE NO. 8048

TABLE OF CONTENTS

<u>Article</u>	<u>Title</u>	<u>Page</u>
I.	DEFINITIONS	1
II.	EXHIBITS	1
III.	INTERESTS OF PARTIES	2
	A. OIL AND GAS INTERESTS	2
	B. INTEREST OF PARTIES IN COSTS AND PRODUCTION	2
IV.	TITLES	2
	A. TITLE EXAMINATION	2
	B. LOSS OF TITLE	2
	1. Failure of Title	2-3
	2. Loss by Non-Payment or Erroneous Payment of Amount Due	3
	3. Other Losses	3
V.	OPERATOR	3
	A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR	3
	B. RESIGNATION OR REMOVAL OF OPERATOR AND SELECTION OF SUCCESSOR	4
	1. Resignation or Removal of Operator	4
	2. Selection of Successor Operator	4
	C. EMPLOYEES	4
	D. DRILLING CONTRACTS	4
VI.	DRILLING AND DEVELOPMENT	4
	A. INITIAL WELL	4
	B. SUBSEQUENT OPERATIONS	5
	1. Proposed Operations	5
	2. Operations by Less than All Parties	5-6
	C. RIGHT TO TAKE PRODUCTION IN KIND	6-7
	D. ACCESS TO CONTRACT AREA AND INFORMATION	7
	E. ABANDONMENT OF WELLS	7
	1. Abandonment of Dry Holes	7
	2. Abandonment of Wells that have Produced	7-8
VII.	EXPENDITURES AND LIABILITY OF PARTIES	8
	A. LIABILITY OF PARTIES	8
	B. LIENS AND PAYMENT DEFAULTS	8
	C. PAYMENTS AND ACCOUNTING	8
	D. LIMITATION OF EXPENDITURES	9
	1. Drill or Deepen	9
	2. Rework or Plug Back	9
	3. Other Operations	9
	E. ROYALTIES, OVERRIDING ROYALTIES AND OTHER PAYMENTS	9
	F. RENTALS, SHUT-IN WELL PAYMENTS AND MINIMUM ROYALTIES	9-10
	G. TAXES	10
	H. INSURANCE	10
VIII.	ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST	10
	A. SURRENDER OF LEASES	10-11
	B. RENEWAL OR EXTENSION OF LEASES	11
	C. NO AUTOMATIC NOVATION	11
	D. SUBSEQUENTLY CREATED INTEREST	11-12
	E. MAINTENANCE OF UNIFORM INTEREST	12
	F. WAIVER OF RIGHT TO PARTITION	12
	G. PREFERENTIAL RIGHT TO PURCHASE	12
IX.	INTERNAL REVENUE CODE ELECTION	12-13
X.	CLAIMS AND LAWSUITS	13
XI.	FORCE MAJEURE	13
XII.	NOTICES	13
XIII.	TERM OF AGREEMENT	13-14
XIV.	COMPLIANCE WITH LAWS AND REGULATIONS	14
	A. LAWS, REGULATIONS AND ORDERS	14
	B. GOVERNING LAW	14
XV.	OTHER PROVISIONS	14
XVI.	MISCELLANEOUS	15

OPERATING AGREEMENT

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

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

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

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

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

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

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

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

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

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

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

I. The terms "deepen", "deepened", "deepening" and "deeper drilling", as used in this agreement shall be deemed to include sidetracking operations.

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

ARTICLE II.
EXHIBITS

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

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

- (1) Identification of lands subject to agreement,
- (2) Restrictions, if any, as to depths or formations,
- (3) Percentages or fractional interests of parties to this agreement,
- (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
- (5) Addresses of parties for notice purposes.

B. Exhibit "B", Form of Lease.

C. Exhibit "C", Accounting Procedure.

D. Exhibit "D", Insurance.

E. Exhibit "E", Gas Balancing Agreement.

F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.

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

**ARTICLE III.
INTERESTS OF PARTIES**

A. Oil and Gas Interests:

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

B. Interest of Parties in Costs and Production:

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

**ARTICLE IV.
TITLES**

A. Title Examination:

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

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

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

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

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

B. Loss of Title:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2
3 1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice
4 thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest in the
5 Contract Area, or is no longer capable of serving as Operator, it shall cease to be Operator without any
6 action by Non-Operator, except the selection of a successor. Operator may be removed if it fails or
7 refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership,
8 by the affirmative vote of two (2) or more Non-Operators owning a majority interest based on owner-
9 ship as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting
10 interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M.
11 on the first day of the calendar month following the expiration of ninety (90) days after the giving of
12 notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor
13 Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effect-
14 ive date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of
15 a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary,
16 parent or successor corporation shall not be the basis for removal of Operator.
17

18 2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Op-
19 erator shall be selected by the Parties. The successor Operator shall be selected from the parties owning
20 an interest in the Contract Area at the time such successor Operator is selected. If the Operator that
21 is removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the
22 affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown
23 on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of the
24 Operator that was removed.
25

26 **C. Employees:**

27
28 The number of employees used by Operator in conducting operations hereunder, their selection,
29 and the hours of labor and the compensation for services performed, shall be determined by Operator,
30 and all such employees shall be the employees of Operator.
31

32 **D. Drilling Contracts:**

33
34 All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual
35 rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the
36 drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate
37 of such charges shall be agreed upon by the parties in writing before drilling operations are com-
38 menced, and such work shall be performed by Operator under the same terms and conditions as are
39 customary and usual in the area in contracts of independent contractors who are doing work of a sim-
40 ilar nature.
41

42 **ARTICLE VI.**
43 **DRILLING AND DEVELOPMENT**

44
45 **A. Initial Well:**

46
47 ~~On or before the _____ day of _____, 19____, Operator shall commence the drill-~~
48 ~~ing of a well for oil and gas at the following location: a legal location upon the lands~~
49 ~~covered hereby; said location to be determined by the Operator.~~
50

51
52
53 ~~and shall thereafter continue the drilling of the well with due diligence to~~
54

55
56
57
58 ~~unless granite or other practically impenetrable substance or condition in the hole which renders~~
59 ~~further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or~~
60 ~~abandon the well at a lesser depth.~~
61

62 Operator shall make reasonable tests of all formations encountered during drilling which give in-
63 dication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited
64 in its application to a specific formation or formations, in which event Operator shall be required to
65 test only the formation or formations to which this agreement may apply.
66

67 If, in Operator's judgment, the well will not produce oil or gas in paying quantities, ~~and it wishes~~
68 ~~to plug and abandon the well as a dry hole, it shall first secure the consent of all parties and shall~~
69 ~~plug and abandon same as provided in Article VI.E.1. hereof.~~
70

1 **B. Subsequent Operations: ***

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

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

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

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

59
60 (a) 150% of each such Non-Consenting Party's share of the cost of any newly acquired surface
61 equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators,
62 treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the
63 cost of operation of the well commencing with first production and continuing until each such Non-
64 Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being
65 agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which
66 would have been chargeable to each Non-Consenting Party had it participated in the well from the be-
67 ginning of the operation; and

68
69 (b) 500 % of that portion of the costs and expenses of drilling reworking, deepening, or plugging
70 back, testing and completing, after deducting any cash contributions received under Article VIII.C., and
* This Section B shall be deemed to include all sidetracking operations and all other
operations which might be undertaken during the drilling, reworking, deepening
and/or plugging back of a well.

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

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

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

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

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

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

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

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

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

65
66 Each party shall have the right to take in kind or separately dispose of its proportionate share of
67 all oil and gas produced from the Contract Area, exclusive of production which may be used in de-
68 velopment and producing operations and in preparing and treating oil for marketing purposes and
69 production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate dispo-
70 sition by any party of its proportionate share of the production shall be borne by such party. Any

1 party taking its share of production in kind shall be required to pay for only its proportionate share
2 of such part of Operator's surface facilities which it uses.

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

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

21
22 In the event one or more parties' separate disposition of its share of the gas causes split-stream de-
23 liveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not
24 exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the
25 balancing or accounting between the respective accounts of the parties shall be in accordance with
26 any Gas Balancing Agreement between the parties hereto, whether such Agreement is attached as
27 Exhibit "E", or is a separate Agreement.

28 29 **D. Access to Contract Area and Information:**

30
31 Each party shall have access to the Contract Area at all reasonable times, at its sole risk to inspect
32 or observe operations, and shall have access at reasonable times to information pertaining to the de-
33 velopment or operation thereof, including Operator's books and records relating thereto. Operator, upon
34 request, shall furnish each of the other parties with copies of all forms or reports filed with govern-
35 mental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports
36 of stock on hand at the first of each month, and shall make available samples of any cores or cuttings
37 taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to
38 Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the
39 information.

40 41 **E. Abandonment of Wells:**

42
43 1. Abandonment of Dry Holes: Except for any well drilled pursuant to Article VI.B.2., any well
44 which has been drilled under the terms of this agreement and is proposed to be completed as a dry hole
45 may be plugged and abandoned without the consent of all parties. ~~Should Operator, after diligent~~
46 ~~effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours~~
47 ~~(exclusive of Saturday, Sunday or legal holidays) after receipt of notice of the proposal to plug and~~
48 ~~abandon such well, such party shall be deemed to have consented to the proposed abandonment.~~ All
49 such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost,
50 risk and expense of the parties who participated in the cost of drilling of such well. Any party who ob-
51 jects to the plugging and abandoning such well shall ~~have the right~~ to take over the well and conduct
52 further operations in search of oil and/or gas subject to the provisions of Article VI.B.

53
54 2. Abandonment of Wells that have Produced: Except for any well which has been drilled or re-
55 worked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reim-
56 bursed as therein provided, any well which has been completed as a producer shall not be plugged and
57 abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall
58 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense
59 of all the parties hereto. If, within ten (10) days after receipt of notice of the proposed abandonment
60 of such well, all parties do not agree to the abandonment of any well, those wishing to continue its op-
61 eration shall tender to each of the other parties its proportionate share of the value of the well's salvable
62 material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated
63 cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall
64 assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity,
65 quality, or fitness for use of the equipment and material, all of its interest in the well and related equip-
66 ment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the
67 formation or formations then open to production. If the interest of the abandoning party is or includes
68 an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an
69 oil and gas lease, limited to the interval or intervals of the formation or formations then open to produc-
70 tion, for a term of one year and so long thereafter as oil and/or gas is produced from the interval or inter-

vals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Contract Area.

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon request, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well. Should Operator not receive either an election to take over or an agreement to abandon a particular well within the 10-day period allotted above, the non-responding party shall be deemed to have given its consent to abandon and shall be charged with the cost of abandoning attributable to its interest.

**ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES**

18 **A. Liability of Parties:**

19

20 The liability of the parties shall be several, not joint or collective. Each party shall be responsible
21 only for its obligations, and shall be liable only for its proportionate share of the costs of developing
22 and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are
23 given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall
24 this agreement be construed as creating, a mining or other partnership or association, or to render the
25 parties liable as partners.
26

B. Liens and Payment Defaults:

Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in the Accounting Procedure attached hereto as Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the State, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, in the event that the undersigned shall fail to make payment of their proportionate share of charges due hereunder, within 30 days following billing therefore, Operator, at its option from time to time, may deduct from any monies payable to the non-paying party from any well operated by Ammex those funds due Ammex under such billings. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

43

44 If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of
45 a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by
46 Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the in-
47 terest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimburse-
48 ment thereof, be subrogated to the security rights described in the foregoing paragraph.
49

50 **C. Payments and Accounting:**

51

52 Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses
53 incurred in the development and operation of the Contract Area pursuant to this agreement and shall
54 charge each of the parties hereto with their respective proportionate shares upon the expense basis pro-
55 vided in the Accounting Procedure attached hereto as Exhibit "C". Operator shall keep an accurate
56 record of the joint account hereunder, showing expenses incurred and charges and credits made and
57 received.
58

59 Operator, at its election, shall have the right from time to time to demand and receive from the
60 other parties payment in advance of their respective shares of the estimated amount of the expense to
61 be incurred in operations hereunder during the next succeeding month, which right may be exercised only
62 by submission to each such party of an itemized statement of such estimated expense, together with
63 an invoice for its share thereof. Each such statement and invoice for the payment in advance of esti-
64 mated expense shall be submitted on or before the 20th day of the next preceding month. Each party
65 shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such es-
66 timate and invoice is received. If any party fails to pay its share of said estimate within said time, the
67 amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be
68 made monthly between advances and actual expense to the end that each party shall bear and pay its
69 proportionate share of actual expenses incurred, and no more.
70

1 **D. Limitation of Expenditures:**

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

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

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

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

28
 29 3. Other Operations: Operator shall not undertake any single project reasonably estimated to require
 30 an expenditure in excess of Fifty Thousand and No/100 Dollars (\$ 50,000.00)
 31 except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plug-
 32 ging back of which has been previously authorized by or pursuant to this agreement; provided, how-
 33 ever, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different
 34 nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with
 35 the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emer-
 36 gency to the other parties. ~~If Operator prepares "Authority for Expenditures" for its own use,~~
 37 ~~Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project~~
 38 ~~costing in excess of _____ Dollars (\$ _____).~~

39
 40 **E. Royalties, Overriding Royalties and Other Payments:**

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

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

53
 54 **F. Rentals, Shut-in Well Payments and Minimum Royalties:**

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

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

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

3
 4 **G. Taxes:**

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

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

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

29
 30 **H. Insurance:**

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

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

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

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

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

53
 54 However, should any party desire to surrender its interest in any lease or in any portion thereof, and
 55 other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express
 56 or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and
 57 equipment which may be located thereon and any rights in production thereafter secured, to the parties
 58 not desiring to surrender it. If the interest of the assigning party includes an oil and gas interest, the as-
 59 signing party shall execute and deliver to the party or parties not desiring to surrender an oil and gas
 60 lease covering such oil and gas interest for a term of one year and so long thereafter as oil and/or gas
 61 is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B".
 62 Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing,
 63 but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon,
 64 and the assigning party shall have no further interest in the lease assigned and its equipment and pro-
 65 duction other than the royalties retained in any lease made under the terms of this Article. The parties
 66 assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells
 67 and equipment on the assigned acreage. The value of all material shall be determined in accordance
 68 with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plug-
 69 ging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall
 70

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

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

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

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

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

23
24 Each party who participates in the purchase of a renewal lease shall be given an assignment of its
25 proportionate interest therein by the acquiring party.

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

33
34 The provisions in this Article shall apply also and in like manner to extensions of oil and gas
35 leases.

C. No Automatic Novation:

Notwithstanding anything herein to the contrary, should any party hereto transfer any of its interest in the contract area, it is agreed and understood that any and all obligations to the other parties hereto, both prior and subsequent to such transfer of interest shall remain fully the obligations of the transferring party hereto whether or not they retain any interest in the area.

55 **D. Subsequently Created Interest:**

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

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

69
70

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

E. Maintenance of Uniform Interest:

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

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

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

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

F. Waiver of Right to Partition:

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

G. Preferential Right to Purchase:

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

**ARTICLE IX.
INTERNAL REVENUE CODE ELECTION**

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provisions herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for Federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No

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

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

12
 13 Operator may settle any single damage claim or suit arising from operations hereunder if the ex-
 14 penditure does not exceed Fifty Thousand and No/100 ----- Dollars
 15 (\$ 50,000.00) and if the payment is in complete settlement of such claim or suit. If the amount
 16 required for settlement exceeds the above amount, the parties hereto shall assume and take over the
 17 further handling of the claim or suit, unless such authority is delegated to Operator. All costs and ex-
 18 pense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense
 19 of the parties. If a claim is made against any party or if any party is sued on account of any matter
 20 arising from operations hereunder over which such individual has no control because of the rights given
 21 Operator by this agreement, the party shall immediately notify Operator, and the claim or suit shall
 22 be treated as any other claim or suit involving operations hereunder.

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

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

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

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

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

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

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

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

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

1 Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled
2 under any provision of this agreement, results in production of oil and/or gas in paying quantities, this
3 agreement shall continue in force so long as any such well or wells produce, or are capable of produc-
4 tion, and for an additional period of _____ days from cessation of all production; provided, however,
5 if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in
6 drilling or reworking a well or wells hereunder, this agreement shall continue in force until such op-
7 erations have been completed and if production results therefrom, this agreement shall continue in
8 force as provided herein. In the event the well described in Article VI.A., or any subsequent well
9 drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil
10 and/or gas from the Contract Area, this agreement shall terminate unless drilling or reworking opera-
11 tions are commenced within _____ days from the date of abandonment of said well.
12

13 It is agreed, however, that the termination of this agreement shall not relieve any party hereto from
14 any liability which has accrued or attached prior to the date of such termination.
15

16 **ARTICLE XIV.**
17 **COMPLIANCE WITH LAWS AND REGULATIONS**
18

19 **A. Laws, Regulations and Orders:**
20

21 This agreement shall be subject to the conservation laws of the state in which the committed
22 acreage is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of
23 said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and
24 orders.
25

26 **B. Governing Law:**
27

28 The essential validity of this agreement and all matters pertaining thereto, including, but not lim-
29 ited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and in-
30 terpretation or construction, shall be governed and determined by the law of the state in which the
31 Contract Area is located. If the Contract Area is in two or more states, the law of the state where most
32 of the land in the Contract Area is located shall govern.
33

34 **ARTICLE XV.**
35 **OTHER PROVISIONS**
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65
66
67
68
69
70



Advance of Well Costs:

Notwithstanding any other provisions herein, and in addition to those advance billing rights under Art. VII, G., Operator shall have the right to request and receive from each non-operator payment in advance of its respective share of (i) the dry hole cost for the initial well to be drilled under Art. VI.A., (ii) the dry hole cost for any other well to be drilled hereunder to which such non-operator has consented, and (iii) the cost of any completion, reworking, recompletion, side-tracking, deepening or plugging back operation to which such non-operator has consented (any such operation under clause (i), (ii) or (iii) being herein called a "Drilling Operation"). Such request for advance payment may be made upon all non-operators or upon any one or more of them to the exclusion of others. Such request for advance payment shall accompany the AFE and shall be payable by non-operator at the time such AFE is approved. Payment of an advance shall in no event relieve a non-operator of its obligation to pay its share of the actual cost of a Drilling Operation, and when the actual costs have been determined, Operator shall adjust the accounts of the parties by refunding without interest any net amounts due or invoicing the parties for additional sums owing, which additional sums shall be paid in accordance with the Accounting Procedure. In the event a non-operator from whom a request for advance payment was made does not pay the full amount thereof in cash or tender to Operator an irrevocable bank letter of credit or other cash equivalent security satisfactory to Operator for the full amount due, then Non-Operator shall be considered to be in default hereunder. If such default is not cured within two (2) days from the receipt of written or telegraphic notice of such default, then Non-operator shall relinquish its interest in such Drilling Operation and thereupon be relieved of any obligation for the cost thereof (and failure to make such payment or give such security within said two (2) day period shall be conclusively deemed to be an irrevocable election by such non-operator to relinquish its interest). In the event a non-operator elects or is deemed to have elected to relinquish its interest, then:

- (a) If the advance was requested for the drilling of the initial well under Art. VI.A., non-operator shall be deemed to have relinquished all such non-operator's interest in the drilling and spacing unit applicable to such well from the surface of the ground down to the base of the deepest common source of supply tested by the drilling of such well;
- (b) If the advance was requested for any other Drilling Operation (including completion of the initial well), non-operator shall be deemed to have relinquished an interest in the well to which the Drilling Operation relates computed in the same manner and with the same force and effect as if such non-operator had originally elected under Article VI.B.2. (and, if applicable, Option No. 2 of Art. VII.D.) not to participate in such Operation.

Operator shall promptly notify all other parties still participating in such Drilling Operation of the relinquishment of an interest under this paragraph. The interest relinquished shall be owned and all costs chargeable to such interest shall be paid by Operator and those non-operators still participating in such Drilling Operation who elect within ten (10) days from receipt of notice under the preceding sentence to share such relinquished interest, all in proportion to their working interests in such Drilling Operation.

The Non-operator who has relinquished its interest under the provisions of this paragraph shall execute appropriate assignments or other instruments necessary to document said relinquished interest. Operator shall have the right, by appropriate judicial remedies, to require Non-operator to execute such assignments or other documents as is necessary to establish rights under this paragraph.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65
66
67
68
69
70

ARTICLE XVI
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of 22 day of September, 1983.

OPERATOR

AMMEX PETROLEUM, INC.

Attest: [Signature]
Name: Mark A. Haralson
Title: Landman

[Signature]
Name: Vince E. Johnson
Title: Vice President

NON-OPERATORS

Attest/Witness: _____
Name: _____
Title: _____

Name: _____
Title: _____

Attest/Witness: _____
Name: _____
Title: _____

Name: _____
Title: _____

EXHIBIT "A"

Attached to and made part of that certain Operating Agreement wherein AMMEX PETROLEUM, INC. is named as OPERATOR

CONTRACT AREA: (Acreage as included in the proration unit for that particular well)

SE/4 SE/4 Section 28, T 23 S, R 28 E, N.M.P.M.

RESTRICTION AS TO DEPTH: Surface to fifty (50) feet below TD or the stratigraphic equivalent of the base of the Bone Springs Formation, whichever is the lesser depth.

WORKING INTEREST OF THE PARTIES:

Surface to 5500 Ft.:

	<u>Before Payout</u>	<u>*After Payout</u>
Ammex Petroleum, Inc.	72.2839	72.2839
Eurlah Exploration, Inc.	15.2161	15.2161
Unleased	12.5	12.5

5500 ft to base of Bone Springs:		
Ammex Petroleum, Inc.	82.9089	82.9089
Eurlah Exploration, Inc.	17.0911	17.0911

ADDRESSES OF THE PARTIES:

Ammex Petroleum, Inc. P O Box 10507 Midland, Tx 79702	Eurlah Exploration, Inc. 1604 W. Front St. Midland, Tx 79701
-------------------------------------------------------------	--------------------------------------------------------------------

Exhibit B Attached to and made part of that certain Operating Agreement

Producers 88 (7-69)
With 640 Acres Pooling Provision

Wherein AMMEX PETROLEUM, INC. is named as
OPERATOR

POUND PRINTING & STATIONERY COMPANY
2325 FANNIN, HOUSTON, TEXAS 77002, (713) 659-3159

OIL, GAS AND MINERAL LEASE

THIS AGREEMENT made this day of 19....., between

lessor (whether one or more), whose address is:
and lessee, WITNESSETH:

1. Lessor, in consideration of Dollars, receipt of which is hereby acknowledged, and of the covenants and agreements of lessee hereinafter contained, does hereby grant, lease and let unto lessee the land covered hereby for the purposes and with the exclusive right of exploring, drilling, mining and operating for, producing and owning oil, gas, sulphur and all other minerals (whether or not similar to those mentioned), together with the right to make surveys on said land, lay pipe lines, establish and utilize facilities for surface or subsurface disposal of salt water, construct roads and bridges, dig canals, build tanks, power stations, telephone lines, employee houses and other structures on said land, necessary or useful in lessee's operations in exploring, drilling for, producing, treating, storing and transporting minerals produced from the land covered hereby or any other land adjacent thereto. The land covered hereby, herein called "said land", is located in the County of State of and is described as follows:

This lease also covers and includes, in addition to that above described, all land, if any, contiguous or adjacent to or adjoining the land above described and (a) owned or claimed by lessor by limitation, prescription, possession, reversion or unrecorded instrument or (b) as to which lessor has a preference right of acquisition. Lessor agrees to execute any supplemental instrument requested by lessee for a more complete or accurate description of said land. For the purpose of determining the amount of any bonus, delay rental or other payment hereunder, said land shall be deemed to contain acres, whether actually containing more or less, and the above recital of acreage in any tract shall be deemed to be the true acreage thereof. Lessor accepts the bonus and agrees to accept the delay rental as lump sum considerations for this lease and all rights and options hereunder.

2. Unless sooner terminated or longer kept in force under other provisions hereof, this lease shall remain in force for a term of ten (10) years from the date hereof, hereinafter called "primary term", and as long thereafter as operations, as hereinafter defined, are conducted upon said land with no cessation for more than ninety (90) consecutive days.

3. As royalty, lessee covenants and agrees: (a) To deliver to the credit of lessor, in the pipe line to which lessee may connect its wells, the equal one-eighth part of all oil produced and saved by lessee from said land, or from time to time, at the option of lessee, to pay lessor the average posted market price of such one-eighth part of such oil at the wells as of the day it is run to the pipe line or storage tanks, lessor's interest, in either case, to bear one-eighth of the cost of treating oil to render it marketable pipe line oil; (b) To pay lessor on gas and casinghead gas produced from said land (1) when sold by lessee, one-eighth of the amount realized by lessee, computed at the mouth of the well, or (2) when used by lessee off said land or in the manufacture of gasoline or other products, the market value, at the mouth of the well, of one-eighth of such gas and casinghead gas; (c) To pay lessor on all other minerals mined and marketed or utilized by lessee from said land, one-tenth either in kind or value at the well or mine at lessee's election, except that on sulphur mined and marketed the royalty shall be one dollar (\$1.00) per long ton. If, at the expiration of the primary term or at any time or times thereafter, there is any well on said land or on lands with which said land or any portion thereof has been pooled, capable of producing oil or gas, and all such wells are shut-in, this lease shall, nevertheless, continue in force as though operations were being conducted on said land for so long as said wells are shut-in, and thereafter this lease may be continued in force as if no shut-in had occurred. Lessee covenants and agrees to use reasonable diligence to produce, utilize, or market the minerals capable of being produced from said wells, but in the exercise of such diligence, lessee shall not be obligated to install or furnish facilities other than well facilities and ordinary lease facilities of flow lines, separator, and lease tank, and shall not be required to settle labor trouble or to market gas upon terms unacceptable to lessee. If, at any time or times after the expiration of the primary term, all such wells are shut-in for a period of ninety consecutive days, and during such time there are no operations on said land, then at or before the expiration of said ninety day period, lessee shall pay or tender, by check or draft of lessee, as royalty, a sum equal to the amount of annual delay rental provided for in this lease. Lessee shall make like payments or tenders at or before the end of each anniversary of the expiration of said ninety day period if upon such anniversary this lease is being continued in force solely by reason of the provisions of this paragraph. Each such payment or tender shall be made to the parties who at the time of payment would be entitled to receive the royalties which would be paid under this lease if the wells were producing, and may be deposited in a depository bank provided for below. Nothing herein shall impair lessee's right to release as provided in paragraph 5 hereof. In event of assignment of this lease in whole or in part, liability for payment hereunder shall rest exclusively on the then owner or owners of this lease, severally as to acreage owned by each.

4. Lessee is hereby granted the right, at its option, to pool or unitize any land covered by this lease with any other land covered by this lease, and/or with any other land, lease, or leases, as to any or all minerals or horizons, so as to establish units containing not more than 80 surface acres, plus 10% acreage tolerance; provided, however, units may be established as to any one or more horizons, or existing units may be enlarged as to any one or more horizons, so as to contain not more than 640 surface acres plus 10% acreage tolerance, if limited to one or more of the following: (1) gas, other than casinghead gas, (2) liquid hydrocarbons (condensate) which are not liquids in the subsurface reservoir, (3) minerals produced from wells classified as gas wells by the conservation agency having jurisdiction. If larger units than any of those herein permitted, either at the time established, or after enlargement, are required under any governmental rule or order, for the drilling or operation of a well at a regular location, or for obtaining maximum allowable from any well to be drilled, drilling, or already drilled, any such unit may be established or enlarged to conform to the size required by such governmental order or rule. Lessee shall exercise said option as to each desired unit by executing an instrument identifying such unit and filing it for record in the public office in which this lease is recorded. Each of said options may be exercised by lessee at any time and from time to time while this lease is in force, and whether before or after production has been established either on said land, or on the portion of said land included in the unit, or on other land unitized therewith. A unit established hereunder shall be valid and effective for all purposes of this lease even though there may be mineral, royalty, or leasehold interests in lands within the unit which are not effectively pooled or unitized. Any operations conducted on any part of such unitized land shall be considered, for all purposes, except the payment of royalty, operations conducted upon said land under this lease. There shall be allocated to the land covered by this lease within each such unit (or to each separate tract within the unit if this lease covers separate tracts within the unit) that proportion of the total production of unitized minerals from the unit, after deducting any used in lease or unit operations, which the number of surface acres in such land (or in each such separate tract) covered by this lease within the unit bears to the total number of surface acres in the unit, and the production so allocated shall be considered for all purposes, including payment or delivery of royalty, overriding royalty and any other payments out of production, to be the entire production of unitized minerals from the land to which allocated in the same manner as though produced therefrom under the terms of this lease. The owner of the reversionary estate of any term royalty or mineral estate agrees that the accrual of royalties pursuant to this paragraph or of shut-in royalties from a well on the unit shall satisfy any limitation of term requiring production of oil or gas. The formation of any unit hereunder which includes land not covered by this lease shall not have the effect of exchanging or transferring any interest under this lease (including, without limitation, any delay rental and shut-in royalty which may become payable under this lease) between parties owning interests in land covered by this lease and parties owning interests in land not covered by this lease. Neither shall it impair the right of lessee to release as provided in paragraph 5 hereof, except that lessee may not so release as to lands within a unit while there are operations thereon for unitized minerals unless all pooled leases are released as to lands within the unit. At any time while this lease is in force lessee may dissolve any unit established hereunder by filing for record in the public office where this lease is recorded a declaration to that effect, if at that time no operations are being conducted thereon for unitized minerals. Subject to the provisions of this paragraph 4, a unit once established hereunder shall remain in force so long as any lease subject thereto shall remain in force. If this lease now or hereafter covers separate tracts, no pooling or unitization of royalty interests as between any such separate tracts is intended or shall be implied or result merely from the inclusion of such separate tracts within this lease but lessee shall nevertheless have the right to pool or unitize as provided in this paragraph 4 with consequent allocation of production as herein provided. As used in this paragraph 4, the words "separate tract" mean any tract with royalty ownership differing, now or hereafter, either as to parties or amounts, from that as to any other part of the leased premises.

5. If operations are not conducted on said land on or before the first anniversary date hereof, this lease shall terminate as to both parties, unless lessee on or before said date shall, subject to the further provisions hereof, pay or tender to lessor or to lessor's credit in the

Bank at or its successors, which shall continue as the depository, regardless of changes in ownership of delay rental, royalties, or other moneys, the sum of \$..... which shall operate as delay rental and cover the privilege of deferring operations for one year from said date. In like manner and upon like payments or tenders, operations may be further deferred for like periods of one year each during the primary term. If at any time that lessee pays or tenders delay rental, royalties, or other moneys, two or more parties are, or claim to be, entitled to receive same, lessee may, in lieu of any other method of payment herein provided, pay or tender such rental, royalties, or other moneys, in the manner herein specified, either jointly to such parties or separately to each in accordance with their respective ownerships thereof, as lessee may elect. Any payment hereunder may be made by check or draft of lessee deposited in the mail or delivered to lessor or to a depository bank on or before the last date for payment. Said delay rental shall be apportionable as to said land on an acreage basis, and a failure to make proper payment or tender of delay rental as to any portion of said land or as to any interest therein shall not affect this lease as to any portion of said land or as to any interest therein as to which proper payment or tender is made. Any payment or tender which is made in an attempt to make proper payment, but which is erroneous in whole or in part as to parties, amounts, or depository shall nevertheless be sufficient to prevent termination of this lease and to extend the time within which operations may be conducted in the same manner as though a proper payment had been made; provided, however, lessee shall correct such error within thirty (30) days after lessee has received written notice thereof from lessor. Lessee may at any time and from time to time execute and deliver to lessor or file for record a release or releases of this lease as to any part or all of said land or of any mineral or horizon thereunder, and thereby be relieved of all obligations as to the released acreage or interest. If this lease is so released as to all minerals and horizons under a portion of said land, the delay rental and other payments computed in accordance therewith shall thereupon be reduced in the proportion that the acreage released bears to the acreage which was covered by this lease immediately prior to such release.

EXHIBIT " C "

Attached to and made a part of that certain OPERATING AGREEMENT
wherein AMMEX PETROLEUM, INC. is named as OPERATOR

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of eighteen percent (18%) ^{pe} annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

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

5. Audits

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

6. Approval by Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

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

2. Labor

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

3. Employee Benefits

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

4. Material

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

5. Transportation

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

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

6. Services

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

7. Equipment and Facilities Furnished by Operator

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

8. Damages and Losses to Joint Property

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

9. Legal Expense

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

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

~~2. Overhead - Major Construction~~

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

- ~~A. _____ % of total costs if such costs are more than \$ _____ but less than \$ _____; plus
B. _____ % of total costs in excess of \$ _____ but less than \$1,000,000; plus
C. _____ % of total costs in excess of \$1,000,000.~~

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

3. Amendment of Rates

The Overhead rates provided for in this Section III may be amended from time to time ^{at the operator's discretion} ~~only by mutual agreement between the Parties hereto~~ if, in practice, the rates are found to be insufficient or excessive, as indicated by the Consumer Price Index or any other authoritative industry guidelines.

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

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

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

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

(2) Material moved from the Joint Property

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

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

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

C. Other Used Material (Condition C and D)

(1) Condition C

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

(2) Condition D

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

D. Obsolete Material

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

E. Pricing Conditions

- (1) Loading and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.
- (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

4. Expense of Conducting Periodic Inventories

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

VI.

1. All working interest owners will share to the extent of their stated pro-rata interest in any and all geophysical and/or geological evaluation costs that might arise in the given contract area.
2. All working interest owners agree to pay their full pro-rata portion of the "actual" cost of drilling, completing and equipping the wells.

Exhibit " D "

Attached to and made a part of Operating Agreement
wherein AMMEX PETROLEUM, INC. is named as OPERATOR

1. Insurance:

The Operator at all times while performing work hereunder maintains the following insurance:

- a. Control of Well Insurance through Craven, Dargen & Co., with \$2,000,000 Combined Limit of Liability.
- b. Completed Operating and Products Liability Insurance through Northeastern Fire Insurance Company with \$500,000 Bodily Injury and \$100,000 Property Damage.
- c. Comprehensive Automobile Liability through the Home Indemnity Company with \$250,000/500,000 Bodily Injury, \$100,000 Property Damage.
- d. Workmen's Compensation Insurance through the Home Indemnity Co.
- e. Umbrella Coverage through the Habor Insurance Company with \$2,000,000 coverage.

Operator shall require that each independent contractor and sub-contractor carry and maintain insurance at his own expense in amounts deemed necessary to cover the risks inherent to the work or services being performed. The operator will furnish, or cause to be furnished evidence of insurance coverage maintained by its contractors and sub-contractors when requested by non-operator.

EXHIBIT "E"

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT DATED
IN WHICH AMMEX PETROLEUM, INC. IS OPERATOR.

GAS BALANCING AGREEMENT

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

Each party has made (or will make) arrangements to sell or utilize its share of the gas well gas produced from the Contract Area. However, the respective gas markets of the parties may be limited from time to time; therefore, to permit the parties as much flexibility as possible in meeting the demands of their respective markets, the parties hereto agree to the following storage arrangement:

Section 1.

From and after the date of initial delivery of gas well gas from any proration unit within the Contract Area, during any period when the market of a party is not sufficient to take that party's full share of the gas well gas produced, the other parties shall be entitled to produce each month, in addition to their own share of production, that portion of any other party's share of production which said party is unable to market, or its purchaser does not take, of the allowable gas production assigned to such proration unit by the appropriate regulatory authority having jurisdiction in the premises or at the maximum efficient rate, if no such allowable gas production is so assigned, except, however, that no party shall be entitled to take or deliver to a purchaser gas production in excess of three hundred percent (300%) of its share of allowable gas production or maximum efficient rate unless that party has gas in storage. The parties hereto shall share in and own the lease condensate (liquid hydrocarbons recovered from such gas by lease equipment) in accordance with their respective above specified interests, upon and subject to the terms of the Operating Agreement.

Section 2.

A party taking less than its full share of the gas well gas produced shall be credited with gas in storage on a BTU basis equal to its full share of the total gas well gas produced, less such party's share of such gas used in lease operations or vented or lost, and less that portion of such gas such party took or delivered to the purchaser. Operator will maintain a running account of the gas balance as between the parties hereto and will furnish each party monthly statements showing the total quantity of gas well gas produced, the portion thereof used in lease operations, vented or lost, the total quantity of gas well gas delivered to market, and the monthly and cumulative total over and under delivery of each party on an MCF and on a BTU basis.

Section 3.

After notice, any party may at any time begin taking or delivering to a purchaser its full share of the gas well gas produced (less such party's share of such gas used in lease operations, vented or lost). To allow the recovery of gas in storage and to balance the gas account of the parties in accordance with their respective interests, a party with gas well gas in storage shall be entitled to take or deliver to a purchaser its full share of the gas well gas produced (less such party's share of such gas used in lease operations, vented or lost), plus a share of gas not exceeding its gas in storage determined by multiplying (1) twenty-five percent (25%), by (2) the interest in the proration unit's current production (less such party's share of such gas used in lease operations, vented or lost) of the party or parties without gas in storage, by (3) a fraction, the numerator of which is the interest in the proration unit of such party with gas in storage and the denominator of which is the total percentage interest in the proration unit of all parties with gas in storage.

Section 4.

Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser its full share of the allowable gas production to meet the deliverability tests required by its purchaser. Each party shall at all times use its best efforts to regulate its takes and deliveries from the Contract Area so that wells will not be shut in for over producing the allowable, if any, assigned thereto by the regulatory authority having jurisdiction.

Section 5

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

Section 6.

Should production of gas well gas from a proration unit be permanently discontinued before the gas account is balanced, settlement will be made between the parties for gas which has not been recovered by any party from storage. In making such settlement, if there is any party whose gas has not been recovered from storage, or a party who has sold more than its share of gas well gas, then the amount owed (as hereinafter defined) by each of the latter shall be forwarded to the operator who shall allocate the sum of such amounts and pay the former in proration to the respective ownership in gas not recovered from storage. The amount owed by each party who has sold more than its share of gas well gas shall be the weighted average of the amounts received by such party upon sale of such gas during the period or periods overproduction is accrued by such party, less base lease royalty and taxes paid thereon; provided, however, that as to gas sold in interstate commerce by such party, such amounts shall be based upon that portion of the rate or rates not subject to refund applicable to and collected for the volumes sold during such period or periods by such party under orders of the regulatory body having jurisdiction which are final at the time of such settlement, plus any additional collected amounts which are not ultimately required by said body to be refunded, such additional collected amounts to be accounted for at such time as final determination is made with respect thereto. For the purpose of the preceding sentence, the weighted average of the amounts received by such party shall be determined by weighting the respective amounts received for such gas on the basis of volumes of overproduction that accrue hereunder to the account of such party during the period for which such amount was received. As to any gas which any party hereto may take for its own use or sell to a third party purchaser affiliated with such selling party, such sum or amount of money for the amount of such gas which such party has taken or sold over its proportionate share thereof shall be based upon the rate which would have been received by the producing party as if such gas had been taken during the period or periods of underproduction under its contract with a nonaffiliated third party purchaser, but, if the underproduced party has no such contract, such sum or amount of money shall be based on the average rate received by other parties hereto for their share of gas during the affected period.

Section 7.

This agreement shall constitute a separate agreement as to each proration unit within the Contract Area and 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, their successors, legal representatives and assigns.

Section 8.

Nothing herein shall change or affect each party's obligations to pay its proportionate share of all costs and liabilities incurred in lease operations in accordance with and subject to the provisions of the Operating Agreement.

EXHIBIT "F"

Attached to and made a part of that certain OPERATING AGREEMENT wherein AMMEX PETROLEUM, INC. is named as OPERATOR

NON-DISCRIMINATION AND CERTIFICATION OF NON-SEGREGATED FACILITIES

Wherever used in the following Sections A, B, C, D, E and F, the terms "Contractor" and "Undersigned" both refer to each party to this Agreement. It is agreed as a condition of this Agreement as follows:

- (A) Contractor is aware of and is fully informed of Contractor's responsibilities under Executive Order 11246 and shall file compliance reports as required by Section 203 of Executive Order 11246 and otherwise comply with the requirements of such order.
- (B) Contractor shall be bound by and agrees to the following provisions as contained in Section 202 of Executive Order 11246, as amended, to wit:
- (1) The Contractor will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. The Contractor will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, sex, or national origin. Such action shall include, but not be limited to, the following: employment, upgrading, demotion, or transfer, recruitment or recruitment advertising, layoff or termination; rates of pay or other forms of compensation, and selection for training, including apprenticeship. The Contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of this nondiscrimination clause.
 - (2) The Contractor will, in all solicitations or advertisements for employees placed by or on behalf of the Contractor, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex, or national origin.
 - (3) The Contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Contractor's commitments under Section 202 of Executive Order No. 11246 of September 24, 1965, and of the rules, regulations, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
 - (4) The Contractor will comply with all provisions of Executive Order No. 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.
 - (5) The Contractor will furnish all information and reports required by Executive Order No. 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.
 - (6) In the event of the Contractor's noncompliance with the nondiscrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be cancelled, terminated, or suspended in whole or in part and the Contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order No. 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order No. 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

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

(C) Contractor certifies that he does not maintain or provide for his employees any segregated facilities at any of his establishments, and that he does not permit his employees to perform their services at any location, under his control, where segregated facilities are maintained. He certifies further that he will not maintain or provide for his employees any segregated facilities at any of his establishments, and that he will not permit his employees to perform their services at any location, under his control, where segregated facilities are maintained. Contractor agrees that a breach of this certification is a violation of the Equal Opportunity Clause in this contract. As used in this certification, the term "segregated facilities" means any waiting rooms, work areas, rest rooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated by explicit directive or are in fact segregated on the basis of race, creed, color, or national origin, because of habit, local custom or otherwise. He further agrees that (except where he has obtained identical certifications from proposed subcontractors for specific time periods) he will obtain identical certifications from proposed subcontractors prior to the award of subcontracts exceeding \$10,000 which are not exempt from the provisions of the Equal Opportunity Clause; that he will retain such certifications in his files; and that he will forward the following notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certifications for specific time periods): NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NONSEGREGATED FACILITIES A Certification of Nonsegregated Facilities as required by the May 21, 1968, order on Elimination of Segregated Facilities by the Secretary of Labor (33 Fed. Reg. 7804, May 28, 1968), must be submitted prior to the award of a subcontract exceeding \$10,000 which is not exempt from the provisions of the Equal Opportunity Clause. The certification may be submitted either for each subcontract or for all subcontracts during a period (i.e., quarterly, semi-annually, or annually).

(Note: The penalty for making false statements in offers is prescribed in 18 U.S.C. 1001.)

(D) The undersigned Contractor further agrees and certifies that, if the value of any contract or purchase order is \$50,000 or more and the Contractor has 50 or more employees, Contractor will:

- (1) File a complete and accurate report on Standard Form 100 (EEO-1) with the Joint Reporting Committee at the appropriate address per the current instructions within thirty (30) days of the date of contract award, unless such report has been filed within the twelve (12) months' period preceding the date of contract award and otherwise comply with and file such other compliance reports as may be required under Executive Order 11246, as amended, and Rules and Regulations adopted thereunder.
- (2) Develop a written affirmative action compliance program for each of its establishments as required by Title 41, Code of Federal Regulations, Section 60-1.40.

(E) *Affirmative Action Obligations for Disabled Veterans and Veterans of the Vietnam Era*

The contractor agrees, to the extent applicable, to comply with the affirmative action clause and the regulations of the Department of Labor issued pursuant to the Vietnam Era Veterans Readjustment Assistance Act of 1974, as set forth in 41 C.F.R. 60-250, which are incorporated herein by reference.

(F) *Affirmative Action Obligations for Handicapped Workers*

The contractor agrees, to the extent applicable, to comply with the affirmative action clause and the regulations of the Department of Labor issued pursuant to the Rehabilitation Act of 1973, as set forth in 41 C.F.R. 60-741, which are incorporated herein by reference.

AUTHORITY FOR EXPENDITURE

LEASE NAME & WELL NUMBER Melva #1
 LOCATION 660 FSL & 660 FEL
Sec. 28, T23S, R28E
Eddy County, New Mexico
 PROPOSED TOTAL DEPTH 8000'

Detail of Expenditure	Before Csg. Pt.	After Csg. Pt.	Total
INTANGIBLE COSTS:			
Lease Cost			
Survey and Stake Location	1,500		
Surface Damages	18,000		
Contract Drilling (Footage) \$15/ft	120,000		
Contract Drilling (Day Work) 3 days @ \$4200 per day	12,600		
Rat hole, Mouse hole & Cellar			
Bits, Core Heads & Reamer		500	
Drilling Mud & Chemicals	8,000		
Fuel			
Water	8,000	10,000	
Trucking	12,000	8,000	
Cementing	14,000	8,000	
Casing / Crew			
Testing		1,000	
Location / Preparation & Misc.	10,000		
Treating		30,000	
Completion / Unit		12,000	
Equipment and Tool Rental		5,000	
Control of Well Insurance			
Welding	500	500	
Perforating and Logs	18,000	12,000	
Roustabout Labor			
Wellsite Geologist & Engineering	8,000	8,000	
Miscellaneous	5,000	5,000	
Contingencies	23,600	10,000	
SUB-TOTAL	259,200	110,000	369,200
TANGIBLE COSTS:			
Downhole Equipment	5,000	4,500	
Casing - Conductor			
Casing - Surface 400' of 13 3/8"	5,200		
Casing - Intermediate 2630' of 8 5/8"	22,300		
Casing - Production 8000' of 5 1/2"		34,000	
Tubing 7800' of 2 7/8"		20,300	
Pumping Unit 228		24,000	
Flowlines, Valves, Fittings, etc.		6,000	
Tanks		12,000	
Separator			
Heater Treater		3,500	
Miscellaneous			
Well Head Equipment	7,500	7,500	
SUB-TOTAL	40,000	111,800	151,800
TOTAL AFE COSTS	299,200	221,800	521,000

By execution hereof, the undersigned recognizes and acknowledges that the cost figures listed above are estimates only, and that the undersigned is responsible for his/her share of the actual costs incurred even if such actual costs exceed said estimates.

Participant's Signature _____ Title _____
 Company _____ Date _____
 Address _____
 City, State, Zip _____