Before the Oil Conservation Division
Exhibit No. 7
Burlington Resources Oil & Gas Company LP
OCD CASE 14526
Hearing: August 19, 2010

GAS OPERATING AGREEMENT

THIS AGREEMENT made and entered into this 19th day of May, 1952, by and between Francis L. Harvey, Wichita Falls, Texas, hereinafter sometimes referred to as "Harvey", and sometimes as "Operator", and THE TEXAS COMPANY, a corporation, with offices in Fort Worth, Texas, hereinafter sometimes referred to as "Texas", and sometimes as "Non-Operator";

WITNESSETH, THAT

WHEREAS, the parties hereto are the owners of the gas rights under the oil and gas leases as set forth in Exhibit "A", which is attached hereto and made a part hereof, and

WHEREAS, with a view of prevention of waste and more economic operation for the production of gas, the parties hereto desire to develop and operate jointly said leases on the terms, covenants, and conditions herein contained;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements herein contained, the parties hereto have entered and by these presents do enter into the following agreement:

I. CONTRACT AREA

The oil and gas leases insofar as same cover and apply to the gas rights in the land described in Exhibit "A" which, for the purposes of this Agreement, constitute the Contract Area and same shall be developed and operated for the production of gas by Operator subject to the terms, provisions, and conditions in this Agreement and the parties hereto do hereby commit to this Agreement their respective leases insofar as same cover and apply to the gas rights in the Contract Area, but only to a depth below the surface of the ground down to and including what is known as the Mesa Verde Formation.

II. TITLES

If any loss of title occurs to any of the leases contributed hereto, same shall be borne by the party who contributed to this Agreement the lease upon which title fails; provided, however, that there shall be no retroactive adjustment of costs incurred prior to the final determination of such loss.

III. INTERESTS OF THE PARTIES

The interests of the parties to all the gas produced and saved from the Contract Area and in and to the equipment to be installed therein and thereon shall be as follows:

HARVEY	87½ per cent
TEXAS	12½ per cent

and all costs, expenses, and liabilities accruing or resulting from the development and operation of said Contract Area pursuant to the Agreement shall be determined, shared, and borne by the parties hereto in said proportions.

IV. DESIGNATION OF OPERATOR AND TEST WELL

Harvey will be Operator hereunder and shall as soon as arrangements can be made commence, or cause to be commenced, operations for the drilling of a well for the discovery of gas 990 feet from the North line and 990 feet from the East line of the center of Section 2, Township 29 North, Range 8 West, San Juan County, New Mexico, and prosecute the drilling thereof with diligence to a depth to test the Mesa Verde Pay Zone expected to be encountered at a depth of approximately Five Thousand, two Hundred (5200 feet) feet unless some formation or condition which makes further drilling impracticable is encountered at a lesser depth.

V. TAXES

Operator shall render for ad valorem tax purposes the entire leasehold rights covered by this Agreement and all physical property located on the unit or used in connection therewith or such part thereof as may be subject to ad valorem taxation under existing laws or which may be made subject to taxation under future laws and shall pay for the benefit of the joint account all such ad valorem taxes at the time and in the manner required by law which may be assessed upon or against all or any portion of such rights and interests in the physical property located thereon or used in connection therewith. Operator shall bill Non-Operator for its proportionate share of such tax payment as provided by the accounting procedure hereto attached.

VI. INSURANCE

Operator shall, at all times while operations are conducted hereunder, carry and require its contractors to carry insurance to indemnify, protect, and save the parties hereto harmless, as follows:

(a) Workmen's Compensation Insurance in accordance with the laws of the State of New Mexico, and Employers' Liability Insurance with limits of not less than $25,000.00 per employee.

(b) Public Liability Insurance covering both bodily injury and death with limits of not less than $25,000.00 as to any one person, and $50,000.00 as to any one accident, and Property Damage Liability Insurance with a limit of not less than $25,000.00 per accident.

(c) Automotive Public Liability Insurance with bodily injury limits of not less than $25,000.00 as to any one person and $50,000.00 as to any one accident, and Automotive Property Damage Insurance with a limit of not less than $25,000.00 as to any one accident.

Operator shall not provide for the benefit of the joint account insurance covering loss or damage to property on account of fire, explosion, windstorm, and other property hazards.

The insurance referred to in Paragraphs (a) and (b) shall be charged for at the manual rates based upon Operator's experience, but without regard to Operator's retrospective or other similar rating plans.

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

VII. OVERRIDING ROYALTIES, OIL PAYMENTS, ETC.

If any oil and gas leases contributed to the Contract Area herein are burdened with any royalties, overriding royalties, payments out of production or any other charges in addition to the usual one-eighth (1/8) royalty, the party contributing any such lease shall bear and assume same out of the interest attributable to him or it hereunder.

VIII. RENTAL PAYMENTS

Each party holding an oil and gas lease subjected to this agreement shall, before the due date, pay all delay rentals which may become due under the lease or leases contributed by him or it. The burden of paying such rentals shall fall entirely upon the party required to make payment thereof hereunder. In event of failure to make proper payment of any delay rental through mistake or oversight where such rental is required to continue the lease in force (it being understood that any such failure shall not be regarded as a title failure within the meaning of any other section of this agreement) there shall be no money liability on the part of the party failing to pay such rental, but such party shall make a bona fide effort to secure a new lease covering the same interest, and in the event of failure to secure a new lease within a reasonable time, the interests of the parties hereto shall be revised so that the party failing to pay any such rental will not be credited with the ownership of any lease on which rental was required but was not paid.

IX. CONTROL AND COST OF OPERATION

Operator shall have full control of the premises subjected hereto and, subject to the provisions hereof, shall conduct and manage the development and operation of said premises for the production of gas for the joint account of the parties hereto. Operator shall pay and discharge all costs and expenses incurred pursuant hereto, and shall charge each of the parties hereto with its respective proportionate share upon the cost and expense basis provided in the Accounting Procedure attached hereto, marked "Exhibit "B", and made a part hereof; provided however, if any provision of said Exhibit "B" conflicts with any provision hereof, the latter shall be deemed to control. Non-Operator will promptly pay Operator such costs as are hereunder chargeable to Non-Operator. Unless otherwise herein provided all production of gas from said land, subject to the payment of applicable royalties thereon, and all materials and equipment acquired pursuant hereto, shall be owned by the parties hereto in the respective proportions as set out herein. Operator shall at all times keep the joint interest of the parties hereto in and to the leases and equipment thereon free and clear of all labor and mechanics' liens and encumbrances.

X. EMPLOYEES

The number of employees, the selection of such employees, the hours of labor and the compensation for services to be paid any and all such employees shall be determined by Operator. Such employees shall be employees of Operator.

XI. DRILLING OPERATIONS

All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the field in which said leases are located. Operator, if it so desires, may employ its own tools and equipment in the drilling of wells, but in such event the charge therefor shall not exceed the prevailing rate in the field; and such work shall be performed by Operator under the same terms and conditions as shall be customary and usual in the field in contracts of independent contractors who are doing work of a similar nature. All drilling contracts shall contain appropriate provisions of a similar nature. All drilling contracts shall contain appropriate provisions that any wells drilled on the Contract Area, when completed, shall not deviate in excess of five degrees from perpendicular. Unless otherwise mutually agreed only the well provided in Article IV hereof shall be drilled on said Contract Area.

XII. AUTHORITY FOR INCURRING OF EXPENDITURES

Operator, before incurring any items of expenditure in excess of $2,000.00, except expenditures for the drilling and equipping of wells mutually agreed upon, shall secure the express consent and approval in writing of Non-Operator. Operator shall, upon request, furnish Non-Operator with a copy of Operator's authority for expenditures for any project costing in excess of $1,000.00.

XIII. OPERATOR'S LIEN

Operator shall have a lien upon the interest of Non-Operator which is subjected to this agreement, the gas therefrom, the proceeds thereof and the materials and equipment thereon and therein to secure Operator in the payment of any sum due to Operator hereunder from such Non-Operator. The lien herein provided for shall not extend to any royalty rights attributable to any interests subjected hereto.

13407

XIV. ADVANCES

Operator, at its election, may require Non-Operator to furnish its proportion of the development and operating costs according to the following conditions:

On or before the first day of each calendar month, Operator shall submit an itemized estimate of such costs for the succeeding calendar month to Non-Operator. Within fifteen (15) days thereafter, Non-Operator shall pay, or secure the payment in a manner satisfactory to Operator, its proportionate share of such estimate.

Should Non-Operator fail and neglect to pay or secure the payment of its proportionate part of such estimate, the same shall bear interest at the rate of six per cent per annum until paid. Adjustments between estimates and actual costs shall be made by Operator at the close of each calendar month and the accounts of the parties adjusted accordingly.

XV. SURPLUS MATERIAL AND EQUIPMENT

Surplus material and equipment from the Contract Area, when in the judgment of Operator is not necessary for the development and operation of the leased premises, may be divided in kind or, by mutual consent of the parties, be sold to one of the parties hereto or to others for the benefit of the joint account. Proper charges and credits shall be made by Operator as provided in the Accounting Procedure attached hereto as Exhibit "B".

XVI. DISPOSITION OF PRODUCTION

Each of the parties hereto shall at any time and from time to time have the right and privilege upon the payment of, or securing the payment of, the royalty interest thereon, of receiving in kind or of separately disposing of his or its proportionate share of the gas produced and saved from the Contract Area. Any extra expenditure incurred by reason of the delivery of its proportionate part of the production to any one party shall be borne by such party.

Each of the parties shall be entitled to receive direct payment for his or its share of the proceeds of all gas produced and saved, purchased and/or sold from the premises, and on all such sales, proper division orders or contracts of sale shall be executed by the parties hereto. Operator shall receive all royalties under leased interests for proper distribution to royalty owners.

XVII. LIABILITY

The liability of the parties hereunder shall be several and not joint or collective. Each party shall be responsible only for his or its obligations as herein set out, and shall be liable only for its proportionate share of the cost of developing and operating the premises subject hereto. It is expressly agreed that it is not the purpose or intention of this agreement to create, nor shall the operations of the parties hereunder be construed or considered as a joint venture, or as any kind of a partnership.

XVIII. TRANSFERS OF INTEREST

No assignment, mortgage or other transfer affecting the interest covered hereby, the production therefrom, or equipment thereon, shall be made unless the same shall cover the entire undivided interest of such assignor, mortgagor or seller in the Contract Area; it being the intent of this provision to maintain the joint development and operation of the Contract Area, provided that the sale of a lesser interest than the seller's entire undivided interest may be made upon the securing the unanimous approval of the other party in writing.

In the event any party desires to sell all or any part of its interest in the Contract Area, the other party hereto shall have a preferential right to purchase same. In such event, the selling party shall promptly communicate to the other party hereto the offer received by him or it from a prospective purchaser ready, willing and able to purchase the same, together with the name and address of such prospective purchaser, and said party shall thereupon have an option for a period of ten (10) days after the receipt of said notice to purchase such undivided interest for his or its own benefit on the terms and conditions of such offer. In the event of a sale by Operator of the interest owned by him which is subject hereto, Non-Operator shall be entitled to be the Operator. The limitations of this paragraph shall not apply where any party

hereto desires to dispose of his or its interest by merger, reorganization, consolidation or sale of all its assets, or a sale of his or its interest to a subsidiary or parent company, or subsidiary of a parent company, or to any company in which such party hereto owns a majority of the stock.

XIX. RIGHTS OF THE PARTIES TO INSPECT PROPERTY AND RECORDS

The following specific rights, privileges and obligations of the parties hereto are hereby expressly provided, but not by way of limitation or exclusion of any other right, privilege and obligation of the respective parties:

(a) Non-Operator shall have access to the entire Contract Area at all reasonable times to inspect and observe operations of every kind and character upon the property.

(b) Non-Operator shall have access at all reasonable times to any and all information pertaining to the wells drilled, production secured, gas marketed, and to the books, records and vouchers relating to the operation of the Contract Area.

(c) Operator shall, upon request, furnish Non-Operator with daily drilling reports, true and complete copies of well logs, tests and charts, and shall also, upon request, make available samples and cuttings from any and all wells drilled on the Contract Area.

(d) Operator shall furnish Non-Operator with copies of all reports furnished any governmental agency.

XX. ABANDONMENT OF WELL

In case the initial well or any additional jointly owned well or wells drilled hereunder shall prove to be a dry hole, then the Operator shall, subject to Paragraph XXI. hereof, plug and abandon such well or wells and salvage all material and equipment therefrom for the benefit of the parties hereto in accordance with the provisions of said Exhibit "B". No producing well or a well which has once produced shall be plugged and abandoned without the consent of the parties hereto and if the parties are unable to agree upon the abandonment of any well or wells, then the party not desiring to abandon such well or wells shall tender to the party desiring to abandon same a sum equal to his or its proportionate share in the reasonable salvage value on top of the ground at the well of the material and equipment in and on said well. Upon receipt of such sum the party desiring to abandon such well shall transfer without warranty of title to the party desiring to retain the same, his or its interest (s) in the gas rights in the formation from which said well is then producing or last produced in and to the land attributed to said well by the well pattern on which said well was drilled, except that said assignment shall not include acreage upon which another producing well is located. Any such assignment shall vest the interest so assigned in the party electing not to abandon any such well. The party so assigning under this provision shall not be liable after delivery of such assignment for any cost or expense incurred after the delivery of said assignment in connection with such well, but he or it shall be liable for its or their proportionate part of the cost and expense incurred before the delivery of said assignment.

Microfilmed

XXI. SURRENDER OF LEASES

No lease embraced within the Contract Area shall be sur-

rendered unless the parties mutually agree thereon. If one of the parties should desire to surrender any lease or leases and any other not, the party desiring to surrender shall assign to the party not desiring to surrender, his or its interest in such lease. The party or parties receiving any such assignment shall pay the assigning party the reasonable salvage value on top of the ground at the well of the assigning party's proportionate part of the equipment in and on any well or wells on such lease or leases on the date of any such assignment. If there be more than one assignee such assigned interest shall be held by the assignees in proportion to their then respective interests in the Contract Area.

XXIII. EFFECTIVE PERIOD

This agreement shall remain in force for the full term of the oil and gas leases which are subject hereto and of any renewals or extensions thereof whether by production or otherwise and may be terminated as a whole or in part by mutual consent of the parties; provided however, any party may be relieved from its obligations and liabilities hereunder not previously incurred by assigning and transferring to the other party all of its right, title and interest in and to the gas rights under the lease or leases commited hereto. The party receiving any such assignment or assignments shall pay the assigning party the reasonable salvage value of his or its proportionate part on top of the ground at the well of the equipment in and on any well or wells on the Contract Area on the date of any such assignment or assignments. If there be more than one assignee, said assigned interest shall be held by the assignees in proportion to their then respective interests in the Contract Area.

If the well provided for under Paragraph IV. hereof, upon completion, is not capable of producing in paying quantities and no additional wells are proposed for drilling within the next ensuing six (6) months from the date of completion thereof, then this Agreement subject to payment of all costs incurred hereunder shall terminate and be of no further force and effect, notwithstanding any other provisions of this Agreement to the contrary.

XXIV. REGULATIONS

All of the provisions of this agreement are hereby expressly made subject to all applicable Federal or State laws and orders, rules and regulations of any constituted authority, and in the event this agreement or any provision hereof is found to be inconsistent with or contrary to any such law, order, rule or regulation, the latter shall be deemed to control, and this agreement shall be regarded as modified accordingly and as so modified shall continue in full force and effect.

XXV. NOTICES

All notices, reports and correspondence required or made necessary by the terms of this agreement shall be deemed to have been properly served if and when sent by mail or telegraph to Francis L. Harvey, _____ Building or P. O. Box 990, Wichita Falls, Texas and to The Texas Company, 18th Floor, Continental Life Bldg. or P. O. Box 1720, Fort Worth, Texas. Any party may change its address by appropriate written notice to the other party hereto.

Microfilmed

XXVI. MISCELLANEOUS PROVISIONS

The term "gas" wherever used in this agreement shall be construed to include only gas produced from a gas well in the Contract Area.

Operator shall not be liable for any loss of property or of time caused by strikes, riots, fires, tornadoes, floods, or for any other cause beyond the control of Operator through the exercise of reasonable diligence.

This agreement and Exhibits "A" and "B" attached hereto contain all of the terms as agreed upon by the parties hereto.

This agreement shall extend to and bind the respective heirs, executors, administrators, successors, and assigns of the parties hereto. It is agreed that the terms, conditions and provisions hereof shall constitute a covenant running with the lands, interests and leasehold estates covered hereby.

IN WITNESS WHEREOF, the parties hereto have signed this agreement the day and year first hereinabove written.

THE TEXAS COMPANY

By C. B. Williams
Attorney-in-Fact

FRANCIS L. HARVEY

Francis L. Harvey

W. N. Sands

STATE OF TEXAS

COUNTY OF TARRANT

On this 12 day of June, 1952, before me appeared C. B. Williams, to me personally known, who, being by me duly sworn, did say that he is Attorney-in-Fact of The Texas Company, a Delaware Corporation, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors and the said C. B. Williams acknowledged said instrument to be the free act and deed of said Corporation.

Given under my hand and seal of office this 12 day June, 1952.

Notary Public in and for
Tarrant County, Texas

#134077
EWL:BDS

STATE OF TEXAS

COUNTY OF WICHITA

On this 6th day of June, 1952, before me personally appeared Francis L. Harvey to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed.

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

Maude L. Miller
Notary Public in and for
Wichita County, Texas

134077

Microfilmed

EXHIBIT "A" Attached hereto and made a part of Gas Operating Agreement dated May 19, 1952, by and between The Texas Company and Francis L. Harvey.

SCHEDULES OF LEASES.

Leases contributed by Francis L. Harvey, all being executed by the State of New Mexico:

Oil and Gas Lease #E292-3, insofar as said lease covers 205.28 acres, more or less, being Lots 1, 2 and 4 and the South 1/2 of the Northeast 1/4 of Section 2 - 29 South 8 West, N.M.P.M. San Juan County, New Mexico. North

Oil and Gas Lease, #E-5380, insofar as said lease covers 40 acres, more or less, being the Southeast 1/4 of the Northwest 1/4 of said Section 2.

Oil and Gas Lease #B 11125-36, insofar as said lease covers 41.64 acres, more or less, being Lot 3 of said Section 2.

Lease contributed by The Texas Company being executed by the State of New Mexico:

Oil and Gas Lease #E-3149, insofar as it covers 40 acres, more or less, being the Southeast 1/4 of the Northwest 1/4 of said Section 2.

601 ROBERT MARTIN CO. TULSA 1, OKLAHOMA

EXHIBIT " B "

Model Form-PASO-1949-1

See new Accounting Procedure COPAS-1974 9-12-78

Attached to and made a part of Gas Operating Agreement dated May 19, 1952, by and between Francis L. Harvey and The Texas Company

ACCOUNTING PROCEDURE

(UNIT AND JOINT LEASE OPERATIONS)

I. GENERAL PROVISIONS

1. **Definitions**
The term "joint property" as herein used shall be construed to mean the subject area covered by the agreement to which this "Accounting Procedure" is attached.
The term "Operator" as herein used shall be construed to mean the party designated to conduct the development and operation of the leased premises for the joint account.
The term "Non-Operator" as herein used shall be construed to mean any one or more of the non-operating parties.

2. **Statements and Billings**
Operator shall bill Non-Operator on or before the last day of each month for its proportionate share of costs and expenditures during the preceding month. Such bills will be accompanied by statements, reflecting the total costs and charges as set forth under Sub-Paragraph A below:
A. Statement in detail of all charges and credits to the joint account.
B. Statement of all charges and credits to the joint account, summarized by appropriate classifications indicative of the nature thereof.
C. Statements, as follows:
(1) Detailed statement of material ordinarily considered controllable by Operators of oil and gas properties;
(2) Statement of all other charges and credits to the joint account summarized by appropriate classifications indicative of the nature thereof; and
(3) Statement of any other receipts and credits.

3. **Payments by Non-Operator**
Each party shall pay its proportion of all such bills within fifteen (15) days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest at the rate of six per cent (6%) per annum until paid.

4. **Audits**
Payment of any such bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof. All statements rendered to Non-Operator by Operator during any calendar year shall be conclusively presumed to be true and correct after eighteen months following the close of any such calendar year, unless within said eighteen months period Non-Operator takes written exception thereto and makes claim on Operator for adjustment. Failure on the part of Non-Operator to make claim on Operator for adjustment within such period shall establish the correctness thereof and preclude the filing of exceptions thereto or the making of claims for adjustment thereon. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the accounting hereunder, within eighteen months next following the close of any calendar year. Non-Operator shall have six months next following the examination of the Operator's records within which to take written exception to and make any and all claims on Operator. The provisions of this paragraph shall not prevent adjustments resulting from the physical inventory of property as provided for in Section VI, Inventories, hereof.

II. DEVELOPMENT AND OPERATING CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the joint account with the following items:

1. **Rentals and Royalties**
Delay or other rentals, when such rentals are paid by Operator for the joint account; royalties, when not paid direct to royalty owners by the purchaser of the oil, gas, casinghead gas, or other products.

2. **Labor, Transportation, and Services**
Labor, transportation, and other services necessary for the development, maintenance, and operation of the joint property. Labor shall include (A) Operator's cost of vacation, sickness and disability benefits of employees, and expenditures or contributions imposed or assessed by governmental authority applicable to such labor, and (B) Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of like nature, applicable to Operator's field payroll; provided that the charges under Part (B) of this paragraph shall not exceed five per cent (5%) of the total of such labor charged to the joint account.

3. **Material**
Material, equipment, and supplies purchased or furnished by Operator, for use of the joint property. So far as it is reasonably practical and consistent with efficient and economical operation, only such material shall be purchased for or transferred to the joint property as required for immediate use, and the accumulation of surplus stocks shall be avoided.

4. **Moving Material to Joint Property**
Moving material to the joint property from Vendor's or from Operator's warehouse in the district or from the other properties of Operator, but in either of the last two events no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where such material is available, except by special agreement with Non-Operator.

Microfilmed

F. The above overhead schedule on producing wells shall be applied to individual leases; provided that, whenever leases covered by this agreement are operated as a unitized project in the interest of economic development, the schedule shall be applied to the total number of wells, irrespective of individual leases.

G. The above specific overhead rates may be amended from time to time by agreement between Operator and Non-Operator if, in practice, they are found to be insufficient or excessive.

13. **Warehouse Handling Charges** None

14. **Other Expenditures**
Any other expenditure incurred by Operator for the necessary and proper development, maintenance, and operation of the joint property.

III. BASIS OF CHARGES TO JOINT ACCOUNT

1. **Purchases**
Material and equipment purchased and service procured shall be charged at price paid by Operator, after deduction of all discounts actually received.

2. **Material Furnished by Operator**
Material required for operations shall be purchased for direct charge to joint account whenever practicable, except that Operator may furnish such material from Operator's stocks under the following conditions:

A. New Material (Condition "A")
(1) New material transferred from Operator's warehouse or other properties shall be priced f. o. b. the nearest reputable supply store or railway receiving point, where such material is available, at current replacement cost of the same kind of material. This will include material such as tanks, rigs, pumps, sucker rods, boilers, and engines. Tubular goods (2" and over), shall be priced on carload basis effective at date of transfer and f. o. b. railway receiving point nearest the joint account operation, regardless of quantity transferred.
(2) Other material shall be priced on basis of a reputable supply company's Preferential Price List effective at date of transfer and f. o. b. the store or railway receiving point nearest the joint account operation where such material is available.
(3) Cash discount shall not be allowed.

B. Used Material (Condition "B" and "C")
(1) Material which is in sound and serviceable condition and is suitable for reuse without reconditioning shall be classed as Condition "B" and priced at 75% of new price.
(2) Material which cannot be classified as Condition "B" but which,
(a) After reconditioning will be further serviceable for original function as good second hand material (Condition "B"), or
(b) Is serviceable for original function but substantially not suitable for reconditioning,
shall be classed as Condition "C" and priced at 50% of new price.
(3) Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use.
(4) Tanks, derricks, buildings, and other equipment involving erection costs shall be charged at applicable percentage of knocked-down new price.

3. **Warranty of Material Furnished by Operator**
Operator does not warrant the material furnished beyond or back of the dealer's or manufacturer's guaranty; and, in case of defective material, credit shall not be passed until adjustment has been received by Operator from the manufacturers or their agents.

4. **Operator's Exclusively Owned Facilities**
The following rates shall apply to service rendered to the joint account by facilities owned exclusively by Operator:

A. Water service, fuel gas, power, and compressor service: At rates commensurate with cost of providing and furnishing such service to the joint account but not exceeding rates currently prevailing in the field where the joint property is located.

B. Automotive Equipment: Rates commensurate with cost of ownership and operation. Such rates should generally be in line with schedule of rates adopted by the Petroleum Motor Transport Association, or some other recognized organization, as recommended uniform charges against joint account operations and revised from time to time. Automotive rates shall include cost of oil, gas, repairs, insurance, and other operating expense and depreciation; and charges shall be based on use in actual service on, or in connection with, the joint account operations. Truck, tractor, and pulling unit rates shall include wages and expenses of driver.

C. A fair rate shall be charged for the use of drilling and cleaning-out tools and any other items of Operator's fully owned machinery or equipment which shall be ample to cover maintenance, repairs, depreciation, and the service furnished the joint property; provided that such charges shall not exceed those currently prevailing in the field where the joint property is located.

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

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

IV. DISPOSAL OF LEASE EQUIPMENT AND MATERIAL

5. At such times as tubular goods and equipment can be purchased only at prices in excess of the limitations herein set out or such tubular goods and equipment are not available at the nearest customary supply point, Operator, notwithstanding such limitations, shall be permitted to charge the joint account with such costs and expenses as may be reasonably incurred in purchasing, shopping, and moving the required tubular goods and equipment to said jointly owned premises; provided, however, that each Non-Operator shall be first given the opportunity of furnishing in kind his or its share of such tubular goods and equipment required. This exception to said limitations shall be effective and shall apply only

EXHIBIT "E"

GAS BALANCING AGREEMENT

Attached to and made a part of Operating Agreement dated _____
Between _____

1.

In accordance with the terms of the Operating Agreement to which this Agreement is attached, each party shall take its share of oil and gas in kind and separately dispose of its proportionate share of the oil and gas produced from the wells on the leases within the Contract Area. In the event any party hereto fails, or is unable, to take and market its share of the gas as produced for any reason, the terms of this Agreement shall automatically become effective.

2.

As long as any gas produced from any of said wells is subject to the regulations of the Federal Energy Regulatory Commission (FERC), or any successor governmental authority, under any section of the Natural Gas Act, the Natural Gas Policy Act of 1978 (NGPA), or other statutory authority, which establishes maximum lawful prices for the gas, each party should receive its allocated share of the category of gas in accordance with its interest in production from said well. It is the intent of this Agreement that balancing of gas taken will be based upon the allocated volumes of each category of gas. Any deregulated gas shall be treated as a separate category for purposes of balancing.

3.

During any period or periods when a party fails, or is unable, to take and market its full share of gas produced, each of the other parties shall be entitled to but not obligated to, take and deliver to its purchaser its proportionate part of all of such gas production not taken by others. Each party failing to take or market its full share of the gas as produced shall be considered underproduced by a quantity of gas equal to its share of the gas produced from the lease, less such party's share of the gas taken by such party or in behalf of such party, vented, lost, or used in lease operations. Those parties which are capable of taking and marketing the underproduced quantity of gas allocable to an underproduced party, in the absence of any other agreement between them, shall each take a share of the gas attributed to each underproduced party in the direct proportion that said producing party's interest bears to the total interest of all parties taking underproduced gas and each of said producing parties shall be considered to be overproduced. All gas (including overproduction or make-up) taken and marketed by a party in accordance with the terms of this Agreement, regardless of whether such party is underproduced or overproduced, shall be regarded as gas taken for its own account with title thereto being in such party.

4.

All parties hereto shall share in and own the liquid hydrocarbons recovered from all gas by primary separation equipment prior to processing in a gas plant in accordance with their respective interests as specified in the above described Operating Agreement, whether or not such parties are actually producing and marketing gas at such time.

5.

The Operator will maintain appropriate accounting on a monthly and cumulative basis of the quantities of gas each party is entitled to receive and the quantities of gas taken and marketed by each of the parties. For the sole purpose of implementing the terms of this Agreement and adjusting gas imbalances which may occur, each party disposing of gas from the lease in any month, to the extent required, shall furnish or cause to be furnished to the

Operator by the last day of each calendar month a statement showing the total volume of gas sold by such party or taken in kind for its own account during the preceding calendar month (the "report period"). Within sixty (60) days after the end of each report period, the Operator shall furnish each party a statement showing the status of the overproduced and underproduced accounts of all parties. All gas volumes under this paragraph will be identified by the appropriate category provided under the NGPA or any other law or regulation in effect. In the event deregulation occurs, the gas volumes will be identified additionally in that category. Each party to this Gas Balancing Agreement agrees that it will not utilize any information obtained hereunder for any purpose other than implementing the terms of this Gas Balancing Agreement.

6.

Any party who is underproduced as to a given category of gas shall endeavor to bring its taking of gas of that category into balance. After written notice to the Operator, any party may begin taking and delivering to its purchaser(s) its full share of each category of gas produced. To allow for the recovery and make up of underproduced gas in a category and to balance the gas account for the interests, the underproduced party or parties for a category of gas shall after written notice to the Operator, also be entitled to take up to an additional fifty percent (50%) of the monthly quantity of that category of gas attributable to each overproduced party. In the event there is more than one underproduced or overproduced party, unless otherwise agreed, each underproduced or overproduced party's share of make-up gas shall be in the direct proportion of its interest to the total interests of all underproduced or overproduced parties taking or furnishing make-up gas. The first gas made up shall be assumed to be the first gas underproduced.

7.

If at the termination of gas production of a given category of gas, an imbalance exists between the parties, a monetary settlement of the imbalance between the parties shall be made within a reasonable length of time after such gas production permanently ceases. The amount of the monetary settlement will be limited to the proceeds actually received by each overproduced party at the time of overproduction, less royalties and taxes paid on such overproduction. If an overproduced party did not sell its gas but otherwise utilized such gas in its own operations, such gas will be valued at the maximum price which the overproduced party could have received for such gas at the time of overproduction under such party's sales contract, or, if none, the weighted average price received by all other parties for their gas sold at that time. That portion of the monies collected by each overproduced party which is subject to refund by orders of the FERC, may be withheld by the overproduced party until such prices are fully approved by the FERC, unless each underproduced party furnishes a bond or corporate undertaking agreement acceptable to the overproduced party to hold the overproduced party harmless from financial loss due to orders by the FERC.

8.

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

9.

Each party shall pay, or cause to be paid, all production and severance taxes due on all volumes of gas actually utilized or sold for its own account.

10.

Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser the full well stream for a period not to exceed seventy-two (72) hours to meet the deliverability test required by its purchaser.

11.

The parties recognize that at some time after the date of this Agreement, legislation, judicial decision(s) or executive action may cause part or all of the then remaining gas reserves subject to this Agreement to be deregulated and no longer be subject to Federal price regulation. If in such an event an imbalance exists between the parties as to a given category of gas which is deregulated, a monetary settlement of such imbalance between the parties shall be made. The amount of the monetary settlement will be limited to the proceeds actually received by each overproduced party at the time of overproduction, less royalties and taxes paid on such overproduction, up to and including the date deregulation occurs. After such monetary settlement has been fully made for any imbalance that existed for a given category of gas on the date of price deregulation, this Agreement shall continue to apply to all gas produced from lands covered by the Operating Agreement.

12.

Nothing herein shall be construed as ever altering, amending or negating any agreement heretofore entered into by any party hereto obligating such party to pay any overriding royalty, payment out of production or royalties payable under any lease out of its interest regardless of whether such party is or is not taking or selling its full share of production.

13.

This Agreement shall remain in force and effect as long as the Operating Agreement is in effect and thereafter until the gas balance accounts between the parties are settled in full and shall accrue to the benefit and be binding upon the parties hereto, their successors, representatives, and assigns.