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

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

March 5, 1979,

OPERATOR ADOBE OIL & GAS CORPORATION

CONTRACT AREA Sections 25, 26, 35 and 36, All in Township 12 South, Range 36 East

(EAST TATUM STATE UNIT)

COUNTY OR PARISH OF Lea STATE OF New Mexico

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between ADOBE OIL & GAS CORPORATION _____, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators",

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

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

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

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

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

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

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

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

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

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

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

ARTICLE II.
EXHIBITS

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

☒ 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.

☒ G. Exhibit "G", Tax Partnership Recognition

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:

Costs of abstracts, fees paid outside attorneys, and costs incurred by Operator in procuring curative materials to satisfy requirements of the examining attorney (including brokers' per diem and expenses, costs of reproduction, etc., but excluding costs of services rendered by Operator's personnel) shall be charged to the joint account, but no such charge shall be made for services of Operator's own attorneys in examination of title. Except as provided hereinabove with regard to the drillsite of a proposed well, each party shall be responsible for and shall bear the cost of all title examinations which may be necessary (i.e., division order and shut-in gas royalty opinions, etc.) in connection with any interest in the Contract Area which such party has subjected to this agreement.

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE V.
OPERATOR

A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

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

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

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

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

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 4th day of May, 1979, Operator shall commence the ~~drilling of a well for oil and gas at the following location:~~ re-entry and attempt completion of a well for oil and gas at the following location:

NE/4 NE/4 of Section 35, Township 12 South, Range 36 East, Lea County, New Mexico

and shall thereafter continue the re-entry/~~drilling~~ of the well with due diligence ~~to~~ and attempt to complete such well to a depth sufficient to adequately test the upper Mississippian Formation, or 13,000', whichever is the lesser depth,

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

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

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

B. Subsequent Operations:

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

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

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

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

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

(b) 400% of that portion of the costs and expenses of drilling reworking, deepening, or plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and

400% of that portion of the cost of newly acquired equipment in the well (to and including the well-head connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

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

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

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

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

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

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

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

C. Right to Take Production in Kind:

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

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

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

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

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

D. Access to Contract Area and Information:

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

E. Abandonment of Wells:

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

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

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

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

B. Liens and Payment Defaults:

Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in 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, upon default by any Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

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

C. Payments and Accounting:

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

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

D. Limitation of Expenditures:

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

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

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

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

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Fifteen Thousand Dollars ($ 15,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of Fifteen Thousand Dollars ($ 15,000.00).

E. Royalties, Overriding Royalties and Other Payments:

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

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

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

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

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

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

G. Taxes:

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

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

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

H. Insurance:

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

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

ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

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

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

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

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

B. Renewal or Extension of Leases:

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

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

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

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

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

C. Acreage or Cash Contributions:

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

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

D. Subsequently Created Interest:

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

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

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

E. Maintenance of Uniform Interest:

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

1. the entire interest of the party in all leases and equipment and production; or

2. an equal undivided interest in all leases and equipment and production in the Contract Area.

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

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

F. Waiver of Right to Partition:

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

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

~~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

The parties hereto recognize that this agreement creates a partnership for tax purposes. Such parties' election to be classified as a partnership for tax purposes is more fully set out in Exhibit "G" ("Tax Partnership Recognition") attached hereto, and reference is hereby made to said Exhibit "G" for all purposes of this Operating Agreement.

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single damage claim or suit arising from operations hereunder if the expenditure does not exceed Five Thousand Dollars ($ 5,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, the party shall immediately notify Operator, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI.
FORCE MAJEURE

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

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

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

ARTICLE XII.
NOTICES

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

ARTICLE XIII.
TERM OF AGREEMENT

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

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

X Option No. 2: Shall run consecutively with the term of the Unit Agreement for the Development and Operation of the Unit Area, dated the 5th day of March, 1979, and so long thereafter as any well or wells drilled hereunder produce, or are capable of production, and for an additional period of one hundred twenty (120) days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling or reworking a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling or reworking operations are commenced within one hundred twenty (120) days from the date of abandonment of said well.

Notwithstanding the above, this Agreement shall terminate as to all lands not included in a drilling unit and/or proration unit upon termination of the above described Unit Agreement.

COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

ARTICLE XV.
OTHER PROVISIONS

A. Interpretations of Regulations of Governmental Regulatory Agencies:

Non-Operators agree to indemnify and hold Operator harmless from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application or rules, rulings, regulations or orders of the Department of Energy or predecessor agencies (or other governmental regulatory agencies) to the extent of Operator's interpretation or application of such rules, rulings, regulations or orders were made in good faith. Non-Operators further agree to reimburse Operator for their proportionate share of any amounts Operator may be required to refund, rebate or pay as a result of an incorrect interpretation or application of the above noted rules, rulings, regulations or orders, together with the Non-Operators' proportionate part of interest and penalties owing by Operator as a result of such incorrect interpretation or application of such rules, rulings, regulations or orders.

B. Additional Definitions:

(1) "Adobe" shall mean Adobe Oil & Gas Corporation.

(2) "Phillips" shall mean Phillips Petroleum Company.

(3) "Hilliard" shall mean Hilliard Oil & Gas, Inc.

(4) "Yates" shall mean Yates Petroleum Corporation.

(5) "Sabine" shall mean Sabine Production Company.

(6) "Productive Well" shall mean an oil and/or gas well capable of producing oil and/or gas in commercial quantities which is either productive or has been completed as a shut-in gas well.

(7) "Earning Well" shall mean the first Productive Well drilled on the Contract Area under the terms of this agreement.

(8) "Payout" shall mean that time when the value of the production of oil and gas from the Earning Well, after subtracting therefrom the following items:

(a) Landowner's royalty (as set out in the leases contributed to the Contract Area by the parties hereto) and any and all other royalties, overriding royalties, and other payments out of or with respect to production with which the Contract Area is burdened with or is subject to on the date hereof; and

(b) All severance and gross production taxes which are applicable thereto,

is equal to the cost previously incurred in drilling, testing, completing, equipping and operating the Earning Well. The said costs shall be determined in accordance with the Accounting Procedure attached hereto as Exhibit "C".

(9) "Working Interest" shall mean the right to explore for and produce oil, gas and other minerals. When used in connection with a mineral lease, it means the leasehold or operating interest under such leases; i.e., it is the entire mineral interest covered by said lease (all the mineral rights the lessor had before the lease was executed) subject to the terms of the lease. Under a lease covering all (8/8) of the minerals in a tract of land and providing for a 1/8 Lessor's royalty, the owner of the working interest bears all (8/8) of the cost of operations and is entitled to 7/8 of 8/8 of all production from said land (the other 1/8 of 8/8 being Lessor's share of the production).

(10) "Earning Well Rights shall mean all rights and interest in and to the said Earning Well, the leasehold estate and operating rights with respect thereto, all production from the base of such well, all equipment therein and thereon or used in connection therewith, and the proration/spacing unit now or hereafter assigned to such Earning Well insofar only as it applies to the deepest base of the Mississippian Formation.

C. Optional Well:

If the Initial Well (provided for in Subarticle A of Article VI. hereinabove) is not completed as a Productive Well, then Operator may (but shall not be required to) drill an additional well (called "Optional Well") on the Contract Area provided however,

(1) If Operator elects to drill said Optional Well, actual drilling of such Optional Well must be commenced not later than one hundred twenty (120) days after termination of actual completion on the Initial Well; and

(2) Such Optional Well, commenced by Operator, shall thereafter be drilled to the same depth (Mississippian Formation) subject to the same terms and provisions as is provided herein with regard to the Initial Well.

(3) If the said Optional Well is completed as a Productive Well, it shall earn the same Earning Well Rights as if it were the Earning Well.

It is understood and agreed that the terms and provisions of Article VI.B. herein are applicable to the Working Interest of Yates as to the drilling of such Optional Well.

D. Phillips Farmout:

When and if the Earning Well is completed on the Contract Area, Phillips shall assign to Adobe an undivided sixty percent (60%) of all of its right, title and interest in the rights down to the base of the Mississippian Formation in and to the following described lands:

NW/4 of SW/4; E/2 of NW/4 and W/2 of NE/4 of Section 25;

SW/4; E/2 of SE/4 of Section 26;

E/2 of Section 35;

W/2 of Section 36;

All lands in T-12-S, R-36-E, Lea County, New Mexico,

subject, however, to all the terms and provisions of this Operating Agreement, and particularly to the terms and provisions of this Article XV.H. The said lands are deemed to be contributed to the Contract Area by Phillips (40%) and Adobe (60%). During the term of this Operating Agreement, Adobe hereby agrees to reimburse Phillips for sixty percent (60%) of all rentals, minimum royalties and shut-in payments due and paid by Phillips on the lands contributed hereto.

E. Hilliard Farmout:

When and if the Earning Well is completed on the Contract Area, Hilliard shall assign to Adobe an undivided sixty percent (60%) of its right, title and interest in the oil and gas rights down to the base of the Mississippian Formation in and to the following described lands.

SW/4 of SW/4; E/2 of SW/4 and SE/4 of Section 25;

W/2 of SE/4; NE/4 of Section 26;

W/2 of Section 35;

All lands in T-12-S, R-36-E, Lea County, New Mexico,

subject, however, to all the terms and provisions of this Operating Agreement, and particularly to the terms and provisions of Article XV.H. The said lands are deemed to be contributed to the Contract Area by Hilliard (40%) and Adobe (60%). During the term of this Operating Agreement, Adobe hereby agrees to reimburse Hilliard for sixty percent (60%) of all rentals, minimum royalties and shut-in payments due and paid by Hilliard on the lands contributed hereto.

F. Sabine Farmout:

When and if the Earning Well is completed on the Contract Area, Sabine shall assign to Adobe an undivided sixty percent (60%) of its right, title and interest in the oil and gas rights down to the base of the Mississippian Formation in and to the following described lands:

E/2 of Section 36, T-12-S, R-36-E, Lea County, New Mexico,

subject, however, to all the terms and provisions of this Operating Agreement, and particularly to the terms and provisions of this Article XV.H. The said lands are deemed to be contributed to the Contract Area by Sabine (40%) and Adobe (60%). During the term of this Operating Agreement, Adobe hereby agrees to reimburse Sabine for sixty percent (60%) of all rentals, minimum royalties and shut-in payments due and paid by Sabine on the lands contributed hereto.

G. Working Interest of Yates:

Yates shall have the right to and shall own 12.5% of the Earning Well Rights, as defined herein, and 12.5% of the Working Interest in the remainder of the Contract Area, subject, however, to royalties and other burdens on production in effect as of the date hereof.

H. Overriding Royalties and Conversion Options:

It is agreed by and between the parties hereto that Adobe shall have the right to and shall own 87.5% of the Earning Well Rights, as defined herein, subject, however, to royalties and other burdens on such production in effect as of the date hereof, and also subject to the following overriding royalty interests and conversion options:

(1) An overriding royalty, owned by Phillips (and hereinafter sometimes referred to as the "Phillips Overriding Royalty") equal to 42.1875% of 1/16 of 8/8 of all production attributable to the Earning Well Rights;

(2) An overriding royalty owned by Hilliard (and hereinafter sometimes referred to as the "Hilliard Overriding Royalty") equal to 32.8125% of 1/16 of 8/8 of all production attributable to Earning Well Rights; and

(3) An overriding royalty, owned by Sabine (and hereinafter sometimes referred to as the "Sabine Overriding Royalty") equal to 12.5000% of 1/16 of 8/8 of all production attributable to the Earning Well Rights.

Phillips, Hilliard and Sabine are hereinafter sometimes called the "Farmoutors", and each of such Farmoutors shall have the option, at Payout, to convert its said overriding royalty interest described hereinabove to a portion of the Working Interest in the Earning Well Rights, as set out hereinbelow. Operator shall, within thirty (30) days after date of completion of the Earning Well, furnish Farmoutors an itemized statement of the cost of drilling, completing and equipping the subject well. Operator shall furnish Farmoutors with quarterly statements indicating the current status of the amount to be so recouped from said Earning Well and Operator shall immediately notify each Farmoutor when Payout has occurred. Each Farmoutor shall have thirty (30) days after its receipt of said notice of Payout to notify Operator in writing that it has elected to exercise its option to convert its overriding royalty interest to a portion of the Working Interest. Such election, if made, to be effective the first day of the month following the day of Payout. If any Farmoutor fails to so notify Operator within said period, it will conclusively be presumed that said Farmoutor has elected to retain its overriding royalty interest rather then convert to a Working Interest. The percentage of the Working Interest in the Earning Well Rights to which each Farmoutor has the option at Payout to convert its said overriding royalty interest is set out below:

(a) The Phillips Overriding Royalty may be converted to 40% of 42.1875% of the Working Interest in the Earning Well Rights;

(b) The Hilliard Overriding Royalty may be converted to 40% of 32.8125% of the Working Interest in the Earning Well Rights;

(c) The Sabine Overriding Royalty may be converted to 40% of 12.5000% of the Working Interest in the Earning Well Rights;

If any Farmoutor fails to convert its overriding royalty as provided hereinabove, then such Farmoutor shall retain its said overriding royalty in the production from the Earning Well and the Earning Well Rights shall not have any Working Interest therein. All Working Interest in the Earning Well Rights which is not acquired by Farmoutors as provided above shall be owned by Adobe and Exhibit "A" attached hereto, revised accordingly.

I. Sharing Of Costs Before Earning Well:

Until such time as a Productive Well which qualifies as the Earning Well has been completed on the Contract Area, all costs and expenses of all wells and equipment thereon shall be borne as follows, subject, however, to the terms and provisions of Article XV.C. hereof:

Adobe	87.5%
Yates	12.5%

J. Termination Under Section 708(b)(1)(B):

In connection with Article VIII(G) ("Assignability") of this Operating Agreement, the parties agree that if any one of them makes a sale or assignment of its partnership interest in the Contract Area, such sale or assignment will be structured so as not to cause a termination under Section 708(b)(1)(B) of the Internal Revenue Code of 1954. If a Section 708(b)(1)(B) termination is caused, the terminating partner will indemnify the non-termination partner(s) and save it (them) harmless from any increase in taxes, interest and penalties or decrease in credits caused by the termination of the Partnership. The indemnification, if any, shall be computed on a cash flow basis taking into consideration the liability for tax on any indemnification proceeds received by the non-terminating partner(s).

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 5th day of March, 1979.

OPERATOR

ATTEST:

ADOBE OIL & GAS CORPORATION

By: H. R. Holcomb

Secretary

H. R. Holcomb, Vice President

DIVISION APPROVAL

NON-OPERATORS

PHILLIPS PETROLEUM COMPANY

By: _____

HILLIARD OIL & GAS, INC.

By: _____

YATES PETROLEUM CORPORATION

By: _____

SABINE PRODUCTION COMPANY

By: _____

ACKNOWLEDGMENTS

STATE OF TEXAS)
)
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this 5th day of March, 1979, by H. R. Holcomb, Vice President of ADOBE OIL & GAS CORPORATION, a Delaware corporation on behalf of said corporation.

My Commission Expires:

10-17-79

Carolyn Euston
Notary Public in and for Midland County,

STATE OF)
)
COUNTY OF)

The foregoing instrument was acknowledged before me this _____ day of _____, 1979, by _____, _____ of PHILLIPS PETROLEUM COMPANY, a _____ _____ corporation on behalf of said corporation.

My Commission Expires:

_____

_____
Notary Public in and for
County,

STATE OF)
)
COUNTY OF)

The foregoing instrument was acknowledged before me this _____ day of _____, 1979, by _____, _____ of HILLIARD OIL & GAS, INC., a _____ _____ corporation on behalf of said corporation

My Commission Expires:

_____

_____
Notary Public in and for
County,

STATE OF)
)
COUNTY OF)

The foregoing instrument was acknowledged before me this _____ day of _____, 1979, by _____, _____ of YATES PETROLEUM CORPORATION, a _____ _____ corporation on behalf of said corporation.

My Commission Expires:

_____

_____
Notary Public in and for
County,

STATE OF)
)
COUNTY OF)

The foregoing instrument was acknowledged before me this _____ day of _____, 1979, by _____, _____ of SABINE PRODUCTION COMPANY, a _____ _____ corporation on behalf of said corporation.

My Commission Expires:

_____

_____
Notary Public in and for
County,

EXHIBIT "A"

Attached to and made a part of that certain Joint Operating Agreement, dated March 5, _____, 1979, by and between ADOBE OIL & GAS CORPORATION, as Operator and PHILLIPS PETROLEUM COMPANY, ET AL, as Non-Operators.

CONTRACT AREA:

The Contract Area subject to this Operating Agreement shall consist of the oil and gas rights from the surface of the earth down to the base of the Mississippian Formation in and under the following described land in Lea County, New Mexico:

Sections 25, 26, 35 and 36, all in Township 12 South, Range 36 East, NMPM.

The leases contributed to the Contract Area by the parties hereto are listed on Exhibit "A-1" attached hereto and made a part hereof, each party having contributed the leases which are listed on Exhibit "A-1" under said party's name.

NAMES AND ADDRESSES OF THE PARTIES:

Adobe Oil & Gas Corporation
1100 Western United Life Building
Midland, Texas 79701

Yates Petroleum Corporation
207 South 4th Street
Artesia, New Mexico 88260

Phillips Petroleum Company
311 Phillips Building
Odessa, Texas 79761

Sabine Production Company
901 Wall Towers East
Midland, Texas 79701

Hilliard Oil & Gas, Inc.
1190 Midland National Bank Tower
Midland, Texas 79701

INTEREST OF THE PARTIES:

Until Payout of Earning Well:

Adobe	87.5000%
Yates	12.5000%

After Payout of Earning Well and all Subsequent Wells in the Contract Area, Subject to Article XV.G. and H. of this Operating Agreement:

Adobe	52.5000%
Yates	12.5000%
Phillips	16.8750%
Hilliard	13.1250%
Sabine	5.0000%

FORM 105 5-50 LEASE SCHEDULE (PRINTED IN U.S.A.)

EXHIBIT "A-1" PAGE 1 of 1 STATE OF New Mexico COUNTY OF Lea

Attached to and made a part of that certain Joint Operating Agreement, dated March 5, 1979, by and between ADOBE OIL & GAS CORPORATION, as Operator and PHILLIPS PETROLEUM COMPANY, ET AL as Non-Operators.

LEASE NO.	LESSOR	LESSEE	DATE	DESCRIPTION	RECORDED BOOK	RECORDED PAGE
				All in T-12-S, R-36-E, NMPM		
L-2935	State of New Mexico	Phillips Petroleum	5-20-69	Section 36: W/2		
L-3661-2	State of New Mexico	Sabine Production Co.	10-21-69	Section 36: E/2		
L-4251	State of New Mexico	Phillips Petroleum	2-17-70	Section 26: SW/4 & E/2 SE/4		
L-4328	State of New Mexico	Phillips Petroleum	3-17-70	Section 25: E/2 NW/4, W/2 NE/4, NW/4 SW/4		
L-6877	State of New Mexico	Phillips Petroleum	1-1-72	Section 35: E/2		
LG-4448-1	State of New Mexico	Hilliard Oil & Gas	8-1-77	Section 25: SE/4, E/2 SW/4 and SW/4 SW/4 Section 26: NE/4, W/2 SE/4		
LG-4451-1	State of New Mexico	Hilliard Oil & Gas	8-1-77	Section 35: W/2		
LG-4528	State of New Mexico	Yates Petroleum	9-1-77	Section 25: E/2 NE/4, W/2 NW/4		
LG-4529	State of New Mexico	Yates Petroleum	9-1-77	Section 26: NW/4		

EXHIBIT " C "

Attached to and made a part of that certain Joint Operating Agreement, dated March 5, 1979, by and between ADOBE OIL & GAS CORPORATION, as Operator and PHILLIPS PETROLEUM COMPANY, ET AL as Non-Operators.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

"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 twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-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.

10. Taxes

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

11. Insurance

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

12. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

(X) Fixed Rate Basis, Paragraph 1A, or

( ) Percentage Basis, Paragraph 1B.

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

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

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate $ ~~2,750~~ 3,000

Producing Well Rate $ ~~250~~ 300

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

(a) Drilling Well Rate

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

[2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days

[3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

[1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.

[2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.

[3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.

[4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.

[5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

_____ Percent (%) of the cost of Operating the Joint Property exclusive of costs provided under 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, redrilling, 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 $ 25,000 :

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

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

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

Total 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 only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

(1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized 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.

EXHIBIT "D"

Attached to and made a part of that certain Joint Operating Agreement, dated March 5, 1979, by and between ADOBE OIL & GAS CORPORATION, as Operator and PHILLIPS PETROLEUM COMPANY, ET AL as Non-Operators.

INSURANCE

Operator shall carry for the benefit and protection of the parties hereto, Workmen's Compensation and Employers Liability insurance with limits of $500,000 for each occurrence in accordance with state, provincial, and federal laws including Longshoremen's and Harbor Workers' Compensation Act and as extended to Outer Continental Shelf Operations and other maritime laws, as applicable. If under the laws of the jurisdiction in which operations are conducted, Operator is authorized to be a self-insurer as to workmen's compensation or employers' liability. Operator may elect to be a self-insurer under such laws and in such event Operator shall charge to the joint account, in lieu of any premiums for such insurance, a premium equivalent limited to amounts determined by applying manual insurance rates to the payroll.

The Operator shall not be required to carry any other insurance for the joint account. The liability, if any, of the parties hereto in damages for claims growing out of personal injury to or death of third persons or injury or destruction of property of third parties resulting from the operation and development of the premises covered hereby shall be borne by the parties hereto in the proportions of their respective interests in the production therefrom; and each party individually may acquire such insurance as it deems proper to protect itself against such claims. Operator shall require all third party contractors performing work in or on the premises covered hereby to carry such insurance and in such amounts as Operator shall deem necessary.

EXHIBIT "E"

Attached to and made a part of that certain Joint Operating Agreement, dated March 5, 1979, by and between ADOBE OIL & GAS CORPORATION, as Operator, and PHILLIPS PETROLEUM COMPANY, ET AL as Non-Operators.

GAS BALANCING AGREEMENT

The parties to the Operating Agreement to which this agreement is attached are the owners of certain gas rights underlying the Unit Area covered by such agreement, and the ownership of each party is set forth in Exhibit "A" to said Operating Agreement.

The terms of the Operating Agreement provide each such party with the right to take its share of gas produced from the Unit Area and market the same. In the event any such party is not at any time taking or marketing its share of such gas or has contracted to sell its share thereof to a purchaser which does not at any time while said agreement is in effect take the full share of gas attributable to the interest of such contracting party, then this agreement shall automatically become effective.

During the period or periods when any party has no market for its share of gas produced from any proration or spacing unit within the Unit Area, or its purchaser does not take its full share of gas produced from such proration or spacing unit mentioned above, the other parties shall be entitled to produce each month one hundred percent (100%) of the allowable gas production assigned to such proration or spacing unit by the State regulatory body having jurisdiction and shall be entitled to take and deliver to its or their purchaser or purchasers all of such gas production. All the parties shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser or purchasers.

On a cumulative basis, each such party not taking or marketing its full share of the gas produced shall be credited with gas in storage equal to its full share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost, and less that portion such party took or delivered to its purchaser. The Operator under said Operating Agreement will establish and maintain currently a gas account to show the gas balance which exists between all the parties and will furnish each of these parties a monthly statement showing the total quantity of gas produced, the amount used in lease operations, vented or lost, the total quantity of liquid hydrocarbons recovered therefrom, and the monthly and cumulative over and under account of each party.

At any and all times while gas is being produced from the Unit Area, each party will make settlement with the respective royalty owners to whom said party is accountable, just as if each party were taking or delivering to a purchaser its share, and its share only, of such gas production exclusive of gas used in lease operations, vented or lost. Each party agrees to indemnify and hold each and every other party harmless from any and all claims for royalty payments asserted by royalty owners to whom each indemnifying party is accountable. The term "royalty owner" shall include owners of royalty, overriding royalties, production payments and similar interests.

After written notice to the operator, each party at any time may begin taking or delivering to its purchaser its full share of the gas produced from a proration or spacing unit under which it has gas in storage, less such party's share of gas used in operations, vented or

lost. In addition to such share, each party, including the Operator, until it has recovered its gas in storage and balanced the gas account as to its interest, shall be entitled to take or deliver to its purchaser a share of gas determined by multiplying fifty percent (50%) of the interest in the current gas production of the party or parties without gas in storage by a fraction, the numerator of which is the interest in the proration or spacing unit of such party with gas in storage and the denominator of which is the total percentage interest in such proration or spacing unit of all parties with gas in storage currently taking or delivering to a purchaser.

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

Nothing herein contained shall be construed as denying 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.

In the event production of gas from a proration or spacing unit is permanently discontinued before the gas account is balanced, settlement will be made between the underproduced and overproduced parties. In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced party or parties attributable to the overproduction which said overproduced party received, less applicable taxes theretofore paid, at the applicable price defined below for the latest delivery of a volume of gas equal to that for which settlement is made. For gas sold in interstate commerce, the price basis shall be the rate collected, from time to time, which is not subject to possible refund, as provided by the Federal Energy Regulatory Commission or any successor agency pursuant to final order or settlement applicable to the gas sold from such well, plus any additional collected amount which is not ultimately required by said Commission to be refunded. Such additional collection amount to be accounted for at such time as final determination is made with respect thereto.

Nothing herein contained shall change or affect the obligation of each party to bear and pay its proportionate share of all costs, expenses, and liabilities as provided in the Operating Agreement.

This agreement shall constitute a separate agreement as to each proration or spacing unit whtin 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 hereto, their heirs, successors, legal representatives and assigns. By the terms "proration unit" or "spacing unit" is meant the area or portion of the Contract Area fixed for the drilling of one well by applicable field rules, or in the absence thereof, with statewide rules and regulations of the State regulatory body having jurisdiction.

EXHIBIT "G"

Attached to and made a part of that certain Joint Operating Agreement, dated March 5, 1979, by and between ADOBE OIL & GAS CORPORATION, as Operator and PHILLIPS PETROLEUM COMPANY, ET AL, as Non-Operators.

Tax Partnership Recognition

The parties to this Agreement recognize and agree that for Federal income tax purposes the relationship of the parties provided for in this Agreement constitutes a partnership to be taxed in the manner of such entities as provided for in the appropriate Sections of the Internal Revenue Code of 1954 as amended and the parties agree that such relationship shall be subject to the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954 as amended. Further, each party agrees that it will not file an election, nor will it perform any act which may be deemed to constitute an election, in accordance with the provisions of Section 761(a) of said Internal Revenue Code and the regulations promulgated thereunder, to be excluded from all or any part of the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954 as amended unless and until all parties agree in writing that such an election may be made. It is further agreed that for Federal income tax purposes the parties will be deemed to have contributed to the partnership their interest in the oil, gas and mineral leases or other leases or property subject hereto together with any wells drilled thereon and such leases and property shall be deemed to be partnership assets for Federal income tax purposes.

The operator of the properties (or operators if there be more than one) shall arrange for the preparation and filing of the necessary Federal income tax partnership returns giving all parties hereto copies of the returns proposed to be filed thirty (30) days in advance of filing for the purpose of review and acceptance. Should no objections be received by operator from such other parties within such thirty (30) day period, all parties hereto shall be deemed to have approved the return as proposed and operator shall then be authorized to file such return on behalf of the partnership.

The operator of the properties is hereby authorized and directed to make the following elections under the provisions of said Internal Revenue Code and the regulations promulgated thereunder in the first partnership return to be filed in accordance with the terms hereof:

(i) To elect the calendar year as the "taxable" year of the parties under this Agreement;

(ii) To elect the accrual method of accounting for other operations of the parties under this Agreement;

(iii) To elect pursuant to Section 263(c) of said Internal Revenue Code to expense intangible drilling and development costs;

(iv) To elect pursuant to Section 167 of said Internal Revenue Code the method of computing depreciation;

(v) To make any other election as may be approved by the parties under this Agreement.

The parties agree that for purposes of preparing such partnership income tax return, the items of income and deduction will be allocated as follows:

(a) Proceeds from sales of production shall be allocated as income to the party entitled to receive such proceeds under the terms of this Agreement.

(b) Lease operating expenses and costs of production shall be allocated as a deduction to the parties in the same proportion as such parties contribute to such expenses and costs.

(c) Intangible drilling and development costs shall be allocated as a deduction to the parties in accordance with the respective payments of such costs incurred pursuant to this Agreement.

(d) Maximum depreciation shall be taken and shall be allocated to the party required to pay for the depreciable property.

(e) Income tax credits shall be allocated in accordance with the ratio in which profits are divided as a result of this Agreement or, in the event the ratio changes, then in accordance with the ratio of sharing profits in effect at the time the qualifying property is acquired.

(f) Both cost and percentage depletion shall be computed by the parties individually in accordance with the provisions of Section 613A(c) of said Internal Revenue Code as amended. For this purpose, the basis of the property shall be allocated to each party in proportion to his share of the adjusted basis of property as contributed to the partnership.

(g) Abandonment losses shall be allocated to the party that furnished the funds for the acquisition of the property abandoned, and in the same proportion.

(h) Depreciation and investment tax credit recapture shall be allocated to the parties in such a manner that each party will share in such recapture in the same proportion in which it shared in the depreciation deduction or investment tax credit that caused such recapture.

(i) Gains or losses on the sale or exchange of property shall be allocated in accordance with each party's interest in such property at the time the property is sold or exchanged.

(j) Other items of income of deduction shall be allocated in accordance with the overall intent of the parties as incorported in the terms of this Agreement.

In the event of a transfer of an interest hereunder, an election may be filed under applicable Treasury regulations to cause the basis to be adjusted for Federal income tax purposes as provided by Sections 734 and 743 of the Internal Revenue Code of 1954 as amended.

KELLAHIN and KELLAHIN
ATTORNEYS AT LAW
500 DON GASPAR AVENUE
P. O. BOX 1769
SANTA FE, NEW MEXICO 87501

JASON W. KELLAHIN
W. THOMAS KELLAHIN
KAREN AUBREY

TELEPHONE 982-4285
AREA CODE 505

March 21, 1979

Mr. Joe D. Ramey, Director
New Mexico Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87102

Dear Mr. Ramey:

Enclosed is the application of Adobe Oil Company for approval of its East Tatum State Unit. This application was phoned in, to be advertised for the April 11 hearing.

Yours very truly,

Jason W. Kellahin

CC: Mr. Wayne Gill ✓

JWK:kfm

Enclosure

BEFORE THE

NEW MEXICO DEPARTMENT OF ENERGY AND MINERALS

OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION
OF ADOBE OIL COMPANY ~~FOR APPROVAL~~
OF A UNIT AGREEMENT, CHAVES COUNTY,
NEW MEXICO

Lea

APPLICATION

& Gas Corporation

Comes now Adobe Oil Company and applies to the Oil Conservation Division, New Mexico Energy and Minerals Department, for approval of its East Tatum State Unit consisting of 2,560 acres, more or less, located in Township 12 South, Range 36 East, N.M.P.M., which unit will include Sections 25, 26, 35 and 36, in the above township and range.

All of the acreage to be included in the unit is State of New Mexico lands, and preliminary approval of the proposed unit has been obtained from the Commissioner of Public Lands.

The Unit is being formed as an exploratory unit, and initial exploration will be by entry in a temporarily-abandoned hole.

WHEREFORE Applicant prays that this application be set for hearing before the Division's duly appointed examiner at the April 11, 1979, Examiner hearing, and that after notice and hearing as required by law the Division enter its order approving the unit agreement as requested.

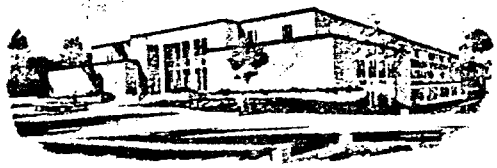
Respectfully submitted,
ADOBE OIL COMPANY

By _____
Kellahin & Kellahin
P. O. Box 1769
Santa Fe, New Mexico 87501

Attorneys for Applicant

3/14 To: Copy Adobe

State of New Mexico



Commissioner of Public Lands

March 13, 1979

Make copy for Ric & Dave
cc 322-19 Jewell

ALEX J. ARMIJO
COMMISSIONER

P. O. BOX 1148
SANTA FE, NEW MEXICO 87501

File

Mr. W. Wayne Gill
P. O. Box 3729
Midland, Texas 79702

Re: Proposed-East Tatum State Unit
T-12-S, R-36-E
Sections: 25, 26, 35 & 36
Lea County, New Mexico

Dear Mr. Gill:

We have reviewed the form of unit agreement, Exhibits "A" and "B", which you submitted on behalf of Adobe Oil & Gas Corporation, for the East Tatum State Unit, Lea County, New Mexico. The form of agreement meets the requirements of the Commissioner of Public Lands, therefore, we have this date approved your agreement as to form and content.

Please submit your Geological Report and Geological maps to this office.

When submitting your agreement for final approval, the following are required by this office.

1. Application for final approval stating all tracts committed and tracts not committed.

2. Two fully executed copies of unit agreement-one must contain original signatures, together with two copies of Exhibits "A" and "B".

3. Two sets of all ratifications from Lessees of Record and Working Interest Owners.

4. One executed copy of Operating Agreement fully executed by all parties.

5. Order of the New Mexico Conservation Division.

EXHIBIT
OIL CONS.
Adobe 2
CASE NO. 6521

Your filing fee in the amount of Forty ($40.00) Dollars has been received.

Very truly yours,

ALEX J. ARMIJO
COMMISSIONER OF PUBLIC LANDS

BY: Ray D. Graham
RAY D. GRAHAM, Director
Oil and Gas Division

AJA/RDG/s

ADOBE OIL & GAS CORPORATION
1100 WESTERN UNITED LIFE BLDG.
MIDLAND, TEXAS 79701
915 683-4701

SUBSIDIARIES
ADOBE COAL COMPANY
ADOBE HOLLAND INC
ADOBE INTERNATIONAL INC
ADOBE MARKETING CORPORATION
ADOBE MINING COMPANY
ADOBE ROYALTY INC
TELEX 743413

Proposed East Tatum State Unit
Sections 25, 26, 35 & 36
Lea County, New Mexico

Geological Report

The captioned prospect is a re-entry of the Hilliard Oil & Gas #1-Phillips State well, located 990' from the east line and 660' from the north line of Section 35, T-12-S, R-36-E, Lea County, New Mexico. We propose to clean out this well to a depth of 13,400 feet, and test the Upper Mississippian porosity zones from 12,934 feet to 13,106 feet.

This prospect is a stratigraphic trap with the Upper Mississippian porosity present in the Hilliard well, but absent up dip in the Cameron #1-State (Sec. 15), Sunray #1-Adams (Sec. 29), and the Crown Central #1-Lowe (Sec. 3). Two and one half miles south of the Hilliard well, the Freeport #1-State (Sec. 11) has only 2%-3% porosity in the Upper Mississippian. (See cross section.) The Upper Mississippian is productive 10 miles to the southwest in the Austin Mississippian Field, which now has three wells completed from this zone with additional wells being drilled at present. Included with this report is a North-South cross section extending from the Austin area to the Hilliard well, showing the porosity zone to be the same as in the Phillips #1-Austin State.

Enc: 2 Maps contoured on Upper Mississippian
2 Cross Sections

TELEX 743413

ADOBE OIL & GAS CORPORATION
1100 WESTERN UNITED LIFE BLDG.
MIDLAND, TEXAS 79701
915 683-4701

Adobe Oil & Gas Corporation
East Tatum State Unit #1 - 660' FNL & 990' FEL of Section 35, T-12-S, R-36-E,
Lea Co., New Mexico

FORMERLY: Hilliard Oil & Gas, Inc.--Phillips State #1
State Lease #L-6877

GL elevation 3967'

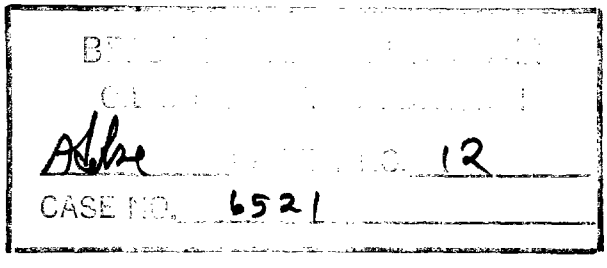
PROPOSED RE-ENTRY PROCEDURE

1. Rebuild road and location pad.
2. MIRR & drill out seven (7) cement plugs to 13,136'. Clean out to 13,400'.
3. Run Compensated Neutron-Density Log (minimum).
4. Spot 100' (35 sx) cement plug from 13,400-13,300'.
5. Run 5-1/2" 17# & 20# csg to 13,300' and cement with sufficient amount to reach 9000' (above Wolfcamp @ 9550').

EVALUATE POTENTIAL ZONES IN UPPER MISSISSIPPIAN BY THE FOLLOWING:

6. Perf zone 13,074-13,106', acidize, & test.
7. Perf zone 13,000-13,050', acidize, & test.
8. Perf zone 12,934-12,988', treat, & test.
9. Retreat productive zones w/large pad-acid job w/100 mesh sand and potential test well.

ESTIMATED COST TO COMPLETE THIS WELL IS $507,950.00



ADOBE OIL & GAS CORPORATION
1100 WESTERN UNITED LIFE BLDG.
MIDLAND, TEXAS 79701
915 683-4701

AUTHORIZATION FOR EXPENDITURE

Location: East Tatum State Unit #1- 660' FNL & 990' FEL of Sec. 35, T-12-S, R-36-E, Lea Co., NM

	Completed Well	To Casing Point	Actual
Location and Roads	10,000.00	8,000.00	
Damages	2,000.00	2,000.00	
Footage Contract _____ ft @ RU & RD	30,000.00	30,000.00	
Day Work 10 days @ 6000 /Day	60,000.00	50,000.00	
Cement and Cementing	20,000.00		
Float Equipment, etc.	1,000.00		
Mud and Chemicals	15,000.00	5,000.00	
Log and Testing	5,000.00		
Core and Core Analysis			
Water	8,000.00	2,000.00	
Trucking	5,000.00	2,000.00	
Perforating	5,000.00		
Treating	60,000.00		
Completion Unit	20,000.00		
Labor	6,000.00		
Bits & Rental Equipment	5,000.00	5,000.00	
Overhead and Supervision	10,000.00	5,000.00	
Contingencies	20,000.00	15,000.00	
Total Intangibles	282,000.00	124,000.00	
Surface Casing _____ ft @ _____			
Intermediate Casing			
2nd Intermediate Casing			
Well Head	10,000.00		
Oil String 13,500 ft @ $10.50	141,750.00	2,000.00	
Tubing 13,500 ft @ $3.20	43,200.00		
Rods			
Pumping Unit and Base			
Prime Mover			
Misc. Connections	5,000.00		
Total Well Tangibles	199,950.00	2,000.00	
Tanks	9,000.00		
Treater-Separator	12,000.00		
Connections, Line Pipe, etc.	5,000.00		
Total Tank Battery	26,000.00		
Total Cost	$507,950.00	$126,000.00	

Your _____ working interest share of the above estimate is $_____
Please accept and approve in the space provided below and return one executed copy to this o

ADOBE OIL & GAS CORPORATION

_____
WORKING INTEREST OWNER

By _____

APPROVED AND ACCEPTED this _____
Day of _____, 19

13
6521