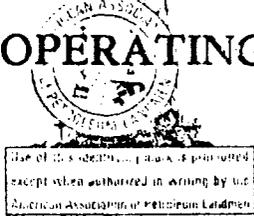


A.A.P.L. FORM 610-1982

MODEL FORM OPERATING AGREEMENT



OPERATING AGREEMENT

DATED

AUGUST 14 , 19 86 ,

OPERATOR MARSHALL PIPE & SUPPLY COMPANY

CONTRACT AREA BEST AREA

SECTIONS 22, 23, 26 AND 27 (1/2), T.2 S., R.29 E. (SEVEN HALF-
SECTIONS)

COUNTY OR PARISH OF ROOSEVELT STATE OF NEW MEXICO

COPYRIGHT 1982 -- ALL RIGHTS RESERVED
AMERICAN ASSOCIATION OF PETROLEUM
LANDMEN, 2408 CONTINENTAL LIFE BUILDING,
FORT WORTH, TEXAS, 76102, APPROVED FORM.
A.A.P.L. NO. 610 - 1982 REVISED

MARSHALL PIPE & SUPPLY CO.
Case No. 9625
3/15/89 Examiner Hearing
Exhibit No. 2

TABLE OF CONTENTS

<u>Article</u>	<u>Title</u>	<u>Page</u>
I.	<u>DEFINITIONS</u>	1
II.	<u>EXHIBITS</u>	1
III.	<u>INTERESTS OF PARTIES</u>	2
	A. OIL AND GAS INTERESTS	2
	B. INTERESTS OF PARTIES IN COSTS AND PRODUCTION	2
	C. EXCESS ROYALTIES, OVERRIDING ROYALTIES AND OTHER PAYMENTS	2
	D. SUBSEQUENTLY CREATED INTERESTS	2
IV.	<u>TITLES</u>	2
	A. TITLE EXAMINATION	2-3
	B. LOSS OF TITLE	3
	1. Failure of Title	3
	2. Loss by Non-Payment or Erroneous Payment of Amount Due	3
	3. Other Losses	3
V.	<u>OPERATOR</u>	4
	A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR	4
	B. RESIGNATION OR REMOVAL OF OPERATOR AND SELECTION OF SUCCESSOR	4
	1. Resignation or Removal of Operator	4
	2. Selection of Successor Operator	4
	C. EMPLOYEES	4
	D. DRILLING CONTRACTS	4
VI.	<u>DRILLING AND DEVELOPMENT</u>	4
	A. INITIAL WELL	4-5
	B. SUBSEQUENT OPERATIONS	5
	1. Proposed Operations	5
	2. Operations by Less than All Parties	5-6-7
	3. Stand-By Time	7
	4. Sidetracking	7
	C. TAKING PRODUCTION IN KIND	7
	D. ACCESS TO CONTRACT AREA AND INFORMATION	8
	E. ABANDONMENT OF WELLS	8
	1. Abandonment of Dry Holes	8
	2. Abandonment of Wells that have Produced	8-9
	3. Abandonment of Non-Consent Operations	9
VII.	<u>EXPENDITURES AND LIABILITY OF PARTIES</u>	9
	A. LIABILITY OF PARTIES	9
	B. LIENS AND PAYMENT DEFAULTS	9
	C. PAYMENTS AND ACCOUNTING	9
	D. LIMITATION OF EXPENDITURES	9-10
	1. Drill or Deepen	9-10
	2. Rework or Plug Back	10
	3. Other Operations	10
	E. RENTALS, SHUT-IN WELL PAYMENTS AND MINIMUM ROYALTIES	10
	F. TAXES	10
	G. INSURANCE	11
VIII.	<u>ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST</u>	11
	A. SURRENDER OF LEASES	11
	B. RENEWAL OR EXTENSION OF LEASES	11
	C. ACREAGE OR CASH CONTRIBUTIONS	11-12
	D. MAINTENANCE OF UNIFORM INTEREST	12
	E. WAIVER OF RIGHTS TO PARTITION	12
	F. PREFERENTIAL RIGHT TO PURCHASE (DELETED)	12
IX.	<u>INTERNAL REVENUE CODE ELECTION</u>	12
X.	<u>CLAIMS AND LAWSUITS</u>	13
XI.	<u>FORCE MAJEURE</u>	13
XII.	<u>NOTICES</u>	13
XIII.	<u>TERM OF AGREEMENT</u>	13
XIV.	<u>COMPLIANCE WITH LAWS AND REGULATIONS</u>	14
	A. LAWS, REGULATIONS AND ORDERS	14
	B. GOVERNING LAW	14
	C. REGULATORY AGENCIES	14
XV.	<u>OTHER PROVISIONS</u>	14
XVI.	<u>MISCELLANEOUS</u>	15

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

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between MARSHALL PIPE & SUPPLY COMPANY-----
----- 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 this agreement.
- (2) Restrictions, if any, as to depths, formations, or substances.
- (3) Percentages or fractional interests of parties to this agreement.
- (4) Oil and gas leases and/or oil and gas interests subject to this agreement.
- (5) Addresses of parties for notice purposes.

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.

~~C. Exhibit "G", Tax Partnership~~ (DELETED)

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

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B. Interests of Parties in Costs and Production:

Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set forth in Exhibit "A". In the same manner, the parties shall also own all production of oil and gas from the Contract Area subject to the payment of royalties to the extent of ONE-EIGHTH (1/8TH) which shall be borne as hereinafter set forth.

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

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

C. Excess Royalties, Overriding Royalties and Other Payments:

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

D. Subsequently Created Interests:

AFTER THE DATE OF THIS AGREEMENT
If any party should ~~create~~ create an overriding royalty, production payment or other burden payable out of production attributable to its working interest hereunder, ~~if such burden is created prior to the commencement of operations set forth in Exhibit "A" or was not disclosed in writing in all other parties prior to the execution of this agreement, all parties hereto shall be deemed to have accepted the burden of all parties~~ (any such interest being hereinafter referred to as "subsequently created interest" irrespective of the timing of its creation and the party out of whose working interest the subsequently created interest is derived being hereinafter referred to as "burdened party"), and:

1. If the burdened party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of said subsequently created interest and the burdened party shall indemnify and save said other party, or parties, harmless from any and all claims and demands for payment asserted by owners of the subsequently created interest; and,
2. If the burdened party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B. shall be enforceable against the subsequently created interest in the same manner as they are enforceable against the working interest of the burdened party.

ARTICLE IV.
TITLES

A. Title Examination:

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

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

ARTICLE IV
continued

Am

1 Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys for title examination
2 (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties
3 in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Ex-
4 hibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above
5 functions.
6

7 Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection
8 with leases or oil and gas interests contributed by such party. Operator shall be responsible for the preparation and recording of pooling
9 designations or declarations as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling orders.
10 This shall not prevent any party from appearing on its own behalf at any such hearing.
11

12 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
13 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 par-
14 ticipate in the drilling of the well.
15

16 **B. Loss of Title:**

17
18 ~~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~~
19 ~~reduction of interest from that shown on Exhibit "A", the party contributing the affected lease or interest shall have ninety (90) days~~
20 ~~from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisi-~~
21 ~~tion will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining oil~~
22 ~~and gas leases and interests: and,~~

23 (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
24 entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid or incurred,
25 but there shall be no additional liability on its part to the other parties hereto by reason of such title failure;

26 (b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has
27 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 oc-
28 curred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract
29 Area by the amount of the interest lost;

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

34 (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
35 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
36 who bore the costs which are so refunded;

37 (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
38 borne by the party or parties whose title failed in the same proportions in which they shared in such prior production; and,

39 (f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest
40 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
41 connection therewith.
42

43 2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well
44 payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates,
45 there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required
46 payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment,
47 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
48 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
49 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
50 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
51 the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it
52 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
53 or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

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

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

60 (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
61 lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.
62

63 3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall be joint losses
64 and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of
65 the Contract Area.
66
67
68
69
70

~~INDIVIDUAL~~

ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

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

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

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

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

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 1st day of November, 1986, Operator shall commence the drilling of a well for oil and gas at the following location:

2310' ~~NE~~ & 1650' FNL, Section 26, T2S R29E,
Roosevelt County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to a depth sufficient to test the Pre-Cambrian formation or 7350', whichever is the lesser depth,

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

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

ARTICLE VI

continued

1 If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the
2 well as a dry hole, the provisions of Article VI.E.1. shall thereafter apply.

B. Subsequent Operations:

OR ON LANDS TO BE POOLED WITH LEASEHOLD
SUBJECT TO THIS AGREEMENT TO COMPLY WITH
APPROPRIATE SPACING REGULATIONS

3
4
5
6
7
8 1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area/~~or on the Contract Area~~
9 ~~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~~
10 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
11 other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective forma-
12 tion and the estimated cost of the operation. The parties receiving such a notice shall have ~~thirty (30) days~~ ^{complete sidetrack} after receipt of the notice
13 within which to notify the party wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drill-
14 ing rig is on location, notice of a proposal to rework, plug back, or drill deeper may be given by telephone and the response period shall be
15 limited to TWENTY-FOUR (24) hours ^{complete sidetrack} inclusive of Saturday, Sunday and legal holidays. Failure of a party receiving such notice to reply within
16 the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or
17 response given by telephone shall be promptly confirmed in writing.

18
19
20
21 If all parties elect to participate in such a proposed operation, Operator shall, within ninety (90) days after expiration of the notice
22 period of ~~thirty (30) days~~ ^{TWENTY-FOUR (24) hours} (or as promptly as possible after the expiration of the ~~thirty (30) day~~ ^{TWENTY-FOUR (24) hour} period when a drilling rig is on loca-
23 tion, as the case may be), actually commence the proposed operation and complete it with due diligence at the risk and expense of all par-
24 ties hereto; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties,
25 for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary to obtain
26 permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title ex-
27 amination or curative matter required for title approval or acceptance. Notwithstanding the force majeure provisions of Article XI, if the
28 actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein) and
29 if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accor-
30 dance with the provisions hereof as if no prior proposal had been made.

31
32
33
34 2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VII.D.1. (Option
35 No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties
36 giving the notice and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of
37 the notice period of ~~thirty (30) days~~ ^{TWENTY-FOUR (24) hours} (or as promptly as possible after the expiration of the ~~thirty (30) day~~ ^{TWENTY-FOUR (24) hour} period when a drilling rig is
38 on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all
39 work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is
40 a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed opera-
41 tion for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Con-
42 senting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and con-
43 ditions of this agreement.

44
45
46
47 If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable
48 notice period, shall advise the Consenting Parties of the total interest of the parties approving such operation and its recommendation, as
49 to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within ~~thirty (30) days~~ ^{TWENTY-FOUR (24) hours}
50 (inclusive of Saturday, Sunday and legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit par-
51 ticipation to such party's interest as shown on Exhibit "A" or (b) carry its proportionate part of Non-Consenting Parties' interests, and
52 failure to advise the proposing party shall be deemed an election under (a). In the event a drilling rig is on location, the time permitted for
53 such a response shall not exceed a total of ~~thirty (30) days~~ ^{TWENTY-FOUR (24) hours} (inclusive of Saturday, Sunday and legal holidays). The proposing party,
54 at its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.

55
56
57
58 The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have
59 elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such
60 operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties.
61 If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well and restore the surface location at their
62 sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a pro-
63 ducer 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,
64
65
66
67
68
69
70

ARTICLE VI

continued

1 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, excise taxes, royalty, overriding royalty and other interests not excepted by Article III.D. payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

9
10
11
12 (a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to such Non-Consenting Party had it participated in the well from the beginning of the operations; and

18
19
20
21 (b) 500 % of that portion of the costs and expenses of drilling, reworking, deepening, plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and 500 % of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

22
23
24
25
26
27
28 An election not to participate in the drilling or the deepening of a well shall be deemed an election not to participate in any reworking or plugging back operation proposed in such a well, or portion thereof, to which the initial Non-Consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment account. Any such reworking or plugging back operation conducted during the recoupment period shall be deemed part of the cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties one hundred percent (100%) of that portion of the costs of the reworking or plugging back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If such a reworking or plugging back operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting Parties in said well.

29
30
31
32
33
34
35
36
37
38
39 During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, excise, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production not excepted by Article III.D.

40
41
42
43
44
45
46 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.

47
48
49
50
51
52
53 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.

ARTICLE VI
continued

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

7
8
9
10 Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent of all parties, no wells shall
11 be completed in or produced from a source of supply from which a well located elsewhere on the Contract Area is producing, unless such
12 well conforms to the then-existing well spacing pattern for such source of supply.

13
14
15
16 The provisions of this Article shall have no application whatsoever to the drilling of the initial well ~~described in Article VI.A.~~
17 ~~except as to Article VII.D.1. (Option No. 2) if selected or (b) as to the reworking, deepening and plugging back of such initial well~~ ^{completing sidetracking}
18 after it has been drilled to the depth specified in Article VI.A. if it shall thereafter prove to be a dry hole or, if initially completed for pro-
19 duction, ceases to produce in paying quantities.

20
21
22
23 3. Stand-By Time: When a well which has been drilled or deepened has reached its authorized depth and all tests have been
24 completed, and the results thereof furnished to the parties, stand-by costs incurred pending response to a party's notice proposing a
25 reworking, deepening, plugging back or completing operation in such a well shall be charged and borne as part of the drilling or deepening
26 operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted, whichever
27 first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms of the second gram-
28 matical paragraph of Article VI.B.2, shall be charged to and borne as part of the proposed operation, but if the proposal is subsequently
29 withdrawn because of insufficient participation, such stand-by costs shall be allocated between the Consenting Parties in the proportion
30 each Consenting Party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all Consenting Par-
31 ties.

32
33
34
35 4. Sidetracking: Except as hereinafter provided, those provisions of this agreement applicable to a "deepening" operation shall
36 also be applicable to any proposal to directionally control and intentionally deviate a well from vertical so as to change the bottom hole
37 location (herein called "sidetracking"), unless done to straighten the hole or to drill around junk in the hole or because of other
38 mechanical difficulties. Any party having the right to participate in a proposed sidetracking operation that does not own an interest in the
39 affected well bore at the time of the notice shall, upon electing to participate, tender to the well bore owners its proportionate share (equal
40 to its interest in the sidetracking operation) of the value of that portion of the existing well bore to be utilized as follows:

41
42
43
44 (a) If the proposal is for sidetracking an existing dry hole, reimbursement shall be on the basis of the actual costs incurred in
45 the initial drilling of the well down to the depth at which the sidetracking operation is initiated.

46
47
48
49 (b) If the proposal is for sidetracking a well which has previously produced, reimbursement shall be on the basis of the well's
50 salvable materials and equipment down to the depth at which the sidetracking operation is initiated, determined in accordance with the
51 provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning.

52
53
54
55 In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period
56 shall be limited to ~~thirty (30) days~~ ^{TWENTY-FOUR (24)} hours, ~~exclusive of Saturday, Sunday and legal holidays; provided, however, any party may request and~~
57 receive up to eight (8) additional days after expiration of the ~~thirty (30) days~~ ^{TWENTY-FOUR (24)} hours within which to respond by paying for all stand-by time
58 incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, stand-
59 by costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing par-
60 ty's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties. In all other in-
61 stances the response period to a proposal for sidetracking shall be limited to thirty (30) days.

62
63
64
65 **C. TAKING PRODUCTION IN KIND:**

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

ARTICLE VI

continued

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

2
3 Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in production from
4 the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment directly from the purchaser thereof for
5 its share of all production.

6
7 In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of
8 the oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not
9 the obligation, to purchase such oil or sell it to others at any time and from time to time, for the account of the non-taking party at the
10 best price ~~available~~ in the area for such production. Any such purchase or sale by Operator shall be subject always to the right of the
11 owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil not previously
12 delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil shall be only for such reasonable periods of
13 time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess
14 of one (1) year. **REASONABLY OBTAINABLE UNDER THE CIRCUMSTANCES**

15
16 In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines and/or
17 deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total gas sales to
18 be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with any gas balancing
19 agreement between the parties hereto, whether such an agreement is attached as Exhibit "E", or is a separate agreement.

D. Access to Contract Area and Information:

20
21
22
23 Each party shall have access to the Contract Area at all ~~reasonable~~ times, at its sole cost and risk to inspect or observe operations,
24 and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books
25 and records relating thereto. Operator, ~~upon request~~, shall furnish each of the other parties with copies of all forms or reports filed with
26 governmental agencies, daily drilling reports, well logs, **TEST RESULTS** ~~and reports of stock on hand at the time of~~
27 ~~and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of~~
28 gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that re-
29 quests the information.

E. Abandonment of Wells:

30
31
32
33 1. Abandonment of Dry Holes: Except for any well drilled or deepened pursuant to Article VI.B.2., any well which has been
34 drilled or deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned
35 ~~without the consent of all parties.~~ **TWENTY-FOUR (24)** Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply
36 ~~within~~ **within** ~~hours~~ **hours** ~~inclusive of Saturday, Sunday and legal holidays)~~ after receipt of notice of the proposal to plug and abandon
37 such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in
38 accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or deepening
39 such well. Any party who objects to plugging and abandoning such well shall have the right to take over the well and conduct further
40 operations in search of oil and/or gas subject to the provisions of Article VI.B.

41
42 2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted
43 hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a
44 producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall
45 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within
46 thirty (30) days after receipt of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well,
47 those wishing to continue its operation from the interval(s) of the formation(s) then open to production shall tender to each of the other
48 parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of
49 Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign
50 the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and
51 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 in-
52 terval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and
53 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 in-
54 tervals of the formation or formations then open to production, ~~for a term to be determined by the parties and so long thereafter as oil and/or gas is pro-~~
55 ~~duced from the interval or intervals of the formation or formations covered thereby.~~ **FROM SUCH WELL BORE**

ARTICLE VI

continued

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

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

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

ARTICLE VII.

EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

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

B. Liens and Payment Defaults: VENTURERS OR PRINCIPALS.

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

If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph. Operator may not charge DEPCO, Inc., Nicor Exploration Company or Yates Petroleum Corporation pursuant to this paragraph for the unpaid share of expense of Operator or any of the other Non-Operator parties to this agreement. ~~Also see Article X.V.G. for additions to the above article.~~

C. Payments and Accounting:

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

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

D. Limitation of Expenditures:

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

ARTICLE VII

continued

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

3
4 Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its
5 authorized depth, and all tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice
6 to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have ~~48~~ ^{TWENTY-FOUR (24)}
7 (~~48~~ hours ^{IN}clusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion at-
8 tempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, ~~in-~~
9 ~~cluding necessary tankage and/or surface facilities.~~ Failure of any party receiving such notice to reply within the period above fixed shall
10 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,
11 elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging
12 back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less
13 than all parties.

14
15 2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or
16 plugged back pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the reworking or plugging back of a well shall
17 include all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage
18 and/or surface facilities.

19
20 3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated
21 to require an expenditure in excess of TWENTY-FIVE THOUSAND AND NO/100---- Dollars (\$ 25,000.00----)
22 except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been
23 previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden
24 emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required
25 to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other
26 parties. If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator so requesting
27 an information copy thereof for any single project costing in excess of TWENTY THOUSAND AND NO/100-----
28 Dollars (\$ 20,000.00-----) but less than the amount first set forth above in this paragraph.

29
30 E. Rentals, Shut-in Well Payments and Minimum Royalties:

31
32 Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the
33 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 con-
34 tributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on
35 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
36 failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such pay-
37 ment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the pro-
38 visions of Article IV.B.

39
40 Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production
41 of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holidays), or at the earliest opportunity permitted by
42 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
43 Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments of any shut-in well payment
44 shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

45
46 F. Taxes:

47
48 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property
49 subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they
50 become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not
51 be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-
52 Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, over-
53 riding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or
54 owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduc-
55 tion. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding
56 anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax
57 value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in
58 the manner provided in Exhibit "C".

59
60 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner
61 prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final deter-
62 mination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any
63 interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint ac-
64 count, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as
65 provided in Exhibit "C".

66
67 Each party shall pay or cause to be paid all production, severance, excise, gathering and other taxes imposed upon or with respect to
68 the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.

69
70 **VOID LOSS**

ARTICLE VII

continued

G. Insurance:

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

In the event automobile 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 automotive equipment.

ARTICLE VIII.

ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

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

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

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

B. Renewal or Extension of Leases:

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

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

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

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

The provisions in this Article shall also be applicable to extensions of oil and gas leases, **ONLY EXTENSIONS AND LEASES TAKEN DURING THE TERM OF THIS AGREEMENT SHALL BE SUBJECT TO PROVISIONS OF THIS ARTICLE VIII.**

C. Acreage or Cash Contributions:

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

ARTICLE VIII

continued

1 said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the extent possible, be
 2 governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any acreage or cash contributions
 3 it may obtain in support of any well or any other operation on the Contract Area. The above provisions shall also be applicable to op-
 4 tional rights to earn acreage outside the Contract Area which are in support of a well drilled inside the Contract Area. FOR THE
 5 PURPOSES OF THIS ARTICLE, "ACREAGE CONTRIBUTIONS" SHALL BE DEEMED TO INCLUDE ACREAGE
 6 ACQUIRED PURSUANT TO FARMOUT, FARMIN, FARMOUT OPTION AND ACREAGE CONTRIBUTION AGREEMENTS.
 7 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.

8
 9 D. Maintenance of Uniform Interest:

10
 11 ~~For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, no~~
 12 party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells,
 13 equipment and production unless ~~such disposition is subject to the approval of the other parties.~~

14
 15 ~~the entire interest of the party in all leases and equipment and production on~~

16
 17 ~~an equal undivided interest in all leases and equipment and production in the Contract Area~~

18
 19 Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement
 20 and shall be made without prejudice to the right of the other parties.

21
 22 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
 23 require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for
 24 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
 25 party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter
 26 into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract
 27 Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

28
 29 E. Waiver of Rights to Partition:

30
 31 If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an
 32 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
 33 interest therein.

34
 35 ~~Preferential Right to Purchase~~

36
 37 ~~Whenever a party hereunder proposes to sell all or a part of its interest 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~~
 38 Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the
 39 name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms
 40 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
 41 on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchas-
 42 ing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing par-
 43 ties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to
 44 dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent com-
 45 ~~pany, or to a partnership, or to any other person in which any one party owns a minority of the stock.~~

46
 47 ARTICLE IX.

48 INTERNAL REVENUE CODE ELECTION

49
 50 This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association
 51 for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several
 52 and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax
 53 purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded
 54 from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as per-
 55 mitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to ex-
 56 ecute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the
 57 United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements,
 58 and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further
 59 evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the
 60 Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other
 61 action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract
 62 Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1,
 63 Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is per-
 64 mitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing elec-
 65 tion, each such party states that the income derived by such party from operations hereunder can be adequately determined without the
 66 computation of partnership taxable income.

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed FIFTEEN THOUSAND AND NO/100----- Dollars (~~\$ 15,000.00-----~~) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI.
FORCE MAJEURE

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

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

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

ARTICLE XII.
NOTICES

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

ARTICLE XIII.
TERM OF AGREEMENT

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

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

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

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

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

C. Regulatory Agencies:

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

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

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

ARTICLE XV.
OTHER PROVISIONS

A. **RIGHT TO PARTICIPATE IN OPTION WELL.** It is agreed and understood that if less than all parties hereto participate in the drilling of a well pursuant to this Operating Agreement, and if such well earns an option from third parties to drill another well ("Option Well") and thus earns an interest in such Option Well, then and in that event those parties only who participate in the drilling of the earning well hereunder will have the option to participate in the drilling of the Option Well (whether on or off the Contract Area) and parties not participating in the earning well drilled hereunder shall relinquish all rights in the Option Well and any interest earned as a result thereof. As to any conflict between the terms of this Article XV.A and Article VIII.C., the terms of this paragraph shall supersede and govern.

B. **RECOVERY OF COURT COSTS AND ATTORNEY'S FEES.** For the collection of any monies payable to a party hereto, and for the foreclosure of liens created hereunder, the party to whom such indebtedness is owed shall be entitled to collect from the party in default the reasonable attorney's fees and costs of court incurred in enforcing collection of such account and for foreclosure of such liens.

C. In addition to the provisions of Article VII.B., the following shall be a part of this operating agreement:

- i) To secure payment of its share of expense incurred under this Operating Agreement, together with interest thereon at the rate provided for in Exhibit "C" hereto, each Non-Operator grants to Operator a lien on all of such Non-Operator's interest (now owned or hereafter acquired) in all of the oil, gas and mineral leases,

ARTICLE XV.
continued

mineral estates and other mineral interests comprising the Contract Area, any properties now or hereafter pooled or unitized with any of such leases, estates and interests and, in each case, any instrument executed in amendment, correction, modification, confirmation, renewal or extension of the same and all unsevered and unextracted oil, gas and other hydrocarbons which may be produced, obtained or secured from the lands covered and affected by such mineral leases, estates and interests.

ii) To further secure its share of expenses incurred under this operating agreement, together with interest thereon at the rate provided in Exhibit "C" hereto, each Non-Operator grants to Operator a security interest in all of its interest (now owned or hereafter acquired) in and to the following:

- a) all equipment;
- b) all hydrocarbons severed and extracted from or attributable to the Contract Area;
- c) all accounts (including, but not limited to, accounts resulting from the sale of hydrocarbons at the wellhead or mine), contract rights and general intangibles arising in connection with the sale or other disposition of any hydrocarbons;
- d) fixtures; and
- e) all proceeds and products of such properties.

Operator shall have no obligation to preserve rights against prior parties. Nothing contained hereto shall authorize a Non-Operator to sell or assign its interest in the Contract Area or such collateral free and clear of Operator's security interest hereunder.

iii) This Operating Agreement shall also be deemed a security agreement and shall be enforceable in accordance with the laws of the State of New Mexico applicable thereto. This Operating Agreement may be filed as a financing statement in accordance with the laws of the State of New Mexico.

D. If Non-Operator does not, within the time provided in Exhibit "C" hereto, pay or (if a request for such advance is made) advance payment of the costs and expenses incurred or to be incurred in the drilling, testing and equipping of a well drilled or to be drilled hereunder, Operator may (without limiting any other type of right or remedies Operator may have in law or equity but subject to Operator's giving such Non-Operator at least 10 days written notice of Operator's intention to make such a declaration of non-consent by such party and during such 10 day period such ~~Non-Operator fails to pay such requested advance~~) declare such Non-Operator to have non-consented with respect to such well under the provisions of Article VI.B. of this Operating Agreement and to be subject to the "non-consent penalty" provided for therein,) in which event such non-consenting Non-Operator will not share in any cash or acreage contribution with respect to such well, will not participate in any option earned as a result of drilling such well and will not participate in the revenue from such well until the recoupment by Operator and the consenting parties as provided in Article VI.B. above.

- E. Each Non-Operator is granted the same liens, rights and options provided in "C" and "D" above to secure payments of money owed to such Non-Operator by reason of the terms of this Operating Agreement, whether such indebtedness is owed by Operator or another Non-Operator.
- F. As used in this Operating Agreement, including Paragraphs A through E above, the term Non-Operator refers to each Non-Operator who is subject to this Operating Agreement.
- G. ~~Insofar as it covers the Contract Area,~~ this Operating Agreement supersedes the Operating Agreement attached to and made a part of the Farmout Agreement dated December 3, 1985, between DEPCO, Inc. and NICOR Exploration Company, as Non-Operators, and Jack Ahlen, as Operator, and the Operating Agreement existing between Marshall Pipe & Supply Company, as Operator, and the other parties hereto (except DEPCO, Inc., NICOR Exploration Company, Yates Petroleum Corporation and Jack Ahlen), as Non-Operators.
- H. Except for the respective liens and security interests provided for in this Operating Agreement, which shall extend to all of the interests of the parties in the Contract Area, and subject to the other terms hereof, this Operating Agreement shall be deemed a separate Operating Agreement as to each of the half-section tracts described on Exhibit A-3; provided, however, that, except in the case of an emergency involving a well theretofore approved for drilling or completion, Operator will not call for an advance of funds pursuant to this Operating Agreement for the purpose of commencing the drilling of a well on any of such seven half-section tracts within 30 days following a previous request for an advance of funds to drill or complete a well on such seven-half section tracts of land.
- I. Anything in this Operating Agreement to the contrary notwithstanding, this Operating Agreement shall have no application to or effect upon the South Half (S/2) of Section 27, Township 2 South, Range 29 East, N.M.P.M., Roosevelt County, New Mexico, or the reversionary or after payout interest of Yates Petroleum Corporation in such property and such property is expressly excluded from the Contract Area.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50

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.

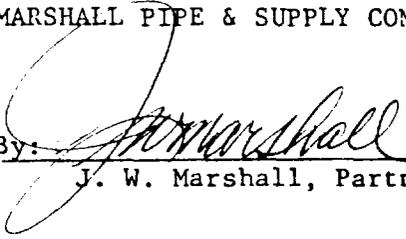
This Operating Agreement may be executed in multiple counterparts. It shall not be necessary that each party sign the same counterpart. This Operating Agreement shall become effective when a counterpart hereof has been signed by each party. All signed counterparts shall constitute one instrument. After counterparts hereof have been signed by all parties hereto, Operator is authorized to and will assemble and furnish to each of the parties hereto a complete copy of this Operating Agreement with signed signature pages, either manually signed or machine copies, showing execution of this Operating Agreement by all parties. This Operating Agreement may be filed for record in Roosevelt County, New Mexico by Operator filing in such records a certificate of the execution and effectiveness of this Operating Agreement, accompanied by a copy of this Operating Agreement showing execution by all parties hereto.

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

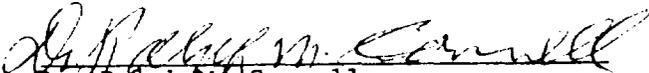
IN WITNESS WHEREOF, this agreement shall be effective as of 14th day of August, 1986

OPERATOR

MARSHALL PIPE & SUPPLY COMPANY

By: 
J. W. Marshall, Partner

NON-OPERATORS


Dr. Ralph M. Connell

S. T. Shoff

John Simpson

Thomas T. Adams

Richard L. Mason

R. C. Taylor, Jr.

Fred Tucker, Jr.

C. J. Schmitz

Bill Ross ..

L. W. Yager

Joe Yager

Mary Yager

M. June Piersal

Janetta Lou McGee

DEPCO, INC.

WINTERGREEN ENERGY CORP.

By: _____
Vice President

By: _____
Vice President

NICOR EXPLORATION COMPANY

YATES PETROLEUM CORPORATION

By: _____
Vice President

By: _____
Vice President

Jack L. Ahlen

EAGLE OIL & GAS CO. (as the holder
of the right to succeed to all or
part of the interest of Jack Ahlen
in the Contract Area)

By: _____
Vice President

THE STATE OF TEXAS §
 §
COUNTY OF DALLAS §

This instrument was acknowledged before me on the 5th
day of October, 1986, by J. W. Marshall, partner, on behalf
of Marshall Pipe & Supply Company, a partnership.

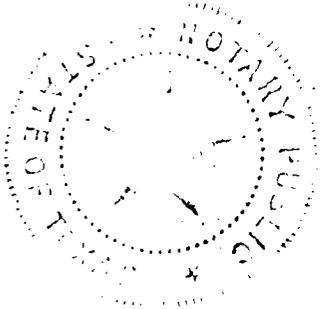
My Commission Expires:
11-30-88

Virginia Lee Johnson

Notary Public in and for
the State of Texas

VIRGINIA LEE JOHNSON
5934 HARVEST HILL
DALLAS, TEXAS 75250

(Print or Type Name of Notary)



THE STATE OF Texas §
COUNTY OF Dallas §

This instrument was acknowledged before me on the 9th
day of October, 1986, by Dr. Ralph M. Connell.

My Commission Expires:
11-30-88

Virginia Lee Johnson
Notary Public in and for
the State of Texas

VIRGINIA LEE JOHNSON
5934 HARVEST HILL
DALLAS, TEXAS 75230

(Print or Type Name of Notary)

THE STATE OF _____ §
COUNTY OF _____ §

This instrument was acknowledged before me on the _____
day of _____, 1986, by S. T. Shoff.

My Commission Expires:

Notary Public in and for
the State of _____

(Print or Type Name of Notary)

THE STATE OF _____ §
COUNTY OF _____ §

This instrument was acknowledged before me on the _____
day of _____, 1986, by John Simpson.

My Commission Expires:

Notary Public in and for
the State of _____

(Print or Type Name of Notary)

THE STATE OF _____ §
COUNTY OF _____ §

This instrument was acknowledged before me on the _____
day of _____, 1986, by Thomas T. Adams.

My Commission Expires:

Notary Public in and for
the State of _____

(Print or Type Name of Notary)

ARTICLE XVI.
MISCELLANEOUS

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50

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 Operating Agreement may be executed in multiple counterparts. It shall not be necessary that each party sign the same counterpart. This Operating Agreement shall become effective when a counterpart hereof has been signed by each party. All signed counterparts shall constitute one instrument. After counterparts hereof have been signed by all parties hereto, Operator is authorized to and will assemble and furnish to each of the parties hereto a complete copy of this Operating Agreement with signed signature pages, either manually signed or machine copies, showing execution of this Operating Agreement by all parties. This Operating Agreement may be filed for record in Roosevelt County, New Mexico by Operator filing in such records a certificate of the execution and effectiveness of this Operating Agreement, accompanied by a copy of this Operating Agreement showing execution by all parties hereto.

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 14th day of August, 1986.

OPERATOR

MARSHALL PIPE & SUPPLY COMPANY

By: J. W. Marshall
J. W. Marshall, Partner

NON-OPERATORS

Dr. Ralph M. Connell

S. T. Shoff

John Simpson

Thomas T. Adams

Richard L. Mason

R. C. Taylor, Jr.

Fred Tucker, Jr.

C. J. Schmitz

Bill Ross

L. W. Yager

THE STATE OF _____ §
COUNTY OF _____ §

This instrument was acknowledged before me on the _____ day of _____, 1986, by Dr. Ralph M. Connell.

My Commission Expires:

Notary Public in and for
the State of _____

(Print or Type Name of Notary)

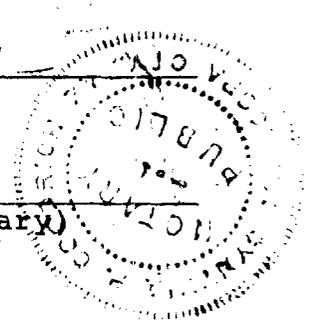
THE STATE OF ARIZONA §
COUNTY OF MARICOPA §

This instrument was acknowledged before me on the 10th day of OCTOBER, 1986, by S. T. Shoff.

My Commission Expires:
My Commission Expires Sept. 16, 1990

Cynthia T. Goodrich
Notary Public in and for
the State of ARIZONA

Cynthia T. Goodrich
(Print or Type Name of Notary)



THE STATE OF _____ §
COUNTY OF _____ §

This instrument was acknowledged before me on the _____ day of _____, 1986, by John Simpson.

My Commission Expires:

Notary Public in and for
the State of _____

(Print or Type Name of Notary)

THE STATE OF _____ §
COUNTY OF _____ §

This instrument was acknowledged before me on the _____ day of _____, 1986, by Thomas T. Adams.

My Commission Expires:

Notary Public in and for
the State of _____

(Print or Type Name of Notary)

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 Operating Agreement may be executed in multiple counterparts. It shall not be necessary that each party sign the same counterpart. This Operating Agreement shall become effective when a counterpart hereof has been signed by each party. All signed counterparts shall constitute one instrument. After counterparts hereof have been signed by all parties hereto, Operator is authorized to and will assemble and furnish to each of the parties hereto a complete copy of this Operating Agreement with signed signature pages, either manually signed or machine copies, showing execution of this Operating Agreement by all parties. This Operating Agreement may be filed for record in Roosevelt County, New Mexico by Operator filing in such records a certificate of the execution and effectiveness of this Operating Agreement, accompanied by a copy of this Operating Agreement showing execution by all parties hereto.

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 14th day of August, 1986

OPERATOR

MARSHALL PIPE & SUPPLY COMPANY

By: *J. W. Marshall*
J. W. Marshall, Partner

NON-OPERATORS

Dr. Ralph M. Connell

S. T. Shoff

John Simpson
John Simpson

Thomas T. Adams

Richard L. Mason

R. C. Taylor, Jr.

Fred Tucker, Jr.

C. J. Schmitz

Bill Ross

L. W. Yager

THE STATE OF _____
COUNTY OF _____

§
§
§

This instrument was acknowledged before me on the _____ day of _____, 1986, by Dr. Ralph M. Connell.

My Commission Expires:

Notary Public in and for
the State of _____

(Print or Type Name of Notary)

THE STATE OF _____
COUNTY OF _____

§
§
§

This instrument was acknowledged before me on the _____ day of _____, 1986, by S. T. Shoff.

My Commission Expires:

Notary Public in and for
the State of _____

(Print or Type Name of Notary)

THE STATE OF _____
COUNTY OF _____

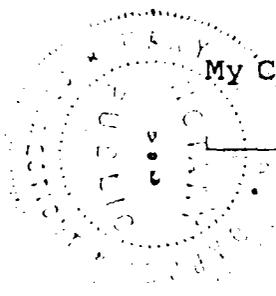
§
§
§

This instrument was acknowledged before me on the 13th day of October, 1986, by John Simpson.

My Commission Expires:

Mary Ann R. Dapper
Notary Public in and for
the State of _____

MARY ANN R. DAPPER
(Print or Type Name of Notary)



MARY ANN R. DAPPER
NOTARY PUBLIC
MY COMMISSION EXPIRES MARCH 31, 1987

THE STATE OF _____
COUNTY OF _____

§
§
§

This instrument was acknowledged before me on the _____ day of _____, 1986, by Thomas T. Adams.

My Commission Expires:

Notary Public in and for
the State of _____

(Print or Type Name of Notary)

ARTICLE XVI.
MISCELLANEOUS

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50

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.

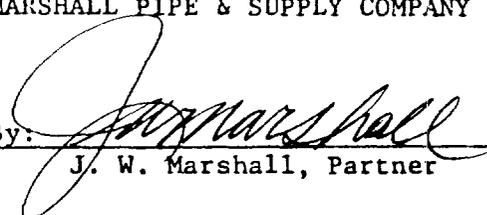
This Operating Agreement may be executed in multiple counterparts. It shall not be necessary that each party sign the same counterpart. This Operating Agreement shall become effective when a counterpart hereof has been signed by each party. All signed counterparts shall constitute one instrument. After counterparts hereof have been signed by all parties hereto, Operator is authorized to and will assemble and furnish to each of the parties hereto a complete copy of this Operating Agreement with signed signature pages, either manually signed or machine copies, showing execution of this Operating Agreement by all parties. This Operating Agreement may be filed for record in Roosevelt County, New Mexico by Operator filing in such records a certificate of the execution and effectiveness of this Operating Agreement, accompanied by a copy of this Operating Agreement showing execution by all parties hereto.

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 14th day of August, 1986

OPERATOR

MARSHALL PIPE & SUPPLY COMPANY

By: 
J. W. Marshall, Partner

NON-OPERATORS

Dr. Ralph M. Connell

S. T. Shoff

John Simpson


Thomas T. Adams

Richard L. Mason

R. C. Taylor, Jr.

Fred Tucker, Jr.

C. J. Schmitz

Bill Ross

L. W. Yager

THE STATE OF _____
COUNTY OF _____

§
§
§

This instrument was acknowledged before me on the _____ day of _____, 1986, by Dr. Ralph M. Connell.

My Commission Expires: _____

Notary Public in and for
the State of _____

(Print or Type Name of Notary)

THE STATE OF _____
COUNTY OF _____

§
§
§

This instrument was acknowledged before me on the _____ day of _____, 1986, by S. T. Shoff.

My Commission Expires: _____

Notary Public in and for
the State of _____

(Print or Type Name of Notary)

THE STATE OF _____
COUNTY OF _____

§
§
§

This instrument was acknowledged before me on the _____ day of _____, 1986, by John Simpson.

My Commission Expires: _____

Notary Public in and for
the State of _____

(Print or Type Name of Notary)

THE STATE OF Connecticut
COUNTY OF Fairfield

§
§
§

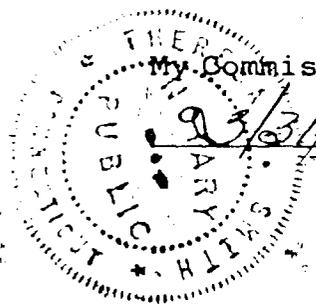
Wilton

This instrument was acknowledged before me on the 24th day of October, 1986, by Thomas T. Adams.

My Commission Expires: _____

Notary Public in and for
the State of _____

(Print or Type Name of Notary)



Theresa M. Smith

Notary Public in and for
the State of Connecticut

Theresa M. Smith

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.

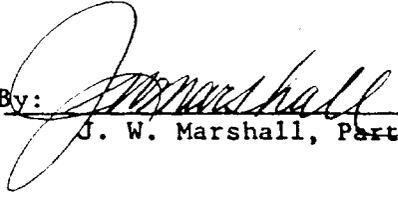
This Operating Agreement may be executed in multiple counterparts. It shall not be necessary that each party sign the same counterpart. This Operating Agreement shall become effective when a counterpart hereof has been signed by each party. All signed counterparts shall constitute one instrument. After counterparts hereof have been signed by all parties hereto, Operator is authorized to and will assemble and furnish to each of the parties hereto a complete copy of this Operating Agreement with signed signature pages, either manually signed or machine copies, showing execution of this Operating Agreement by all parties. This Operating Agreement may be filed for record in Roosevelt County, New Mexico by Operator filing in such records a certificate of the execution and effectiveness of this Operating Agreement, accompanied by a copy of this Operating Agreement showing execution by all parties hereto.

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 14th day of August 1986

OPERATOR

MARSHALL PIPE & SUPPLY COMPANY

By: 
J. W. Marshall, Partner

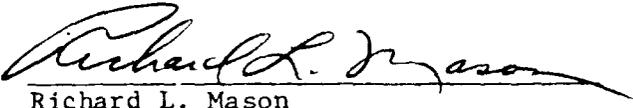
NON-OPERATORS

Dr. Ralph M. Connell

S. T. Shoff

John Simpson

Thomas T. Adams


Richard L. Mason

R. C. Taylor, Jr.

Fred Tucker, Jr.

C. J. Schmitz

Bill Ross

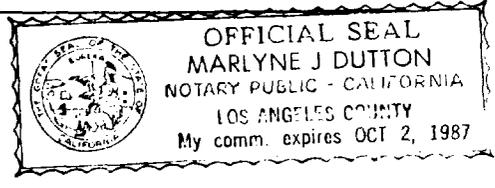
L. W. Yager

THE STATE OF California §
COUNTY OF Los Angeles §
§

This instrument was acknowledged before me on the 15th day of October, 1986, by Richard L. Mason.

My Commission Expires:

Marlyne J. Dutton
Notary Public in and for
the State of California



Marlyne J. Dutton
(Print or Type Name of Notary)

THE STATE OF _____ §
COUNTY OF _____ §
§

This instrument was acknowledged before me on the _____ day of _____, 1986, by R. C. Taylor, Jr.

My Commission Expires:

Notary Public in and for
the State of _____

(Print or Type Name of Notary)

THE STATE OF _____ §
COUNTY OF _____ §
§

This instrument was acknowledged before me on the _____ day of _____, 1986, by Fred Tucker, Jr.

My Commission Expires:

Notary Public in and for
the State of _____

(Print or Type Name of Notary)

THE STATE OF _____ §
COUNTY OF _____ §
§

This instrument was acknowledged before me on the _____ day of _____, 1986, by C. J. Schmitz.

My Commission Expires:

Notary Public in and for
the State of _____

(Print or Type Name of Notary)

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.

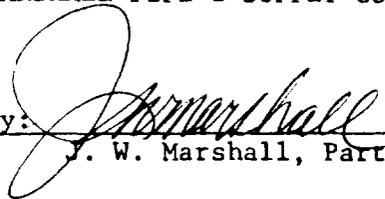
This Operating Agreement may be executed in multiple counterparts. It shall not be necessary that each party sign the same counterpart. This Operating Agreement shall become effective when a counterpart hereof has been signed by each party. All signed counterparts shall constitute one instrument. After counterparts hereof have been signed by all parties hereto, Operator is authorized to and will assemble and furnish to each of the parties hereto a complete copy of this Operating Agreement with signed signature pages, either manually signed or machine copies, showing execution of this Operating Agreement by all parties. This Operating Agreement may be filed for record in Roosevelt County, New Mexico by Operator filing in such records a certificate of the execution and effectiveness of this Operating Agreement, accompanied by a copy of this Operating Agreement, showing execution by all parties hereto.

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 14th day of August, 1986

OPERATOR

MARSHALL PIPE & SUPPLY COMPANY

By: 
J. W. Marshall, Partner

NON-OPERATORS

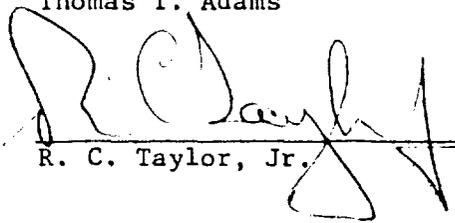
Dr. Ralph M. Connell

S. T. Shoff

John Simpson

Thomas T. Adams

Richard L. Mason


R. C. Taylor, Jr.

Fred Tucker, Jr.

C. J. Schmitz

Bill Ross

L. W. Yager

THE STATE OF _____

§

COUNTY OF _____

§

§

This instrument was acknowledged before me on the _____ day of _____, 1986, by Richard L. Mason.

My Commission Expires: _____

Notary Public in and for the State of _____

(Print or Type Name of Notary)

THE STATE OF Florida

§

COUNTY OF Indian River

§

§

This instrument was acknowledged before me on the 03rd day of October, 1986, by R. C. Taylor, Jr.

My Commission Expires: _____

Beverly A. Karaby
Notary Public in and for the State of Florida

Beverly A. Karaby
(Print or Type Name of Notary)

THE STATE OF _____

§

COUNTY OF _____

§

§

This instrument was acknowledged before me on the _____ day of _____, 1986, by Fred Tucker, Jr.

My Commission Expires: _____

Notary Public in and for the State of _____

(Print or Type Name of Notary)

THE STATE OF _____

§

COUNTY OF _____

§

§

This instrument was acknowledged before me on the _____ day of _____, 1986, by C. J. Schmitz.

My Commission Expires: _____

Notary Public in and for the State of _____

(Print or Type Name of Notary)

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 Operating Agreement may be executed in multiple counterparts. It shall not be necessary that each party sign the same counterpart. This Operating Agreement shall become effective when a counterpart hereof has been signed by each party. All signed counterparts shall constitute one instrument. After counterparts hereof have been signed by all parties hereto, Operator is authorized to and will assemble and furnish to each of the parties hereto a complete copy of this Operating Agreement with signed signature pages, either manually signed or machine copies, showing execution of this Operating Agreement by all parties. This Operating Agreement may be filed for record in Roosevelt County, New Mexico by Operator filing in such records a certificate of the execution and effectiveness of this Operating Agreement, accompanied by a copy of this Operating Agreement, showing execution by all parties hereto.

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 14th day of August, 1986

OPERATOR

MARSHALL PIPE & SUPPLY COMPANY

By: *J. W. Marshall*
J. W. Marshall, Partner

NON-OPERATORS

Dr. Ralph M. Connell

S. T. Shoff

John Simpson

Thomas T. Adams

Richard L. Mason

R. C. Taylor, Jr.

Fred Tucker, Jr.
Fred Tucker, Jr.

C. J. Schmitz

Bill Ross

L. W. Yager

THE STATE OF _____
COUNTY OF _____

§
§
§

This instrument was acknowledged before me on the _____ day of _____, 1986, by Richard L. Mason.

My Commission Expires: _____

Notary Public in and for
the State of _____

(Print or Type Name of Notary)

THE STATE OF _____
COUNTY OF _____

§
§
§

This instrument was acknowledged before me on the _____ day of _____, 1986, by R. C. Taylor, Jr.

My Commission Expires: _____

Notary Public in and for
the State of _____

(Print or Type Name of Notary)

THE STATE OF Texas
COUNTY OF Dallas

§
§
§

This instrument was acknowledged before me on the 13th day of October, 1986, by Fred Tucker, Jr.

My Commission Expires: _____

Tishie M. Aldridge
Notary Public in and for
the State of Texas

TISHIE M. ALDRIDGE
(Print or Type Name of Notary)

THE STATE OF _____
COUNTY OF _____

§
§
§

This instrument was acknowledged before me on the _____ day of _____, 1986, by C. J. Schmitz.

My Commission Expires: _____

Notary Public in and for
the State of _____

(Print or Type Name of Notary)

ARTICLE XVI.
MISCELLANEOUS

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50

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.

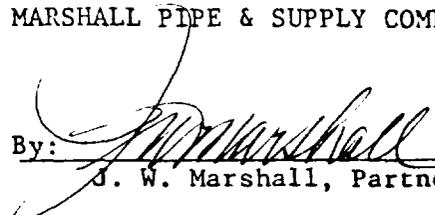
This Operating Agreement may be executed in multiple counterparts. It shall not be necessary that each party sign the same counterpart. This Operating Agreement shall become effective when a counterpart hereof has been signed by each party. All signed counterparts shall constitute one instrument. After counterparts hereof have been signed by all parties hereto, Operator is authorized to and will assemble and furnish to each of the parties hereto a complete copy of this Operating Agreement with signed signature pages, either manually signed or machine copies, showing execution of this Operating Agreement by all parties. This Operating Agreement may be filed for record in Roosevelt County, New Mexico by Operator filing in such records a certificate of the execution and effectiveness of this Operating Agreement, accompanied by a copy of this Operating Agreement showing execution by all parties hereto.

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 14th day of August, 1986.

OPERATOR

MARSHALL PIPE & SUPPLY COMPANY

By: 
J. W. Marshall, Partner

NON-OPERATORS

Dr. Ralph M. Connell

S. T. Shoff

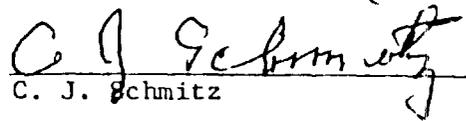
John Simpson

Thomas T. Adams

Richard L. Mason

R. C. Taylor, Jr.

Fred Tucker, Jr.


C. J. Schmitz

Bill Ross

L. W. Yager

THE STATE OF _____
COUNTY OF _____

§
§
§

This instrument was acknowledged before me on the _____ day of _____, 1986, by Richard L. Mason.

My Commission Expires:

Notary Public in and for
the State of _____

(Print or Type Name of Notary)

THE STATE OF _____
COUNTY OF _____

§
§
§

This instrument was acknowledged before me on the _____ day of _____, 1986, by R. C. Taylor, Jr.

My Commission Expires:

Notary Public in and for
the State of _____

(Print or Type Name of Notary)

THE STATE OF _____
COUNTY OF _____

§
§
§

This instrument was acknowledged before me on the _____ day of _____, 1986, by Fred Tucker, Jr.

My Commission Expires:

Notary Public in and for
the State of _____

(Print or Type Name of Notary)

THE STATE OF Texas
COUNTY OF Tarrant

§
§
§

This instrument was acknowledged before me on the 11th day of October, 1986, by C. J. Schmitz.

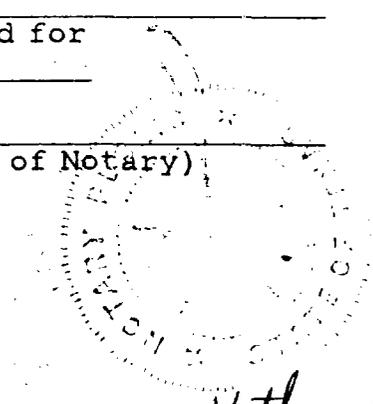
My Commission Expires:
Feb 1988

Daniel Fallon

Notary Public in and for
the State of Texas

DANIEL J. FALLON

(Print or Type Name of Notary)



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 Operating Agreement may be executed in multiple counterparts. It shall not be necessary that each party sign the same counterpart. This Operating Agreement shall become effective when a counterpart hereof has been signed by each party. All signed counterparts shall constitute one instrument. After counterparts hereof have been signed by all parties hereto, Operator is authorized to and will assemble and furnish to each of the parties hereto a complete copy of this Operating Agreement with signed signature pages, either manually signed or machine copies, showing execution of this Operating Agreement by all parties. This Operating Agreement may be filed for record in Roosevelt County, New Mexico by Operator filing in such records a certificate of the execution and effectiveness of this Operating Agreement, accompanied by a copy of this Operating Agreement showing execution by all parties hereto.

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 14th day of August, 1986

OPERATOR

MARSHALL PIPE & SUPPLY COMPANY

By: *J. W. Marshall*
J. W. Marshall, Partner

NON-OPERATORS

Dr. Ralph M. Connell

S. T. Shoff

John Simpson

Thomas T. Adams

Richard L. Mason

R. C. Taylor, Jr.

Fred Tucker, Jr.

C. J. Schmitz

Bill Ross

L. W. Yager
L. W. Yager

Joe Yager

Mary Yager
Mary Yager

M. June Piersal

Janetta Lou McGee

DEPCO, INC.

WINTERGREEN ENERGY CORP.

By: _____
Vice President

By: _____
Vice President

NICOR EXPLORATION COMPANY

YATES PETROLEUM CORPORATION

By: _____
Vice President

By: _____
Vice President

Jack L. Ahlen

EAGLE OIL & GAS CO. (as the holder
of the right to succeed to all or
part of the interest of Jack Ahlen
in the Contract Area)

By: _____
Vice President

THE STATE OF TEXAS §
 §
COUNTY OF DALLAS §

This instrument was acknowledged before me on the 9th
day of October, 1986, by J. W. Marshall, partner, on behalf
of Marshall Pipe & Supply Company, a partnership.

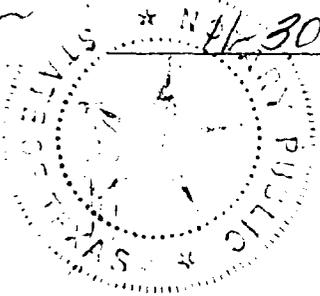
My Commission Expires:

11-30-88

Virginia Lee Johnson
Notary Public in and for
the State of Texas

VIRGINIA LEE JOHNSON
6934 HARVEST HILL
DALLAS, TEXAS 75230

(Print or Type Name of Notary)



THE STATE OF _____
COUNTY OF _____

§
§
§

This instrument was acknowledged before me on the _____ day of _____, 1986, by Bill Ross.

My Commission Expires: _____

Notary Public in and for
the State of _____

(Print or Type Name of Notary)

THE STATE OF TEXAS
COUNTY OF TARRANT

§
§
§

This instrument was acknowledged before me on the 31st day of NOVEMBER, 1986, by L. W. Yager.

My Commission Expires: _____

Lyndell Taylor

Notary Public in and for
the State of TEXAS

Lyndell Taylor

(Print or Type Name of Notary)

THE STATE OF Texas
COUNTY OF Tarrant

§
§
§

This instrument was acknowledged before me on the 31 day of Oct, 1986, by Joe Yager.

My Commission Expires: _____

Barbara Price

Notary Public in and for
the State of Texas

Barbara Price

(Print or Type Name of Notary)

BARBARA PRICE, Notary Public
In and for the State of Texas
My Commission Expires January 31, 1989

THE STATE OF TEXAS
COUNTY OF TARRANT

§
§
§

This instrument was acknowledged before me on the 31st day of NOVEMBER, 1986, by Mary Yager.

My Commission Expires: _____

Lyndell Taylor

Notary Public in and for
the State of TEXAS

Lyndell Taylor

(Print or Type Name of Notary)

Joe Yager

Mary Yager

M June Piersall

M. June Piersall

Janetta Lou McGee

DEPCO, INC.

WINTERGREEN ENERGY CORP.

By: _____
Vice President

By: _____
Vice President

NICOR EXPLORATION COMPANY

YATES PETROLEUM CORPORATION

By: _____
Vice President

By: _____
Vice President

Jack L. Ahlen

EAGLE OIL & GAS CO. (as the holder
of the right to succeed to all or
part of the interest of Jack Ahlen
in the Contract Area)

By: _____
Vice President

THE STATE OF TEXAS §
 §
COUNTY OF DALLAS §

This instrument was acknowledged before me on the 8th
day of October, 1986, by J. W. Marshall, partner, on behalf
of Marshall Pipe & Supply Company, a partnership.

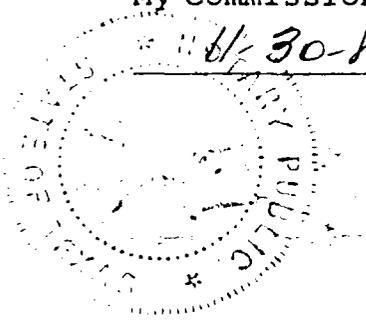
My Commission Expires:
11-30-88

Virginia Lee Johnson

Notary Public in and for
the State of Texas

VIRGINIA LEE JOHNSON
5934 HARVEST HILL
DALLAS, TEXAS 75230

(Print or Type Name of Notary)



THE STATE OF Connecticut §
COUNTY OF Fairfield §
§

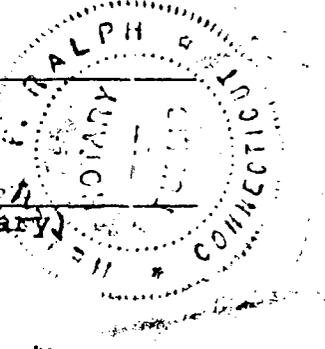
This instrument was acknowledged before me on the 14th
day of October, 1986, by M. June Piersal.

My Commission Expires:
March 31, 1989

HELEN RALPH
NOTARY PUBLIC
My Commission Expires March 31, 1989.

Helen F. Ralph
Notary Public in and for
the State of Connecticut

Helen F. Ralph
(Print or Type Name of Notary)



THE STATE OF _____ §
COUNTY OF _____ §
§

This instrument was acknowledged before me on the _____
day of _____, 1986, by Janetta Lou McGee.

My Commission Expires:

Notary Public in and for
the State of _____

(Print or Type Name of Notary)

THE STATE OF _____ §
COUNTY OF _____ §
§

This instrument was acknowledged before me on the _____
day of _____, 1986, by _____,
Vice President of DEPCO, Inc., a _____ corporation,
on behalf of said corporation.

My Commission Expires:

Notary Public in and for
the State of _____

(Print or Type Name of Notary)

Joe Yager

Mary Yager

M. June Piersal

Janetta Lou McGee

DEPCO, INC.

WINTERGREEN ENERGY CORP.

By: _____
Vice President

By: Jane N. Barnett
Vice President

NICOR EXPLORATION COMPANY

YATES PETROLEUM CORPORATION

By: _____
Vice President

By: _____
Vice President

Jack L. Ahlen

EAGLE OIL & GAS CO. (as the holder
of the right to succeed to all or
part of the interest of Jack Ahlen
in the Contract Area)

By: _____
Vice President

THE STATE OF TEXAS §
 §
COUNTY OF DALLAS §

This instrument was acknowledged before me on the 24th
day of October, 1986, by J. W. Marshall, partner, on behalf
of Marshall Pipe & Supply Company, a partnership.

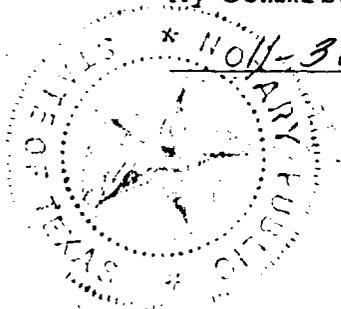
My Commission Expires: _____
* 11-01-3088

Virginia Lee Johnson

Notary Public in and for
the State of Texas

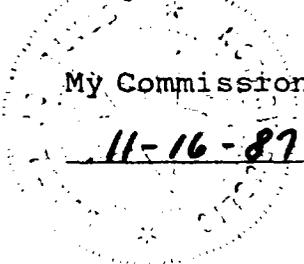
VIRGINIA LEE JOHNSON
5834 HARVEST HILL
DALLAS, TEXAS 75230

(Print or Type Name of Notary)



THE STATE OF Texas §
COUNTY OF Dallas §

This instrument was acknowledged before me on the 9th day of October, 1986, by Gene N. Burnett, Vice President of Wintergreen Energy Corp., a Texas corporation, on behalf of said corporation.



My Commission Expires: 11-16-87

Alice J. Garner
Notary Public in and for
the State of Texas

ALICE J. GARNER
(Print or Type Name of Notary)

THE STATE OF _____ §
COUNTY OF _____ §

This instrument was acknowledged before me on the _____ day of _____, 1986, by _____, Vice President of Nicor Exploration Company, a _____ corporation, on behalf of said corporation.

My Commission Expires: _____

Notary Public in and for
the State of _____

(Print or Type Name of Notary)

THE STATE OF _____ §
COUNTY OF _____ §

This instrument was acknowledged before me on the _____ day of _____, 1986, by _____, Vice President of Yates Petroleum Corporation, a _____ corporation, on behalf of said corporation.

My Commission Expires: _____

Notary Public in and for
the State of _____

(Print or Type Name of Notary)

Joe Yager

Mary Yager

M. June Piersal

Janetta L. McGee

Janetta Lou McGee

DEPCO, INC.

WINTERGREEN ENERGY CORP.

By: _____
Vice President

By: _____
Vice President

NICOR EXPLORATION COMPANY

YATES PETROLEUM CORPORATION

By: _____
Vice President

By: _____
Vice President

Jack L. Ahlen

EAGLE OIL & GAS CO. (as the holder
of the right to succeed to all or
part of the interest of Jack Ahlen
in the Contract Area)

By: _____
Vice President

THE STATE OF TEXAS §
 §
COUNTY OF DALLAS §

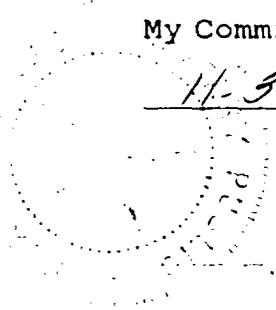
This instrument was acknowledged before me on the 8th
day of October, 1986, by J. W. Marshall, partner, on behalf
of Marshall Pipe & Supply Company, a partnership.

My Commission Expires:
11-30-88

Virginia Lee Johnson

Notary Public in and for
the State of Texas
VIRGINIA LEE JOHNSON
6934 HARVEST HILL
DALLAS, TEXAS 75230

(Print or Type Name of Notary)



THE STATE OF Texas §
COUNTY OF Dallas §

This instrument was acknowledged before me on the 27th
day of October, 1986, by M. June Piersal.

My Commission Expires:
7-2-90

Rhonda Anderson
Notary Public in and for
the State of Texas
Rhonda Anderson
(Print or Type Name of Notary)

THE STATE OF Texas §
COUNTY OF Dallas §

This instrument was acknowledged before me on the 27th
day of October, 1986, by Janetta Lou McGee.

My Commission Expires:
7-2-90

Rhonda Anderson
Notary Public in and for
the State of Texas
Rhonda Anderson
(Print or Type Name of Notary)

THE STATE OF _____ §
COUNTY OF _____ §

This instrument was acknowledged before me on the _____
day of _____, 1986, by _____,
Vice President of DEPCO, Inc., a _____ corporation,
on behalf of said corporation.

My Commission Expires:

Notary Public in and for
the State of _____

(Print or Type Name of Notary)

Joe Yager

Mary Yager

M. June Piersal

Janetta Lou McGee

DEPCO, INC.

WINTERGREEN ENERGY CORP.

By: *K. G. Ranup*
K. G. Ranup, Vice President

By: _____
Vice President

ATTEST: *Michael D. Shepard*
Michael D. Shepard, Secretary
NICOR EXPLORATION COMPANY

YATES PETROLEUM CORPORATION

By: _____
Vice President

By: _____
Vice President

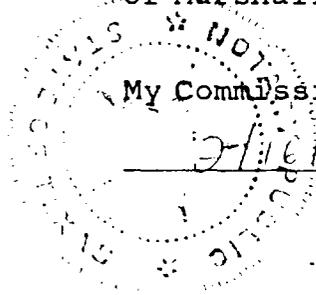
Jack L. Ahlen

EAGLE OIL & GAS CO. (as the holder
of the right to succeed to all or
part of the interest of Jack Ahlen
in the Contract Area)

By: _____
Vice President

THE STATE OF TEXAS §
 §
COUNTY OF DALLAS §

This instrument was acknowledged before me on the 4th
day of October, 1986, by J. W. Marshall, partner, on behalf
of Marshall Pipe & Supply Company, a partnership.



My Commission Expires:
2/16/88

Lisa McDade
Notary Public in and for
the State of Texas

LISA MCDADE
(Print or Type Name of Notary)

Joe Yager

Mary Yager

M. June Piersal

Janetta Lou McGee

DEPCO, INC.

WINTERGREEN ENERGY CORP.

By: _____
Vice President

By: _____
Vice President

NICOR EXPLORATION COMPANY

YATES PETROLEUM CORPORATION

By: *James E. Schroeder*
~~Vice-President~~
James E. Schroeder, Vice President
JWS

By: _____
Vice President

Jack L. Ahlen

EAGLE OIL & GAS CO. (as the holder
of the right to succeed to all or
part of the interest of Jack Ahlen
in the Contract Area)

By: _____
Vice President

THE STATE OF TEXAS §
 §
COUNTY OF DALLAS §

This instrument was acknowledged before me on the 4th
day of October, 1986, by J. W. Marshall, partner, on behalf
of Marshall Pipe & Supply Company, a partnership.

My Commission Expires:
2/16/88

Lisa McDade
Notary Public in and for
the State of Texas

LISA MCDADE
(Print or Type Name of Notary)

Joe Yager

Mary Yager

M. June Piersal

Janetta Lou McGee

DEPCO, INC.

WINTERGREEN ENERGY CORP.

By: _____
Vice President

By: _____
Vice President

NICOR EXPLORATION COMPANY

YATES PETROLEUM CORPORATION

By: _____
Vice President

By: John A. Marshall 30
Attorney-in-Fact

Jack L. Ahlen

EAGLE OIL & GAS CO. (as the holder
of the right to succeed to all or
part of the interest of Jack Ahlen
in the Contract Area)

By: _____
Vice President

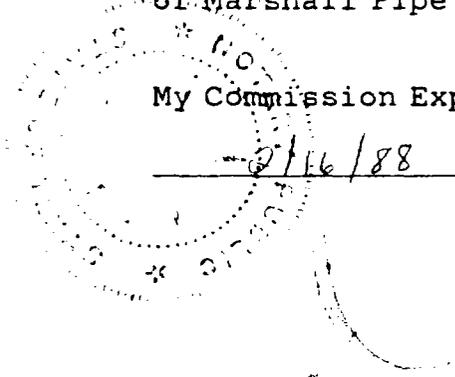
THE STATE OF TEXAS §
 §
COUNTY OF DALLAS §

This instrument was acknowledged before me on the 4th
day of OCTOBER, 1986, by J. W. Marshall, partner, on behalf
of Marshall Pipe & Supply Company, a partnership.

My Commission Expires:
2/16/88

Lisa McDade
Notary Public in and for
the State of Texas

LISA McDADE
(Print or Type Name of Notary)



Joe Yager

Mary Yager

M. June Piersal

Janetta Lou McGee

DEPCO, INC.

WINTERGREEN ENERGY CORP.

By: _____
Vice President

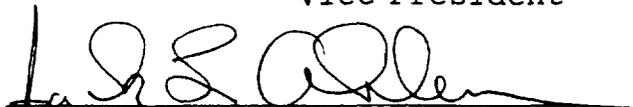
By: _____
Vice President

NICOR EXPLORATION COMPANY

YATES PETROLEUM CORPORATION

By: _____
Vice President

By: _____
Vice President



Jack L. Ahlen

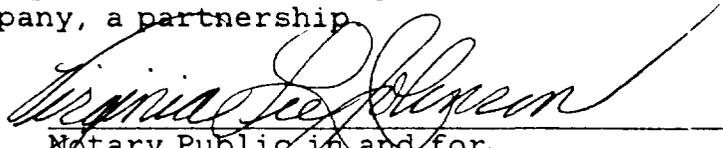
EAGLE OIL & GAS CO. (as the holder
of the right to succeed to all or
part of the interest of Jack Ahlen
in the Contract Area)

By: _____
Vice President

THE STATE OF TEXAS §
 §
COUNTY OF DALLAS §

This instrument was acknowledged before me on the 14th
day of October, 1986, by J. W. Marshall, partner, on behalf
of Marshall Pipe & Supply Company, a partnership.

My Commission Expires:
11-30-88



Notary Public in and for
the State of Texas
Virginia Lee Johnson

(Print or Type Name of Notary)

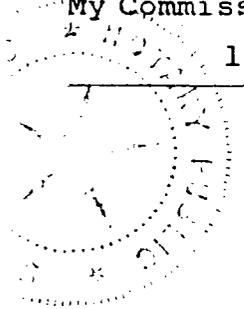


EXHIBIT "A"
to Operating Agreement
Marshall Pipe & Supply Company, Operator
and DEPCO, Inc., et al., Non-Operator

[The tracts of land described in this Operating Agreement
are located in Roosevelt County, New Mexico]

I. The Leases and Land Comprising the Contract Area:

The leases described on Exhibit "A-1" hereto and the leases /
described on Exhibit "A-2", insofar as such leases cover the
land described on Exhibit "A-3" hereto

Depth Limitation: None

II. Names and Addresses of Parties and Percentage Interests:

A. Names and Addresses:

Marshall Pipe & Supply Company
13423 Forestway Drive
Dallas, TX 75240

Dr. Ralph M. Connell
4304 Mill Run Road
Dallas, TX 75244

S. T. Shoff
7288 E. Echo Lane
Scottsdale, AZ 85258

John Simpson
121 Rising Ridge Rd.
Ridgefield, CT 06877

Thomas T. Adams
110 Belden Hill Road
Wilton, CT 06897

Richard L. Mason
4730 Nantucket Dr.
Lilburn, GA 30247

R. C. Taylor, Jr.
177 Island Creek Drive
John's Island
Vero Beach, FL 32960

Fred Tucker, Jr.
P. O. Box 8165
Dallas, TX 75205

C. J. Schmitz
300 West Ash Lane
Euless, TX 76039

Bill Ross
917 Glen Vista
Irving, TX 75061

L. W. Yager
4900 Nevada Trail
Fort Worth, TX 76118

Joe Yager
4900 Nevada Trail
Fort Worth, TX 76118

Mary Yager
4900 Nevada Trail
Fort Worth, TX 76118

M. June Piersal
Continental Country Club
Box 250
Wildwood, FL 32785

Janetta Lou McGee
P. O. Box 718
Daphne, AL 36526

Wintergreen Energy Corp.
5735 Pineland Dr.
Suite 125
Dallas, TX 75231

DEPCO, Inc.
1000 Petroleum ~~Building~~
110 16th Street
Denver, CO 80202
Attention: Mr. J. M. Kowalski

Nicor Exploration Company
1667 Cole Boulevard
Golden, CO 80401

Yates Petroleum Corporation
105 South Fourth Street
Artesia, NM 88210

Jack Ahlen
533 Petroleum Building
Roswell, NM 88201

B. Percentage Interests:

See Exhibit "A-3" for the interests of the parties in the specific tracts described on Exhibit "A-3". The unleased interests discussed in Exhibit "A-3", when leased, will be credited to the parties who participate in the acquisition and ownership thereof under existing agreements or otherwise, and the interests of the parties will be adjusted accordingly. The interests set forth on Exhibit "A-3" are based upon examination of the title to the oil, gas and other minerals in and under the specific tracts described on Exhibit "A-3". Should further title examination, curative work or agreement of the parties reveal or cause the ownership of such interests to be different than as set forth on Exhibit "A-3", such schedule of ownership shall be adjusted accordingly. The interest of each of the parties in any other drilling unit covered by the leases described in Section I above will be equal to the percentage interest therein which is represented by the working interest of such party in the leases covering such unit. If such interest varies from tract to tract within such unit, the interests of such party in the drilling unit shall be computed on a unitized basis. The interests in such drilling unit so determined shall be the interests of the parties hereto for

the purpose of making provision for the drilling and completing of a well on such drilling unit pursuant to the terms of this Operating Agreement and for the purpose of sharing the production and costs with respect to such well and unit. Costs of maintaining and operating any of such leases which are not applicable to a particular drilling unit, such as costs incurred by Operator for delay rentals or title examination (including title curative work) before a lease is committed to a drilling unit by Operator, shall be charged to and borne by the parties hereto who own such lease in proportion to their respective interests in such lease.

No cross-assignment of interests in the subject leases is intended or shall be deemed effected by this Operating Agreement. However, if production is established as to any half-section tract described on Exhibit "A-3", the parties hereto will, upon request, execute and deliver to each other such assignments as may be necessary to adjust their respective record title interests in such half-section tract in conformity to this Operating Agreement.

EXHIBIT "A-1"

[Note: All leases listed below are to or in favor of Marshall Pipe & Supply Company, as Lessee. All recording references for the leases listed below are to the Oil & Gas Lease Records of Roosevelt County, New Mexico. All land covered by the leases listed below is in Township 2 South, Range 29 East, N.M.P.M., Roosevelt County, New Mexico.]

1. Lease dated March 27, 1986, from Lynn Waite Stoltenberg Ray and Sue Anne Stoltenberg Campbell, as Lessor, recorded in Book 121, Page 775, covering the NW/4 of Section 27.
2. Lease dated March 27, 1986, from RepublicBank First National Midland, Successor Trustee Under the Will of R. B. Cowden, Deceased, as Lessor, recorded in Book 121, Page 779, covering the N/2 of Section 27.
3. Lease dated March 27, 1986, from Robert B. Holt and Elaine Magruder, Co-Trustees of the R. B. Cowden Testamentary Trust for the benefit of Elaine Magruder, as Lessor, recorded in Book 121, Page 783, covering the NW/4 of Section 27.
4. Lease dated March 27, 1986, from Robert B. Holt and Elaine Magruder, Co-Trustees of the R. B. Cowden Testamentary Trust for the benefit of Elaine Magruder, as Lessor, recorded in Book 121, Page 785, covering the NE/4 of Section 27.
5. Lease dated March 27, 1986, from Barbara June Cowden Magruder, as Lessor, recorded in Book 121, Page 795, covering the NE/4 of Section 27.
6. Lease dated March 27, 1986, from Barbara June Cowden Magruder, as Lessor, recorded in Book 121, Page 797, covering the NW/4 of Section 27.
7. Lease dated March 11, 1986, from Wendell Best, Thelma Parker, Billie Cooper and Evelyn Kerby, as Lessor, recorded in Book 121, Page 616, covering the N/2 of Section 27 and the E/2 and NW/4 of Section 26.
8. Lease dated May 27, 1986, from Texaco Producing Inc., as Lessor, recorded in Book 122, Page 139, covering the N/2 of Section 27, the E/2 and NW/4 of Section 26 and the SW/4 of Section 23.
9. Lease dated April 4, 1986, from Mabelle S. Benedict and Marianne B. Frates, as Lessor, recorded in Book 121, Page 773, covering the SW/4 of Section 23.
10. Lease dated March 27, 1986, from Robert B. Holt and Elaine Magruder, Co-Trustees of the R. B. Cowden Testamentary Trust, as Lessor, recorded in Book 121, Page 793, covering the SW/4 of Section 23.
11. Lease dated April 25, 1986, from June D. Speight, as Lessor, recorded in Book 122, Page 148, covering all of Section 23.
12. Lease dated July 1, 1985, issued by the United States of America, as Lessor, to Jack Ahlen, as Lessee, Serial No. NM 61345, covering the S/2 of the N/2 of Section 22 and the SW/4 of Section 26.

13. Lease dated April 25, 1986, from June D. Speight, as Lessor, recorded in Book 122, Page 146, covering the N/2 of the N/2 of Section 22.
14. Lease dated March 27, 1986, from Lynn Waite Stoltenberg Ray and Sue Anne Stoltenberg Campbell, as Lessor, recorded in Book 121, Page 777, covering the E/2 and the NW/4 of Section 26.
15. Lease dated March 27, 1986, from Robert B. Holt and Elaine Magruder, Co-Trustees of the R. B. Cowden Testamentary Trust, as Lessor, recorded in Book 121, Page 791, covering the NW/4 of Section 26.
16. Lease dated April 25, 1986, from June D. Speight, as Lessor, recorded in Book 122, Page 150, covering the E/2 and the NW/4 of Section 26.
17. Lease dated March 11, 1986, from Wendell Best, Thelma Parker, Billie Cooper and Evelyn Kerby, as Lessor, recorded in Book 121, Page 616, covering the NE/4 of Section 27 and the E/2 and NW/4 of Section 26.
18. State of New Mexico Lease LG-9904 dated May 27, 1981, from the State of New Mexico, as Lessor, to Ervin J. Levers, as Lessee, recorded in Book ____, Page ____, covering the S/2 of Section 22.

EXHIBIT "A-2"

[Note: Leases 1 through 40 listed below are to or in favor of Yates Petroleum Corporation, as Lessee. Leases 41 through 62 listed below are to or in favor of DEPCO, Inc., as Lessee. All recording references for the leases listed below are to the Oil & Gas Lease Records of Roosevelt County, New Mexico. All land covered by the leases listed below is in Roosevelt County, New Mexico. The leases listed in this Exhibit "A-2" are included only insofar and only to the extent that such leases are valid and subsisting as of the date of this agreement. Any such lease which has expired or terminated prior to the date of this agreement shall not be considered covered hereby. If the parties hereto, or any of them, own any lease covering any of the seven half-section tracts described on Exhibit "A-3", such lease shall (insofar as it covers any of such seven half-section tracts) be deemed included in this Exhibit "A-2" as if described herein, ~~in the same manner as the other leases set forth below.~~

1. Lease dated August 23, 1985, from Bonnie H. Morrison, as Lessor, recorded in Book 120, Page 367, covering the N/2 of Section 27, Township 2 South, Range 29 East.
2. Lease dated August 19, 1985, from J. Holt Jowell and wife, Lillie B. Jowell, as Lessor, recorded in Book 120, Page 108, covering the N/2 of Section 27, Township 2 South, Range 29 East.
3. Lease dated September 9, 1985, from E. H. Holcomb and Rosemary Holcomb, husband and wife, as Lessor, recorded in Book 120, Page 295, covering the N/2 of Section 27, Township 2 South, Range 29 East.
4. Lease dated September 9, 1985, from Joe Canon and Verna Canon, husband and wife, as Lessor, recorded in Book 120, Page 301, covering the N/2 of Section 27, Township 2 South, Range 29 East.
5. Lease dated September 13, 1985, from AMAX Petroleum Corporation, as Lessor, recorded in Book 120, Page 980, covering the NW/4 of Section 27, Township 2 South, Range 29 East.
6. Lease dated September 18, 1985, from Allie Douglas, formerly Allie H. Taylor, as Lessor, recorded in Book 120, Page 285, covering the N/2 of Section 27, Township 2 South, Range 29 East.
7. Lease dated August 22, 1985, from Peggy P. Jennings and the Peggy P. Jennings Trust by Jamie E. Jennings, Attorney-in-Fact, as Lessor, recorded in Book 120, Page 96, covering the NW/4 of Section 27, Township 2 South, Range 29 East.
8. Lease dated August 16, 1985, from Ronald T. Betenbough, a divorced man, and Lena Betenbough, a widow, as Lessor, recorded in Book 120, Page 102, covering the N/2 of Section 27, Township 2 South, Range 29 East.
9. Lease dated September 13, 1985, from June D. Speight, as Lessor, recorded in Book 120, Page 918, covering the N/2 of Section 27, Township 2 South, Range 29 East.
10. Lease dated August 7, 1985, from Norma Jean Dean, as Lessor, recorded in Book 120, Page 283, covering the N/2 of Section 27; the SW/4 of Section 23; and the NW/4 of Section 26, all in Township 2 South, Range 29 East.

11. Lease dated August 7, 1985, from Cheryl Lee Lepard, as Lessor, recorded in Book 120, Page 31, covering the N/2 of Section 27; the SW/4 of Section 23; and the NW/4 of Section 26, all in Township 2 South, Range 29 East.
12. Lease dated August 7, 1985, from Georgia Ann Medders, as Lessor, recorded in Book 120, Page 83, covering the N/2 of Section 27; the SW/4 of Section 23; and the NW/4 of Section 26, all in Township 2 South, Range 29 East.
13. Lease dated July 12, 1978, from Sunwest Bank of Albuquerque, N.A. Trustee under Ruth Caviness Hatch Revocable Living Trust, created December 29, 1978, as Lessor, recorded in Book 119, Page 931, covering the N/2 of Section 27; the N/2 and SE/4 of Section 26; and the SW/4 of Section 23, all in Township 2 South, Range 29 East.
14. Lease dated July 24, 1985, from John T. McGee and wife, Nadine McGee, as Lessor, recorded in Book 120, Page 29, covering the NW/4 of Section 27, Township 2 South, Range 29 East.
15. Lease dated August 23, 1985, from Bonnie H. Morrison, as Lessor, recorded in Book 120, Page 371, covering all of Section 23, Township 2 South, Range 29 East.
16. Lease dated July 16, 1985, from Ronald T. Betenbough and Lena Betenbough, as Lessor, recorded in Book 120, Page 100, covering the SW/4 of Section 23, Township 2 South, Range 29 East.
17. Lease dated August 26, 1985, from RepublicBank First National Midland, Successor Trustee under the Will of R. B. Cowden, Deceased, as Lessor, recorded in Book 120, Page 347, covering the SW/4 of Section 23, Township 2 South, Range 29 East.
18. Lease dated August 26, 1985, from Barbara June Cowden Magruder, as Lessor, recorded in Book 120, Page 355, covering the SW/4 of Section 23, Township 2 South, Range 29 East.
19. Lease dated August 14, 1985, from Liberty National Bank, Personal Representative of the Estate of H. Dillard Schenck, as Lessor, recorded in Book 120, Page 27, covering the SW/4 of Section 23, Township 2 South, Range 29 East.
20. Lease dated August 14, 1985, from Kirby D. Schenck, as Lessor, recorded in Book 120, Page 92, covering the SW/4 of Section 23, Township 2 South, Range 29 East.
21. Lease dated September 18, 1985, from Allie Douglas, formerly Allie H. Taylor, as Lessor, recorded in Book 120, Page 287, covering the SW/4 of Section 23, Township 2 South, Range 29 East.
22. Lease dated July 8, 1985, from Gussie Cook, as Lessor, recorded in Book 119, Page 771, covering the SW/4 of Section 23, Township 2 South, Range 29 East.
23. Lease dated July 8, 1985, from Charles C. Compton, as Lessor, recorded in Book 119, Page 773, covering the SW/4 of Section 23, Township 2 South, Range 29 East.
24. Lease dated July 10, 1985, from Helen Compton Perry, as Lessor, recorded in Book 119, Page 896, covering the SW/4 of Section 23, Township 2 South, Range 29 East.
25. Lease dated July 16, 1985, from Jo Anne Jett, formerly known as Jo Anne Stephens, as Lessor, recorded in Book 119, Page

- 929, covering the SW/4 of Section 23, Township 2 South, Range 29 East.
26. Lease dated August 19, 1985, from J. Holt Jowell and Lillie B. Jowell, as Lessor, recorded in Book 120, Page 106, covering the SW/4 of Section 23, Township 2 South, Range 29 East.
 27. Lease dated September 9, 1985, from E. H. Holcomb and Rosemary Holcomb, as Lessor, recorded in Book 120, Page 291, covering the SW/4 of Section 23, Township 2 South, Range 29 East.
 28. Lease dated September 9, 1985, from Joe Canon and Verna Canon, as Lessor, recorded in Book 120, Page 299, covering the SW/4 of Section 23, Township 2 South, Range 29 East.
 29. Lease dated August 14, 1985, from Robert C. Coke, as Lessor, recorded in Book 120, Page 98, covering the S/2 of Section 22, Township 2 South, Range 29 East.
 30. Lease dated August 23, 1985, from Bonnie H. Morrison, as Lessor, recorded in Book 120, Page 365, covering the N/2 of N/2 of Section 22, Township 2 South, Range 29 East.
 31. Lease dated August 16, 1985, from Ronald T. Betenbough and Lena Betenbough, as Lessor, recorded in Book 120, Page 104, covering the N/2 and SE/4 of Section 26, Township 2 South, Range 29 East.
 32. Lease dated August 23, 1985, from Bonnie H. Morrison, as Lessor, recorded in Book 120, Page 369, covering the N/2 and SE/4 of Section 26, Township 2 South, Range 29 East.
 33. Lease dated September 18, 1985, from Allie Douglas, as Lessor, recorded in Book 120, Page 289, covering the E/2 and NW/4 of Section 26, Township 2 South, Range 29 East.
 34. Lease dated August 12, 1985, from Peggy P. Jennings, a widow, individually, and the Peggy P. Jennings Trust, as Lessor, recorded in Book 120, Page 94, covering the SE/4 and NW/4 of Section 26, Township 2 South, Range 29 East.
 35. Lease dated September 13, 1985, from AMAX Petroleum Corporation, as Lessor, recorded in Book 120, Page 983, covering the NW/4 and SE/4 of Section 26, Township 2 South, Range 29 East.
 36. Lease dated August 26, 1985, from RepublicBank First National Midland, Successor Trustee under the Will of R. B. Cowden, Deceased, as Lessor, recorded in Book 120, Page 351, covering the NW/4 of Section 26, Township 2 South, Range 29 East..
 37. Lease dated August 26, 1985, from Barbara June Cowden Magruder, as Lessor, recorded in Book 120, Page 357, covering the NW/4 of Section 26, Township 2 South, Range 29 East.
 38. Lease dated August 19, 1985, from J. Holt Jowell and wife, Lillie B. Jowell, as Lessor, recorded in Book 120, Page 110, covering the NW/4 of Section 26, Township 2 South, Range 29 East.
 39. Lease dated September 9, 1985, from E. H. Holcomb and Rosemary Holcomb, as Lessor, recorded in Book 120, Page 293, covering the NW/4 of Section 26, Township 2 South, Range 29 East.
 40. Lease dated September 9, 1985, from Joe Canon and Verna Canon, as Lessor, recorded in Book 120, Page 297, covering the NW/4 of Section 26, Township 2 South, Range 29 East.

41. Lease dated January 6, 1982, from JoAnne Stephens, as Lessor, recorded in Book 108, Page 49, insofar as such lease covers the N/2 of Section 27; the E/2 and NW/4 of Section 26; and the S/2 of Section 22, all in Township 2 South, Range 29 East.
42. Lease dated December 14, 1981, from Charles C. Compton, as Lessor, recorded in Book 107, Page 618, insofar as such lease covers the N/2 of Section 27; and the E/2 and NW/4 of Section 26, all in Township 2 South, Range 29 East.
43. Lease dated December 14, 1981, from Helen Perry, as Lessor, recorded in Book 107, Page 613, insofar as such lease covers the N/2 of Section 27; and the E/2 and NW/4 of Section 26, Township 2 South, Range 29 East.
44. Lease dated December 14, 1981, from Gussie Cook, as Lessor, recorded in Book 107, Page 561, insofar as such lease covers the N/2 of Section 27; and the E/2 and NW/4 of Section 26, all in Township 2 South, Range 29 East.
45. Lease dated January 26, 1982, from Mary Nell Littlefield, as Lessor, recorded in Book 108, Page 329, insofar as such lease covers the NE/4 of Section 27; and the NE/4 of Section 26, all in Township 2 South, Range 29 East.
46. Lease dated January 4, 1982, from George W. Littlefield, as Lessor, recorded in Book 108, Page 193, insofar as such lease covers the NE/4 of Section 27, all in Township 2 South, Range 29 East.
47. Lease dated August 13, 1980, from O. A. Woody and Lillian V. Woody, as Lessor, recorded in Book 97, Page 242, insofar as such lease covers the N/2 of N/2 of Section 22; and the N/2 and SE/4 of Section 23, all in Township 2 South, Range 29 East.
48. Lease dated August 28, 1980, from Joe L. Powell, a/k/a Joe Louis Powell and Evelyn F. Powell, as Lessor, recorded in Book 97, Page 257, insofar as such lease covers the N/2 of N/2 of Section 22 and the N/2 of SE/4 of Section 23, all in Township 2 South, Range 29 East.
49. Lease dated September 3, 1980, from Virginia Irene Powell, as Lessor, recorded in Book 97, Page 247, insofar as such lease covers the N/2 of N/2 of Section 22 and the N/2 and SE/4 of Section 23 in Township 2 South, Range 29 East.
50. Lease dated September 3, 1980, from Nona K. Powell, as Lessor, recorded in Book 97, Page 252, insofar as such lease covers the N/2 of N/2 of Section 22 and the N/2 and SE/4 of Section 23, in Township 2 South, Range 29 East.
51. Lease dated September 22, 1980, from R. E. Self and wife, Dorothy B. Self, as Lessor, recorded in Book 97, Page 678, insofar as such lease covers the N/2 of N/2 of Section 22 and the N/2 and SE/4 of Section 23 in Township 2 South, Range 29 East.
52. Lease dated September 29, 1980, from Bernus Steele, as Lessor, recorded in Book 97, Page 911, insofar as such lease covers the N/2 of N/2 of Section 22 and the N/2 and SE/4 of Section 23 in Township 2 South, Range 29 East.
53. Lease dated September 24, 1980, from Gussie A. Cook, as Lessor, recorded in Book 97, Page 660, insofar as such lease covers the N/2 and SE/4 of Section 23 and the N/2 of N/2 of Section 22, in Township 2 South, Range 29 East.

54. Lease dated September 22, 1980, from R. E. Self and wife, Dorothy B. Self, as Lessor, recorded in Book 97, Page 678, insofar as such lease covers the N/2 and the SE/4 of Section 22, Township 2 South, Range 29 East.
55. Lease dated May 31, 1986, from Jacob Walker, Jr., Trustee of the Estate of Jacob A. Walker, Deceased, as Lessor, recorded in Book 122, Page 363, insofar as such lease covers the S/2 of Section 22, Township 2 South, Range 29 East.
56. Lease dated June 13, 1986, from Luckie T. Meagher, a widow, as Lessor, recorded in Book 122, Page 371, insofar as such lease covers the S/2 of Section 22, Township 2 South, Range 29 East.
57. Lease dated June 13, 1986, from Allie Josephine Meagher Lee, as Lessor, recorded in Book 122, Page 367, insofar as such lease covers the S/2 of Section 22, Township 2 South, Range 29 East.
58. Lease dated June 13, 1986, from Thelma Frances Meagher, as Lessor, recorded in Book 122, Page 405, insofar as such lease covers the S/2 of Section 22, Township 2 South, Range 29 East.
59. Lease dated June 12, 1986, from Mary Meagher Newell, as Lessor, recorded in Book 122, Page 409, insofar as such lease covers the S/2 of Section 22, Township 2 South, Range 29 East.
60. Lease dated June 30, 1986, from Forrest Mayo Thomas, as Lessor, recorded in Book ____, Page ____, insofar as such lease covers the S/2 of Section 22, Township 2 South, Range 29 East.
61. Lease dated January 4, 1982, from George W. Littlefield, as Lessor, recorded in Book 108, Page 46, insofar as such lease covers the NE/4 of Section 26, in Township 2 South, Range 29 East.
62. Lease dated February 16, 1981, from Sandra Wilson, Kelsey Smith and Linda Smith, as Lessor, recorded in Book 100, Page 347, insofar as such lease covers the S/2 of SW/4 of Section 13; the N/2 of N/2 of Section 22; the N/2 and SE/4 of Section 23; in Township 2 South, Range 29 East.

EXHIBIT "A-3"
to Operating Agreement
Marshall Pipe & Supply Company, Operator
and DEPCO, Inc., et al., Non-Operator

<u>NAMES</u>	<u>Sec. 27: N/2</u>	<u>Sec. 26: N/2</u>	<u>Sec. 26: S/2</u>	<u>Sec. 23: N/2</u>	<u>Sec. 23: S/2</u>	<u>Sec. 22: E/2</u>	<u>Sec. 22: W/2</u>
Marshall Pipe & Supply Co.	6.225391	6.250000	9.375000	5.580079 (d)	5.695118 (d)	6.916015 (e)	6.916015 (e)
Dr. Ralph M. Connell	1.556348	1.562500	2.343750	1.395019 (d)	1.423779 (d)	1.729004 (e)	1.729004 (e)
S. T. Shoff	6.225391	6.250000	9.375000	5.580079 (d)	5.695118 (d)	6.916015 (e)	6.916015 (e)
John Simpson	1.556348	1.562500	2.343750	1.395019 (d)	1.423779 (d)	1.729004 (e)	1.729004 (e)
Thomas T. Adams	1.556348	1.562500	2.343750	1.395019 (d)	1.423779 (d)	1.729004 (e)	1.729004 (e)
Richard L. Mason	1.556348	1.562500	2.343750	1.395019 (d)	1.423779 (d)	1.729004 (e)	1.729004 (e)
R. C. Taylor, Jr.	6.225391	6.250000	9.375000	5.580079 (d)	5.695118 (d)	6.916015 (e)	6.916015 (e)
Fred Tucker, Jr.	1.556348	1.562500	2.343750	1.395019 (d)	1.423779 (d)	1.729004 (e)	1.729004 (e)
C. J. Schmitz	1.556348	1.562500	2.343750	1.395019 (d)	1.423779 (d)	1.729004 (e)	1.729004 (e)
Bill Ross	3.112695	3.125000	4.687500	2.790040 (d)	2.847558 (d)	3.458009 (e)	3.458009 (e)
L. W. Yager	3.112695	3.125000	4.687500	2.790040 (d)	2.847558 (d)	3.458009 (e)	3.458009 (e)
Joe Yager	1.556347	1.562500	2.343750	1.395019 (d)	1.423779 (d)	1.729004 (e)	1.729004 (e)
Mary Yager	1.556347	1.562500	2.343750	1.395019 (d)	1.423779 (d)	1.729004 (e)	1.729004 (e)
M. June Piersal	1.556347	1.562500	2.343750	1.395019 (d)	1.423779 (d)	1.729004 (e)	1.729004 (e)

<u>NAMES</u>	<u>Sec. 27: N/2</u>	<u>Sec. 26: N/2</u>	<u>Sec. 26: S/2</u>	<u>Sec. 23: N/2</u>	<u>Sec. 23: S/2</u>	<u>Sec. 22: E/2</u>	<u>Sec. 22: W/2</u>
Janetta Lou McGee	1.556347	1.562500	2.343750	1.395019 (d)	1.423779 (d)	1.729004 (e)	1.729004 (e)
Wintergreen Energy Corp.	9.338086	9.375000	14.062500	8.370118 (d)	8.542677 (d)	10.374023 (e)	10.374024 (e)
DEPCO, Inc.	13.003125	11.971875	4.860937	18.570312 (d)	14.271094 (d)	14.226562 (e)	14.226562 (e)
Nicor Exploration Co.	13.003125	11.971875	4.860937	18.570312 (d)	14.271094 (d)	14.226562 (e)	14.226562 (e)
Yates Petroleum Corp.	15.278125	13.215625	5.534375	2.500000	11.221875	.625000 (e)	.625000 (e)
Jack L. Ahlen <i>OR</i>	<u>8.521875</u>	<u>12.840625</u>	<u>9.743751</u>	<u>5.000000</u>	<u>5.796875</u>	<u>1.250000</u>	<u>1.250000</u>
<i>Sandra Wilson</i> TOTAL	99.609375% (a)	100.000000%	100.000000%	89.281249% (b)	91.121875% (c)	85.656250% (F)	85.656250% (F)

Explanatory Notes:

- (a) 1.25 mineral acres in the NW/4 of Sec. 27 are unleased, or .390625% of the N/2 of Section 27.
- (b) 17.15 mineral acres each in the NE/4 and NW/4 of Sec. 23 are unleased, or 10.718750% of the N/2 of Section 23.
- (c) 11.26 mineral acres in the SW/4 of Sec. 23 and 17.15 mineral acres in the SE/4 of Section 23 are unleased, or 8.878125% of the S/2 of Section 23.
- (d) An oil and gas lease from Sandra Wilson, Kelsey Smith and Linda Smith, as Lessor, to DEPCO, Inc., as Lessee, dated February 16, 1981, recorded in Volume 100, page 347, Oil and Gas Lease Records, Roosevelt County, New Mexico, is described as covering the N/2 and SE/4 of Section 23. It has not been determined what interest in such land is covered by the lease or the source of title of the lessor. Upon such determination, the working interest under such lease will be credited

proportionately to the parties whose interests in Section 23 are followed by a "(d)".

(e) An oil and gas lease from Sandra Wilson, Kelsey Smith and Linda Smith, as Lessor, to DEPCO, Inc., as Lessee, dated February 16, 1981, recorded in Volume 100, Page 347, Oil and Gas Lease Records, Roosevelt County, New Mexico, is described as covering the N/2 of the N/2 of Section 22; and an oil and gas lease from Robert C. Coke, as Lessor, to Yates Petroleum Corporation, as Lessee, dated August 14, 1985, recorded in Volume 120, Page 98, Oil and Gas Lease Records, Roosevelt County, New Mexico, is described as covering the S/2 of Section 22. It has not been determined what interests in such land are covered by these leases or the source of title of the Lessor in each lease. Upon such determination, the working interests under such leases will be credited proportionately to the parties whose interests in Section 22 are followed by an "(e)".

(f) 8.57 mineral acres each in the NW/4 of the N/2 and the NE/4 of the N/2 of Section 22 and 37.33 mineral acres each in the SE/4 and the SW/4 of Section 22 are unleased, or 14.34375% of the E/2 and the W/2, each, of Section 22.

THERE IS NO EXHIBIT "B"

EXHIBIT " C "

Attached to and made a part of Operating Agreement between Marshall Pipe & Supply Company, as Operator, and Dr. Ralph M. Connell, et al., as Non-Operators, Best Area, Roosevelt County, New Mexico

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

- A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation within fifteen (15) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators. Such request to advance may include estimated costs to drill, test, complete and equip a well which has been approved for drilling.
- B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt of payment is not made within such time, the unpaid balance shall bear interest ~~monthly to the extent it is in effect~~ at the rate of 12% per annum ~~on the first day of the month in which the bill is due plus 1%~~ or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts. Failure to pay a requested advance timely may subject the delinquent party to the provisions of Article XV.D. of this Operating Agreement.

4. Adjustments

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

5. Audits

- A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.
- B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

6. Approval By Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Ecological and Environmental

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

2. Rentals and Royalties

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

3. Labor

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

4. Employee Benefits

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

5. Material

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

6. Transportation

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

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.

- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store where like material is normally available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

7. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

8. Equipment and Facilities Furnished By Operator

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

9. Damages and Losses to Joint Property

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

10. Legal Expense

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

11. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties hereto in accordance with the tax value generated by each party's working interest.

12. Insurance

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

13. Abandonment and Reclamation

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

14. Communications

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

15. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

Fixed Rate Basis, Paragraph 1A, or
 Percentage Basis, Paragraph 1B

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 3A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

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

shall be covered by the overhead rates, or
 shall not be covered by the overhead rates.

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

shall be covered by the overhead rates, or
 shall not be covered by the overhead rates.

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 5,010.00
 (Prorated for less than a full month)

Producing Well Rate \$ 250.00

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

(a) Drilling Well Rate

- (1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.
- (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig or other units used in workover, commence through date of rig or other unit release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.

(b) Producing Well Rates

- (1) An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- (2) Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- (4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.
- (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.
- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

B. Overhead - Percentage Basis

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

(a) Development

_____ Percent (_____ %) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 10 of Section II and all salvage credits.

(b) Operating

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

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

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

2. Overhead - Major Construction

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

~~A. _____ % of first \$100,000 or total cost if less, plus~~

~~B. _____ % of costs in excess of \$100,000 but less than \$1,000,000, plus~~

~~C. _____ % of costs in excess of \$1,000,000.~~

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

3. Catastrophe Overhead

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

A. _____ % of total costs through \$100,000; plus

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

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

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

4. Amendment of Rates

The overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

- (a) Tubular goods, sized 2½ inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio. ~~In no event will such price be greater than under IV A. (3) immediately below.~~
- (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate truck rate shall be used.
- (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.
- (d) Macaroni tubing (size less than 2½ inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

(2) Line Pipe

- (a) Line pipe movements (except size 24 inch OD and larger with walls ¼ inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
- (b) Line pipe movements (except size 24 inch OD and larger with walls ¼ inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
- (c) Line pipe 24 inch OD and over and ¼ inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.
- (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.
- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.
- (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2 A (1) and (2).

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

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

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

- (a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as new Material or
- (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as used Material.

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

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

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

C. Other Used Material

(1) Condition C

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

(2) Condition D

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

- (a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.
- (b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

(3) Condition E

Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally utilized by Operator without prior approval of Non-Operators.

D. Obsolete Material

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

E. Pricing Conditions

- (1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph 1.A(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.
- (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

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

4. Warranty of Material Furnished By Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. Special Inventories

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

4. Expense of Conducting Inventories

- A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.
- B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories except inventories required due to change of Operator shall be charged to the Joint Account.

EXHIBIT D TO OPERATING AGREEMENT

I N S U R A N C E

Operator shall at all times during the term of this Agreement carry insurance to protect the parties hereto as follows:

1. Workmen's compensation and occupational disease insurance as required by the laws of the state or states in which operations will be conducted and employer's liability insurance with a limit of not less than \$100,000.00. Such insurance policy shall be endorsed to preclude exercise of rights of subrogation against parties to this Agreement.
2. Comprehensive general public liability insurance with limits of not less than \$500,000.00 per occurrence and in the aggregate and \$250,000.00 for loss of or damage to property in any one accident and \$250,000.00 aggregate limit applicable to all loss of or damage to property during the policy period.
3. Automobile public liability insurance covering all automotive equipment used in performance of work under this Agreement with limits of not less than \$250,000.00 applicable to bodily injury, sickness or death of any one person or \$500,000.00 for more than one person in any one accident, and \$250,000.00 for loss of or damage to property in any one accident.

Operator shall require all contractors performing work under this Agreement to carry the following insurance:

1. Workmen's compensation and occupational disease insurance as required by the laws of the state or states in which operations will be conducted and employers' liability insurance with a limit of not less than \$100,000.00.
2. Comprehensive general public liability insurance with limits of not less than \$500,000.00 per occurrence and \$250,000.00 for loss of or damage to property in any one accident and \$250,000.00 aggregate limit applicable to all loss of or damage to property during the policy period.
3. Automobile public liability insurance covering all automotive equipment used in performance of work under this Agreement with limits of not less than \$250,000.00 applicable to bodily injury, sickness or death of any one person and \$500,000.00 for more than one person in any one accident and \$250,000.00 for loss of or damage to property in any one accident.

----- END OF DOCUMENT.

G A S B A L A N C I N G A G R E E M E N T

The parties to the Operating Agreement to which this agreement is attached own working interest in the gas rights underlying the area covered by such agreement as set forth in the Operating Agreement. Under the terms of the Operating Agreement, each party thereto has the right to take its share of gas produced and market the same. In the event any party hereto is not at any time taking or marketing its full share of gas or has contracted to sell its share of gas produced 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, the terms of this agreement shall automatically become effective.

(1)

It is the intent that all of the parties hereto, insofar as is reasonably possible, commence taking or delivering gas simultaneously, and that each party thereafter continuously take or deliver its full share of the gas produced. It is, however, recognized that due to conditions beyond the control of the parties there may be occasions where there will be temporary delays in commencement of takes or deliveries and temporary reductions in takes or deliveries below a party's full share. Accordingly, this agreement is intended for use as an operating procedure to assist in bringing the gas accounts of the parties into balance as soon as possible and to assist in maintaining such accounts in balance. It is not the intent that this agreement be used as a gas storage arrangement nor as a device to delay marketing of gas or to unduly withhold gas from the market.

(2)

During any period or periods when the market of a party is not sufficient to take that party's full share of the gas produced from the joint property, or its purchaser is unable to take its share of gas produced from the joint property, the other party or parties shall be entitled to produce from the joint property (and take or deliver to a purchaser), each month, all or a part of that portion of the allowable gas production assigned to the joint property by the regulatory body having jurisdiction. That party shall be entitled to take and deliver to its or their purchaser all of such gas production. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by primary separation equipment in accordance with their respective interests and subject to the terms of the Operating Agreement.

(3)

On a cumulative basis,

(a) each underproduced party (a party who has taken or delivered a lesser volume of gas than the quantity to which such party is entitled) shall be credited with a volume of gas equal to its full share of the gas produced, less its share of gas used in area operations, vented or lost, and less that portion which such underproduced party took or delivered to its purchaser and

(b) each overproduced party (a party who has taken or delivered a greater volume of gas than the quantity to which such party is entitled) shall be debited with a volume of gas equal to the excess which it has actually taken or marketed over its full share of gas used in area operations, vented or lost.

Operator will maintain a current account of the gas balance between the parties hereto and will furnish all parties monthly statements showing the total quantity of gas produced, sold and/or delivered, the amount used in area operations, vented or lost, the total quantity of liquid hydrocarbons recovered therefrom, and the monthly and cumulative over and under account of each party.

(4)

After written notice to the Operator, any party may at any time begin taking or delivering to its purchaser its full share of the gas produced from the joint property (less any used in joint operations, vented or lost). To allow for the recovery of gas in storage and to balance the gas account of the parties in accordance with their respective interests, a party with gas in storage shall be entitled to take or deliver to a purchaser its full share of gas produced from any well (less any used in joint operations, vented or lost) plus an amount determined by multiplying fifty percent (50%) of the interest of the party or parties, without gas in storage by a fraction, the numerator of which is the interest in the joint property of such party with gas in storage and the denominator of which is the total percentage interest in the joint property of all parties with gas in storage.

(5)

Nothing herein shall be construed to deny any party the right, from time to time, to deliver to a purchaser its share of the maximum or allowable gas production to meet a deliverability test required by its purchaser not to exceed a 72 hour period. Each party shall, at all times, use its best efforts to regulate its takes and deliveries from said well so that said well will not be shut in for overproducing the allowable, if applicable, assigned thereto by the applicable regulatory authority.

(6)

At all times while gas is being produced during the term of this agreement, each party shall make or cause to be made appropriate settlement of royalties, etc. as if each were actually taking or delivering its share of such gas production on its contract price basis. Each party agrees to hold each other party hereto harmless from any and all claims for royalty payments asserted by its royalty owners. The term "royalty owner" shall include owners of royalty, overriding royalties, production payments, and similar interest.

(7)

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

(8)

Should production of gas from said well be permanently discontinued before the gas account is balanced, settlement will be made between the underproduced and overproduced parties. In making such settlement, a sum of money will be paid to the underproduced party or parties by the Operator on behalf of the overproduced party or parties based on the actual price received month by month for the overproduction when it occurred and equal to the volume of overproduction of each such party subject to settlement, less applicable taxes theretofore paid.

However if an overproduced party has taken gas for its own consumption or sold such gas to an affiliated party, settlement shall be based on the weighted average price received by the other parties selling gas to non-affiliated buyers at the time of such taking or delivery. If there is no price received by another party selling to a non-affiliated buyer for gas, the price of which is not regulated by federal, state or other governmental agencies, the price basis shall be the price received for the sale of the gas. For gas, the price of which is subject to regulation by federal, state or other governmental authorities, 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 ("FERC") or any other governmental authority pursuant to final order or settlement applicable to gas sold from such well, plus any additional collected amount which is not ultimately required to be refunded by such authority, such additional collected amount to be accounted for at such time as final determination is made with respect hereto.

(8) continued.

For gas sold subject to a contingent refund obligation, the price shall be the rate collected, from time to time, which is not subject to possible refund, as provided by the FERC or any other governmental authority pursuant to final order or settlement applicable to the gas produced from the Contract Area and sold by the overproduced party, plus an additional collected amount which is not ultimately required to be refunded by order of said FERC or any successor governmental authority having jurisdiction in the premises, such additional collected amount to be accounted for at such time as final determination is made with respect thereto. Notwithstanding the foregoing, should the underproduced party elect to receive such additional collected amount which is subject to possible refund pending the issuance of said final order, such underproduced party shall be entitled to the payment thereof from the overproduced party upon the underproduced party executing and delivering to said overproduced party or parties a letter in which the underproduced party agrees to repay the overproduced party or parties that amount so paid that is required by said final order to be refunded, plus the interest thereon as specified in the pertinent order of the FERC or other governmental authority.

(9)

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

(10)

This agreement is binding upon the parties to the Operating Agreement and their respective heirs, successors and assigns. It is agreed that this agreement is a covenant running with the oil and gas lease(s) subject to the Operating Agreement. The parties hereto agree to give notice of the existence of this agreement to any successor in interest of such signatory party to any oil and gas lease(s) subject to the terms of the agreement.

(11)

This agreement shall be and remain in force and effect for a term concurrent with the term of the Operating Agreement between the parties hereto and in the event of any conflict between the Operating Agreement and the provisions hereof, the Operating Agreement shall control. This agreement shall terminate when production permanently ceases and production accounts are balanced in accordance with the provisions hereof.

(12)

Notwithstanding any other provision to the contrary, this agreement shall be considered as a separate agreement as to each reservoir/formation in each well with production from one (1) reservoir not balancing underproduction from another reservoir.

----- END OF DOCUMENT.

SCHEDULE "A"

TITLE TO OIL AND GAS LEASEHOLD ESTATE,
 ONLY FROM THE SURFACE DOWN TO THE BASE OF THE PENNSYLVANIAN
 FORMATION, UNDERLYING S/2 SECTION 23, TOWNSHIP 2 SOUTH, RANGE 29
 EAST, N.M.P.M., ROOSEVELT COUNTY, NEW MEXICO (PERRY NO. 1 WELL)

Lena Estella Betenbough, Trustee of the Lena Estella Betenbough Revocable Living Trust dated July 19, 1988 {3/16 of 5/32 of 160/320}.....	.0146484 RI
Ronald T. Betenbough and Connie Ann Betenbough, Trustees of the Ronald T. Betenbough and Connie Ann Betenbough Joint Revocable Living Trust dated August 17, 1988 {3/16 of 3/32 of 160/320}.....	.0087891 RI
Joe Canon, whose wife is Verna Cannon {3/16 of 37/640 of 160/320}.....	.0054199 RI
E. H. Holcomb, whose wife is Rosemary Holcomb {3/16 of 37/640 of 160/320}.....	.0054199 RI
Cheryl Lee Lepard, as her sole and separate property {3/16 of 1/320 of 160/320}.....	.0002930 RI
Norma Jean Dean, as her sole and separate property {3/16 of 1/320 of 160/320}.....	.0002930 RI
Georgia Ann Medders, as her sole and separate property {3/16 of 1/320 of 160/320}.....	.0002930 RI
Edwin H. Magruder, Jr., Trustee of the R. B. Cowden Family Trust {3/16 of 1/16 of 160/320}.....	.0058594 RI
First RepublicBank Midland, N.A., Successor Trustee of the Trust created for the benefit of Kay Magruder Stevens under the Last Will and Testament of R. B. Cowden, deceased {3/16 of 1/64 of 160/320}.....	.0014648 RI
Robert B. Holt and Elaine Magruder, Successor Co-Trustees of the Trust created for the benefit of Elaine Magruder under the Last Will and Testament of R. B. Cowden, deceased {3/16 of 1/64 of 160/320}.....	.0014648 RI
William H. Jowell, as his sole and separate property {3/16 of 1/64 of 160/320}.....	.0014648 RI
Jerelen Jowell Marrs, as her sole and separate property {3/16 of 1/64 of 160/320}	.0014648 RI
June D. Speight, as her sole and separate property {3/16 of [122.74/2080 of 160/320 + 1/10 of 160/320]}.....	.0149072 RI
Texaco Producing Inc. {1/5 of 102.74/2080 of 160/320}.....	.0049394 RI
Gussie A. Cook, a widow {1/8 of [20/2080 of 160/320 + 1/20 of 160/320]}.....	.0037260 RI
Bonnie H. Morrison, as her sole and separate property {3/16 of [1105.68/18720 of 160/320 + 1/10 of 160/320]}.....	.0149123 RI
Mabelle S. Benedict, a widow, for the term of her natural life, remainder to Marianne B. Frates {3/16 of 1/128 of 160/320}.....	.0007324 RI
DEKALB Energy Company {1/8 of .25 of 3/64 of 160/320}.....	.0007324 RI
NICOR Exploration Company {1/8 of .25 of 3/64 of 160/320}.....	.0007324 RI
Wintergreen Energy Corporation {1/8 of [.171875 of 3/64 of 160/320 + 2/3 of 7/144 of 160/320]}.....	.0025290 RI
Marshall Pipe & Supply Company {1/8 of [.03125 of 3/64 of 160/320 + 1/3 of 7/144 160/320]}0011043 RI

S. T. Shoff {1/8 of .0625 of 3/64 of 160/320}	.000183	RI
R. C. Taylor Jr. {1/8 of .0625 of 3/64 of 160/320}.....	.000183	RI
L. W. Yager {1/8 of .03125 of 3/64 of 160/320}.....	.0000916	RI
Thomas T. Adams {1/8 of .015625 of 3/64 of 160/320}.....	.0000458	RI
Ralph M. Connell {1/8 of .015625 of 3/64 of 160/320}.....	.0000458	RI
Janetta Lou McGee {1/8 of .015625 of 3/64 of 160/320}.....	.0000458	RI
Richard L. Mason {1/8 of .015625 of 3/64 of 160/320}.....	.0000458	RI
Marietta June Piersall, Trustee of the Marietta June Piersall Living Trust {1/8 of .015625 of 3/64 of 160/320}.....	.0000458	RI
C. J. Schmitz {1/8 of .015625 of 3/64 of 160/320}.....	.0000458	RI
John Simpson {1/8 of .015625 of 3/64 of 160/320}.....	.0000458	RI
Fred E. Tucker, Jr. {1/8 of .015625 of 3/64 of 160/320}.....	.0000458	RI
Joe Yager {1/8 of .0078125 of 3/64 of 160/320}.....	.0000229	RI
Mary Yager Stephens {1/8 of .0078125 of 3/64 of 160/320}.....	.0000229	RI
Kirby D. Schenck, as his sole and separate property {3/16 of 3/64 of 160/320}.....	.0043945	RI
Allie Douglas, formerly Allie H. Taylor, as her sole and separate property {3/16 of 15/576 of 160/320}.....	.0024414	RI
Jo Anne Jett, formerly Jo Anne Stephens, as her sole and separate property {1/8 of 15/576 of 160/320}.....	.0016276	RI
Charles C. Compton, as his sole and separate property {1/8 of 12/144 of 160/320}.....	.0052083	RI
Sunwest Bank of Albuquerque, N.A., Trustee of the Ruth Caviness Hatch Revocable Living Trust created December 29, 1978 {1/8 of 1/72 of 160/320}.....	.0008681	RI
Joe L. Powell, whose wife is Evelyn F. Powell {1/8 of 3/56 of 160/320}.....	.0033482	RI
Virginia Irene Powell, as her sole and separate property {1/8 of 9/56 of 160/320}	.0100446	RI
Sandra Wilson, as her sole and separate property {1/8 of 1/56 of 160/320}.....	.0011161	RI
Kelsey Smith, as his sole and separate property {1/8 of 1/56 of 160/320}.....	.0011161	RI
Linda Gregg, formerly Linda Smith, as her sole and separate property {1/8 of 1/56 of 160/320}.....	.0011161	RI
Bernus Steele, as her sole and separate property {1/8 of 6/56 of 160/320}.....	.0066964	RI
Dorothy B. Self, as her sole and separate property {1/8 of 6/56 of 160/320}.....	.0066964	RI
Lillian V. Woody, a widow {1/8 of 15/112 of 160/320}.....	.0083705	RI
Lillian V. Woody, Trustee of the Lillian V. Woody Trust {1/8 of 15/112 of 160/320}....	.0083705	RI
* R. N. Mathews {1/8 of 3/256 of 160/320}.....	.0007324	ULRI
* Gordon Michie {1/8 of 3/256 of 160/320}.....	.0007324	ULRI
Yates Petroleum Corporation {25 of [.1814902 of .075 of 160/320 + .7163557 of .0125 of 160/320]}.....	.0028208	ORI
Jack Ahlen, whose wife is Marilyn Ahlen {0.01 of .80 of 160/320 + .05 of .2318413 of 160/320 + .50 of .095 of .80 of 160/320 + .25 of [.03 of .8978459 of 160/320 + .105 of .1814902 of 160/320 + .0425 of .7163557 of 160/320]}.....	.0383506	ORI

Hunter Investments, a Texas general partnership {.01 of .50 of .80 of 160/320 + .01 of .50 of .8978459 of 160/320}..... .0042446 ORI

Jerry Eskew {.01 of .50 of .80 of 160/320 + .01 of .50 of .8978459 of 160/320}..... .0042446 ORI

DEKALB Energy Company {.1852278 of .875 LESS [.25 of .01 of .80 of 160/320 + .125 of .0625 of .3882307 of 160/320 + .1638954 of .0625 of .5105721 of 160/320]}..... .1569429 WI

NICOR Exploration Company {.1852278 of .875 LESS [.25 of .01 of .80 of 160/320 + .125 of .0625 of .3882307 of 160/320 + .1638954 of .0625 of .5105721 of 160/320]}..... .1569429 WI

Yates Petroleum Corporation {.1015366 of .875 LESS [.25 of .0625 of .3882307 of 160/320 + .1135616 of .0625 of .5105721 of 160/320]}..... .0839996 WI

Eagle Oil & Gas Company {.0280078 of .875 LESS [.50 of .075 of .0493942 of 160/320 + .0586476 of .0625 of .5105721 of 160/320 + .50 of .05 of .2318413 of 160/320]}..... .0197469 WI

Marshall Pipe & Supply {.03125 of .875 LESS .03125 of [.125 of .80 of 160/320 + .125 of .8978459 of 160/320 + .05 of .2318413 of 160/320 + .075 of .0493942 of 160/320 + .0625 of .1824471 of 160/320]}..... .0236105 WI

Wintergreen Energy Corporation {.171875 of .875 LESS .171875 of [.125 of .80 of 160/320 + .125 of .8978459 of 160/320 + .05 of .2318413 of 160/320 + .075 of .0493942 of 160/320 + .0625 of .1824471 of 160/320]}..... .1298576 WI

S. T. Shoff {.0625 of .875 LESS .0625 of [.125 of .80 of 160/320 + .125 of .8978459 of 160/320 + .05 of .2318413 of 160/320 + .075 of .0493942 of 160/320 + .0625 of .1824471 of 160/320]}..... .0472209 WI

R. C. Taylor, Jr. {.0625 of .875 LESS .0625 of [.125 of .80 of 160/320 + .125 of .8978459 of 160/320 + .05 of .2318413 of 160/320 + .075 of .0493942 of 160/320 + .0625 of .1824471 of 160/320]}..... .0472209 WI

L. W. Yager {.03125 of .875 LESS .03125 of [.125 of .80 of 160/320 + .125 of .8978459 of 160/320 + .05 of .2318413 of 160/320 + .075 of .0493942 of 160/320 + .0625 of .1824471 of 160/320]}..... .0236105 WI

Thomas T. Adams {.015625 of .875 LESS .015625 of [.125 of .80 of 160/320 + .125 of .8978459 of 160/320 + .05 of .2318413 of 160/320 + .075 of .0493942 of 160/320 + .0625 of .1824471 of 160/320]}..... .0118052 WI

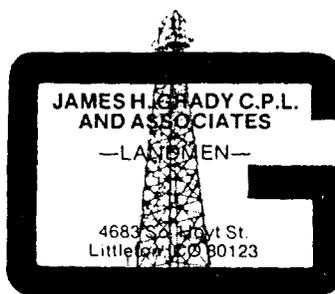
Ralph M Connell {.015625 of .875 LESS .015625 of [.125 of .80 of 160/320 + .125 of .8978459 of 160/320 + .05 of .2318413 of 160/320 + .075 of .0493942 of 160/320 + .0625 of .1824471 of 160/320]}..... .0118052 WI

Janetta Lou McGee {.015625 of .875 LESS .015625 of [.125 of .80 of 160/320 + .125 of .8978459 of 160/320 + .05 of .2318413 of 160/320 + .075 of .0493942 of 160/320 + .0625 of .1824471 of 160/320]}..... .0118052 WI

Richard L. Mason {.015625 of .875 LESS .015625 of [.125 of .80 of 160/320 + .125 of .8978459 of 160/320 + .05 of .2318413 of 160/320 + .075 of .0493942 of 160/320 + .0625 of .1824471 of 160/320]}..... .0118052 WI

Marietta June Piersall, Trustee of the
 Marietta June Piersall Living Trust
 {.015625 of .875 LESS .015625 of [.125 of
 .80 of 160/320 + .125 of .8978459 of 160/320
 + .05 of .2318413 of 160/320 + .075 of
 .0493942 of 160/320 + .0625 of .1824471 of
 160/320]}..... .0118052 WI
 C. J. Schmitz {.015625 of .875 LESS .015625
 of [.125 of .80 of 160/320 + .125 of
 .8978459 of 160/320 + .05 of .2318413
 of 160/320 + .075 of .0493942 of 160/320
 + .0625 of .1824471 of 160/320]}..... .0118052 WI
 John Simpson {.015625 of .875 LESS .015625
 of [.125 of .80 of 160/320 + .125 of
 .8978459 of 160/320 + .05 of .2318413
 of 160/320 + .075 of .0493942 of 160/320
 + .0625 of .1824471 of 160/320]}..... .0118052 WI
 Fred E. Tucker, Jr. {.015625 of .875 LESS
 .015625 of [.125 of .80 of 160/320 + .125 of
 .8978459 of 160/320 + .05 of .2318413
 of 160/320 + .075 of .0493942 of 160/320
 + .0625 of .1824471 of 160/320]}..... .0118052 WI
 Joe Yager {.0078125 of .875 LESS .0078125
 of [.125 of .80 of 160/320 + .125 of
 .8978459 of 160/320 + .05 of .2318413
 of 160/320 + .075 of .0493942 of 160/320
 + .0625 of .1824471 of 160/320]}..... .0059026 WI
 Mary Yager Stephens {.0078125 of .875 LESS
 .0078125 of [.125 of .80 of 160/320 + .125
 .8978459 of 160/320 + .05 of .2318413
 of 160/320 + .075 of .0493942 of 160/320
 + .0625 of .1824471 of 160/320]}..... .0059026 WI

* The interests of R. N. Mathews and Gordon Michie are
 subject to an Application for Compulsory Pooling
 currently pending before the New Mexico Oil
 Conservation Division. See Requirement 8 in IV of
 this opinion.



March 13, 1989

TO WHOM IT MAY CONCERN:

THE UNDERSIGNED HAS TAKEN THE FOLLOWING STEPS TO LOCATE THE FOLLOWING
MINERAL INTEREST OWNERS:

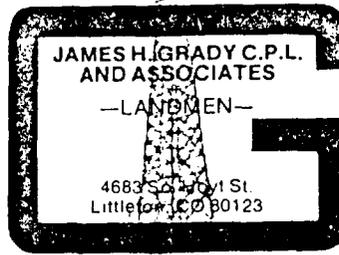
R. N. MATHEWS -----
GORDON MICHIE -----

ADDRESSES WERE OBTAINED FROM RECORDED DEEDS (COPIES ATTACHED).

1. Letter returned marked "UNKNOWN".
2. APPROXIMATELY TWENTY (20) MATHEWS LISTED IN THIS AREA OF SAN FRANCISCO WERE CONTACTED BY TELEPHONE.
3. PROBATE RECORDS IN THE SAN FRANCISCO AREA WERE SEARCHED.
4. NEW YORK SECRETARY OF STATE WAS REQUESTED TO SEARCH RECORDS OF KEWENEE ROSS CORPORATION, THEY COULD FIND NO REFERENCE TO SAID CORP. OFFICERS. FILES WERE NOT ACTIVE.
5. A. C. HOLDER, GRANTOR IN ORIGINAL DEED TO GORDON MICHIE (dated 10-27-50), WAS CONTACTED, MR. HOLDER DID NOT REMEMBER EITHER MATHEWS OR MICHIE.


JAMES H. GRADY

MARSHALL PIPE & SUPPLY CO.
Case No. 9625
3/15/89 Examiner Hearing
Exhibit No. 4



October 28, 1986

RE: Twin Buttes Area
Roosevelt Co., N.M.

R. N. Mathews
703 Market Street
San Francisco, Ca. 94101

Dear Mr. Mathews:

In reference to some oil and gas mineral you purchased from one Gordon Michie, in Roosevelt County, New Mexico, by mineral deed dated November 11, 1950, it is requested that you contact the undersigned by telephone collect at area 303-979-2649.

Thank you for your cooperation.

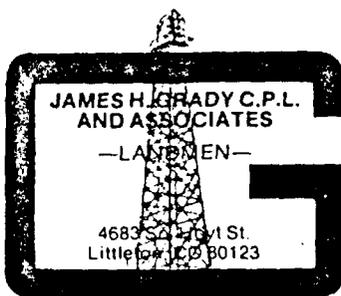
Yours truly,

James H. Grady

CC: Mr. Mathews
% Keweenaw Ross Corp.
1407 West Ave.
Buffalo, N.Y. 14240
DEPCO, Inc.
Marshall Pipe and Supply

COPY

COPY WENT TO MATHEWS IN BUFFALO, N.Y.



October 28, 1986

RE: Twin Buttes Area
Roosevelt Co., N.M.

Mr. Gordon Michie
582 Market Street
San Francisco, California 94101

Dear Mr. Michie:

In reference to some oil and gas minerals you purchased from one A. C. Holder, in Roosevelt County, New Mexico, by mineral deed dated October 9, 1950, it is requested that you contact the undersigned by telephone collect at area 303-979-2649.

Your cooperation is appreciated.

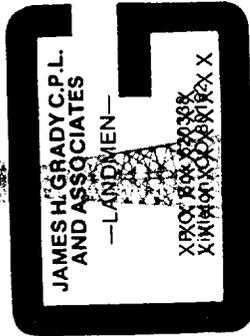
Yours truly,

James H. Grady

CC: DEPCO, Inc.
Marshall Pipe and Supply

COPY

23' SW 3/256 Int



P.O. Box 4
Morrison, Co. 80465



Handwritten scribbles and signatures, including a large 'M' and 'J'.

Mr. R. N. Mathews
703 Market Street
San Francisco, California 94101

Handwritten text or signature.

MINERAL DEED

KNOW ALL MEN BY THESE PRESENTS:

THAT A. C. Holder and Ruby F. Holder

of Lovington, New Mexico hereinafter called Grantor, (whether one or more) for and in consideration of the sum of Ten and more Dollars, (\$10.00) cash in hand paid and other good and valuable considerations, the receipt of which is hereby acknowledged, do hereby grant, bargain, sell, convey, transfer, assign and deliver unto Gordon Michie of 582 Market St., San Francisco 4, California hereinafter called Grantee (whether one or more) an undivided One thirty-second (1/32) interest in and to all of the oil, gas and other minerals in and under and that may be produced from the following described lands situated in Roosevelt County, State of New Mexico, to-wit:

the Southeast Quarter (SE $\frac{1}{4}$) of Section 24, and the Southwest Quarter (SW $\frac{1}{4}$) of Section 23, Township 2 South, Range 29 East, N.M.P.M.,

Filed for Record 18 day of March 1953 at 8:00 P.M. Recorded in Book 86 Page 502
Jenna J. Edwards County Clerk
Deputy
Roosevelt County, New Mexico

containing 320 acres, more or less, together with the right of ingress and egress at all times for the purpose of mining, drilling, exploring, operating and developing said lands for oil, gas, and other minerals, and storing, handling, transporting and marketing the same therefrom with the right to remove from said land all of Grantee's property and improvements.

This sale is made subject to any rights now existing to any lessee or assigns under any valid and subsisting oil and gas lease of record heretofore executed; it being understood and agreed that said Grantee shall have, receive, and enjoy the herein granted undivided interest in and to all bonuses, rents, royalties and other benefits which may accrue under the terms of said lease insofar as it covers the above described land from and after the date hereof, precisely as if the Grantee herein had been at the date of the making of said lease the owner of a similar undivided interest in and to the lands described and Grantee one of the lessors therein.

Grantor agrees to execute such further assurances as may be requisite for the full and complete enjoyment of the rights herein granted and likewise agrees that Grantee herein shall have the right at any time to redeem for said Grantor by payment, any mortgage, taxes, or other liens on the above described land, upon default in payment by the Grantor, and be subrogated to the rights of the holder thereof.

TO HAVE AND TO HOLD The above described property and easement with all and singular the rights, privileges, and appurtenances thereunto or in any wise belonging to said Grantee herein, his heirs, successors, personal representatives, administrators, executors, and assigns forever, and Grantor do es hereby warrant said title to Grantee his heirs, executors, administrators, personal representatives, successors and assigns forever, and do es hereby agree to defend all and singular the said property unto the said Grantee herein his heirs, successors, executors, personal representatives, and assigns against all and every person or persons whomsoever lawfully claiming or to claim the same, or any part thereof.

WITNESS OUR hand this 27th day of October 1950

Witnesses: A. C. Holder
Ruby F. Holder

STATE OF NEW MEXICO, }
County of LEA } ss. (Acknowledgment for Individual)
On this 28th day of October 1950, before me personally appeared A. C. Holder and Ruby F. Holder, his wife,

to me known to be the person described in and who executed the foregoing instrument, and acknowledged that they executed the same as their free act and deed.

Witness my hand and official seal the day and year last above written.
H. W. Schmed Notary Public
My commission expires me 12-1953 Postoffice Lovington, New Mexico

STATE OF NEW MEXICO, }
County of LEA } ss. (Acknowledgment for Corporation)
On this 28th day of October 1950, before me personally appeared Gordon Michie that he is the president of Gordon Michie and that the seal affixed to said instrument is the seal of said corporation.

ILLEGIBLE

Know All Men by These Presents, THAT Gordon Michie

of San Francisco, California hereinafter called Grantor (whether one or more) for and in consideration of the sum of Ten Dollars \$ 10.00 cash in hand paid and other good and valuable considerations, receipt of which is hereby acknowledged, do hereby grant, bargain, sell, convey, transfer, assign and deliver unto R. N. Mathers of San Francisco hereinafter called Grantee (whether one or more) an undivided three, two-hundred-fifty-sixths (3/256ths) interest in and to all of the oil, gas and other minerals in and under and that may be produced from the following described lands situated in Roosevelt County, State of New Mexico

the Southeast quarter (SE 1/4) of Section 24, and the Southwest Quarter (SW 1/4) of Section 23, Township 2 South, Range 29, East, N.M.P.M.,

containing 320 acres, more or less, together with the right of ingress and egress at all times for the purposes of mining, drilling, exploring, operating and developing said lands for oil, gas and other minerals, and storing, handling, transporting and marketing the same therefrom with the right to remove from said land all of Grantee's property and improvements.

This sale is made subject to any rights now existing in any lease or assigns under any valid and subsisting oil and gas lease of record heretofore executed; it being understood and agreed that said Grantee shall have, receive, and enjoy the herein granted undivided interest in and to all bonuses, rents, royalties and other benefits which may accrue under the terms of said lease insofar as it covers the above described land from and after the date hereof, precisely as if the Grantee herein had been at the date of the making of said lease the owner of a similar undivided interest in and to the lands described and Grantee one of the lessors therein.

Grantor agrees to execute such further assurances as may be requisite for the full and complete enjoyment of the rights herein granted and likewise agrees that Grantee herein shall have the right at any time to redeem for said Grantor by payment, any mortgage, tax or other liens on the above described land, upon default in payment by Grantor, and be subrogated to the rights of the holder thereof.

TO HAVE AND TO HOLD The above described property and easement with all and singular the rights, privileges, and appurtenances thereunto or in any wise belonging to the said Grantee herein, his heirs, successors, personal representatives, administrators, executors, and assigns forever, and Grantor do hereby warrant said title to Grantee, his heirs, executors, administrators, personal representatives, successors and assigns forever and do hereby agree to defend all and singular the said property unto the said Grantee herein, his heirs, successors, executors, personal representatives, and assigns against every person whomsoever claiming or to claim the same or any part thereof.

WITNESS my hand this November 14th day of November 1950 Gordon Michie

OKLAHOMA FORM OF ACKNOWLEDGMENT FOR INDIVIDUAL

STATE OF OREGON CALIFORNIA COUNTY OF Bay View Before me, the undersigned, a Notary Public, in and for said County and State on this 14th day of November 1950 personally appeared Gordon Michie

to me known to be the identical person who executed the within and foregoing instrument and acknowledged to me that he executed the same as his free and voluntary act and deed for the uses and purposes therein set forth

Given under my hand and seal the day and year last above written My commission expires Dec. 23, 1950 by [Signature] Notary Public

OKLAHOMA FORM OF ACKNOWLEDGMENT FOR CORPORATION

STATE OF OKLAHOMA COUNTY OF Before me the undersigned, a Notary Public, in and for said County and State on this day of personally appeared

to me known to be the identical person who subscribed the name of the maker thereof to the foregoing instrument as his and acknowledged to me that he executed the same as his free and voluntary act and deed and as the free and voluntary act and deed of such corporation, for the uses and purposes therein set forth Given under my hand and seal the day and year last above written

ILLEGIBLE

434
No.

Mid Continent Royalty Owners Association
Approved Form Revised

MINERAL DEED

FROM

TO

R. N. Mathers

703 Market St., San Francisco, Calif.

Dated..... 19.....

Lot..... Block..... Addition.....

Section..... Township..... Range.....

County.....

No. of Acres..... Term.....

STAT OF New Mexico
COUNTY OF Reynolds } SS.

This instrument was filed for record on the 8
day of June, 1954
at 8:00 o'clock A.M., and duly recorded in
Book 89 Page 433 of the
records of this office.

Thomas A. Jones
County Clerk, District of Deeds
By Harold J. Call
Deputy

When Recycled
Return to R. N. Mathers
40 Kenmore Road, Care
The Olds Press, Tulsa, Okla.
1407 West Ave.
Buffalo, N. York

ILLEGIBLE

All distances must be from the outer boundaries of the Section.

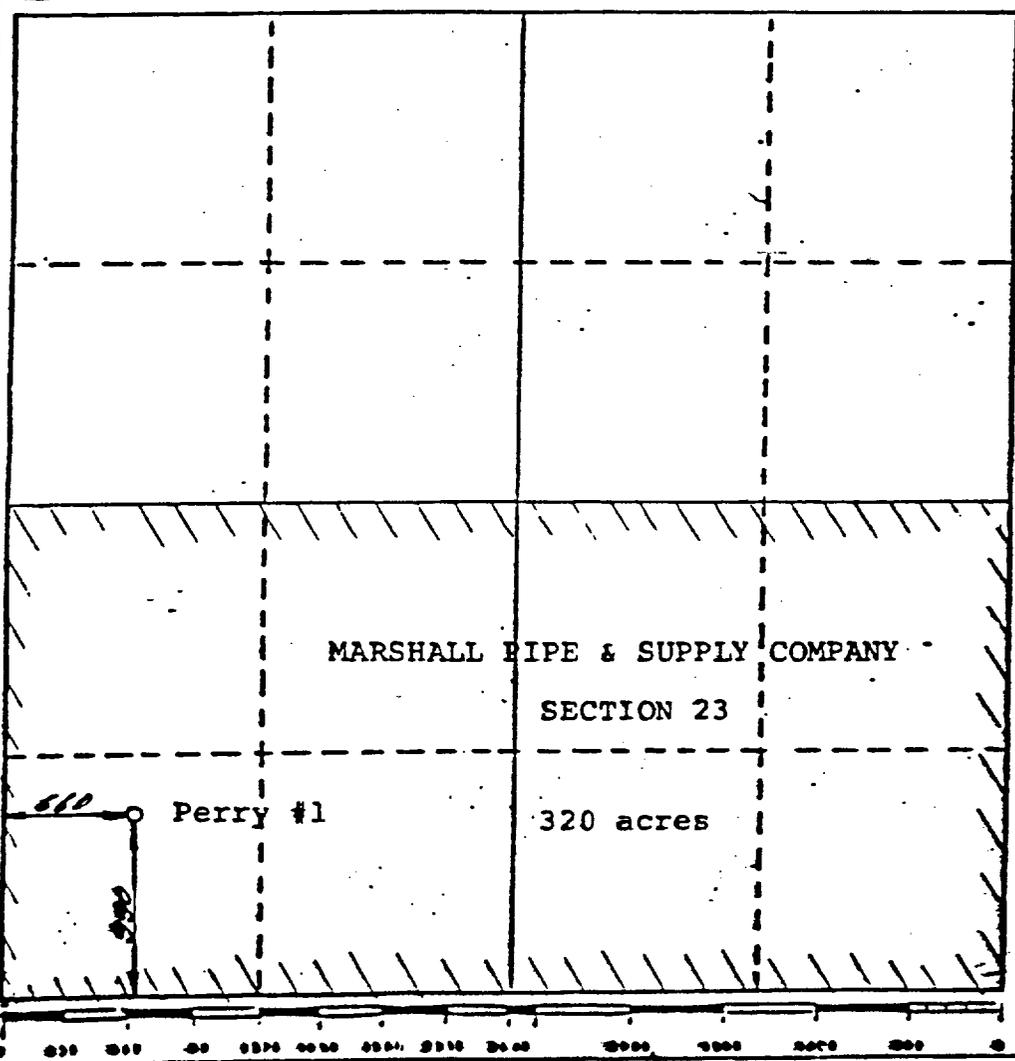
Operator Marshall Pipe And Supply		Lease Perry			Well No. 1
Unit Letter M	Section 23	Township 2 South	Range 29 East	County Roosevelt	
Actual Footage Location of Well: 990 feet from the South line and 660 feet from the West line					
Ground Level Elev. 4382	Producing Formation Montoya & Penn.		Pool Tule-Montoya Tule-Penn	Dedicated Acreage: 320 if gas.	

1. Outline the acreage dedicated to the subject well by colored pencil or hatchure marks on the plat below.
2. If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
3. If more than one lease of different ownership is dedicated to the well, have the interests of all owners been consolidated by communitization, unitization, force-pooling, etc?

Yes No If answer is "yes," type of consolidation communitization

If answer is "no," list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary.)

No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interests, has been approved by the Division.



CERTIFICATION

I hereby certify that the information shown herein is true and complete to the best of my knowledge and belief.

J. W. Marshall
Name **J. W. Marshall**
Position **Partner/Operator**
Company **MARSHALL PIPE & SUPPLY**
Date **February 3rd, 1988**

I hereby certify that the well location shown on this plat was plotted from notes of actual surveys made by me under my supervision, and that the same is true and correct to the best of my knowledge and belief.

January 29, 1988
Date Surveyed
P. R. Patton
Registered Land Surveyor
8112
Certificate No.

MARSHALL Pipe & Supply Company

Drilling

Producing

J. W. Marshall
Dallas, Texas
RESIDENCE
(214) 233-7881

13423 FORESTWAY DRIVE

DALLAS, TEXAS 75240

(214) 239-7284

December 31st, 1989

ACTUAL COSTS OF THE PERRY #1
S/2 Section 23, T2S, R29E
Roosevelt County, New Mexico

EQUIPMENT:	\$	111,195.63
DEVELOPMENT:		<u>312,494.21</u>
TOTAL COST, to date:	\$	<u>423,689.84</u>

DALLAS, TEXAS 75240

December 31st, 1988

PERRY #1

S/2 Section 23, T28, R29ERoosevelt County, New Mexico

ACTUAL COSTS

COVERING COST TO CASING POINT
COMPLETION, AND
GAS EQUIPMENT & INSTALLING SAMEEQUIPMENT:

Brammer Pipe & Steel Co.,	Inv. 9530 8-5/8" Casing	\$ 20,692.42
"	Inv. 9542 13-3/8" Casing	6,117.12
"	Inv. 9602 5-1/2" Casing	30,686.64
"	Inv. 9789 2-3/8" Tubing	10,547.28
"	Inv. 9789-A 3" Linepipe	6,369.75
"	Inv. 9803 Two 300 BBl Tanks	3,700.00
"	Inv. 9826, Tubing for line	2,733.10
Brammer Supply, Inc.,	Inv. 20520 8-5/8 to 5 1/2" head, nipple	622.00
"	Inv. 21650, valves, plugs, nipples, etc.	8,242.20
"	Inv. 21943, 2" Valve	1,073.12
Engelman-General, Inc.,	Inv. 023463, dump valves, etc.	1,231.13
Hondo Pipe & Supply	Inv. 9245, ells	184.56
Marshall Pipe & Supply Co.	Inv. 9-5-88, 2 Jts., 5 1/2" from Speight	339.51
"	Inv. 9-5-88, 4 Jts., 5 1/2" from McGee	554.33
Quality Manufacturing, Inc.	Inv. 1224 Gas Production Unit, used foundation blocks & meter run	7,100.00
"	Inv. 1234, Gas Production Unit, used foundation blocks & meter run	7,100.00
Republic Supply Co.	Inv. 479153 couplings, fittings, hose	1,536.85
"	Inv. 479229 plugs, nipples, tees, etc.	1,585.69
"	Inv. 479581 couplings, adaptors, hose	779.93

PERRY EQUIPMENT, TO DATE:\$ 111,195.63

Details attached:

December 31st, 1988

PERRY #1
S/2 Section 23, T2S, R29E
Roosevelt County, New Mexico

ACTUAL COSTS OF EXPENSES COVERING: COST TO CASING POINT
 COMPLETION
 INSTALLATION & CHECKING GAS PRODUCTION
 COSTS:

DEVELOPMENT:

Butler Signs	Inv. 11-22-88	
	Lease Sign	47.86
County Clerk	Inv. 10-6-88	
"	Recording	10.00
"	Inv. 12-13-88	
	Recording	26.00
Dickerson, Fisk & Vandiver	Inv. 3-19-88	
"	Unorthodox well location	187.50
"	Inv. 4-12-88,	
"	Unorthodox well, title	1,622.25
"	Inv. 7-8-88	
"	ownership, Abstracts	3,938.00
"	Inv. 11-1-88,	
"	Re: Citigas Contract	11.25
"	Inv. 11-1-88,	
"	Re: Title Opinion	1,145.25
"	Inv. 12-6-88,	
"	curative work	21.46
"	Inv. 12-6-88, Yates/Dekalb	93.55
Donham Oil Tool Co.,	Inv. 100325	
	Rental tools	277.20
Engelman-General, Inc.,	Inv. 23847, labor	495.00
Federal Express	8-17-88, Tooke, Mud Logger	14.00
"	12-2-87, curative to Grady	20.25
"	2-10-88, Patton Surveyor	11.00
"	6-2-88, rushing documents	39.00
"	7-8-88, " "	14.00
"	9-15, and 21, rushing info.	100.00
"	9-28-88, documents	34.25
"	11-14-88, charts	7.56
"	11-2-88, Energy Dept & Gas	
"	Gatherer	34.00
"	12-16-87, Info to attorney	14.00
Globe Construction Co.,	Inv. 888-030, Location, Pits	3,288.88
"	Inv. 888-031, pull trucks,	
"	backdrag road and location	1,275.28
"	Inv. 988-002, pull trucks	1,281.36
"	Inv. 988-035, level around well	805.44
"	Inv. 1088-023, cut pits,	
"	build tank grade, bury pipeline	4,434.12
"	Inv. 189-014, cleanup of pits	1,081.97
James H. Grady, Landman	Inv. 9-17-88, curative work	1,693.14
Graham Abstract	Inv. 10-21-88, supplemental	
	abstracts	273.37
Gustamantes Well Service	Inv. 1215, well completion	12,019.55
"	Inv. 1218, 4 point test,	
"	flow test well	676.23
"	Inv. 1222, checked well, put	
"	back on line	4,475.76
Halliburton Services	Inv. 407688, cement surface	3,602.61
"	Inv. 407691, cement, inter-	
"	mediate casing	7,913.82
"	Inv. 407723, acidize	15,370.63
"	Inv. 407737, cement prod.	
"	casing	5,864.05
"	Inv. 522535, tool service	2,837.50
"	Inv. 522554, Open Hole Test	2,998.61
"	Inv. 522741, Kill Well	1,429.97
Hamilton Welding	Inv. 6435, weld 13-3/8"	118.44
"	Inv. 6436, weld nipple	183.49
"	Inv. 6439, line pit	1,977.52
"	Inv. 6441, cut 13-3/8, and 8-5/8	321.98

December 31st, 1988

PERRY #1S/2 Section 23, T2S, R29ERoosevelt County, New MexicoACTUAL COSTS CONTINUED: DEVELOPMENT: Page #2:DEVELOPMENT - Page #2

Hamilton Welding	Inv. 3729, welding, fence pits	\$ 2,947.00
"	Inv. 3746, watch and re-light flair	380.70
"	Inv. 3749, fence well, tanks and separators	185.00
Jack Houston Drilling, Inc.,	Inv. 9-4-88, Drilling contract	112,195.13
Kenna Water Sales	Inv. 3026, saltwater disposal	268.39
Kenneth Tank Service,	Inv. 18120, fresh water to rig	10,786.29
"	Inv. 18226, " "	438.81
"	Inv. 18333, saltwater disposal	1,063.33
M & G Pipe & Trucking	Inv. 1194, pulling water trks	134.29
"	Inv. 1197, forklift, unloading 5-1/2"	166.08
"	Inv. 1193, loading 210 tank to lease	162.79
"	Inv. 1195, forklift, unloading 8-5/8"	276.71
"	Inv. 1211, forklift, unloading 2-3/8", two 300 bbl tanks	920.85
"	Inv. 1213, forklift, unloading separator	221.44
"	Inv. 1223, " "	162.79
"	Inv. 1220, " BOP & Flange	165.08
Marshall Pipe & Supply co.	OPERATOR'S CHARGE FOR DRILLING WELL, AS PER OPER AGREE.	5,010.00
"	Supervision to Casing Point, and Completion	9,682.80
Marrs Mud, Inc.,	Inv. 04914, Mud and Chemicals	14,437.60
Ben Milford, Geologist	Inv. 9-5-88, Geological consulting	4,537.69
Otis Engineering Corp.,	Inv. 643133, packer service	3,778.34
"	Inv. 643810, re: seal assembly	8,739.51
"	Inv. 654461, running tools	2,947.04
P. R. Patton & Assoc.	Inv. 1-29-88, Survey Location	397.03
Permian	Inv. 6330, Wash oil	1,782.48
Permian Treating Chemicals	Inv. 1105, Anti-Freeze	565.08
Precision Service, Inc.,	Inv. 44366, calibration	254.63
"	44437, meter test, lower	268.09
"	44438, plate chg:	44.02
"	44439, meter test - upper	178.09
"	44745, master meter	24.58
"	44747, sampling, grav./upper	75.38
"	44749, " " /lower	63.89
"	44750, meter/static spring	571.92
"	44753, orifice plate	122.94
"	44827, plate	6.21
"	44831, meter test/lower	63.89
"	44832, chromatograph ana/upper	47.36
"	44833, " " /lower	47.36
"	44834, master meter	11.84
"	45015, tule inconnect analysis	11.84
"	44891, " " , meter test	32.66
Schlumberger Well Services	Inv. 4-061290, Logs	13,256.76
Sewell-Uselton Ins. Agency	Inv. 7256PC, Blanket bond	500.00
T & C Tank Rental & Anchor Ser.	Inv. 0988-117, guyline anchors	740.42
Tooke International	Inv. 2210, mudlogging	2,749.69
"	2260, "	4,666.62
"	2333, "	89.62
Turnbull, Greg	Inv. 227651, hook up and consult installation of gas	595.70
"	227652, checking gas well	379.50
W.A.S.P. Wireline Co.	Inv. 174, gamma ray cement, and perforate	15,788.28

DALLAS, TEXAS 75240

December 31st, 1988

PERRY #1

S/2 Section 23, T2S, R29E

Roosevelt County, New Mexico

ACTUAL COSTS CONTINUED: DEVELOPMENT: PAGE #3:

DEVELOPMENT - PAGE #3:

John West Engineering Co.,	Inv. 1088-40, 4 Point Test:	\$	3,324.37
West Texas Casing, Inc.,	Inv. 5940, run 13-3/8"		950.00
"	5941, run 8-5/8"		1,334.20
"	5949, run 5-1/2"		1,855.00

DEVELOPMENT, TO DATE: 12-31-88

\$ 312,494.21

Details Attached:

PRODUCTION - HISTORY

AS REPORTED BY MARSHALL PIPE AND SUPPLY, CO.

13423 Forestway Drive, Dallas, Texas 75240

UNIT-OPERATOR

The Perry # 1 (located approximately 660' from the West Line and 990' from the South Line Section 23 - Township 2 South - Range 29 East N.M.P.M.,)

Roosevelt County, New Mexico:

CURRENT PRODUCTION: Approximately 1.3 MCF Gas Per Day

CURRENTLY: disposing of about 100 BBLs. WATER DAILY

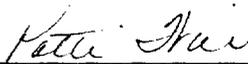
CURRENT OIL PRODUCTION: Approximately 5 BBLs Oil Daily

must be committed and has not been voluntarily committed to the area proposed to be pooled or unitized, in securely sealed, certified mail, return receipt requested, postage prepaid envelopes, addressed to the following named parties at their last known addresses, to-wit:

Gordon Michie
582 Market Street
San Francisco, California 94101

R. N. Mathews
703 Market Street
San Francisco, California 94101

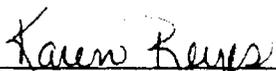
on the 14th day of February, 1989, as reflected by the copies of the letters transmitting such copies of the Application and the return receipts executed on behalf of the addressees, attached hereto.



Patti Wier

SUBSCRIBED AND SWORN TO before me this 14th day of February, 1989, by PATTI WIER.

My commission expires:
1-2-90



Notary Public

February 14, 1989

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. Gordon Michie
582 Market Street
San Francisco, California 94101

Re: Perry No. 1 Well
Township 2 South, Range 29 East, NMPM
Section 23: S/2
Roosevelt County, New Mexico

Dear Mr. Michie:

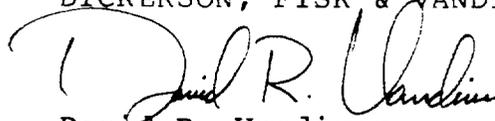
Enclosed, please find a copy of the Application of Marshall Pipe & Supply Company for Compulsory Pooling, Roosevelt County, New Mexico.

Hearing is scheduled before the New Mexico Oil Conservation Division, in Santa Fe, New Mexico, on March 15, 1989.

Please contact the undersigned if you have any questions regarding this application.

Very truly yours,

DICKERSON, FISK & VANDIVER


David R. Vandiver

DRV:pvw
Enclosure

cc: Marshall Pipe & Supply Company

February 14, 1989

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. R. N. Mathews
703 Market Street
San Francisco, California 94101

Re: Perry No. 1 Well
Township 2 South, Range 29 East, NMPM
Section 23: S/2
Roosevelt County, New Mexico

Dear Mr. Mathews:

Enclosed, please find a copy of the Application of Marshall Pipe & Supply Company for Compulsory Pooling, Roosevelt County, New Mexico.

Hearing is scheduled before the New Mexico Oil Conservation Division, in Santa Fe, New Mexico, on March 15, 1989.

Please contact the undersigned if you have any questions regarding this application.

Very truly yours,

DICKERSON, FISK & VANDIVER


David R. Vandiver

DRV:pvw
Enclosure

cc: Marshall Pipe & Supply Company

P 728 600 805

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED
NOT FOR INTERNATIONAL MAIL

(See Reverse)

Sent to Mr. Gordon Michie	
Street and No. 582 Market Street	
P.O. State and ZIP Code San Francisco, CA 94101	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt showing to whom and Date Delivered	
Return Receipt showing to whom Date and Address of Delivery	
TOTAL Postage and Fees	\$
Postmark or Date	

PS Form 3800, June 1985

P 728 600 806

RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED
NOT FOR INTERNATIONAL MAIL

(See Reverse)

Sent to Mr. R. N. Mathews	
Street and No. 703 Market Street	
P.O. State and ZIP Code San Francisco, CA 94101	
Postage	\$
Certified Fee	
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt showing to whom and Date Delivered	
Return Receipt showing to whom Date and Address of Delivery	
TOTAL Postage and Fees	\$
Postmark or Date	

PS Form 3800, June 1985

DICKERSON, FISK & VANDIVER
ATTORNEYS AT LAW
SEVENTH & MAHONE SUITE E
ARTESIA, NEW MEXICO 88210

CERTIFIED
P 728 600 805
MAIL

ATTENTION: Forwards No Charge
If Undeliverable or Address Vacant
Return to Post Office
Mail Receipts RTN
Notice
Date

This Is An Office Building.
Mail Must Be Deposited In Care
Of The Post Office.

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. Gordon Michie
582 Market Street
San Francisco, California 94101

DICKERSON, FISK & VANDIVER
ATTORNEYS AT LAW
SEVENTH & MAHONE SUITE E
ARTESIA, NEW MEXICO 88210

CERTIFIED
P 728 600 805
MAIL

DELIVERED TO ADDRESSEE
NO POSTAGE
NECESSARY
IF MAILED
IN THE
UNITED STATES
NO POSTAGE
NECESSARY
IF MAILED
IN THE
UNITED STATES
ATTORNEYS AT LAW

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. R. N. Mathews
703 Market Street
San Francisco, California 94101