

OGS OPERATING COMPANY, INC.

BILBERRY #2  
N/2, Section 15, T-8-S, R-37-E,  
Roosevelt County, New Mexico

TABLE OF CONTENTS

Page 1 - 3	Ownership
Page 4 - 48	Correspondence
Page 49	AFE
Page 50	Actual Drilling & Completion Cost of Bilberry #1 Well
Page 51	Overhead Rates
Page 52	Operating Agreement
Page 88	Copas - Overhead Rates

BEFORE EXAMINER STOGNER

Oil Conservation Division

OGS Exhibit No. 5

Case No. 9749

OGS Operating Company, Inc.  
 Bilberry #2 Well  
 N/2 Section 15, T-8-S, R-37-E  
 Roosevelt County, New Mexico

UNIT WORKING INTEREST OWNERSHIP

<u>Working Interest Owners</u>	<u>Working Interest Ownership</u>	<u>Comments</u>
1. OGS Operating Company, Inc.	0.2387%	Received signed AFE
2. O'Brien Goins Simpson Expl.	8.5287%	Received signed AFE
3. Michael W. Gates	0.2650%	Received signed AFE
4. OGM Partnership II	0.3183%	Received signed AFE
5. O'Connor Oil & Gas, Ltd.	0.2653%	Received signed AFE
6. Edmund O'Connor	0.0531%	Received signed AFE
7. Great Western Drilling Co.	5.9685%	Verbally joined
8. Hugh A. Moore	0.6715%	No response
9. George R. White and wife, Bettijo H. White	0.6715%	No response
10. A. B. Sam and wife, Janet D. Sam	1.1191%	Verbally joined
11. Morris Mizel 1986 Partners	1.1191%	Verbally joined
12. A. J. Hammer Estate	0.1562%	Unable to locate
13. Walter Duncan, Inc.	5.6250%	Received signed AFE
14. The Wiser Oil Company	18.7500%	Received signed AFE
15. Earl A. Latimer	0.7500%	No response
16. Murphy Operating Corporation	41.2500%	Offered to Farmout. Terms unacceptable.
17. Tom L. Ingram and wife, Joan L. Ingram	13.5000%	No response
18. J. E. Cieszinski and wife, Drusilla C. Cieszinski	0.7500%	Received signed AFE



*Oil production unit*  
 E/2 NE/4  
 W/2 NE/4, Section 15:

MINERAL AND LEASE OWNERSHIP

N/2 Section 15, T-8-S, R-37-E  
 Roosevelt County, New Mexico

W/2 NE/4, Section 15:

1. Walter Duncan, Inc. ✓ 22.5% mineral interest has agreed to join
2. A. J. Hammer Estate (X) *to be pooled* 0.625% mineral interest unable to locate owner
3. Various other fee mineral owners 76.875% mineral interest under leases owned as follows:

OGS Exploration	44.3768%	✓
OGS Operating Company, Inc.	1.2422%	✓
Great Western Drilling	31.0559%	(X)
H. Moore	3.4938%	(X)
G. White and wife	3.4938%	(X)
A. B. Sam and wife	5.8230%	(X)
Morris Mizel 1986 Partners	5.8230%	(X)
Michael W. Gates	1.3789%	✓
OGM Partnership II	1.6563%	✓
O'Connor Oil & Gas, Ltd.	1.3802%	✓
Edmund O'Connor	0.2761%	✓

*to be pooled*

*W/2 NE/4*

E/2 NE/4 and NW/4, Section 15:

United States of America Oil and Gas Lease NM66486 held by the following:

1. Murphy Operating Corporation 55%
2. The Wiser Oil Company 25%
3. Tom L. Ingram (No. *Dehman*) 18%
4. Dr. Earl A. Latimer (No. *Dehman*) 1%
5. J. E. Cieszinski 1%

May 4, 1989

CERTIFIED RETURN RECEIPT REQUESTED

MURPHY OPERATING CORPORATION  
United Bank Plaza, Suite 300  
400 N. Pennsylvania Ave.  
Roswell, NM 88202

Attention: Jo McInerny

Re: Proposed San Andres Test  
N/2, Section 15,  
T-8-S, R-37-E,  
Roosevelt County, New Mexico  
(Bluitt NM015)

Gentlemen:

OGS Operating Company, Inc., (OGS), proposes to drill a San Andres Test well to an approximate depth of 4650 feet at a location in the E/2NE/4 of Section 15, T-8-S, R-37-E, Roosevelt County, New Mexico.

Two copies of an AFE for the proposed well are attached.

OGS also proposes the formation of a working interest unit composed of the N/2 of Section 15 to be operated under an Operating Agreement with provisions identical to the Operating Agreement dated August 1, 1988 covering the W/2 of Section 14, T-8-S, R-37-E between OGS, as Operator, and you and others, as Non-Operators.

Should you elect not to join in and pay your share of the cost to drill the proposed well, OGS requests a farmout of your interest in the N/2 of Section 15. Such farmout shall be granted on the same terms contained in the Farmout Agreement dated August 1, 1988 covering the W/2 of Section 14, T-8-S, R-37-E, in which you farmed out your interest to OGS.

OGS anticipates commencing this well on or before October 1, 1989.

Should you elect to join in the well and working interest unit, please sign and return one copy of the attached AFE.

Should you elect to farm out, please sign one copy of this letter and return it to the undersigned.

5-22-89; Jo McInerny - Murphy wants to watch well for 2 months before making a decision.

MURPHY OPERATING CORP.  
May 4, 1989  
Page 2

A copy of this letter is being sent regular mail to ensure delivery.

Yours truly,

OGS OPERATING COMPANY, INC.

Thomas O'Brien

Agree to farm out my interest in the N/2 of  
Section 15, T-8-S, R-37-E, Roosevelt County, New Mexico

MURPHY OPERATING CORP.

\_\_\_\_\_  
Date

<small>NOTE: Complete Items 1 and 2 when additional services are desired, and complete Items 3 through 8. Failure to do this will prevent this article from being returned to you. The return receipt fee will provide you the name of the person to whom delivered, date, and addressee's address. For additional fees and check box(es) for additional service(s) requested. Consult the back of this form for fees and check box(es) for additional service(s) requested.</small>	
1. Article Addressed to: Murphy Operating Corp. United Bank Plaza Suite 300 400 N. Pennsylvania Ave. Roswell, NM 88203	
2. <input type="checkbox"/> Restricted Delivery ↑(Extra charge)↑	
4. Article Number P 954 368 377	
Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail	
Always obtain signature of addressee or agent and DATE DELIVERED.	
5. Signature - Addressee X	8. Addressee's Address (ONLY if requested and fee paid)
6. Signature - Agent X <i>Thomas O'Brien</i>	
7. Date of Delivery MAY 5 1989	

PS Form 3811, Mar. 1987

U.S.G.P.O. 1987-178-268

DOMESTIC RETURN RECEIPT

TO'B/slm  
Enclosure

PS Form 3800, June 1985

5

# OGE DRILLING, INC.

DRILLING OR WORKOVER AFE

AFE NO. \_\_\_\_\_

- |                                     |                                      |                                    |
|-------------------------------------|--------------------------------------|------------------------------------|
| <input type="checkbox"/> WILDCAT    | <input type="checkbox"/> DEVELOPMENT | <input type="checkbox"/> WORKOVER  |
| <input type="checkbox"/> DRILLING   | <input type="checkbox"/> DRILLING    | <input type="checkbox"/> SAME ZONE |
| <input type="checkbox"/> COMPLETION | <input type="checkbox"/> COMPLETION  | <input type="checkbox"/> NEW ZONE  |
| <input type="checkbox"/> RE-ENTRY   | <input type="checkbox"/> RE-ENTRY    | <input type="checkbox"/> P & A     |

LSE. NO. \_\_\_\_\_

W.I. \_\_\_\_\_

EST. NET COST \_\_\_\_\_

AFE DATE 5-1-89

LEASE & WELL NO. BILBERRY #2	DEPTH & FORM 4,650' San Andres
LOCATION E/2NE/4, Section 15, T-8-S, R-37-E	
COUNTY & STATE Roosevelt County, New Mexico	FIELD
OPERATOR OGS Operating Company, Inc.	SPUD DATE

INTANGIBLE WELL COST				
	DESCRIPTION	DRILLING	COMPLETION	TOTAL
1	Access, Location & Roads	5,000	2,000	
2	Rig Move			
3	Footage Cost	41,900		
4	Day Work Cost      days at	7,200		
5	Bits & Reamers	--		
6	Fuel	--		
7	Water	4,000	1,500	
8	Mud & Chemicals	2,000	--	
9	Cementing & Service	2,500	6,000	
10	Coring	--	--	
11	Surveying & Testing	13,500	1,500	
12	Mud Logging	1,600	--	
13	Perforating	--	1,500	
14	Stimulation	--	4,000	
15	Transportation	--	--	
16	Drilling Overhead & Supervision	4,000	4,000	
17	Equipment Rental	--	2,000	
18	Completion Rig    6    days at 1000	--	6,000	
19	Other Drilling Expense	2,500	3,000	
20	Contingencies (10% of Intangibles)	8,900	3,200	
21	Insurance	4,700		
22				
23	<b>TOTAL INTANGIBLES</b>	<b>97,800</b>	<b>34,700</b>	<b>132,500</b>

TANGIBLE WELL COST				
	DESCRIPTION	DRILLING	COMPLETION	TOTAL
24	' Of      " Conductor Casing			
25	350 ' Of 8-5/8 " Surface Casing	3,500		
26	' Of      " Intermediate Casing			
27	' Of      " Intermediate Casing			
28	' Of      " Intermediate Casing			
29	4650 ' Of 5-1/2 " Production Casing		31,800	
30	' Of      " Tie-Back Casing			
31	4650 ' Of 2-3/8 " Tubing		9,800	
32	' Of      " Tubing			
33	' Of      " Tubing			
34	Liner Equipment			
35	Wellhead Equipment	600	800	
36	Producing Facilities, Tank Battery, Flowline		45,000	
37	Packers & Other Subsurface Tools			
38	Contingencies (10% of Tangibles)			
39				
40				
41	<b>TOTAL TANGIBLES</b>	<b>4,100</b>	<b>87,400</b>	<b>91,500</b>
42	<b>TOTAL WELL COST</b>	<b>101,900</b>	<b>122,100</b>	<b>224,000</b>

COMPANY APPROVAL

By	Date								

JOINT OPERATOR APPROVAL

Firm MURPHY OPERATING CORP. By \_\_\_\_\_ Title 6 Date \_\_\_\_\_

8-10-89: Ph. Jo McInerney

July 26, 1989

MURPHY OPERATING CORPORATION  
United Bank Plaza, Suite 300  
400 N. Pennsylvania Ave.  
Roswell, NM 88202

Attention: Jo McInerney

Re: Bluit Field Area  
OGS - Bilberry #1 Well  
Roosevelt County, New Mexico  
(Bluit NM015)

Dear Jo:

I am returning your lawyer's invoice which I do not believe OGS Operating Company, Inc. has any obligation to pay.

OGS did not ask you to retain the services of legal council to research this matter. OGS requested title documents from Murphy over a year ago and at that time you did not have in your possession the title opinion you just sent me. As a result of this we had to buy abstracts from inception of title, and have title examined, at considerable expense to OGS.

I understand you are returning our abstracts and as soon as I get them I will have our attorney look into the matter, and we will get this problem resolved.

Concerning my proposal to drill a stepout well to the Bilberry #1 in the N/2 of Section 15, made by my letter dated May 4, 1989, you had relayed your desire to watch the Bilberry #1 well for a couple of months prior to making a determination on this proposal. The Bilberry #1 has now been producing for 2.5 months and we are interested in drilling the proposed well in the N/2 of Section 15 by October 1, 1989.

I would appreciate your consideration of my proposal as made in my letter dated May 4, 1989 and responding at your earliest convenience.

8-10-89 Phone Jo McInerney - Murphy

Gave her recent production on #1

Mike G. will provide footage location.

Yours truly,

OGS OPERATING COMPANY, INC.

Thom O'Brien

TO'B/slm

7

August 14, 1989

MURPHY OPERATING CORPORATION  
United Bank Plaza, Suite 300  
400 N. Pennsylvania Ave.  
Roswell, NM 88202

Attention: Jo McInerney

Re: Bilberry #2  
Bluitt Field Area  
Roosevelt County, New Mexico  
(Bluitt NM015)

Dear Ms. McInerney:

In order to facilitate your decision concerning the subject well, I called OXY NGL, Inc. this morning to verify current production from the Bilberry #1 well. According to them, this well is now producing 340 MCF.day.

Our proposed location for the Bilberry #2 is 990' FNL and 990' FEL, Section 15, Township-8-South, Range-37-East, Roosevelt County, New Mexico.

If I can provide you with further information concerning our proposal, please advise.

9-5-89: Mark Murphy asked about  
production reports C-115  
asked about location of Bilberry #2  
OBS has previously supplied Murphy  
with all of this.

Sincerely,

O'BRIEN GOINS SIMPSON EXPLORATION

Michael W. Gates

May 4, 1989

CERTIFIED RETURN RECEIPT REQUESTED

Mr. and Mrs. Tom Ingram  
Box 1757  
Roswell, NM 88202

Re: Proposed San Andres Test  
N/2, Section 15,  
T-8-S, R-37-E,  
Roosevelt County, New Mexico  
(Bluitt NM015)

Gentlemen:

OGS Operating Company, Inc., (OGS), proposes to drill a San Andres Test well to an approximate depth of 4650 feet at a location in the E/2NE/4 of Section 15, T-8-S, R-37-E, Roosevelt County, New Mexico.

Two copies of an AFE for the proposed well are attached.

OGS also proposes the formation of a working interest unit composed of the N/2 of Section 15 to be operated under an Operating Agreement with provisions identical to the Operating Agreement dated August 1, 1988 covering the W/2 of Section 14, T-8-S, R-37-E between OGS, as Operator, and you and others, as Non-Operators.

Should you elect not to join in and pay your share of the cost to drill the proposed well, OGS requests a farmout of your interest in the N/2 of Section 15. Such farmout shall be granted on the same terms contained in the Farmout Agreement dated August 1, 1988 covering the W/2 of Section 14, T-78-S, R-37-E, in which you farmed out your interest to OGS.

OGS anticipates commencing this well on or before October 1, 1989.

Should you elect to join in the well and working interest unit, please sign and return one copy of the attached AFE.

Should you elect to farm out, please sign one copy of this letter and return it to the undersigned.

MR. AND MRS. TOM L. INGRAM  
May 4, 1989  
Page 2

A copy of this letter is being sent regular mail to ensure delivery.

Yours truly,

OGS OPERATING COMPANY, INC.

Tom O'Brien

Agree to farm out my interest in the N/2 of  
Section 15, T-8-S, R-37-E, Roosevelt County, New Mexico

Tom L. Ingram

Date

Joan L. Ingram

Date

SENDER: Complete Items 1 and 2 when additional services are desired, and complete Items 3 and 4. Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1.  Show to whom delivered, date, and addressee's address.      2.  Restricted Delivery  
↑(Extra charge)↑      ↑(Extra charge)↑

3. Article Addressed to: Tom L. Ingram P.O. Drawer 1757 Roswell, NM 88201	4. Article Number P 954 368 380
5. Signature - Addressee X	Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail
6. Signature - Agent X <i>Ellie Steas</i>	Always obtain signature of addressee or agent and DATE DELIVERED.
7. Date of Delivery 5-8-89	8. Addressee's Address (ONLY if requested and fee paid)

PS Form 3811, Mar. 1987

\* U.S.G.P.O. 1987-178-268

DOMESTIC RETURN RECEIPT

TO'B/slm  
Enclosure

# OGE DRILLING, INC.

DRILLING OR WORKOVER AFE

AFE NO. \_\_\_\_\_

- |                                     |                                      |                                    |
|-------------------------------------|--------------------------------------|------------------------------------|
| <input type="checkbox"/> WILDCAT    | <input type="checkbox"/> DEVELOPMENT | <input type="checkbox"/> WORKOVER  |
| <input type="checkbox"/> DRILLING   | <input type="checkbox"/> DRILLING    | <input type="checkbox"/> SAME ZONE |
| <input type="checkbox"/> COMPLETION | <input type="checkbox"/> COMPLETION  | <input type="checkbox"/> NEW ZONE  |
| <input type="checkbox"/> RE-ENTRY   | <input type="checkbox"/> RE-ENTRY    | <input type="checkbox"/> P & A     |

LSE. NO. \_\_\_\_\_

W. I. \_\_\_\_\_

EST. NET COST \_\_\_\_\_

AFE DATE 5-1-89

LEASE & WELL NO. BILBERRY #2	DEPTH & FORM 4,650' San Andres
LOCATION E/2NE/4, Section 15, T-8-S, R-37-E	
COUNTY & STATE Roosevelt County, New Mexico	FIELD
OPERATOR OGS Operating Company, Inc.	SPUD DATE

INTANGIBLE WELL COST				
	DESCRIPTION	DRILLING	COMPLETION	TOTAL
1	Access, Location & Roads	5,000	2,000	
2	Rig Move			
3	Footage Cost	41,900		
4	Day Work Cost            days at	7,200		
5	Bits & Reamers	--		
6	Fuel	--		
7	Water	4,000	1,500	
8	Mud & Chemicals	2,000	--	
9	Cementing & Service	2,500	6,000	
10	Coring	--	--	
11	Surveying & Testing	13,500	1,500	
12	Mud Logging	1,600	--	
13	Perforating	--	1,500	
14	Stimulation	--	4,000	
15	Transportation	--	--	
16	Drilling Overhead & Supervision	4,000	4,000	
17	Equipment Rental	--	2,000	
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19	Other Drilling Expense	2,500	3,000	
20	Contingencies (10% of Intangibles)	8,900	3,200	
21	Insurance	4,700	-----	
22				
23	TOTAL INTANGIBLES	97,800	34,700	132,500

TANGIBLE WELL COST				
24	' Of            " Conductor Casing			
25	350 ' Of 8-5/8 " Surface Casing	3,500		
26	' Of            " Intermediate Casing			
27	' Of            " Intermediate Casing			
28	' Of            " Intermediate Casing			
29	4650 ' Of 5-1/2 " Production Casing		31,800	
30	' Of            " Tie-Back Casing			
31	4650 ' Of 2-3/8 " Tubing		9,800	
32	' Of            " Tubing			
33	' Of            " Tubing			
34	Liner Equipment			
35	Wellhead Equipment	600	800	
36	Producing Facilities, Tank Battery, Flowline		45,000	
37	Packers & Other Subsurface Tools			
38	Contingencies (10% of Tangibles)			
39				
40				
41	TOTAL TANGIBLES	4,100	87,400	91,500
42	TOTAL WELL COST	101,900	122,100	224,000

COMPANY APPROVAL

By	Date								

JOINT OPERATOR APPROVAL

Firm TOM INGRAM By \_\_\_\_\_ Title \_\_\_\_\_ Date 11

July 26, 1989

Mr. and Mrs. Tom Ingram  
Box 1757  
Roswell, NM 88202

505-622-3630

Re: Proposed San Andres Test  
N/2, Section 15,  
T-8-S, R-37-E,  
Roosevelt County, New Mexico  
(Bluitt NM015)

Gentlemen:

By letter dated May 4, 1989, OGS Operating Company, Inc. sent you a proposal to drill the referenced test well.

The proposed well is a step out to the OGS Bilberry #1 well which has been on production for about 2.5 months.

OGS is interested in drilling the proposed well and we anticipate commencing operations by October 1, 1989.

Please consider this proposal and let me know your decision at your earliest convenience.

Should you need information on the well, please contact Mike Gates in our office.

8-14-89 Tom Ingram wants to wait  
½ see what Murphy does.

Yours truly,  
OGS OPERATING COMPANY, INC.

Thom O'Brien

May 4, 1989

CERTIFIED RETURN RECEIPT REQUESTED

Dr. Earl A. Latimer, Jr.  
1802 W. 4th Street  
Roswell, NM 88202

Re: Proposed San Andres Test  
N/2, Section 15,  
T-8-S, R-37-E,  
Roosevelt County, New Mexico  
(Bluitt NM015)

Gentlemen:

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# OCE DRILLING, INC

DRILLING OR WORKOVER AFE

AFE NO. \_\_\_\_\_

- |                                     |                                      |                                    |
|-------------------------------------|--------------------------------------|------------------------------------|
| <input type="checkbox"/> WILDCAT    | <input type="checkbox"/> DEVELOPMENT | <input type="checkbox"/> WORKOVER  |
| <input type="checkbox"/> DRILLING   | <input type="checkbox"/> DRILLING    | <input type="checkbox"/> SAME ZONE |
| <input type="checkbox"/> COMPLETION | <input type="checkbox"/> COMPLETION  | <input type="checkbox"/> NEW ZONE  |
| <input type="checkbox"/> RE-ENTRY   | <input type="checkbox"/> RE-ENTRY    | <input type="checkbox"/> P & A     |

LSE. NO. \_\_\_\_\_

W. I. \_\_\_\_\_

EST. NET COST \_\_\_\_\_

AFE DATE 5-1-89

LEASE & WELL NO. BILBERRY #2	DEPTH & FORM 4,650' San Andres
LOCATION E/2NE/4, Section 15, T-8-S, R-37-E	
COUNTY & STATE Roosevelt County, New Mexico	FIELD
OPERATOR OGS Operating Company, Inc.	SPUD DATE

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	DESCRIPTION	DRILLING	COMPLETION	TOTAL
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2	Rig Move			
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4	Day Work Cost            days at	7,200		
5	Bits & Reamers	--		
6	Fuel	--		
7	Water	4,000	1,500	
8	Mud & Chemicals	2,000	--	
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15	Transportation	--	--	
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23	<b>TOTAL INTANGIBLES</b>	<b>97,800</b>	<b>34,700</b>	<b>132,500</b>

**TANGIBLE WELL COST**

24	' Of            " Conductor Casing			
25	350' Of 8-5/8 " Surface Casing	3,500		
26	' Of            " Intermediate Casing			
27	' Of            " Intermediate Casing			
28	' Of            " Intermediate Casing			
29	4650' Of 5-1/2 " Production Casing		31,800	
30	' Of            " Tie-Back Casing			
31	4650' Of 2-3/8 " Tubing		9,800	
32	' Of            " Tubing			
33	' Of            " Tubing			
34	Liner Equipment			
35	Wellhead Equipment	600	800	
36	Producing Facilities, Tank Battery, Flowline		45,000	
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40				
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**COMPANY APPROVAL**

By	Date								

**JOINT OPERATOR APPROVAL**

Firm EARL A. LATIMER                      By \_\_\_\_\_ Title \_\_\_\_\_ Date 15

September 13, 1989

Dr. Earl A. Latimer, Jr.  
1511 S. Grand  
Roswell, NM 88201

Re: Proposed San Andres Test  
N/2, Section 15,  
T-8-S, R-37-E,  
Roosevelt County, New Mexico  
(Bluitt NM015)

Dear Dr. Latimer:

By letter dated May 4, 1989, OGS Operating Company, Inc. sent you a proposal to drill the referenced test well.

The proposed well is a step out to the OGS Bilberry #1 well which has been on production for about 3.5 months.

OGS is interested in drilling the proposed well and we anticipate commencing operations by October 1, 1989.

Please consider this proposal and let me know your decision at your earliest convenience.

Should you need information on the well, please contact Mike Gates in our office.

Yours truly,

OGS OPERATING COMPANY, INC.

Tom O'Brien

TO'B/slm

May 4, 1989

CERTIFIED RETURN RECEIPT REQUESTED

WALTER DUNCAN, INC.  
100 Park Avenue Bldg., Suite 1200  
Oklahoma City, OK 73102

Attention: Jack Sweeney

Re: Proposed San Andres Test  
N/2, Section 15,  
T-8-S, R-37-E,  
Roosevelt County, New Mexico  
(Bluitt NM015)

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OGS Operating Company, Inc., (OGS), proposes to drill a San Andres test well to an approximate depth of 4650 feet at a location in the E/2NE/4 of Section 15, T-8-S, R-37-E, Roosevelt County, New Mexico.

Two copies of an AFE for the proposed well are attached.

OGS also proposes the formation of a working interest unit composed of the N/2 of Section 15 to be operated under an Operating Agreement with provisions identical to the Operating Agreement dated August 1, 1988 covering the W/2 of Section 14, T-8-S, R-37-E.

Should you prefer not to join in the working interest unit and pay your share of the cost of the well, OGS requests that you grant it an oil and gas lease on your interest in the E/2NE/4 of Section 15. Such lease shall contain the same terms as the lease from you, as lessor, to OGS dated May 1, 1988.

OGS anticipates commencing this well on or before October 1, 1989.

Should you elect to join in the working interest unit and well, please sign one copy of the AFE and return it to me.

Should you elect to lease, please sign and return to me one copy of this letter.

WALTER DUNCAN, INC.

May 4, 1989

Page 2

A copy of this letter is being sent regular mail to ensure delivery.

Yours truly,

OGS OPERATING COMPANY, INC.

Thom O'Brien

Agree to lease our interest in the N/2 Section 15, T-8-S, R-37-E, Roosevelt County, New Mexico

WALTER DUNCAN, INC.

Date

SENDER: Complete Items 1 and 2 when additional services are desired, and complete Items 3 and 4.

Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1.  Show to whom delivered, date, and addressee's address. 2.  Restricted Delivery  
(Extra charge) † (Extra charge) †

3. Article Address Walter Duncan Inc. Bldg. Walter Duncan Inc City, OK 73102		4. Article Number P 954 368 382	
		Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail	
5. Signature - Addressee X		Always obtain signature of addressee or agent and DATE DELIVERED.	
6. Signature - Agent X <i>Nancy A. Okeerman</i>		8. Addressee's Address (ONLY if requested and fee paid)	
7. Date of Delivery 5/8/89			

PS Form 3811, Mar. 1987

\* U.S.G.P.O. 1987-178-268

DOMESTIC RETURN RECEIPT

TO'B/slm  
Enclosure

# OGE DRILLING, INC.

DRILLING OR WORKOVER AFE

AFE NO. \_\_\_\_\_

- |                                     |                                      |                                    |
|-------------------------------------|--------------------------------------|------------------------------------|
| <input type="checkbox"/> WILDCAT    | <input type="checkbox"/> DEVELOPMENT | <input type="checkbox"/> WORKOVER  |
| <input type="checkbox"/> DRILLING   | <input type="checkbox"/> DRILLING    | <input type="checkbox"/> SAME ZONE |
| <input type="checkbox"/> COMPLETION | <input type="checkbox"/> COMPLETION  | <input type="checkbox"/> NEW ZONE  |
| <input type="checkbox"/> RE-ENTRY   | <input type="checkbox"/> RE-ENTRY    | <input type="checkbox"/> P & A     |

LSE. NO. \_\_\_\_\_

W.I. \_\_\_\_\_

EST. NET COST \_\_\_\_\_

AFE DATE 5-1-89

LEASE # WELL NO. BILBERRY #2	DEPTH & FORM 4,650' San Andres
LOCATION E/2NE/4, Section 15, T-8-S, R-37-E	
COUNTY & STATE Roosevelt County, New Mexico	FIELD
OPERATOR OGS Operating Company, Inc.	SPUD DATE

INTANGIBLE WELL COST				
	DESCRIPTION	DRILLING	COMPLETION	TOTAL
1	Access, Location & Roads	5,000	2,000	
2	Rig Move			
3	Footage Cost	41,900		
4	Day Work Cost      days at	7,200		
5	Bits & Reamers	--		
6	Fuel	--		
7	Water	4,000	1,500	
8	Mud & Chemicals	2,000	--	
9	Cementing & Service	2,500	6,000	
10	Coring	--	--	
11	Surveying & Testing	13,500	1,500	
12	Mud Logging	1,600	--	
13	Perforating	--	1,500	
14	Stimulation	--	4,000	
15	Transportation	--	--	
16	Drilling Overhead & Supervision	4,000	4,000	
17	Equipment Rental	--	2,000	
18	Completion Rig    6    days at 1000	--	6,000	
19	Other Drilling Expense	2,500	3,000	
20	Contingencies (10% of Intangibles)	8,900	3,200	
21	Insurance	-4,700		
22				
23	TOTAL INTANGIBLES	97,800	34,700	132,500

TANGIBLE WELL COST				
24	Of      " Conductor Casing			
25	350' Of 8-5/8 " Surface Casing	3,500		
26	Of      " Intermediate Casing			
27	Of      " Intermediate Casing			
28	Of      " Intermediate Casing			
29	4650' Of 5-1/2 " Production Casing		31,800	
30	Of      " Tie-Back Casing			
31	4650' Of 2-3/8 " Tubing		9,800	
32	Of      " Tubing			
33	Of      " Tubing			
34	Liner Equipment			
35	Wellhead Equipment	600	800	
36	Producing Facilities, Tank Battery, Flowline		45,000	
37	Packers & Other Subsurface Tools			
38	Contingencies (10% of Tangibles)			
39				
40				
41	TOTAL TANGIBLES	4,100	87,400	91,500
42	TOTAL WELL COST	101,900	122,100	224,000

COMPANY APPROVAL

By	Date								

Firm WALTER DUNCAN, INC.      By *[Signature]*      Title Prod Mgr.      Date 8-11-89

8-14-89

Jack Sweeney

Sent letter 8-11-89 will join.

July 26, 1989

WALTER DUNCAN, INC.  
100 Park Avenue Bldg., Suite 1200  
Oklahoma City, OK 73102

Attention: Jack Sweeney

405-272-1826

Re: Proposed San Andres Test  
N/2, Section 15,  
T-8-S, R-37-E,  
Roosevelt County, New Mexico  
(Bluitt NM015)

Gentlemen:

By letter dated May 4, 1989, OGS Operating Company, Inc. sent you a proposal to drill the referenced test well.

The proposed well is a step out to the OGS Bilberry #1 well which has been on production for about 2.5 months.

OGS is interested in drilling the proposed well and we anticipate commencing operations by October 1, 1989.

Please consider this proposal and let me know your decision at your earliest convenience.

Should you need information on the well, please contact Mike Gates in our office.

Yours truly,

OGS OPERATING COMPANY, INC.

8-14-89 - will join

Thom O'Brien

TO'B/slm

WALTER DUNCAN  
100 PARK AVENUE BUILDING  
OKLAHOMA CITY, OKLAHOMA 73102  
405/272-1800

August 11, 1989

Mr. Thom O'Brien  
OGS Operating Company, Inc.  
550 W. Texas, Suite 1140  
Midland, TX 79701

Re: Bilberry #2  
E/2 NE/4, 15-8S-37E  
Roosevelt County, NM  
NMM-1

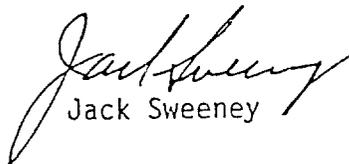
Dear Mr. O'Brien:

In regard to the captioned refer to your letter of July 26, 1989. Walter Duncan, Inc. will participate for their 18/320ths = 5.625% interest in your captioned well, subject to the terms of your JOA and approval of title.

My records reflect that Walter Duncan, Inc. owns 180 mineral acres under the E/2 NE - 15, and you will be forming a 320 acre unit comprised of the N/2 - 15.

Enclosed is your executed AFE.

Sincerely,

  
Jack Sweeney

JS:DB  
Enc.

CC: J. F. Carter, Jr.

DRILLING OR WORKOVER AFE

AFE NO. \_\_\_\_\_

- WILDCAT       DEVELOPMENT       WORKOVER  
 DRILLING       DRILLING       SAME ZONE  
 COMPLETION       COMPLETION       NEW ZONE  
 RE-ENTRY       RE-ENTRY       P & A

LSE. NO. \_\_\_\_\_

W.I. \_\_\_\_\_

EST. NET COST \_\_\_\_\_

AFE DATE 5-1-89

LEASE # WELL NO. BILBERRY #2	DEPTH & FORM 4,650' San Andres
LOCATION E/2NE/4, Section 15, T-8-S, R-37-E	
COUNTY & STATE Roosevelt County, New Mexico	FIELD
OPERATOR OGS Operating Company, Inc.	SPUD DATE

INTANGIBLE WELL COST				
	DESCRIPTION	DRILLING	COMPLETION	TOTAL
1	Access, Location & Roads	5,000	2,000	
2	Rig Move			
3	Footage Cost	41,900		
4	Day Work Cost      days at	7,200		
5	Bits & Reamers	---		
6	Fuel	---		
7	Water	4,000	1,500	
8	Mud & Chemicals	2,000	---	
9	Cementing & Service	2,500	6,000	
10	Coring	---	---	
11	Surveying & Testing	13,500	1,500	
12	Mud Logging	1,600	---	
13	Perforating	---	1,500	
14	Stimulation	---	4,000	
15	Transportation	---	---	
16	Drilling Overhead & Supervision	4,000	4,000	
17	Equipment Rental	---	2,000	
18	Completion Rig 6 days at 1000	---	6,000	
19	Other Drilling Expense	2,500	3,000	
20	Contingencies (10% of Intangibles)	8,900	3,200	
21	Insurance	-4,700		
22				
23	<b>TOTAL INTANGIBLES</b>	<b>97,800</b>	<b>34,700</b>	<b>132,500</b>

TANGIBLE WELL COST				
24	Of " Conductor Casing			
25	350' Of 8-5/8 " Surface Casing	3,500		
26	Of " Intermediate Casing			
27	Of " Intermediate Casing			
28	Of " Intermediate Casing			
29	4650' Of 5-1/2 " Production Casing		31,800	
30	Of " Tie-Back Casing			
31	4650' Of 2-3/8 " Tubing		9,800	
32	Of " Tubing			
33	Of " Tubing			
34	Liner Equipment			
35	Wellhead Equipment	600	800	
36	Producing Facilities, Tank Battery, Flowline		45,000	
37	Packers & Other Subsurface Tools			
38	Contingencies (10% of Tangibles)			
39				
40				
41	<b>TOTAL TANGIBLES</b>	<b>4,100</b>	<b>87,400</b>	<b>91,500</b>
42	<b>TOTAL WELL COST</b>	<b>101,900</b>	<b>122,100</b>	<b>224,000</b>

COMPANY APPROVAL

By	Date								

Firm WALTER DUNCAN, INC. By [Signature] Title Prod Mgr. Date 8-11-89  
 JOINT OPERATOR APPROVAL  
 AFE No. \_\_\_\_\_

May 4, 1989

CERTIFIED RETURN RECEIPT REQUESTED

THE WISER OIL COMPANY  
Box 192  
Sisterville, W. Va. 26175

Attention: Mr. Charles Larue

Re: Proposed San Andres Test  
N/2, Section 15,  
T-8-S, R-37-E,  
Roosevelt County, New Mexico  
(Bluitt NM015)

Gentlemen:

OGS Operating Company, Inc., (OGS), proposes to drill a San Andres Test well to an approximate depth of 4650 feet at a location in the E/2NE/4 of Section 15, T-8-S, R-37-E, Roosevelt County, New Mexico.

Two copies of an AFE for the proposed well are attached.

OGS also proposes the formation of a working interest unit composed of the N/2 of Section 15 to be operated under an Operating Agreement with provisions identical to the Operating Agreement dated August 1, 1988 covering the W/2 of Section 14, T-8-S, R-37-E between OGS, as Operator, and you and others, as Non-Operators.

Should you elect not to join in and pay your share of the cost to drill the proposed well, OGS requests a farmout of your interest in the N/2 of Section 15. Such farmout shall be granted on the same terms contained in the Farmout Agreement dated August 1, 1988 covering the W/2 of Section 14, T-78-S, R-37-E, in which you farmed out your interest to OGS.

OGS anticipates commencing this well on or before October 1, 1989.

Should you elect to join in the well and working interest unit, please sign and return one copy of the attached AFE.

Should you elect to farm out, please sign one copy of this letter and return it to the undersigned.

THE WISER OIL COMPANY

May 4, 1989

Page 2

A copy of this letter is being sent regular mail to ensure delivery.

Yours truly,

OCS OPERATING COMPANY, INC.

Thom O'Brien

Agree to farm out my interest in the N/2 of  
Section 15, T-8-S, R-37-E, Roosevelt County, New Mexico

THE WISER OIL COMPANY

Date \_\_\_\_\_

TO'B/slm  
Enclosure

24

**SENDER:** Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.  
 Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1.  Show to whom delivered, date, and addressee's address. **↑(Extra charge)↑**  
 2.  Restricted Delivery **↑(Extra charge)↑**

3. Article Addressed to: The Wiser Oil Company Box 192 Sisterville, W. VA. 26175	4. Article Number P 954 368 381
	Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail
5. Signature — Addressee X	Always obtain signature of addressee or agent and <b>DATE DELIVERED.</b>
6. Signature — Agent X <i>[Signature]</i>	8. Addressee's Address (ONLY if requested and fee paid)
7. Date of Delivery 4/8/89	

PS Form 3811, Mar. 1987      \* U.S.G.P.O. 1987-178-268      DOMESTIC RETURN RECEIPT

P 954 368 381

**RECEIPT FOR CERTIFIED MAIL**  
 NO INSURANCE COVERAGE PROVIDED  
 NOT FOR INTERNATIONAL MAIL  
 (See Reverse)

Sender	WISER OIL CO.
Street and No.	BOX 192
P.O. State and ZIP Code	SISTERVILLE, W. VA. 26175
Postage	\$ 45
Certified Fee	85
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt showing to whom and Date Delivered	90
Return Receipt showing to whom, Date, and Address of Driver	
TOTAL Postage and Fees	\$ 2.20
Postmark of Post Office	BILBERLY VA 54-89

PS Form 3800, June 1985

# OGE DRILLING, INC.

DRILLING OR WORKOVER AFE

AFE NO. \_\_\_\_\_

WILDCAT

DEVELOPMENT

WORKOVER

LSE. NO. \_\_\_\_\_

DRILLING

DRILLING

SAME ZONE

W.I. \_\_\_\_\_

COMPLETION

COMPLETION

NEW ZONE

EST. NET COST \_\_\_\_\_

RE-ENTRY

RE-ENTRY

P & A

AFE DATE 5-1-89

LEASE & WELL NO. BILBERRY #2	DEPTH & FORM 4,650' San Andres
LOCATION E/2NE/4, Section 15, T-8-S, R-37-E	
COUNTY & STATE Roosevelt County, New Mexico	FIELD
OPERATOR OGS Operating Company, Inc.	SPUD DATE

INTANGIBLE WELL COST				
	DESCRIPTION	DRILLING	COMPLETION	TOTAL
1	Access, Location & Roads	5,000	2,000	
2	Rig Move			
3	Footage Cost	41,900		
4	Day Work Cost      days at	7,200		
5	Bits & Reamers	--		
6	Fuel	--		
7	Water	4,000	1,500	
8	Mud & Chemicals	2,000	--	
9	Cementing & Service	2,500	6,000	
10	Coring	--	--	
11	Surveying & Testing	13,500	1,500	
12	Mud Logging	1,600	--	
13	Perforating	--	1,500	
14	Stimulation	--	4,000	
15	Transportation	--	--	
16	Drilling Overhead & Supervision	4,000	4,000	
17	Equipment Rental	--	2,000	
18	Completion Rig    6    days at 1000	--	6,000	
19	Other Drilling Expense	2,500	3,000	
20	Contingencies (10% of Intangibles)	8,900	3,200	
21	Insurance	4,700		
22				
23	<b>TOTAL INTANGIBLES</b>	<b>97,800</b>	<b>34,700</b>	<b>132,500</b>

TANGIBLE WELL COST				
24	Of      " Conductor Casing			
25	350' Of 8-5/8 " Surface Casing	3,500		
26	Of      " Intermediate Casing			
27	Of      " Intermediate Casing			
28	Of      " Intermediate Casing			
29	4650' Of 5-1/2 " Production Casing		31,800	
30	Of      " Tie-Back Casing			
31	4650' Of 2-3/8 " Tubing		9,800	
32	Of      " Tubing			
33	Of      " Tubing			
34	Liner Equipment			
35	Wellhead Equipment	600	800	
36	Producing Facilities, Tank Battery, Flowline		45,000	
37	Packers & Other Subsurface Tools			
38	Contingencies (10% of Tangibles)			
39				
40				
41	<b>TOTAL TANGIBLES</b>	<b>4,100</b>	<b>87,400</b>	<b>91,500</b>
42	<b>TOTAL WELL COST</b>	<b>101,900</b>	<b>122,100</b>	<b>224,000</b>

COMPANY APPROVAL

By	Date								

JOINT OPERATOR APPROVAL

Firm THE WISER OIL COMPANY By

*C. L. Lakin*

Title VP

26  
Date 8-9-89

July 26, 1989

THE WISER OIL COMPANY  
Box 192  
Sisterville, WV 26175

Attention: Mr. Charles Larue

304-652-3861

Re: Proposed San Andres Test  
N/2, Section 15,  
T-8-S, R-37-E,  
Roosevelt County, New Mexico  
(Bluitt NM015)

Gentlemen:

By letter dated May 4, 1989, OGS Operating Company, Inc. sent you a proposal to drill the referenced test well.

The proposed well is a step out to the OGS Bilberry #1 well which has been on production for about 2.5 months.

OGS is interested in drilling the proposed well and we anticipate commencing operations by October 1, 1989.

Please consider this proposal and let me know your decision at your earliest convenience.

Should you need information on the well, please contact Mike Gates in our office.

Yours truly,

OGS OPERATING COMPANY, INC.

Will join

Thom O'Brien

TO'B/slm



THE WISER OIL COMPANY

P.O. BOX 192 SISTERSVILLE, W. VA. 26175-0192  
304-652-3861  
fax 304-652-1314

John C. Wright, President & CEO  
Charles P. LaRue, Vice President—Production  
Richard L. Starkey, Secretary  
Ronald D. Lee, Treasurer

September 8, 1989

Mr. Thom O'Brien  
OGS OPERATING COMPANY, INC.  
550 W. Texas, Suite 1140  
Midland, TX 79701

Re: Proposed San Andres Test  
Bilberry #2  
Section 15, T8S, R37E  
Roosevelt County, New Mexico

Dear Mr. O'Brien:

Please find enclosed a signed AFE which will stand to commit The Wiser Oil Company to participation in the subject well. Please prepare the appropriate operating agreement and submit it to us.

Very truly yours,

Charles P. LaRue

CPL/b  
Enclosure

DRILLING OR WORKOVER AFE

AFE NO. \_\_\_\_\_

- WILDCAT                       DEVELOPMENT                       WORKOVER  
 DRILLING                       DRILLING                       SAME ZONE  
 COMPLETION                       COMPLETION                       NEW ZONE  
 RE-ENTRY                       RE-ENTRY                       P & A

LSE. NO. \_\_\_\_\_

W.I. \_\_\_\_\_

EST. NET COST \_\_\_\_\_

AFE DATE 5-1-89

LEASE # WELL NO. BILBERRY #2	DEPTH & FORM 4,650' San Andres
LOCATION E/2NE/4, Section 15, T-8-S, R-37-E	
COUNTY & STATE Roosevelt County, New Mexico	FIELD
OPERATOR OGS Operating Company, Inc.	SPUD DATE

INTANGIBLE WELL COST				
	DESCRIPTION	DRILLING	COMPLETION	TOTAL
1	Access, Location & Roads	5,000	2,000	
2	Rig Move			
3	Footage Cost	41,900		
4	Day Work Cost                      days at	7,200		
5	Bits & Reamers	--		
6	Fuel	--		
7	Water	4,000	1,500	
8	Mud & Chemicals	2,000	--	
9	Cementing & Service	2,500	6,000	
10	Coring	--	--	
11	Surveying & Testing	13,500	1,500	
12	Mud Logging	1,600	--	
13	Perforating	--	1,500	
14	Stimulation	--	4,000	
15	Transportation	--	--	
16	Drilling Overhead & Supervision	4,000	4,000	
17	Equipment Rental	--	2,000	
18	Completion Rig    6    days at    1000	--	6,000	
19	Other Drilling Expense	2,500	3,000	
20	Contingencies (10% of Intangibles)	8,900	3,200	
21	Insurance	4,700		
22				
23	<b>TOTAL INTANGIBLES</b>	<b>97,800</b>	<b>34,700</b>	<b>132,500</b>

TANGIBLE WELL COST				
	DESCRIPTION	DRILLING	COMPLETION	TOTAL
24	Of " Conductor Casing			
25	350' Of 8-5/8" Surface Casing	3,500		
26	Of " Intermediate Casing			
27	Of " Intermediate Casing			
28	Of " Intermediate Casing			
29	4650' Of 5-1/2" Production Casing		31,800	
30	Of " Tie-Back Casing			
31	4650' Of 2-3/8" Tubing		9,800	
32	Of " Tubing			
33	Of " Tubing			
34	Liner Equipment			
35	Wellhead Equipment	600	800	
36	Producing Facilities, Tank Battery, Flowline		45,000	
37	Packers & Other Subsurface Tools			
38	Contingencies (10% of Tangibles)			
39				
40				
41	<b>TOTAL TANGIBLES</b>	<b>4,100</b>	<b>87,400</b>	<b>91,500</b>
42	<b>TOTAL WELL COST</b>	<b>101,900</b>	<b>122,100</b>	<b>224,000</b>

COMPANY APPROVAL

By	Date								

Firm THE WISER OIL COMPANY By *C. L. Lakin* Title *VP* Date *8-9-89* 29

May 4, 1989

CERTIFIED RETURN RECEIPT REQUESTED

MR. AND MRS. J.E. CIESZINKSI  
Box 3047  
Roswell, NM 88201

Re: Proposed San Andres Test  
N/2, Section 15,  
T-8-S, R-37-E,  
Roosevelt County, New Mexico  
(Bluitt NM015)

Gentlemen:

OGS Operating Company, Inc., (OGS), proposes to drill a San Andres Test well to an approximate depth of 4650 feet at a location in the E/2NE/4 of Section 15, T-8-S, R-37-E, Roosevelt County, New Mexico.

Two copies of an AFE for the proposed well are attached.

OGS also proposes the formation of a working interest unit composed of the N/2 of Section 15 to be operated under an Operating Agreement with provisions identical to the Operating Agreement dated August 1, 1988 covering the W/2 of Section 14, T-8-S, R-37-E between OGS, as Operator, and you and others, as Non-Operators.

Should you elect not to join in and pay your share of the cost to drill the proposed well, OGS requests a farmout of your interest in the N/2 of Section 15. Such farmout shall be granted on the same terms contained in the Farmout Agreement dated August 1, 1988 covering the W/2 of Section 14, T-8-S, R-37-E, in which you farmed out your interest to OGS.

OGS anticipates commencing this well on or before October 1, 1989.

Should you elect to join in the well and working interest unit, please sign and return one copy of the attached AFE.

Should you elect to farm out, please sign one copy of this letter and return it to the undersigned.

MR. AND MRS. J.E. CIESZINSKI

May 4, 1989

Page 2

A copy of this letter is being sent regular mail to ensure delivery.

Yours truly,

OGS OPERATING COMPANY, INC.

Thom O'Brien

Agree to farm out my interest in the N/2 of Section 15, T-8-S, R-37-E, Roosevelt County, New Mexico

J.E. Cieszinski Date

Drusilla Cieszinski Date

**SENDER:** Complete items 1 and 2 when additional services are desired, and complete items 3 and 4. Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1.  Show to whom delivered, date, and addressee's address.  Restricted Delivery  
 †(Extra charge)† †(Extra charge)†

2. Article Addressed to:  
 J.E. Cieszinski  
 Box 3047  
 Roswell, NM 88201

3. Article Number  
 P 954 368 379

4. Type of Service:  
 Registered  Insured  
 Certified  COD  
 Express Mail

5. Always obtain signature of addressee or agent and DATE DELIVERED.

6. Signature - Addressee  
 X

7. Signature - Agent  
 X *Thom O'Brien*

8. Date of Delivery  
 MAY 8 1989  
 88201

S Form 3811, Mar. 1987 \* U.S.G.P.O. 1987-178-268 DOMESTIC RETURN RE

TO'B/slm  
Enclosure

# OGE DRILLING, INC.

DRILLING OR WORKOVER AFE

AFE NO. \_\_\_\_\_

- |                                     |                                      |                                    |
|-------------------------------------|--------------------------------------|------------------------------------|
| <input type="checkbox"/> WILDCAT    | <input type="checkbox"/> DEVELOPMENT | <input type="checkbox"/> WORKOVER  |
| <input type="checkbox"/> DRILLING   | <input type="checkbox"/> DRILLING    | <input type="checkbox"/> SAME ZONE |
| <input type="checkbox"/> COMPLETION | <input type="checkbox"/> COMPLETION  | <input type="checkbox"/> NEW ZONE  |
| <input type="checkbox"/> RE-ENTRY   | <input type="checkbox"/> RE-ENTRY    | <input type="checkbox"/> P & A     |

LSE. NO. \_\_\_\_\_

W.I. \_\_\_\_\_

EST. NET COST \_\_\_\_\_

AFE DATE 5-1-89

LEASE & WELL NO. BILBERRY #2	DEPTH & FORM 4,650' San Andres
LOCATION E/2NE/4, Section 15, T-8-S, R-37-E	
COUNTY & STATE Roosevelt County, New Mexico	FIELD
OPERATOR OGS Operating Company, Inc.	SPUD DATE

INTANGIBLE WELL COST				
	DESCRIPTION	DRILLING	COMPLETION	TOTAL
1	Access, Location & Roads	5,000	2,000	
2	Rig Move			
3	Footage Cost	41,900		
4	Day Work Cost      days at	7,200		
5	Bits & Reamers	--		
6	Fuel	--		
7	Water	4,000	1,500	
8	Mud & Chemicals	2,000	--	
9	Cementing & Service	2,500	6,000	
10	Coring	--	--	
11	Surveying & Testing	13,500	1,500	
12	Mud Logging	1,600	--	
13	Perforating	--	1,500	
14	Stimulation	--	4,000	
15	Transportation	--	--	
16	Drilling Overhead & Supervision	4,000	4,000	
17	Equipment Rental	--	2,000	
18	Completion Rig    6    days at 1000	--	6,000	
19	Other Drilling Expense	2,500	3,000	
20	Contingencies (10% of Intangibles)	8,900	3,200	
21	Insurance	4,700	--	
22				
23	TOTAL INTANGIBLES	97,800	34,700	132,500

TANGIBLE WELL COST				
	DESCRIPTION	DRILLING	COMPLETION	TOTAL
24	Of " Conductor Casing			
25	350' Of 8-5/8 " Surface Casing	3,500		
26	Of " Intermediate Casing			
27	Of " Intermediate Casing			
28	Of " Intermediate Casing			
29	4650' Of 5-1/2 " Production Casing		31,800	
30	Of " Tie-Back Casing			
31	4650' Of 2-3/8 " Tubing		9,800	
32	Of " Tubing			
33	Of " Tubing			
34	Liner Equipment			
35	Wellhead Equipment	600	800	
36	Producing Facilities, Tank Battery, Flowline		45,000	
37	Packers & Other Subsurface Tools			
38	Contingencies (10% of Tangibles)			
39				
40				
41	TOTAL TANGIBLES	4,100	87,400	91,500
42	TOTAL WELL COST	101,900	122,100	224,000

COMPANY APPROVAL

By	Date								

JOINT OPERATOR APPROVAL

RECEIVED SEP 19 1989 9-15-89

Firm J.E. CIESZINSKI

By J.E. Cieszinski Title Working Interest Owner

Date

32

July 26, 1989

Mr. and Mrs. J.E. Cieszinski  
Box 3047  
Roswell, NM 88201

Re: Proposed San Andres Test  
N/2, Section 15,  
T-8-S, R-37-E,  
Roosevelt County, New Mexico  
(Bluitt NM015)

Gentlemen:

By letter dated May 4, 1989, OGS Operating Company, Inc. sent you a proposal to drill the referenced test well.

The proposed well is a step out to the OGS Bilberry #1 well which has been on production for about 2.5 months.

OGS is interested in drilling the proposed well and we anticipate commencing operations by October 1, 1989.

Please consider this proposal and let me know your decision at your earliest convenience.

Should you need information on the well, please contact Mike Gates in our office.

Yours truly,

OGS OPERATING COMPANY, INC.

Thom O'Brien

-Will join

TO'B/slm

July 27, 1989

GREAT WESTERN DRILLING COMPANY  
P.O. Box 1659  
Midland, TX 79701

Attention: Mr. Mike Heathington

Re: Proposed Step-out to  
OGS - Bilberry #1 Well  
Roosevelt County, NM  
(Bluitt NM015)

Gentlemen:

As of 7-24-89 production from the OGS Bilberry #1 was 425 MCF/day with no water. The well has been on production for 2.5 months and has shown no decline over the last three weeks. For comparison, the offset to the southwest (Ingram #1 Light) was producing approximately 460 MCF/day after 2.5 months. To date this well has produced 919,600 MCF and ultimate recovery is estimated at 1.2 BCF.

The production described above is from the San Andres  $P_1$  zone. As you may recall this area has also demonstrated good oil production from the San Andres  $P_2$  zone. An attempt was made to complete the Bilberry #1 in this oil zone with encouraging results prior to fracture treatment. Unfortunately, the fracture stimulation resulted in communication with the water bearing  $P_3$  zone below the target horizon. As a result the  $P_2$  zone was abandoned and the well was plugged back to the  $P_1$  zone and completed as a gas producer.

Based on the above results, OGS Operating proposes a stepout from the Bilberry #1 well tentatively scheduled to be located 990' FNL and 990' FEL of Section 15, T-8-S, R-37-E. This location appears favorable for production from both San Andres pay zones. By drilling only the top few feet of the  $P_2$  porosity, the communication problem which was encountered in the first well should be eliminated.

A structural position approximately 110 feet high to the Ingram well which produced water free from the  $P_1$  zone is anticipated.

OGS Operating Company, Inc., (OGS), is now in the process of obtaining either farmouts from or joinder of Murphy Operating Corporation and the other working interest owners in a unit composed of the N/2 of Section 15.

8-21-89 Great Western - Pat Shanahan - Great Western will  
Participate.

GREAT WESTERN ILLINOIS OIL & GAS COMPANY  
July 17, 1989  
Page 2

Under the terms of our Letter Agreement dated January 3, 1989 you have the option to participate in your proportionate part of any farmout obtained by OGS.

OGS is recommending that we drill the step out to the Bilberry #1 well and anticipate commencement of operations by October 1, 1989.

Please call me or Mike Gates if you have a question.

Yours truly,

OGS OPERATING COMPANY, INC.

Thom O'Brien

TO'B/slm

July 27, 1989

MORRIS MIZEL '86 PARTNERS  
6560 East 41st Street  
Tulsa, OK 74145

Attention: Mr. Morris Mizel

Re: Proposed Step-out to  
OGS - Bilberry #1 Well  
Roosevelt County, NM  
(Bluitt NM015)

Gentlemen:

As of 7-24-89 production from the OGS Bilberry #1 was 425 MCF/day with no water. The well has been on production for 2.5 months and has shown no decline over the last three weeks. For comparison, the offset to the southwest (Ingram #1 Light) was producing approximately 460 MCF/day after 2.5 months. To date this well has produced 919,600 MCF and ultimate recovery is estimated at 1.2 BCF.

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A structural position approximately 110 feet high to the Ingram well which produced water free from the  $P_1$  zone is anticipated.

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Under the terms of our Letter Agreement dated January 3, 1989 you have the option to participate in your proportionate part of any farmout obtained

Dean Hamilton - geol. for Mr. Mizel - will join

MORRIS MIZEL 1986 PARTNERS  
July 27, 1989  
Page 2

by OGS.

OGS is recommending that we drill the step out to the Bilberry #1 well and anticipate commencement of operations by October 1, 1989.

Please call me or Mike Gates if you have a question.

Yours truly,

OGS OPERATING COMPANY, INC.

Thom O'Brien

TO'B/slm

July 27, 1989

Mr. George White  
Box 52346  
Lafayette, LA 70505

Re: Proposed Step-out to  
OGS - Bilberry #1 Well  
Roosevelt County, NM  
(Bluitt NM015)

Gentlemen:

As of 7-24-89 production from the OGS Bilberry #1 was 425 MCF/day with no water. The well has been on production for 2.5 months and has shown no decline over the last three weeks. For comparison, the offset to the southwest (Ingram #1-Light) was producing approximately 460 MCF/day after 2.5 months. To date this well has produced 919,600 MCF and ultimate recovery is estimated at 1.2 BCF.

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GEORGE WHITE  
July 27, 1989  
Page 2

~~=====~~ OGS is recommending that we drill the step out to the Bilberry #1 well  
and anticipate commencement of operations by October 1, 1989.

Please call me or Mike Gates if you have a question.

Yours truly,

OGS OPERATING COMPANY, INC.

Thom O'Brien

TO'B/slm

July 27, 1989

Mr. Hugh A. Moore  
P.O. Box 51453  
Lafayette, LA 70505

Re: Proposed Step-out to  
OGS - Bilberry #1 Well  
Roosevelt County, NM  
(Bluitt NM015)

Gentlemen:

As of 7-24-89 production from the OGS Bilberry #1 was 425 MCF/day with no water. The well has been on production for 2.5 months and has shown no decline over the last three weeks. For comparison, the offset to the southwest (Ingram #1 Light) was producing approximately 460 MCF/day after 2.5 months. To date this well has produced 919,600 MCF and ultimate recovery is estimated at 1.2 BCF.

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HUGH MOORE  
July 27, 1989  
Page 2

OGS is recommending that we drill the step out to the Bilberry #1 well and anticipate commencement of operations by October 1, 1989.

Please call me or Mike Gates if you have a question.

Yours truly,

OGS OPERATING COMPANY, INC.

Thom O'Brien

TO'B/slm

KELLAHIN, KELLAHIN and AUBREY

Attorneys at Law

W. Thomas Kellahin 117 North Guadalupe  
Karen Aubrey Post Office Box 2265  
Jason Kellahin Santa Fe, New Mexico 87504-2265  
Of Counsel

Telephone 982-4235  
Area Code 505

Fax: 505/982-2047

August 15, 1989

RECEIVED

AUG 15 1989

HAND-DELIVERED

OIL CONSERVATION DIVISION

Mr. William J. LeMay  
Oil Conservation Division  
Post Office Box 2088  
Santa Fe, New Mexico 87501

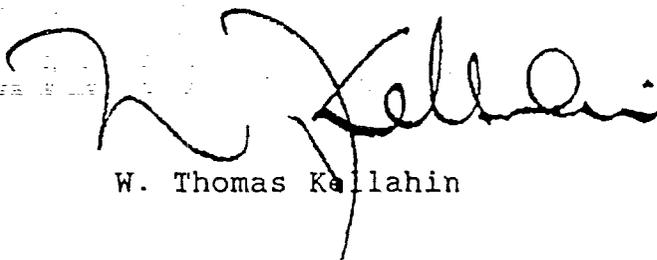
Re: OGS Operating Company, Inc.  
for Compulsory Pooling and an  
Unorthodox Well Location  
Roosevelt, New Mexico

Dear Mr. LeMay:

On behalf of OGS Operating Company, Inc. we would appreciate you setting the enclosed application for a public hearing on the Division's Examiner docket now scheduled for September 6, 1989.

By copy of this letter to all parties to be pooled, we are notifying them by certified mail, return-receipt requested, that they have the right to appear at the hearing, to make a statement to the Division, to present evidence and cross-examine witnesses either in support of or in opposition to the application. In addition, they are advised that the entry of a compulsory pooling order will affect their rights to share in the production from the subject well.

Very truly yours,



W. Thomas Kellahin

WTK/rs  
Encl.

cc: Thom O'Brien - OGS Operating Company  
"Certified Return-Receipt Requested"  
all parties to be pooled

RECEIVED

AUG 15 1989

OIL CONSERVATION DIVISION

STATE OF NEW MEXICO

DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES

OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION OF  
OGS OPERATING COMPANY, INC.  
FOR COMPULSORY POOLING AND  
AN UNORTHODOX LOCATION,  
ROOSEVELT COUNTY, NEW MEXICO

CASE NO. \_\_\_\_\_

APPLICATION

COMES NOW, OGS OPERATING COMPANY, INC., by and through  
its attorneys, Kellahin, Kellahin & Aubrey and in accordance  
with Section 70-2-17(c) NMSA (1978) applies to the New  
Mexico Oil Conservation Division for an unorthodox location  
and for an order pooling all mineral interest underlying the  
following described acreage in Section 15, T8S, R37E,  
Roosevelt County, New Mexico, in the following described  
manner:

N/2 of said section to form a standard 320-acre spacing  
and proration unit for any gas production from the  
Bluitt-San Andres Associated Pool, and E/2NE/4 of said  
section to form a standard 80-acre spacing and prora-  
tion unit for any oil production from the Bluitt-San  
Andres Associated Pool.

The above described unit is to be dedicated to a well  
to be drilled to base of the Bluitt-San Andres Associated  
gas pool at a standard gas well location 990 feet from the  
North line and 990 feet from the East line of said Section  
15. However, this location will be an unorthodox oil well  
location for said pool.

1. Applicant, OGS Operating Company, Inc. is a working interest owner in the N/2 of said Section 15.

2. Applicant has sought a voluntary agreement for the formation of a N/2 spacing unit for gas and a E/2NE/4 spacing unit for oil for the drilling, completing and production of the subject well but has been unable to obtain a voluntary agreement from the following parties:

A. J. Hammer Estate	A. J. Hammer Estate	0.15625%
Mary Hammer	Mary Hammer	
Deanna Christensen	Deanna Christensen	
David M. Hammer	David M. Hammer	
Robert J. Hammer	Robert J. Hammer	
Mary K. Hammer	Mary K. Hammer	

454 South Main Street  
Springfield, MO 65806

106 East Virginia  
Effingham, ILL 62401

Box 482  
Effingham, Ill 62401

b)	Tom L. Ingram	13.5%
	Box 1757	
	Roswell, New Mexico 88202	

3. Pursuant to the Division notice requirements, Applicant has notified all parties to be pooled of this application for compulsory pooling and the Applicant's request for a hearing before the Division to be set on September 6, 1989.

4. In order to obtain its just and equitable share of the potential production underlying the above tract, Applicant needs an order pooling the mineral interest involved in order to protect Applicant's correlative rights and prevent waste.

WHEREFORE, Applicant prays that this application be set for hearing before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order approving the unorthodox location and pooling the mineral interest described herein. Applicant further prays that it be named operator of the well, and that the order make provisions for Applicant to recover out of production its costs of drilling, completing and equipping the subject well, costs of operation, including costs of supervision, and a risk factor in the amount of 200% for the drilling and completing of the well, for such other and further relief as may be proper.

Respectfully submitted,

Original signed by  
W. THOMAS KELLAHIN

By: \_\_\_\_\_  
W. Thomas Kellahin

Kellahin, Kellahin & Aubrey  
Post Office Box 2265  
Santa Fe, New Mexico 87504

(505) 982-4285

KELLAHIN, KELLAHIN and AUBREY

Attorneys at Law

W. Thomas Kellahin  
Karen Aubrey

El Patio - 117 North Guadalupe  
Post Office Box 2265

Telephone 982-4285  
Area Code 505

Jason Kellahin  
Of Counsel

Santa Fé, New Mexico 87504-2265 Fax: 505/982-2047

August 31, 1989

Mr. William J. LeMay  
Oil Conservation Division  
Post Office Box 2088  
Santa Fé, New Mexico 87501

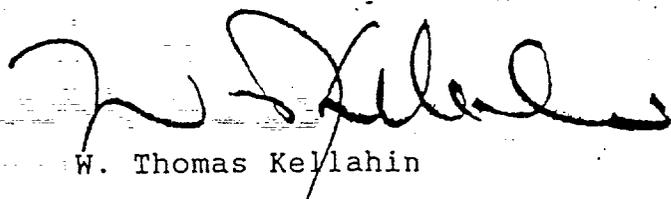
Re: Application of OGS Operating Company Inc.  
for Compulsory Pooling N/2 Section 15,  
Township 8 South, Range 37 East,  
Roosevelt County, New Mexico  
NMOCD Case No. 9749

Dear Mr. LeMay:

On behalf of the Applicant, OGS Operating Company Inc.,  
I hereby request that the referenced application now  
docketed for the Examiner's hearing on September 6, 1989 be  
continued and placed on the Examiner's docket now scheduled  
for October 4, 1989.

This should give all parties to be pooled sufficient  
additional time in which to exhaust all possibilities of  
voluntary participation in the well.

Very truly yours,



W. Thomas Kellahin

WTK/rs  
Encl.

cc: Thom O'Brien - OGS Operating Company Inc.  
Certified mail, return-receipt requested to all parties  
listed on attached Exhibit "A".

Exhibit "A"

Exhibit "A"

Great Western Drilling Company  
509 N. Loraine  
P.O. Box 1659  
Midland, TX 79701

Hugh A. Moore  
P.O. Box 51453  
Lafayette, LA 70505

George R. and Bettijo H. White  
P.O. Box 52346  
Lafayette, LA 70505

A. B. and Janet D. Sam  
P.O. Box 1736  
Midland, TX 79702

Morris Mizel 1986 Partners  
6560 East 41st Street  
Tulsa, OK 74145

The Wiser Oil Company  
Box 192  
Sisterville, W. VA 26175

Earl A. Latimer  
1802 West 4th Street  
Roswell, NM 88202

Murphy Operating Corporation  
United Bank Plaza  
Suite 300  
400 N. Pennsylvania Ave.  
Box 2164  
Roswell, NM 88201

Tom L. and Joan L. Ingram  
Box 1757  
Roswell, NM 88202

J.E. and Drusilla C. Cieszinski  
Box 3047  
Roswell, NM 88201

Walter Duncan, Inc.  
100 Park Avenue Bldg.  
Suite 1200  
Oklahoma City, OK Oklahoma City, OK 73102

A.J. Hammer Estate:  
Mary Hammer  
Deanna Christensen  
David M. Hammer  
Robert J. Hammer  
Mary K. Hammer

454 South Main Street  
Springfield, MO 65806

106 East Virginia  
Effingham, IL 62401

Box 482  
Effingham, IL 62401

# OGS DRILLING, INC.

DRILLING OR WORKOVER AFE

AFE NO. \_\_\_\_\_

- |                                     |                                      |                                    |
|-------------------------------------|--------------------------------------|------------------------------------|
| <input type="checkbox"/> WILDCAT    | <input type="checkbox"/> DEVELOPMENT | <input type="checkbox"/> WORKOVER  |
| <input type="checkbox"/> DRILLING   | <input type="checkbox"/> DRILLING    | <input type="checkbox"/> SAME ZONE |
| <input type="checkbox"/> COMPLETION | <input type="checkbox"/> COMPLETION  | <input type="checkbox"/> NEW ZONE  |
| <input type="checkbox"/> RE-ENTRY   | <input type="checkbox"/> RE-ENTRY    | <input type="checkbox"/> P & A     |

LSE. NO. \_\_\_\_\_

W. I. \_\_\_\_\_

EST. NET COST \_\_\_\_\_

AFE DATE 5-1-89

LEASE & WELL NO. BILBERRY #2	DEPTH & FORM 4,650' San Andres
LOCATION E/2NE/4, Section 15, T-8-S, R-37-E	
COUNTY & STATE Roosevelt County, New Mexico	FIELD
OPERATOR OGS Operating Company, Inc.	SPUD DATE

INTANGIBLE WELL COST				
	DESCRIPTION	DRILLING	COMPLETION	TOTAL
1	Access, Location & Roads	5,000	2,000	
2	Rig Move			
3	Footage Cost	41,900		
4	Day Work Cost            days at	7,200		
5	Bits & Reamers	---		
6	Fuel	---		
7	Water	4,000	1,500	
8	Mud & Chemicals	2,000	---	
9	Cementing & Service	2,500	6,000	
10	Coring	---	---	
11	Surveying & Testing	13,500	1,500	
12	Mud Logging	1,600	---	
13	Perforating	---	1,500	
14	Stimulation	---	4,000	
15	Transportation	---	---	
16	Drilling Overhead & Supervision	4,000	4,000	
17	Equipment Rental	---	2,000	
18	Completion Rig    6    days at 1000	---	6,000	
19	Other Drilling Expense	2,500	3,000	
20	Contingencies (10% of Intangibles)	8,900	3,200	
21	Insurance	4,700		
22				
23	TOTAL INTANGIBLES	97,800	34,700	132,500

TANGIBLE WELL COST				
	DESCRIPTION	DRILLING	COMPLETION	TOTAL
24	' Of " Conductor Casing			
25	350 ' Of 8-5/8 " Surface Casing	3,500		
26	' Of " Intermediate Casing			
27	' Of " Intermediate Casing			
28	' Of " Intermediate Casing			
29	4650 ' Of 5-1/2 " Production Casing		31,800	
30	' Of " Tie-Back Casing			
31	4650 ' Of 2-3/8 " Tubing		9,800	
32	' Of " Tubing			
33	' Of " Tubing			
34	Liner Equipment			
35	Wellhead Equipment	600	800	
36	Producing Facilities, Tank Battery, Flowline		45,000	
37	Packers & Other Subsurface Tools			
38	Contingencies (10% of Tangibles)			
39				
40				
41	TOTAL TANGIBLES	4,100	87,400	91,500
42	TOTAL WELL COST	101,900	122,100	224,000

COMPANY APPROVAL

By	Date								

JOINT OPERATOR APPROVAL

Firm \_\_\_\_\_ By \_\_\_\_\_ Title \_\_\_\_\_ Date **49**

AFE No \_\_\_\_\_

OGS Operating Comapny  
Bilberry #1 4700' San Andres Completed 3-27-89  
W/2, Section 14, T-8-S, R-37-E  
Roosevelt County, New Mexico

Actual Drilling Cost	\$ 97,277.00
Actual Completion Cost	99,806.00
Actual Lease & Well Equipment	<u>7,077.00</u>
	\$204,160.00

NM015 CP  
NM02

# Survey Results — 1988

Region: West Texas and Eastern New Mexico-5

Ernst & Whinney

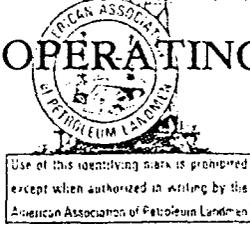
## Oil Wells

Responses 1988 1987	Depth in Feet But Not Over		Monthly Drilling Well Rates			Monthly Producing Well Rates		
			1988	1987	1988	1987		
	Average or Mean	Median	Average or Mean	Median	Average or Mean	Median	Average or Mean	Median
214 201	\$ 3,069	\$ 3,000	\$ 3,017	\$ 3,000	\$ 318	\$ 300	\$ 300	\$ 300
163 154	4,066	4,000	3,867	3,650	407	390	374	365
76 71	4,939	5,000	4,961	4,901	520	500	475	475
26 23	5,594	5,763	5,807	5,700	634	592	526	570
16 11	5,554	5,953	6,067	5,744	673	595	565	574
29 37	4,961	5,200	5,047	5,297	561	530	521	535

## Gas Wells

Responses 1988 1987	Depth in Feet But Not Over		Monthly Drilling Well Rates			Monthly Producing Well Rates		
			1988	1987	1988	1987		
	Average or Mean	Median	Average or Mean	Median	Average or Mean	Median	Average or Mean	Median
151 132	\$ 3,202	\$ 3,000	\$ 3,255	\$ 3,000	\$ 325	\$ 300	\$ 313	\$ 300
119 107	4,109	4,000	3,898	3,550	419	400	360	360
64 51	4,940	5,000	4,963	4,870	524	500	477	487
23 21	5,434	5,658	5,815	5,500	633	582	566	575
15 10	5,506	5,953	6,099	5,500	676	595	558	600
28 32	5,035	5,000	4,900	5,297	567	530	522	535

A.A.P.L. FORM 610-1982  
MODEL FORM OPERATING AGREEMENT



OPERATING AGREEMENT

DATED

October 1, 19 89,

OPERATOR OGS OPERATING COMPANY, INC.

CONTRACT AREA Township-8-South, Range-37-East

North Half (N/2), Section 15

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

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
	<del>F. PREFERENTIAL RIGHT TO PURCHASE .....</del>	<del>12</del>
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

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between OGS OPERATING COMPANY, INC. 550 W. Texas, Suite 1140, Midland, Texas 79701, 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.

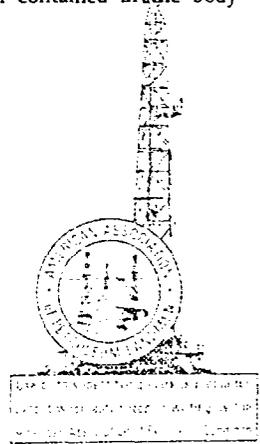
Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

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.

If any provision of any exhibit, except Exhibits "E" and "F", 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 covered by the form of oil and gas lease attached hereto as 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 ~~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:

Each of the parties hereto shall pay or deliver or cause to be paid or delivered its proportionate part of the royalties and overriding royalties and other leasehold burdens as described in the attached Exhibit "A" and shall hold the other parties free from any liability therefor. If the interest of any party in any oil and gas lease covered by this agreement is subject to any additional royalty, overriding royalty, production payment or other charge over and above those shown in Exhibit "A" such party shall assume and alone bear all such obligations and they shall account for or cause to be accounted for such interests to the owners thereof.

D. Subsequently Created Interests: SEE ARTICLE XV. N. FOR ADDITIONAL PROVISIONS.

If any party should hereafter create an overriding royalty, production payment or other burden payable out of production attributable to its working interest hereunder, or if such a burden existed prior to this agreement and is not set forth in Exhibit "A", or was not disclosed in writing to all other parties prior to the execution of this agreement by all parties, or is not a jointly acknowledged and accepted obligation 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:

~~Operator shall bear the cost incurred by Operator in procuring abstracts and title examinations (including 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 be borne by Operator's staff attorneys or by outside attorneys.~~

ARTICLE IV  
continued

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.  
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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.  
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## B. Loss of Title:

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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.  
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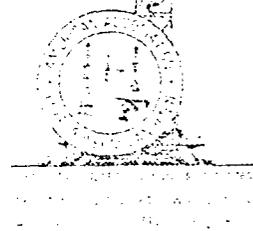
43 2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well  
44 payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates,  
45 there shall be no monetary liability 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.  
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ARTICLE V.  
OPERATOR

A. Designation and Responsibilities of Operator:

OGS OPERATING COMPANY, INC. 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. Operator shall not be removed until all debts owed to is by Non-Operator(s) have been paid in full.

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.

\* at the time the AFE for such operation is submitted.

ARTICLE VI.  
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 31st day of December, 19 89, Operator shall commence the drilling of a well for oil and gas at the following location:

Township-8-South, Range-37-East  
Section 15: North Half (N/2)

and shall thereafter continue the drilling of the well with due diligence to a depth adequate to test the San Andres Formation or to a depth of 4,650 feet, whichever is the shallower.

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's only liability for failure to commence said test shall be the ipso facto termination of this agreement.

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.  
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6 B. Subsequent Operations:  
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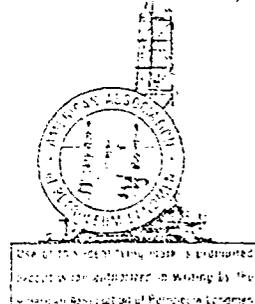
8 1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided  
9 for in Article VI.A., or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all  
10 the parties and not then 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 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 forty-eight (48) hours, exclusive 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.  
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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 (or as promptly as possible after the expiration of the forty-eight (48) 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.  
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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 (or as promptly as possible after the expiration of the forty-eight (48) 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.  
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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 forty-eight (48) hours  
50 (exclusive 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 forty-eight (48) 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.  
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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,  
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## 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.  
 2 Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties  
 3 in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties,  
 4 and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting  
 5 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  
 6 market value thereof if such share is not sold, (after deducting production taxes, excise taxes, <sup>windfall profits tax</sup> royalty, overriding royalty and other inter-  
 7 ests not excepted by Article III.D. payable out of or measured by the production from such well accruing with respect to such interest  
 8 until it reverts) shall equal the total of the following:

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

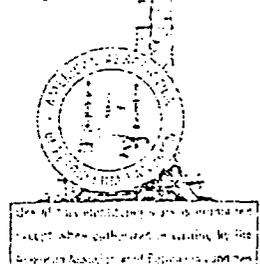
18  
 19  
 20  
 21 (b) 300 % of that portion of the costs and expenses of drilling, reworking, deepening, plugging back, testing and completing,  
 22 after deducting any cash contributions received under Article VIII.C., and 300 % of that portion of the cost of newly acquired equip-  
 23 ment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had  
 24 participated therein.

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 re-  
 29 working or plugging back operation proposed in such a well, or portion thereof, to which the initial Non-Consent election applied that is  
 30 conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment account. Any such  
 31 reworking or plugging back operation conducted during the recoupment period shall be deemed part of the cost of operation of said well  
 32 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  
 33 the reworking or plugging back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If  
 34 such a reworking or plugging back operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be ap-  
 35 plicable as between said Consenting Parties in said well.

36  
 37  
 38  
 39 During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the  
 40 proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, excise, gathering <sup>windfall profits</sup> and other  
 41 taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production not excepted by Ar-  
 42 ticle III.D.

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  
 47 of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; and upon  
 48 abandonment of a well after such reworking, plugging back or deeper drilling, the Consenting Parties shall account for all such equip-  
 49 ment to the owners thereof, with each party receiving its proportionate part in kind or in value, less cost of salvage.

50  
 51  
 52  
 53 Within sixty (60) days after the completion of any operation under this Article, the party conducting the operations for the  
 54 Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an  
 55 itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its  
 56 option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly bill-  
 57 ings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the party conducting the  
 58 operations for the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities in-  
 59 curred 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  
 60 realized from the sale of the well's working interest production during the preceding month. In determining the quantity of oil and gas  
 61 produced during any month, Consenting Parties shall use industry accepted methods such as, but not limited to, metering or periodic  
 62 well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation  
 63 which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs  
 64 of the work done and of the equipment purchased in determining when the interest of such Non-Consenting Party shall revert to it as  
 65 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 (a) 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  
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 deepen-  
26 ing 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 forty-eight (48) 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 forty-eight (48) 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 \* SEE LINE 5 7 BELOW.

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 obtainable 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.

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.

20  
21 D. Access to Contract Area and Information: SEE ARTICLE XV. F. FOR ADDITIONAL PROVISIONS.

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, tank tables, daily gauge and run tickets and reports of stock on hand at the first of  
27 each month, 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.

30  
31 E. Abandonment of Wells:

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 <sup>who participated in the drilling thereof</sup>. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply  
36 within forty-eight (48) hours ~~(exclusive 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 of one (1) year 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, such lease to be on the form attached as Exhibit

56  
57 \* In the event of a transfer, sale, encumbrance, or other disposition  
58 of interest within the contract area which necessitates separate  
59 measurement facilities, the party creating the necessity for such  
60 measurement facilities shall alone bear the cost of purchase,  
61 installation and operation of such facility.

ARTICLE VI  
continued

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

5  
6 Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from  
7 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 re-  
8 quest, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges con-  
9 templated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned  
10 well. Upon proposed abandonment of the producing interval(s) assigned or leased, the assignor or lessor shall then have the option to  
11 repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the pro-  
12 visions hereof.

13  
14 3. Abandonment of Non-Consent Operations: The provisions of Article VI.E.1. or VI.E.2. above shall be applicable as between  
15 Consenting Parties in the event of the proposed abandonment of any well excepted from said Articles; provided, however, no well shall be  
16 permanently plugged and abandoned unless and until all parties having the right to conduct further operations therein have been notified  
17 of the proposed abandonment and afforded the opportunity to elect to take over the well in accordance with the provisions of this Article  
18 VI.E.

19  
20 ARTICLE VII.  
21 EXPENDITURES AND LIABILITY OF PARTIES

22  
23 A. Liability of Parties:

24  
25 The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and  
26 shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted  
27 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  
28 shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

29  
30 B. Liens and Payment Defaults:

31 SEE ARTICLES XV. D. AND ARTICLE XV. F. FOR ADDITIONAL PROVISIONS.

32 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  
33 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  
34 at the rate provided in Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the  
35 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 ob-  
36 taining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien  
37 rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share  
38 of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from  
39 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  
40 purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien  
41 and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

42  
43 ~~If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by~~  
44 ~~Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that~~  
45 ~~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~~  
46 ~~reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.~~

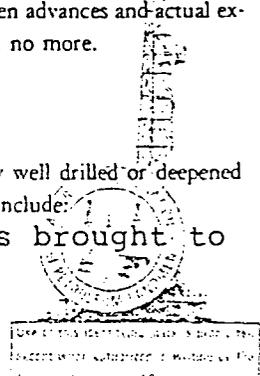
47  
48 C. Payments and Accounting:

49  
50 Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development  
51 and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective propor-  
52 tionate shares upon the expense basis provided in Exhibit "C". Operator shall keep an accurate record of the joint account hereunder,  
53 showing expenses incurred and charges and credits made and received.

54  
55 Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance  
56 of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding  
57 month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together  
58 with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted  
59 on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within  
60 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  
61 due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual ex-  
62 penses to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

63  
64 D. Limitation of Expenditures:

65  
66 1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened  
67 pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the drilling or deepening shall include:  
68 \* including interest on the deficiency and, if suit is brought to  
69 collect any deficiency, reasonable attorney's fees,



62

ARTICLE VII  
continued

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

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

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

3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Fifteen Thousand ----- Dollars (\$ 15,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project costing in excess of Ten Thousand ----- Dollars (\$ 10,000.00) but less than the amount first set forth above in this paragraph.

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

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

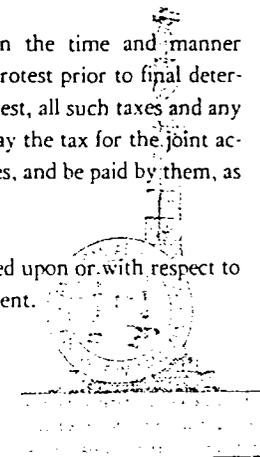
Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holidays), or at the earliest opportunity permitted by circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator to so notify Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

F. Taxes:

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

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

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



ARTICLE VII  
continued

1 G. Insurance:

2  
3 At all times while operations are conducted hereunder, Operator shall comply with the workmen's compensation law of  
4 the state where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said com-  
5 pensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C". Operator shall  
6 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  
7 hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workmen's compensation  
8 law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.

9  
10 In the event automobile public liability insurance is specified in said Exhibit "D", or subsequently receives the approval of the  
11 parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's automotive equipment.

12  
13 ARTICLE VIII.  
14 ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

15  
16 A. Surrender of Leases:

17  
18 The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole  
19 or in part unless all parties consent thereto.

20  
21 However, should any party desire to surrender its interest in any lease or in any portion thereof, and the other parties do not  
22 agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in  
23 such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production  
24 thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an oil and gas in-  
25 terest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering  
26 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, such  
27 lease to be on the form attached hereto as Exhibit "B". Upon such assignment or lease, the assigning party shall be relieved from all  
28 obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well  
29 attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and pro-  
30 duction other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the  
31 party assignor or lessor the reasonable salvage value of the latter's interest in any wells and equipment attributable to the assigned or leas-  
32 ed acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of  
33 salvaging and the estimated cost of plugging and abandoning. If the assignment or lease is in favor of more than one party, the interest  
34 shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties.

35  
36 Any assignment, lease or surrender made under this provision shall not reduce or change the assignor's, lessor's or surrendering  
37 party's interest as it was immediately before the assignment, lease or surrender in the balance of the Contract Area; and the acreage  
38 assigned, leased or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this  
39 agreement.

40  
41 B. Renewal or Extension of Leases:

42  
43 If any party secures a renewal of any oil and gas lease subject to this agreement, all other parties shall be notified promptly, and  
44 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  
45 renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper pro-  
46 portionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the  
47 interests held at that time by the parties in the Contract Area.

48  
49 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  
50 who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area  
51 to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease.  
52 Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement. \*

53  
54 Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein  
55 by the acquiring party.

56  
57 The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease  
58 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  
59 contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or con-  
60 tracted 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  
61 the provisions of this agreement.

62  
63 The provisions in this Article shall also be applicable to extensions of oil and gas leases.

64  
65 C. Acreage or Cash Contributions:

66  
67 While this agreement is in force, if any party contracts for <sup>or obtains</sup> a contribution of cash towards the drilling of a well or any other  
68 operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be  
69 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 con-  
70 tribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions  
\* but shall be deemed to be subject to an Operating Agreement identical to this Agreement, modified only to reflect the ownership of the  
acquiring parties and their respective percentage interests.

64

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.

5  
6 If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such  
7 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 covers either:

- 14  
15 1. the entire interest of the party in all leases and equipment and production; or  
16  
17 2. 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.

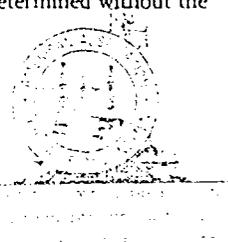
34  
35 ~~F. Preferential Right to Purchase~~

36  
37 ~~Should any party desire to sell all or any part of its interest under this agreement, or its rights and interests in the Contract~~  
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 subsidiary of a parent company, or to any company in which any one party owns a majority 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 Five Thousand ----- Dollars (\$ 5,000.00 ) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and 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  
SEE ARTICLE XV. M. FOR ADDITIONAL PROVISIONS.

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.

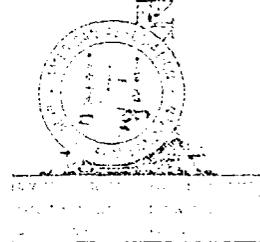
ARTICLE XIII.  
TERM OF AGREEMENT

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 contain or are amended in form to contain a 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 180 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 180 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.



66

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:

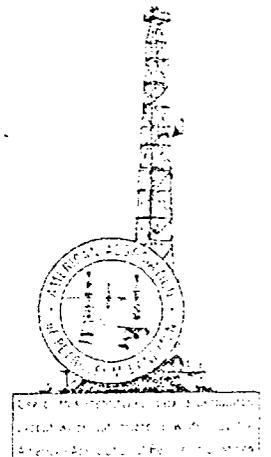
Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any rights, privileges, or obligations which Non-Operators may have under federal or state laws or under rules, regulations or orders promulgated under such laws in reference to oil, gas 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 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

See Pages 14 a. through 14 f. for Other Provisions.



ARTICLE XV.

OTHER PROVISIONS

A. SUBSTITUTE WELL

1. If, in the drilling of the Initial Well, Operator loses the hole or encounters mechanical difficulties rendering it impracticable, in the opinion of the Operator, to drill the well to the Objective Depth, then and in any of such events on or before sixty (60) days after cessation of drilling operations on the Initial Well, Operator shall have the option to commence the actual drilling of another well (Substitute Well) at a lawful location of Operator's selection on the Contract Area, and prosecute the drilling of said well with due diligence and in a good and workmanlike manner to the Objective Depth. For all purposes of this agreement, the drilling of the Substitute Well shall be considered as the drilling of the Initial Well.
2. Any provision herein concerning the Initial Well shall also apply to the Substitute Well, and any provision herein excepting the Initial Well shall also except the Substitute Well.

B. LEASE MAINTENANCE

If any operations proposed under Article VI. are necessary to maintain in full force and effect either a lease or an agreement to earn an interest in a lease that would otherwise expire, any party that elects not to participate in such operations (the "Non-Consenting Parties") shall, in lieu of the penalty provisions contained in Article VI. B. 2., assign to each party electing to participate in such operations (the "Consenting Parties"), in the proportion that each Consenting Party's interest bears to the total interest of all Consenting Parties, all of such Non-Consenting Party's right, title and interest in and to the acreage covered by the lease or agreement that otherwise would be lost if such operations were not conducted. Thereafter, such acreage shall not be subject to the terms of this Operating Agreement, but shall be deemed to be subject to an Operating Agreement identical hereto, modified only to reflect the ownership of the Consenting Parties and their respective percentage interests.

C. BILLING ADDITIONAL INTERESTS

Notwithstanding any of the other provisions of this Agreement and of the accounting procedure attached as Exhibit "C", the parties to this agreement specifically agree that in no event during the term of this Operating Agreement shall Operator be required to make more than one billing for the entire interest credited to each party on Exhibit "A". It is further agreed that if any party to this Agreement (hereinafter referred to as "Selling Party") disposes of part of the interest credited to it on Exhibit "A", the Selling Party will be solely responsible for billing its assignee or assignees, and shall remain primarily liable to the other parties for the interest or interests assigned and shall make prompt payment to Operator for the entire amount of statements and billings to the Selling Party for the interest conveyed until such time as the Selling Party has designated and qualified one assignee to receive the billing for the entire interest. In order to qualify one assignee to receive the billing for the entire interest credited to Selling Party on Exhibit "A", the Selling Party shall furnish to Operator the following:

1. written notice of the conveyance and certified copy of the assignments by which the transfers were made;
2. the name of the assignee to be billed and a written statement executed by the assignee to be billed in which it consents to receive statements and billings for the entire interest credited to Selling Party on Exhibit "A" hereof, and further consents to handle any necessary sub-billing in the event it does not own the entire

interest credited Selling Party on Exhibit "A"; and

3. ratification of this Operating Agreement (including an executed and recordable instrument entitled "Memorandum of Operating Agreement") executed by the assignee to be billed (and all other assignees) wherein it/they adopts, ratifies and confirms all of the provisions of this Operating Agreement as if it had been a party thereto.

D. SECURITY: ADDITION TO ARTICLE VII. B.

The lien and security interest granted by each Non-Operator to Operator and by Operator to each Non-Operator under Article VII. B. shall extend not only to such party's oil and gas rights in the Contract Area (which for greater certainty shall include all of each party's leasehold interest and leasehold estate in the Contract Area), the oil and/or gas when extracted, personal property and equipment (as mentioned in said Article), but also to all accounts and proceeds from sales of oil and gas, contract rights, inventory and general intangibles constituting a part of, relating to or arising out of said oil and gas rights, extracted oil and gas and said equipment which are otherwise owned or held by any such party in the contract Area. Furthermore, the lien and security interest of each of said parties shall extend to all proceeds and products of all of the property and collateral described in this paragraph and in Article VII. B. as being subject to said lien and security interest. Any party, to the extent it deems necessary to perfect the lien and security interest provided, may file this Operating Agreement or Memorandum thereof as a lien in the applicable real estate records and as a financing statement with the limitation of the foregoing.

Operator and Non-Operators, their successors and assigns, agree to execute a recordable instrument entitled Memorandum of Operating Agreement shown as Exhibit No. 1 of this Agreement, to be filed both in the county records for real estate purposes and such other records as may be necessary for compliance with the Uniform Commercial Code.

E. BANKRUPTCY

If, following the granting of relief under the Bankruptcy Code to any party hereto, as debtor thereunder, this Agreement should be held to be an executory contract within the meaning of 11 U.S.C. §365, then the Operator, or if the Operator is the debtor-in-bankruptcy, the Non-Operator shall be entitled to a determination by debtor, or trustee for debtor, within thirty (30) days from the date an order for relief is entered under the Bankruptcy Code, as to the rejection or assumption of this Operating Agreement. In the event of an assumption, Operator or said Non-Operators, shall be entitled to adequate assurances as to future performance of debtor's obligation hereunder and the protection of the interest of all other parties.

F. REMEDIES FOR DEFAULT: ADDITION TO ARTICLE VII. B.

Notwithstanding the provision of Article VII. B., it is agreed between the parties hereto that in the event any party fails to pay its proportionate share of advances or expenses incurred pursuant to the terms of this Agreement, Operator shall give written notice to the party that it is in default. If, within fifteen (15) days of receipt of the notice, such defaulting party fails to pay all of the amount to which it is in default, in full, then the non-defaulting party or parties shall have the option, without prejudice to any other existing remedies, to consider such non-payment to constitute an election not to participate under Article VI. B. 2. and/or Article XV. B. (whichever is/are applicable) of this Agreement in the same manner, to the same extent and with the same force that a failure to reply within the prescribed period constitutes an election not to participate.

As long as the defaulting party has unpaid balances outstanding, it

shall have no further access to the Contract Area or information obtained in connection with operations hereunder and shall not be entitled to vote on any matter hereunder. While any party is in default, the voting interest of each non-defaulting party shall be in the proportion its participating interest bears to the total non-defaulting participating interest. As to any proposed operation in which it otherwise would have the right to participate, such defaulting party shall have the right to be a Consenting or participating Party only if it pays all of the amounts to which it is in default, in full, including the penalty amounts provided for in Article VI. B., before the applicable proposed election or decision deadline. This reinstatement option shall not apply to any party who originally defaulted under an operation falling under the auspices of Article XV. B.

Notwithstanding anything to the contrary contained within this Agreement, the parties hereto agree that:

1. Operator shall not have the right to implement any of the remedies with respect to default described in Article VII. B., XV. D. and/or XV. F. while the Operator and defaulting Non-Operator are engaged in on-going negotiations or discussions conducted in good faith regarding disputed joint billings and/or advances. It being understood, however, that the provision shall not relieve Non-Operator of its responsibility to timely pay that portion of any joint billings and/or advance estimates which are not the subject of any such good faith dispute;
2. It is the intention of Article XV. F. to grant Non-Operators reciprocal rights against Operator in the event Operator, rather than Non-Operator, should fail or refuse to pay its proportionate share of all costs, expenses (including, without limitation, shut-in royalty payments, minimum royalties, and other lease maintenance expenses), and/or advance payments requested of Non-Operators by Operator. Where appropriate within the text of Article VII. and XV. F., in order to effectuate this reciprocity, where the word "Operator" is used, the word "Non-Operator" may be substituted therefor, and where the word "Non-Operator" is used, the word "Operator" may be substituted therefor.

#### G. CERTAIN PLUGGING AND ABANDONMENT COSTS

If, pursuant to Article VI. B. 2. hereof, less than all of the parties elect to participate in a proposed reworking, deepening or plugging back operation, and if such operation does not result in the production of hydrocarbons in paying quantities or results in a completion that ceases to produce in commercial quantities prior to the time at which the consenting parties are fully reimbursed as provided in Article VI. B. 2., then, notwithstanding the printed provisions of this Agreement, the party or parties who elected not to participate in such reworking, deepening or plugging back operation shall nevertheless be responsible for their proportionate part of the cost to plug and abandon such well, and salvage the equipment therefrom, except for the additional plugging and abandonment or salvage costs that are caused by the non-consent reworking, deepening or plugging back operation; the consenting parties shall be solely responsible for such additional costs.

#### H. METERING OF PRODUCTION

If a diversity of working interest ownership in production from a lease subject to this Agreement occurs as a result of operation by less than all parties under Article VI. B. 2. herein, it is agreed that the oil and other liquid hydrocarbons produced from the well or wells completed by Consenting Parties may be separately measured by standard metering equipment to be properly tested periodically for accuracy.

I. ADDITIONAL RIGHTS

If any rights in the Contract Area or any new Area of Interest between the parties hereto are acquired by virtue of the drilling, deepening or completion of a well, a Non-Consenting party in such drilling, deepening or completing shall not be entitled to any interest in such rights.

J. PRIORITY OF OPERATIONS

Notwithstanding anything contained herein to the contrary, it is agreed that where a well, which has been authorized under the terms of this agreement by all parties, or by one or more but less than all parties under Article VI. and/or Article XV. B., shall have been drilled to the contract depth or the objective formation, whichever is less, and the parties participating in the well cannot mutually agree upon the sequence and timing of further operations regarding such well, the following elections shall control in the order enumerated hereafter:

1. an election to do additional logging, coring or testing;
2. an election to attempt to complete the well at either the objective depth or objective formation;
3. an election to plug back and attempt to complete said well; however, if more than one proposal to plug back is made, the proposal to plug back to the next deepest prospective interval shall have priority over proposals to plug back to shallower prospective intervals;
4. an election to sidetrack the well; and
5. an election to deepen said well.

It is provided, however, that if at the time said participating parties are considering any of the above elections the hole is in such a condition that a reasonably prudent operator would not conduct the operations contemplated by the particular election involved for fear of placing the hole or objective formation in jeopardy, such election shall be eliminated from the sequence set forth above.

K. NGPA FILINGS, DEDICATIONS/GAS CONTRACT NEGOTIATIONS

Operator may, at its election (but is not required to), file and prosecute applications for the determination of the status under the Natural Gas Policy Act of 1978 ("NGPA") of wells subject to this Operating Agreement for the joint account of parties hereto to the extent that such filings by Operator are permitted by law, rule, regulation or order. Each party hereto shall be responsible for making all other filings and reports required under the NGPA, including, but without limitation thereof, refund undertakings and interim, retroactive or other collection statements. Operator shall not be responsible to any Non-Operator for any damage or loss arising out of or connected with the filing or prosecution of the application or applications for determination, including the failure to file, delay in filing or failure to prosecute such application(s). The sole recourse of each Non-Operator is to file and process for his own account whatever application or applications for determination he deems appropriate. In the event Operator elects to file an application or applications for determination, the cost and expenses of preparing, filing and prosecuting such application(s) shall be charged to the joint account.

With respect to operations hereunder, Non-Operator agrees 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 of 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.

All costs incurred by Operator in complying with the Natural Gas Policy Act of 1978 or in complying with Federal, State and local law for the obtaining and monitoring of all well classifications required in the Natural Gas Policy Act of 1978 or in complying with any laws under the Department of Energy, and all consulting fees, and directly related costs incurred by Operator in connection with investigations for prior dedications and/or calls negotiations with oil and/or gas purchasers, and negotiations for gas purchaser contracts (including casinghead gas contracts) shall be a direct charge, borne by the joint account as provided in Exhibit "C" and shall not be included in administrative overhead under part III of Exhibit "C".

L. DISBURSEMENT OF ROYALTIES

If a purchaser of any oil, gas or other hydrocarbons produced from the Contract Area declines to make disbursements of all royalties, overriding royalties and other payments out of, or with respect to, production which are payable on the Contract Area, Operator will, if any Non-Operator so desires, make such disbursement on behalf of said Non-Operator at its direction, provided, Non-Operator shall execute such documents as may be necessary in the opinion of Operator to enable Operator to receive all payments for oil, gas and other hydrocarbons, directly from said purchaser. In that event, Operator will use its best efforts to make disbursements correctly within thirty (30) days of receipt from the purchaser, but will be liable for incorrect disbursements only in the event of gross or willful negligence.

M. ARTICLE XII, ADDITION

Except as may otherwise be expressly provided above, any notice or communication required or desired to be given under the terms of this Agreement shall be given by Certified or Registered Mail, Return Receipt Requested, ~~by personal delivery against signed receipt thereof~~, or by telegram on which postage and/or other sending charges have been prepaid by sending party, at such party's address listed on Exhibit "A" to this Agreement or at such other address as such party may have previously specified by like notice.

N. ARTICLE III. D., ADDITION

If any party hereunder creates any overriding royalty, production payment or other burden against its working interest production and if any other party or parties hereto conduct non-consent operations pursuant to any provisions of this Agreement and, as a result, become entitled to receive the working interest production otherwise belonging to a non-participating party, the party or parties entitled to receive the working interest production of the non-participating party shall receive such production free and clear of burdens against such production which may have been created subsequent to this Agreement and the non-participating party creating such subsequent burdens shall save the participating party or parties harmless with respect to the receipt of such working interest production.

O. This Agreement may be executed in any number of counterparts, each of which shall be considered as original for all purposes.

P. This Operating Agreement supersedes and replaces any prior Operating Agreement covering the Contract Area executed by any party hereto.

Q. PREPARATION OF EXHIBIT "A"

The interest of the parties as set forth on Exhibit "A" were calculated based on the best information available to the Operator. If the information is found to have been erroneous, or if a mathematical or typographical error has been made in preparing the exhibits, the interest may be recalculated to reflect the correct interests.

ARTICLE XVI.  
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of October, 1989.

OPERATOR

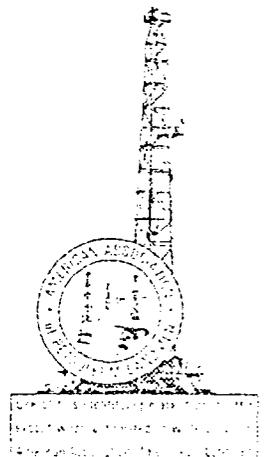
OGS OPERATING COMPANY, INC.

Attest:

By: Carla T. Fair  
Title: Assistant-Secretary

By: Thom O'Brien  
Title: vice-President

NON-OPERATORS



REVISED EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated October 1, 1989, by and between OGS Operating Company, Inc., as Operator, and O'Brien Goins Simpson Exploration, et al, as Non-Operators, covering the Bluitt Prospect in Roosevelt County, New Mexico. (NM015)

I. LANDS SUBJECT TO THIS AGREEMENT:

Township-8-South, Range-37-East, N.M.P.M.

Section 15: North Half (N/2)  
Roosevelt County, New Mexico  
containing 320 acres, more or less.

II. RESTRICTIONS AS TO DEPTHS, FORMATIONS AND SUBSTANCES:

This Operating Agreement covers all oil, gas and associated hydrocarbon rights from the surface of the earth to the base of the San Andres Formation, as commonly found below the base of the Grayburg Formation and above the top of the Glorietta Formation.

III. INTEREST OF THE PARTIES TO THIS AGREEMENT:

A. Initial Well

<u>Working Interest Owner</u>	<u>Before Completed &amp; Fully Equipped To Produce</u>	<u>After Completed &amp; Fully Equipped To Produce</u>	<u>After Payout</u>
1. OGS Operating Company, Inc.	1.0000%	1.0000%	0.81020%
2. O'Brien Goins Simpson Expl.	35.7233%	35.7233%	28.94195%
3. Michael W. Gates	1.1100%	1.1100%	0.89930%
4. OGM Partnership II	0.0000%	1.33335%	1.08020%
5. O'Connor Oil & Gas, Ltd.	0.0000%	1.11110%	0.90020%
6. Edmund O'Connor	0.0000%	0.22225%	0.18000%
7. Great Western Drilling Co.	26.6667%	25.0000%	20.25430%
8. Hugh A. Moore	3.0000%	2.81250%	2.27860%
9. George R. White and wife, Bettijo H. White	3.0000%	2.81250%	2.27860%
10. A. B. Sam and wife, Janet D. Sam	5.0000%	4.68750%	3.79770%
11. Morris Mizel 1986 Partners	5.0000%	4.68750%	3.79770%
12. The Wiser Oil Company	18.7500%	18.7500%	18.7500%
13. Earl A. Latimer	0.7500%	0.7500%	0.7500%
14. Murphy Operating Corporation	0.0000%	0.0000%	10.31250%
15. Tom L. Ingram and wife, Joan L. Ingram	0.0000%	0.0000%	3.37500%
16. J. E. Cieszinski and wife, Drusilla C. Cieszinski	0.0000%	0.0000%	0.18750%
17. Walter Duncan, Inc.	0.0000%	0.0000%	1.40625%
	<u>100.0000%</u>	<u>100.0000%</u>	<u>100.0000%</u>

## B. Subsequent Wells

<u>Working Interest Owner</u>	<u>Before Payout</u>	<u>After Payout</u>
1. OGS Operating Company, Inc.	1.00000%	0.81020%
2. O'Brien Goins Simpson Expl.	35.72330%	28.94195%
3. Michael W. Gates	1.11000%	0.89930%
4. OGM Partnership II	1.33335%	1.08020%
5. O'Connor Oil & Gas, Ltd.	1.11110%	0.90020%
6. Edmund O'Connor	0.22225%	0.18000%
7. Great Western Drilling Co.	25.00000%	20.25430%
8. Hugh A. Moore	2.81250%	2.27860%
9. George R. White and wife, Bettijo H. White	2.81250%	2.27860%
10. A. B. Sam and wife, Janet D. Sam	4.68750%	3.79770%
11. Morris Mizel 1986 Partners	4.68750%	3.79770%
12. The Wiser Oil Company	18.75000%	18.75000%
13. Earl A. Latimer	0.75000%	0.75000%
14. Murphy Operating Corporation	0.00000%	10.31250%
15. Tom L. Ingram and wife, Joan L. Ingram	0.00000%	3.37500%
16. J. E. Cieszinski and wife, Drusilla C. Cieszinski	0.00000%	0.18750%
17. Walter Duncan, Inc.	0.00000%	1.40625%
	<u>100.00000%</u>	<u>100.00000%</u>

## Definitions:

1. The terms "Completed and Fully Equipped to Produce" shall mean when the initial test well has been drilled to its authorized depth, all tests have been completed and all necessary expenditures for completing and equipping of the well have been made, including necessary tankage and/or surface facilities.

2. The term "Payout" as used herein shall be defined the same way as in paragraph IV. D. of the Farmout Agreement dated August 1, 1988 between Murphy Operating Corporation, et al and O'Brien Goins Simpson Exploration Company.

IV. OIL AND GAS LEASES SUBJECT TO THIS AGREEMENT:

1. Lessor: Monta Ruth Bilberry Perry, Life Estate,  
Nancy C. Belcher, Remainderman, and  
Grace Bilberry Dean  
Lessee: O'Brien Goins Simpson Exploration  
Dated: September 23, 1987  
Recorded: Volume 124, Page 638 of the Oil & Gas  
Records of Roosevelt County, New Mexico  
Land Covered: SW/4, Section 11; N/2NW/4, Section 14;  
E/2NE/4, Section 15, Township-8-South,  
Range-37-East, NMPM, Roosevelt County,  
New Mexico  
Royalty: One-eighth (1/8) on oil and gas  
Overriding Royalty: 0.025 on oil and gas
2. Lessor: Schumacher Oil Company  
Lessee: O'Brien Goins Simpson Exploration  
Dated: September 25, 1987  
Recorded: Volume 124, Page 640 of the Oil & Gas  
Records of Roosevelt County, New Mexico  
Land Covered: SW/4, Section 11; N/2NW/4, Section 14;  
E/2NE/4, Section 15, Township-8-South,  
Range-37-East, NMPM, Roosevelt County,  
New Mexico  
Royalty: One-eighth (1/8) on oil and gas  
Overriding Royalty: 0.025 on oil and gas
3. Lessor: Margaret Anne Eaton, et vir, Kenneth  
Eaton  
Lessee: O'Brien Goins Simpson Exploration  
Dated: September 28, 1987  
Recorded: Volume 124, Page 741 of the Oil & Gas  
Records of Roosevelt County, New Mexico  
Land Covered: SW/4, Section 11; N/2NW/4, Section 14;  
E/2NE/4, Section 15, Township-8-South,  
Range-37-East, NMPM, Roosevelt County,  
New Mexico  
Royalty: One-eighth (1/8) on oil and gas  
Overriding Royalty: 0.025 on oil and gas
4. Lessor: Ben E. Taylor  
Lessee: O'Brien Goins Simpson Exploration  
Dated: October 13, 1987  
Recorded: Volume 124, Page 743 of the Oil & Gas  
Records of Roosevelt County, New Mexico  
Land Covered: SW/4, Section 11; N/2NW/4, Section 14;  
E/2NE/4, Section 15, Township-8-South,  
Range-37-East, NMPM, Roosevelt County,  
New Mexico  
Royalty: One-eighth (1/8) on oil and gas  
Overriding Royalty: 0.025 on oil and gas
5. Lessor: Phyllis Jane Wesson  
Lessee: O'Brien Goins Simpson Exploration  
Dated: September 28, 1987  
Recorded: Volume 124, Page 815 of the Oil & Gas  
Records of Roosevelt County, New Mexico  
Land Covered: SW/4, Section 11; N/2NW/4, Section 14;  
E/2NE/4, Section 15, Township-8-South,  
Range-37-East, NMPM, Roosevelt County,  
New Mexico  
Royalty: One-eighth (1/8) on oil and gas  
Overriding Royalty: 0.025 on oil and gas

IV. OIL AND GAS LEASES SUBJECT TO THIS AGREEMENT:

6. Lessor: James A. Crutchmer, Jr., et ux, Carol Ann Crutchmer  
 Lessee: O'Brien Goins Simpson Exploration  
 Dated: October 13, 1987  
 Recorded: Volume 124, Page 817 of the Oil & Gas Records of Roosevelt County, New Mexico  
 Land Covered: SW/4, Section 11; N/2NW/4, Section 14; E/2NE/4, Section 15, Township-8-South, Range-37-East, NMPM, Roosevelt County, New Mexico  
 Royalty: One-eighth (1/8) on oil and gas  
 Overriding Royalty: 0.025 on oil and gas
7. Lessor: John Lynn Singleton  
 Lessee: O'Brien Goins Simpson Exploration  
 Dated: November 10, 1987  
 Recorded: Volume 124, Page 991 of the Oil & Gas Records of Roosevelt County, New Mexico  
 Land Covered: SW/4, Section 11; N/2NW/4, Section 14; E/2NE/4, Section 15, Township-8-South, Range-37-East, NMPM, Roosevelt County, New Mexico  
 Royalty: One-eighth (1/8) on oil and gas  
 Overriding Royalty: 0.025 on oil and gas
8. Lessor: Richard Lloyd Singleton  
 Lessee: O'Brien Goins Simpson Exploration  
 Dated: November 10, 1987  
 Recorded: Volume 124, Page 977 of the Oil & Gas Records of Roosevelt County, New Mexico  
 Land Covered: SW/4, Section 11; N/2NW/4, Section 14; E/2NE/4, Section 15, Township-8-South, Range-37-East, NMPM, Roosevelt County, New Mexico  
 Royalty: One-eighth (1/8th) on oil and gas  
 Overriding Royalty: 0.025 on oil and gas
9. Lessor: G. B. Holman, Jr., and Amanda Holman Keef  
 Lessee: O'Brien Goins Simpson Exploration  
 Dated: November 17, 1987  
 Recorded: Volume 125, Page 404 of the Oil & Gas Records of Roosevelt County, New Mexico  
 Land Covered: SW/4, Section 11; N/2NW/4, Section 14; E/2NE/4, Section 15, Township-8-South, Range-37-East, NMPM, Roosevelt County, New Mexico  
 Royalty: One-eighth (1/8th) on oil and gas  
 Overriding Royalty: 0.025 on oil and gas
10. Lessor: Mary Ruth Singleton, Independent Executrix of the Estate of T. F. Singleton  
 Lessee: O'Brien Goins Simpson Exploration  
 Dated: February 4, 1988  
 Recorded: Volume 125, Page 491 of the Oil & Gas Records of Roosevelt County, New Mexico  
 Land Covered: SW/4, Section 11; N/2NW/4, Section 14; E/2NE/4, Section 15, Township-8-South, Range-37-East, NMPM, Roosevelt County, New Mexico  
 Royalty: One-eighth (1/8th) on oil and gas  
 Overriding Royalty: 0.025 on oil and gas

## IV. OIL AND GAS LEASES SUBJECT TO THIS AGREEMENT: Continued

11. Lessor: Frances Cole  
 Lessee: O'Brien Goins Simpson Exploration  
 Dated: May 3, 1988  
 Recorded: Volume 126, Page 329 of the Oil & Gas  
 Records of Roosevelt County, New Mexico  
 Land Covered: SW/4, Section 11; N/2NW/4, Section 14;  
 E/2NE/4, Section 15, Township-8-South,  
 Range-37-East, NMPM, Roosevelt County,  
 New Mexico  
 Royalty: Three-sixteenth (3/16th) on oil and gas  
 Overriding Royalty: 0.01625 on oil and gas
12. Lessor: Sara Strawder Shaw, Individually and as  
 Independent Executrix of the Estate of  
 Harry T. Shaw, deceased  
 Lessee: O'Brien Goins Simpson Exploration  
 Dated: May 3, 1988  
 Recorded: Volume 126, Page 490 of the Oil & Gas  
 Records of Roosevelt County, New Mexico  
 Land Covered: SW/4, Section 11; N/2NW/4, Section 14;  
 E/2NE/4, Section 15, Township-8-South,  
 Range-37-East, NMPM, Roosevelt County,  
 New Mexico  
 Royalty: Three-sixteenths (3/16th) on oil and  
 gas  
 Overriding Royalty: 0.01625 on oil and gas
13. Lessor: Trustmark National Bank and Catherine  
 W. Sanders, et al, Co-Trustees of the  
 Catherine W. Sanders Marital Trust and  
 of the Robert D. Sanders Residuary  
 Trust  
 Lessee: O'Brien Goins Simpson Exploration  
 Dated: April 6, 1988  
 Recorded: Volume 126, Page 415 of the oil & Gas  
 Records of Roosevelt County, New Mexico  
 Land Covered: SW/4, Section 11; N/2NW/4, Section 14;  
 E/2NE/4, Section 15, Township-8-South,  
 Range-37-East, NMPM, Roosevelt County,  
 New Mexico  
 Royalty: Three-sixteenths (3/16th) on oil and  
 gas  
 Overriding Royalty: 0.01625 on oil and gas
14. Lessor: David M. Hammer, Mary Hammer, Alan J.  
 Hammer, Robert J. Hammer, Deanna J.  
 Christensen, John E. Christensen and  
 Mary K. Hammer  
 Lessee: O'Brien Goins Simpson Exploration  
 Dated: SUBJECT TO COMPULSORY POOLING  
 Recorded:  
 Land Covered: SW/4, Section 11; N/2NW/4, Section 14;  
 E/2NE/4, Section 15, Township-8-South,  
 Range-37-East, NMPM, Roosevelt County,  
 New Mexico  
 Royalty: If one-eighth (1/8th) on oil and gas  
 under Pooling Order, then  
 Overriding Royalty: 0.025 on oil and gas  
 Royalty: If three-sixteenths (3/16th) on oil and  
 gas under Pooling Order, then  
 Overriding Royalty: 0.01625 on oil and gas

## IV. OIL AND GAS LEASES SUBJECT TO THIS AGREEMENT: Continued

15. Lessor: Deposit Guaranty National Bank, Trustee  
for George E. Shaw Heirs Trust  
Lessee: O'Brien Goins Simpson Exploration  
Dated: June 16, 1988  
Recorded: Volume 126, Page 680 of the oil & Gas  
Records of Roosevelt County, New Mexico  
Land Covered: SW/4, Section 11; N/2NW/4, Section 14;  
E/2NE/4, Section 15, Township-8-South,  
Range-37-East, NMPM, Roosevelt County,  
New Mexico  
Royalty: Three-sixteenths (3/16th) on oil and  
gas  
Overriding Royalty: 0.01625 on oil and gas
16. Lessor: Deposit Guaranty National Bank, Trustee  
for Susan Rushton Mangum Trust and Dr.  
Fred Rushton, Jr.  
Lessee: O'Brien Goins Simpson Exploration  
Dated: June 16, 1988  
Recorded: Volume 126, Page 682 of the oil & Gas  
Records of Roosevelt County, New Mexico  
Land Covered: SW/4, Section 11; N/2NW/4, Section 14;  
E/2NE/4, Section 15, Township-8-South,  
Range-37-East, NMPM, Roosevelt County,  
New Mexico  
Royalty: Three-sixteenths (3/16th) on oil & gas  
Overriding Royalty: 0.01625 on oil and gas
17. Lessor: Walter Duncan, Inc.  
Lessee: O'Brien Goins Simpson Exploration  
Dated: May 1, 1988  
Recorded: Volume 126, Page 345 of the oil & Gas  
Records of Roosevelt County, New Mexico  
Land Covered: The North Half of the Northwest Quarter  
(N/2NW/4) of Section 14, Township 8  
South, Range 37 East, NMPM, Roosevelt  
County, New Mexico  
Royalty: Before payout of each well - 3/16th on  
oil and gas, proportionately reduced  
After payout of each well - 1/8th on  
oil and gas  
Overriding Royalty: Before payout of each well - 0.01625 on  
oil and gas, After payout of each well  
- 0.025 on oil and gas
18. Lessor: Ronald Rushton, et ux  
Lessee: O'Brien Goins Simpson Exploration  
Dated: May 3, 1988  
Recorded: Volume 126, Page 329 of the Oil & Gas  
Records of Roosevelt County, New Mexico  
Land Covered: SW/4, Section 11; N/2NW/4, Section 14;  
E/2NE/4, Section 15, Township-8-South,  
Range-37-East, NMPM, Roosevelt County,  
New Mexico  
Royalty: Three-sixteenths (3/16th) on oil & gas  
Overriding Royalty: 0.01625 on oil and gas

INSOFAR ONLY as said Leases 1 through 18 cover the E/2 of the NE/4 of  
Section 14, T-8-S, R-37-E, NMPM, Roosevelt County, New Mexico, containing  
80.0 acres, more or less.

IV. OIL AND GAS LEASES SUBJECT TO THIS AGREEMENT: Continued

19. Lessor: United States of America NM-66486  
 Lessee: Murphy Operating Corporation  
 Dated: June 1, 1958  
 Recorded:  
 Land Covered: INSOFAR ONLY as said lease covers  
 W/2NE/4 and the NW/4, Section 14,  
 Township 8 South, Range 37 East, NMPM,  
 Roosevelt County, New Mexico,  
 containing 240 acres, more or less.  
 Royalty: One-eighth (1/8th) on oil and gas  
 Overriding Royalty: 0.0486717 of all oil and gas produced  
 from this lease, also the interests of  
 Murphy Operating Corporation, J.E.  
 Cieszinski and Tom L. Ingram in this  
 lease are subject to a Farmout  
 Agreement dated August 1, 1988, wherein  
 they reserved an overriding royalty in  
 each well before payout equal to the  
 difference between all existing  
 leasehold burdens on the date of this  
 agreement and 25%.

V. ADDRESSES AND PHONE NUMBERS OF PARTIES TO THIS AGREEMENT FOR NOTICE PURPOSES:

1.	OGS Operating Company, Inc. 550 W. Texas, Suite 1140 Midland, TX 79701	915-682-6373
2.	O'Brien Goins Simpson Exploration 550 W. Texas, Suite 1140 Midland, TX 79701	915-682-6373
3.	Michael W. Gates P.O. Box 10347 Midland, TX 79702	915-686-0023
4.	OGM Partnership II 550 W. Texas, Suite 1140 Midland, TX 79701	915-682-6373
5.	O'Connor Oil & Gas Ltd. 550 W. Texas, Suite 1140 Midland, TX 79701	915-682-6373
6.	Edmund O'Connor 550 W. Texas, Suite 1140 Midland, TX 79701	915-682-6373
7.	Great Western Drilling Company 509 N. Loraine P.O. Box 1659 Midland, TX 79701	915-682-5241
8.	Hugh A. Moore P.O. Box 51453 Lafayette, LA 70505	318-984-6854
9.	George R. White and wife, Bettijo H. White P.O. Box 52346 Lafayette, LA 70505	318-232-5594

V. ADDRESSES AND PHONE NUMBERS OF PARTIES TO THIS AGREEMENT FOR NOTICE PURPOSES:

10. A. B. Sam and wife, 915-683-5088  
Janet D. Sam  
P.O. Box 1736  
Midland, TX 79702
11. Morris Mizel 1986 Partners 918-663-7579  
6560 East 41st Street  
Tulsa, OK 74145
12. The Wiser Oil Company 304-652-3861  
Box 192  
Sisterville, W. VA 26175
13. Earl A. Latimer 505-622-3363  
1802 W. 4th Street  
Roswell, NM 88202
14. Murphy Operating Corporation 505-623-7210  
United Bank Plaza  
Suite 300  
400 N. Pennsylvania Ave.  
Box 2164  
Roswell, NM 88201
15. Tom L. Ingram and wife, 505-622-3630  
Joan L. Ingram  
Box 1757  
Roswell, NM 88202
16. J. E. Cieszinski and wife, 505-622-3116  
Drusilla C. Cieszinski  
Box 3047  
Roswell, NM 88201
17. Walter Duncan, Inc. 405-272-1826  
100 Park Avenue Bldg.  
Suite 1200  
Oklahoma City, OK 73102

END OF EXHIBIT "A"

Attached to and made a part of the Operating Agreement dated August 1, 1988 by and between OGS Operating Company, Inc., as Operator, and O'Brien Goins Simpson Exploration Co., et al, as Non-Operators, covering the Bluit Prospect, Roosevelt County, New Mexico. (NM015)

TXO-130 2/73  
With Pooling Clause

Three YEAR PAID UP LEASE  
OIL, GAS AND MINERAL LEASE

Texas Standard Form

THIS AGREEMENT made this 1st day of May, 1988, between \_\_\_\_\_

of  
O'BRIEN GOINS SIMPSON EXPLORATION COMPANY (Post Office Address)  
herein called lessor (whether one or more), and 1140 Two First City Center, Midland, TX 79701, lessee:

1. Lessor, in consideration of Ten and no/100----- Dollars (\$ 10.00 ) in hand paid, receipt of which is here acknowledged, and of the royalties herein provided and of the agreements of the lessee herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling, mining and operating for and producing oil, gas, and all other minerals, injecting gas, waters, other fluids, and air into subsurface strata, laying pipe lines, storing oil, building tanks, power stations, telephone lines, and other structures and things thereon to produce, save, take care of, treat, process, store and transport said minerals and other products manufactured therefrom, and housing and otherwise caring for its employees, the following described land in Roosevelt County, New Mexico XXXXXX to-wit:

Township-8-South, Range-37-East, N.M.P.M.

Section 14: North Half of the Northwest Quarter (N/2NW/4)  
containing 80.0 acre, more or less.

This lease also covers and includes, in addition to that above described, all land, if any, contiguous or adjacent to or adjoining the land above described and (a) owned or claimed by lessor by limitation, prescription, possession, reversion or unrecorded instrument or (b) as to which lessor has a preference right of acquisition. Lessor agrees to execute any supplemental instrument requested by lessee for a more complete or accurate description of said land. For the purpose of determining the amount of any bonus or other payment hereunder, said land shall be deemed to contain 80.00 acres, whether actually containing more or less, and the above recital of acreage in any tract shall be deemed to be the true acreage thereof. Lessor accepts the bonus as lump sum consideration for this lease and all rights and options hereunder.

2. Subject to the other provisions herein contained, this lease shall remain in force for a term of three (3) years from this date (called "primary term"), and as long thereafter as oil, gas, or other mineral is produced from said physical land or land with which said land or any part thereof is pooled.

3. The royalties to be paid by lessee are: (a) on oil, and on other liquid hydrocarbons saved at the well, one-eighth of that produced and saved from said land, same to be delivered at the wells or to the credit of lessor in the pipe line to which the wells may be connected; lessor's interest in either case shall bear its proportion of any expenses for treating oil to make it marketable as crude; (b) on gas, including casinghead gas and all gaseous substances, produced from said land and sold, the royalty shall be one-eighth of the amount realized from such sale; (c) on gas including casinghead gas and all gaseous substances produced from said land and used off of the premises by lessee and not benefiting lessor, the market value at the mouth of the well of one-eighth of the gas so used off of the premises; (d) on all other minerals mined and marketed, one-eighth, either in kind or value at the well or mine, at lessee's election, except that on sulphur the royalty shall be One Dollar (\$1.00) per long ton; and (e) if at any time while there is a gas well or wells on the above land and for the purposes of this clause (e) the term "gas well" shall include wells capable of producing natural gas, condensate, distillate or any gaseous substance and wells classified as gas wells by any governmental authority such well or wells are shut in, and if this lease is not continued in force by some other provision hereof, then it shall nevertheless continue in force for a period of ninety (90) days from the date such well or wells are shut in or this lease ceases to be otherwise maintained as provided herein, whichever is the later date, and before the expiration of any such period, lessee or any assignee hereunder may pay or tender an advance annual royalty of One Dollar (\$1.00) per acre for the acreage then held under this lease to the owners of royalty hereunder or to their credit in the \_\_\_\_\_ Bank at \_\_\_\_\_

(which bank, or any successor thereof, shall continue to be the agent for the lessor and lessor's successors and assigns; if such bank for any successor bank) shall fail, liquidate, or be succeeded by another bank, or for any reason fail or refuse to accept royalty, lessee shall not be held in default until thirty (30) days after lessor shall deliver to lessee a recordable instrument making provision for another method of payment or tender, and any depositary charge is a liability of the lessor, and if such payment or tender is made, this lease shall continue in force and it shall be considered that gas is being produced from the lease premises in paying quantities within the meaning of paragraph 3 hereof for one (1) year from the date of such payment, and in like manner subsequent advance annual royalty payments may be made or tendered and this lease shall continue in force and it will be considered that gas is being produced from the leased premises in paying quantities within the meaning of said paragraph 3 during any annual period for which such royalty is so paid or tendered. The payment or tender of royalty may be made by check or draft of lessee, mailed or delivered to said bank or lessor, or either lessor if more than one. Royalty accruing to the owners thereof on any production from the leased premises during any annual period for which advance royalty is paid may be credited against such advance payment.

4. Lessee is hereby given the power and right, as to all or any part of land described herein and as to any one or more of the formations thereunder and the minerals therein or produced therefrom, at its option and without lessor's consent, to at any time, and from time to time, either before or after production, pool and unitize the lessor's estate and the lessor's royalty estate created by this lease with the rights of third parties, if any, in all or any part of the land described herein and with any other land, lands, lease, leases, mineral and royalty rights, or any of them adjacent, adjoining, or located within the immediate vicinity of this lease, whether owned by lessee or some other person, firm or corporation, so as to create by such pooling and unitization one or more drilling or production units, when to do so would, in the sole judgment of lessee, promote the conservation of oil, gas or other mineral. Each such drilling or production unit, when limited to any one or more formations and to any one or more of the minerals therein or produced therefrom, may from time to time be enlarged and extended by lessee to additionally include any other formation or formations and any other mineral or minerals therein or produced therefrom. Also, any such unit may be altered or enlarged by lessee at any time so long as the total acreage therein does not exceed the maximum hereinafter specified. Each such drilling or production unit shall not exceed 40 acres, plus an acreage tolerance not to exceed ten per cent (10%) of 40 acres, when created for the purpose of drilling for or producing oil therefrom and 640 acres, plus an acreage tolerance not to exceed ten per cent (10%) of 640 acres, when created for the purpose of drilling for or producing gas, condensate or any combination of such minerals therefrom; provided, however, if the maximum drilling or production unit fixed or allowed by the regulatory authority, Federal or State, having jurisdiction in the premises, as a basis for the development and operation of or the production from the field in which the above described land is located, be more or less than said maximum, then, in either such event, each such unit created hereunder shall not exceed the maximum so prescribed or permitted and in force in the field at the time such unit is created. As to each such unit so created by lessee, there shall be allocated to the acreage covered by this lease, and included in the pooled unit, such portion of the production from said unit as the number of acres out of this lease placed in any such unit, as such unit from time to time may be constituted, bears to the total number of acres included in such unit, and lessor agrees to accept and shall receive the royalties (shut-in or other kind) elsewhere specified in this lease, based upon the production so allocated to this lease or the proceeds therefrom. The commencement, drilling, completion of, reworking of or production from a well on any portion of the unit created hereunder shall have the same effect upon the terms of this lease as if a well were commenced, drilled, completed, reworked or producing on the land embraced by this lease. Lessee may place and use on each unit created hereunder common measuring and reworking tanks for production from such unit. If lessee does create any such unit or units under the rights herein granted, then lessee shall execute in writing and record in the county or counties in which each such unit or units created hereunder may be located an instrument identifying and describing each such unit or units so created. The development of and production from each such unit shall be in accordance with the valid orders, rules and regulations of the lawful authority, either Federal or State, having jurisdiction in the premises. Any such unit created by lessee in accordance with the terms hereof may be revised and dissolved by lessee by a release filed for record in the county or counties in which such unit is located at any time after the completion of a dry hole or the cessation of production on such unit. The provisions of this paragraph shall be construed as a covenant running with the land and shall inure to the benefit of and be binding upon the parties hereto, their heirs, legal representatives, successors and assigns.

5. If at the expiration of the primary term, oil, gas, or other mineral is not being produced on said land, or from land pooled therewith, but Lessee is then engaged in drilling or reworking operations thereon, or shall have completed a dry hole thereon within 90 days prior to the end of the primary term, the lease shall remain in force so long as operations on said well or for drilling or reworking of any additional well are prosecuted with no cessation of more than 90 consecutive days, and if they result in the production of oil, gas or other mineral, so long thereafter as oil, gas, or other mineral is produced from said land, or from land pooled therewith. If, after the expiration of the primary term of this lease and after oil, gas, or other mineral is produced from said land, or from land pooled therewith, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within 90 days after the cessation of such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 90 consecutive days, and if they result in the production of oil, gas, or other mineral, so long thereafter as oil, gas, or other mineral is produced from said land, or from land pooled therewith. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within 200 feet of and draining the leased premises or land pooled therewith, Lessee agrees to drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances.

6. Lessee shall have free use of oil, gas, and water from said land, except water from lessor's wells and tanks, for all operations hereunder, including repressuring, pressure maintenance, cycling, and secondary recovery operations, and the royalty shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by lessee on said land, including the right to draw and remove all casing. When required by lessor, lessee will bury all pipe lines below ordinary plow depth, and no well shall be drilled within two hundred feet (200 ft.) of any residence or barn now on said land without lessor's consent.

7. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, executors, administrators, successors, and assigns, but no change or division in ownership of the land, rentals or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of lessee. No such change or division in the ownership of the land, rentals or royalties shall be binding upon lessee for any purpose until such person acquiring any interest has furnished lessee with the instrument or instruments, or certified copies thereof, constituting his chain of title from the original lessor. An assignment of this lease, in whole or in part, shall, to the extent of such assignment, relieve and discharge lessee of any obligations hereunder, and, if lessee or assignee of part or parts hereof shall fail to comply with any provision of the lease, such default shall not affect this lease in so far as it covers a part of said lands upon which lessee or any assignee thereof shall not be in default. Should more than six parties become entitled to royalties hereunder, Lessee may require the appointment of a single agent to receive payment for all and may withhold payment until such appointment has been made.

8. When drilling or other operations are delayed or interrupted by storm, flood, or other act of God, fire, war, rebellion, insurrection, riot, strikes, differences with workmen, or failure of carriers to transport or furnish facilities for transportation, or as a result of some order, requisition or necessity of the government, or as a result of any cause whatsoever beyond the control of the lessee, the time of such delay or interruption shall not be counted against lessee, anything in this lease to the contrary notwithstanding. All express or implied covenants of this lease shall be subject to all Federal and State laws, Executive orders, rules or regulations and this lease shall not be terminated, in whole or in part, nor lessee held liable in damages for failure to comply therewith if compliance is prevented by, or if such failure is the result of, any such law, order, rule or regulation. And if from such cause lessee is prevented from conducting drilling or reworking operations on, or producing oil or gas from, the leased premises or land pooled therewith, the time while lessee is so prevented shall not be counted against lessee, and this lease shall be extended for a period of time equal to that during which such lessee is so prevented from conducting drilling or reworking operations on, or producing oil or gas from, such leased premises or land pooled therewith, notwithstanding any other provision hereof.

9. The breach by lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or reversion of the estate created hereby nor be grounds for cancellation hereof in whole or in part. In the event lessor considers that operations are not at any time being conducted in compliance with this lease, lessor shall notify lessee in writing of the facts relied upon as constituting a breach hereof, and lessee, if in default, shall have sixty days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument. After the discovery of oil, gas or other mineral in paying quantities on said premises, lessee shall reasonably develop the acreage retained hereunder, but in discharging this obligation it shall in no

event be required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres plus an acreage tolerance not to exceed 10% of 640 acres of the area retained hereunder and capable of producing gas or other minerals in paying quantities.

10. Lessor hereby warrants and agrees to defend the title to said land, and agrees that lessee, at its option, may discharge any tax, mortgage, or other lien upon said land, and in the event lessee does so, it shall be subrogated to such lien with the right to enforce same and apply royalties accruing hereunder toward satisfying same. Without impairment of lessee's rights under the warranty in the event of failure of title, it is agreed that, if lessor owns an interest in said land less than the entire fee simple estate, then the royalties to be paid lessor shall be reduced proportionately; should any one or more of the parties named above as lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

11. Lessee, its/his successors and assigns, shall have the right at any time to surrender this lease, in whole or in part, to lessor or his heirs and assigns by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the county in which said land is situated; thereupon lessee shall be relieved from all obligations, expressed or implied, of this agreement as to the acreage so surrendered.

IN WITNESS WHEREOF, we sign the day and year first above written.

WITNESSES:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

SINGLE ACKNOWLEDGMENT

THE STATE OF TEXAS,  
COUNTY OF \_\_\_\_\_

BEFORE ME, the undersigned, a Notary Public,

\_\_\_\_\_, in and for said County, Texas, on this day personally appeared

known to me to be the person whose name \_\_\_\_\_ subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, This \_\_\_\_\_ day of \_\_\_\_\_, A D. 19\_\_\_\_

(L. S.)

SINGLE ACKNOWLEDGMENT

THE STATE OF TEXAS,  
COUNTY OF \_\_\_\_\_

BEFORE ME, the undersigned, a Notary Public,

\_\_\_\_\_, in and for said County, Texas, on this day personally appeared

known to me to be the person whose name \_\_\_\_\_ subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, This \_\_\_\_\_ day of \_\_\_\_\_, A D. 19\_\_\_\_

(L. S.)

CORPORATION ACKNOWLEDGMENT

THE STATE OF TEXAS,  
COUNTY OF \_\_\_\_\_

BEFORE ME, the undersigned, a Notary Public,

\_\_\_\_\_, in and for said County, Texas, on this day personally appeared

\_\_\_\_\_ known to me to be the person and officer whose name is subscribed to the foregoing instrument and acknowledged to me that the same was the act of the said

corporation, and that he executed the same as the act of such corporation for the purposes and consideration therein expressed, and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, This \_\_\_\_\_ day of \_\_\_\_\_, A D. 19\_\_\_\_

(L. S.)

No. _____	OIL AND GAS LEASE	FROM _____	TO _____
Dated _____			
No. Acres _____	County, Texas.		
Term _____	This instrument was filed for record on the _____ day of _____, 19____, at _____ o'clock _____ M., and duly recorded in Volume _____ Page _____ of the records of this office.		
County Clerk _____		Deputy _____	
When recorded return to _____			

EXHIBIT " C "

Attached to and made a part of that certain Operating Agreement dated October 1, 1989  
by and between OGS Operating Company, Inc., as Operator, and O'Brien Goins  
Simpson Exploration Company, et al, as Non-Operators, covering the Bluit  
Prospect in Roosevelt County, New Mexico. (NM015) (Seciton 15: N/2)

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.

B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at First City  
National Bank of Midland, Texas on the first day of the month in which delinquency occurs 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.

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 ~~XXXXXX~~ employed in connection with the Joint Property.
- (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 Eighty percent (80.0%) 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

- A. 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.
- B. Expenses incurred by Operator in representing the joint property at hearings or proceedings before state or federal regulatory or administrative agencies

#### 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 \$ 3,000.00  
 (Prorated for less than a full month)

Producing Well Rate \$ 300.00

- (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, redrilling, 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 \$25,000.00:

- A. 3.0 % of first \$100,000 or total cost if less, plus  
 B. 2.0 % of costs in excess of \$100,000 but less than \$1,000,000, plus  
 C. 1.0 % 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. 3.0 % of total costs through \$100,000; plus  
 B. 2.0 % of total costs in excess of \$100,000 but less than \$1,000,000; plus  
 C. 1.0 % 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, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.

(2) Line Pipe

- (a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.
- (b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.

- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store 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"

Attached to and made a part of that certain Operating Agreement dated October 1, 1989, by and between OGS Operating Company, Inc., as Operator, and O'Brien Goins Simpson Exploration Company, et al, as Non-Operators, covering the Bluitt Prospect, Roosevelt County, New Mexico. (NM015)

At all times during the conducting of operations hereunder, Operator shall maintain in force the following insurance:

- A. Worker's Compensation to satisfy the requirements of any State or Federal Worker's Compensation Act applicable to operations conducted by the Operator for the Joint Account, including Employer's Liability Insurance, with limits sufficient to satisfy the underlying insurance requirements of the Umbrella Excess Policy described in Paragraph D. of this Section.
- B. Comprehensive General Liability, including Contractual Liability, for bodily injury and property damage, with limits of liability not less than \$300,000.00 covering injury to or death of one person and not less than \$300,000.00 covering injury to or death of more than one person by reason of one accident, and Property Damage Liability Insurance with limits of not less than \$100,000.00 for each accident and \$100,000.00 in the aggregate and sufficient to satisfy the underlying insurance requirements of the Umbrella Excess Policy described in Paragraph D. of this Section.
- C. Comprehensive Automobile Liability, including liability arising out of non-owned and hired cars, for bodily injury and property damage with limits of liability sufficient to satisfy the underlying insurance requirements of the Umbrella Excess Policy described in Paragraph D. of this Section.
- D. Umbrella Excess Liability with a limit of \$5 million.
- E. Operator's Extra Expense -- Control of Well, as respects drilling, deepening, or workover wells, including (1) the cost of control of a well in the event of a blowout; (2) Bodily Injury or Property Damage Liability caused by pollution, seepage or contamination; (3) pollution cleanup; (4) extinguishing of an oil or gas well fire; and (5) redrilling/recompletion of the well, with a limit of \$3,000,000.00 for wells less than 10,000 feet in depth and \$5,000,000.00 for wells in excess of 10,000 feet in depth.

All premiums paid on such insurance shall be charged to the Joint Account. Except by mutual consent of the parties, no other insurance shall be maintained for the Joint Account and all losses not covered by such insurance shall be charged to the Joint Account.

The failure of the above described policies to cover any loss that may occur, or the insolvency of the insurance carrier selected by the Operator, shall not be deemed negligence of the Operator or lack of due diligence upon the part of the Operator.

In the event any insurance on this Exhibit is not available (or becomes unavailable) at reasonable premium rates in the judgement of the Operator, then the Operator shall not be required to obtain or continue such insurance in force.

END OF EXHIBIT "D"

EXHIBIT "E"

Attached to and made a part of that certain Operating Agreement dated October 1, 1989, by and between OGS Operating Company, Inc., as Operator, and O'Brien Goins Simpson Exploration Company, et al, as Non-Operators, covering the Bluitt Prospect, Roosevelt County, New Mexico. (NM015)

GAS STORAGE AND BALANCING AGREEMENT

- (1) During the period or periods when any party hereto has no market for, or its purchaser is unable to take, or if any party fails to take, its share of gas (such a party or parties called individually or collectively "underproduced party"), the other party or parties (called individually or collectively "overproduced party") shall be entitled to produce each month one hundred percent (100%) of the allowable gas production assigned to the Unit Area by the appropriate governmental entity having jurisdiction, and such overproduced party shall have the right to take all of the share of the underproduced party, subject to the provisions hereof, until such underproduced party shall exercise its rights to take its share of such gas production. All parties hereto shall share in and own all the condensate as actually recovered at the surface in accordance with their respective interests, but the overproduced party taking all such gas may sell and deliver all such gas to its purchaser(s), subject to the provisions hereof. Thereafter each underproduced party shall be credited with gas in storage equal to its share of the gas produced, less its share of gas used in lease operations, vented or lost. Operator shall maintain a current account of the gas balance between the parties and shall furnish all parties hereto monthly statements showing the total quantity of gas produced, used in lease operations, vented and/or lost, and the total quantity of condensate recovered.
- (2) After notice to Operator and the overproduced party, an underproduced party may begin taking and/or delivering its share of the gas produced. In addition to its share, each underproduced party, until it has recovered its gas in storage and balanced its gas account, shall be entitled to take or deliver a volume of gas equal to thirty-seven and one-half percent (37-1/2%) of the overproduced party's share of gas produced. If "underproduced party" constitutes more than one party entitled to the additional gas produced, such parties shall divide such additional gas in accordance with their shares of Unit participation.
- (3) At all times while gas is produced from the Unit Area, each party shall make appropriate settlement of all royalties, overriding royalty interests, and other like payments for which it is responsible (referred to collectively as "royalty") as if each party were actually taking or delivering to a purchaser its share, and its share only, of such gas production, provided that during any period of imbalance, the overproduced party shall remit to the underproduced party the royalty share of production proceeds of the underbalanced party's Unit share of gas being taken by the overproduced party. In lieu of making payment of such royalty share of proceeds to the underproduced party, the overproduced party may, if it so elects, make payment directly to the royalty owners of the underproduced party.
- (4) Each party producing and/or delivering gas to its purchaser(s) shall pay any and all production taxes due on such gas.
- (5) When the gas sales from a reservoir in a gas well permanently cease, Operator shall be responsible for determining the final account of underproduction and overproduction. Each overproduced party shall compensate each underproduced party in accordance with said accounting with a sum of money equal to the amount actually received from the sale of underproduced party's share of gas by such overproduced party during each period of overproduction not theretofore recovered by underproduced party pursuant to Paragraph (2) above, less applicable taxes, on a cumulative basis. Payment for such overproduction shall be in the order of accrual with actual recovery of underproduced gas by underproduced party prior to such cessation of production being accounted for as to storage and withdrawal on a first in - first out basis. If such overproduced party has paid the royalties attributable to such overproduction, the amount of such royalties shall be deducted from such payment.

EXHIBIT "E"

- (6) The provisions of this agreement shall be separately applicable to each well and each reservoir within each well to the end that production from one reservoir in a gas well may not be utilized for the purpose of balancing underproduction from other reservoirs or gas wells.
- (7) Nothing herein contained shall change or affect each party's obligation to pay its proportionate share of all costs and liabilities incurred in joint operations as its share thereof is set forth in the above described Operating Agreement.

END OF EXHIBIT "E"

EXHIBIT "F"

Attached to and made a part of that certain Operating Agreement dated October 1, 1989, by and between OGS Operating Company, Inc., as Operator, and O'Brien Goins Simpson Exploration Company, et al, as Non-Operators, covering the Bluitt Prospect, Roosevelt County, New Mexico. (NM015)

EQUAL EMPLOYMENT OPPORTUNITY PROVISION

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

- 1) The Operator will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. The Operator will take affirmative action to ensure that applicants are employed and that employees are treated during employment, without regard to their race, color, religion, sex or national origin. Such action shall include, but not be limited to the following: Employment, upgrading, demotion, or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other form of compensation; and selection for training including apprenticeship. The Operator agrees to post in conspicuous places, available to employees and applicants for employment notices to be provided for the contracting officer setting forth the provision of this non-discrimination clause.
- 2) The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex or national origin.
- 3) The Operator will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Operator's commitments under Section 202 of Executive Order No. 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
- 4) The Operator will comply with all provisions of Executive Order No. 11246 of September 24, 1965, and the rules, regulations, and relevant orders of the Secretary of Labor.
- 5) The Operator will furnish all information and reports required by Executive Order No. 11246 of September 24, 1965, and by the rules, regulations and orders of the Secretary of Labor, or pursuant thereto, and will permit access to its books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.
- 6) In the event of Operator's non-compliance with the non-discrimination clauses of this contract or with any such rules, regulations, or orders,, this contract may be cancelled, terminated or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order No. 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order No. 11246 of September 24, 1965, or by rules, regulations, or order of the Secretary of Labor, or as otherwise provided by law.
- 7) The Operator will include the provisions of paragraph (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order No. 11246 of September 24, 1965, so that such provisions will be binding upon each subcontract or vendor. The Operator will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for non-compliance: Provided, however that in the event the Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interests of the United States.

EXHIBIT "F"

Operator acknowledges that it may be required to file Standard Form 100 (EEO-1) promulgated jointly by the Office of Federal Contract Compliance, the Equal Employment Opportunity Commission and Plans for Progress with the appropriate agency within thirty (30) days of the date of contract award if such report has not been filed for the current year and otherwise comply with or file such other compliance reports as may be required under Executive Order No. 11246, as amended, and Rules and Regulations adopted thereunder.

Operator further acknowledges that it may be required to develop a written affirmative action compliance program as required by the Rules and Regulations approved by the Secretary of Labor under authority of Executive Order No. 11246 and supply Non-Operators with a copy of such program if they so request.

CERTIFICATION OF NON-SEGREGATED FACILITIES

Operator assures Non-Operators that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not and will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. For this purpose, it is understood that the phrase "segregated facilities" includes facilities which are in fact segregated on basis of race, color, religion or national origin, because of habit, local custom or otherwise. It is further understood and agreed that maintaining or providing segregated facilities for its employees or permitting its employees to perform their services at any location under its control where segregated facilities are maintained is a violation of the equal opportunity clause required by Executive Order No. 11246 of September 24, 1965.

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

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

END OF EXHIBIT "F"

EXHIBIT "1"

Attached to and made a part of that certain Operating Agreement dated October 1, 1989, by and between OGS Operating Company, Inc., as Operator, and O'Brien Goins Simpson Exploration Company, et al, as Non-Operators, covering the Bluitt Prospect, Roosevelt County, New Mexico. (NM015)

MEMORANDUM OF OPERATING AGREEMENT

STATE OF NEW MEXICO §

COUNTY OF ROOSEVELT §

Reference is made to that certain Model Form Operating Agreement, A.A.P.L. Form 610-1982, dated the 1st day of October, 1989, wherein OGS Operating Company, Inc., whose address is 550 W. Texas, Suite 1140, Midland, Texas 79701, is named Operator, and each of the undersigned is named as a Non-Operator, covering the Contract Area consisting of lands located in Roosevelt County, New Mexico, more particularly described on Exhibit "1-A" attached hereto and made a part hereof.

The terms and provisions of the referenced Operating Agreement are incorporated in and made a part hereof. Article VII. B. and Article XV. D. of the referenced Operating Agreement grants to Operator and to Non-Operators a lien upon each party's oil and gas rights in the Contract Area and a security interest in each party's interest in oil and/or gas when produced, accounts, proceeds, contract rights, fixtures and personal property and equipment now or hereafter used to secure payment of each party's share of expenses, together with interest, for the development and operation of the Contract Area. Oil and/or gas or accounts will be financed at the wellhead located on the lands described in Exhibit "1-A". This instrument shall be deemed a Financing Statement.

This instrument is intended to give notice to third parties of the respective rights of each of the parties hereto under the referenced Operating Agreement and the rights of each party to undivided interests in the oil and gas rights in the Contract Area, notwithstanding the fact that the real estate records of the county where the lands described in Exhibit "1-A" are located show different rights than are reflected hereby.

A fully-executed copy of the above-described Operating Agreement is available in the offices of Operator at the address shown above.

Each of the undersigned Non-Operators agrees, at Operator's request, to join Operator in executing one or more copies of this instrument at any time and from time to time whenever filing or recording this instrument is deemed by Operator to be necessary or desirable.

This instrument may be executed in multiple counterparts by each of the undersigned, and Operator is hereby authorized to assemble such counterparts into one document.

DATED and effective as of the date of the above-described Operating Agreement.

OGS OPERATING COMPANY, INC.

By: \_\_\_\_\_  
Thom O'Brien  
Vice-President

STATE OF TEXAS §

COUNTY OF MIDLAND §

This instrument was acknowledged before me on the \_\_\_\_\_ day of \_\_\_\_\_, 1989, by Thom O'Brien as Vice-President of OGS Operating Company, Inc., a Texas corporation, on behalf of said corporation.

\_\_\_\_\_  
NOTARY PUBLIC  
STATE OF TEXAS

SIGNATURE PAGE to that certain Memorandum of Operating Agreement dated October 1, 1989 by and between OGS Operating Company, Inc., as Operator, and O'Brien Goins Simpson Exploration Company, et al, as Non-Operators covering the Bluit Prospect, Roosevelt County, New Mexico. (NM015)

NON-OPERATORS

\_\_\_\_\_

STATE OF TEXAS §  
COUNTY OF MIDLAND §

This instrument was acknowledged before me on \_\_\_\_\_ day of \_\_\_\_\_, 1989 by Michael W. Gates.

\_\_\_\_\_  
Notary Public for the State of \_\_\_\_\_