

MARTIN YATES, III
1912 - 1985
FRANK W. YATES
1936 - 1986



105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210
TELEPHONE (505) 748-1471

S. P. YATES
CHAIRMAN OF THE BOARD
JOHN A. YATES
PRESIDENT
PEYTON YATES
EXECUTIVE VICE PRESIDENT
RANDY G. PATTERSON
SECRETARY
DENNIS G. KINSEY
TREASURER

RECEIVED

MAR 19 1990

EXPL. & DEVEL

March 15, 1990

Pacific Enterprises Oil Company (USA)
P. O. Box 3083
Midland, Texas 79702

Attention: M. Craig Clark

RE: Trigg 28 Federal #1 Well
Township 18 South, Range 27 East, NMPM
Section 28: W/2
Eddy County, New Mexico

Gentlemen:

Pursuant to your letter dated March 2, 1990, Yates Petroleum Corporation, Yates Drilling Company, Abo Petroleum Corporation, Myco Industries, Inc., and Yates Employees '87 Ltd., agree to execute the Operating Agreement covering the above captioned well subject to the following changes:

- (1.) Article III B, Line 15: Add words "to the extent of lowest royalty which shall be borne as hereinafter set forth".
- (2.) Article VI A, Line 57: Your Authority For Expenditure calls for well location 1980' FNL and 1980' FWL and this Operating Agreement calls for location at 2030' FNL and 1980' FWL, please change one or the other to match.
- (3.) Article VI C, Line 67: Each party shall have the right to take in kind, etc---.
- (4.) Article VII A, Line 29: Add this sentence - It is not the intention of the parties that this contract is made or intended for the benefit of any third person.
Article VII C, Line 60: Change 15 days to read 30 days.

(5.) Article XV, Line 63: Add following provisions as C & D:

- C. Notwithstanding any other provisions herein, if during the term of this agreement, a well is required to be drilled, deepened, reworked, plugged back, sidetracked, or recompleted, or any other operation that may be required in order to (1) continue a lease or leases in force and effect, or (2) maintain a unitized area or any portion thereof in force and effect, or (3) earn or preserve an interest in and to oil and/or gas and other minerals which may be owned by a third party or which, failing in such operation, may revert to a third party, or (4) comply with an order issued by a regulatory body having jurisdiction in the premises, failing in which certain rights would terminate, the following shall apply. Should less than all of the parties hereto elect to participate and pay their proportionate part of the costs to be incurred in such operation, those parties desiring to participate shall have the right to do so at their sole cost, risk, and expense. Promptly following the conclusion of such operation, each of those parties not participating agree to execute and deliver an appropriate assignment to the total interest of each non-participating party in and to the lease, leases, or rights which would have terminated or which otherwise may have been preserved by virtue of such operation, and in and to the lease, leases or rights within the balance of the drilling unit upon which the well was drilled, excepting, however, wells theretofore completed and capable of producing in paying quantities. Such assignment shall be delivered to the participating parties in the proportion that they bore the expense attributable to the non-participating parties' interest.
- D. No production, whether oil or gas, may be sold from the lease acreage, or lands pooled therewith, to any party's subsidiaries, affiliates, or associates, without each party's prior written consent. All production sold from the lease acreage, or lands pooled therewith, will be an arm's length trade with a third party purchaser. It is expressly agreed if prior written consent is given to a party selling to themselves, its subsidiaries, affiliates, or associates, the other parties to this agreement will have the option to also sell to said purchaser, at the same or better price. In the event any party hereto, makes an arm's length trade with a third party purchaser, the remaining parties will have the option to also sell at the same or higher price.

(6.) Article XVI: Add Yates Employees '87 Ltd. as signator.

(7.) Exhibit "A", III: Revise percentages to reflect our purchase of Exxon and Amoco's interest and add Yates Employees '87 Ltd.

V: Add Yates Employees '87 Ltd., and bring all Yates entities' notices to the attention of Michael R. Burch.

(8.) Exhibit "C": Please consider using a 1974 COPAS with the following revisions:

III, 2. Overhead-Major construction fill in blank with \$25,000.00.

(9.) Exhibit "E": Line 5 reword as follows:

5. This agreement shall constitute a separate agreement as to each proration unit approved by the applicable regulatory authority for a pool within the Contract Area, but such proration unit shall not include any producing horizon which is not within the vertical limits of said pool. This agreement shall remain in force and effect so long as the Operating Agreement to which it is attached remains in effect, and shall inure to the benefit of and be binding upon the parties hereto, their heirs, successors, legal representatives and assigns.

Line 6: Revise as follows:

6. If a proration unit ceases to produce gas and/or liquid hydrocarbons in paying quantities before the gas account is balanced, settlement will be made between the underproduced and overproduced parties. In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced party or parties attributable to the overproduction, which said overproduced party received, less applicable taxes theretofore paid, at the applicable price defined below for the delivery of a volume of gas equal to that for which settlement is made. For gas, the price of which is not regulated by federal, state or other governmental agencies, the price basis shall be the price received for the sale of the gas. For gas, the price of which is subject to regulation by federal, state or other governmental

authorities, the price basis shall be the rate collected from time to time, which is not subject to possible refund, as provided by the Federal Energy Regulatory Commission or any other governmental authority, pursuant to final order or settlement applicable to the gas sold from such well, plus any additional collected amount which is not ultimately required to be refunded by such authority, such additional collected amount to be accounted for at such time as final determination is made with respect hereto.

- 6A. Notwithstanding the provisions of Paragraph 6, it is expressly agreed that any underproduced party shall have the optional right, with respect to each proration unit, to receive a cash settlement bringing such underproduced party's gas account into balance at any time and from time to time prior to the final settlement, by first giving each overproduced party 90 days' written notice of demand for cash settlement. If such option is so exercised, settlement shall be made (as of 7:00 o'clock A.M. on the first day of the calendar month following the date of such written demands) within 90 days following the actual receipt of such written demands by the overproduced parties, in the same manner provided for in Paragraph 6. The option provided for in this paragraph may be exercised, from time to time, but only one time in each calendar year.

If these changes meet with your approval, please submit substitute pages for our review and signature. Please contact me if you have any questions or want to discuss this matter further.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION



Michael R. Burch
Landman

PACIFIC ENTERPRISES OIL COMPANY (USA)

TELECOPIED

March 29, 1990

SOUTHWEST REGION
200 N. Loraine, #400
P.O. Box 3083
Midland TX 79702-3083
(915) 684-3861
(915) 684-6426 (Fax)

Mr. Michael R. Burch
Yates Petroleum Company
105 South Fourth Street
Artesia, New Mexico 88210

RE: Red Lake Prospect #6097

Trigg 28 Federal Com #1 Well
Eddy County, New Mexico

Dear Mr. Burch:

Reference is made to your letter of March 15, 1990 and our telephone conversation of March 28, 1990 concerning the proposed revisions to the Operating Agreement covering the captioned well.

As we discussed, Pacific Enterprises Oil Company (USA) is agreeable to amend the subject Agreement to the extent indicated below:

1. Pacific is agreeable to your revision 1.
2. The correct well location should be 2030'FNL and 1980' FWL.
3. Pacific is not agreeable to your revisions 3 thru 5.
4. Revisions 6 and 7 are no longer applicable.
5. Pacific is agreeable to revision 8 insofar as filling in the blank for Overhead-Mojor Construction.
6. Pacific is agreeable to revision 9 insofar as number 5 is concerned.
7. Pacific is agreeable to revision 9, number 6 subject to the following:

Line 1, insert "permanently" after "unit".

Line 2 delete "in paying quantities".

Line 14, insert "less applicable taxes" at the end of the sentence.

Line 14 delete "is" and insert "at the time of sale was"

end of paragraph, add the following "in any event, no more than the amount actually received less applicable taxes"

Yates Petroleum Corporation
March 29, 1990
Page 2

8. Pacific is not agreeable to revision 9, number 6A.

Should you have any questions or problems, please do not hesitate to contact me.

Very truly yours,

**PACIFIC ENTERPRISES
OIL COMPANY (USA)**



M. Craig Clark
Landman

MCC/dsr

Enclosure



Mail Address: P.O. Box 122269 • Fort Worth, Texas 76121-2269 • Tel: 817-737-6678

March 27, 1990

RECEIVED

MAR 29 1990

M. Craig Clark
Pacific Enterprises Oil Company (USA)
P. O. Box 3083
Midland, Texas 79702-3083

EXPL. & DEVEL

RE: Red Lake Prospect #6097
TRIGG 28 Federal #1 Well
W/2, Sec. 28, T-18S, R-27E
Eddy County, New Mexico

Dear Mr. Clark:

In earlier correspondence with you, Davoil, Inc. wishes to join in the drilling of the TRIGG 28 Federal #1 Well with a mutually agreeable operating agreement. We wish to add the following two clauses to the Operating Agreement to the referenced, dated February 23, 1990:

ADD TO ARTICLE X. CLAIMS AND LAWSUITS p. 13
Operator agrees that it shall, at first notice of any claim, notify the parties in writing and by telephone to report conditions, events, or accidents that could give rise to a personal injury or property damage liability claim, and will assist and coordinate the claims settlement procedure between joint interests and the third party claimants, Operator further agrees, if operator fails to give notice in sufficient time for the parties insureds to respond to claim, then the parties complete liability, including the principal claim and all costs and expenses of handling of said claim shall be born by the Operator and shall not be chargeable to the Joint Account.

ADD TO EXHIBIT "D" INSURANCE ITEM III
Operator agrees that it shall, at first notice of any claim, notify the parties in writing and by telephone to report conditions, events, or accidents that could give rise to a personal

Pacific Enterprises
March 27, 1990
Page 2

injury or property damage liability claim, and will assist and coordinate the claims settlement procedure between joint interests and the third party claimants, Operator further agrees, if operator fails to give notice in sufficient time for the parties insureds to respond to claim, then the parties complete liability, including the principal claim and all costs and expenses of handling of said claim shall be born by the Operator and shall not be chargeable to the Joint Account.

If the foregoing conditions are acceptable, please indicate by signing in the space provided below and returning one (1) copy of this letter to the undersigned at the letterhead address.

Yours truly,



DEBBIE SINGLETON
Land Department

AGREED TO AND ACCEPTED THIS

_____ DAY OF _____, 1990.

PACIFIC ENTERPRISES OIL COMPANY (USA)

BY: _____

TITLE: _____



Mail Address: P.O. Box 122269 • Fort Worth, Texas 76121-2269 • Tel: 817-737-6678

March 27, 1990

RECEIVED

MAR 29 1990

M. Craig Clark
Pacific Enterprises Oil Company (USA)
P. O. Box 3083
Midland, Texas 79702-3083

EXPL. & DEVEL

RE: Red Lake Prospect #6097
TRIGG 28 Federal #1 Well
W/2, Sec. 28, T-18S, R-27E
Eddy County, New Mexico

Dear Mr. Clark:

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ADD TO ARTICLE X. CLAIMS AND LAWSUITS p. 13
Operator agrees that it shall, at first notice of any claim, notify the ^{DAVOIL} ~~parties~~ in writing and by telephone to report conditions, events, or accidents that could give rise to a personal injury or property damage liability claim, and will assist and coordinate the claims settlement procedure between ^{DAVOIL} ~~joint~~ interests and the third party claimants, ~~Operator further agrees, if operator fails to give notice in sufficient time for the parties insureds to respond to claim, then the parties complete liability, including the principal claim and all costs and expenses of handling of said claim shall be born by the Operator and shall not be chargeable to the Joint Account.~~

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Pacific Enterprises
March 27, 1990
Page 2

injury or property damage liability claim, and will assist and coordinate the claims settlement procedure between ^{DAVOLI} joint interests and the third party claimants, ~~Operator further agrees, if operator fails to give notice in sufficient time for the parties insureds to respond to claim, then the parties complete liability, including the principal claim and all costs and expenses of handling of said claim shall be born by the Operator and shall not be chargeable to the Joint Account.~~

If the foregoing conditions are acceptable, please indicate by signing in the space provided below and returning one (1) copy of this letter to the undersigned at the letterhead address.

Yours truly,



DEBBIE SINGLETON
Land Department

AGREED TO AND ACCEPTED THIS

_____ DAY OF _____, 1990.

PACIFIC ENTERPRISES OIL COMPANY (USA)

BY: _____

TITLE: _____

RECEIVED

MAR 30 1990

EXPL. & DEVEL.



GREAT WESTERN DRILLING COMPANY
Post Office Box 1659 • Midland, Texas 79702 • 915/682-5241

March 30, 1990

Re: Operating Agreement
Trigg 28 Federal #1 Well
W/2 Section 28, T-18-S, R-27-E,
Eddy County, New Mexico.

Pacific Enterprises Oil Company (USA)
200 N. Loraine, Suite 400
Midland, Texas 79702-3083

Attention: Mr. M. Craig Clark

Gentlemen:

Attached please find (1) one executed and notarized copy of signature page to above captioned Agreement. This Operating Agreement has been executed by Great Western expressly subject to Article III- Interests of the Parties- Subsection B, line 15 through line 23 being deleted in its entirety and the following language substituted therefor.

"payment of royalties _____ which shall be borne as hereinafter set forth.

Each party entitled to receive a share of production of oil and gas from the Contract Area shall bear and pay or deliver or cause to be paid or delivered to the extent of its interest in each lease contributed by such party to the Contract Area, the royalty and other payments out of production burdening such lease and shall hold the other parties free from any liability therefor".

All other provisions remain unchanged. In the event the above conditional acceptance of this Operating Agreement meets with your acceptance, please sign and return (1) one copy of this letter to our office.

Page 2
Pacific Enterprises Oil Company (USA)
March 30, 1990

Thank you for your consideration and we look forward to
working with you on this project.

Yours very truly,

GREAT WESTERN DRILLING COMPANY

Mike S. Heathington

Mike S. Heathington
Landman

MSH/11

Enclosure

ACCEPTED AND AGREED TO THIS
_____ DAY OF APRIL, 1990.

PACIFIC ENTERPRISES OIL COMPANY (USA)

By: _____
Title:

Bonneville Fuels Corporation
A Subsidiary of Bonneville Pacific Corporation

RECEIVED

MAR 26 1990

March 23, 1990

EXPL. & DEVEL

Pacific Enterprises Oil Company (USA)
P. O. Box 3083
Midland, TX 79702-3083

Attn: Mr. M. Craig Clark
Landman

Re: Red Lake Prospect
Trigg 28 Federal #1 Well
Eddy County, New Mexico

Gentlemen:

Bonneville Fuels Corporation is in receipt of your proposed Operating Agreement dated February 23, 1990 covering the W/2 of Section 28, T18S-R27W, Eddy County, New Mexico, relative to the drilling of the captioned well. Bonneville requests certain amendment be made to the subject Operating Agreement as follows:

- 1.) Page 2, Art. III, B. and C. - This language needs to be amended to reflect the Beneficial Interests of the parties as to the SW/4 of Section 28 as provided in Exhibit A-1, 2, 3 (as revised 8/1/78) to that certain Rio Pecos Unit Operating Agreement dated 4/26/76.
- 2.) Page 3, Art. IV, B. - Delete lines 18 through 61. In line 63, replace "other than those set forth in Articles IV.B.1 and IV.B.2 above" with "including losses due to title failure".
- 3.) Exhibit "C" - Copas
 - a.) Page 1, Art. 3.B - Provide for bills to be paid within 30 days. Provide for unpaid balances to bear interest at a rate of prime plus 1%.
 - b.) Page 3, Art. 11, 8, line 5 - Change the reference of 12% to 8%.
 - c.) Page 5, Art. 111, 2., line 4. - Fill in \$25,000.00 in the space provided.
- 4.) Exhibit "E" - Gas Balancing Agreement - Add as paragraph number 9: "The parties hereto realize that due to the liabilities associated with becoming an "underproduced" party under the terms hereof, it is not in the best interest of any party hereto to invoke gas balancing. In order to avoid this situation, Operator shall give notice to non-operators which shall prevent non-operators from involuntarily becoming an underproduced party. Specifically, Operator shall notify non-operator of operator's gas marketing arrangements at least 10

Pacific Enterprises Oil Company (USA)
March 23, 1990
Page 2

days prior to the start of any production month in order for the non-operators to either elect to sell its share of gas production under said marketing arrangement or to concurrently take its share of production in kind and separately market same.

If you have any questions or would like to discuss any of the requests herein, please contact the undersigned at (303) 863-1555.

Very truly yours,

BONNEVILLE FUELS CORPORATION



L. D. Lillo
Senior Landman

cc/Rio Pecos Corporation
Attn: Mr. Roger Elliott

Yates Petroleum Corporation
Attn: Mr. Mike Burch

PACIFIC ENTERPRISES OIL COMPANY (USA)

March 2, 1990

SOUTHWEST REGION
200 N. Loraine, #400
P.O. Box 3083
Midland TX 79702-3083
(915) 684-3861
(915) 684-6426 (Fax)

TO: Working Interest Owners
(See Attached List)

RE: Red Lake Prospect #6097

Trigg 28 Federal #1 Well
Eddy County, New Mexico

Gentlemen:

Enclosed for your approval and execution is a proposed Operating Agreement with extra signature and acknowledgment pages, covering operations for the referenced well.

If everything appears correct, please execute and return one (1) copy of the extra signature and acknowledgement page to the attention of the undersigned. Should you have any questions or problems, please do not hesitate to contact me.

Very truly yours,

**PACIFIC ENTERPRISES
OIL COMPANY (USA)**



M. Craig Clark
Landman

MCC/dsr

Enclosure

**WORKING INTEREST OWNERS
TRIGG 28 FEDERAL #1 WELL**

Yates Petroleum Corporation
105 S. 4th St.
Artesia, NM 88210
Attn: Ms. Kathy Porter

Great Western Drilling Co.
P.O. Box 1659
Midland, TX 79702
Attn: Mr. Mike Heathington

Exxon Company, U.S.A.
P.O. Box 1600
Midland, TX 70702
Attn: Mr. Joe B. Thomas

James L. Alford, Jr.
P.O. Box 489
McComb, MS 39648

J. Hiram Moore, Betty Jane
Moore, Michael Harrison
Moore, Trustees
P.O. Box 1733
Midland, TX 79702
Attn: Mr. Richard Moore

Myco Industries, Inc.
105 S. 4th St.
Artesia, NM 88210
Attn: Ms. Kathy Porter

Yates Drilling Company
105 S. 4th St.
Artesia, NM 88210
Attn: Ms. Kathy Porter

Mr. Mark D. Wilson
110 W. Louisiana, Suite 210
Midland, TX 79701

Bonneville Fuels Corporation
1600 Broadway, Suite 1110
Denver, CO 80202
Attn: Mr. Larry Lillo

Read & Stevens, Inc.
P.O. Box 1518
Roswell, NM 88201
Attn: Mr. Joe Wigley

Amoco Production Company
P.O. Box 3092
Houston, TX 77253
Attn: Mr. Houston Kauffman

DEKALB Corporation
1625 Broadway
Denver, CO 80202
Attn: Mr. Keith Ranum

Mr. John H. Trigg
P.O. Box 520
Roswell, NM 88202

ABO Petroleum Corporation
105 S. 4th St.
Artesia, NM 88210
Attn: Ms. Kathy Porter

Davoil, Inc.
P.O. Box 122269
Fort Worth, TX 76121
Attn: Ms. Debbie Singleton

Featherstone Development Co.
1717 West Second Street
Roswell, NM 88201
ATTN: Mr. Joe Featherstone

PACIFIC ENTERPRISES OIL COMPANY (USA)

March 29, 1990

SOUTHWEST REGION
200 N. Loraine, #400
P.O. Box 3083
Midland TX 79702-3083
(915) 684-3861
(915) 684-6426 (Fax)

TO: Working Interest Owners
(See Attached List)

RE: Red Lake Prospect #6097

Trigg 28 Federal #1 Well
Eddy County, New Mexico

Gentlemen:

Some of the parties to the Rio Pecos Unit have requested that the Beneficial Interest provision not be deleted from the Joint Operating Agreement for the captioned Well. We have therefore enclosed a revised page 14 to reflect the inclusion of the Beneficial Interest provision. Also enclosed is a new Exhibit A to that certain Operating Agreement dated February 23, 1990.

Please signify your acceptance of said revisions by executing below and returning one (1) copy of this letter to the undersigned. Should you have any objections to the proposed revision, please notify us as soon as possible since our Compulsory Pooling Hearing is scheduled for Wednesday, April 4, 1990.

Very truly yours,

PACIFIC ENTERPRISES
OIL COMPANY (USA)



M. Craig Clark
Landman

MCC/dsr
Enclosure

AGREED TO AND ACCEPTED
this ___ day of _____, 1990

YATES PETROLEUM CORPORATION

By: _____
Name: _____
Title: _____

**WORKING INTEREST OWNERS
TRIGG 28 FEDERAL #1 WELL**

Yates Petroleum Corporation
105 S. 4th St.
Artesia, NM 88210
Attn: Mr. Michael R. Burch

Great Western Drilling Co.
P.O. Box 1659
Midland, TX 79702
Attn: Mr. Mike Heathington

James L. Alford, Jr.
P.O. Box 489
McComb, MS 39648

J. Hiram Moore, Betty Jane
Moore, Michael Harrison
Moore, Trustees of the
Moore Trust
P.O. Box 1733
Midland, TX 79702
Attn: Mr. Richard Moore

Myco Industries, Inc.
105 S. 4th St.
Artesia, NM 88210
Attn: Mr. Michael R. Burch

Yates Drilling Company
105 S. 4th St.
Artesia, NM 88210
Attn: Mr. Michael R. Burch

Mr. Mark D. Wilson
110 W. Louisiana, Suite 210
Midland, TX 79701

Bonneville Fuels Corporation
1600 Broadway, Suite 1110
Denver, CO 80202
Attn: Mr. Larry Lillo

Read & Stevens, Inc.
P.O. Box 1518
Roswell, NM 88201
Attn: Mr. Joe Wigley

DEKALB Corporation
1625 Broadway
Denver, CO 80202
Attn: Mr. Keith Ranum

ABO Petroleum Corporation
105 S. 4th St.
Artesia, NM 88210
Attn: Mr. Michael R. Burch

Davoil, Inc.
P.O. Box 122269
Fort Worth, TX 76121
Attn: Ms. Debbie Singleton

Featherstone Development Co.
1717 West Second Street
Roswell, NM 88201
Attn: Mr. Joe Featherstone

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 _____ 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

A. If, at any time, there is more than one operation proposed in connection with any well subject to this agreement, then unless all participating parties agree on the sequence of such operations, such proposals shall be considered and disposed of in the following order of priority:

1. Proposals to do additional testing, coring or logging.
2. Proposals to attempt completions, in ascending order.
3. Proposals to plug back and attempt completions, in ascending order.
4. Proposals to sidetrack the well.

B. This agreement supersedes that certain Operating Agreement dated April 26, 1976 (as revised August 1, 1978) between Yates Petroleum Corporation, as Operator, and Inexco Oil Company, etal, as Non-Operators, insofar as said Operating Agreement covers the SW/4 of Section 28, Township 18 South, Range 27 East, for all depths below the base of the San Andres to the top of the Mississippian Chester Limestone, as to all terms and provisions thereof, provided, however, the ownership interests of the parties in the SW/4 of Section 28 prior to the pooling effectuated by this agreement shall be the interests set forth under Column 5 of Exhibit "A-3" to said Operating Agreement, taking into account such interest changes as may be found of record in Eddy County, New Mexico. The interest in production of the parties in the Southwest Quarter (SW/4) of Section 28, Township 18 South, Range 27 East shall be governed by the Beneficial Interest in Column 6 of said Exhibit "A-3".

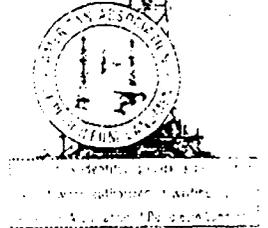


EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated February 23, 1990, between Pacific Enterprises Oil Company (USA), as Operator and Yates Petroleum Corporation, etal, as Non-Operators.

I. Land Subject to this Agreement

West Half (W/2) of Section 28, Township 18 South, Range 27 East, N.M.P.M., Eddy County, New Mexico.

II. Depth Restrictions

Below the base of the San Andres to the top of the Mississippian Chester Limestone.

III. Working Interest Percentages of all Parties to this Agreement

	<u>WI BEFORE PAYOUT</u>	<u>WI AFTER PAYOUT</u>
Pacific Enterprises Oil Company (USA)	52.254600%	39.614750%*
John H. Trigg	.000000%	12.500000%*
Yates Petroleum Corporation	8.219040%	8.219040%
Bonneville Fuels Corporation	8.730325%	8.730325%
Great Western Drilling Company	6.750410%	6.750410%
Read & Stevens, Inc.	5.352200%	5.352200%
James L. Alford, Jr.	1.695200%	1.695200%
DEKALB Corporation	0.000000%	0.139850%*
J. Hiram Moore, Betty Jane Moore, Michael Harrison Moore, Trustees of the Moore Trust	0.254300%	0.254300%
Featherstone Development Company	0.050850%	0.050850%
Myco Industries, Inc.	3.539595%	3.539595%
Abo Petroleum Corporation	3.539595%	3.539595%
Yates Drilling Company	3.539595%	3.539595%
Davoil Inc.	3.719240%	3.719240%
Mark D. Wilson	2.355050%	2.355050%
	-----	-----
	100.000000%	100.000000%

*Assuming that John H. Trigg and DEKALB Corporation elect to convert their ORRI at payout.

IV. Oil and Gas Leases, Assignments and Agreements Subject to this Agreement

1. Serial Number: NM-13731
 Lessor: United States of America
 Lessee: Read & Stevens, Inc.
 Date: June 1, 1971
 Acreage Description: West Half of the Southwest Quarter (W/2SW/4) Section 28, T-18-S, R-27-E, Eddy County, New Mexico

2. Serial Number: NM-9817
 Lessor: United States of America
 Lessee: Raymond A. Panici
 Date: July 1, 1969
 Acreage Description: East Half of the Southwest Quarter (E/2SW/4) Section 28, T-18-S, R-27-E, Eddy County, New Mexico

3. Serial Number: LC 060122
Lessor: United States of America
Lessee: John T. Bonner
Date: April 1, 1948
Acreage Description: Northwest Quarter (NW/4)
Section 28, T-18-S, R-27-E,
Eddy County, New Mexico
4. Assignment of Overriding Royalty Interest dated December 19, 1979 recorded in Book 184, Page 478 of the Eddy County, New Mexico Records, from John H. Trigg, etux to Yates Exploration Company of an undivided 2.5% overriding royalty interest insofar as it covers the NW/4 of Section 28, T-18-S, R-27-E, Eddy County, New Mexico.
5. Assignment dated July 1, 1970 recorded in book 74, Page 600 of the Eddy County, New Mexico Records, from Raymond A. Panici, etux to Inexco Oil Company wherein assignors reserved a 5% overriding royalty interest insofar as it covers the E/2SW/4 of Section 28, T-18-S, R-27-E, Eddy County, New Mexico
6. Assignment dated March 23, 1976 recorded in Book 145, Page 990 of the Eddy County, New Mexico Records, from Yates Petroleum Corporation, etal to Mark D. Wilson of an overriding royalty interest equal to the difference between existing burdens and 25% insofar as it covers the SW/4 of Section 28, T-18-S, R-27-E, Eddy County, New Mexico.
7. Farmout Agreement dated December 1, 1989 by and between John H. Trigg, etux as Farmor and Rio Pecos Corporation as Farmee covering the NW/4 of Section 28, T-18-S, R-27-E, Eddy County, New Mexico.
8. Letter Agreement dated February 13, 1990 by and between Rio Pecos Corporation and Pacific Enterprises Oil Company (USA) covering the NW/4 of Section 28, T-18-S, R-27-E, Eddy County, New Mexico.
9. Farmout Agreement by and between Amoco Production Company and Pacific Enterprises Oil Company (USA) covering the SW/4 of Section 28, T-18-S, R-27-E, Eddy County, New Mexico.
10. Farmout Agreement by and between DEKALB Corporation and Pacific Enterprises Oil Company (USA) covering the SW/4 of Section 28, T-18-S, R-27-E, Eddy County, New Mexico.

V. Addresses of Parties for Notice Purposes

Yates Petroleum Corporation
105 S. 4th St.
Artesia, NM 88210
Attn: Mr. Michael R. Burch

Bonneville Fuels Corporation
1600 Broadway, Suite 1110
Denver, CO 80202
Attn: Mr. Larry Lillo

Great Western Drilling Co.
P.O. Box 1659
Midland, TX 79702
Attn: Mr. Mike Heathington

Read & Stevens, Inc.
P.O. Box 1518
Roswell, NM 88201
Attn: Mr. Joe Wigley

James L. Alford, Jr.
P.O. Box 489
McComb, MS 39648

DEKALB Corporation
1625 Broadway
Denver, CO 80202
Attn: Mr. Keith Ranum

J. Hiram Moore, Betty Jane
Moore, Michael Harrison
Moore, Trustees of the
Moore Trust
P.O. Box 1733
Midland, TX 79702
Attn: Mr. Richard Moore

Myco Industries, Inc.
105 S. 4th St.
Artesia, NM 88210
Attn: Mr. Michael R. Burch

Yates Drilling Company
105 S. 4th St.
Artesia, NM 88210
Attn: Mr. Michael R. Burch

Mr. Mark D. Wilson
110 W. Louisiana, Suite 210
Midland, TX 79701

Mr. John H. Trigg
P.O. Box 520
Roswell, NM 88202

Pacific Enterprises
Oil Company (USA)
P.O. Box 3083
Midland, TX 79702
Attn: Mr. John E. Lodge

ABO Petroleum Corporation
105 S. 4th St.
Artesia, NM 88210
Attn: Mr. Michael R. Burch

Davoil, Inc.
P.O. Box 122269
Fort Worth, TX 76121
Attn: Ms. Debbie Singleton

Featherstone Development Co.
1717 West Second Street
Roswell, NM 88201
ATTN: Mr. Joe Featherstone

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

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

February 23, 19 90,

OPERATOR Pacific Enterprises Oil Company (USA)

CONTRACT AREA Township 18 South, Range 27 East, N.M.P.M.

Section 28: West Half

COUNTY ~~OR PARISH~~ OF Eddy STATE OF New Mexico

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

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PACIFIC ENTERPRISES OIL COMPANY (USA)

March 29, 1990

SOUTHWEST REGION
200 N. Loraine, #400
P.O. Box 3083
Midland TX 79702-3083
(915) 684-3861
(915) 684-6426 (Fax)

RECEIVED

APR 2 1990

EXPL & DEVEL

TO: Working Interest Owners
(See Attached List)

RE: Red Lake Prospect #6097

Trigg 28 Federal #1 Well
Eddy County, New Mexico

Gentlemen:

Some of the parties to the Rio Pecos Unit have requested that the Beneficial Interest provision not be deleted from the Joint Operating Agreement for the captioned Well. We have therefore enclosed a revised page 14 to reflect the inclusion of the Beneficial Interest provision. Also enclosed is a new Exhibit A to that certain Operating Agreement dated February 23, 1990.

Please signify your acceptance of said revisions by executing below and returning one (1) copy of this letter to the undersigned. Should you have any objections to the proposed revision, please notify us as soon as possible since our Compulsory Pooling Hearing is scheduled for Wednesday, April 4, 1990.

Very truly yours,

PACIFIC ENTERPRISES
OIL COMPANY (USA)



M. Craig Clark
Landman

MCC/dsr
Enclosure

AGREED TO AND ACCEPTED
this 27th day of March, 1990



Mark D. Wilson

Survey Results — 1989

Region: West Texas and Eastern New Mexico-5

Oil Wells

Responses		Depth in Feet		Monthly Drilling Well Rates				Monthly Producing Well Rates			
				1989		1988		1989		1988	
1989	1988	Over	But Not Over	Average or Mean	Median	Average or Mean	Median	Average or Mean	Median	Average or Mean	Median
147	214	0-	5,000	\$ 3,487	\$ 3,000	\$ 3,069	\$ 3,000	\$ 335	\$ 300	\$ 318	\$ 300
115	163	5,000-	10,000	4,541	4,000	4,066	4,000	438	400	407	390
42	76	10,000-	15,000	6,082	5,000	4,939	5,000	581	500	520	500
10	26	15,000-	20,000	6,042	6,000	5,594	5,763	649	620	634	592
10	16	20,000		5,679	5,737	5,554	5,953	619	620	673	595
32	29	No Depth Limit		5,396	5,490	4,961	5,200	541	570	561	530

Gas Wells

Responses		Depth in Feet		Monthly Drilling Well Rates				Monthly Producing Well Rates			
				1989		1988		1989		1988	
1989	1988	Over	But Not Over	Average or Mean	Median	Average or Mean	Median	Average or Mean	Median	Average or Mean	Median
115	151	0-	5,000	\$ 3,265	\$ 3,042	\$ 3,202	\$ 3,000	\$ 318	\$ 300	\$ 325	\$ 300
86	119	5,000-	10,000	4,914	4,000	4,109	4,000	469	400	419	400
38	64	10,000-	15,000	6,134	5,000	4,940	5,000	566	450	524	500
11	23	15,000-	20,000	6,049	6,000	5,434	5,658	642	620	633	582
10	15	20,000		5,674	5,688	5,506	5,953	620	620	676	595
32	28	No Depth Limit		5,320	5,490	5,035	5,000	535	562	567	530

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Pacific Enterprises Oil Company (USA), 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.

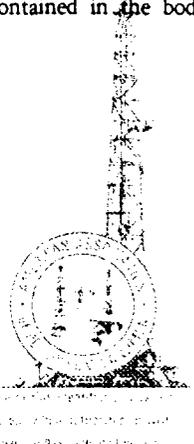
Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

ARTICLE II. EXHIBITS

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

- [X] 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.
[X] B. Exhibit "B", Form of Lease.
[X] C. Exhibit "C", Accounting Procedure.
[X] D. Exhibit "D", Insurance.
[X] E. Exhibit "E", Gas Balancing Agreement.
[X] F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.
[] G. Exhibit "G", Tax Partnership.

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



ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

If any party owns an oil and gas interest in the Contract Area, that interest shall be treated for all purposes of this agreement and during the term hereof as if it were 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 ~~to the extent of _____~~ which shall be borne as hereinafter set forth.

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

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

C. Excess Royalties, Overriding Royalties and Other Payments:

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

D. Subsequently Created Interests:

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:

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

ARTICLE IV
continued

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

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

12 No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above
13 provided, and (2) the title has been approved by the examining attorney or title has been accepted by all of the parties who are to par-
14 ticipate in the drilling of the well.
15

16 **B. Loss of Title:**
17

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

23 (a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be
24 entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid or incurred,
25 but there shall be no additional liability on its part to the other parties hereto by reason of such title failure;

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

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

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

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

39 (f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest
40 claimed by any party hereto, it being the intention of the parties hereto that each shall defend title to its interest and bear all expenses in
41 connection therewith.
42

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

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

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

60 (c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest
61 lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.
62

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

ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

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

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

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

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

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 1st day of May, 1990, Operator shall commence the drilling of a well for oil and gas at the following location:

2030' FNL and 1980' FWL of Section 28, T-18-S, R-27-E, Eddy County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to **test the Morrow Formation or to a depth of 10,000 feet, whichever is the lesser.**

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

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

ARTICLE VI
continued

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

3
4
5
6 **B. Subsequent Operations:**

7
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. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold, (after deducting production taxes, excise taxes, royalty, overriding royalty and other interests not excepted by Article III.D. payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

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

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

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

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

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

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

ARTICLE VI
continued

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

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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.

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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.

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

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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:

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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.

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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.

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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.

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65 **C. TAKING PRODUCTION IN KIND:**

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

ARTICLE VI
continued

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

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

6
7 In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of
8 the oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not
9 the obligation, to purchase such oil or sell it to others at any time and from time to time, for the account of the non-taking party at the
10 best price 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.

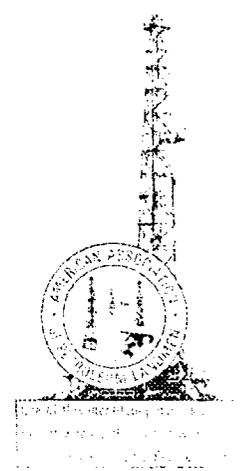
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21 **D. Access to Contract Area and Information:**

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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. 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



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.

ARTICLE VII.

EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

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 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.

B. Liens and Payment Defaults:

29
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 31 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
 32 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
 33 at the rate provided in Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the
 34 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-
 35 taining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien
 36 rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share
 37 of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from
 38 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
 39 purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien
 40 and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

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 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.

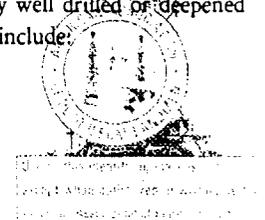
C. Payments and Accounting:

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

53
 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 pense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

D. Limitation of Expenditures:

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 64
 65 1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened
 66 pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the drilling or deepening shall include:



ARTICLE VII
continued

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

3
4 Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its
5 authorized depth, and all tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice
6 to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight
7 (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion at-
8 tempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, in-
9 cluding necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall
10 constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties,
11 elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging
12 back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less
13 than all parties.

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

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

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

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

39
40 Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production
41 of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holidays), or at the earliest opportunity permitted by
42 circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator to so notify
43 Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments of any shut-in well payment
44 shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

45
46 **F. Taxes:**

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

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

66
67 Each party shall pay or cause to be paid all production, severance, excise, gathering and other taxes imposed upon or with respect to
68 the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.
69
70

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 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

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:**

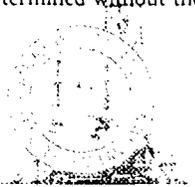
30
31 If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an
32 undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided
33 interest therein.

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

36
37 ~~Should any party desire to sell all or any part of its interests 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 Ten Thousand and no/100 Dollars (\$ 10,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI.
FORCE MAJEURE

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

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

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

ARTICLE XII.
NOTICES

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

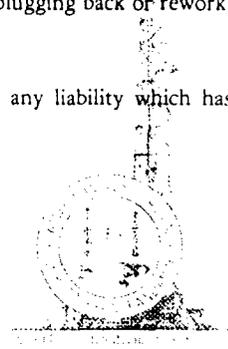
ARTICLE XIII.
TERM OF AGREEMENT

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

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

Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of 90 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 90 days from the date of abandonment of said well.

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



ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

C. Regulatory Agencies:

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

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

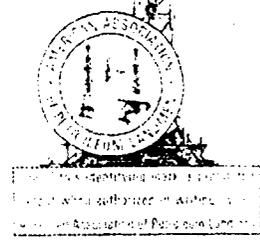
Non-Operators authorize Operator to prepare and submit such documents as may be required to be submitted to the purchaser of any crude oil sold hereunder or to any other person or entity pursuant to the requirements of the "Crude Oil Windfall Profit Tax Act of 1980", as same may be amended from time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

ARTICLE XV.
OTHER PROVISIONS

A. If, at any time, there is more than one operation proposed in connection with any well subject to this agreement, then unless all participating parties agree on the sequence of such operations, such proposals shall be considered and disposed of in the following order of priority:

1. Proposals to do additional testing, coring or logging.
2. Proposals to attempt completions, in ascending order.
3. Proposals to plug back and attempt completions, in ascending order.
4. Proposals to sidetrack the well.

B. This agreement supersedes that certain Operating Agreement dated April 26, 1976 (as revised August 1, 1978) between Yates Petroleum Corporation, as Operator, and Inexco Oil Company, etal, as Non-Operators, insofar as said Operating Agreement covers the SW/4 of Section 28, Township 18 South, Range 27 East, for all depths below the base of the San Andres to the top of the Mississippian Chester Limestone, as to all terms and provisions thereof, provided, however, the ownership interests of the parties in the SW/4 of Section 28 prior to the pooling effectuated by this agreement shall be the interests set forth under Column 5 of Exhibit "A-3" to said Operating Agreement, taking into account such interest changes as may be found of record in Eddy County, New Mexico. The interest in production of the parties in the Southwest Quarter (SW/4) of Section 28, Township 18 South, Range 27 East shall be governed by the Beneficial Interest in Column 6 of said Exhibit "A-3"



ARTICLE XVI.
MISCELLANEOUS

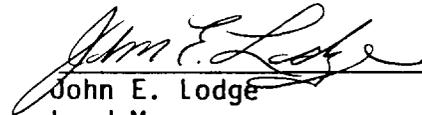
This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

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 23rd day of February, 1990.

OPERATOR

PACIFIC ENTERPRISES OIL COMPANY (USA)



John E. Lodge
Land Manager

NON-OPERATORS

YATES PETROLEUM CORPORATION

BONNEVILLE FUELS CORPORATION

GREAT WESTERN DRILLING COMPANY

READ & STEVENS, INC.

EXXON COMPANY, U.S.A.

AMOCO PRODUCTION COMPANY

JAMES L. ALFORD, JR.

FEATHERSTONE DEVELOPMENT COMPANY

J. HIRAM MOORE, BETTY JANE MOORE,
MICHAEL HARRISON MOORE, TRUSTEES
OF THE MOORE TRUST

MYCO INDUSTRIES, INC.

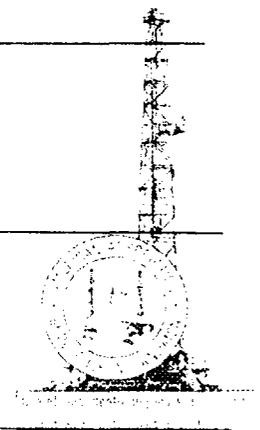
ABO PETROLEUM CORPORATION

YATES DRILLING COMPANY

DAVOIL INC.

MARK D. WILSON

JOHN H. TRIGG



STATE OF TEXAS }
 }
COUNTY OF MIDLAND }

This instrument was acknowledged before me on March 5th, 1990, by John E. Lodge, Land Manager of PACIFIC ENTERPRISES OIL COMPANY (USA), a California Corporation.

Diedre Schiemenz Rush

My Commission Expires:
7-25-91

Notary Public in and for
the State of Texas
Notary's Printed Name:
Diedre Schiemenz Rush

[CORPORATION]

STATE OF _____ }
 }
COUNTY OF _____ }

This instrument was acknowledged before me on March __, 1990, by _____ of _____, a _____ Corporation.

My Commission Expires:

Notary Public in and for
the State of Texas
Notary's Printed Name:

[INDIVIDUAL]

STATE OF _____ }
 }
COUNTY OF _____ }

This instrument was acknowledged before me on March __, 1990, by _____.

My Commission Expires:

Notary Public in and for
the State of Texas
Notary's Printed Name:

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 23rd day of February, 19 90.

OPERATOR
PACIFIC ENTERPRISES OIL COMPANY (USA)

John E. Lodge

John E. Lodge
Land Manager

NON-OPERATORS
YATES PETROLEUM CORPORATION BONNEVILLE FUELS CORPORATION

GREAT WESTERN DRILLING COMPANY READ & STEVENS, INC.

EXXON COMPANY, U.S.A. AMOCO PRODUCTION COMPANY

DEKALB CORPORATION

James V. Alford Jr.

JAMES V. ALFORD, JR.

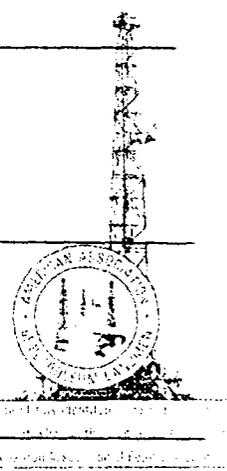
J. HIRAM MOORE, BETTY JANE MOORE,
MICHAEL HARRISON MOORE, TRUSTEES
OF THE MOORE TRUST FEATHERSTONE DEVELOPMENT COMPANY

MYCO INDUSTRIES, INC. ABO PETROLEUM CORPORATION

YATES DRILLING COMPANY DAVOIL INC.

MARK D. WILSON

JOHN H. TRIGG



STATE OF TEXAS)
)
COUNTY OF MIDLAND)

This instrument was acknowledged before me on March 5th, 1990,
by John E. Lodge, Land Manager of PACIFIC ENTERPRISES OIL COMPANY
(USA), a California Corporation.

My Commission Expires:
7-25-91

Diedre Schiemenz Rush
Notary Public in and for
the State of Texas
Notary's Printed Name:
Diedre Schiemenz Rush

[CORPORATION]

STATE OF _____)
)
COUNTY OF _____)

This instrument was acknowledged before me on March __, 1990,
by _____ of _____,
a _____ Corporation.

My Commission Expires:

Notary Public in and for
the State of Texas
Notary's Printed Name:

[INDIVIDUAL]

STATE OF Mississippi)
)
COUNTY OF Pike)

This instrument was acknowledged before me on March 8th, 1990,
by James L. Alford, Jr.

My Commission Expires:
8/24/92

Bonnie K. Prescott
Notary Public in and for
the State of ~~TEXAS~~ MISSISSIPPI
Notary's Printed Name:
Bonnie K. Prescott

ARTICLE XVI.
MISCELLANEOUS

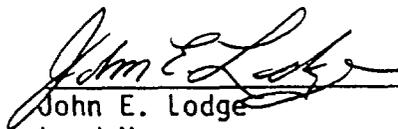
This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

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 23rd day of February, 19 90.

OPERATOR

PACIFIC ENTERPRISES OIL COMPANY (USA)


John E. Lodge
Land Manager

NON-OPERATORS

YATES PETROLEUM CORPORATION

BONNEVILLE FUELS CORPORATION

GREAT WESTERN DRILLING COMPANY

READ & STEVENS, INC.

EXXON COMPANY, U.S.A.

AMOCO PRODUCTION COMPANY

JAMES L. ALFORD, JR.

FEATHERSTONE DEVELOPMENT COMPANY

J. HIRAM MOORE, BETTY JANE MOORE,
MICHAEL HARRISON MOORE, TRUSTEES
OF THE MOORE TRUST

MYCO INDUSTRIES, INC.

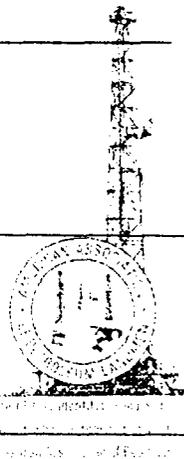
ABO PETROLEUM CORPORATION

YATES DRILLING COMPANY

DAVOIL INC.


MARK D. WILSON

JOHN H. TRIGG



STATE OF TEXAS)
)
COUNTY OF MIDLAND)

This instrument was acknowledged before me on March 5th, 1990, by John E. Lodge, Land Manager of PACIFIC ENTERPRISES OIL COMPANY (USA), a California Corporation.

My Commission Expires:
7-25-91

Diedre Schiemenz Rush
Notary Public in and for
the State of Texas
Notary's Printed Name:
Diedre Schiemenz Rush

[CORPORATION]

STATE OF TEXAS)
)
COUNTY OF MIDLAND)

This instrument was acknowledged before me on March 20, 1990, by Mark D. Wilson, President of RIO PECOS CORPORATION, a New Mexico Corporation.

My Commission Expires:
Oct. 9, 1992

Sharon K. Hickey
Notary Public in and for
the State of Texas
Notary's Printed Name:
Sharon K. Hickey

[INDIVIDUAL]

STATE OF _____)
)
COUNTY OF _____)

This instrument was acknowledged before me on March __, 1990, by _____.

My Commission Expires:

Notary Public in and for
the State of Texas
Notary's Printed Name:

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 23rd day of February, 1990.

OPERATOR
PACIFIC ENTERPRISES OIL COMPANY (USA)


John E. Lodge
Land Manager

NON-OPERATORS

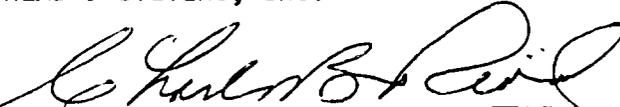
YATES PETROLEUM CORPORATION

BONNEVILLE FUELS CORPORATION

GREAT WESTERN DRILLING COMPANY

READ & STEVENS, INC.

EXXON COMPANY, U.S.A.


Charles B. Read, President
AMOCO PRODUCTION COMPANY

JAMES L. ALFORD, JR.

DEKALB CORPORATION

J. HIRAM MOORE, BETTY JANE MOORE,
MICHAEL HARRISON MOORE, TRUSTEES
OF THE MOORE TRUST

FEATHERSTONE DEVELOPMENT COMPANY

MYCO INDUSTRIES, INC.

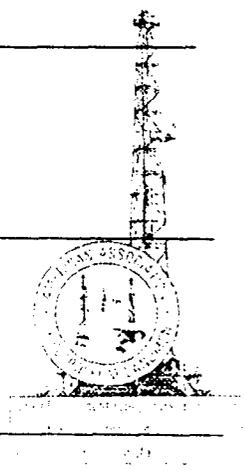
ABO PETROLEUM CORPORATION

YATES DRILLING COMPANY

DAVOIL INC.

MARK D. WILSON

JOHN H. TRIGG



STATE OF TEXAS)
)
COUNTY OF MIDLAND)

This instrument was acknowledged before me on March 5th, 1990, by John E. Lodge, Land Manager of PACIFIC ENTERPRISES OIL COMPANY (USA), a California Corporation.

My Commission Expires:
7-25-91

Diedre Schiemenz Rush
Notary Public in and for
the State of Texas
Notary's Printed Name:
Diedre Schiemenz Rush

[CORPORATION]

STATE OF NEW MEXICO)
)
COUNTY OF CHAVES)

This instrument was acknowledged before me on March 9th, 1990, by Charles B. Read, President of Read & Stevens, Inc., a New Mexico Corporation.

My Commission Expires:
8-11-90

Randall R. Fort
Notary Public in and for
the State of ~~Texas~~ New Mexico
Notary's Printed Name:
Randall Fort

[INDIVIDUAL]

STATE OF _____)
)
COUNTY OF _____)

This instrument was acknowledged before me on March ___, 1990, by _____.

My Commission Expires:

Notary Public in and for
the State of Texas
Notary's Printed Name:

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 23rd day of February, 19 90.

OPERATOR
PACIFIC ENTERPRISES OIL COMPANY (USA)

John E. Lodge

John E. Lodge
Land Manager

NON-OPERATORS
YATES PETROLEUM CORPORATION BONNEVILLE FUELS CORPORATION

GREAT WESTERN DRILLING COMPANY

READ & STEVENS, INC.

Alan T. Davis

Alan T. Davis, President
EXXON COMPANY, U.S.A.

AMOCO PRODUCTION COMPANY

JAMES L. ALFORD, JR.

DEKALB CORPORATION

J. HIRAM MOORE, BETTY JANE MOORE,
MICHAEL HARRISON MOORE, TRUSTEES
OF THE MOORE TRUST

FEATHERSTONE DEVELOPMENT COMPANY

MYCO INDUSTRIES, INC.

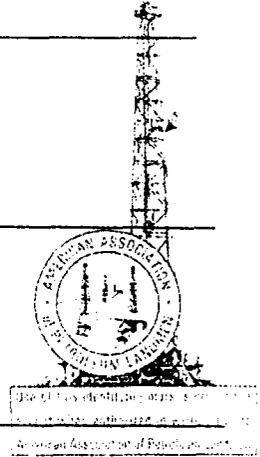
ABO PETROLEUM CORPORATION

YATES DRILLING COMPANY

DAVOIL INC.

MARK D. WILSON

JOHN H. TRIGG



STATE OF TEXAS)
)
COUNTY OF MIDLAND)

This instrument was acknowledged before me on March 5th, 1990, by John E. Lodge, Land Manager of PACIFIC ENTERPRISES OIL COMPANY (USA), a California Corporation.

My Commission Expires:
7-25-91

Diedre Schiemenz Rush
Notary Public in and for
the State of Texas
Notary's Printed Name:
Diedre Schiemenz Rush

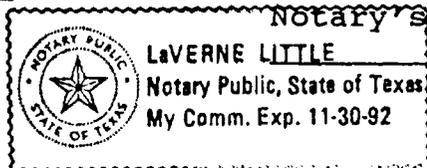
[CORPORATION]

STATE OF TEXAS)
)
COUNTY OF MIDLAND)

This instrument was acknowledged before me on March 22, 1990, by Alan T. Davis, President of Great Western Drilling Company a Texas Corporation.

My Commission Expires:
11-30-92

Laverne Little
Notary Public in and for
the State of Texas
Notary's Printed Name:



[INDIVIDUAL]

STATE OF _____)
)
COUNTY OF _____)

This instrument was acknowledged before me on March __, 1990, by _____.

My Commission Expires:

Notary Public in and for
the State of Texas
Notary's Printed Name:

EXHIBIT " C "

Attached to and made a part of that certain Operating Agreement dated February 23, 1990
between Pacific Enterprises Oil Company (USA), as Operator and Yates
Petroleum Corporation, etal, as Non-Operators.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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 as rendered within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly on the first day of the month in which delinquency occurs, at the rate of fifteen percent (15) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

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

5. Audits

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

6. Approval By Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Ecological and Environmental

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

2. Rentals and Royalties

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

3. Labor

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

4. Employee Benefits

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

5. Material

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

6. Transportation

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

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

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

7. Services

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

8. Equipment and Facilities Furnished By Operator

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 12% per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property. For automotive equipment, operator may elect to use rates published by the Petroleum Motor Transport Association.

9. Damages and Losses to Joint Property

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

10. Legal Expense

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

11. Taxes

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

12. Insurance

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

13. Abandonment and Reclamation

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

14. Communications

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

15. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 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
 (X) 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:

(X) shall be covered by the overhead rates, or
 () shall not be covered by the overhead rates.

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 5,050.00
 (Prorated for less than a full month)

Producing Well Rate \$ 505.00

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

(a) Drilling Well Rate

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

(b) Producing Well Rates

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

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

2. Overhead - Major Construction

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

- A. 5 % of first \$100,000 or total cost if less, plus
- B. 3 % of costs in excess of \$100,000 but less than \$1,000,000, plus
- C. 2 % 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. 5 % of total costs through \$100,000; plus
- B. 3 % of total costs in excess of \$100,000 but less than \$1,000,000; plus
- C. 2 % of total costs in excess of \$1,000,000.

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:

(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"

INSURANCE

Attached to and made a part of that certain Joint Operating Agreement dated February 23, 1990 by and between Pacific Enterprises Oil Company (USA), as Operator and Yates Petroleum Corporation, etal, as Non-Operators.

Operator shall procure and maintain the following insurance:

- A. WORKER'S COMPENSATION INSURANCE granting full compensation under the Worker's Compensation Law of the State in which the Contract Area is located, and EMPLOYER'S LIABILITY INSURANCE, including full maritime coverage, if applicable, with limits of not less than \$1,000,000.00 for all of Operator's employees engaged in work for the Joint Account.
 - B. COMPREHENSIVE GENERAL LIABILITY INSURANCE, to a combined single limit of \$1,000,000.00 each occurrence for bodily injury and property damage. Such insurance shall be extended to cover products and competed operations, and broad form contractual liability as respects any contract into which the Operator may enter under the terms of this Agreement.
 - C. AUTOMOBILE INSURANCE covering all motor vehicles, owned and non-owned, operated and/or licensed by the Operator, with a bodily injury, death and property damage limit of \$1,000,000.00 inclusive.
 - D. If Operator uses owned or non-owned aircraft, AVIATION LIABILITY INSURANCE covering bodily injury, death passenger and property damage with a combined single limit of \$5,000,000.00.
- II. If so requested by any party, the Operator shall furnish evidence of the above coverages.
- III. Each party agrees to be liable for the insure (or self-insure) its proportionate share of Operator's self-insured retention (\$500,000.00 deductible) under the insurance maintained for the Joint Account, it being the intent of the parties that Operator shall not act as an insurer for the Joint Account to the extent of its self-insured retention.
- IV. Any accidental loss of, or damage to, joint property and any liability to third parties or each other for bodily injury or property damage arising out of the operations performed by any on behalf of the parties, in excess of, or in addition to, the insurance maintained for the Joint Account shall be borne individually by said parties in proportion to their respective percentage of interest. The cost of such insurance as each individual party may carry to cover said party's proportionate share of any such loss or liability is not chargeable to the Joint Account.

EXHIBIT "E"

Attached to and made a part of that certain Joint Operating Agreement dated February 23, 1990 by and between Pacific Enterprises Oil Company (USA) as Operator and Yates Petroleum Corporation, etal as Non-Operators.

1. Each party shall have the right to take in kind and separately dispose of its proportionate share of the gas produced from gas wells on the Contract Area.
2. To give effect to the intent of this Agreement, the parties shall be governed by the following:
 - (a) Each underproduced party (a party who has taken a lesser volume of gas than the quantity such party is herein entitled) shall have the right to take a greater amount of gas than its proportionate share of the well's current production, provided that the right to take such greater amount shall be in proportion that its interest bears to the total interest of all underproduced parties desiring to take more than their proportionate share of the well's current production.
 - (b) Each overproduced party (a party who has taken a greater volume of gas than the quantity such party is herein entitled) shall reduce its respective take in the proportion that such party's interest bears to the total interest of all overproduced parties, but in no event shall any overproduced party be required to reduce its take to less than seventy-five (75%) of such overproduced party's proportionate share of the well's current production.
 - (c) The Contract Operator, at the request of any party, may produce the entire well stream, if necessary for a deliverability test not to exceed seventy-two (72) hours duration required under such requesting party's gas sales contract and may overproduce in any other situation provided that such overproducing would be consistent with prudent operations.
3. Each party taking gas shall furnish the Contract Operator a monthly statement of gas taken. After commencement of production, Contract Operator shall furnish a current account monthly of the gas balance between parties hereto including the total quantity of gas delivered to a market, the portion thereof used in Contract operations, vented or lost, and the total quantity of gas produced.
4. Each party producing and/or delivering gas to its purchaser shall pay any and all production taxes due on such gas.
5. The provisions of this Agreement shall be separately applicable to each gas well.
6. When gas sales from a gas well permanently cease, there shall be a final accounting of underproduction and overproduction and each overproduction party shall account to and compensate each underproduced party with a sum of money equal to the amount actually received, less applicable taxes, by any overproduced party from the sale of that part of the total cumulative volume of gas produced which the underproduced party was entitled to take and payment for such overproduction shall be in the order of accrual, provided, that if such overproduced party has paid the royalties attributable to such overproduction, the amount of such royalties shall be deducted from such payment.
7. The parties hereto realize that there shall remain some small imbalance each month because of the disposition of gas to different markets. This imbalance between parties will be kept to a minimum by making the needed adjustments the following month for gas deliveries to each party based on the previous month's over and under statement.
8. All parties hereto shall share in and own the condensate recovered at the surface in accordance with their respective interest.

EXHIBIT "F"

Attached to and made a part of that certain Operating Agreement dated February 23, 1990 between Pacific Enterprises Oil Company (USA), as Operator and Yates Petroleum Corporation, etal, as Non-Operators.

I. EQUAL OPPORTUNITY CLAUSE

Operator shall bound by and agrees to the following provisions as contained in Section 202 of Executive Order 11246 as amended to wit:

(1) The Operator will not discriminate against any employee or application 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 advertising; layoff or termination; rates or pay or other forms 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 by the contracting officer setting forth the provisions of this nondiscrimination 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 he has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Operator's commitments under Section 202 of Executive Order 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 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.

(5) The Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulation, and orders.

(6) In the event of the Operator's noncompliance with the nondiscrimination clauses of this contract or with any of such rules, regulations, and 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 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

(7) The Operator will include the provisions of paragraphs (1) through (7) in every Subcontract or Purchase Order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each Subcontractor 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 noncompliance: Provided, however, that in the event the Operator becomes involved in, or is threatened with, litigation with a agency, the Operator may request the United States to enter into such litigation to protect the interest of the United States.

II. CERTIFICATION OF NONSEGREGATED FACILITIES

Operator certifies that he does not maintain or provide for his employees any segregated facilities at any of his establishments, and that he does not permit his employees to perform their services at any location, under his control, where segregated facilities are maintained. He certifies further that he will not maintain or provide for his employees any segregated facilities at any of his establishments, and that he will not permit his employees to perform their services at any location, under his control, where segregated facilities are maintained. The Operator agrees that a breach of this certification is a violation of the Equal Opportunity Clause in this contract. As used in this certification, the term "segregated facilities" means, but is not limited to any waiting rooms, work areas, rest rooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms, and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, color, religion, sex, or national origin, because of habit, local custom, or otherwise. He further agrees that (except where he has obtained identical certifications from proposed subcontractors prior to the award of subcontracts exceeding \$10,000 which are not exempt from the provisions of the Equal Opportunity Clause; that he will retain such certification in his files; and that he will forward the following notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certificates for specific time periods):

"NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NONSEGREGATED FACILITIES.

A Certification of Non-segregated Facilities must be submitted prior to the award of a subcontract exceeding \$10,000 which is not exempt from the provisions of the Equal Opportunity Clause. The certification may be submitted either for each subcontract or for all subcontracts during a period (i.e., quarterly, semiannually, or annually)". Note: The penalty for making false statements is prescribed in 18 U.S.C. 1001.

III. EEOI REPORT AND AFFIRMATIVE ACTION COMPLIANCE PROGRAM

Operator is aware of Executive Order 11246 and Section 601.7 and Section 601.4, Title 41 of the Code of Federal Regulations. The Operator agrees and certifies that, if he has 50 or more employees and a contract of \$50,000 or more, he will file complete and accurate EEO report on Standard Form 100 (EEO1) with the appropriate government contracting or administering agency and develop affirmative action programs for each of his establishments, in accordance with Executive Order 11246 and all rules, regulations and orders promulgated thereunder.

IV. LISTING OF EMPLOYMENT OPENINGS

Operator shall be bound by and agrees to the provisions of Executive Order 11701 and Section 50250 of Title 41 of the Code of Federal Regulations, and all rules and regulations and orders promulgated thereunder to wit:

(a) The Operator, to provide special emphasis to the employment of qualified disabled veterans and veterans of the Vietnam era, agrees that all suitable employment openings of the Operator which exist at the time of the execution of this contract and those which occur during the performance of this contract, including those not generated by this contract and including those occurring at an establishment of the Operator other than the one wherein the contract is being performed but excluding those of independently operated corporate affiliates, shall be offered for listing at an appropriate local office of the State employment service system wherein the opening occurs and to provide such reports to such local office regarding employment openings and hires as may be required; PROVIDED, that if the contract is for less than \$10,000 or if it is with a State or local government the reports set forth in paragraph (c) and (d) of this clause are not required.

(b) Listing of employment openings with the employment service system pursuant to this clause shall be made at least concurrently with the use of any other recruitment service or effort and shall involve the normal obligations which attach to the placing of a bonfire job order, including the acceptance of referrals of veterans and nonveterans. The listing of employment openings does not require the hiring of any particular job applicant from any particular group of job applicants, and nothing herein is intended to relieve the Operator from any requirements in any Executive Orders or regulations regarding nondiscrimination in employment.

(c) The reports required by paragraph (a) of this clause shall include, but not limited to, periodic reports which shall be filed at least quarterly with the appropriate local office or, where the Operator has more than one establishment (1) the number of individuals who were hired during the reporting period, (2) the number of those hired who were disabled veterans, and (3) the number who were nondisabled veterans of the Vietnam era. The Operator shall submit a report within 30 days after the end of each reporting period wherein any performance is made on this contract. The Operator shall maintain copies of the reports submitted until the expiration of one (1) year after final payment under the contract, during which time they shall be made available upon request, for examination by an authorized representatives of the contracting officer or of the Secretary of Labor.

(d) Whenever the Operator becomes contractually bound to the listing provisions of this clause, he shall advise the employment service system in each State wherein he has establishments of the name and location of each such establishment in the State. As long as the Operator is contractually bound to these provisions and has so advised the State system there is no need to advise the State system of subsequent contracts. The Operator may advise the State systems when it is no longer bound by this contract clause.

(e) This clause does not apply to the listing of employment openings which occur and are filled outside of the 50 states, the District of Columbia, Puerto Rico, Guam, and the Virgin Islands.

(f) This clause does not apply to openings which the Operator proposes to fill from within his own organization or to fill pursuant to a customary and traditional employer-union hiring arrangement. The exclusion does not apply to a particular opening once an employer decides to consider applicants outside of his own organization or employer-union arrangement for that opening.

(g) As used in this clause:

(1) "All suitable employment openings" includes, but is not limited to, openings which occur in the following job categories: Production and nonproduction; plant and office; laborers and mechanics; supervisory and nonsupervisory; technical and executive, administrative, professional openings which are compensated on a salary basis of less than \$18,000 per year. This term includes fulltime employment, temporary employment. It does not include openings which the Operator proposes to fill from within his own organization or to fill pursuant to a customary and traditional employer-union hiring arrangement. Under the most compelling circumstances an employment opening may not be suitable for listing, including such situations where the needs of the Government cannot reasonably be otherwise supplied, where listing would be contrary to national security, or where the requirement of listing would otherwise not be for the best interest of the Government.

(2) "Appropriate office of the State employment service system" means the local office of the Federal-State national system of public employment office with assigned responsibility for serving the area where the employment opening is to be filled, including the District of Columbia, Guam, Puerto Rico, and the Virgin Islands

(3) "Openings which the Operator proposes to fill from within his own organization" means employment openings for which no consideration will be given to persons outside the Operator's organization (including any affiliates, subsidiaries, and the parent companies) and includes any openings which the Operator proposes to fill from regularly established "recall" or "rehire" lists.

(4) "Openings which the Operator proposes to fill pursuant to a customary and traditional employer-union hiring arrangement" means employment openings for which no consideration will be given to persons outside of a special hiring arrangement, including openings which the Operator proposes to fill from union halls, which is a part of the customary and traditional hiring relationship which exists between the Operator and representatives of his employees.

(5) "Disabled veteran" means a person entitled to disability compensation under laws administered by the Veterans' Administrations for disability rated at 30 per centum or more, or a person whose discharge or release from active duty was for a disability incurred or aggravated in line of duty.

(6) "Veteran of the Vietnam era" means a person (1) who (i) served on active duty for a period of more than 180 days, any part of which occurred after August 5, 1964, and was discharged or released therefrom with other than a dishonorable discharge, or (ii) was discharged or released from active duty for service connected disability if any part of such duty was performed after August 5, 1964, and (2) who was so discharged or released within the 48 months preceding his application for employment covered under this part.

(h) The Operator agrees to place this clause (excluding this paragraph (h) in any subcontract of \$2,500 or more directly under this contract. This clause shall apply to any subcontract entered into by Operator in carrying out any contract for the procurement of personal property and nonpersonal services (including construction) for the United States.

V. MINORITY BUSINESS ENTERPRISES

Operator shall be bound by and agrees to the provisions for Executive Order 11625 and all rules, regulations and orders promulgated thereunder to wit:

1. UTILIZATION OF MINORITY BUSINESS ENTERPRISES

(a) It is the policy of the Government that minority business enterprises shall have the maximum practicable opportunity to participate in the performance of Government contracts.

(b) The Operator agrees to use his best efforts to carry out this policy in the award of his subcontracts to the fullest extent consistent with the efficient performance of this contract. As used in this contract, the term "minority business enterprise" means a business, at least 50 percent of which is owned by minority group members or, in case of publicly owned businesses, at least 51 percent of the stock of which is owned by minority group members. For the purposes of this definition, minority group members are Negroes, Spanish-speaking American persons, American-Orientals, American-Indians, American-Eskimos, and American-Aleuts. Operator may rely on written representations by subcontractors regarding their status as minority business enterprises in lieu of an independent investigation.

2. MINORITY BUSINESS ENTERPRISES SUBCONTRACTOR PROGRAM

(a) The Operator agrees to establish and conduct a program which will enable minority business enterprises (as defined in the clause entitled "Utilization of Minority Business Enterprises") to be considered fairly as subcontractors and suppliers under this contract. In the connection, the Operator shall:

(1) Designate a liaison officer who will administer the Operator's minority business enterprises program.

(2) Provide adequate and timely consideration of the potentialities of known minority business enterprises in all "make-or-buy" decisions.

(3) Assure that known minority business enterprises will have an equitable opportunity to compete for subcontracts, particularly by arranging solicitations, time for the preparation of bids, quantities, specifications, and delivery schedules so as to facilitate the participation of minority business enterprises.

(4) Maintain records showing (i) procedures which have been adopted to comply with the policies set forth in this clause, including the establishment of a source list of minority business enterprises (ii) awards to minority business enterprises on the source list and (iii) specific efforts to identify and award contracts to minority business enterprises.

(5) Include the Utilization of Minority Business Enterprises clause in subcontracts which offer substantial minority business enterprises subcontracting opportunities.

(6) Cooperate with the contracting officer in any studies and surveys of the Operator's minority business enterprises procedures and practices that the contracting officer may from time to time conduct.

(7) Submit periodic reports of subcontracting to known minority business enterprises with respect to the records referred to in subparagraph (4), above, in such form and manner and at such time (not more often than quarterly) as the Contracting Officer may prescribe.

(b) The Operator further agrees to insert in any subcontract hereunder which may exceed \$500,000 provisions which shall conform substantially to the language of this clause, including this paragraph (b) and to notify the contracting officer of the names of such subcontractors.

VI. EMPLOYMENT OF THE HANDICAPPED

Operator shall be bound by and agrees to the provisions of Section 503 of the Rehabilitation Act of 1973 and Executive Order 11758 and all rules, regulations, and orders promulgated thereunder to wit:

(This clause applies to all nonexempt contracts and subcontracts which exceed \$2,500 as follows: (1) Part A applies to contracts and subcontracts which provide for performance in less than 90 days. (2) Parts A and B apply to contracts and subcontracts which provide for performance in 90 days or more and the amount of the contract or subcontract is less than \$500,000 and (3) Parts A, B, and C apply to contracts or subcontracts which provide for performance in 90 days or more and the amount of the contract or subcontract is \$500,000 or more.)

Part A

(a) The Operator will not discriminate against any employee or applicant for employment because of physical or mental handicap in regard to any position for which the employee or applicant for employment is qualified. The Operator agrees to take affirmative action to employ advance in employment and otherwise treat qualified handicapped individuals without discrimination based upon their physical or mental handicap in all employment practices such as the following: employment, upgrading, demotion or transfer, recruitment or recruitment advertising, layoff or termination, rates of pay or other forms of compensation, and selection for training, including apprenticeship.

(b) The Operator agrees that, if a handicapped individual files a complaint with the Operator that he is not complying with the requirements of the Act, he will (1) investigate the complaint and take appropriate action consistent with the requirements of 20 CFR 741.29 and (2) maintain on file for three years, the record regarding the complaint and the actions taken

(c) The Operator agrees that, if a handicapped individual files a complaint with the Department of Labor that he has not complied with the requirements of the Act, (1) he will cooperate with the Department in its investigation of the complaint, and (2) he will provide all pertinent information regarding his employment practices with respect to the handicapped.

(d) The Operator agrees to comply with the rules and regulations of the Secretary of Labor in 20 CFR Ch VI, Part 741.

(e) In the event of the Operator's noncompliance with the requirements of this clause, the contract may be terminated or suspended in whole or in part.

(f) This clause shall be included in all subcontracts over \$2,500.

Part B

(g) The Operator agrees (1) to establish an affirmative action program, including appropriate procedures consisting with the guidelines and the rules of the Secretary of Labor, which will provide the affirmative action regarding the employment and advancement of the handicapped required by P.L. 93112, (2) to publish the program in his employee's or personnel handbook or otherwise distribute a copy to all personnel, (3) to review his program on or before March 31 of each year and to make such changes as may be appropriate, and (4) to designate one of his principal officials to be responsible for the establishment and operation of the program.

(h) The Operator agrees to permit the examination by appropriate contracting agency officials or the Assistant Secretary of Employment Standards or his designee, of pertinent books, documents, papers and records concerning his employment and advancement of the handicapped.

(i) The Operator agrees to post in conspicuous places, available to employees and applicants for employment, notices in a form to be prescribed by the Assistant Secretary for Employment Standards, provided by the contracting officer stating Operator's obligation under the law to take affirmative action to employ and advance in employment qualified handicapped employees and applicants for employment and the rights and remedies available.

(j) The Operator will notify each labor union or representative of workers with which he has a collective bargaining agreement or other contract understanding, that the Operator is bound by the terms of Section 503 of the Rehabilitation Act, and is committed to take affirmative action to employ and advance in employment physically and mentally handicapped individuals.

Part C

(k) The Operator agrees to submit a copy of his affirmative action program to the Assistant Secretary for Employment Standards within 90 days after the award to him of a contract or subcontract.

(l) The Operator agrees to submit a summary report to the Assistant Secretary for Employment Standards, by March 31 of the year during performance of the contract and by March 31 of the year following completion of the contract in the form prescribed by the Assistant Secretary, covering employment and complaint experience, accommodations made and all steps taken to effectuate and carry out the commitments set forth in the affirmative action program.

EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated February 23, 1990, between Pacific Enterprises Oil Company (USA), as Operator and Yates Petroleum Corporation, etal, as Non-Operators.

I. Land Subject to this Agreement

West Half (W/2) of Section 28, Township 18 South, Range 27 East, N.M.P.M., Eddy County, New Mexico.

II. Depth Restrictions

Below the base of the San Andres to the top of the Mississippian Chester Limestone.

III. Working Interest Percentages of all Parties to this Agreement

	<u>WI BEFORE PAYOUT</u>	<u>WI AFTER PAYOUT</u>
Pacific Enterprises Oil Company (USA)	52.254600%	39.614750%*
John H. Trigg	.000000%	12.500000%*
Yates Petroleum Corporation	8.219040%	8.219040%
Bonneville Fuels Corporation	8.730325%	8.730325%
Great Western Drilling Company	6.750410%	6.750410%
Read & Stevens, Inc.	5.352200%	5.352200%
James L. Alford, Jr.	1.695200%	1.695200%
DEKALB Corporation	0.000000%	0.139850%*
J. Hiram Moore, Betty Jane Moore, Michael Harrison Moore, Trustees of the Moore Trust	0.254300%	0.254300%
Featherstone Development Company	0.050850%	0.050850%
Myco Industries, Inc.	3.539595%	3.539595%
Abo Petroleum Corporation	3.539595%	3.539595%
Yates Drilling Company	3.539595%	3.539595%
Davoil Inc.	3.719240%	3.719240%
Mark D. Wilson	2.355050%	2.355050%
	-----	-----
	100.000000%	100.000000%

*Assuming that John H. Trigg and DEKALB Corporation elect to convert their ORRI at payout.

IV. Oil and Gas Leases, Assignments and Agreements Subject to this Agreement

1. Serial Number: NM-13731
 Lessor: United States of America
 Lessee: Read & Stevens, Inc.
 Date: June 1, 1971
 Acreage Description: West Half of the Southwest Quarter (W/2SW/4) Section 28, T-18-S, R-27-E, Eddy County, New Mexico

2. Serial Number: NM-9817
 Lessor: United States of America
 Lessee: Raymond A. Panici
 Date: July 1, 1969
 Acreage Description: East Half of the Southwest Quarter (E/2SW/4) Section 28, T-18-S, R-27-E, Eddy County, New Mexico

3. Serial Number: LC 060122
Lessor: United States of America
Lessee: John T. Bonner
Date: April 1, 1948
Acreage Description: Northwest Quarter (NW/4)
Section 28, T-18-S, R-27-E,
Eddy County, New Mexico
4. Assignment of Overriding Royalty Interest dated December 19, 1979 recorded in Book 184, Page 478 of the Eddy County, New Mexico Records, from John H. Trigg, et ux to Yates Exploration Company of an undivided 2.5% overriding royalty interest insofar as it covers the NW/4 of Section 28, T-18-S, R-27-E, Eddy County, New Mexico.
5. Assignment dated July 1, 1970 recorded in book 74, Page 600 of the Eddy County, New Mexico Records, from Raymond A. Panici, et ux to Inexco Oil Company wherein assignors reserved a 5% overriding royalty interest insofar as it covers the E/2SW/4 of Section 28, T-18-S, R-27-E, Eddy County, New Mexico
6. Assignment dated March 23, 1976 recorded in Book 145, Page 990 of the Eddy County, New Mexico Records, from Yates Petroleum Corporation, et al to Mark D. Wilson of an overriding royalty interest equal to the difference between existing burdens and 25% insofar as it covers the SW/4 of Section 28, T-18-S, R-27-E, Eddy County, New Mexico.
7. Farmout Agreement dated December 1, 1989 by and between John H. Trigg, et ux as Farmor and Rio Pecos Corporation as Farmee covering the NW/4 of Section 28, T-18-S, R-27-E, Eddy County, New Mexico.
8. Letter Agreement dated February 13, 1990 by and between Rio Pecos Corporation and Pacific Enterprises Oil Company (USA) covering the NW/4 of Section 28, T-18-S, R-27-E, Eddy County, New Mexico.
9. Farmout Agreement by and between Amoco Production Company and Pacific Enterprises Oil Company (USA) covering the SW/4 of Section 28, T-18-S, R-27-E, Eddy County, New Mexico.
10. Farmout Agreement by and between DEKALB Corporation and Pacific Enterprises Oil Company (USA) covering the SW/4 of Section 28, T-18-S, R-27-E, Eddy County, New Mexico.

V. Addresses of Parties for Notice Purposes

Yates Petroleum Corporation
105 S. 4th St.
Artesia, NM 88210
Attn: Mr. Michael R. Burch

Bonneville Fuels Corporation
1600 Broadway, Suite 1110
Denver, CO 80202
Attn: Mr. Larry Lillo

Great Western Drilling Co.
P.O. Box 1659
Midland, TX 79702
Attn: Mr. Mike Heathington

Read & Stevens, Inc.
P.O. Box 1518
Roswell, NM 88201
Attn: Mr. Joe Wigley

James L. Alford, Jr.
P.O. Box 489
McComb, MS 39648

DEKALB Corporation
1625 Broadway
Denver, CO 80202
Attn: Mr. Keith Ranum

J. Hiram Moore, Betty Jane
Moore, Michael Harrison
Moore, Trustees of the
Moore Trust
P.O. Box 1733
Midland, TX 79702
Attn: Mr. Richard Moore

Myco Industries, Inc.
105 S. 4th St.
Artesia, NM 88210
Attn: Mr. Michael R. Burch

Yates Drilling Company
105 S. 4th St.
Artesia, NM 88210
Attn: Mr. Michael R. Burch

Mr. Mark D. Wilson
110 W. Louisiana, Suite 210
Midland, TX 79701

Mr. John H. Trigg
P.O. Box 520
Roswell, NM 88202

Pacific Enterprises
Oil Company (USA)
P.O. Box 3083
Midland, TX 79702
Attn: Mr. John E. Lodge

ABO Petroleum Corporation
105 S. 4th St.
Artesia, NM 88210
Attn: Mr. Michael R. Burch

Davoil, Inc.
P.O. Box 122269
Fort Worth, TX 76121
Attn: Ms. Debbie Singleton

Featherstone Development Co.
1717 West Second Street
Roswell, NM 88201
ATTN: Mr. Joe Featherstone

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Below the base of the San Andres to the top of the Mississippian Chester Limestone.

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	<u>WI BEFORE PAYOUT</u>	<u>WI AFTER PAYOUT</u>
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John H. Trigg	.000000%	12.500000%*
Yates Petroleum Corporation	6.181390%	6.181390%
Bonneville Fuels Corporation	8.730325%	8.730325%
Great Western Drilling Company	6.750410%	6.750410%
Read & Stevens, Inc.	5.352200%	5.352200%
Exxon Company, U.S.A.	2.037650%	2.037650%
Amoco Production Company	1.695200%	1.695200%
James L. Alford, Jr.	1.695200%	1.695200%
DEKALB Corporation	0.559400%	0.559400%
J. Hiram Moore, Betty Jane Moore, Michael Harrison Moore, Trustees of the Moore Trust	0.254300%	0.254300%
Featherstone Development Company	0.050850%	0.050850%
Myco Industries, Inc.	3.539595%	3.539595%
Abo Petroleum Corporation	3.539595%	3.539595%
Yates Drilling Company	3.539595%	3.539595%
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Mark D. Wilson	2.355050%	2.355050%
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 Lessor: United States of America
 Lessee: Raymond A. Panici
 Date: July 1, 1969
 Acreage Description: East Half of the Southwest Quarter (E/2SW/4) Section 28, T-18-S, R-27-E, Eddy County, New Mexico

3. Serial Number: LC 060122
 Lessor: United States of America
 Lessee: John T. Bonner
 Date: April 1, 1948
 Acreage Description: Northwest Quarter (NW/4)
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 Eddy County, New Mexico
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Yates Petroleum Corporation
 105 S. 4th St.
 Artesia, NM 88210
 Attn: Ms. Kathy Porter

Bonneville Fuels Corporation
 1600 Broadway, Suite 1110
 Denver, CO 80202
 Attn: Mr. Larry Lillo

Great Western Drilling Co.
 P.O. Box 1659
 Midland, TX 79702
 Attn: Mr. Mike Heathington

Read & Stevens, Inc.
 P.O. Box 1518
 Roswell, NM 88201
 Attn: Mr. Joe Wigley

Exxon Company, U.S.A.
 P.O. Box 1600
 Midland, TX 70702
 Attn: Mr. Joe B. Thomas

Amoco Production Company
 P.O. Box 3092
 Houston, TX 77253
 Attn: Mr. Houston Kauffman

James L. Alford, Jr.
 P.O. Box 489
 McComb, MS 39648

DEKALB Corporation
 1625 Broadway
 Denver, CO 80202
 Attn: Mr. Keith Ranum

J. Hiram Moore, Betty Jane
 Moore, Michael Harrison
 Moore, Trustees of the
 Moore Trust
 P.O. Box 1733
 Midland, TX 79702
 Attn: Mr. Richard Moore

Pacific Enterprises
 Oil Company (USA)
 P.O. Box 3083
 Midland, TX 79702
 Attn: Mr. John E. Lodge

Myco Industries, Inc.
 105 S. 4th St.
 Artesia, NM 88210
 Attn: Ms. Kathy Porter

ABO Petroleum Corporation
 105 S. 4th St.
 Artesia, NM 88210
 Attn: Ms. Kathy Porter

Yates Drilling Company
 105 S. 4th St.
 Artesia, NM 88210
 Attn: Ms. Kathy Porter

Davoil, Inc.
 P.O. Box 122269
 Fort Worth, TX 76121
 Attn: Ms. Debbie Singleton

Mr. Mark D. Wilson
 110 W. Louisiana, Suite 210
 Midland, TX 79701

Featherstone Development Co.
 1717 West Second Street
 Roswell, NM 88201
 ATTN: Mr. Joe Featherstone

Mr. John H. Trigg
 P.O. Box 520
 Roswell, NM 88202

EXHIBIT "B"

Attached to and made a part of that certain Operating Agreement dated February 23, 1990, between Pacific Enterprises Oil Company (USA), as Operator and Yates Petroleum Corporation, etal, as Non-Operators.

There is not EXHIBIT "B" to this Agreement.

BEFORE EXAMINER CATANACH

C. CONSERVATION DIVISION

EXHIBIT NO. *K*

CASE NO. *9093*

PACIFIC ENTERPRISES OIL COMPANY (USA)

March 29, 1990

SOUTHWEST REGION
200 N. Loraine, #400
P.O. Box 3083
Midland TX 79702-3083
(915) 684-3861
(915) 684-6426 (Fax)

Mr. Randall Fort
Read & Stevens, Inc.
Post Office Box 1518
Roswell, New Mexico 88202

RE: Red Lake Prospect #6097

Trigg 28 Federal Com #1 Well
Eddy County, New Mexico

Dear Mr. Fort:

We are in receipt of Read & Steven's letter of March 26, 1990 transmitting an approved Authority for Expenditure and Operating Agreement signature page for the referenced well.

It is our understanding that the 5.3522% interest approved by Read & Stevens, Inc. may be owned by the below listed parties; however, Read & Stevens, Inc. will be responsible for the payment of all costs incurred in the drilling and completion of said well and bill the following parties their proportionate share:

Rottman 1984 Family Trust
Westway Petro
Raymond R. Trollinger, and Sharon
S. Trollinger, his wife
Randall R. Fort
David K. Henderson
Joel M. Wigley
Marion Riley
William A. Bradshaw, III
John C. Maxey, Jr.
Lucy Marie Brown
Thomas M. Beall

It is also our understanding that should production be established, Read & Stevens, Inc. will provide the appropriate curative material to determine the proper ownership of the above listed parties so that Pacific may properly disburse the revenue for said well or alternatively, Read & Stevens will assume the obligation and responsibility of disbursing the proceeds to the appropriate parties.

Read & Stevens, Inc.
March 29, 1990
Page 2

Should you have any questions or problems regarding this matter, please do not hesitate to contact me.

Very truly yours,

PACIFIC ENTERPRISES
OIL COMPANY (USA)



M. Craig Clark
Landman

MCC/dsr

cc: Rottman 1984 Family Trust
12100 Wilshire Blvd.
Los Angeles, CA 90025

Westway Petro,
a Texas Joint Venture
500 North Akard Street
LB #70
Dallas, TX 75201

David K. Henderson
c/o Read & Stevens, Inc.
Post Office Box 1518
Roswell, NM 88201

Raymond R. Trollinger, Jr.
and Sharon S. Trollinger
2915 LBJ Freeway,
Suite 161
Dallas, TX 75234

Marion Riley
c/o Read & Stevens, Inc.
Post Office Box 1518
Roswell, NM 88201

Thomas M. Beall
Post Office Box 3098
Midland, TX 79702

John C. Makey, Jr.
c/o Read & Stevens, Inc.
Post Office Box 1518
Roswell, NM 88201

Randall R. Fort
c/o Read & Stevens, Inc.
Post Office Box 1518
Roswell, NM 88201

Lucy Marie Brown
c/o Read & Stevens, Inc.
Post Office Box 1518
Roswell, NM 88201

Joel M. Wigley
c/o Read & Stevens, Inc.
Post Office Box 1518
Roswell, NM 88201

William A. Bradshaw, III
c/o Read & Stevens, Inc.
Post Office Box 1518
Roswell, NM 88201

COUNTY Eddy POOL Red Lake - Pennsylvanian Gas

TOWNSHIP 18-South RANGE 27-East NMPM

6	5	4	3	2	1
7	8	9	10	11	12
18	17	16	15	14	13
19	20	21	22	23	24
30	29	28	27	26	25
31	32	33	34	35	36

Description: All Sec. 5, (R-986, 4-29-57)

Ext: ^{NE}/₄ Sec. 8, (R-1340, 3-1-59) - ^{SE}/₄ Sec. 8; ^{NE}/₄ Sec. 17,

(R-1532, 12-1-59). Ext: ⁵/₂ Sec 7, ¹/₂ Sec 8 (R-4734, 3-1-74)

Ext: ¹/₂ Sec 18 (R-4821, 8-1-74) Ext: ⁵/₂ Sec 18 (R-4969, 4-1-75)

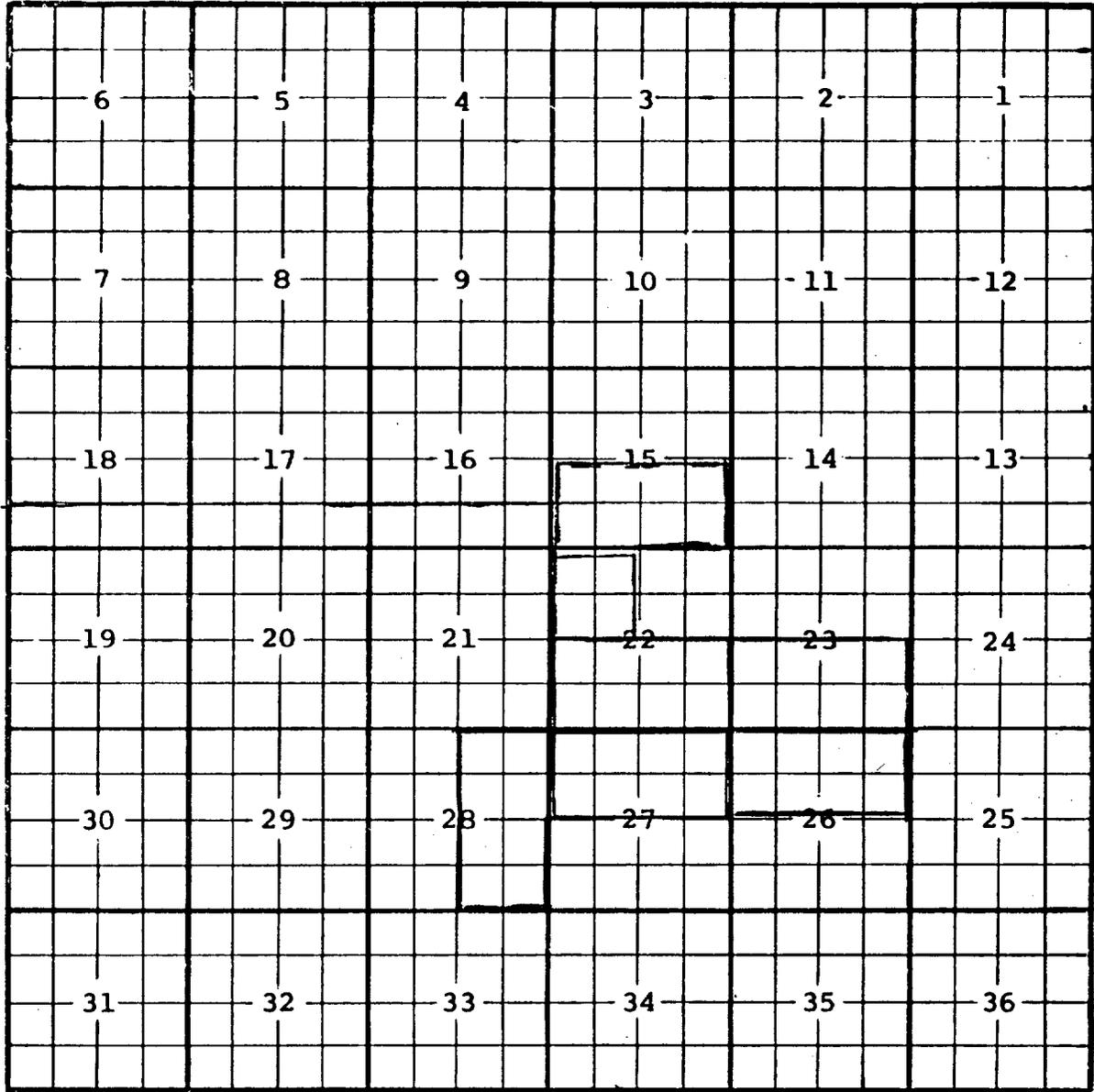
Ext: ¹/₂ Sec 7 (R-5102, 10-1-75) Ext: All Sec 6, ¹/₂ Sec 19 (R-5171, 4-1-76)

Ext: ¹/₂ Sec 29, ¹/₂ Sec 30 (R-5361, 3-1-77) Ext: ⁵/₂ Sec 19, -

- ¹/₂ Sec 20 (R-5838, 11-1-78) Ext: ⁵/₂ Sec. 29 (R-6420, 8-1-80)

COUNTY Eddy POOL Red Lake - Atoka - Morrow Gas

TOWNSHIP 18 South RANGE 27 East NMPM



Description: 1/2 Sec. 27 (R-3342, 12-1-67) EXT: 1/2 Sec. 22, 1/2 Sec. 23, 1/2 Sec. 28 (R-6170, 11-1-75)

Extend vertical limits to include Atoka formation and redesignate as East Atoka Atoka - Morrow Gas Pool (R-7502, 4-20-84)

Redesignate as Red Lake Atoka - Morrow Gas Pool (R-7555, 6-14-84)

EXT: NW/4 SEC. 22 (R-8522, 10/1/87) EXT: 1/2 SEC 15 (R-8665, 6/9/88)

EXT: N/2 sec 26 (R-8769, 8-1-89)

MARTIN YATES, III
1912 - 1985
FRANK W. YATES
1936 - 1986



105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210
TELEPHONE (505) 748-1471

RECEIVED
OIL CONSERVATION DIVISION
MAR 16 AM 8 55
S. P. YATES
CHAIRMAN OF THE BOARD
JOHN A. YATES
PRESIDENT
PEYTON YATES
EXECUTIVE VICE PRESIDENT
RANDY G. PATTERSON
SECRETARY
DENNIS G. KINSEY
TREASURER

March 14, 1990

Kellahin, Kellahin and Aubrey
Attorneys At Law
P. O. Box 2265
Santa Fe, New Mexico 87504

Attention: Karen Aubrey

Case No 9893

RE: Compulsory Pooling
Pacific Enterprises Oil Company
Trigg 28 Fed. No. 1 Well
Township 18 South, Range 27 East, NMPM
Section 28: W/2
Eddy County, New Mexico

Dear Mrs. Aubrey:

Pursuant to our telephone conversation today, please be advised that Yates Petroleum Corporation, Yates Drilling Company, Abo Petroleum Corporation, Myco Industries, Inc., and Yates Employees '87 Ltd., have previously agreed to participate with Pacific Enterprises in the drilling of the above proposed well and have remained in agreement since receiving their initial letter dated February 1, 1990. However, Yates Petroleum Corporation, et al is now waiting on a revised Authority For Expenditure containing our correct interests under this well.

We are still reviewing Pacific's Operating Agreement, but upon receipt of the corrected AFE, Yates Petroleum Corporation, et al will execute and return. If you have any questions regarding this matter, please call.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Michael R. Burch

Michael R. Burch
Landman

MRB:cp

cc: Mr. William J. LeMay
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87504

Dockets Nos. 10-90 and 11-90 are tentatively set for April 4 and 18, 1990. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - WEDNESDAY - MARCH 21, 1990

8:15 A.M. - OIL CONSERVATION DIVISION CONFERENCE ROOM,
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

The following cases will be heard before Michael E. Stogner, Examiner, or David R. Catanach, Alternate Examiner:

CASE 9882: (Readvertised)

Application of Controlled Recovery, Inc. for an oil treating plant permit, for surface water disposal, and an exception to Order No. R-3221, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority for construction and operation of the surface waste disposal facility and an oil treating plant for the purpose of treating and reclaiming sediment oil and for the collection, disposal, evaporation or storage of produced water, drilling fluids, drill cuttings, completion fluids and other oil field related waste in unlined surface pits, at a site in the S/2 N/2 and the N/2 S/2 of Section 27, Township 20 South, Range 32 East. This site is located on either side of U.S. Highway 62/180 at Mile Marker No. 66.

CASE 9880: (Continued from March 7, 1990, Examiner Hearing)

Application of Merrion Oil & Gas Corporation for a waterflood project, McKinley County, New Mexico. Applicant, in the above-styled cause, seeks approval to institute a waterflood project on its Papers Wash Cooperative Agreement Unit Area underlying portions of Sections 15 and 16, Township 19 North, Range 5 West, by the injection of water into the Papers Wash-Entrada Oil Pool through the Navajo Allotted "15" Well No. 3 located 2310 feet from the South line and 2000 feet from the West line (Unit K) of said Section 15. Said project area is located approximately 22 miles northwest of San Luis, New Mexico.

CASE 9863: (Continued from February 21, 1990, Examiner Hearing)

Application of Hixon Development Company for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Basin-Fruitland Coal Gas Pool underlying Lots 1 through 4 and the E/2 W/2 of Section 7, Township 25 North, Range 12 West, forming a standard 317.28-acre gas spacing and proration unit for said pool, to be dedicated to a well to be drilled at a standard coal gas well location in the SW/4 of said Section 7. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 5 miles south-southwest of El Paso Natural Gas Company's Chaco Plant.

CASE 9887: Application of Hixon Development Company for compulsory pooling, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Basin-Fruitland Coal Gas Pool underlying the E/2 of Section 17, Township 25 North, Range 12 West, forming a standard 320-acre gas spacing and proration unit for said pool, to be dedicated to a well to be drilled at a standard coal gas well location 790 feet from the North and East lines (Unit A) of said Section 17. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 6 miles south by west of El Paso Natural Gas Company's Chaco Plant.

CASE 9888: Application of Conoco Inc. for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the North Dagger Draw-Upper Pennsylvanian Pool underlying the SE/4 of Section 36, Township 19 South, Range 24 East, forming a standard 160-acre oil spacing and proration unit for said pool, to be dedicated to its existing Dee State Well No. 1 located at a standard oil well location 1980 feet from the South and East lines (Unit J) of said Section 36 (said well is presently completed in the Cemetery-Morrow Gas Pool). Also to be considered will be the cost of re-entering, recompleting, equipping and operating said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in re-entering and recompleting said well. Said unit is located approximately 13 miles west by north of Seven Rivers, New Mexico.

CASE 9889: Application of Meridian Oil, Inc. for temporary well testing allowable for certain wells in the Parkway-Delaware Pool, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to conduct a special 90-day flow test on selected wells in the Parkway-Delaware Pool located in all or portions of Sections 26, 35, and 36, Township 19 South, Range 29 East, and Section 31, Township 19 South, Range 30 East, for the purpose of gathering data to determine the most efficient producing rate for said pool. This subject area is located approximately 14 miles south by west of Loco Hills, New Mexico.

- CASE 9890: Application of Bird Creek Resources, Inc. for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Delaware formation underlying the NE/4 NE/4 of Section 15, Township 23 South, Range 28 East, forming a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on statewide 40-acre oil spacing within said vertical extent, which includes but is not necessarily limited to the Undesignated Loving-Cherry Canyon Pool and Undesignated East Loving-Delaware Pool. Said unit is to be dedicated to a well to be drilled at a standard location 535 feet from the North and East lines (Unit A) of said Section 15. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 2.5 miles northeast of Loving, New Mexico.
- CASE 9891: Application of Bird Creek Resources, Inc. for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface to the base of the Delaware formation underlying the NE/4 SE/4 of Section 15, Township 23 South, Range 28 East, forming a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on statewide 40-acre oil spacing within said vertical extent, which includes but is not necessarily limited to the Undesignated Loving-Cherry Canyon Pool and Undesignated East Loving-Delaware Pool. Said unit is to be dedicated to a well to be drilled at a standard location 2105 feet from the South line and 560 feet from the East line (Unit I) of said Section 15. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 2 miles east-northeast of Loving, New Mexico.
- CASE 9892: Application of Pacific Enterprises Oil Company (USA) for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests to a depth of 5000 feet down to the top of the Mississippian Chester Limestone formation, or to a depth of 11,200 feet, whichever is deeper, underlying the E/2 of Section 12, Township 17 South, Range 29 East, forming a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated Anderson-Pennsylvanian Gas Pool. Said unit is to be dedicated to a well to be drilled at a standard gas well location 2180 feet from the North line and 1980 feet from the East line (Unit G) of said Section 12. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 3.25 miles northwest of Loco Hills, New Mexico.
- ~~CASE 9893:~~ Application of Pacific Enterprises Oil Company (USA) for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Atoka and Morrow formations underlying the W/2 of Section 28, Township 18 South, Range 27 East, forming a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent, which presently includes but is not necessarily limited to either the Undesignated Red Lake-Pennsylvanian Gas Pool or the Undesignated Red Lake Atoka-Morrow Gas Pool. Said unit is to be dedicated to its Trigg "28" Federal Well No. 1 to be drilled at a standard gas well location 2030 feet from the North line and 1980 feet from the West line (Unit F) of said Section 28. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 4 miles west by north of the Old Illinois Oil Camp.
- CASE 9881: (Readvertised)
- Application of Richmond Petroleum, Inc. for unorthodox coal gas well location, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for an unorthodox coal gas well location for its Federal 31-4-32 Well No. 2 to be drilled 617 feet from the South line and 1939 feet from the West line (Unit N) of Section 32, Township 31 North, Range 4 West, Basin-Fruitland Coal Gas Pool, the W/2 of said Section 32 to be dedicated to said well to form a standard 320-acre gas spacing and proration unit for said pool. Said unit is located approximately 10 miles south of Mile Corner No. 233 located on the New Mexico/Colorado Stateline.
- CASE 9894: Application of Richmond Petroleum, Inc. for compulsory pooling, unorthodox coal gas well location, and a non-standard gas spacing and proration unit, San Juan and Rio Arriba Counties, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Basin-Fruitland Coal Gas Pool underlying Lots 1 through 4 and the S/2 N/2 of Irregular Section 11, Township 32 North, Range 6 West, forming a non-standard 232.80-acre gas spacing and proration unit for said pool, said unit to be dedicated to a well to be drilled at a non-standard coal gas well location 1130 feet from the North line and 760 feet from the West line (Unit E) of said Section 11. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is bounded to the north by the State of Colorado for one-half mile of either side of Astronomical Monument No. 8 located on the stateline.

- CASE 9895: Application of Richmond Petroleum, Inc. for compulsory pooling and an unorthodox coal gas well location, San Juan and Rio Arriba Counties, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Basin-Fruitland Coal Gas Pool underlying the S/2 of Irregular Section 11, Township 32 North, Range 6 West, forming a standard 320-acre gas spacing and proration unit for said pool, said unit to be dedicated to a well to be drilled at a non-standard coal gas well location 1800 feet from the South line and 230 feet from the West line (Unit L) of said Section 11. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well. Said unit is located 1/2 mile south of Astronomical Monument No. 8 located on the Colorado/New Mexico Stateline.
- CASE 9896: Application of Siete Oil & Gas Corporation for a waterflood project, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project on its Scottsdale Federal Lease underlying the NE/4 of Section 27, Township 18 South, Range 31 East, by the injection of water into the Shugart Yates-Seven Rivers-Queen-Grayburg Pool through the perforated interval from approximately 2475 feet to 3707 feet in its Scottsdale Federal Well No. 2 located 330 feet from the North line and 990 feet from the East line (Unit A) of said Section 27. Said well is located approximately 10 miles southeast of Loco Hills, New Mexico.
- CASE 9897: Application of Siete Oil & Gas Corporation for a waterflood project, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project on its Sackett Federal Lease underlying the S/2 SW/4 and SW/4 SE/4 of Section 29, Township 17 South, Range 29 East, by the injection of water into the Grayburg Jackson Pool through the perforated interval from approximately 2300 feet to 3220 feet in its Sackett Federal Well No. 2 located 660 feet from the South line and 1650 feet from the West line (Unit N) of said Section 29. Said well is located approximately 7 miles west by south of Loco Hills, New Mexico.
- CASE 9898: Application of Doyle Hartman for compulsory pooling, a non-standard gas proration unit and simultaneous dedication, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Eumont Gas Pool underlying the SE/4 SW/4 and SE/4 of Section 5 and the NE/4 NE/4 and NE/4 NW/4 of Section 8, all in Township 20 South, Range 37 East, forming a non-standard 280-acre gas spacing and proration unit for said pool. The applicant proposes to dedicate all production from the Eumont Gas Pool to the existing Britt-Laughlin Com. Well No. 5 (formerly the Oxy USA, Inc. Laughlin "B" Well No. 5) located 330 feet from the South line and 2310 feet from the East line (Unit O) of said Section 5 and to the existing Britt-Laughlin Com. Well No. 1 (formerly the Britt "B-8" Well No. 1) located 660 feet from the North line and 1980 feet from the West line (Unit C) of said Section 8 and to a third well to be drilled at an undetermined location in the SE/4 of said Section 5. Applicant further seeks to be designated operator of the non-standard gas proration unit so created and be entitled to recover out of the production therefrom his costs of drilling, completing and equipping a new infill well, plus a 200% risk factor for drilling, completing and equipping such new infill well, and an equitable and proper percentage of the value of the existing wellbores of applicant's Britt-Laughlin Com. Well Nos. 1 and 5, and all costs of supervision and operation of such non-standard gas proration unit, and that such order also provide for any other relief which may be deemed equitable and proper. The subject area is located approximately 2.25 miles south of Monument, New Mexico.
- CASE 9884: (Continued from March 7, 1990, Examiner Hearing)
- Application of OXY USA, Inc. for compulsory pooling, non-standard gas proration unit and simultaneous dedication, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Eumont Gas Pool underlying the SE/4 of Section 5 and the NE/4 NE/4 of Section 8, all in Township 20 South, Range 37 East, forming a non-standard 200-acre gas spacing and proration unit for said pool, said unit to be simultaneously dedicated to the existing Laughlin "B" Well No. 5 located 330 feet from the South line and 2310 feet from the East line (Unit O) of said Section 5, and to the plugged and abandoned Laughlin "B" Well No. 1 to be re-entered and recompleted in the Eumont Gas Pool at a standard gas well location 1980 feet from the South and East lines (Unit J) of said Section 5. Also to be considered will be the cost of re-entering and recompleting the Laughlin "B" Well No. 1 and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the unit and a charge for risk involved in the re-entering and recompletion of said well. Said unit is located approximately 2.25 miles south of Monument, New Mexico.

CASE 9885: (Continued from March 7, 1990, Examiner Hearing)

Application of Doyle Hartman for compulsory pooling, a non-standard gas proration unit and simultaneous dedication, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Eumont Gas Pool underlying either the SE/4 SW/4 of Section 5 and the E/2 W/2 of Section 8, Township 20 South, Range 37 East, forming a non-standard 200-acre gas spacing and proration unit for said pool, or IN THE ALTERNATIVE, the SE/4 SW/4 of said Section 5 and the N/2 NE/4 and NE/4 NW/4 of said Section 8, forming a non-standard 160-acre gas spacing and proration unit for said pool. In either instance the applicant proposes to dedicate all production from the Eumont Gas Pool to the existing Britt "B-8" Well No. 1 located 660 feet from the North line and 1980 feet from the West line (Unit C) of said Section 8 and to a second well to be drilled at a standard gas well location within the applicable non-standard unit. Applicant further seeks to be designated operator of the non-standard gas proration unit so created and be entitled to recover out of the production therefrom its cost of drilling, completing and equipping a new infill well, plus a 200% risk factor for drilling, completing and equipping such infill well, plus an equitable and proper percentage of the value of the existing wellbore of said Britt "B-8" Well No. 1, and all costs of supervision and operation of such unit, and that such order also provide for any other relief which may be deemed equitable and proper. The subject area is located approximately 2.25 miles south of Monument, New Mexico.

BEFORE THE
OIL CONSERVATION DIVISION
NEW MEXICO DEPARTMENT OF ENERGY AND MINERALS

IN THE MATTER OF THE APPLICATION
OF PACIFIC ENTERPRISES OIL COMPANY
(USA) FOR COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.

CASE NO. 9893

ENTRY OF APPEARANCE

COMES NOW CAMPBELL & BLACK, P.A., and hereby enters its appearance in
the above referenced case on behalf of Yates Petroleum Corporation, Yates Drilling
Company, MYCO Industries, Inc., and ABO Petroleum Corporation.

Respectfully submitted,

CAMPBELL & BLACK, P.A.

By: 

WILLIAM F. CARR
Post Office Box 2208
Santa Fe, New Mexico 87504
Telephone: (505) 988-4421

RECEIVED
APR 2 1990
OIL CONSERVATION DIVISION

ATTORNEYS FOR YATES
PETROLEUM CORPORATION,
YATES DRILLING COMPANY
MYCO INDUSTRIES, INC.,
and ABO PETROLEUM
CORPORATION

MARTIN YATES, III
1912 - 1985
FRANK W. YATES
1936 - 1986

APR 2 AM 9 20



105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210
TELEPHONE (505) 748-1471

S. P. YATES
CHAIRMAN OF THE BOARD
JOHN A. YATES
PRESIDENT
PEYTON YATES
EXECUTIVE VICE PRESIDENT
RANDY G. PATTERSON
SECRETARY
DENNIS G. KINSEY
TREASURER

Eatonach

Case 9893
DC

March 30, 1990

Pacific Enterprises Oil Company (USA)
P. O. Box 3083
Midland, Texas 79702

Attention: Craig Clark

RE: Trigg 28 Federal #1
Township 18 South, Range 27 East, NMPM
Section 28: W/2
Eddy County, New Mexico

Gentlemen:

Pursuant to your letter dated March 27, 1990 requesting approval of a revised Authority For Expenditure covering Yates Petroleum Corporation's interest in the above captioned well, please find enclosed executed AFE.

Previous approved AFE's signed on behalf of Yates Drilling Company, Abo Petroleum Corporation, and Myco Industries, Inc., were forwarded to you under letter dated March 19, 1990.

We request that you drop Yates Petroleum Corporation, Yates Drilling Company, Abo Petroleum Corporation, and Myco Industries, Inc., from your compulsory pooling procedure on captioned well.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Michael R. Burch

Michael R. Burch
Landman

MRB:cp

Enclosure

xc: Karen Aubrey
Kellahin, Kellahin & Aubrey
P. O. Box 2265
Santa Fe, New Mexico 87504

xc: William J. LeMay
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87504