

DIVISION
NOV 26 AM 9 48

FISK & VANDIVER

ATTORNEYS AT LAW

SEVENTH & MAHONE / SUITE E
ARTESIA, NEW MEXICO 88210

(505) 746-9841

FAX

(505) 746-4208

JOHN FISK
DAVID R. VANDIVER
HARRY T. NUTTER

November 19, 1990

Energy, Minerals and Natural
Resources Department
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87504

10/88

Re: Proposed West Sombrero State Unit
Township 16 South, Range 33 East, NMPM
Section 9: All
Section 16: All
Section 21: All
Lea County, New Mexico

Gentlemen:

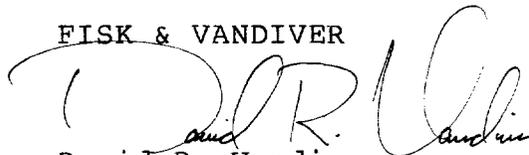
Enclosed for filing, please find three copies of the Application of Yates Petroleum Corporation for Approval of a Unit Agreement, West Sombrero State Unit Area, Lea County, New Mexico. Also enclosed is an extra copy of the Application which we would appreciate your returning to us in the enclosed stamped self-addressed envelope after inserting the docket number.

Please set this matter for hearing before an Examiner on December 12, 1990.

Thank you.

Very truly yours,

FISK & VANDIVER


David R. Vandiver

DRV:pvw
Enclosures

cc w/enclosure: Yates Petroleum Corporation

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FISK & VANDIVER

ATTORNEYS AT LAW

SEVENTH & MAHONE / SUITE E
ARTESIA, NEW MEXICO 88210

(505) 746-9841

JOHN FISK
DAVID R. VANDIVER

FAX
(505) 746-4208

January 8, 1991

Energy, Minerals and Natural
Resources Department
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87504

Re: Case No. 10188
Examiner Hearing of December 19, 1990
West Sombrero State Unit
Township 16 South, Range 33 East, NMPM
Section 9: All
Section 16: All
Section 21: All
Lea County, New Mexico

Gentlemen:

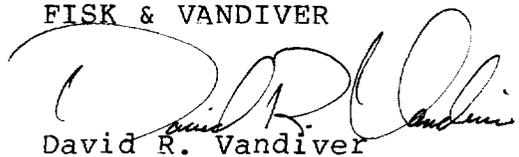
Enclosed for your information is a copy of letter dated January 7, 1991, advising that the Commissioner of Public Lands has granted final approval for the exploratory West Sombrero State Unit, Lea County, New Mexico, subject to like approval by the Oil Conservation Division. Also enclosed is a copy of the Certificate of Approval dated January 7, 1991.

Hearing before the New Mexico Oil Conservation Division was held in Case No. 10,188 on December 19, 1990. State Lease V-1767, committed to the unit as Tract No. 3, has an expiration date of February 1, 1991, and we would appreciate your entry of an order in this matter prior to such expiration date.

Thank you for your cooperation.

Very truly yours,

FISK & VANDIVER



David R. Vandiver

DRV:pvw
Enclosures

cc w/enclosures: Yates Petroleum Corporation

State of New Mexico



JIM BACA
COMMISSIONER

Commissioner of Public Lands

P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

January 7, 1991

Fisk & Vandiver
Attorneys-at-Law
Seventh & Mahone, Suite E
Artesia, NM 88210

Attn: Mr. David Vandiver

Re: West Sombrero State Unit
Lea County, New Mexico
Final Unit Approval

Dear Mr. Vandiver:

Please be advised that the Commissioner of Public Lands this date has granted final approval for the exploratory West Sombrero State Unit in Lea County, New Mexico.

Our approval is subject to like approval by the Oil Conservation Division. Enclosed are five (5) Certificates of Approval and (one) copy of the approved West Sombrero State Unit Agreement. Your filing fee in the amount of ninety dollars (\$90.00) was received.

If you have any questions please contact Clyde Langdale at (505) 827-5791.

Sincerely,

JIM BACA
COMMISSIONER OF PUBLIC LANDS

By: 
Floyd O. Prando, Director
Oil, Gas & Minerals Division

JB/FOP/CL/dm

cc: TRD - O & G Accounting Division
OCD
BLM - Jerry Dutchover
SLO - Royalty Management



NEW MEXICO STATE LAND OFFICE

CERTIFICATE OF APPROVAL

COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO

WEST SOMBRERO STATE UNIT
YATES PETROLEUM CORPORATION

There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, the attached Agreement for the development and operation of acreage which is described within the attached Agreement, dated December 1, 1990, which said Agreement has been executed by parties owning and holding oil and gas leases and royalty interests in and under the property described, and upon examination of said Agreement, the Commissioner finds:

- (a) That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy in said area.
- (b) That under the proposed agreement, the State of New Mexico will receive its fair share of the recoverable oil or gas in place under its lands in the area.
- (c) That each beneficiary Institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the area.
- (d) That such agreement is in other respects for the best interests of the state, with respect to state lands.

NOW, THEREFORE, by virtue of the authority conferred upon me under Sections 19-10-45, 19-10-46, 19-10-47, New Mexico Statutes Annotated, 1978 Compilation, I, the undersigned Commissioner of Public Lands of the State of New Mexico, do hereby consent to and approve the said Agreement, however, such consent and approval being limited and restricted to such lands within the Unit Area, which are effectively committed to the Unit Agreement as of this date, and, further, that leases insofar as the lands covered thereby committed to this Unit Agreement shall be and the same are hereby amended to conform with the terms of such Unit Agreement, and said leases shall remain in full force and effect in accordance with the terms and conditions of said Agreement. This approval is subject to all of the provisions and requirements of the aforesaid statutes.

IN WITNESS WHEREOF, this Certificate of Approval is executed, with seal affixed, this 2th day of January, 1991.


COMMISSIONER OF PUBLIC LANDS
of the State of New Mexico

COMMISSION
FISK & VANDIVER
ATTORNEYS AT LAW
SEVENTH & MAHONE / SUITE E
ARTESIA, NEW MEXICO 88210
(505) 746-9841

'91 JAN 9 03

JOHN FISK
DAVID R. VANDIVER
HARRY T. NUTTER

FAX
(505) 746-4208

January 2, 1991

Energy, Minerals and Natural
Resources Department
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87504

211.5.

Re: Case No. 10188
Examiner Hearing of December 19, 1990
West Sombrero State Unit
Township 16 South, Range 33 East, NMPM
Section 9: All
Section 16: All
Section 21: All
Lea County, New Mexico

Gentlemen:

Enclosed for your information is a copy of letter dated December 27, 1990, whereby the Commissioner of Public Lands grants preliminary approval of the West Sombrero State Unit, Lea County, New Mexico.

Very truly yours,

FISK & VANDIVER
David R. Vandiver
David R. Vandiver

DRV:pvw
Enclosure

cc w/enclosure: Yates Petroleum Corporation



State of New Mexico
Commissioner of Public Lands

W. R. Humphries
COMMISSIONER

Advisory Board

George Clark
Chairman

Kristin Conniff
Vice Chairman

Melvin Cordova

Joe Kelly

Robert Portillos

Nancy Lynch Vigil

Rex Wilson

December 27, 1990

Fisk & Vandiver
Attorneys-At-Law
Seventh & Mahone, Suite E
Artesia, NM 88210

Attn: Mr. David Vandiver

Re: West Sombrero State Unit
Lea County, New Mexico
Preliminary Approval

Dear Mr. Vandiver:

This office has reviewed the proposed agreement and we find that the general requirements of the Commissioner of Public Lands are present.

Preliminary Approval shall not be construed to mean final approval of this agreement in any way and will not extend any short term leases until final approval and an effective date have been given.

When submitting your agreement for final approval, please include the following items.

1. Application for final approval by the Commissioner of Public Lands setting forth the tracts that have been committed and those that are not committed.
2. All ratifications from the Lessee of Record and Working Interest Owners, all signatures should be acknowledged by a Notary Public and one set must contain original signatures.
3. Order of the New Mexico Oil Conservation Division. Our approval will be contingent upon subsequent favorable approval by the New Mexico Oil Conservation Division.
4. An original and one copy of both the Unit Agreement and the Unit Operating Agreement for our files. Again, the original set must contain original signatures.

If we can be of further help, please contact Clyde Langdale at
(505) 827-5791.

Sincerely,

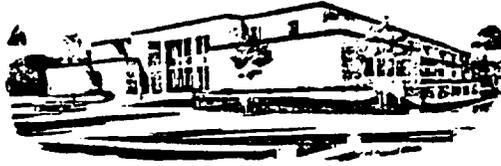
W. R. HUMPHRIES
COMMISSIONER OF PUBLIC LANDS

By: 
Floyd O. Prando, Director
Oil, Gas & Minerals Division

WRH/FOP/CL/dm

cc: OCD
BLM

State of New Mexico



JIM BACA
COMMISSIONER

Commissioner of Public Lands

P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

January 7, 1991

Fisk & Vandiver
Attorneys-at-Law
Seventh & Mahone, Suite E
Artesia, NM 88210

Attn: Mr. David Vandiver

Re: West Sombrero State Unit
Lea County, New Mexico
Final Unit Approval

Dear Mr. Vandiver:

Please be advised that the Commissioner of Public Lands this date has granted final approval for the exploratory West Sombrero State Unit in Lea County, New Mexico.

Our approval is subject to like approval by the Oil Conservation Division. Enclosed are five (5) Certificates of Approval and (one) copy of the approved West Sombrero State Unit Agreement. Your filing fee in the amount of ninety dollars (\$90.00) was received.

If you have any questions please contact Clyde Langdale at (505) 827-5791.

Sincerely,

JIM BACA
COMMISSIONER OF PUBLIC LANDS

By: 
Floyd O. Prando, Director
Oil, Gas & Minerals Division

JB/FOP/CL/dm

cc: TRD - O & G Accounting Division
OCD
BLM - Jerry Dutchover
SLO - Royalty Management

REPORT TO DEPARTMENTS

UNIT NAME WEST SOMBRERO STATE UNIT
 OPERATOR YATES PETROLEUM CORPORATION
 COUNTY LEA COUNTY, NEW MEXICO

DATE APPROVED	OCC CASE NO. OCC ORDER NO.	EFFECTIVE DATE	TOTAL ACREAGE	STATE	FEDERAL	INDIAN-FEE	SEGREGATION CLAUSE	TERM
1-7-91	10.188	1-7-91	1920.0	1920.0	-0-	-0-	STRICT	AS LONG AS

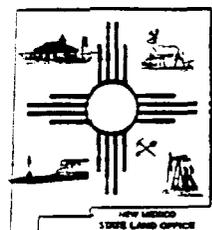
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UNIT AREA

TOWNSHIP 16 SOUTH, RANGE 33 EAST, NMPM

Section 9: N/2, S/2
 Section 16: A11
 Section 21: A11

State of New Mexico
Commissioner of Public Lands



W. R. Humphries
COMMISSIONER

Advisory Board

George Clark
Chairman

Kristin Conniff
Vice Chairman

Melvin Cordova

Joe Kelly

Robert Portillos

Nancy Lynch Vigil

Rex Wilson

December 27, 1990

Fisk & Vandiver
Attorneys-At-Law
Seventh & Mahone, Suite E
Artesia, NM 88210

Attn: Mr. David Vandiver

Re: West Sombrero State Unit
Lea County, New Mexico
Preliminary Approval

Dear Mr. Vandiver:

This office has reviewed the proposed agreement and we find that the general requirements of the Commissioner of Public Lands are present.

Preliminary Approval shall not be construed to mean final approval of this agreement in any way and will not extend any short term leases until final approval and an effective date have been given.

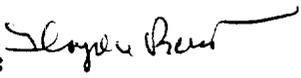
When submitting your agreement for final approval, please include the following items.

1. Application for final approval by the Commissioner of Public Lands setting forth the tracts that have been committed and those that are not committed.
2. All ratifications from the Lessee of Record and Working Interest Owners, all signatures should be acknowledged by a Notary Public and one set must contain original signatures.
3. Order of the New Mexico Oil Conservation Division. Our approval will be contingent upon subsequent favorable approval by the New Mexico Oil Conservation Division.
4. An original and one copy of both the Unit Agreement and the Unit Operating Agreement for our files. Again, the original set must contain original signatures.

If we can be of further help, please contact Clyde Langdale at
(505) 827-5791.

Sincerely,

W. R. HUMPHRIES
COMMISSIONER OF PUBLIC LANDS

By: 
Floyd O. Prando, Director
Oil, Gas & Minerals Division

WRH/FOP/CL/dm

cc: OCD
BLM

FISK & VANDIVER

ATTORNEYS AT LAW

SEVENTH & MAHONE, SUITE B
ARTESIA, NEW MEXICO 88210

(505) 746-9841

RECEIVED
JAN 19 1992

JOHN FISK
DAVID R. VANDIVER

FAX
(505) 746-4208

January 17, 1991

Energy, Minerals and Natural
Resources Department
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87504

Re: Order No. R-9404
Case No. 10,188
West Sombrero State Unit
Lea County, New Mexico

Gentlemen:

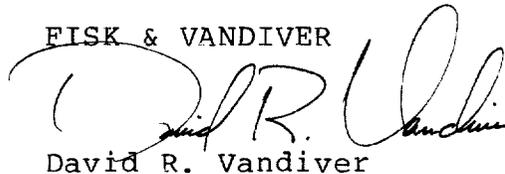
Enclosed for filing are executed counterparts of the Unit Agreement for the Development and Operation of the West Sombrero State Unit Area, Lea County, New Mexico, and Unit Operating Agreement dated December 1, 1990, as required by Order No. R-9404 entered in Case No. 10188 on January 8, 1991. Also enclosed is an executed copy of the Certificate of Approval dated January 7, 1991, whereby the Commissioner of Public Lands approved the Unit Agreement.

Please contact me if you require anything further in connection with this matter.

Thank you.

Very truly yours,

FISK & VANDIVER



David R. Vandiver

DRV:pvw
Enclosures

cc: Mr. Rob Bullock



NEW MEXICO STATE LAND OFFICE

CERTIFICATE OF APPROVAL

COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO

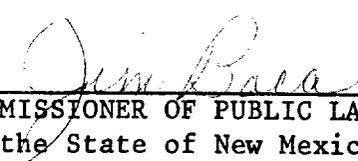
WEST SOMBRERO STATE UNIT
YATES PETROLEUM CORPORATION

There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, the attached Agreement for the development and operation of acreage which is described within the attached Agreement, dated December 1, 1990, which said Agreement has been executed by parties owning and holding oil and gas leases and royalty interests in and under the property described, and upon examination of said Agreement, the Commissioner finds:

- (a) That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy in said area.
- (b) That under the proposed agreement, the State of New Mexico will receive its fair share of the recoverable oil or gas in place under its lands in the area.
- (c) That each beneficiary Institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the area.
- (d) That such agreement is in other respects for the best interests of the state, with respect to state lands.

NOW, THEREFORE, by virtue of the authority conferred upon me under Sections 19-10-45, 19-10-46, 19-10-47, New Mexico Statutes Annotated, 1978 Compilation, I, the undersigned Commissioner of Public Lands of the State of New Mexico, do hereby consent to and approve the said Agreement, however, such consent and approval being limited and restricted to such lands within the Unit Area, which are effectively committed to the Unit Agreement as of this date, and, further, that leases insofar as the lands covered thereby committed to this Unit Agreement shall be and the same are hereby amended to conform with the terms of such Unit Agreement, and said leases shall remain in full force and effect in accordance with the terms and conditions of said Agreement. This approval is subject to all of the provisions and requirements of the aforesaid statutes.

IN WITNESS WHEREOF, this Certificate of Approval is executed, with seal affixed, this 27th day of January, 1991.


COMMISSIONER OF PUBLIC LANDS
of the State of New Mexico

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
WEST SOMBRERO STATE UNIT
LEA COUNTY, NEW MEXICO
NO. _____

THIS AGREEMENT, entered into as of the 1st day of December, 1990, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto";

WITNESSETH:

WHEREAS, the parties hereto are the owners of working, royalty, or other oil or gas interests in the unit area subject to this agreement; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec 3, Chap. 88, Laws 1943) as amended by Dec. 1 of Chapter 162, Laws of 1951, (Chap. 19, Art. 10, Sec. 45, N. M. Statutes 1978 Annot.), to consent to and approve the development of operation of State Lands under agreements made by lessees of State Land jointly or severally with other lessees where such agreements provide for the unit operation or development or part of or all of any oil or gas pool, field, or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chap. 162), (Laws of 1951, Chap. 19, Art. 10, Sec. 47, N. M. Statutes 1978 Annotated) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State Lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field, or area; and

WHEREAS, the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico (hereinafter referred to as the "Division"), is authorized by an Act of the Legislature (Chap. 72, Laws 1935, as amended, being Section 70-2-1 et seq. New Mexico Statutes Annotated, 1978 Compilation) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the WEST SOMBRERO STATE UNIT covering the lands hereinafter described to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent waste and secure other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions and limitations herein set forth;

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the below defined unit area, and agree severally among themselves as follows:

1. UNIT AREA: The following described land is hereby designated and recognized as constituting the unit area:

Township 16 South, Range 33 East, N.M.P.M.
Section 9: All
Section 16: All
Section 21: All
Containing 1920.00 acres, more or less
Lea County, New Mexico

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the unit operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the unit operator the acreage, percentage and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown on said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the unit operator whenever changes in ownership in the unit area render such revisions necessary or when requested by the Commissioner of Public Lands, hereinafter referred to as "Commissioner" or the Oil Conservation Division, hereinafter referred to as the "Division". All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement".

2. UNITIZED SUBSTANCES: All oil, gas, natural gasoline, and associated fluid hydrocarbons in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

3. UNIT OPERATOR: Yates Petroleum Corporation, whose address is 105 South Fourth Street, Artesia, New Mexico 88210 is hereby designated as unit operator and by signature hereto commits to this agreement all interest in unitized substances vested in it as set forth in Exhibit "B", and agrees and consents to accept the duties and obligations of unit operator for the discovery, development and production of unitized substances as herein provided. Whenever reference is made herein to the unit operator, such reference means the unit operator acting in that capacity and not as an owner of interests in unitized substances, and the term "working interest owner" when used herein shall include or refer to unit operator as the owner of a working interest when such an interest is owned by it.

4. RESIGNATION OR REMOVAL OF UNIT OPERATOR: Unit operator shall have the right to resign at any time but such resignation shall not become effective until a successor unit operator has been selected and approved in the manner provided for in Section 5 of this agreement. The resignation of the unit operator shall not release the unit operator from any liability or any default by it hereunder occurring prior to the effective date of its resignation.

Unit operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the same percentage vote of the owners of working interests determined in like manner as herein provided for the selection of a new unit operator. Such removal shall be effective upon notice thereof to the Commissioner and the Division.

The resignation or removal of the unit operator under this agreement shall not terminate his right, title or interest as the owner of a working interest or other interest in unitized substances, but upon the resignation or removal of unit operator becoming effective, such unit operator shall deliver possession of all equipment, materials, and appurtenances used in conducting the unit operations and owned by the working interest owners to the newly duly qualified successor unit operator, or to the owners thereof if no such new unit operation is elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of wells.

5. SUCCESSOR UNIT OPERATOR: Whenever the unit operator shall resign as unit operator or shall be removed as hereinabove provided, the owners of the working interests according to their respective acreage interests in all unitized land shall by a majority vote select a successor unit operator; provided that, if a majority but less than seventy five percent (75%) of the working interests qualified to vote is owned by one party to this agreement, a concurring vote of sufficient additional parties, so as to constitute in the aggregate not less than seventy-five percent (75%) of the total working interests, shall be required to select a new operator. Such selection shall not become effective until (a) a unit operator so selected shall accept in writing the duties and responsibilities of unit operator, and (b) the selection shall have been approved by the Commissioner. If no successor unit operator is selected and qualified as herein provided, the Commissioner at his election, with notice to the Division, may declare this unit agreement terminated.

6. ACCOUNTING PROVISIONS: The unit operator shall pay in the first instance all costs and expenses incurred in conducting unit operations hereunder, and such costs and expenses and the working interest benefits accruing hereunder shall be apportioned, among the owners of the unitized working interests in accordance with an operating agreement entered into by and between the unit operator and the owners of such interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the unit operator as provided in this section, whether one or more, are herein referred to as the "Operating Agreement". No such agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the unit operator of any right or obligation established under this unit agreement and in case of any inconsistencies or conflict between this unit agreement and the operating agreement, this unit agreement shall prevail.

7. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR: Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating and distributing the unitized substances are hereby delegated to and shall be exercised by the unit operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said unit operator and,

together with this agreement, shall constitute and define the rights, privileges and obligations of unit operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the unit operator, in its capacity as unit operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

8. DRILLING TO DISCOVERY: The unit operator shall, within sixty (60) days after the effective date of this agreement, commence operations upon an adequate test well for oil and gas upon some part of the lands embraced within the unit area and shall drill said well with due diligence to a depth sufficient to attain the top of the Mississippian formation or to such a depth as unitized substances shall be discovered in paying quantities at a lesser depth or until it shall, in the opinion of unit operator, be determined that the further drilling of said well shall be unwarranted or impracticable; provided, however, that unit operator shall not, in any event, be required to drill said well to a depth in excess of 13,500 feet. Until a discovery of a deposit of unitized substances capable of being produced in paying quantities (to wit: quantities sufficient to repay the cost of drilling and producing operations with a reasonable profit) unit operator shall continue drilling diligently, one well at a time, allowing not more than six months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the Commissioner or until it is reasonably proven to the satisfaction of the unit operator that the unitized land is incapable of producing unitized substances in paying quantities in the formation drilled hereunder.

Any well commenced prior to the effective date of this agreement upon the unit area and drilled to the depth provided herein for the drilling of an initial test well shall be considered as complying with the drilling requirements hereof with respect to the initial well. The Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when in his opinion such action is warranted. Upon failure to comply with the drilling provisions of this

article the Commissioner may, after reasonable notice to the unit operator and each working interest owner, lessee and lessor at their last known addresses, declare this unit agreement terminated, and all rights, privileges and obligations granted and assumed by this unit agreement shall cease and terminate as of such date.

9. OBLIGATIONS OF UNIT OPERATOR AFTER DISCOVERY OF UNITIZED SUBSTANCES: Should unitized substances in paying quantities be discovered upon the unit area, the unit operator shall on or before six months from the time of the completion of the initial discovery well and within thirty days after the expiration of each twelve months period thereafter, file a report with the Commissioner and Division of the status of the development of the unit area and the development contemplated for the following twelve months period.

It is understood that one of the main considerations for the approval of this agreement by the Commissioner of Public Lands is to secure the orderly development of the unitized lands in accordance with good conservation practices so as to obtain the greatest ultimate recovery of unitized substances.

After discovery of unitized substances in paying quantities, unit operator shall proceed with diligence to reasonably develop the unitized area as a reasonably prudent operator would develop such area under the same or similar circumstances.

If the unit operator should fail to comply with the above covenant for reasonable development this agreement may be terminated by the Commissioner as to all lands of the State of New Mexico embracing undeveloped regular well spacing or proration units, but in such event, the basis of participation by the working interest owners shall remain the same as if this agreement had not been terminated as to such lands; provided however, the Commissioner shall give notice to the unit operator and the lessees of record in the manner prescribed by (Sec. 19-10-20 N.M. Statutes 1978 Annotated,) of intention to cancel on account of any alleged breach of said covenant for reasonable development and decision entered thereunder shall be subject to appeal in the manner prescribed by (Sec. 19-10-23 N.M. Statutes 1978 Annotated), and, provided further, in any event the unit operator shall be given a reasonable opportunity after a final

determination within which to remedy any default, failing in which this agreement shall be terminated as to all lands of the State of New Mexico embracing undeveloped regular well spacing or proration units.

Notwithstanding any of the provisions of this Agreement to the contrary, all undeveloped regular well spacing or proration unit tracts within the unit boundaries embracing lands of the State of New Mexico shall be automatically eliminated from this Agreement and shall no longer be a part of the unit or be further subject to the terms of this Agreement unless at the expiration of five years (5) after the first day of the month following the effective date of this Agreement diligent drilling operations are in progress on said tracts.

10. PARTICIPATION AFTER DISCOVERY: Upon completion of a well capable of producing unitized substances in paying quantities, the owners of working interests shall participate in the production therefrom and in all other producing wells which may be drilled pursuant hereto in the proportions that their respective leasehold interests covered hereby on an acreage basis bears to the total number of acres committed to this unit agreement, and such unitized substances shall be deemed to have been produced from the respective leasehold interests participating therein. For the purpose of determining any benefits accruing under this agreement and the distribution of the royalties payable to the State of New Mexico and other lessors, each separate lease shall have allocated to it such percentage of said production as the number of acres in each lease respectively committed to this agreement bears to the total number of acres committed hereto.

Notwithstanding any provisions contained herein to the contrary, each working interest owner shall have the right to take such owner's proportionate share of the unitized substances in kind or to personally sell or dispose of the same, and nothing herein contained shall be construed as giving or granting to the unit operator the right to sell or otherwise dispose of the proportionate share of any working interest owner without specific authorization from time to time so to do.

11. ALLOCATION OF PRODUCTION: All unitized substances produced from each tract in the unitized area established under this agreement, except any part thereof used for production or development purposes

hereunder, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of the unitized land, and for the hereunder, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of the unitized land, and for the purpose of determining any benefits that accrue on an acreage basis, each such tract shall have allocated to it such percentage of said production as its area bears to the entire unitized area. It is hereby agreed that production of unitized substances from the unitized area shall be allocated as provided herein, regardless of whether any wells are drilled on any particular tracts of said unitized area.

12. PAYMENT OF RENTALS, ROYALTIES AND OVERRIDING ROYALTIES: All rentals due the State of New Mexico shall be paid by the respective lease owners in accordance with the terms of their leases.

All royalties due to the State of New Mexico under the terms of the leases committed to this agreement shall be computed and paid on the basis of all unitized substances allocated to the respective leases committed hereto; provided, however, the State shall be entitled to take in kind its share of the unitized substances allocated to the respective leases, and in such case the unit operator shall make deliveries of such royalty oil in accordance with the terms of the respective leases.

All rentals, if any, due under any leases embracing lands other than the State of New Mexico, shall be paid by the respective lease owners in accordance with the terms of their leases and all royalties due under the terms of any such leases shall be paid on the basis of all unitized substances allocated to the respective leases committed hereto.

If the unit operator introduces gas obtained from sources other than the unitized substances into any producing formation for the purpose of repressuring, stimulating or increasing the ultimate recovery of unitized substances therefrom, a like amount of gas, if available, with due allowance for loss or depletion from any cause may be withdrawn from the formation into which the gas was introduced royalty free as to dry gas but not as to the products extracted therefrom; provided, that such withdrawal shall be at such time as may be provided in a plan of operation consented to by the Commissioner and approved by the Division as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

If any lease committed hereto is burdened with an overriding royalty, payment out of production or other charge in addition to the usual royalty, the owner of such lease shall bear and assume the same out of the unitized substances allocated to the lands embraced in each such lease as provided herein.

13. LEASES AND CONTRACTS CONFORMED AND EXTENDED INSOFAR AS THEY APPLY TO LANDS WITHIN THE UNITIZED AREA: The terms, conditions and provisions of all leases, subleases, operating agreements and other contracts relating to the exploration, drilling development or operation for oil or gas of the lands committed to this agreement, shall as of the effective date hereof, be and the same are hereby expressly modified and amended insofar as they apply to lands within the unitized area to the extent necessary to make the same conform to the provisions hereof and so that the respective terms of said leases and agreements will be extended insofar as necessary to coincide with the terms of this agreement and the approval of this agreement by the Commissioner and the respective lessors and lessees shall be effective to conform the provisions and extend the terms of each such lease as to lands within the unitized area to the provisions and terms of this agreement; but otherwise to remain in full force and effect. Each lease committed to this agreement, insofar as it applies to lands within the unitized area, shall continue in force beyond the term provided therein as long as this agreement remains in effect, provided, drilling operations upon the initial test well provided for herein shall have been commenced or said well is in the process of being drilled by the unit operator prior to the expiration of the shortest term lease committed to this agreement. Termination of this agreement shall not affect any lease which pursuant to the terms thereof or any applicable laws would continue in full force and effect thereafter. The commencement, completion, continued operation or production on each of the leasehold interests committed to this agreement and operations or production pursuant to this agreement shall be deemed to be operations upon and production from each leasehold interest committed hereto and there shall be no obligation on the part of the unit operator or any of the owners of the respective leasehold interests committed hereto to drill offset to wells as between the leasehold interests committed to this agreement, except as provided in Section 9 hereof.

Any lease embracing lands of the State of New Mexico of which only a portion is committed hereto shall be segregated as to the portion committed and as to the portion not committed and the terms of such leases shall apply separately as two separate leases as to such segregated portions, commencing as of the effective date hereof. Notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced within the unitized area and committed to this agreement, in accordance with the terms of this agreement. If oil and gas, or either of them, are discovered and are being produced in paying quantities from some part of the lands embraced in such lease which part is committed to this agreement at the expiration of the secondary term of such lease, such production shall not be considered as production from lands embraced in such lease which are not within the unitized area, and which are not committed thereto, and drilling or reworking operations upon some part of the lands embraced within the unitized area and committed to this agreement shall be considered as drilling and reworking operations only as to lands embraced within the unit agreement and not as to lands embraced within the lease and not committed to this unit agreement; provided, however, as to any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto upon which oil and gas, or either of them, has been discovered is discovered upon that portion of such lands not committed to this agreement, and are being produced in paying quantities prior to the expiration of the primary term of such lease, such production in paying quantities shall serve to continue such lease in full force and effect in accordance with its terms as to all of the lands embraced in said lease.

14. CONSERVATION: Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to State laws or regulations.

15. DRAINAGE: In the event a well or wells producing oil or gas in paying quantities should be brought in on land adjacent to the unit area draining unitized substances from the lands embraced therein, unit operator shall drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances.

16. COVENANTS RUN WITH LAND: The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder to the grantee, transferee or other successor in interest. No assignment or transfer or any working, royalty, or other interest subject hereto shall be binding upon unit operator until the first day of the calendar month after the unit operator is furnished with the original, photostatic, or certified copy of the instrument of transfer.

17. EFFECTIVE DATE AND TERM: This agreement shall become effective upon approval by the Commissioner and the Division and shall terminate in five years after such date unless (a) such date of expiration is extended by the Commissioner, or (b) a valuable discovery of unitized substances has been made on unitized land during said initial term or any extension thereof in which case this agreement shall remain in effect so long as unitized substances are being produced in paying quantities from the unitized land and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered are being produced as aforesaid. This agreement may be terminated at any time by not less than seventy-five percent (75%) on an acreage basis of the owners of the working interests, signatory hereto, with the approval of the Commissioner and with notice to Division. Likewise, the failure to comply with the drilling requirements of Section 8 hereof, may subject this agreement to termination as provided in said section.

18. RATE OF PRODUCTION: All production and the disposal thereof shall be in conformity with allocations, allotments, and quotas made or fixed by the Commission, and in conformity with applicable laws and lawful regulations.

19. APPEARANCES: Unit operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interest affected hereby, before the Commissioner of Public Lands and the Division, and to appeal from orders issued under the regulations of the Commissioner or Division, or to apply for relief from any of said regulations or in any proceedings on its own behalf relative to operations pending before the Commissioner or Division; provided, however, that any other interest party shall also have the rights at his own expense to appear and to participate in any such proceeding.

20. NOTICES: All notices, demands or statements required hereunder to be given or rendered to the parties hereto, shall be deemed fully given, if given in writing and sent by postpaid registered mail, addressed to such party or parties at their respective addresses, set forth in connection with the signatures hereto or to the ratification or consent hereof, or to such other address as any such party may have furnished in writing to party sending the notice, demand, or statement.

21. UNAVOIDABLE DELAY: All obligations under this agreement requiring the unit operator to commence or continue drilling or to operate on or produce unitized substances from any of the lands covered by this agreement, shall be suspended while, but only so long as, the unit operator, despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or part, by strikes, war, act of God, Federal, State, or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary material in open market, or other matters beyond the reasonable control of the unit operator, whether similar to matters herein enumerated or not.

22. LOSS OF TITLE: In the event title to any tract of unitized land or substantial interest therein shall fail, and the true owner cannot be induced to join the unit agreement so that such tract is not committed to this agreement, or the operation thereof hereunder becomes impracticable as a result thereof, such tract may be eliminated from the unitized area, and the interest of the parties readjusted as a result of such tract being eliminated from the unitized area. In the event of a dispute as to the title to any royalty, working, or other interest subject hereto, the unit operator may withhold payment or delivery of the allocated portion of the unitized substances involved on account thereof, without liability for interest until the dispute is finally settled, provided that no payments of funds due the State of New Mexico shall be withheld. Unit operator, as such, is relieved from any responsibility for any defect or failure of any title hereunder.

23. SUBSEQUENT JOINDER: Any oil or gas interest in lands within the unit area not committed hereto, prior to the submission of the agreement for final approval by the Commissioner and the Division, may be committed hereto by the owner or owners of such rights, subscribing or consenting to this agreement, or executing a ratification thereof, and if such owner is also a working interest owner, by subscribing to the operating agreement providing for the allocation of costs of exploration, development and operation. A subsequent joinder shall be effective as of the first day of the month following the approval by the Commissioner and the filing with the Division of duly executed counterparts of the instrument or instruments committing the interest of such owner to this agreement, but such joining party or parties, before participating in any benefits hereunder, shall be required to assume and pay to unit operator, their proportionate share of the unit expenses incurred prior to such party's or parties joinder in the unit agreement, and the unit operator shall make appropriate adjustments caused by such joinder, without any retroactive adjustment of revenue.

24. COUNTERPARTS: This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument in writing specifically referring hereto, and shall be binding upon all those parties who have

R-33E

T-16S

<p>Collins & Ware, Inc. V-3366 8-1-95 ①</p>	<p>9</p>
<p>Santa Fe Energy V-2272 4-1-92 ② State</p>	
<p>Yates Petroleum, etal V-1767 2-1-91 ③ State</p>	<p>16</p>
<p>Santa Fe Energy V-2246 3-1-92 ④ State</p>	<p>21</p>

YATES PETROLEUM CORP.

West Sombbrero State Unit

Lea County, New Mexico

T-16S - R-33E

State Lands 1920 acres

EXHIBIT B
To Unit Agreement
WEST SOMBRERO STATE UNIT
Lea County, New Mexico

Tract #	Land Description	No. of Acres	Serial No. & Exp. Date	Basic Royalty Ownership &	Lessee of Record	Overriding Royalty Owners	Working Interest Owners
1.	T16S-R33E Sec. 9: N/2	320.00	V-3366 8-1-95	State of New Mexico 1/6	Collins & Ware, Inc.	None	Collins & Ware, Inc.
2.	T16S-R33E Sec. 9: S/2	320.00	V-2272 4-1-92	State of New Mexico 1/6	Santa Fe Energy Operating Partners, L.P.	None	Santa Fe Energy Operating Partners, L.P. Collins & Ware, Inc.
3.	T16S-R33E Sec. 16: A11	640.00	V-1767 2-1-91	State of New Mexico 1/6	Yates Petroleum Corporation	None	Yates Petroleum Corporation Yates Drilling Company Abo Petroleum Corporation Mycos Industries, Inc.
4.	T16S-R33E Sec. 21: A11	640.00	V-2246 3-1-92	State of New Mexico 1/6	Santa Fe Energy Operating Partners, L.P.	None	Santa Fe Energy Operating Partners, L.P. Collins & Ware, Inc.

TOTAL 1,920.00 ACRES STATE LANDS

- 66.67%
- 33.33%
- 40%
- 20%
- 20%
- 20%

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

MODEL FORM OPERATING AGREEMENT

WEST SOMBRERO STATE UNIT

OPERATING AGREEMENT

DATED

December 1, 1990,

OPERATOR YATES PETROLEUM CORPORATION

CONTRACT AREA Township 16 South, Range 33 East, N.M.P.M.
Section 9: All
Section 16: All
Section 21: All

COUNTY ~~COUNTY~~ OF LEA STATE OF NEW MEXICO

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AMERICAN ASSOCIATION OF PETROLEUM LANDMEN
APPROVED FORM. A.A.P.L. NO. 610 - 1977 REVISED
MAY BE ORDERED DIRECTLY FROM THE PUBLISHER
KRAFTBILT PRODUCTS, BOX 800, TULSA 74101

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between YATES PETROLEUM CORPORATION, a New Mexico corporation, 105 S. 4th Street, Artesia, NM, 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 agreement, (2) Restrictions, if any, as to depths or formations, (3) Percentages or fractional interests of parties to this agreement, (4) Oil and gas leases and/or oil and gas interests subject to this agreement, (5) Addresses of parties for notice purposes.
B. Exhibit "B", Form of Lease.
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.

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

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

If any party owns an unleased oil and gas interest in the Contract Area, that interest shall be treated for the purpose of this agreement and during the term hereof as if it were a leased interest under the form of oil and gas lease attached as Exhibit "B". As to such interest, the owner shall receive royalty on production as prescribed in the form of oil and gas lease attached hereto as Exhibit "B". Such party shall, however, be subject to all of the provisions of this agreement relating to lessees, to the extent that it owns the lessee interest.

B. Interest of Parties in Costs and Production:

Exhibit "A" lists all of the parties and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and material acquired in operations on the Contract Area shall be owned by the parties as their interests are shown in Exhibit "A". All production of oil and gas from the Contract Area, subject to the payment of lessor's royalties ~~which will be borne by the Joint Account~~, shall also be owned by the parties in the same manner during the term hereof; provided, however, this shall not be deemed an assignment or cross-assignment of interests covered hereby.

ARTICLE IV.
TITLES

A. Title Examination:

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

~~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.~~

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

Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with leases or oil and gas interests contributed by such party. The Operator shall be responsible for the preparation and recording of Pooling Designations or Declarations as well as the conduct of hearings before Governmental Agencies for the securing of spacing or pooling orders. This shall not prevent any party from appearing on its own behalf at any such hearing.

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

B. Loss of Title:

1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a reduction of interest from that shown on Exhibit "A", this agreement, nevertheless, shall continue in force as to all remaining oil and gas leases and interests, and

(a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development

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

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

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

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

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

21 (f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection
22 with the defense of the interest claimed by any party hereto, it being the intention of the parties
23 hereto that each shall defend title to its interest and bear all expenses in connection therewith.
24

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

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

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

48 (c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or
49 becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or be-
50 coming a party to this agreement.
51

52 3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2.
53 above, shall not be considered failure of title but shall be joint losses and shall be borne by all parties
54 in proportion to their interests. There shall be no readjustment of interests in the remaining portion of
55 the Contract Area.
56

57 **ARTICLE V.**
58 **OPERATOR**

59
60 **A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:**

61 YATES PETROLEUM CORPORATION, 105 South 4th Street, Artesia, NM 88210 shall be the
62 Operator of the Contract Area, and shall conduct and direct and have full control of all operations on
63 the Contract Area as permitted and required by, and within the limits of, this agreement. It shall con-
64 duct all such operations in a good and workmanlike manner, but it shall have no liability as Operator
65 to the other parties for losses sustained or liabilities incurred, except such as may result from gross
66 negligence or willful misconduct.
67
68
69
70

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

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

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

C. Employees:

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

D. Drilling Contracts:

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

**ARTICLE VI.
DRILLING AND DEVELOPMENT**

A. Initial Well:

On or before the 1st day of February, 1991, Operator shall commence the drilling of a well for oil and gas at the following location:

1980' FSL and 1980' FEL of Section 16, Township 16 South, Range 33 East, Lea County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to **adequately test** the Morrow formation at approximately 13,500 feet.

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.

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

1 B. Subsequent Operations:

2

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

16

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

30

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

40

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

60

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

68

(b) 300% of that portion of the costs and expenses of drilling, reworking, deepening, or plugging
 69 back, testing and completing, after deducting any cash contributions received under Article VIII.C., and
 70

1 200% of that portion of the cost of newly acquired equipment in the well (to and including the well-
2 head connections), which would have been chargeable to such Non-Consenting Party if it had partici-
3 pated therein.

4
5 Gas production attributable to any Non - Consenting Party's relinquished interest upon such Party's
6 election, shall be sold to its purchaser, if available, under the terms of its existing gas sales con-
7 tract. Such Non - Consenting Party shall direct its purchaser to remit the proceeds receivable from
8 such sale direct to the Consenting Parties until the amounts provided for in this Article are recov-
9 ered from the Non - Consenting Party's relinquished interest. If such Non - Consenting Party has not
10 contracted for sale of its gas at the time such gas is available for delivery, or has not made the elec-
11 tion as provided above, the Consenting Parties shall own and be entitled to receive and sell such Non-
12 Consenting Party's share of gas as hereinabove provided during the recoupment period.

13
14 During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share
15 of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of
16 all production, crude oil excise taxes, severance, gathering and other taxes, and all
17 royalty, overriding royalty and other burdens applicable to Non-Consenting Party's
18 share of production.

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

25
26 Within sixty (60) days after the completion of any operation under this Article, the party con-
27 ducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an in-
28 ventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling,
29 deepening, plugging back, testing, completing, and equipping the well for production; or, at its option,
30 the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed
31 statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being
32 reimbursed as provided above, the Party conducting the operations for the Consenting Parties shall furn-
33 ish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the
34 operation of the well, together with a statement of the quantity of oil and gas produced from it and the
35 amount of proceeds realized from the sale of the well's working interest production during the preceding
36 month. In determining the quantity of oil and gas produced during any month, Consenting Parties
37 shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any
38 amount realized from the sale or other disposition of equipment newly acquired in connection with any
39 such operation which would have been owned by a Non-Consenting Party had it participated therein
40 shall be credited against the total unreturned costs of the work done and of the equipment purchased.
41 In determining when the interest of such Non-Consenting Party shall revert to it as above provided;
42 and if there is a credit balance, it shall be paid to such Non-Consenting party.

43
44 If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest
45 the amounts provided for above, the relinquished interests of such Non-Consenting Party shall auto-
46 matically revert to it, and, from and after such reversion, such Non-Consenting Party shall own the same
47 interest in such well, the material and equipment in or pertaining thereto, and the production there-
48 from as such Non-Consenting Party would have been entitled to had it participated in the drilling,
49 reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be
50 charged with and shall pay its proportionate part of the further costs of the operation of said well in
51 accordance with the terms of this agreement and the Accounting Procedure, attached hereto.

52
53 Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent
54 of all parties, no wells shall be completed in or produced from a source of supply from which a well
55 located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing
56 well spacing pattern for such source of supply.

57
58 The provisions of this Article shall have no application whatsoever to the drilling of the initial
59 well described in Article VI.A. except (a) when Option 2, Article VII.D.1., has been selected, or (b)
60 to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall
61 prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article
62 VI.A.

63 64 C. Right to Take Production in Kind:

65 Each party electing to take in kind or separately dispose of its proportionate share of the production from the Contract Area
66 shall keep accurate records of the volume, selling price, royalty and taxes relative to its share of production. Non-Operators
67 shall, upon request, furnish Operator with true and complete copies of the records required to be kept hereunder whenever, under
68 the terms of this agreement or any agreement executed in connection herewith, it is necessary for Operator to obtain said informa-
69 tion. Any information furnished to Operator hereunder shall be used by Operator only to the extent necessary to carry out its
70 duties as Operator and shall otherwise be kept confidential.

Each party shall have the right to take in kind or separately dispose of its proportionate share of all oil and gas produced
from the Contract Area, exclusive of production which may be used in development and producing operations and in preparing and

1 treating oil for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate
2 disposition by any party of its proportionate share of the production shall be borne by such party. Any party taking its share of
production in kind shall be required to pay for only its proportionate share of such part of Operator's surface facilities which it
uses.

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

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

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

29 D. Access to Contract Area and Information:

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

41 E. Abandonment of Wells:

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

54 2. Abandonment of Wells that have Produced: Except for any well which has been drilled or re-
55 worked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reim-
56 bursed as therein provided, any well which has been completed as a producer shall not be plugged and
57 abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall
58 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense
59 of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment
60 of such well, all parties do not agree to the abandonment of any well, those wishing to continue its op-
61 eration shall tender to each of the other parties its proportionate share of the value of the well's salvable
62 material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated
63 cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall
64 assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity,
65 quality, or fitness for use of the equipment and material, all of its interest in the well and related equip-
66 ment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the
67 formation or formations then open to production. If the interest of the abandoning party is or includes
68 an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an
69 oil and gas lease, limited to the interval or intervals of the formation or formations then open to produc-
70 tion, for a term of one year and so long thereafter as oil and or gas is produced from the interval or inter-

1 vals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit
 2 "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is
 3 located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon
 4 the relationship of their respective percentages of participation in the Contract Area to the aggregate of
 5 the percentages of participation in the Contract Area of all assignees. There shall be no readjustment
 6 of interest in the remaining portion of the Contract Area.

7
 8 Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the op-
 9 eration of or production from the well in the interval or intervals then open other than the royalties
 10 retained in any lease made under the terms of this Article. Upon request, Operator shall continue to
 11 operate the assigned well for the account of the non-abandoning parties at the rates and charges con-
 12 templated by this agreement, plus any additional cost and charges which may arise as the result of
 13 the separate ownership of the assigned well.

14
 15 **ARTICLE VII.**
 16 **EXPENDITURES AND LIABILITY OF PARTIES**

17
 18 **A. Liability of Parties:**

19
 20 The liability of the parties shall be several, not joint or collective. Each party shall be responsible
 21 only for its obligations, and shall be liable only for its proportionate share of the costs of developing
 22 and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are
 23 given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall
 24 this agreement be construed as creating, a mining or other partnership or association, or to render the
 25 parties liable as partners. It is not the intention of the parties that this contract is
 26 made or intended for the benefit of any third person.

27 **B. Liens and Payment Defaults:**

28
 29 Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a
 30 security interest in its share of oil and/or gas when extracted and its interest in all equipment, to secure
 31 payment of its share of expense, together with interest thereon at the rate provided in the Accounting
 32 Procedure attached hereto as Exhibit "C". To the extent that Operator has a security interest under the
 33 Uniform Commercial Code of the State, Operator shall be entitled to exercise the rights and remedies
 34 of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator
 35 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-
 37 Operator in the payment of its share of expense, Operator shall have the right, without prejudice to
 38 other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's
 39 share of oil and/or gas until the amount owed by such Non-Operator, plus interest has been paid. Each
 40 purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any de-
 41 fault. Operator grants a like lien and security interest to the Non-Operators to secure payment of Op-
 42 erator's proportionate share of expense.

43
 44 If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of
 45 a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by
 46 Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the in-
 47 terest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimburse-
 48 ment thereof, be subrogated to the security rights described in the foregoing paragraph.

49
 50 **C. Payments and Accounting:**

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

58
 59 Operator, at its election, shall have the right from time to time to demand and receive from the
 60 other parties payment in advance of their respective shares of the estimated amount of the expense to
 61 be incurred in operations hereunder during the next succeeding month, which right may be exercised only
 62 by submission to each such party of an itemized statement of such estimated expense, together with
 63 an invoice for its share thereof. Each such statement and invoice for the payment in advance of esti-
 64 mated expense shall be submitted on or before the 20th day of the next preceding month. Each party
 65 shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such es-
 66 timate and invoice is received. If any party fails to pay its share of said estimate within said time, the
 67 amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be
 68 made monthly between advances and actual expense to the end that each party shall bear and pay its
 69 proportionate share of actual expenses incurred, and no more.

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1 D. Limitation of Expenditures:

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

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

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

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

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of TWENTY FIVE THOUSAND-----Dollars (\$ 25,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of FIFTEEN THOUSAND-----Dollars (\$ 15,000.00).

E. Royalties, Overriding Royalties and Other Payments:

Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of 1/6 of 8/8ths due on its share of production and shall hold the other parties free from any liability therefor. If the interest of any party in any oil and gas lease covered by this agreement is subject to any royalty, overriding royalty, production payment, or other charge over and above the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account for or cause to be accounted for, such interest to the owners thereof.

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

It is recognized by the parties hereto that in addition to each party's share of working interest production as shown in Exhibit "A", such party shall have the right, subject to existing contracts, to market the royalty gas attributable to each lease which it contributes to the Contract Area and to receive payments due for such royalty gas produced from or allocated to such lease or leases. It is agreed that, regardless of whether each party markets or contracts for its share of gas, including the royalty gas under the leases which it contributed to the Contract Area, such party agrees to pay or cause to be paid to the royalty owners under its lease or leases the proceeds attributable to their respective royalty interest and to hold all other parties hereto harmless for its failure to do so.

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

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

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

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

3
4 **G. Taxes:**

5
6 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad
7 valorem taxation all property subject to this agreement which by law should be rendered for such
8 taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the ren-
9 dition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be
10 limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests con-
11 tributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its
12 being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in
13 ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold
14 estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such
15 reduction. Operator shall bill other parties for their proportionate share of all tax payments in the man-
16 ner provided in Exhibit "C".

17
18 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within
19 the time and manner prescribed by law, and prosecute the protest to a final determination, unless all
20 parties agree to abandon the protest prior to final determination. During the pendency of administrative
21 or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and
22 penalty. When any such protested assessment shall have been finally determined, Operator shall pay
23 the tax for the joint account, together with any interest and penalty accrued, and the total cost shall then
24 be assessed against the parties, and be paid by them, as provided in Exhibit "C".

25
26 Each party shall pay or cause to be paid all production, severance, gathering and other taxes im-
27 posed upon or with respect to the production or handling of such party's share of oil and or gas pro-
28 duced under the terms of this agreement.

29
30 **H. Insurance:**

31
32 At all times while operations are conducted hereunder, Operator shall comply with the Workmen's
33 Compensation Law of the State where the operations are being conducted; provided, however, that Op-
34 erator may be a self-insurer for liability under said compensation laws in which event the only charge
35 that shall be made to the joint account shall be an amount equivalent to the premium which would have
36 been paid had such insurance been obtained. Operator shall also carry or provide insurance for the
37 benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof.
38 Operator shall require all contractors engaged in work on or for the Contract Area to comply with the
39 Workmen's Compensation Law of the State where the operations are being conducted and to maintain
40 such other insurance as Operator may require.

41
42 In the event Automobile Public Liability Insurance is specified in said Exhibit "D", or subsequently
43 receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for
44 such insurance for Operator's fully owned automotive equipment.

45
46 **ARTICLE VIII.**
47 **ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST**

48
49 **A. Surrender of Leases:**

50
51 The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall
52 not be surrendered in whole or in part unless all parties consent thereto.

53
54 However, should any party desire to surrender its interest in any lease or in any portion thereof, and
55 other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express
56 or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and
57 equipment which may be located thereon and any rights in production thereafter secured, to the parties
58 not desiring to surrender it. If the interest of the assigning party includes an oil and gas interest, the as-
59 signing party shall execute and deliver to the party or parties not desiring to surrender an oil and gas
60 lease covering such oil and gas interest for a term of one year and so long thereafter as oil and/or gas
61 is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B".
62 Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing,
63 but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon,
64 and the assigning party shall have no further interest in the lease assigned and its equipment and pro-
65 duction other than the royalties retained in any lease made under the terms of this Article. The parties
66 assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells
67 and equipment on the assigned acreage. The value of all material shall be determined in accordance
68 with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plug-
69 ging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall
70

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

3
4 Any assignment or surrender made under this provision shall not reduce or change the lessor's or
5 surrendering parties' interest, as it was immediately before the assignment, in the balance of the Contract
6 Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not hereafter
7 be subject to the terms and provisions of this agreement.

8
9 **B. Renewal or Extension of Leases:**

10
11 If any party acquires a renewal of any oil and gas lease subject to this Agreement, all other parties
12 shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt
13 of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such
14 lease affects lands within the Contract Area, by paying to the party who acquired it their several proper
15 proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area,
16 which shall be in proportion to the interests held at that time by the parties in the Contract Area.

17
18 If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it
19 shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of
20 their respective percentage of participation in the Contract Area to the aggregate of the percentages
21 of participation in the Contract Area of all parties participating in the purchase of such renewal lease.
22 Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

23 without warrant
24 Each party who participates in the purchase of a renewal lease shall be given an assignment/of its
25 proportionate interest therein by the acquiring party.

26
27 The provisions of this Article shall apply to renewal leases whether they are for the entire interest
28 covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease
29 taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after
30 the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted
31 for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal
32 lease and shall not be subject to the provisions of this agreement.

33
34 The provisions in this Article shall apply also and in like manner to extensions of oil and gas
35 leases. The provisions of this Article VIII-B shall only apply to leases, or portions
36 of leases, located within the Unit Area.

37 **C. Acreage or Cash Contributions:**

38
39 While this agreement is in force, if any party contracts for a contribution of cash toward the drilling
40 of a well or any other operation on the Contract Area, such contribution shall be paid to the party who
41 conducted the drilling or other operation and shall be applied by it against the cost of such drilling or
42 other operation. If the contribution be in the form of acreage, the party to whom the contribution is
43 made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling
44 Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto
45 are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and
46 be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and
47 accept such tender, such acreage shall not become a part of the Contract Area. Each party shall prompt-
48 ly notify all other parties of all acreage or money contributions it may obtain in support of any well or
49 any other operation on the Contract Area.

50
51 If any party contracts for any consideration relating to disposition of such party's share of substances
52 produced hereunder, such consideration shall not be deemed a contribution as contemplated in this
53 Article VIII.C. This paragraph shall not be applicable to the contribution of acreage
54 by the Contributing Parties toward the Initial, Substitute, or Option Test Well.

55 **D. Subsequently Created Interest:**

56
57 Notwithstanding the provisions of Article VIII.E. and VIII.G., if any party hereto shall, subsequent
58 to execution of this agreement, create an overriding royalty, production payment, or net proceeds inter-
59 est, which such interests are hereinafter referred to as "subsequently created interest", such subsequently
60 created interest shall be specifically made subject to all of the terms and provisions of this agreement, as
61 follows:

62
63 1. If non-consent operations are conducted pursuant to any provision of this agreement, and the
64 party conducting such operations becomes entitled to receive the production attributable to the interest
65 out of which the subsequently created interest is derived, such party shall receive same free and clear
66 of such subsequently created interest. The party creating same shall bear and pay all such subsequently
67 created interests and shall indemnify and hold the other parties hereto free and harmless from any and
68 all liability resulting therefrom.

69
70

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

9
10 **E. Maintenance of Uniform Interest:**

11
12 For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests
13 covered by this agreement, and notwithstanding any other provisions to the contrary, no party shall
14 sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Con-
15 tract Area and in wells, equipment and production unless such disposition covers either:

- 16
17 1. the entire interest of the party in all leases and equipment and production; or
18
19 2. an equal undivided interest in all leases and equipment and production in the Contract Area.

20
21 Every such sale, encumbrance, transfer or other disposition made by any party shall be made ex-
22 pressly subject to this agreement, and shall be made without prejudice to the right of the other parties.

23
24 If, at any time the interest of any party is divided among and owned by four or more co-owners,
25 Operator, at its discretion, may require such co-owners to appoint a single trustee or agent with full
26 authority to receive notices, approve expenditures, receive billings for and approve and pay such party's
27 share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such
28 party's interests within the scope of the operations embraced in this agreement; however, all such
29 co-owners shall have the right to enter into and execute all contracts or agreements for the disposition
30 of their respective shares of the oil and gas produced from the Contract Area and they shall have the
31 right to receive, separately, payment of the sale proceeds hereof.

32
33 **F. Waiver of Right to Partition:**

34
35 If permitted by the laws of the state or states in which the property covered hereby is located, each
36 party hereto owning an undivided interest in the Contract Area waives any and all rights it may have
37 to partition and have set aside to it in severalty its undivided interest therein.

38
39 ~~C. Preferential Right to Purchase~~

40
41 ~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and~~
42 ~~interests in the Contract Area, it shall promptly give written notice to the other parties, with full infor-~~
43 ~~mation concerning its proposed sale, which shall include the name and address of the prospective pur-~~
44 ~~chaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of~~
45 ~~the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after~~
46 ~~receipt of the notice, to purchase on the same terms and conditions the interest which the other party~~
47 ~~proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the pur-~~
48 ~~chased interest in the proportions that the interest of each bears to the total interest of all purchasing~~
49 ~~parties. However, there shall be no preferential right to purchase in those cases where any party wishes~~
50 ~~to mortgage its interests, or to dispose of its interests by merger, reorganization, consolidation, or sale~~
51 ~~of all or substantially all of its assets to a subsidiary or parent company or to a subsidiary of a parent~~
52 ~~company, or to any company in which any one party owns a majority of the stock.~~

53
54 **ARTICLE IX.**
55 **INTERNAL REVENUE CODE ELECTION**

56
57 This agreement is not intended to create, and shall not be construed to create, a relationship of part-
58 nership or an association for profit between or among the parties hereto. Notwithstanding any pro-
59 visions herein that the rights and liabilities hereunder are several and not joint or collective, or that this
60 agreement and operations hereunder shall not constitute a partnership, if, for Federal income tax pur-
61 poses, this agreement and the operations hereunder are regarded as a partnership, each party hereby
62 affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter
63 I, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of
64 the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on
65 behalf of each party hereby affected such evidence of this election as may be required by the Secretary
66 of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but
67 not by way of limitation, all of the returns, statements, and the data required by Federal Regula-
68 tions 1.761. Should there be any requirement that each party hereby affected give further evidence of
69 this election, each such party shall execute such documents and furnish such other evidence as may be
70 required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No

1 such party shall give any notices or take any other action inconsistent with the election made hereunder.
 2 If any present or future income tax laws of the state or states in which the Contract Area is located or
 3 any future income tax laws of the United States contain provisions similar to those in Subchapter "S",
 4 Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that
 5 provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as
 6 may be permitted or required by such laws. In making the foregoing election, each such party states that
 7 the income derived by such party from Operations hereunder can be adequately determined without the
 8 computation of partnership taxable income.

9
 10 **ARTICLE X.**
 11 **CLAIMS AND LAWSUITS**

12
 13 Operator may settle any single damage claim or suit arising from operations hereunder if the ex-
 14 penditure does not exceed FIFTEEN THOUSAND----- Dollars
 15 (\$ 15,000.00) and if the payment is in complete settlement of such claim or suit. If the amount
 16 required for settlement exceeds the above amount, the parties hereto shall assume and take over the
 17 further handling of the claim or suit, unless such authority is delegated to Operator. All costs and ex-
 18 pense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense
 19 of the parties. If a claim is made against any party or if any party is sued on account of any matter
 20 arising from operations hereunder over which such individual has no control because of the rights given
 21 Operator by this agreement, the party shall immediately notify Operator, and the claim or suit shall
 22 be treated as any other claim or suit involving operations hereunder.

23
 24 **ARTICLE XI.**
 25 **FORCE MAJEURE**

26
 27 If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations
 28 under this agreement, other than the obligation to make money payments, that party shall give to all
 29 other parties prompt written notice of the force majeure with reasonably full particulars concerning it;
 30 thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure,
 31 shall be suspended during, but no longer than, the continuance of the force majeure. The affected party
 32 shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

33
 34 The requirement that any force majeure shall be remedied with all reasonable dispatch shall not
 35 require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its
 36 wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party
 37 concerned.

38
 39 The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other
 40 industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood,
 41 explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment,
 42 and any other cause, whether of the kind specifically enumerated above or otherwise, which is not
 43 reasonably within the control of the party claiming suspension.

44
 45 **ARTICLE XII.**
 46 **NOTICES**

47
 48 All notices authorized or required between the parties, and required by any of the provisions of
 49 this agreement, unless otherwise specifically provided, shall be given in writing by United States mail
 50 or Western Union telegram, postage or charges prepaid, or by teletype, and addressed to the party to
 51 whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any
 52 provision hereof shall be deemed given only when received by the party to whom such notice is directed,
 53 and the time for such party to give any notice in response thereto shall run from the date the originat-
 54 ing notice is received. The second or any responsive notice shall be deemed given when deposited in
 55 the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid,
 56 or when sent by teletype. Each party shall have the right to change its address at any time, and from
 57 time to time, by giving written notice hereof to all other parties.

58
 59 **ARTICLE XIII.**
 60 **TERM OF AGREEMENT**

61
 62 This agreement shall remain in full force and effect as to the oil and gas leases and or oil and gas in-
 63 terests subjected hereto for the period of time selected below; provided, however, no party hereto shall
 64 ever be construed as having any right, title or interest in or to any lease, or oil and gas interest con-
 65 tributed by any other party beyond the term of this agreement.

66
 67 ~~Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are con-~~
 68 ~~tinued in force as to any part of the Contract Area, whether by production, extension, renewal or other-~~
 69 ~~wise, and so long as oil and/or gas production continues from any lease or oil and gas interest.~~

~~1 § Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled
2 under any provision of this agreement, results in production of oil and/or gas in paying quantities, this
3 agreement shall continue in force so long as any such well or wells produce, or are capable of produc-
4 tion, and for an additional period of 180 days from cessation of all production; provided, however,
5 if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in
6 drilling or reworking a well or wells hereunder, this agreement shall continue in force until such op-
7 erations have been completed and if production results therefrom, this agreement shall continue in
8 force as provided herein. In the event the well described in Article VI.A., or any subsequent well
9 drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil
10 and/or gas from the Contract Area, this agreement shall terminate unless drilling or reworking opera-
11 tions are commenced within 120 days from the date of abandonment of said well.~~

12
13 It is agreed, however, that the termination of this agreement shall not relieve any party hereto from
14 any liability which has accrued or attached prior to the date of such termination.
15

16 **ARTICLE XIV.**
17 **COMPLIANCE WITH LAWS AND REGULATIONS**

18
19 **A. Laws, Regulations and Orders:**

20
21 This agreement shall be subject to the conservation laws of the state in which the committed
22 acreage is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of
23 said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and
24 orders.
25

26 **B. Governing Law:**

27
28 The essential validity of this agreement and all matters pertaining thereto, including, but not lim-
29 ited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and in-
30 terpretation or construction, shall be governed and determined by the law of the state in which the
31 Contract Area is located. If the Contract Area is in two or more states, the law of the state where most
32 of the land in the Contract Area is located shall govern.
33

34 **ARTICLE XV.**
35 **OTHER PROVISIONS**

- 36
37 A. Not included.
38 B. Not included.
39 C. Not included.
40

41 **D. Notwithstanding any other provisions herein, if during the term of this agreement, a well is required**
42 **to be drilled, deepened, reworked, plugged back, sidetracked, or recompleted, or any other operation that**
43 **may be required in order to (1) continue a lease or leases in force and effect, or (2) maintain a unitized**
44 **area or any portion thereof in force and effect, or (3) earn or preserve an interest in and to oil and/or**
45 **gas and other minerals which may be owned by a third party or which, failing in such operation, may revert**
46 **to a third party, or, (4) comply with an order issued by a regulatory body having jurisdiction in the**
47 **premises, failing in which certain rights would terminate, the following shall apply. Should less than all**
48 **of the parties hereto elect to participate and pay their proportionate part of the costs to be incurred in**
49 **such operation, those parties desiring to participate shall have the right to do so at their sole cost,**
50 **risk, and expense. Promptly following the conclusion of such operation, each of those parties not**
51 **participating agree to execute and deliver an appropriate assignment to the total interest of each**
52 **non-participating party in and to the lease, leases, or rights which would have terminated or which**
53 **otherwise may have been preserved by virtue of such operation, and in and to the lease, leases or rights**
54 **within the balance of the drilling unit upon which the well was drilled, excepting, however, wells**
55 **theretofore completed and capable of producing in paying quantities. Such assignment shall be delivered to**
56 **the participating parties in the proportion that they bore the expense attributable to the**
57 **non-participating parties' interest.**

58 **E. No production, whether oil or gas, may be sold from the lease acreage, or lands pooled therewith, to**
59 **any party's subsidiaries, affiliates, or associates, without each party's prior written consent. All**
60 **production sold from the lease acreage, or lands pooled therewith, will be an arm's length trade with a**
61 **third party purchaser. It is expressly agreed if prior written consent is given to a party selling to**
62 **themselves, its subsidiaries, affiliates, or associates, the other parties to this agreement will have the**
63 **option to also sell to said purchaser, at the same or better price. In the event any party hereto, makes**
64 **an arm's length trade with a third party purchaser, the remaining parties will have the option to also sell**
65 **at the same or higher price.**

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT DATED DECEMBER 1, 1990, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR", AND COLLINS & WARE, INC., ET AL, AS "NON-OPERATORS", COVERING LANDS IN TOWNSHIP 16 SOUTH, RANGE 33 EAST, LEA COUNTY, NEW MEXICO.

EXHIBIT "A"

- I. Lands Subject to Agreement:
Defined below in Paragraph 3

- II. Depth Restriction: Stratigraphic equivalent of 100 feet below total depth drilled in the initial test well.

Drilling Unit for First Well:
Proration Unit as established by the New Mexico OCD.

- III. Percentage interests of Parties Under the Agreement:

Township 16 South, Range 33 East, N.M.P.M.
Section 9: All
Section 16: All
Section 21: All
Containing 1920.00 acres, more or less
Lea County, New Mexico

NAME	ACRES	INITIAL WELL BEFORE PAYOUT	INITIAL WELL AFTER PAYOUT AND SUBSEQUENT WELLS
1. Collins & Ware, Inc.	640.00	33.333333	33.333333
2. Santa Fe Energy Operating Partners, L.P.	640.00	33.333333	33.333333
3. Yates Petroleum Corporation	256.00	13.333333	13.333333
4. Yates Drilling Company	128.00	6.666667	6.666667
5. Abo Petroleum Corporation	128.00	6.666667	6.666667
6. Myco Industries, Inc.	128.00	6.666667	6.666667
	<u>1,920.00</u>	<u>100.000000</u>	<u>100.000000</u>

R-33E

T-16S

<p>Collins & Ware, Inc. V-3366 8-1-95</p> <p>①</p>	<p>9</p>
<p>Santa Fe Energy V-2272 4-1-92</p> <p>②</p> <p>State</p>	
<p>Yates Petroleum, etal V-1767 2-1-91</p> <p>③</p> <p>State</p>	<p>16</p>
<p>Santa Fe Energy V-2246 3-1-92</p> <p>④</p> <p>State</p>	<p>21</p>

YATES PETROLEUM CORP.

West Sombrero State Unit

Lea County, New Mexico

T-16S - R-33E

State Lands 1920 acres

EXHIBIT A-IV - Oil and Gas Leases Subject to This Agreement

WEST SOMBRERO STATE UNIT
Lea County, New Mexico

Tract #	Land Description	No. of Acres	Serial No. & Exp. Date	Basic Royalty Ownership &	Lessee of Record	Overriding Royalty Owners	Working Interest Owners	
1.	T16S-R33E Sec. 9: N/2	320.00	V-3366 8-1-95	State of New Mexico 1/6	Collins & Ware, Inc.	None	Collins & Ware, Inc.	
2.	T16S-R33E Sec. 9: S/2	320.00	V-2272 4-1-92	State of New Mexico 1/6	Santa Fe Energy Operating Partners, L.P.	None	Santa Fe Energy Operating Partners, L.P. Collins & Ware, Inc.	- 66.67% - 33.33%
3.	T16S-R33E Sec. 16: A11	640.00	V-1767 2-1-91	State of New Mexico 1/6	Yates Petroleum Corporation	None	Yates Petroleum Corporation Yates Drilling Company Abco Petroleum Corporation Mycos Industries, Inc.	- 40% - 20% - 20% - 20%
4.	T16S-R33E Sec. 21: A11	640.00	V-2246 3-1-92	State of New Mexico 1/6	Santa Fe Energy Operating Partners, L.P.	None	Santa Fe Energy Operating Partners, L.P. Collins & Ware, Inc.	- 66.67% - 33.33%
TOTAL		1,920.00	ACRES STATE LANDS					

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT DATED DECEMBER 1, 1990, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR", AND COLLINS & WARE, INC., ET AL, AS "NON-OPERATORS", COVERING LANDS IN TOWNSHIP 16 SOUTH, RANGE 33 EAST, LEA COUNTY, NEW MEXICO.

V. Addresses of Parties to Which Notices Should be Sent:

Collins & Ware, Inc.
600 W. Illinois, Suite 701
Midland, Texas 79701
Attn: W. Brett Smith

Santa Fe Energy Operating Partners, L.P.
550 W. Texas, Suite 1330
Midland, Texas 79701
Attn: Mr. Gary Green

Yates Petroleum Corporation
Yates Drilling Company
Abo Petroleum Corporation
Myco Industries, Inc.
105 South Fourth Street
Artesia, New Mexico 88210
Attn: Robert Bullock

EXHIBIT " C "

Attached to and made a part of OPERATING AGREEMENT DATED DECEMBER 1, 1990, BETWEEN YATES PETROLEUM CORPORATION AS "OPERATOR" AND COLLINS & WARE, INC., ET AL., AS "NON-OPERATORS"

ACCOUNTING PROCEDURE
 JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

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

5. Audits

A. Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

6. Approval by Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

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

2. Labor

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

3. Employee Benefits

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty per cent (20%), or percentage most recently recommended by COPAS.

4. Material

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

5. Transportation

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

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by the Parties.
- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of \$200 or less excluding accessorial charges.

6. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraph 1. ii of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the Overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

7. Equipment and Facilities Furnished by Operator

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

8. Damages and Losses to Joint Property

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

9. Legal Expense

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

10. Taxes

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

11. Insurance

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

12. Other Expenditures

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

III. OVERHEAD**I. 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:

- (XX) Fixed Rate Basis, Paragraph 1A, or
() Percentage Basis, Paragraph 1B.

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

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

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 5,400.00
Producing Well Rate \$ 540.00

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

(a) Drilling Well Rate

- [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- [4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
- [5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

_____ Percent (%) of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

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

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

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of \$ 25,000.00 :

- A. 5 % of total costs if such costs are more than \$ 25,000.00 but less than \$ 100,000.00 ; plus
 B. 3 % of total costs in excess of \$ 100,000.00 but less than \$1,000,000; plus
 C. 2 % of total costs in excess of \$1,000,000.

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

3. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

- (1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.
- (2) Line Pipe
 - (a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.
 - (b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.
- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

B. Good Used Material (Condition B)

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

- (1) Material moved to the Joint Property
 - (a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.
- (2) Material moved from the Joint Property
 - (a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as new Material, or

- (b) at sixty-five percent (65%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as good used Material at seventy-five percent (75%) of current new price.

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

C. Other Used Material (Condition C and D)

(1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph 2A of this Section IV. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

All other Material, including junk, shall be priced at a value commensurate with its use or at prevailing prices. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose. Operator may dispose of Condition D Material under procedures normally utilized by the Operator without prior approval of Non-Operators.

D. Obsolete Material

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

E. Pricing Conditions

- (1) Loading and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.
- (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

Reconciliation of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six months following the taking of the inventory. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. Special Inventories

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

4. Expense of Conducting Periodic Inventories

The expense of conducting periodic Inventories shall not be charged to the Joint Account unless agreed to by the Parties.

EXHIBIT "D"

ATTACHED TO AND MADE A PART OF
OPERATING AGREEMENT

ADDITIONAL INSURANCE PROVISIONS

Operator, during the term of this agreement, shall carry insurance for the benefit and at the expense of the parties hereto, as follows:

(A) Workmen's Compensation Insurance as contemplated by the state in which operations will be conducted, and Employer's Liability Insurance with limits of not less than \$100,000.00 per employee.

(B) Public Liability Insurance:

Bodily Injury - \$500,000.00 each occurrence.

(C) Automobile Public Liability Insurance:

Bodily Injury - \$250,000.00 each person.

\$500,000.00 each occurrence.

Property Damage- \$100,000.00 each occurrence.

Except as authorized by this Exhibit "D", Operator shall not make any charge to the joint account for insurance premiums. Losses not covered by Operator's insurance (or by insurance required by this agreement to be carried for the benefit and at the expense of the parties hereto) shall be charged to the joint account.

EXHIBIT "E"

GAS BALANCING AGREEMENT

The parties to the Operating Agreement to which this agreement is attached own the working interest in the gas rights underlying the lands covered by such agreement (the "Contract Area") in accordance with the percentages of participation as set forth in Exhibit "A" to the Operating Agreement (the "participation percentage").

In accordance with the terms of the Operating Agreement, each party thereto has the right to take its share of gas produced from the Contract Area and market the same. In the event any of the parties hereto collectively owning participation percentages of less than 50% are not at any time taking or marketing their share of gas or have contracted to sell their share of gas produced from the Contract Area to a purchaser which does not at any time while this agreement is in effect take the full share of gas attributable to the interest of such parties, this agreement shall automatically become effective upon the terms hereinafter set forth.

1. During the period or periods when any parties hereto collectively owning participation percentages of less than 50% have no market for their share of gas produced from any proration unit within the Contract Area, or their purchaser does not take its full share of gas produced from such proration unit, other parties collectively owning participation percentages of more than 50% shall be entitled to produce each month 100% of the lesser of a) allowable gas production assigned to such proration unit by applicable state regulatory authority or b) the delivery capacity of gas from such proration unit; provided, however, no party who does not have gas in place shall be entitled to take or deliver to a purchaser gas production in excess of 200% of the lesser of c) its share of the volumes of gas capable of being delivered on a daily basis or d) its share of allowable gas production. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser.

2. On a cumulative basis, each party not taking or marketing its full share of the gas produced shall be credited with gas in place equal to its full share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost, and less that portion such party took or delivered to its purchaser. The Operator will maintain a current account of gas balance between the parties and will furnish all parties hereto monthly statements showing the total quantity of gas produced, the amount used in lease operations, vented or lost, the total quantity of liquid hydrocarbons recovered therefrom, and the monthly and cumulative over and under account of each party.

3. At all times while gas is produced from the Contract Area, each party hereto will make settlement with the respective royalty owners to whom they are each accountable, just as if each party were taking or delivering to a purchaser its share, and its share only. Each party hereto agrees to hold each other party harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable. The term "royalty owner" shall include owners of royalty, overriding royalties, production payments and other similar interests.

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

4. After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its full share of the gas produced from a proration unit under which it has gas in place less such party's share of gas used in operations, vented or lost. In addition to such share, each party, including the Operator, until it has recovered its gas in place and balanced the gas account as to its interest, shall be entitled to take or deliver to its purchaser a share of gas determined by multiplying 50% of the interest in the current gas production of the party or parties without gas in place by a fraction, the numerator of which is the interest in the proration unit of such party with gas in

place and the denominator of which is the total percentage interest in such proration unit of all parties with gas in place currently taking or delivering to a purchaser.

5. Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser its full share of the allowable gas production to meet the deliverability tests required by its purchaser, provided that said test should be reasonable in length, normally not to exceed 72 hours.

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.

~~7. Notwithstanding the provisions of ¶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 ¶6. The option provided for in this paragraph may be exercised, from time to time, but only one time in each calendar year.~~

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

9. 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.

EXHIBIT "F"

EQUAL EMPLOYMENT OPPORTUNITY PROVISION

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

- (1) The Operator will not discriminate against any employee or applicant for employment because of race, color, religion, national origin or sex. 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, national origin or sex. Such action shall include, but not be limited to the following: Employment, upgrading, demotion, or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other 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 for the contracting officer setting forth the provisions of this non-discrimination clause.
- (2) The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, national origin or sex.
- (3) The Operator will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Operator's commitments under Section 202 of Executive Order 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 its books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.
- (6) In the event of the Operator's non-compliance with the non-discrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be cancelled, terminated or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 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 non-compliance: Provided, however, that in the event the Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interests of the United States.

Operator acknowledges that it may be required to file Standard Form 100 (EEO-1) promulgated jointly by the Office of Federal Contract Compliance, the Equal Employment Opportunity Commission and Plans for Progress with Joint Reporting Committee, Federal Depot, Jeffersonville, Indiana, within thirty (30) days of the date of contract award if such report has not been filed for the current year and otherwise comply with or file such other compliance reports as may be required under Executive Order 11246, as amended and Rules and Regulations adopted thereunder.

Operator further acknowledges that he may be required to develop a written affirmative action compliance program as required by the Rules and Regulations approved by the Secretary of Labor under authority of Executive Order 11246 and supply Non-Operators with a copy of such program if they so request.

CERTIFICATION OF NON-SEGREGATED FACILITIES

Operator assures Non-Operators that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not and will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. For this purpose, it is understood that the phrase "segregated facilities" includes facilities which are in fact segregated on a basis of race, color, religion, or national origin, because of habit; local custom or otherwise. It is further understood and agreed that maintaining or providing segregated facilities for its employees or permitting its employees to perform their services at any location under its control where segregated facilities are maintained is a violation of the equal opportunity clause required by Executive Order 11246 of September 24, 1965.

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

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

Exhibit "F"
Page 2

FISK & VANDIVER

#10188

ATTORNEYS AT LAW

SEVENTH & MAHONE / SUITE E
ARTESIA, NEW MEXICO 88210

(505) 746-9841

JOHN FISK

DAVID R. VANDIVER

HARRY T. NUTTER

January 4, 1991

FAX

(505) 746-4208

Commissioner of Public Lands
P. O. Box 1148
Santa Fe, New Mexico 87504-1148

Attention: Mr. Clyde Langdale

Re: West Sombrero State Unit
Lea County, New Mexico

Gentlemen:

On behalf of Yates Petroleum Corporation, application is hereby made for final approval of the West Sombrero State Unit, Lea County, New Mexico. Enclosed for this purpose are the original and one copy of the Unit Agreement and the original and one copy of the Unit Operating Agreement, which have been executed by the lessees of record and working interest owners. This exploratory unit consists of 1,920 acres of state lands. All tracts are committed to the unit as of the date hereof.

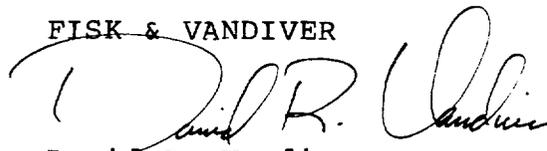
Hearing before the New Mexico Oil Conservation Division was held in Case No. 10,188 on December 19, 1990, and we anticipate that the Division will approve the West Sombrero State Unit within the next few days, effective upon approval of the agreement by the Commissioner of Public Lands. We will furnish you with a copy of such Order upon our receipt of the same.

State Lease V-1767, committed to the unit as Tract No. 3, has an expiration date of February 1, 1991, and your prompt attention to this matter will be appreciated. Please contact me if you need anything further prior to approval of this agreement.

Thank you for your cooperation in this matter.

Very truly yours,

FISK & VANDIVER



David R. Vandiver

DRV:pvw
Enclosures

cc: Oil Conservation Division
Mr. Rob Bullock



JIM BACA
COMMISSIONER

State of New Mexico

OFFICE OF THE

Commissioner of Public Lands

Santa Fe

P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

April 15, 1992

CERTIFIED MAIL # 174 RETURN RECEIPT REQUESTED

Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210

Attn: Mr. Robert Bullock

Re: Termination of West Sombrero State Unit
Lea County, New Mexico

RECEIVED
CONSERVATION DIVISION

Dear Ms. Richardson:

A review of the West Sombrero State Unit Agreement reveals the following:

1. The Unit Agreement was approved effective January 7, 1991.
2. The West Sombrero Unit Well No. 1 was spudded on January 29, 1991 and completed as an oil well in the West Hume Queen Pool on June 13, 1991.
3. By our letter of December 18, 1991, you were advised to submit a commercial determination for the initial unit well. If the Sombrero Unit Well No. 1 is determined to be non-commercial, and if there has been no further drilling, the unit agreement would be terminated effective December 14, 1991, being six months from the completion of the initial unit well.
4. Section 8 of the Unit Agreement provides that the Operator shall drill one well at a time, allowing not more than six months between the completion of one well and the beginning of the next well, until a commercial well has been completed.
5. In a recent telephone conversation with Mr. Bullock and Pete Martinez of this office, it was agreed upon that, inasmuch as the initial well has not been determined to be commercial and no additional drilling was under way on December 14, 1991 the West Sombrero State Unit Agreement was no longer in effect.

In view of the above, please be advised that the West Sombrero State Unit Agreement has this date been terminated effective December 14, 1991, being six months from the completion date of the initial test well.

Yates Petroleum Corporation
West Sombrero State Unit
April 15, 1992
Page 2

Our records also indicate that the West Sombrero State Unit Well No. 1-J, Sec. 16-16S-33E, is located on Lease No. V-1767. Since this well is still producing on a lease basis, your lease No. V-1767 will remain in effect.

Please advise all interested parties of this action.

If you have any questions, or if we may be of further help, please contact Pete Martinez at (505) 827-5791.

Very truly yours,

JIM BACA
~~COMMISSIONER OF PUBLIC LANDS~~

BY: 
FLOYD O. PRANDO, Director
Oil/Gas and Minerals Division
(505) 827-5744
JB/FOP/pm
encls.

cc: Reader File
OCD-Santa Fe
TRD-Santa Fe

REPORT TO DEPARTMENTS

UNIT NAME WEST SOMBRERO STATE UNIT

OPERATOR YATES PETROLEUM CORPORATION

COUNTY LEA COUNTY, NEW MEXICO

DATE APPROVED	OCC CASE NO. OCC ORDER NO.	EFFECTIVE DATE	TOTAL ACREAGE	STATE	FEDERAL	INDIAN-FEE	SEGREGATION CLAUSE	TERM
1-7-91	10.188	1-7-91	1920.0	1920.0	-0-	-0-	STRICT	AS LONG AS

APPROVAL DATE: APR 13 1991
 EFFECTIVE DATE: JUN 29 1991

UNIT AREA
 TOWNSHIP 16 SOUTH, RANGE 33 EAST, NMPM

Section 9: N/2, S/2
 Section 16: A11
 Section 21: A11

007

TERMINATED
 EFFECTIVE DATE **APR 15 1992**
EXHIBIT "B"
WEST SOMBEREO UNIT AGREEMENT
 Lea County, New Mexico

TERMINATED

TRACT NO.	LAND DESCRIPTION	NO. OF ACRES	SERIAL NO.	EXP. DATE	BASIC ROYALTY OWNERSHIP & RATE	LESSOR OF RECORD	OVERRIDING ROYALTY OWNERS	WORKING INTEREST OWNERS	BENEFICIARY INSTITUTE	
1	T16S-R33E-SEC. 9 N/2	320.00	V-3366	8-1-95	STATE OF NEW MEXICO 1/6	COLLINS & WARE, INC.,	NONE	COLLINS & WARE INC.,	CS 100%	
2	T16S-R33E-SEC. 9 S/2	320.00	V-2272	4-1-92	STATE OF NEW MEXICO 1/6	SANTA FE ENERGY OPER. PARTNERS, L.P.	NONE	SANTA FE ENERGY OPERATING PARTNERS, L.P. COLLINS & WARE INC.,	CS - 66.67% - 33.33%	
3	T16S-R33E-SEC. 16 ALL	640.00	V-1767	2-1-91	STATE OF NEW MEXICO 1/6	YATES PETROLEUM CORPORATION	NONE	YATES PETROLEUM CORPORATION YATES DRILLING COMPANY ABO PETROLEUM CORPORATION MYCO INDUSTRIES, INC.,	CS - 40% - 20% - 20% - 20%	
4	T16S-R33E-SEC. 21 ALL	640.00	V-2246	3-1-92	STATE OF NEW MEXICO 1/6	SANTA FE ENERGY OPER. PARTNERS, L.P.	NONE	SANTA FE ENERGY OPERATING PARTNERS, L.P. COLLINS & WARE, INC.,	CS - 66.67% - 33.33%	
		1,920.00 ACRES - STATE LAND								

I N D E X

December 19, 1990
 Examiner Hearing
 CASE NO. 10188

PAGE
 3

APPEARANCES

APPLICANT YATES WITNESSES:

ROBERT BULLOCK

Direct Examination by Mr. Vandiver
 Examination by Mr. Stovall

5
 11

STERLING FLY, III

Direct Examination by Mr. Vandiver
 Examination by Examiner Stogner

13
 23

REPORTER'S CERTIFICATE

24

ID ADMTD

APPLICANT YATES EXHIBIT

1 Plat

5 10

2 Unit Agreement

6 10

3 Unit Operating Agreement

8 10

4 Application to the Commissioner of Public
 Lands for Preliminary approval of the Unit
 Agreement

9 10

5 Stratigraphic Cross Section A - A' -
 Atoka-Morrow

13 22

6 Stratigraphic Cross Section B - B' -
 Atoka Morrow

14 22

7 Structure Map - Top of Morrow Limestone

15 22

8 Isolith Map - Atoka Sandstone

17 22

9 Cross Section C - C' - Seaman Limestone

16 22

10 Carbonate Isolith - Seaman Limestone

18 22

11 Isoporosity Map - Upper Seaman Limestone

19 22

12 Carbonate Isolith Map - Upper Seaman Bank

20 22

A P P E A R A N C E S

FOR THE DIVISION: ROBERT G. STOVALL, ESQ.
 General Counsel
 Oil Conservation Commission
 State Land Office Building
 310 Old Santa Fe Trail
 Santa Fe, New Mexico 87501

FOR THE APPLICANT: FISK & VANDIVER
 Attorneys at Law
 BY: DAVID R. VANDIVER
 Seventh and Mahone, Suite E
 Artesia, New Mexico 88210

* * *

1 EXAMINER STOGNER: This hearing will come to order.
2 Call the next case, No. 10188.

3 MR. STOVALL: Application of Yates Petroleum
4 Corporation for a unit agreement, Lea County, New Mexico.

5 EXAMINER STOGNER: Call for appearances.

6 MR. VANDIVER: Mr. Examiner, my name is David
7 Vandiver, of the Artesia law firm of Fisk & Vandiver,
8 appearing on behalf of Yates Petroleum corporation; and I
9 have two witnesses to be sworn.

10 EXAMINER STOGNER: Are there any other appearances?

11 (No response.)

12 EXAMINER STOGNER: Will the witnesses please stand
13 and be sworn?

14 (The witnesses were duly sworn.)

15 MR. VANDIVER: May I proceed?

16 EXAMINER STOGNER: Mr. Vandiver.

17 ROBERT BULLOCK,
18 the Witness herein, having been first duly sworn, was
19 examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. VANDIVER:

22 Q. Mr. Bullock, please state your name, your
23 occupation and by whom you're employed.

24 A. My name is Robert Bullock. I'm a landman
25 employed by Yates Petroleum Corporation, Artesia,

1 New Mexico.

2 Q. Have you previously testified before the New
3 Mexico Oil Conservation Division in your capacity as a
4 landman. Have your qualifications as such been accepted
5 and made a matter of record?

6 A. Yes, I have.

7 Q. And are you familiar with the title to the land
8 in the area of the proposed West Sombrero State Unit?

9 A. Yes, I am.

10 MR. VANDIVER: Mr. Examiner, I tender Mr. Bullock as
11 an expert in petroleum land matters.

12 EXAMINER STOGNER: Mr. Bullock is so qualified.

13 Q. (By Mr. Vandiver) Mr. Bullock, briefly
14 summarize the purpose of Yates's application in
15 Case No. 10188.

16 A. Yates wishes to form a state exploratory unit
17 in Township 16 South, Range 33 East, encompassing all of
18 Sections 9, 16 and 21 to explore for oil and gas.

19 Q. All right. Now, if you would, refer to Yates
20 Exhibit 1 in this case and identify that exhibit and
21 orient the Examiner with respect to the location of the
22 unit and the proposed initial test well.

23 A. That is the -- outlined in yellow is the unit
24 boundary. We're calling it the West Sombrero State
25 Exploratory Unit 16 South, 33 East, all of Sections 9, 16

1 and 21. The initial test well located 1,980 from the
2 south and 1,980 from the east in Section 16.

3 Q. Mr. Bullock, who owns all the minerals within
4 the proposed unit?

5 A. The state of New Mexico.

6 Q. Now, if you would, identify Yates's Exhibit 2
7 and describe what that is, please.

8 A. Exhibit 2 is the Unit Agreement for development
9 and operation of the West Sombrero State Unit.

10 Q. And is that on a form approved by the
11 Commissioner of Public Lands?

12 A. Yes, it is.

13 Q. Under the terms of the unit agreement, what
14 formations are proposed to be unitized?

15 A. All formations.

16 Q. All right. And Yates Petroleum Corporation is
17 designated as the operator in the proposed unit agreement?

18 A. That's correct.

19 Q. As required by the Commissioner of Public
20 Lands, the unit agreement allocates production from any
21 well drilled on the committed tracts within the unit area
22 to each of the separately owned tracts on a certain
23 acreage basis, does it not?

24 A. That's correct.

25 Q. If you would, refer to Exhibit A to the unit

1 agreement and briefly summarize the information contained
2 on that exhibit to the unit agreement.

3 A. Exhibit A identifies each tract within the unit
4 boundaries and designates those tracts with a tract
5 number. It shows Sections 9, 16 and the 21, and shows
6 four tracts within that unit.

7 Q. And it contains the lease numbers and lease
8 exploration dates as well?

9 A. That's correct.

10 Q. Now, if you would, refer to Exhibit B to the
11 unit agreement and briefly summarize the information shown
12 on that exhibit.

13 A. Again, Exhibit B shows each tract with its
14 legal description, designates the number of acres --
15 acreage in each tract, the serial number designated to
16 that tract, the ownership of the minerals, the lessee of
17 record and the working interest ownership in each tract.

18 Q. As reflected, though, on Exhibits A and B to
19 the unit agreement, what is the earliest exploration date
20 of any of the leases to be committed to the proposed unit?

21 A. I believe that would be 2-1 of '91.

22 Q. And you are seeking approval of the proposed
23 unit agreement by the New Mexico Oil Conservation Division
24 and the Commissioner of Public Lands prior to February 1,
25 1991, if possible?

1 A. That's correct.

2 Q. What's the status of the joinder of the lessees
3 of record and working interest owners to the proposed unit
4 agreement?

5 A. We have a letter agreement from the working
6 interest owners that they do wish to participate in this
7 unit as proposed by Yates.

8 Q. So although they have not physically signed the
9 unit agreement and unit operating agreement, they have all
10 indicated their intention to join?

11 A. That's correct.

12 Q. Now, identify Applicant's Exhibit 3 and
13 describe what that is, please.

14 A. Exhibit 3 is the operating agreement for this
15 West Sombrero State Unit, which sets out the contractual
16 rights and obligations of the party to the unit agreement.

17 Q. And that unit operating agreement has been
18 submitted to and, at least informally, approved by all the
19 lessees of record and working interest owners?

20 A. That's correct.

21 Q. Now, if you would, refer to Exhibit A of the
22 operating agreement and describe the manner in which the
23 costs of the initial test well will be paid.

24 A. The columns and where incorporated interest
25 shows them having a one-third interest in the well,

1 Santa Fe Energy Operating Partners will have a one-third
2 interest in the unit, that is, and Yates Petroleum
3 Corporation, their associated companies, will have the
4 other one-third interest.

5 Q. And this unit operating agreement contains all
6 other customary contractual terms of a joint operating
7 agreement as utilized by Yates in the area?

8 A. That's correct.

9 Q. Now, if you would, refer to Applicant's
10 Exhibit 4 and identify that exhibit.

11 A. Exhibit 4 is a submittal to the Commissioner of
12 Public Lands of the West Sombrero State Unit on behalf of
13 Yates Petroleum Corporation, and it -- Along with that
14 submittal were two copies of the unit agreement and a
15 draft of the unit operating agreement, along with the
16 geological explanation with the maps included.

17 Q. And one of the requirements of the Commissioner
18 of Public Lands for approval of the unit agreement is that
19 an order be entered by the oil conservation division
20 approving the unit agreement?

21 A. That is correct.

22 Q. And it will be necessary that Yates commence
23 drilling operations on the initial test well prior to
24 February 1, 1991?

25 A. That is correct.

1 Q. And your location for your initial test well is
2 on the lease that is expiring February 1, 1991; is that
3 correct?

4 A. That is correct.

5 Q. Were Exhibits 1 through 4 either prepared by
6 you or under your direction and supervision?

7 A. Yes, they were.

8 MR. VANDIVER: Mr. Examiner, I move the admission of
9 Applicant's Exhibits 1 through 4. And that concludes my
10 examination of this witness.

11 EXAMINER STOGNER: Exhibits 1 through 4 will be
12 admitted into evidence.

13 (Applicant Yates Exhibits 1 through 4
14 were admitted into evidence.)

15 EXAMINER STOGNER: Mr. Stovall, I believe you've got
16 a question.

17 EXAMINATION

18 BY MR. STOVALL:

19 Q. There's a glaring inconsistency here. If you
20 look at Exhibit B -- Exhibits A and B of the unit
21 agreement and Exhibit A of the operating agreement, you
22 guys really show Collins & Ware with 320 acres and
23 Santa Fe Energy with 960, and the operating agreement
24 shows 640 each.

25 A. That is being negotiated between them as to

1 what lease Collins & Ware will buy an interest in; and up
2 until the time we have come to this hearing, that -- to my
3 knowledge, it hasn't been decided between them. Collins &
4 Ware was going to purchase one of those leases from Santa
5 Fe Energy to get their interest up to the one-third level
6 that they wanted to, and they had agreed between
7 themselves, and I just -- that information just wasn't
8 available to me before this hearing; but the intent of the
9 parties is that each party have a one-third interest in
10 this agreement.

11 Q. Okay. So there will be some --

12 A. Well --

13 Q. Obviously Exhibit A 4 --

14 A. Will have to be revised.

15 Q. -- will have to be revised. Okay.

16 A. Will have to be revised; that's correct.

17 Q. Is that an accurate -- whichever agreement
18 needs to be modified, you will send appropriate exhibits
19 to us?

20 A. Yes. Yes, we will.

21 Q. I'm glad to hear that that wasn't just an
22 error.

23 A. No, it wasn't an oversight. It was just
24 a . . .

25 EXAMINER STOGNER: Are there any other questions of

1 this witness?

2 (No response.)

3 EXAMINER STOGNER: If not, you may be excused.

4 Mr. Vandiver.

5 STERLING FLY, III,

6 the Witness herein, having been previously duly sworn, was
7 examined and testified as follows:

8 DIRECT EXAMINATION

9 BY MR. VANDIVER:

10 Q. Mr. Fly, please state your full name, by whom
11 you're employed and in what capacity.

12 A. My name is Sterling Fly, III. I'm a petroleum
13 geologist with Yates Petroleum.

14 Q. Have you previously testified before the
15 New Mexico Oil Conservation Division in your capacity as a
16 petroleum geologist, had your qualifications as such
17 accepted and made a matter of record?

18 A. Yes.

19 Q. Have you made a study of the available
20 geological data with regard to the proposed West Sombrero
21 State Unit Agreement for the purposes of your testimony,
22 and are you familiar with the geological basis for the
23 formation of the unit?

24 A. Yes, I am.

25 Q. Have you prepared certain exhibits to

1 illustrate your testimony today?

2 A. Yes, I have several exhibits.

3 MR. VANDIVER: Mr. Examiner, I tender Mr. Fly as an
4 expert in petroleum geology.

5 EXAMINER STOGNER: Mr. Fly is so qualified.

6 Q. (By Mr. Vandiver) Mr. Fly, in your opinion is
7 the proposed unit area for the West Sombrero State Unit
8 logically subject to unit development?

9 A. I think so.

10 Q. Would you summarize, just very briefly, the
11 factors which dictate the formation of this unit?

12 A. Primarily we're targeting a sandstone in the
13 Atoka formation which runs the length of the unit, and we
14 have a favorable structural position which enhances the
15 entrapment of gas in this sandstone.

16 Q. All right. Now, identify what's been marked as
17 Applicant's Exhibit 5 and just describe what that is.

18 A. Okay. Exhibit 5 is just a geological statement
19 outlining -- well, it shows the location -- initial test
20 well location, and discusses the primary objective and
21 mentions also secondary objectives which have a decent
22 chance of success within the unit area.

23 Q. And that explanation has been submitted to the
24 Commissioner of Public Lands in connection with requests
25 for preliminary approval of the unit agreement?

1 A. Yes.

2 Q. Now, identify Exhibit 6 and describe the
3 information depicted on that exhibit.

4 A. Exhibit 6 is a stratigraphic cross section.
5 The two wells on the left-hand side of that are east/west,
6 and then the cross section runs to the south. None of
7 these wells are within the proposed unit area, though the
8 two on the left do straddle the unit.

9 Like I say, this is a stratigraphic cross
10 section. The stratigraphic datum is a little lime marker
11 in the -- about the middle of the Atoka formation. It's
12 indicated in red, and various other formation tops are
13 shown on here from the lower Strawn down to the upper
14 Mississippian, what we call the "Austin cycle" of the
15 Mississippian.

16 The primary feature of this cross section is
17 there in the center, just above the Morrow lime shown in
18 yellow, correlations of what is indicated the "Bell"
19 sandstone from this Bell 15 well, that is occurrence of
20 that sand.

21 The main feature to be indicated on the cross
22 section is that it's apparent that this Bell sandstone is
23 a different sandstone than the one in the Dalco well on
24 the left-hand side of the well.

25 I included Exhibit No. 7, which is cross

1 section B - B'. It's --

2 Q. Let me ask you first --

3 A. Okay.

4 Q. -- on Exhibit 6 what on this cross section is
5 marked in red?

6 A. Well, the red is the stratigraphic datum that I
7 referred to, the thin lime marker, which is one of the few
8 consistent markers that allows correlation of the sands
9 beneath and helps to identify what they are, distinct from
10 each from well to well.

11 Q. All right. Now, identify Applicant's
12 Exhibit 7 and describe that.

13 A. Exhibit 7, cross section B - B', marker. This
14 cross section runs -- is an east/west cross section. As
15 you can see on the little map in the lower left-hand
16 corner, it doesn't cross the unit area, but I included it
17 because it better demonstrates the -- oh, the
18 relationships of the individual sandstones in there.

19 The next-to-the-last well, the Hexagon well, is
20 also included on cross section A - A', so there's no
21 question of where the correlations on this cross section
22 are relative to the other one.

23 And on this one, looking at the Hexagon well,
24 the Bell sandstone is indicated. It's the same one as on
25 the other cross section, and that correlates clearly to a

1 thick sandstone in the Western Oil well in the center of
2 the cross section.

3 Okay. Then that Bell sandstone carries on over
4 to the west into the next Western Oil Union State No. 2,
5 and clearly the -- based on the top of the Morrow lime and
6 the red datum marker, that Bell sandstone is deteriorated
7 in the Mesa well, whereas a different sand has developed
8 at the bottom at the bottom of the Mesa Well.

9 The primary purpose of establishing these
10 correlations is for mapping purposes, which I'll discuss
11 on Exhibit 9. I'm going to skip over Exhibit 8 for the
12 moment.

13 Exhibit 9 is an isolith map of this Bell
14 sandstone, and this is taken as a representative
15 sandstone. The other, isopaching -- isolithing of the
16 other individual sandstone units should show the same
17 pattern here.

18 So on the isolith map what we have is a clearly
19 defined north/south, relatively narrow sand body, which is
20 interpreted as a south-flowing channel sandstone.

21 I'd point out there in Section 27, I drew in a
22 little bulbous projection. That well there in Section 27,
23 which has the 11 on the isolith map, corresponds to the --
24 what correlates to the -- well, there's two little
25 sandstones in the Bell sand -- on the Bell there. So

1 anyway, the bottom line is, we're calling that an
2 "over-bank deposit" from the channel sandstone there.

3 And our unit area is just a straight
4 north/south, three-section units -- or three sections in
5 the unit, and that corresponds real well to the occurrence
6 of the sandstone, the Atoka sandstone.

7 Q. Anything else with regard to Exhibit 9?

8 A. No, I think that's enough.

9 Q. And then you wanted to refer to Exhibit 8.

10 A. Yeah. Okay. I'll go back to Exhibit 8. That
11 is the structure map, structural datum at the top of the
12 Morrow limestone as indicated on the cross section.

13 There's a fairly sparse structural control on this area,
14 but we did have several seismic lines which helped define
15 our structural feature. And what that shows is that we
16 have a well-defined structural high, centered in
17 Section 16 and extending north and south into 9 and 21.

18 This anticline is fault-bounded down to the
19 east, and there's a minor fault to the west; but the big
20 fault is the one to the east.

21 Q. Do you know what formations the two wells shown
22 in Section 16 penetrated?

23 A. They were shallow wells. They were Queen
24 penetrations.

25 Q. All right. Anything else with regard to

1 Exhibit 8.

2 A. Well, it's like the Atoka tends to -- in this
3 area (indicating) Atoka production tends to be -- tends to
4 occur over structural features, so it's not an entirely
5 stratigraphic play or entrapment in the Atoka, so the
6 occurrence -- the presence of the structure and the sand
7 are really encouraging here.

8 There is also a possibility that -- and it's a
9 good possibility of -- encountering sands in the Morrow
10 formation. As you see on the cross sections, I did color
11 in several areas in the Morrow. The Morrow is not quite
12 as structurally dependent. In other words, entrapment
13 tends to be more stratigraphic in these thin, Morrow
14 sandstones.

15 Q. Do you intend to drill to the base of the
16 Morrow, your initial --

17 A. All the way through the Morrow into the
18 Mississippian.

19 Q. Anything else with regard to those exhibits?

20 A. No. I think we can move on to the next one.

21 Q. All right. Now identify Yates Exhibit 10,
22 which is cross sections A-B-C'.

23 A. I included in the next series of exhibits which
24 is -- Well, let me say that one of our primary -- one of
25 our main secondary objectives is the Seaman formation or

1 Seaman limestone within the Canyon Formation.

2 Seaman has been penetrated in a lot of
3 wellborers in this area, and it always -- generally always
4 we'll drill stem test good recoveries of oil, but fairly
5 serious shut-in pressure decline. And perforation tests
6 or production tests corroborate that; they decline fairly
7 seriously. But occasionally within -- well, Township 16,
8 33, there are three wells that have made economic
9 production of in Seaman, so we think that's a strong
10 backup zone to our Atoka sand.

11 On a cross section in blue, I've correlated out
12 the Seaman zone just to -- oh, just to show its
13 correlatability. It is relatively consistent, though
14 detailed correlation. Very difficult to achieve.

15 Let me move on to Exhibit No. 11. That's a
16 carbonate isolate map on the upper Seaman bank. On the
17 cross section that corresponds to the two lines on either
18 side of the word "Seaman," but it only corresponds to that
19 upper limestone unit. The lower one tends to do -- tends
20 to act about the same.

21 What the carbonate isolith shows is that
22 there's good probability of a thick carbonated
23 accumulation in the upper Seaman bank, essentially in the
24 center of the proposed unit.

25 An accompanying map to this is Net Feet

1 Porosity map.

2 Q. Let me ask you this: Where were the commercial
3 wells in this township in Seaman?

4 A. Okay. Section 19, the well that's shown as 2,
5 that well actually was produced out of the lower Seaman
6 bank, in Section 32 the well that has a value of 50 on it,
7 and in Section 13 the well that shows a 61. By
8 "commercial," you know, I'm using the general rule of a
9 hundred thousand or so or better.

10 Q. All right. Go ahead. Proceed with the
11 Exhibits 11 and 12.

12 A. Yes. An accompanying map to the carbonate
13 isolith is the net feet of porosity map. And it -- you
14 know, it just shows that there should be a good thickness
15 of porosity in there, you know, based primarily on the
16 25 feet up there in Section 4, 13 feet in Section 15, and
17 13 feet in Section 17. Primarily the 25 feet is the most
18 significant well there.

19 Q. All right. Anything else you wish to point out
20 in regards to Exhibits 11 and 12?

21 A. Well, originally this -- Well, I really like
22 the Seaman zone in this area. This is one of the main
23 reasons we wanted to put the unit together originally, and
24 then we got our partners to agree to go on down to test
25 the Atoka, so . . .

1 Q. Based upon your review of this data, what
2 conclusions have you drawn from your geological study of
3 the area?

4 A. Well, I think we have a very good chance.
5 Based on structural position and sandstone occurrence in
6 the Atoka, we have a very good chance of obtaining
7 economic production in the Atoka. And the Seaman, we have
8 a good chance; and I kind of hedge there a little bit
9 because Seaman is -- well, out of 15 or 20 wells it
10 penetrated, only 3 have really done very well. So it's a
11 good, a very good backup zone.

12 I didn't mention also, Seaman is not
13 structurally dependent; it's purely stratigraphic.

14 Q. In your opinion will approval of this
15 exploratory unit be in the interest of conservation of oil
16 and gas, the prevention of waste and the protection of
17 correlative rights?

18 A. Yes.

19 Q. Were Exhibits 5 through 12 prepared by you or
20 under your direction and supervision?

21 A. Yes, they were.

22 MR. VANDIVER: Mr. Examiner, I would move the
23 admission of Applicant's Exhibits 5 through 12. And that
24 concludes my examination of this witness.

25 EXAMINER STOGNER: Exhibits 5 through 12 will be

1 admitted into evidence at this time.

2 (Applicant Yates Exhibits 5 through 12
3 were admitted into evidence.)

4 EXAMINATION

5 BY EXAMINER STOGNER:

6 Q. Mr. Fly, will this be a reentry in Well No. 16,
7 or do you plan to drill a new well?

8 A. No, we're going to put it at 1980 from south
9 and east.

10 Q. That's standard, isn't it?

11 A. Yes. Right in the center of the unit, as
12 centered as you can get it.

13 Q. For it to be a standard?

14 A. Yes.

15 Q. Okay. Do you have -- What's Yates's timeframe
16 on this well?

17 A. February the 1st is the -- is where -- I think
18 it's Section 16 expires.

19 Q. And then that will be testing the
20 Mississippian. Do you plan to go through the
21 Mississippian?

22 A. No. We'd like to see the top of the
23 Mississippian for correlation purposes.

24 Q. Oh, okay. So the top of the Mississippian just
25 for reference?

1 A. Yes, Mississippian plus a hundred or so.

2 EXAMINER STOGNER: Are there any other questions of
3 this witness.

4 MR. STOVALL: None from me.

5 EXAMINER STOGNER: Well, he may be excused.

6 Mr. Vandiver.

7 MR. VANDIVER: I have nothing further, Mr. Examiner.

8 EXAMINER STOGNER: Does anybody either have anything
9 further in Case No. 10188?

10 (No response.)

11 MR. VANDIVER: If not, the case will be taken under
12 advisement.

13 (The foregoing hearing was concluded at the
14 approximate hour of 10:22 a.m.)

15 * * *

16
17
18 I do hereby certify that the foregoing is
19 a complete record of the proceedings in
20 the Examiners hearing of Case No. 10188,
heard by me on 19 December 1990.
21 Michael A. Stogner, Examiner
Oil Conservation Division
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23
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25

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2 STATE OF NEW MEXICO)
3) ss.
4 COUNTY OF SANTA FE)

5 REPORTER'S CERTIFICATE

6 I, MAUREEN R. HUNNICUTT, RPR, a Certified Shorthand
7 Reporter and Notary Public, DO HEREBY CERTIFY that I
8 stenographically reported these proceedings before the Oil
9 Conservation Division; and that the foregoing is a true,
10 complete and accurate transcript of the proceedings of
11 said hearing as appears from my stenographic notes so
12 taken and transcribed under my personal supervision.

13 I FURTHER CERTIFY that I am not related to nor
14 employed by any of the parties hereto, and have no
15 interest in the outcome hereof.

16 DATED at Santa Fe, New Mexico, this 19th day of
17 January, 1991.

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19
20 

MAUREEN R. HUNNICUTT, RPR
Certified Shorthand Reporter
CSR No. 166, Notary Public

21 My Commission Expires:
22 April 25, 1993