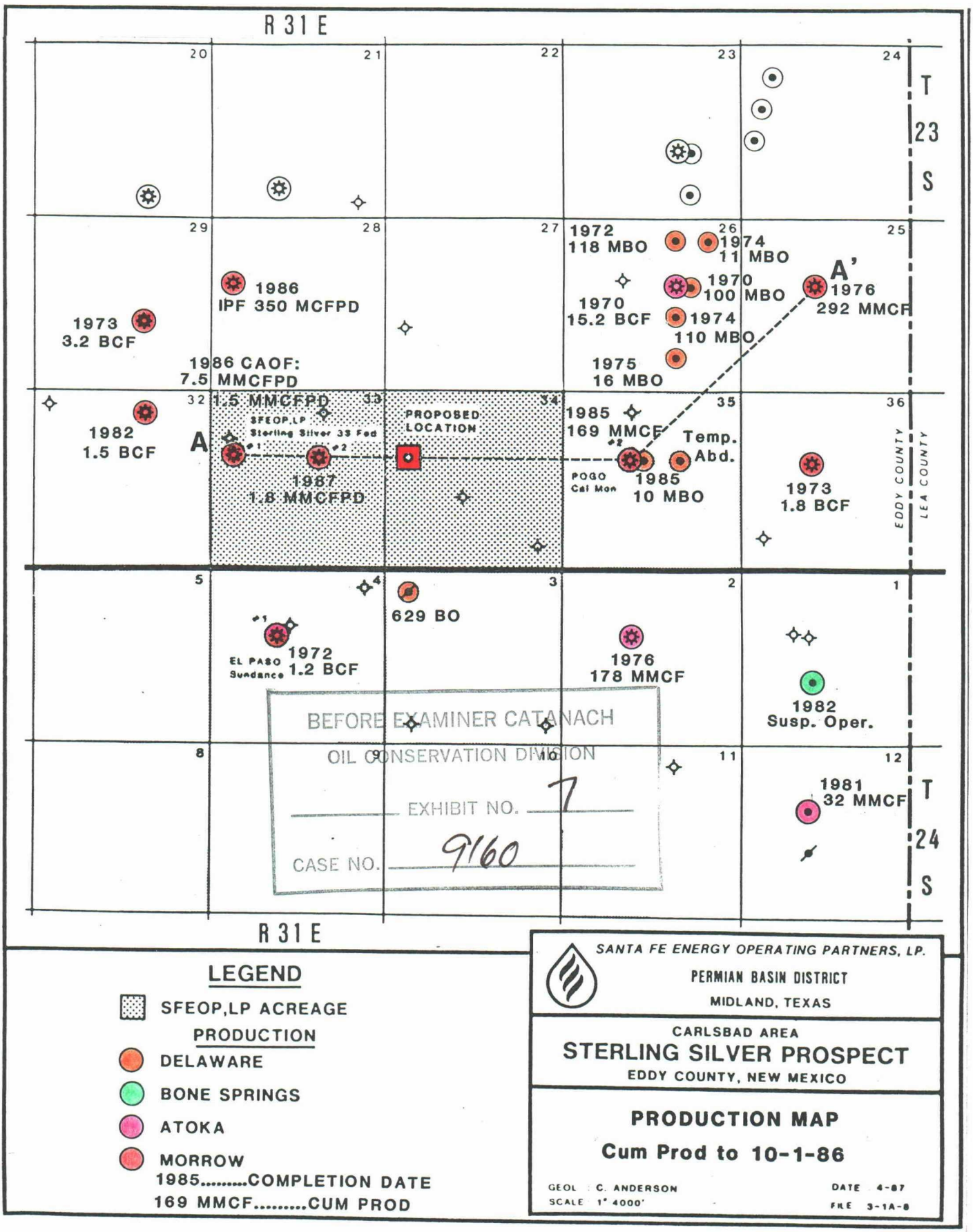


LEGEND

SFEOP,LP ACREAGE

PRODUCTION

- DELAWARE
- BONE SPRINGS
- ATOKA
- MORROW

1985.....COMPLETION DATE
169 MMCF.....CUM PROD

SANTA FE ENERGY OPERATING PARTNERS, LP.
PERMIAN BASIN DISTRICT
MIDLAND, TEXAS

CARLSBAD AREA
STERLING SILVER PROSPECT
EDDY COUNTY, NEW MEXICO

PRODUCTION MAP
Cum Prod to 10-1-86

GEOL : C. ANDERSON
SCALE 1" 4000'
DATE 4-87
FILE 3-1A-8

PS Form 3811, July 1982

● **SENDER:** Complete items 1, 2, 3, and 4.
Add your address in the "RETURN TO" space on reverse.

(CONSULT POSTMASTER FOR FEES)

1. The following service is requested (check one).
   - [X] Show to whom and date delivered ..... ____¢
   - [ ] Show to whom, date, and address of delivery .. ____¢
2. [ ] RESTRICTED DELIVERY..... ____¢
   (The restricted delivery fee is charged in addition to the return receipt fee.)

TOTAL $____

3. ARTICLE ADDRESSED TO:
PaineWebber/Geodyne Ener., Income
320 S. Boston Ave. The Mezzanine
Tulsa, Oklahoma 74103-3708

4. TYPE OF SERVICE:
   - [ ] REGISTERED
   - [ ] INSURED
   - [X] CERTIFIED
   - [ ] COD
   - [ ] EXPRESS MAIL

ARTICLE NUMBER: P 458 354 658

(Always obtain signature of addressee or agent)

I have received the article described above.

SIGNATURE [ ] Addressee [ ] Authorized agent

5. DATE OF DELIVERY: 6-5-87

POSTMARK (may be on reverse side)

6. ADDRESSEE'S ADDRESS *(Only if requested)*

7. UNABLE TO DELIVER BECAUSE:

7a. EMPLOYEE'S INITIALS

RETURN RECEIPT

★ GPO: 1982-379-593

EXHIBIT A

PS Form 3811, July 1982

● **SENDER:** Complete items 1, 2, 3, and 4.
Add your address in the "RETURN TO" space on reverse.

(CONSULT POSTMASTER FOR FEES)

1. The following service is requested (check one).
   - [X] Show to whom and date delivered ..... ____¢
   - [ ] Show to whom, date, and address of delivery .. ____¢
2. [ ] RESTRICTED DELIVERY..... ____¢
   (The restricted delivery fee is charged in addition to the return receipt fee.)

TOTAL $____

3. ARTICLE ADDRESSED TO:
Heathary Resources, Inc.
223 West Wall, Suite 615
Midland, Texas 79701

4. TYPE OF SERVICE:
   - [ ] REGISTERED
   - [ ] INSURED
   - [X] CERTIFIED
   - [ ] COD
   - [ ] EXPRESS MAIL

ARTICLE NUMBER: P 458 354 649

(Always obtain signature of addressee or agent)

I have received the article described above.

SIGNATURE [ ] Addressee [ ] Authorized agent

5. DATE OF DELIVERY: 6/3/87

POSTMARK (may be on reverse side)

6. ADDRESSEE'S ADDRESS *(Only if requested)*: same as above

7. UNABLE TO DELIVER BECAUSE:

7a. EMPLOYEE'S INITIALS

RETURN RECEIPT

★ GPO: 1982-379-593

PS Form 3811, July 1982

● **SENDER:** Complete items 1, 2, 3, and 4.
Add your address in the "RETURN TO" space on reverse.

(CONSULT POSTMASTER FOR FEES)

1. The following service is requested (check one).
   - [X] Show to whom and date delivered ..... ____¢
   - [ ] Show to whom, date, and address of delivery .. ____¢
2. [ ] RESTRICTED DELIVERY..... ____¢
   (The restricted delivery fee is charged in addition to the return receipt fee.)

TOTAL $____

3. ARTICLE ADDRESSED TO:
Primary Fuels, Inc.
223 West Wall, Suite 615
Midland, Texas 79701

4. TYPE OF SERVICE:
   - [ ] REGISTERED
   - [ ] INSURED
   - [X] CERTIFIED
   - [ ] COD
   - [ ] EXPRESS MAIL

ARTICLE NUMBER: P 458 354 657

(Always obtain signature of addressee or agent)

I have received the article described above.

SIGNATURE [ ] Addressee [ ] Authorized agent

5. DATE OF DELIVERY: 6/3/87

POSTMARK (may be on reverse side)

6. ADDRESSEE'S ADDRESS *(Only if requested)*: same as above

7. UNABLE TO DELIVER BECAUSE:

7a. EMPLOYEE'S INITIALS

RETURN RECEIPT

EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated May 11, 1987, between Santa Fe Energy Operating Partners, L.P. as Operator, and CNG Producing Company, et al., as Non-Operators.

I. Contract Area

This Operating Agreement consists of three (3) separate and distinct Contract Areas as follows:

Contract Area "A" - T-23-S, R-31-E, N.M.P.M., Eddy County, New Mexico
Section 34: E½

Contract Area "A" is limited in depth from the surface of the earth down to 6485'.

Contract Area "B" - T-23-S, R-31-E, N.M.P.M., Eddy County, New Mexico
Section 34: W½

Contract Area "B" is limited in depth from the surface of the earth down to 6485'.

Contract Area "C" - T-23-S, R-31-E, N.M.P.M., Eddy County, New Mexico
Section 34: All

Contract Area "C" is limited in depth to cover all rights lying beneath 6485'.

II. Working Interest of Parties to This Agreement:

Working Interest of Parties in Contract Area "A"

As to E/2 Section 34 above 6485'

Working Interest Owner	Working Interest of Parties*
Santa Fe Energy Operating Partners, L.P.	24.64989%
CNG Producing Company	30.89999%
Pogo Producing Company	12.50000%
Florida Exploration Company	10.26172%
Texas Gas Exploration Corp.	3.16728%
Primary Fuels	2.35161%
P W Production, Inc.	.5208%
Heathary Resources, Inc.	.02371%
Mobil Producing Texas & New Mexico Inc.	15.62500%
	100.00000%

*In the event Mobil Producing Texas & New Mexico Inc. elects to participate with their working interest share.

Working Interest of Parties in Contract Area "B"

As to W/2 Section 34 above 6485'

Working Interest Owner	BPO	APO
Santa Fe Energy Operating Partners, L.P.	34.81318%	32.35987%
CNG Producing Company	22.31328%	19.85995%
Florida Exploration Company	12.69523%	11.60476%
Pogo Producing Company	12.50000%	12.50000%
Texas Gas Exploration Corp.	8.91152%	8.76699%
Primary Fuels	6.61667%	6.50938%
PW Production Company	2.08330%	2.08330%
Heathary Resources	.06682%	.06575%
Mobil Producing Texas & NM	-0-	6.25000%
	100.00000%	100.00000%

OAS42-1

EXHIBIT B

As to Section 34 below 6485'

Working Interest Owner	BPO	APO
Santa Fe Energy Operating Partners, L.P.	32.12308%	27.21731%
CNG Producing Company	32.12307%	27.21730%
Florida Exploration Company	12.89035%	10.70944%
Pogo Producing Company	12.50000%	12.50000%
Texas Gas Exploration Corp.	5.32295%	5.03389%
Primary Fuels	3.95215%	3.73756%
P.W. Production Company	1.0416%	1.04160%
Heathary Resources	.04680%	.04290%
Mobil Producing Texas & NM	-0-	12.50000%
	100.00000%	100.00000%

III. Oil and Gas Lease Subject to This Agreement:

Federal Lease No.: NM-43744
Date of Lease: May 1, 1981
Lessor: United States of America
Original Lessee: Coquina Oil Corporation, Pogo Producing Company, The Superior Oil Company, Florida Exploration Company, ACF Petroleum, Inc., Chessie Exploration, Inc.

Description of Leasehold Committed to this Agreement: T-23-S, R-31-E, NMPM, Eddy County, NM
Section 34: All

Existing Overriding Royalty Interests: The working interests of Florida Exploration Company, Texas Gas Exploration Corporation, Primary Fuels, Inc., PaineWebber/Geodyne Energy Income Production Partnership I-C and Heathary Resources, Inc. are possibly burdened with an overriding royalty interest of 1.0% of 8/8ths which is to be proportionately reduced to the working interest and net revenue interest of each of said parties.

IV. Addresses of Parties for Notice Purposes:

Pogo Producing Company
P.O. Box 10340
Midland, Texas 79702-7340

CNG Producing Company
705 South Elgin
Tulsa, Oklahoma 74120

Mobil Producing Texas & New Mexico Inc.
P.O. Box 4326
Midland, Texas 79702

Primary Fuels, Inc.
615 Midland Towers Bldg.
223 West Wall
Midland, Texas 79701

Heathary Resources, Inc.
615 Midland Towers Bldg.
223 West Wall
Midland, Texas 79701

Florida Exploration Company
P.O. Box 2267
Midland, Texas 79702

Santa Fe Energy Operating Partners, L.P.
500 West Illinois, Suite 500
Midland, Texas 79701

~~Texas Gas Exploration Corp.~~
P.O. Box 4326
Houston, Texas 77210-4326

PaineWebber/Geodyne Energy Income Production Partnership I-C
320 S. Boston Ave., The Mezzanine
Tulsa, Oklahoma 74103-3708

Santa Fe Energy Operating Partners, L.P.

Santa Fe Pacific Exploration Company
Managing General Partner

May 13, 1987

RE: Well Proposal
Sterling Silver "34" Federal #1
Section 34, T-23-S, R-31-E
Eddy County, New Mexico
Sterling Silver Prospect
Carlsbad Area

TO ADDRESSEES NAMED ON ATTACHED LIST ATTACHED HERETO

Gentlemen:

Santa Fe Energy Operating Partners, LP proposes to drill a 15,250' Morrow test at a location being 1980' FNL and 660' FWL of Section 34, T-23-S, R-31-E, Eddy County, New Mexico.

Mobil Producing Texas & New Mexico supported the drilling of the Sterling Silver "33" Federal #2 in the form of an Optional Farmout of their interest in Section 34, T-23-S, R-31-E. If all parties elect to participate with their leasehold interest and their proportionate share of the farmout acreage, the working interest in the well will be as follows:

(Contract Area "A")*

As to W/2 Section 34 below 6485'

Working Interest Owner	BPO	APO
SFEOP, LP	32.12308%	27.21731%
CNG Producing Company	32.12307%	27.21730%
Florida Exploration Company	12.89035%	10.70944%
Pogo Producing Company	12.50000%	12.50000%
Texas Gas Exploration Co.	5.32295%	5.03389%
Primary Fuels	3.95215%	3.73756%
P. W. Production Company	1.0416%	1.04160%
Heathary Resources	.04680%	.04290%
Mobil Producing Texas & NM	-0-	12.50000%
	100.00000%	100.00000%

*DHC and/or completion cost below 6485' will be shared as shown in Contract Area "A". Completion cost above 6485' will be shared as shown in Contract Area "B".

Permian Basin District
500 W. Illinois
Suite 500
Midland, Texas 79701
915/687-3551

EXHIBIT C

(Contract Area "B")*

As to W/2 Section 34 above 6485'

Working Interest Owner	BPO	APO
SFEOP, LP	34.81318%	32.35987%
CNG Producing Company	22.31328%	19.85995%
Florida Exploration Company	12.69523%	11.60476%
Pogo Producing Company	12.50000%	12.50000%
Texas Gas Exploration Co.	8.91152%	8.76699%
Primary Fuels	6.61667%	6.50938%
PW Production Company	2.08330%	2.08330%
Heathary Resources	.06682%	.06575%
Mobil Producing Texas & NM	-0-	6.25000%
	100.00000%	100.00000%

Enclosed is the drilling cost estimate in duplicate, which we request be approved and returned to us, along with an executed copy of this letter at your earliest convenience. Also enclosed for your execution is the proposed Operating Agreement.

If you should have any questions, please let me know.

Yours truly,

SANTA FE ENERGY OPERATING PARTNERS, L.P.
By Santa Fe Pacific Exploration Company
as Managing General Partner

Gary Green, Landman

cys382
attachments

_____ does _____ does not _____ desire to participate in the proposed Sterling Silver "34" Federal #1 well.

Company: _____
By: _____
Date: _____

ADDRESS LIST

Sterling Silver "34" #1
Eddy County, New Mexico

Pogo Producing Company
P.O. Box 10340
Midland, Texas 79702-7340

CNG Producing Company
705 South Elgin
Tulsa, Oklahoma 74120

Texas Gas Exploration Corp.
P.O. Box 4326
Houston, Texas 77210-4326

PaineWebber/Geodyne Energy Income
Production Partnership I-C
320 South Boston Ave.
The Mezzanine
Tulsa, Oklahoma 74103-3708

Florida Exploration Company
P.O. Box 2267
Midland, Texas 79702

Mobil Producing Texas & New Mexico
Inc.
P.O. Box 4326
Houston, Texas 77210-4326

Primary Fuels, Inc.
223 West Wall, Suite 615
Midland, Texas 79701

Heathary Resources, Inc.
223 West Wall, Suite 615
Midland, Texas 79701

sbh181

Santa Fe Energy Operating Partners, L.P.

Santa Fe Pacific Exploration Company
Managing General Partner

CERTIFIED MAIL

June 19, 1987

PW Production Co.
320 S. Boston Ave.
The Mezzanine
Tulsa, Oklahoma 74103-3708

Attention: Mr. Earl Funk

Re: OD-NM-617,136
Sterling Silver "34" Federal #1
Section 34, T-23-S, R-31-E,
Eddy County, New Mexico

Gentlemen:

In reference to our telephone conversations wherein you advised that PW Production elected not to participate in the drilling of the captioned well, Santa Fe Energy Operating Partners, L.P., as Operator, request that you farmout your interest in Section 34, to the participating working interest owners under the following terms:

1. PW Production would farmout 100% of their leasehold interest in Section 34, T-23-S, R-31-E, Eddy County, New Mexico from the surface to 100' below total depth drilled.

2. PW Production would retain an overriding royalty interest equal to the difference between existing lease burdens and 25% (proportionately reduced), delivering a 75% NRI lease to the Farmouters.

3. At payout of the captioned well, PW Production would have the option to convert the retained ORRI to a 25% (proportionately reduced) working interest.

4. PW Production would participate in subsequent wells under the same terms as in the initial well.

Santa Fe feels the above terms are equitable as the Mobil farmout (copy enclosed) on this lease is under the same general terms and the terms of other farmouts in this area have been similar.

If the above meets with your approval, please provide a formal Farmout Agreement for the review and approval of the participating working interest owners.

Permian Basin District
500 W. Illinois
Suite 500
Midland, Texas 79701
915/687-3551

EXHIBIT D-1

Should you have any questions, please give me a call.

Sincerely,

SANTA FE ENERGY OPERATING PARTNERS, L.P.
by Santa Fe Pacific Exploration Company
as Managing General Partner

Gary Green, Landman

cc: CNG Production Company
Pogo Producing Company
Texas Oil & Gas Company
Florida Exploration, Inc.

pr117

Santa Fe Energy Operating Partners, L.P.

Santa Fe Pacific Exploration Company
Managing General Partner

CERTIFIED MAIL

June 19, 1987

Heathary Resources, Inc.
223 West Wall, Suite 615
Midland, Texas 79701

Attention: Ms. Ann Robey

Re: OD-NM-617,136
Sterling Silver "34" Federal #1
Section 34, T-23-S, R-31-E,
Eddy County, New Mexico

Gentlemen:

In reference to your letter of June 15, 1987 and June 17, 1987, wherein you elected not to participate in the drilling of the captioned well, Santa Fe Energy Operating Partners, L.P., as Operator, request that you farmout your interest in Section 34, to the participating working interest owners under the following general terms:

1. Primary and Heathary would farmout 100% of their leasehold interest in Section 34, T-23-S, R-31-E, Eddy County, New Mexico from the surface to 100' below total depth drilled.

2. Primary and Heathary would retain an overriding royalty interest equal to the difference between existing lease burdens and 25% (proportionately reduced) delivering a 75% NRI lease to the Farmouters.

3. At payout of the captioned well, Primary and Heathary would have the option tp convert the retained ORRI to a 25% (proportionately reduced) working interest.

4. Primary and Heathary would participate in subsequent wells under the same terms as in the initial well.

Santa Fe feels the above terms are equitable as the Mobil farmout on this lease is under the same general terms and the terms of other farmouts in this area have been similar.

If the above meets with your approval, please provide a formal Farmout Agreement for the review and approval of the participating working interest owners.

Permian Basin District
500 W. Illinois
Suite 500
Midland, Texas 79701
915/687-3551

EXHIBIT D-2

Should you have any questions, please give me a call.

Sincerely,

SANTA FE ENERGY OPERATING PARTNERS, L.P.
by Santa Fe Pacific Exploration Company
as Managing General Partner

Gary Green

Gary Green, Landman

cc: CNG Producing Company
Pogo Producing Company
Texas Oil & Gas Company
Florida Exploration, Inc.

pr115

Santa Fe Energy Operating Partners, L.P.

Santa Fe Pacific Exploration Company
Managing General Partner

CERTIFIED MAIL

June 19, 1987

Primary Fuels, Inc.
223 West Wall, Suite 615
Midland, Texas 79701

Attention: Ms. Ann Robey

Re: OD-NM-617,136
Sterling Silver "34" Federal #1
Section 34, T-23-S, R-31-E,
Eddy County, New Mexico

Gentlemen:

In reference to your letter of June 15, 1987 and June 17, 1987, wherein you elected not to participate in the drilling of the captioned well, Santa Fe Energy Operating Partners, L.P., as Operator, request that you farmout your interest in Section 34, to the participating working interest owners under the following general terms:

1. Primary and Heathary would farmout 100% of their leasehold interest in Section 34, T-23-S, R-31-E, Eddy County, New Mexico from the surface to 100' below total depth drilled.

2. Primary and Heathary would retain an overriding royalty interest equal to the difference between existing lease burdens and 25% (proportionately reduced) delivering a 75% NRI lease to the Farmouters.

3. At payout of the captioned well, Primary and Heathary would have the option to convert the retained ORRI to a 25% (proportionately reduced) working interest.

4. Primary and Heathary would participate in subsequent wells under the same terms as in the initial well.

Santa Fe feels the above terms are equitable as the Mobil farmout on this lease is under the same general terms and the terms of other farmouts in this area have been similar.

If the above meets with your approval, please provide a formal Farmout Agreement for the review and approval of the participating working interest owners.

Permian Basin District
500 W. Illinois
Suite 500
Midland, Texas 79701
915/687-3551

EXHIBIT D-3

Should you have any questions, please give me a call.

Sincerely,

SANTA FE ENERGY OPERATING PARTNERS, L.P.
by Santa Fe Pacific Exploration Company
as Managing General Partner

Gary Green

Gary Green, Landman

cc: CNG Producing Company
Pogo Producing Company
Texas Oil & Gas Company
Florida Exploration, Inc.

pr115

Pogo Producing Company
Western Division
600 United Bank Building • Post Office Box 10340 • Midland, Texas 79702-7340 • 915/682-6822

WAS	CA
TP	NG
DB	MS
VDD	DRFT
PT	DF
HB	EFW
SD	PR
GG	FILE

July 2, 1987

Santa Fe Energy Operating Partners, L.P.
500 West Illinois, Suite 500
Midland, Texas 79701

Attention: Mr. Gary Green

Re: Operating Agreement covering
Section 34, T-23-S, R-31-E
Eddy County, New Mexico

Gentlemen:

Reference is made to your letter dated May 13, 1987 whereby you transmitted Santa Fe's proposed AFE for the captioned well together with your proposed Operating Agreement covering Section 34, T-23-S, R-31-E, Eddy County, New Mexico. By Pogo's letter dated June 25, 1987, you were advised of Pogo's desire to participate in this well subject to our approval of your AFE and the negotiation of a mutually acceptable Operating Agreement.

With regard to Santa Fe's proposed Operating Agreement, Pogo offers the following comments and suggested revisions:

1. It appears to us that it is your intention that Option No. 2 of Article VII.D. (Limitation of Expenditures) should be applicable. In this regard, we suggest that you place an "x" in the box on Line 4 of Page 10 to signify that Option No. 2 shall apply.

2. We suggest that the following sentence be added to the end of Article XV.I.1. (Regulatory Provisions - Gaseous Hydrocarbons): "However, notwithstanding the foregoing, each Non-Operator shall have the right upon giving Operator advance notice of such Non-Operator's intention to file and prosecute on its own behalf applications for determination of well pricing qualifications under the Natural Gas Policy Act of 1978 and to make interim collection filings with respect to such Non-Operator's interest. If any Non-Operator prosecutes applications on its own behalf, none of the costs incurred by Operator for counsel, experts or any other expenses relating to applications for determination shall be charged to any Non-Operator who prosecutes such applications on its own behalf."

3. Pogo requests that Article XV.N. (Commencement of Drilling Prior to Title Examination) be deleted in its entirety. Since Santa Fe has already obtained a title opinion covering all of Section 34, T-23-S, R-31-E, we do not believe that these provisions are necessary.

4. Pogo requests that all of the provisions of Article XV.O. (Overhead Rate Adjustment Provisions) be deleted in their entirety. We believe the 1984 Copas Accounting Procedure attached as Exhibit "C" to the Operating Agreement adequately governs the administration of overhead rates.

5. On the face of the Operating Agreement you have indicated that same is dated May 11, 1987. In addition, all of the Exhibits attached to the Operating Agreement bear a date of May 11, 1987; however, the execution page (Article XVI. on Page 15) indicates that the Agreement shall be effective as of May 15, 1987. We suggest that the date of the Agreement and the effective date of this document be one and the same date.

6. With respect to the 1984 Copas Accounting Procedure (which is attached as Exhibit "C"), we recommend that Article III.1.ii. (Page 4) be marked to indicate that the salaries, wages and Personal Expenses of Technical Employees, etc. directly employed on the Joint Property "shall not be covered by the overhead rates". In addition, we ask that Article III.1.iii. be changed to indicate that the salaries, wages and Personal Expenses of Technical Employees, etc. assigned to and directly employed in the operation of the Joint Property "shall be covered by the overhead rates".

If the foregoing changes are acceptable, please make the necessary additions and revisions and furnish all parties with the appropriate substitute pages for inclusion into the Operating Agreement. Upon receipt of the revised pages, we will thereafter execute and return the signature page for the Agreement together with one fully executed copy of the AFE for the Sterling Silver "34" Federal No. 1.

Thank you for your assistance. Should you have any questions, please contact us.

Yours very truly,

POGO PRODUCING COMPANY

Jerry Cooper

J. A. Cooper
Western Division Landman

JAC:bt

OD-NM-617,080

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

MODEL FORM OPERATING AGREEMENT

Sterling Silver "33" #1 & 2 Wells

OPERATING AGREEMENT

DATED

June 16, 19 86,

OPERATOR Santa Fe Energy Operating Partners, L.P.

CONTRACT AREA All of Section 33, T-23-S, R-31-E, N.M.P.M.

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

GUIDANCE IN THE PREPARATION OF THIS AGREEMENT:

1. Title Page - Fill in blanks as applicable.

2. Preamble, Page 1 - Enter name of Operator.

3. Article II - Exhibits:
   (a) Indicate Exhibits to be attached.
   (b) If it is desired that no reference be made to non-discrimination, the reference to Exhibit "F" should be deleted.

4. Article III.B. - Interests of Parties in Costs and Production - Enter royalty fraction as agreed to by parties.

5. Article IV.A. - Title Examination - Select option as agreed to by the parties.

6. Article IV.B. - Loss of Title - If "Joint Loss" of Title is desired, the following changes should be made:
   (a) Delete Articles IV.B.1 and IV.B.2.
   (b) Article IV.B.3 - Delete phrase "other than those set forth in Articles IV.B.1 and IV.B.2 above."
   (c) Article VII.E. - Change reference at end of the first grammatical paragraph from "Article IV.B.2" to "Article IV.B.3."
   (d) Article X. - Add as the concluding sentence - "All claims or suits involving title to any interest subject to this agreement shall be treated as a claim or a suit against all parties hereto."

7. Article V - Operator - Enter name of Operator.

8. Article VI.A - Initial Well:
   (a) Date of commencement of drilling.
   (b) Location of well.
   (c) Obligation depth.

9. Article VI.B.2.(b) - Subsequent Operations - Enter penalty percentage as agreed to by parties.

10. Article VI.C. - Taking Production in Kind - If a Gas Balancing Agreement is not in existence nor attached hereto as Exhibit "E", then use Alternate Page 8.

11. Article VII.D.1. - Limitation of Expenditures - Select option as agreed to by parties.

12. Article VII.D.3. - Limitation of Expenditures - Enter limitation of expenditure of Operator for single project and amount above which Operator may furnish information AFE.

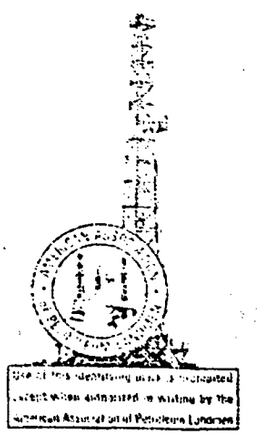
13. Article IX. - Internal Revenue Code Election - Delete this article in the event the agreement is a Tax Partnership and Exhibit "G" is attached.

14. Article X. - Claims and Lawsuits - Enter claim limit as agreed to by parties.

15. Article XIII. - Term of Agreement:
   (a) Select Option as agreed to by parties.
   (b) If Option No. 2 is selected, enter agreed number of days in two (2) blanks.

16. Article XIV.B - Governing Law - Enter state as agreed to by parties.

17. Signature Page - Enter effective date.



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

TABLE OF CONTENTS

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

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Santa Fe Energy Operating Partners, L.P., hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators".

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

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

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

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

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

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

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

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

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

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

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

ARTICLE II.
EXHIBITS

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

☒ A. Exhibit "A", shall include the following information:
- (1) Identification of lands subject to this agreement,
- (2) Restrictions, if any, as to depths, formations, or substances,
- (3) Percentages or fractional interests of parties to this agreement,
- (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
- (5) Addresses of parties for notice purposes.

☐ ~~B. Exhibit "B", Form of Lease.~~

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

☒ E. Exhibit "E", Gas Balancing Agreement.

☒ F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.

☒ G. Exhibit "G", Tax Partnership.

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

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B. Interests of Parties in Costs and Production:

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

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

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

C. Excess Royalties, Overriding Royalties and Other Payments:

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

D. Subsequently Created Interests:

If any party should hereafter create an overriding royalty, production payment or other burden payable out of production attributable to its working interest hereunder, or if such a burden existed prior to this agreement and is not set forth in Exhibit "A", or was not disclosed in writing to all other parties prior to the execution of this agreement by all parties, or is not a jointly acknowledged and accepted obligation of all parties (any such interest being hereinafter referred to as "subsequently created interest" irrespective of the timing of its creation and the party out of whose working interest the subsequently created interest is derived being hereinafter referred to as "burdened party"), and:

1. If the burdened party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of said subsequently created interest and the burdened party shall indemnify and save said other party, or parties, harmless from any and all claims and demands for payment asserted by owners of the subsequently created interest; and,

2. If the burdened party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B. shall be enforceable against the subsequently created interest in the same manner as they are enforceable against the working interest of the burdened party.

ARTICLE IV.
TITLES

A. Title Examination:

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

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

ARTICLE IV
continued

☒ 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. 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", the party contributing the affected lease or interest shall have ninety (90) days from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisition will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining oil and gas leases and interests: and,

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

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

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

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

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

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

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

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

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

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

of title

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

ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

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

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

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

who may select a successor in accordance with Paragraph 2 below

*becomes bankrupt, insolvent, or is placed in receivership

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

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 31st day of July, 19 86, Operator shall commence the drilling of a well for oil and gas at the following location:

NW/4 Section 33, T-23-S, R-31-E, Eddy County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to a depth of 15,400' or to adequately test the Morrow Formation, whichever is lesser,

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

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

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, the provisions of Article VI.E.1. shall thereafter apply.

B. Subsequent Operations:

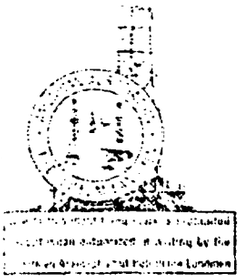
1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in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

If all parties elect to participate in such a proposed operation, Operator shall, within ninety (90) days after expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be), actually commence the proposed operation and complete it with due diligence at the risk and expense of all parties hereto; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties, for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary to obtain permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title examination or curative matter required for title approval or acceptance. Notwithstanding the force majeure provisions of Article XI, if the actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein) and if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accordance with the provisions hereof as if no prior proposal had been made.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VII.D.1. (Option No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

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

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk,



ARTICLE VI
continued

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

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

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

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

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

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

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

ARTICLE VI
continued

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

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

The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A. except (a) as to Article VII.D.1. (Option No. 2), if selected, or (b) as to the reworking, deepening and plugging back of such initial well after it has been drilled to the depth specified in Article VI.A. if it shall thereafter prove to be a dry hole or, if initially completed for production, ceases to produce in paying quantities.

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

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

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

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

In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays; provided, however, any party may request and receive up to eight (8) additional days after expiration of the forty-eight (48) hours within which to respond by paying for all stand-by time incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, stand-by costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties. In all other instances the response period to a proposal for sidetracking shall be limited to thirty (30) days.

C. TAKING PRODUCTION IN KIND:

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

ARTICLE VI
continued

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

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

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

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

D. Access to Contract Area and Information:

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

E. Abandonment of Wells:

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

2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of ~~all~~ such parties owning a current interest in such well / If ~~all~~ such parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of ~~all~~ such the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment of any well, ~~all~~ such parties do not agree to the abandonment of such well, those wishing to continue its operation from the interval(s) of the formation(s) then open to production shall tender to each of the other parties owning an interest in such well /its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or intervals of the formation or formations then open to production, for a term of one (1) year and so long thereafter as oil and/or gas is produced from the interval or intervals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit

ARTICLE VI
continued

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

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

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

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

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

B. Liens and Payment Defaults:

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

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

C. Payments and Accounting:

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

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

D. Limitation of Expenditures:

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

ARTICLE VII
continued

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

☒ Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its authorized depth, and all tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight (48) hours after receipt of such notice and all logs ~~(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. Consent to the reworking or plugging back of a well shall include all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage and/or surface facilities.

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

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

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

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

F. Taxes:

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

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

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

*including excise and crude oil Windfall Profit taxes

ARTICLE VII
continued

G. Insurance:

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

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

ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

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

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

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

B. Renewal or Extension of Leases:

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

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

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

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

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

C. Acreage or Cash Contributions:

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

ARTICLE VIII
continued

said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the extent possible, be governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any acreage or cash contributions it may obtain in support of any well or any other operation on the Contract Area. The above provisions shall also be applicable to optional rights to earn acreage outside the Contract Area which are in support of a well drilled inside the Contract Area.

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

D. Maintenance of Uniform Interest:

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

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

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

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

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

E. Waiver of Rights to Partition:

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

~~F. Preferential Right to Purchase:~~

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

~~ARTICLE IX.~~

~~INTERNAL REVENUE CODE ELECTION~~

See Exhibit "G" attached hereto

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

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed *Twenty Thousand and no/100* Dollars ($ 20,000.00*) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI.
FORCE MAJEURE

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

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

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

ARTICLE XII.
NOTICES

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

ARTICLE XIII.
TERM OF AGREEMENT

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

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

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

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

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

C. Regulatory Agencies:

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

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

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

ARTICLE XV.
OTHER PROVISIONS

See Article XV. attached hereto and made a part hereof.

ARTICLE XV

OTHER PROVISIONS

A. FARMOUT PROVISIONS PERTAINING TO THE LEASEHOLD INTEREST OWNED BY POGO PRODUCING COMPANY, ET AL.

A.1 Notwithstanding any provisions contained herein to the contrary, Pogo Producing Company, Texas Gas Exploration Corporation, Primary Fuels, Inc., PaineWebber/Geodyne Energy Income Production Partnership I-C, an Oklahoma general partnership, and Heathary Resources, Inc., (hereinafter referred to separately as "Farmoutor" and collectively as "Farmoutors") hereby agree to farmout their leasehold interest in the Contract Area to Santa Fe Energy Operating Partners, L.P. (81.817%) (hereinafter referred to as "Santa Fe"), and Florida Exploration Company (18.183%) (hereinafter referred to as "Florida", and collectively as "Farmees") for the drilling of the Initial Well as provided for herein. In consideration of the performance of all the terms and provisions of this Agreement, and the drilling of the Initial Well to its objective depth as set out in Article VI.A., Santa Fe and Florida shall be entitled to 100% of all oil and/or gas and associated hydrocarbons produced from the Initial Well attributable to Farmoutors' leasehold interest in the Contract Area, subject to the overriding royalty and optional reversionary working interest reserved by Farmoutors as provided hereinbelow. Santa Fe agrees to drill and complete said well free of any cost or liability to Farmoutors, whether same is completed as a well capable of producing oil and/or gas in paying quantities, or plugged and abandoned as a dry hole.

A.2 If the Initial Well described above should fail to reach the depth necessary to satisfy the requirements hereof either because of mechanical difficulties or because the well encounters excessive waterflow, loss of circulation, excessive pressures, cavities, caprock, salt or salt dome material, heaving shale or other practically impenetrable conditions which would, in the opinion of a prudent operator, render further drilling impracticable, then Farmees may, at their election, commence actual drilling of a substitute well at approximately the same location if mechanical difficulties are responsible or at a legal location of Farmees' choice in the Contract Area if formation conditions are responsible with the same objective within thirty (30) days after abandonment of said well and thereupon the substitute well shall be considered and treated for all purposes as though the same were the well for which it is a substitute.

A.3 By drilling the Initial Well (or substitute well) to its objective depth and upon the completion of said well as either a well capable of producing oil and/or gas in paying quantities; or plugged and abandoned as a dry hole, each Farmoutor will deliver to Santa Fe and Florida an assignment of operating rights covering 100% of each Farmoutor's right, title and interest in and to that portion of each Farmoutor's leasehold which is allocated to said well for proration unit purposes (subject to Farmoutors' overriding royalty reserved hereinbelow) and 75% of each Farmoutor's right, title and interest in and to the remainder of each Farmoutor's leasehold interest in the Contract Area which is not allocated to said well for proration unit purposes. Said assignment shall be limited in depth from the surface of the earth down to 100 feet below the total depth drilled in the Initial Well (or substitute well). Farmoutors do not warrant title to their leasehold committed herein and in this connection, if Santa Fe and Florida earn assignments pursuant to the terms hereof, the assignments shall be without recourse or warranty of title, express or implied.

A.4 Santa Fe and Florida shall assume and pay all existing royalties, overriding royalties, production payments and any other burdens applicable to the interests in the initial well and the acreage allocated thereto attributable to the interest in production acquired by Santa Fe and Florida from farmoutors. Each farmoutor hereby reserves an overriding royalty equal to one-sixteenth of eight-eighths (1/16th of 8/8ths), which at each Farmoutor's option may be taken in kind, of all production of oil, gas and other hydrocarbons produced from the initial well, which shall be free of all cost of development and operations and free of all taxes except applicable gross production, Windfall Profit taxes and severance taxes. No reduction in overriding royalties shall be made due to any reservation or limitation as to depths to be assigned; however, said overriding royalty shall be decreased

proportionately on a surface acreage basis to each Farmoutor's original interest within the Contract Area. At payout (as defined in Article A.12) of the initial well, each farmoutor shall have the option to convert the retained overriding royalty to a 25% working interest. Said working interest will be based on 25% of the interest owned by each respective farmoutor prior to entering into this Agreement. In addition, said overriding royalty interest reserved by each Farmoutor shall be the total overriding royalty for which Santa Fe and Florida shall be obligated to pay on each of such Farmoutor's interest, and shall include all existing overriding royalties and obligations payable out of production from such lands. At payout of the Initial Well, each working interest owner shall assume and bear their proportionate share of all royalties and other burdens that were in existence on the date of this Agreement in accordance with Article III.D. of this Operating Agreement. All subsequently created interest (as defined in Article III.D.) shall be borne solely by the party who created same.

A.5 While Farmoutors' leasehold is committed to this Agreement and after assignment thereof, if an assignment is earned, Santa Fe shall make rental and shut-in gas well payments at the times and in the amounts which, in Santa Fe's opinion, are necessary to maintain said acreage in force; however, Santa Fe shall not be held liable in damages for the loss of the subject lease or any interest therein or any part thereof if through mistake or oversight any rental or shut-in well payment is not paid or is erroneously or untimely paid. Furthermore, until an assignment of interest is earned under the terms of this Farmout Agreement, Santa Fe will not be entitled to a reimbursement from Farmoutors for any such payments. However, Santa Fe shall be entitled to a reimbursement from each Farmoutor for such Farmoutor's proportionate part of any such payment made after an assignment or assignments are earned under terms of this Farmout Agreement.

A.6 It is understood and agreed that Santa Fe and Florida shall assume all of the burdens and obligations of the leasehold interest being committed to this Agreement by Farmoutors and Santa Fe and Florida shall comply with all of the expressed and implied covenants of such lease to the extent that they are applicable to the lands and depths committed. Without limiting the foregoing, Santa Fe and Florida further agrees to comply with all laws and regulations pertaining to the plugging and abandonment of all wells drilled on the subleased premises and in this connection, the Operator herein shall carry and maintain all plugging and improvement damage bonds as may be required by the State and Federal Authorities.

A.7 During the drilling of the Initial Well provided for in Article VI. hereof, Farmoutors' authorized representatives at their sole risk and expense are to have access at all times to each well and to all cores, cuttings, logs and other information of whatever nature obtained during the drilling of such well. In addition, each Farmoutor is to be furnished daily reports and other pertinent well information and data as may reasonably be specified by such Farmoutor.

A.8 With respect to all operations conducted on the Initial Well, Santa Fe agrees to defend, indemnify and hold Farmoutors harmless against any expense, claim or cause of action brought by any third party including but not limited to any governmental agency arising out of said operations unless the condition resulting in said expense, claim or cause of action is due to the sole negligence of any Farmoutor.

A.9 With respect to all wells drilled subsequent to the Initial Well (or Substitute Well) under this Operating Agreement, each party hereto shall be obligated to either participate with its respective working interest or go non-consent under the terms of Article VI.B. of this Operating Agreement.

A.10 In the event the initial well provided for in Article VI.A. hereof or a substitute well therefor, if necessary, is not timely commenced or drilled, Santa Fe's and Florida's only penalty therefor shall be the failure to earn the acreage and rights from Farmoutors as specified in this Article XV.A.

A.11 It is understood and agreed that if there is a conflict with the terms and provisions of Article XV.A. and the remainder of this Operating Agreement then the terms and provisions of Article XV.A. shall take precedence.

A.12 "Payout", with respect to the initial Test Well, shall mean that point at which Farmee has recovered from the net proceeds from the sale of production from said well, Farmee's share of the cost of drilling, testing, completing and equipping said well for the taking of production (including installation of all necessary surface equipment). "Net Proceeds", for the purpose of this definition, shall mean gross proceeds from the sale of production less royalty, overriding royalties and other lease burdens (including the overriding royalty retained by Farmoutor) in effect on the date of this Agreement and less severance taxes, gross production taxes and other similar taxes, Windfall Profit Taxes and operating costs.

A.13 Promptly after payout of the Initial Test Well, Farmee shall give each Farmoutor written notice of same by Certified Mail. Each Farmoutor shall have thirty (30) days after receipt of such notice to elect to either retain its reserved overriding royalty or relinquish said overriding royalty and receive an assignment of an undivided twenty-five percent (25%) interest in and to all operating rights theretofore assigned to Santa Fe and Florida by each Farmoutor insofar only as the same covers and applies to the Initial Well and the acreage allocated thereto for proration purposes together with its proportionate share of an undivided twenty-five percent (25%) interest in the materials, equipment and personal property used or obtained in connection therewith. Any failure to elect within said time period shall be deemed an election not to convert. In the event of such a conversion, the reversion of the working interest shall be automatic and shall be effective as of 7:00 a.m. on the first day of the month following the date of payout. Every three months during the payout period, Santa Fe shall furnish each Farmoutor with a statement reflecting the charges and credits to the payout account.

B. PROVISION REGARDING PURCHASE AND SALE AGREEMENT REFERRED TO IN ASSIGNMENTS DATED DECEMBER 21, 1984, FROM ACF PETROLEUM COMPANY, INC. TO PRIMARY FUELS, INC. AND PW PRODUCTION, INC.

Primary Fuels, Inc., Heathary Resources, Inc., and PaineWebber/Geodyne Energy Income Production Partnership I-C (hereinafter collectively referred to as "said parties" in this Article XV.B.) each own an interest in the record title of the Federal Lease committed hereto by virtue of being successors in title to ACF Petroleum Company, Inc., ACF Petroleum Company, Inc., conveyed all of its right, title and interest in the Federal Lease committed hereto by two instruments entitled Assignment, Bill of Sale and Conveyance, the first from ACF Petroleum Company Inc. to PW Production, Inc., and the second from ACF Petroleum Company, Inc. to Primary Fuels, Inc., both of which are dated December 21, 1984, effective November 1, 1984, recorded in Book 244, Pages 538 and 557, respectively, of the Eddy County miscellaneous Records. Said assignments contained, among other provisions, a provision stating that said assignments were being made subject to a Purchase and Sale Agreement among the parties to said assignments dated effective November 1, 1984.

By execution of this Operating Agreement said parties hereby state that nothing contained in the Purchase and Sale Agreement precludes said parties from farming out their interest to Santa Fe and Florida as specified under Article XV.A herein. Said parties further represent that nothing contained in the Purchase and Sale Agreement requires said parties to obtain the consent or joinder of ACF Petroleum Company, Inc. to this Operating Agreement.

C. PROVISION REGARDING CONSULTING CONTRACT REFERRED TO IN ASSIGNMENT DATED EFFECTIVE NOVEMBER 2, 1984, FROM PRIMARY FUELS, INC. TO HEATHARY RESOURCES, INC.

Heathary Resources, Inc. (hereinafter referred to as "Heathary") owns an interest in the record title of the Federal Lease committed hereto. Heathary acquired said interest from Primary Fuels, Inc. (hereinafter referred to as "Primary") by that certain Assignment dated effective November 2, 1984, which is recorded in Volume 250, Page 1083 of the Miscellaneous Records of Eddy County, New Mexico. Said Assignment contained among other provisions, a provision stating that said Assignment was being granted subject to that certain unrecorded Consulting Contract dated December 29, 1982, by and between Primary Fuels, Inc., and Mr. Don Wiese, which is stated to include among other things, a right of Primary Fuels, Inc. or its successor to repurchase the assigned interest.

For purposes of confidentiality, Primary and Heathary have refused to allow third parties to review said Consulting Contract. Therefore, by the execution of this Operating Agreement, Primary and Heathary hereby state that nothing contained in the Consulting Contract precludes Heathary from farming out its interest to Santa Fe and Florida as specified under Article XV.A. In addition, should Primary reacquire under the Consulting Contract, any interest in which Santa Fe and Florida may have earned an interest or a right by virtue of its performance under this Agreement, such reacquisition of said interest shall be made expressly subject to this Agreement, and the elections made by the party(ies) owning such interest prior to the reacquisition thereof by Primary.

D. REWORKING OPERATIONS

Notwithstanding any language set out in Article VI(B) to the contrary, each non-consenting party to a reworking operation on a well conducted pursuant to Article VI(B) shall, upon commencement of such operations, be deemed to have relinquished to consenting parties, and the consenting parties shall own and be entitled to receive, in proportion to their respective interests, all of such non-consenting party's interest in the well, its leasehold operating rights and share of production therefrom, only insofar as the interval or intervals of the formation or formations which are being reworked and to which such non-consenting party does not desire to join in the reworking thereof, until the proceeds or market value thereof (after deducting production taxes, windfall profits taxes, royalty, overriding royalty and other interests payable out of, or measured by the production from such well, only insofar as the production secured from the interval or intervals of the formation or formations which are subject to said reworking operations accruing with respect to such interest until it reverts) shall equal the total of those certain costs as further described in subparagraphs (a) and (b) of the third grammatical paragraph under Article VI(B) 2, hereof.

E. NONDISCRIMINATION

In connection with the performance of work under this agreement, the Operator agrees to comply with all of the provisions of Section 202 (1) to (7) inclusive, of Executive Order 11246 (30 F. R. 12319), which are hereby incorporated by reference in this agreement, and of all provisions of said Executive Order 11246 and all rules, regulations and relevant orders of the Secretary of Labor.

F. COVENANTS RUN WITH THE LAND

The terms, provisions, covenants and conditions of this agreement shall be deemed to be covenants running with the lands, the lease or leases and leasehold estates covered hereby, and all of the terms, provisions, covenants and conditions of this agreement shall be binding upon and inure to the benefit of the parties hereto, their respective heirs, executors, administrators, personal representatives and assigns.

G. LAWS AND REGULATIONS

All of the provisions of this agreement are expressly subject to all applicable laws, orders, rules and regulations of any governmental body or agency having jurisdiction in the premises, and all operations contemplated hereby shall be conducted in conformity therewith. Any provision of this agreement which is inconsistent with any such laws, orders, rules or regulations is hereby modified so as to conform therewith, and this agreement, as so modified, shall continue in full force and effect.

H. PRIORITY OF OPERATIONS

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

1. Proposals to do additional testing, coring or logging.
2. Proposals to attempt a completion in the objective zone.

3. Proposals to plug back and attempt completions in shallower zones, in ascending order.
4. Proposals to side-track the well to reach any zone not below the original authorized objective.
5. Proposals to deepen the well, in descending order.

I. REGULATORY PROVISIONS

1. Gaseous Hydrocarbons:

Non-Operators hereby authorize Operator to file and prosecute all applications for determination for well pricing qualification under the Natural Gas Policy Act of 1978 and to make interim collection filings on behalf of Non-Operators. Operator may employ counsel and technical experts to the extent Operator in its sole discretion considers appropriate for such filings and seeking favorable resolutions thereof. Costs incurred by Operator for such counsel and experts together with all other costs incurred by Operator in preparing the application for determination and interim collection documents as well as the cost of prosecuting the application shall be charged to the Joint Account.

2. Liquid Hydrocarbons:

Non-Operators hereby authorize Operator to file with the purchaser of crude oil or other liquid hydrocarbons or with any other person required by law, any statement or certification required by the Crude Oil Windfall Profit Tax Act, the Emergency Petroleum Allocation Act of 1973, the Energy Policy and Conservation Act or by any rule, regulation or order issued thereunder or by any other law, rule, or regulation relating to the pricing of crude oil and other liquid hydrocarbons or the taxation thereof. To the extent that Operator may by law be authorized to do so, Non-Operators hereby authorize Operator to agree with any purchaser to relieve Operator (in whole or in part as Operator may determine) of any filing or certification requirements. In making any filing or certification with any purchaser or crude oil or other liquid hydrocarbons, each Non-Operator shall be solely responsible for furnishing to Operator or such purchaser or any other person required by law any exemption certificate, independent producer certificate or any other evidence required by law to entitle Non-Operator to a higher price for the sale of his production or for a lower rate of windfall profit or other excise tax thereon, and upon a Non-Operator's failure to furnish the same, Operator shall certify to such purchaser for such Non-Operator's interest the lower price and/or higher rate of tax. Operator shall have no duty to seek any refunds on behalf of any Non-Operator of any overpayment of any windfall profit or excise tax to which any Non-Operator may be entitled by law.

3. Refunds:

In the event any Non-Operator receives a greater sum for the sale of its share of production than that to which such Non-Operator is entitled, such Non-Operator shall promptly refund any excess sums so collected to the person entitled thereto together with any interest thereon required by law. In the event Operator is required for any reason to make any such refund on any Non-Operator's behalf and such Non-Operator refuses upon Operator's request to reimburse Operator for the amount so paid, then Operator, in addition to any other rights or remedies which it may have as a result of making such refund, (i) shall have the lien provided by Article VII.B. to secure such reimbursement and (ii) shall be authorized to collect from Non-Operator's purchaser of production all revenues attributable to Non-Operator's share of production until the full amount required to be paid or refunded by Non-Operator has been recovered.

4. Operator's Liability:

Operator shall use its best judgment in making any of the filings and certifications referred to under Paragraph 1 and 2 above in prosecuting any filings and applications. However, in no event shall Operator have any liability to any Non-Operator in making and prosecuting any such filing or in rendering any statement or certification, absent bad faith, gross negligence or willful misconduct. Any penalties incurred as a result of any incorrect certification, statement or filing shall, in absence of bad faith, gross

negligence or willful misconduct, be charged to the parties owning the production to which the penalty pertains. In no event shall any error by Operator relieve any Non-Operator of the liability for any refund under Paragraph 3 above.

J. OPERATOR PROTECTION

1. Assignment:

No assignment or other transfer or disposition of an interest subject to this Agreement shall be effective as to Operator or the other parties hereto until the first day of the month following the month in which (i) Operator receives an authenticated copy of the instrument evidencing such assignment, transfer or disposition and (ii) the person receiving such assignment, transfer or disposition has become obligated by instrument satisfactory to Operator to observe, perform and be bound by all of the covenants, terms and conditions of this Agreement. Prior to such date, neither Operator nor any other party shall be required to recognize such assignment, transfer or disposition for any purpose but may continue to deal exclusively with the party making such assignment, transfer, or disposition in all matters under this Agreement including billings. No assignment or other transfer or disposition of an interest subject to this Agreement shall relieve a party of its obligations accrued prior to the effective date aforesaid. Further, no assignment, transfer or other disposition shall relieve any party of its liability for its share of costs and expenses which may be incurred in any operation to which such party has previously agreed or consented prior to the effective date aforesaid for the drilling, testing, completing and equipping, reworking, recompleting, side-tracking, deepening, plugging-back, or plugging and abandoning of a well even though such operation is performed after said effective date, subject however to such party's right to elect not to participate in completion operations under Article VI.B. and Article VII.D., Option No. 2., not previously consented to.

2. Attorneys Fees:

In the event any party hereto shall ever be required to bring legal proceedings in order to collect any sums due from any party under this Agreement, then party or parties shall also be entitled to recover all court costs, costs of collection and a reasonable attorney's fee, which the lien provided for herein shall also secure.

K. PERPETUITIES

It is not the intent of the parties that any provision herein violate any applicable law regarding the rule against perpetuities, the suspension of the absolute power of alienation or other rule regarding the vesting or duration of estates, and this agreement shall be construed as not violating such rule to the extent the same can be so construed consistent with the intent of the parties. In the event, however, any provision hereof is determined to violate such rule, then such provision shall nevertheless be effective for the maximum period (but not longer than the maximum period) permitted by such rule which will result in no violation.

L. NO THIRD-PARTY BENEFICIARY CONTRACT

This Agreement is made solely for the benefit of those persons who are parties hereto (including those persons succeeding to all or part of the interest of an original party if such succession is recognized under the other provisions hereof), and no other person shall have or claim or be entitled to enforce any rights, benefits or obligations under this Agreement.

M. OPERATOR'S REORGANIZATION AND STATUS CHANGE

1. Notwithstanding, the second sentence of Article V.B.1, in the event of a transfer of all Operator's interest to a corporation which controls, is controlled by or is under common control with Operator or in the event of a transfer of all Operator's interest to any person as a part of the transfer to such person of all or substantially all of Operator's oil and gas properties, such transferee shall become the successor Operator with the approval of Non-Operators.

2. For the purposes of Article V.B., Operator shall be considered to own an interest in the Contract Area if it is a general partner of a limited partnership which owns an interest in the Contract Area or if it owns a carried or reversionary working interest in the Contract Area.

N. OVERHEAD RATE ADJUSTMENT PROVISIONS

In the event the drilling well rates or the producing well rates provided for in Section III.1.A.(3) of the Accounting Procedure shall ever be less than the prevailing rates being charged by financially responsible prudent operators in the area for comparable operations, then Operator may give written notice of such higher prevailing rates to Non-Operators. The higher prevailing rates specified in said notice shall become the effective rates hereunder as of the first day of the month following thirty (30) days from the giving of said notice unless a Non-Operator by written notice to Operator within said thirty-day period shall do either of the following:

(a) Object to the proposed rates on the basis the same does not represent the prevailing rate as aforesaid. In such event, the parties shall attempt to agree upon such prevailing rates, failing which such rates shall be determined in the manner provided by Section III.A.(3) of Exhibit "C", Accounting Procedures.

(b) Propose to operate for a lesser rate (which shall never be less than the rate then in effect under the Agreement) than that proposed by Operator's notice. In this event Non-Operator shall take over operations as of the beginning of the month following said thirty-day period unless the existing Operator shall agree to operate at such lesser rate.

Any new rates established pursuant to this provision shall be subject to adjustment in the manner provided by Section III.1.A.(3) of the Accounting Procedure, but otherwise the procedure set out in these provisions shall not be exercised on a greater frequency than once each twelve months.

O. BANKRUPTCY

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

ARTICLE XVI.
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of 16th day of June, 1986.

OPERATOR

For Santa Fe Energy Operating Partners, L.P.

By Santa Fe Pacific Exploration Company
as Managing General Partner

By: O.B. Bennett

O.B. Bennett, Vice-President

APPROVED

NON-OPERATORS

Pogo Producing Company

By: _____

Title:

Texas Gas Exploration Corporation

By: L. E. Baker

Title: L. E. Baker, Vice President

Florida Exploration Company

By: _____

Title:

Primary Fuels, Inc.

By: _____

Title:

PaineWebber/Geodyne Energy Income
Production Partnership I-C

By: _____

Title:

Heathary Resources, Inc.

By: _____

Title:

ARTICLE XVI.
MISCELLANEOUS

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

IN WITNESS WHEREOF, this agreement shall be effective as of 16th day of June, 1986.

OPERATOR

For Santa Fe Energy Operating Partners, L.

By Santa Fe Pacific Exploration Company
as Managing General Partner

By: _____

O.B. Bennett, Vice-President

APPROVED

NON-OPERATORS

Pogo Producing Company

By: _____
Title:

Texas Gas Exploration Corporation

By: _____
Title:

Florida Exploration Company

By: _____
Title: R. W. Usrey, Vice President

Primary Fuels, Inc.

By: _____
Title:

PaineWebber/Geodyne Energy Income
Production Partnership I-C

By: _____
Title:

Heathary Resources, Inc.

By: _____
Title:

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MISCELLANEOUS

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

IN WITNESS WHEREOF, this agreement shall be effective as of 16th day of June, 1986.

OPERATOR

For Santa Fe Energy Operating Partners, L

By Santa Fe Pacific Exploration Company
as Managing General Partner

By: _____
J. L. Bridwell, Senior Vice President

NON-OPERATORS

Pogo Producing Company

By: _____
Title:

Texas Gas Exploration Corporation

By: _____
Title:

Florida Exploration Company

By: _____
Title:

Primary Fuels, Inc.

By: Kenneth W. Harbin
Kenneth W. Harbin, Attorney-in-Fact

PaineWebber/Geodyne Energy Income
Production Partnership I-C

By: _____
Title:

Heathary Resources, Inc.

By: _____
Title:

ARTICLE XVI.
MISCELLANEOUS

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

IN WITNESS WHEREOF, this agreement shall be effective as of 16th day of June, 1986.

OPERATOR

For Santa Fe Energy Operating Partners, L.P

By Santa Fe Pacific Exploration Company
as Managing General Partner

By: _____

O.B. Bennett, Vice-President

APPROVED

NON-OPERATORS

Pogo Producing Company

By: _____
Title:

Texas Gas Exploration Corporation

By: _____
Title:

Florida Exploration Company

By: _____
Title:

Primary Fuels, Inc.

By: _____
Title:

PaineWebber/Geodyne Energy Income
Production Partnership I-C

By: _____
Title:

Heathary Resources, Inc.

By: _____
Title: Don Wiese, President

ARTICLE XVI.
MISCELLANEOUS

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

IN WITNESS WHEREOF, this agreement shall be effective as of 16th day of June, 1986.

OPERATOR

For Santa Fe Energy Operating Partners, L.

By Santa Fe Pacific Exploration Company
as Managing General Partner

By: _____

O.B. Bennett, Vice-President

APPROVED

NON-OPERATORS

Pogo Producing Company

By: _____
Title:

Texas Gas Exploration Corporation

By: _____
Title:

Florida Exploration Company

By: _____
Title:

Primary Fuels, Inc.

By: _____
Title:

PaineWebber/Geodyne Energy Income
Production Partnership D-C

By: _____
Robert L. Clemons, Vice President
Geodyne Production Company
Managing General Partner

Heathary Resources, Inc.

By: _____
Title:

ARTICLE XVI.
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of 16th day of June, 1986.

OPERATOR

For Santa Fe Energy Operating Partners, L.

By Santa Fe Pacific Exploration Company
as Managing General Partner

_____ By: _____
J. L. Bridwell, Senior Vice President

NON-OPERATORS

Pogo Producing Company

_____ By: R T Carleton VP
Title: A. T. Carleton
Vice President

Texas Gas Exploration Corporation

_____ By: _____
Title:

Florida Exploration Company

By: _____
Title:

Primary Fuels, Inc.

By: _____
Title:

PaineWebber/Geodyne Energy Income
Production Partnership I-C

By: _____
Title:

Heathary Resources, Inc.

By: _____
Title:

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MISCELLANEOUS

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

IN WITNESS WHEREOF, this agreement shall be effective as of 16th day of June, 1986.

OPERATOR

For Santa Fe Energy Operating Partners, L.

By Santa Fe Pacific Exploration Company
as Managing General Partner

By: _____

O.B. Bennett, Vice-President

APPROVED

NON-OPERATORS

Pogo Producing Company

By: _____

Title:

Texas Gas Exploration Corporation

By: _____

Title:

Florida Exploration Company

By: _____

Title:

Primary Fuels, Inc.

By: _____

Title:

PaineWebber/Geodyne Energy Income
Production Partnership I-C

By: _____

Title:

Heathary Resources, Inc.

By: _____

Title:

APPROVED
LAND
LEGAL
LAND REC.

CNG Producing Company

By: _____

J. L. Pickerill, Agent and
Attorney-in-Fact

Signature page to that Operating Agreement dated June 16, 1986 covering all of Section 33, T-23-S, R-31-E, N.M.P.M., Eddy County, New Mexico.

Temporary
EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated June 16, 1986, by and between Santa Fe Energy Operating Partners, L.P., as Operator and Pogo Producing Company, et al. as Non-Operators.

I. Contract Area:

640 acres, more or less, being all of Section 33, T-23-S, R-31-E, N.M.P.M., Eddy County, New Mexico.

II. Depth Restrictions:

This Contract Area covers all depths, from the surface of the earth down to 100' below total depth drilled in the Initial Test Well.

III. Working Interest of Parties to this Agreement:

Working Interest Owners	Working Interest BPO	Working Interest APO*
Santa Fe Energy Operating Partners, L.P.	40.9085%	35.36879%
CNG Producing Company	40.9085%	35.36879%
Florida Exploration Company	18.183%	15.72075%
Pogo Producing Company	-0-	9.37500%
Texas Gas Exploration Corporation	-0-	2.08335%
Primary Fuels, Inc.	-0-	1.54688%
Paine Webber/Geodyne Income Production Partnership I-C	-0-	0.52082%
Heathary Resources, Inc.	-0-	0.01562%
	100.000%	100.00000%

*After payout of initial test well/substitute well assuming all parties convert the retained overriding royalty.

*Working interest in all subsequent wells in contract area, subject to the terms of the Operating Agreement.

IV. Description of Lease:

Lease No.:	Federal Oil & Gas Lease NM-45236
Effective Date of Lease:	August 1, 1981
Lessor:	United States of America
Original Lessee:	Coquina Oil Corp. (37.50%) Pogo Producing Company (37.50%) Florida Exploration Company (8.3334%) ACF Petroleum Company, Inc. (8.3333%) Chessie Exploration, Inc. (8.3333%)
Description of Land Committed:	All of Section 33, T-23-S, R-31-E Eddy County, New Mexico containing 640.00 acres, more or less.

V. Addresses of the Parties:

Santa Fe Energy Operating Partners, L.P.
500 West Illinois, Suite 500
Midland, Texas 79701

Pogo Producing Company
P.O. Box 10340
Midland, Texas 79702-7340

Texas Gas Exploration Corporation
P.O. Box 4326
Houston, Texas 77210-4326

Florida Exploration Company
P.O. Box 2267
Midland, Texas 79702

Primary Fuels, Inc.
P.O. Box 569
Houston, Texas 77001

PaineWebber/Geodyne Energy Income Production Partnership I-C
320 S. Boston Ave., The Mezzanine
Tulsa, Oklahoma 74103-3708

Heathary Resources, Inc.
P.O. Box 569
Houston, Texas 77001

CNG Producing Company
705 Elgin
Tulsa, Oklahoma 74101

sbh645

EXHIBIT "B"

Attached to and made a part of that certain Operating Agreement dated June 16, 1986, by and between Santa Fe Energy Operating Partners, L.P., as Operator, and Pogo Producing Company, et al., as Non-Operator.

"OMITTED"

601, BOX 800
TULSA OK 74101

COPAS - 1984 - ONSHORE
Recommended by the Council of Petroleum Accountants Societies
COPAS

EXHIBIT " C "

Attached to and made a part of that certain Operating Agreement dated June 16, 1986, by and between Santa Fe Energy Operating Partners, L.P., as Operator, and Pogo Producing Company, et al., as Non-Operators.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation within ~~fifteen (15)~~ thirty (30) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

B. Each Non-Operator shall pay its proportion of all bills within ~~fifteen (15)~~ thirty (30) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Chase Manhattan Bank on the first day of the month in which delinquency occurs plus 2% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

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

5. Audits

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

B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

6. Approval By Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Ecological and Environmental

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

2. Rentals and Royalties

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

3. Labor

A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.

(2) Salaries of First Level Supervisors in the field.

(3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the overhead rates.

(4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from the overhead rates.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II. Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.

4. Employee Benefits

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

5. Material

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

6. Transportation

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

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

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

C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the actual charge is $400 or less excluding accessorial charges. The $400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

7. Services

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

8. Equipment and Facilities Furnished By Operator

A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed twelve percent (12 %) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

B. In lieu of charges in paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

9. Damages and Losses to Joint Property

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

10. Legal Expense

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

11. Taxes

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

12. Insurance

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

13. Abandonment and Reclamation

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

14. Communications

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

15. Other Expenditures

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

III. OVERHEAD

1. **Overhead - Drilling and Producing Operations**

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

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

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

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

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

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

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

   A. Overhead - Fixed Rate Basis

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

   Drilling Well Rate $ 6,160.00
   (Prorated for less than a full month)

   Producing Well Rate $ 616.00

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

   (a) Drilling Well Rate

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

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

   (b) Producing Well Rates

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

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

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

   (4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.

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

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

   B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

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

2. Overhead - Major Construction

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

A. 5 % of first $100,000 or total cost if less, plus

B. 2 % of costs in excess of $100,000 but less than $1,000,000, plus

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

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

3. Catastrophe Overhead

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

A. 5 % of total costs through $100,000; plus

B. 2 % of total costs in excess of $100,000 but less than $1,000,000; plus

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

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

4. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

(a) Tubular goods, sized 2⅜ inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.

(b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate truck rate shall be used.

(c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.

(d) Macaroni tubing (size less than 2⅜ inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

(2) Line Pipe

(a) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.

(b) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.

(c) Line pipe 24 inch OD and over and ¾ inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.

(d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.

(4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2 A (1) and (2).

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

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

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

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

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

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

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

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

C. Other Used Material

(1) Condition C

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

(2) Condition D

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

(a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.

(b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

(3) Condition E

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

D. Obsolete Material

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

E. Pricing Conditions

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

(2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. **Premium Prices**

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

4. **Warranty of Material Furnished By Operator**

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. **Periodic Inventories, Notice and Representation**

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

2. **Reconciliation and Adjustment of Inventories**

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

3. **Special Inventories**

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

4. **Expense of Conducting Inventories**

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

B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

Attached to and made a part of that certain Operating Agreement dated June 16, 1986, by and between Santa Fe Energy Operating Partners, L.P., as Operator, and Pogo Producing Company, et al., as Non-Operators.

EXHIBIT "D"

INSURANCE

Operator shall at all times during the terms of this Agreement or an extension thereof, and at all times relative thereto, carry insurance to protect the parties hereto as follows:

(a) Statutory Workmen's Compensation Insurance as may be required in the state or states where work under this agreement, or activities relative thereto, will be performed, plus Workmen's Compensation Insurance as may be required by Federal Law, if applicable, plus Employers Liability Insurance.

(b) Public Liability Insurance with bodily injury limits of not less than $100,000 for death or injury to one person, and not less than $300,000 for death or injury to more than one person in any one accident; and Public Liability property damage liability insurance with a limit of not less than $100,000 for any one accident for loss of or destruction of, or damage to property. Said public liability insurance shall include Contractural Liability coverage and shall include Products Liability and Completed Operations coverage.

(c) Automobile Liability Insurance with bodily injury policy limits of not less than $100,000 for death or injury to one person, or not less than $300,000 for death or injury to more than one person in any one accident and property damage liability insurance with a limit of not less than $100,000 for any one accident, for loss of or destruction of or damage to property.

EXHIBIT "E"

Attached To and Made a Part of that Certain Operating Agreement Dated June 16, 1986 between Santa Fe Energy Operating Partners, L.P., as Operator, and Pogo Producing Company, et al., as Non-Operators.

GAS STORAGE AND BALANCE AGREEMENT

1. In accordance with the terms of the Operating Agreement, each Party thereto has the right to take its share of gas produced from lands subject to said Operating Agreement and market the same. In the event any of the Parties hereto is not at any time taking or marketing its share of gas or has contracted to sell its share of gas produced to a purchaser which does not at any time while this agreement is in effect take the full share of gas attributable to the interest of such Party, the terms of this Agreement shall automatically become effective.

2. During the period or periods when any Party hereto has no market for all of its share of gas produced or its purchaser does not take its full share of gas produced, the other Parties shall be entitled to produce each month one hundred percent (100%) of the allowable assigned or in the absence of an assigned allowable the maximum production capacity and shall be entitled to take and deliver to its or their purchaser such gas production; however, no party shall be entitled to take or deliver to a gas purchaser gas production in excess of three hundred percent (300%) of its current share of either the volumes capable of being delivered or the allowable gas production if assigned thereto by the New Mexico Oil Conservation Commission unless that party has gas in storage. Any 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, but the Party or Parties taking such gas shall own all of such gas delivered to its or their purchaser.

3. On a cumulative basis, each Party not taking or marketing its full share of the gas produced shall be credited with gas in storage equal to its full share of the gas produced under this Agreement, less its share of gas used in lease operations, vented or lost, and less that portion such Party took or delivered to its purchaser. The Operator (as that term is defined in the Operating Agreement) will maintain a current account of the 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.

4. At all times while gas is produced, each Party hereto will make settlement with the respective royalty owners to whom it is accountable, just as if each Party were taking or delivering to a purchaser its share, and its share only, of such gas production exclusive of gas used in lease operations, vented or lost. Each Party 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 payment and similar interests.

5. After notice to the Operator, any Party which has gas in storage pursuant to the terms hereof at any time may begin taking or delivering to its purchaser its full share of the gas produced less such Party's share of gas used in operations, vented or lost. In addition to such share, each Party, including the Operator, until it has recovered its gas in storage and balanced the gas account as to its interest, shall be entitled to take or deliver to its purchaser a share of gas determined by multiplying 50% of the interest in the current gas production of the Party or Parties without gas in storage by a fraction, the numerator of which is the interest of such Party with gas in storage and the denominator of which is the total percentage interest of all Parties with gas in storage currently taking or delivering to a purchaser.

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

7. 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 gas production to meet the deliverability tests required by its purchaser.

8. Should production of gas be permanently discontinued before the gas account is balanced, settlement will be made within 60 days 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 prices over the term of delivery for a volume of gas equal to that for which settlement is

made. The price basis shall be the rate actually collected, from time to time, which is not subject to possible refund, as provided by the Federal Energy Regulatory Commission pursuant to final order or settlement applicable to the gas sold, plus any additional collected amount which is not ultimately required by said Commission to be refunded, such additional collected amount to be accounted for at such time as final determination is made with respect thereto. Make-up volume shall be applied to reduce prior deficits in the order of accrual of such deficit.

9. 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.

10. The terms and provisions of this Agreement shall apply separately to each well and/or separate completion in each well. Underproduction of one well or completion shall not be recouped by overproduction of any other well or completion.

EXHIBIT "F"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED June 16, 1986, between Santa Fe Energy Operating Partners, L.P., as Operator, and Pogo Producing Company, et al., as Non-Operators.

Unless exempted by Federal law, regulation or order, the following terms and conditions shall apply during the performance of this contract:

EQUAL OPPORTUNITY CLAUSE

A. During the performance of this contract, the CONTRACTOR agrees as follows:

(1) The Contractor will not discriminate against any employee or applicant for employment because of race, color, religion, sex, or national origin. The Contractor will take affirmative action to ensure that applicants are employed and that employees are treated during employment, without regard to their race, color, religion, sex, or national origin. Such action shall include, but not be limited to the following: Employment, upgrading, demotion, or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of the nondiscrimination clause.

(2) The Contractor will, in all solicitations or advertisements for employees, placed by or on behalf of the Contractor, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex, or national origin.

(3) The Contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Contractor'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 Contractor 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 Contractor will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

(6) In the event of the Contractor's noncompliance with the nondiscrimination clauses of this Agreement or with any of such rules, regulations, or orders, this Agreement may be cancelled, terminated or suspended in whole or in part and the Contractor 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 Contractor 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 to vendor. The Contractor will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for noncompliance: Provided, however, that in the event the Contractor becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Contractor may request the United States to enter into such litigation to protect the interests of the United States.

B. If required to do so by Federal law, regulation, or order, Contractor agrees that he shall:

(1) File with the Office of Federal Contract Compliance or agency designated by it, a complete and accurate report on Standard Form 100(EEO-1) within 30 days after the signing of this Agreement (unless such a report has been filed in the last 12 months), and continue to file such reports annually, on or before March 31st;

(2) Develop and maintain a written affirmative action compliance program for each of its establishments in accordance with the regulations of the Secretary of Labor promulgated under Executive Order 11246, as amended.

CERTIFICATE OF NONSEGREGATED FACILITIES

Contractor certifies that he does not and will not maintain or provide for his employees any segregated facilities at any of his establishments, and that he does not and will not permit his employees to perform their services at any location, under his control, where segregated facilities are maintained. Contractor understands that the phrase "segregated facilities" includes facilities which are in fact segregated on a basis of race, color, creed, or national origin, because of habit, local custom, or otherwise. Contractor understands and agrees that maintaining or providing segregated facilities for his employees or permitting his employees to perform their services at any locations, under his control, where segregated facilities are maintained is a violation of the Equal Opportunity Clause required by Executive Order No. 11246 of September 24, 1965, and the regulations of the Secretary of Labor set out in 41 CFR Chapter 60. Contractor further agrees that (except where it has obtained identical certifications from proposed subcontractors for specific time periods) it will obtain identical certifications from proposed subcontractors prior to the award of subcontracts exceeding $10,000 which are not exempt from the provisions of the Equal Opportunity Clause; that it will retain such certifications in its files, and that it will forward the following notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certifications for specific time periods):

NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NONSEGREGATED FACILITIES: A Certification of Nonsegregated Facilities as required by the May 9, 1967, order on Elimination of Segregated Facilities, by the Secretary of Labor (32 F.R. 7439, May 19, 1967), and as required by the regulations of the Secretary of Labor set out in 41 CFR Chapter 60, and as they may be amended, must be submitted prior to the award of a subcontract exceeding $10,000 which is not exempt from the provisions of the Equal Opportunity Clause. The certification may be submitted either for each subcontract or for all subcontracts during a period (i.e., quarterly, semi-annually or annually).

EXHIBIT "G"

Attached to and made a part of that certain Operating Agreement between Santa Fe Energy Operating Partners, as Operator and Pogo Producing Company, et al, as Non-Operator.

PROVISIONS CONCERNING TAXATION

1. Relationship of the Parties. Neither this Exhibit nor the agreement to which it is attached (the "Agreement") is intended to create, nor shall the same be construed as creating, any mining partnership, commercial partnership or other partnership relation or joint venture. Rather, it is the intent and purpose of the Agreement and this Exhibit to create a relationship (the "Joint Operation") which is limited to the development and the extraction and processing of oil and gas for division in kind or for sale for the accounts of the several parties individually, and in which the liabilities of each of the parties hereto shall be several and not joint or collective. Provided, however, solely for United States federal and state income tax reporting purposes as provided in Paragraph 2 hereinbelow, the relationship created by this Exhibit and the Agreement shall be considered as a partnership, but such relationship shall not be a partnership to any other extent or for any other purpose.

2. Election With Respect to Subchapter K. Notwithstanding anything to the contrary herein or in the Agreement, each party hereto agrees, with respect to all operations conducted hereunder, (i) not to elect to be excluded from the application of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954, as amended (the "Code"), and (ii) to join in the execution of such additional documents and elections as may be required by the Internal Revenue Service in order to effectuate the foregoing. In addition, if the income tax laws of any state in which the parties conduct operations pursuant to the terms of this Exhibit and the Agreement contain provisions similar to those contained in Subchapter K of Chapter 1 of Subtitle A of the Code, each party hereby agrees not to elect to exclude all or any part of the operation hereunder from the application of said provisions.

3. Term. The effective date of the Joint Operation conducted pursuant to the Agreement and this Exhibit shall be the effective date of the Agreement, and the Joint Operation shall continue in full force and effect from and after such date until the earlier of (i) such time as the Agreement between the parties is dissolved and terminated pursuant to its terms, or (ii) such time as the parties mutually agree to the dissolution and termination of the Joint Operation. Upon the occurrence of either of such events of dissolution, the provisions of Paragraph 7 hereinbelow shall be applicable.

4. Capital Contributions and Capital Accounts.

(a) The capital contributions of each party to the Joint Operation shall be (i) his or its undivided interest(s) in the oil and gas properties

subject to the Agreement (the "Leases"), and all property associated with the Leases under the Agreement and (ii) all amounts paid by or charged to him or it in connection with the acquisition, exploration, development and operation of the Leases and all other costs paid or charged to him pursuant to the Agreement. The contribution of the Leases and all property associated with the Leases under the Agreement to the Joint Operation shall be made by each party's agreement to hold legal title to its undivided interest in such Leases as nominee for the Joint Operation created hereby, subject, however, to the provisions regarding reassignments contained in Paragraph 7 hereinbelow.

(b) Each party shall have a capital account maintained in accordance with tax accounting principles consisting of its original contribution of either cash or properties to the Joint Operation, if any, increased by (i) additional capital contributions of that party and (ii) that party's share of income and gain for federal income tax purposes, and decreased by (x) distributions to that party of cash or property and (y) that party's share of losses and other items of deduction for federal income tax purposes. The allocation of basis prescribed in Section 613A(c)(7)(D) of the Code shall not reduce or otherwise affect the parties' capital accounts, but items of income, gain, loss or deduction computed by the parties individually rather than by the Joint Operation as prescribed by Section 613 A(c)(7)(D) of the Code, shall be deemed to have been realized by the Joint Operation and thereby increase or decrease, as the case may be, the individual capital accounts of the parties; however, percentage depletion deductions in excess of a party's allocated share of the basis in a property shall not reduce such Party's capital account.

5. Federal and State Income Tax Returns and Elections

(a) The parties agree that the party named as Operator under the Agreement shall prepare and file the necessary federal and state partnership income tax returns, and the Operator agrees to use its best efforts to prepare properly and file such partnership income tax returns including the making of appropriate elections as described in subparagraph (b) below, but shall incur no liability to any other party with respect to such returns and elections. In addition, Operator agrees to submit each year a copy of the partnership return to the other parties not later than twenty (20) days before such partnership return must be filed for each party's approval, which approval shall not be unreasonably withheld. Absence of a negative response within ten (10) working days of receipt shall indicate consent to the return as prepared. Each party agrees to furnish to the Operator all pertinent information relating to the operations conducted under the Agreement and this Exhibit which are necessary for the Operator to prepare and file such partnership income tax returns.

(b) The parties hereby authorize and direct Operator to make the following elections on the appropriate returns of the Joint Operation:

(i) To elect, in accordance with Section 263(c) of the Code and applicable income tax regulations and comparable provisions of state law, to deduct as an expense all intangible drilling and development costs with respect to productive and non-productive wells, and the preparation of wells for production of oil or gas.

(ii) To elect the calendar year as the Joint Operation's fiscal year.

(iii) To elect the accrual method of accounting.

(iv) If there is a distribution of Joint Operation property as described in Section 734 of the Code or if there is a transfer of an interest as described in Section 743 of the Code, upon written request of any party, to elect, pursuant to Section 754 of the Code, to adjust the basis of Joint Operation properties.

(v) To claim cost recovery deductions, in accordance with the accelerated cost recovery system described in Section 168(b)(1) of the Code.

(vi) To elect to amortize organizational expenses, if any.

(vii) Any other election which in the Operator's judgment is appropriate; however, Operator agrees to consult with the other parties prior to making any other election.

(c) The parties agree and direct Operator to reduce the basis in properties qualifying for the investment tax credit by 50% of the credit. The Operator agrees not to make the election as permitted by Section 48(q)(4) of the Code to reduce any tax credit determined under Section 46(a)(2) of the Code.

(d) Agreement not to authorize the tax partnership to determine, assess or collect the Windfall Profit Tax. The parties shall elect, as provided in Section 6232(c)(2) of the Code, that Section 6232(c)(1) of the Code shall not apply to the partnership.

6. Allocations. The parties agree that for accounting purposes and for United States federal and state income tax reporting purposes the distributive share of each of the parties hereto in each item of income, gain, loss, deduction or credit including, but not by way of limitation, the classes of items specifically mentioned below, shall be determined as follows:

(a) All items of income, deductions and credits arising from the sale of oil, gas or other hydrocarbon substances shall be allocated for all purposes to the party obtaining the proceeds realized therefrom.

(b) The production costs shall be allocated as deductions to each party in accordance with his or its respective contributions to such costs.

(c) The exploration costs and intangible drilling and development costs shall be allocated as deductions to each party in accordance with his or its respective contributions to such costs.

(d) The accelerated cost recovery deductions with respect to tangible equipment shall be allocated to each party in accordance with his or its respective contributions to the adjusted basis of such equipment.

(e) If any cost recovery deductions or intangible drilling and development costs are recaptured as a result of the disposition of any assets subject to the Agreement and this Exhibit, the character of the gain allocated under other provisions of this Exhibit shall be determined and allocated to the parties in such a manner, and in the proportion, that (to the maximum extent possible) those parties who originally received allocations of cost recovery and intangible drilling and development cost deductions attributable to the assets disposed of shall be allocated the ordinary income element of any gain realized and recognized.

(f) The deduction for depletion with respect to each separate oil and gas property (as defined in Section 614 of the Code) subject to the Agreement and this Exhibit shall be computed separately by each party rather than by the Joint Operation. For purposes of such computation, each party shall be considered to own, and shall be allocated, its proportionate share of the adjusted basis in each oil and gas property subject to the Agreement and this Exhibit. A party's "proportionate share" of the adjusted basis of an oil or gas property shall be such party's interest in the capital of the Joint Operation with respect to that property, which, in turn, shall be determined in accordance with its interest (i) in the Joint Operations' capital used to acquire or provide capitalized improvements to such property (if the property is acquired or improved by the Joint Operation) or (ii) in the adjusted basis of such property (if the property is contributed or is considered to be contributed to the Joint Operation by one or more parties). Each party shall separately keep records of its share of the adjusted basis in each oil and gas property, adjust such share of the adjusted basis for any cost or percentage depletion allowable on such property, and use such adjusted basis in the computation of its gain or loss on the disposition of such property. Upon the request of the Operator, each party shall advise the Operator of its adjusted basis on each oil and gas property of the Joint Operation as computed in accordance with the provisions of this subparagraph (f).

(g) Amounts realized, gains or losses from each sale, abandonment or other disposition of property (other than oil, gas or other hydrocarbon substances) will be allocated to the parties in such manner as will reflect

the amounts realized, gains and losses that would have been includable in their respective income tax returns if such property were held directly by the parties for tax purposes without regard to the Joint Operation. The computations shall take into account each party's share of the proceeds derived from each sale or other disposition of such property during the year, selling expenses and the party's respective contributions to the unadjusted cost basis of such property, less any allowed or allowable depreciation, depletion, amortization, or other deductions which have been allocated to each party, or the depletion deductions allowable to each party with respect to such property as provided in subparagraph (f) above.

(h) The qualified investment (as defined in Section 46(c) of the Code) for purposes of the investment tax credit allowed by Section 38 of the Code shall be allocated to the parties in accordance with their respective contributions to such qualified investment.

(i) Any recapture of investment credit shall be determined and allocated to the parties in such a manner, and in proportion, so that the parties who originally received the allocation of investment credit shall be allocated the recapture.

(j) Any dry hole or bottom hole monetary contribution obtained from a third person in connection with the drilling of a well on the oil and gas properties subject to the Agreement and this Exhibit shall be allocated in the same manner as the costs of drilling such well are allocated under the foregoing provisions.

(k) All other classes of costs, expenses and credits not falling within subparagraphs (b), (c), (d), (e), (f), (g), (h), (i) and (j) of this Paragraph 6 shall be allocated to and accounted for by each party in accordance with its respective contributions to such costs, expenses and credits.

7. Distribution Upon Dissolution. Upon any actual termination of the Joint Operation pursuant to Paragraph 3 above, the business of the Joint Operation shall be wound-up and concluded, and the assets of the Joint Operation shall be distributed to the parties as described below.

(a) Debts of the Joint Operation, other than to parties, shall be paid; then

(b) Debts owed by the Joint Operation to parties shall be paid; then

(c) All remaining assets of the Joint Operation shall be distributed to the parties in the following order:

(1) First, all cash on hand representing contributions by any party shall be returned to the contributor;

(2) Second, the capital accounts of the parties shall be determined and, if necessary, adjusted. Adjustment of such capital accounts shall not be necessary under this subparagraph (2) unless the ratio of the capital accounts of the parties is not equal to the ratio of their interests in the Joint Operation (after pay-out, if any). If adjustment is necessary, the Operator shall take the actions specified under this subparagraph (2) in order to either (a) cause the capital accounts of all parties to equal zero, or (b) cause the ratio of the parties' capital accounts to be equal to the ratio of their interests in the Joint Operation (after payout, if any). Such actions are hereafter referred to as "balancing the capital accounts," and at such time as either (a) or (b) is achieved, the capital accounts of the parties shall be referred to as being "balanced." The Operator shall select whichever of (a) or (b) is most practicable under the circumstances and requires fewer transactions. The manner in which the capital accounts of the parties are to be balanced under this subparagraph (2) shall be determined as follows:

(i) If all of the parties consent, selected Joint Operation property may be sold by the parties to unrelated third parties to generate sufficient gain or loss (to be allocated as described below rather than pursuant to subparagraph 6(g) hereof) and cash (to be distributed, if necessary, other than in the ratio of the parties' interest in the Joint Operation) to balance the capital accounts. If Joint Operation property is sold, the resulting gain or loss shall first be allocated between the parties in the ratio necessary to balance the capital accounts and if, after the allocation of such gain or loss, the capital accounts are not balanced, the cash generated from such sale shall be distributed among the parties in the amounts necessary to balance the capital accounts;

(ii) If all the parties consent, an undivided interest in certain selected Joint Operation properties shall be distributed to one or more parties as necessary for the purpose of balancing capital accounts;

(iii) Unless (i) or (ii) above applies, an undivided interest in each and every Joint Operation property shall be distributed to one or more parties as necessary for the purpose of balancing capital accounts;

(iv) Notwithstanding the methods of distribution applied in (i), (ii) or (iii) above, any party which has a deficit in its capital account shall balance its capital account by contributing cash or property to the Joint Operation, if such party's capital account has not been balanced through the application of any other provision(s) of this paragraph 7.

If property of the Joint Operation is distributed pursuant to part (i) or (ii) above, the amount of the distribution shall be equal to the fair market value of the distributed property, as estimated by the parties. If all of the parties do not reach agreement as to the fair market value of property, the Operator shall cause an independent engineering firm to prepare an evaluation of fair market value of such property. No party shall be liable for or obligated to make any additional contribution if there is insufficient property of the Joint Operation to balance capital accounts.

(3) Third, after the capital accounts of the parties have been adjusted, if necessary, pursuant to Subparagraph (2) above, all other or remaining properties and interests then held by the Joint Operation shall be distributed to the parties in accordance with their respective interest (after payout, if any) in the Joint Operation.

(4) Notwithstanding (2) and (3) above, if drilling or other operations have been conducted and the cost or expense thereof has been allocated to the parties in a ratio (the "Special Ratio") other than the ratio of their interests in the Joint Operation, and if, as a result of such operation, the income resulting from production from such operation is being allocated at the date of termination of the Joint Operation to the parties in the Special Ratio pending satisfaction of the terms of a payout provision, then the assignments to be made to the parties pursuant to (2) or (3) above shall provide that the parties which participated in such operation shall own the undivided interest in such well and the production accruing thereto in accordance with the Special Ratio instead of the ratio they would otherwise acquire pursuant to (2) or (3) above, until the terms of such payout provision have been satisfied; thereafter, such well and the remaining production therefrom shall be owned as provided in (2) or (3) above.

All assignments made under the provisions of this paragraph shall be by special warranty. It is understood and agreed that it shall be the obligation of each party, as nominee for the Joint Operation, to make such assignments as are required upon termination of the Joint Operation in accordance with the foregoing provisions of this Paragraph 7. Such assignments shall be made subject to the liability of each assignee for costs, expenses and liabilities theretofore incurred or for which commitment had been made by the Operator prior to the date of termination and such costs, expenses and liabilities shall be allocated to such assignee pursuant to this Exhibit.

8. Application of this Exhibit. It is understood and agreed that if the terms of this Exhibit conflict with any of the terms and conditions of the Agreement then in such event as between the parties hereto the terms of this Exhibit shall control on the point of such conflict.

9. Modification of this Exhibit. It is understood and agreed that if the Internal Revenue Service adopts regulations under Section 704 of the Code, which regulations would have the effect of rendering invalid the allocation of items of income, gain, loss, deduction and credit provided for herein, then this Exhibit may, at the Operator's election, be modified to provide for allocations which are valid. A modification for this purpose shall be made by the Operator without need for consent of any other party and such modification shall be effective automatically when made.

10. Tax Matters Partner.

(a) Operator is designated the tax matters partner (hereinafter "TMP") as defined in Section 6231(a)(7) of the Code. The designation as TMP shall be effective only for operations conducted by the parties pursuant to this paragraph.

(b) The partners shall furnish the TMP with such information (including information specified in Section 6230(e) of the Code) as it may reasonably request which will permit it to provide the Internal Revenue Service with sufficient information so that proper notice can be mailed to such partners as provided in Section 6223 of the Code.

(c) To the extent and in the manner provided by Treasury Regulations, the TMP shall keep each partner informed of all administrative and judicial proceedings for the adjustment of partnership items (as defined in Section 6231(a)(3) of the Code) at the partnership level.

(d) If an administrative proceeding contemplated under Section 6223 of the Code has begun, the partners shall notify the TMP of their treatment of any partnership item on their federal income tax return in a manner which is or may be inconsistent with the treatment of that item on the partnership return.

(e) Any partner who enters into a settlement agreement with the Secretary of the Treasury with respect to partnership items, shall notify the other partners of such settlement agreement and its terms within 90 days from the date of settlement.

(f) The TMP shall not bind other partners to a settlement agreement without getting the concurrence, in writing, of the partners which will be bound by such agreement.

(g) The TMP, or other partner filing a petition if the TMP elects not to file a petition, shall notify all partners of any intention to file a petition with a court for a readjustment of any partnership items. Such notice shall be given within a reasonable time so that the partners may participate in choosing the forum for the filing of any petition. This pro-

vision shall not apply to any partner who does not have an interest in the outcome. Whether a partner has an interest in the outcome will be determined using the standard in Section 6226(d) of the Code.

(h) The TMP or other partner who brings an action under Section 6226 of the Code, shall provide other partners with notice of any intention to seek review of a determination by any court under that section.

(i) No partner may file a request for an administrative adjustment of partnership items for any partnership taxable year pursuant to Section 6227 of the Code without first notifying all other partners. If the other partners agree with the requested adjustment, the TMP shall file the request for administrative adjustment on behalf of the partnership. If there is not unanimous consent, the TMP or any other partner may file a request for an administrative adjustment on his own behalf.

(j) The TMP shall not enter into any extension of the period of limitations for making assessments on behalf of any other partner without first securing the consent of that partner.

(k) If any part of an administrative adjustment request filed by a partner is not allowed by the Internal Revenue Service, the partner filing such request shall seek the concurrence of other partners with regard to the filing of a petition with any court and with regard to seeking review of the determination by any court in the same manner as provided in paragraphs (g) and (h) of this paragraph.

(l) The TMP and other partners shall use their best efforts to comply with the responsibilities as outlined here and in Sections 6222 through 6232 of the Code but shall incur no liability to any other partner for failure to fulfill such responsibilities.

Santa Fe Energy Company

500 West Illinois
Midland, Texas 79701
915/687-3551

May 5, 1986

Re: OD-NM-617,071
Conditional Letter of
Acceptance of Operating
Agreement w/Farmout
covering Section 34,
T-23-S, R-31-E,
Eddy County, New Mexico

Mobil Producing Texas &
New Mexico Inc.
P.O. Box 633
Midland, Texas 79702

ATTN: Fred Schantz

Gentlemen:

Santa Fe Energy Company (with its successor to be Santa Fe Energy Operating Partners, L.P.) hereby agrees to and accepts the terms and provisions of that certain Operating Agreement with Farmout dated April 1, 1986, between Pogo Producing Company, Operator, Mobil Producing Texas & New Mexico, as Farmee and Santa Fe Energy Operating Partners L.P., as Non-Operator, and as Farmor, subject to the changes and Amendments as follows:

1. Article XV. Other Provisions

Add. A.12

A.12. Each party shall, at all times, have the right to take in kind or separately dispose of its share of hydrocarbons produced from the Contract Area. In recognition of Mobil's freedom to contract with respect to such production and in exercise of its right to separately dispose of the same, Mobil hereby grants unto Santa Fe Energy Company (hereinafter referred to as "Santa Fe") a first and preferential right to purchase from Mobil all of Santa Fe's share of all hydrocarbon production which is produced and saved attributable to Santa Fe's leasehold, exclusive of production used by the operator in development and producing operations, all upon the terms and provisions hereinafter provided:

(a) With respect to oil and other liquid hydrocarbons (including condensate, distillates, and other liquids recovered from the well stream by normal lease separation methods), this right may be exercised from time to time and at any time upon ten (10) days' written notice to Mobil, and Santa Fe may likewise terminate said election to purchase upon a similar ten-day notice, which election to terminate shall be without prejudice to Santa Fe's right to again elect to purchase in the future. The price to be paid shall be the prevailing market price in the locality for oil or other liquid hydrocarbons of like kind and quality on the day Santa Fe takes delivery.

(b) Mobil shall not enter into any contract for the sale of its share of natural gas or other gaseous hydrocarbons without first complying with the provisions of this paragraph (b). If Mobil shall receive a bona fide offer for the purchase of any of its natural gas or gaseous hydrocarbons under a purchase contract which Mobil desires to accept, Mobil shall immediately notify Santa Fe thereof, which notice shall include a copy of the proposed contract and a written statement of those changes or variances from the written terms to which the parties have agreed if the contract furnished is not final. Thereafter, Santa Fe shall have thirty (30) days from the receipt of such notice together with such contract and statement within which to elect to purchase such natural gas or other gaseous hydrocarbons on the same terms and conditions as provided in the bona fide offer. If, within said thirty-day period, Santa Fe does not notify Mobil that it elects to so purchase, then Mobil may accept such bona fide third-party offer but only if the third-party contract is executed within thirty (30) days from the end of said thirty-day notice period and on terms and conditions no more favorable to the purchaser than those of which Santa Fe was given notice. Otherwise, such offer shall not be accepted and such contract executed by Mobil without first again offering the same to Santa Fe in accordance with this paragraph. The election of Santa Fe not to purchase any natural gas or other gaseous hydrocarbons in accordance with any bona fide offer shall not preclude its right to elect to do so under the terms of any subsequent bona fide offer should the prior offer not be consummated or should the contract executed pursuant to it expire.

If these modifications are acceptable, please indicate your approval by executing and returning one copy of this letter agreement.

Sincerely,

SANTA FE ENERGY
OPERATING PARTNERS, L.P.

By SANTA FE PACIFIC EXPLORATION
COMPANY AS MANAGING GENERAL
PARTNER

By: J.V. Bridwell
J.V. Bridwell, Sr. Vice-Pres.

APPROVED

GG/efw1517

SANTA FE ENERGY COMPANY

AGREED AND ACCEPTED this _____
day of May 1986

By: J.V. Bridwell
J.V. Bridwell, Sr. Vice-Pres.

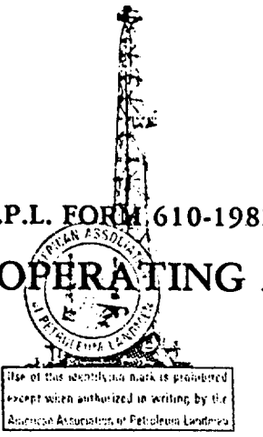
MOBIL PRODUCING TEXAS & NEW MEXICO INC.
as Successor in Interest to THE
SUPERIOR OIL COMPANY

By:_____

Title:_____

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

MODEL FORM OPERATING AGREEMENT



OPERATING AGREEMENT

DATED

April 1, 19 86,

OPERATOR Pogo Producing Company (See Article XV.F. for exception to the foregoing.)

CONTRACT AREA All of Section 34, T-23-S, R-31-E, N.M.P.M.

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

TABLE OF CONTENTS

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Pogo Producing Company, hereinafter designated and referred to as "Operator"*, and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators".

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

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

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

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

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

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

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

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

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

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

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

ARTICLE II.
EXHIBITS

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

☒ A. Exhibit "A", shall include the following information:
- (1) Identification of lands subject to this agreement,
- (2) Restrictions, if any, as to depths, formations, or substances,
- (3) Percentages or fractional interests of parties to this agreement,
- (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
- (5) Addresses of parties for notice purposes.

☐ ~~B. Exhibit "B", Form of Lease.~~

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

☒ E. Exhibit "E", Gas Balancing Agreement.

☒ F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.

☒ G. Exhibit "G", Tax Partnership.

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

*See Article XV.F. for exception to the foregoing.

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B. Interests of Parties in Costs and Production:

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

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

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

C. Excess Royalties, Overriding Royalties and Other Payments:

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

D. Subsequently Created Interests:

If any party should hereafter create an overriding royalty, production payment or other burden payable out of production attributable to its working interest hereunder, or if such a burden existed prior to this agreement and is not set forth in Exhibit "A", or was not disclosed in writing to all other parties prior to the execution of this agreement by all parties, or is not a jointly acknowledged and accepted obligation of all parties (any such interest being hereinafter referred to as "subsequently created interest" irrespective of the timing of its creation and the party out of whose working interest the subsequently created interest is derived being hereinafter referred to as "burdened party"), and:

1. If the burdened party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of said subsequently created interest and the burdened party shall indemnify and save said other party, or parties, harmless from any and all claims and demands for payment asserted by owners of the subsequently created interest; and,

2. If the burdened party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B. shall be enforceable against the subsequently created interest in the same manner as they are enforceable against the working interest of the burdened party.

ARTICLE IV.
TITLES

A. Title Examination:

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

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

ARTICLE IV
continued

☒ 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. 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", the party contributing the affected lease or interest shall have ninety (90) days from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisition will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining oil and gas leases and interests: and,

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

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

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

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

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

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

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

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

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

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

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

ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

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

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

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

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

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 1st day of May, 19 86, Operator shall commence the drilling of a well for oil and gas at the following location:

660' FSL & 660' FEL of Section 34, T-23-S, R-31-E, Eddy County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to a depth of 6,400 feet or to that depth at which the geological formation known as the "Cherry Canyon" formation has been penetrated and adequately tested, in the opinion of Drilling Parties, whichever is the lesser depth,

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

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

*See Article XV.F. for exception to the foregoing.

ARTICLE VI
continued

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, the provisions of Article VI.E.1. shall thereafter apply.

B. Subsequent Operations:

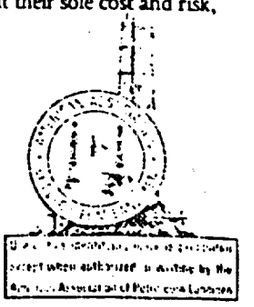
1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in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

If all parties elect to participate in such a proposed operation, Operator shall, within ninety (90) days after expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be), actually commence the proposed operation and complete it with due diligence at the risk and expense of all parties hereto; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties, for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary to obtain permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title examination or curative matter required for title approval or acceptance. Notwithstanding the force majeure provisions of Article XI, if the actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein) and if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accordance with the provisions hereof as if no prior proposal had been made.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VII.D.1. (Option No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of the total interest of the parties approving such operation and its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A" or (b) carry its proportionate part of Non-Consenting Parties' interests, and failure to advise the proposing party shall be deemed an election under (a). In the event a drilling rig is on location, the time permitted for such a response shall not exceed a total of forty-eight (48) hours (inclusive of Saturday, Sunday and legal holidays). The proposing party, at its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk,



ARTICLE VI
continued

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

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

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

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

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

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

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

ARTICLE VI
continued

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

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

The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A. except (a) as to Article VII.D.1. (Option No. 2), if selected, or (b) as to the reworking, deepening and plugging back of such initial well after it has been drilled to the depth specified in Article VI.A. if it shall thereafter prove to be a dry hole or, if initially completed for production, ceases to produce in paying quantities.

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

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

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

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

In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays; provided, however, any party may request and receive up to eight (8) additional days after expiration of the forty-eight (48) hours within which to respond by paying for all stand-by time incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, stand-by costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties. In all other instances the response period to a proposal for sidetracking shall be limited to thirty (30) days.

C. TAKING PRODUCTION IN KIND:

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

ARTICLE VI
continued

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

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

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

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

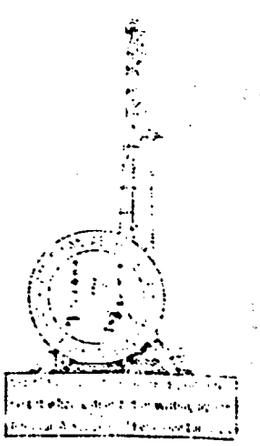
D. Access to Contract Area and Information:

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

E. Abandonment of Wells:

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

2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well, those wishing to continue its operation from the interval(s) of the formation(s) then open to production shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or intervals of the formation or formations then open to production, for a term of one (1) year and so long thereafter as oil and/or gas is produced from the interval or intervals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit



ARTICLE VI
continued

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

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

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

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

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

B. Liens and Payment Defaults:

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

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

C. Payments and Accounting:

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

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

D. Limitation of Expenditures:

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

ARTICLE VII
continued

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

☒ Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its authorized depth, and all tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight (48) hours (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. Consent to the reworking or plugging back of a well shall include all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage and/or surface facilities.

3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of 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 an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project costing in excess of Fifteen Thousand Dollars ($ 15,000.00) but less than the amount first set forth above in this paragraph.

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

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

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

F. Taxes:

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

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

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

ARTICLE VII
continued

G. Insurance:

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

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

ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

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

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

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

B. Renewal or Extension of Leases:

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

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

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

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

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

C. Acreage or Cash Contributions:*

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

*The Farmout Agreement described in Article XV.A. hereof shall not be subject to this provision.

ARTICLE VIII
continued

said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the extent possible, be governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any acreage or cash contributions it may obtain in support of any well or any other operation on the Contract Area. The above provisions shall also be applicable to optional rights to earn acreage outside the Contract Area which are in support of a well drilled inside the Contract Area.

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

D. Maintenance of Uniform Interest:

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

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

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

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

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

E. Waiver of Rights to Partition:

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

~~F. Preferential Right to Purchase:~~

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

ARTICLE IX.
INTERNAL REVENUE CODE ELECTION

See Exhibit "G" attached hereto.

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

ARTICLE X.
CLAIMS AND LAWSUITS

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

ARTICLE XI.
FORCE MAJEURE

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

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

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

ARTICLE XII.
NOTICES

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

ARTICLE XIII.
TERM OF AGREEMENT

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

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

☒ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of 90 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, reworking, deepening, plugging back, testing or attempting to complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling, deepening, plugging back or reworking operations are commenced within 90 days from the date of abandonment of said well.

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

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

C. Regulatory Agencies:

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

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

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

ARTICLE XV.
OTHER PROVISIONS

A. Farmout Provisions pertaining to the Leasehold Interest owned by Santa Fe Energy Company et al:

A.1 Notwithstanding any provisions contained herein to the contrary, Santa Fe Energy Company, APC Operating Partnership, Texas Gas Exploration Corporation, Primary Fuels, Inc., PaineWebber/Geodyne Energy Income Production Partnership I-C, an Oklahoma general partnership, and Heathary Resources, Inc. (hereinafter referred to separately as "Farmoutor" and collectively as "Farmoutors") hereby agree to farm out their leasehold interest in the Contract Area to Mobil Producing Texas & New Mexico Inc., as Successor in Interest to The Superior Oil Company, (hereinafter referred to as "Mobil"), for the drilling of the Initial Well as provided for herein. In consideration of the performance of all the terms and provisions of this Agreement, and the drilling of the Initial Well to its objective depth as set out in Article VI.A., Mobil shall be entitled to 100% of all oil and/or gas and associated hydrocarbons produced from the Initial Well attributable to Farmoutors' leasehold interest in the Contract Area, subject to the overriding royalty reserved by Farmoutors as provided hereinbelow. Mobil agrees to drill and complete said well free of any cost or liability to Farmoutors, whether same is completed as a well capable of producing oil and/or gas in paying quantities, or plugged and abandoned as a dry hole.

A.2 If the Initial Well described above should fail to reach the depth necessary to satisfy the requirements hereof either because of mechanical difficulties or because the well encounters excessive waterflow, loss of circulation, excessive pressures, cavities, caprock, salt or salt dome material, heaving shale or other practically impenetrable conditions which would, in the opinion of a prudent operator, render further drilling impracticable, then Mobil may, at its election, commence actual drilling of

a substitute well at approximately the same location if mechanical difficulties are responsible or at a mutually agreeable location if formation conditions are responsible with the same objective within thirty (30) days after abandonment of said well and thereupon the substitute well shall be considered and treated for all purposes as though the same were the well for which it is a substitute.

A.3 By drilling the Initial Well (or substitute well) to its objective depth and upon the completion of said well as either a well capable of producing oil and/or gas in paying quantities, or plugged and abandoned as a dry hole, Farmoutors will deliver to Mobil an assignment of operating rights covering 100% of Farmoutors' right, title and interest in and to that portion of Farmoutors' leasehold which is allocated to said well for proration unit purposes (subject to Farmoutors' overriding royalty reserved hereinbelow) and 75% of Farmoutors' right, title and interest in and to the remainder of Farmoutors' leasehold interest in Contract Area "A" which is not allocated to said well for proration unit purposes. In the absence of field rules, the proration unit shall embrace not more than forty (40) acres for an oil well or one hundred sixty (160) acres for a gas well of the Contract Area "A" surrounding such Initial Well (or its substitute) in the form of a square or rectangle with said well in the center thereof as far as practicable. Said assignment shall be limited in depth from the surface of the earth down to 100 feet below the total depth drilled in the Initial Well. In addition, at such time as the assignment of operating rights described above is made Farmoutors shall also deliver to Mobil an assignment of operating rights covering an undivided 50% of Farmoutors' right, title and interest in and to the leasehold rights owned by Farmoutors in Contract Area "C". Said assignment of rights in Contract Area "C" shall be limited in depth to cover all rights below 100 feet below the total depth drilled in the Initial Well. Farmoutors do not warrant title to their leasehold committed herein and in this connection, if Mobil earns assignments pursuant to the terms hereof, the assignments shall be without recourse or warranty of title, express or implied.

A.4 Mobil shall assume and pay all existing royalties, overriding royalties, production payments and any other burdens applicable to Farmoutors' interest in the Initial Well and the acreage allocated thereto for proration unit purposes. In addition to all of the aforementioned burdens, each Farmoutor hereby reserves under the Initial Well proration unit an overriding royalty equal to one-sixteenth of eight-eighths (1/16th of 8/8ths), which at each Farmoutor's option may be taken in kind, of all oil, gas, casinghead gas and liquid constituents, which shall be free of all costs of development and operations and free of all taxes except applicable gross production, windfall profit and severance taxes. Said overriding royalty interest shall be decreased proportionately if the interest subleased covers less than the entire mineral fee interest or if the assignment contemplated hereunder pertaining to the acreage allocated to the Initial Well for proration unit purposes is less than a full working interest in the leasehold assigned; however, no reduction in overriding royalties shall be made due to the reservation and limitation as to depths to be assigned. In addition, said overriding royalty interest reserved by each Farmoutor shall be the total overriding royalty for which Mobil shall be obligated to pay on each of such Farmoutor's interest and shall include all existing overriding royalties and obligations payable out of production from such lands. With respect to that portion of each Farmoutor's leasehold in the Contract Area not allocated to the Initial Well for proration unit purposes, Mobil and Farmoutors shall assume and bear their proportionate part of all royalties and other burdens that were in existence on the date of this Agreement in accordance with Article III.D. of this Operating Agreement, but all subsequently created interests (as defined in Article III.D.) shall be borne solely by the party who created same.

A.5 While Farmoutors' leasehold is committed to this Agreement and after assignment thereof, if an assignment is earned, Pogo Producing Company ("Pogo") shall make rental and shut-in gas well payments at the times and in the amounts which, in Pogo's opinion, are necessary to maintain said acreage in force; however, Pogo shall not be held liable in damages for the loss of the subject lease or any interest therein or any part thereof if

through mistake or oversight any rental or shut-in well payment is not paid or is erroneously or untimely paid. Furthermore, until an assignment of interest is earned under the terms of this Farmout Agreement, Pogo will not be entitled to a reimbursement from Farmoutors for any such payments. It is understood that Mobil shall be obligated to reimburse Pogo for Farmoutors' proportionate share of such payments. However, Pogo shall be entitled to a reimbursement from each Farmoutor for such Farmoutor's proportionate part of any such payments made after an assignment or assignments are earned under the terms of this Farmout Agreement.

A.6 It is understood and agreed that Mobil shall assume all of the burdens and obligations of the leasehold interest being committed to this agreement by Farmoutors and Mobil shall comply with all of the expressed and implied covenants of such lease to the extent that they are applicable to the lands and depths committed. Without limiting the foregoing, Mobil further agrees to comply with all laws and regulations pertaining to the plugging and abandonment of all wells drilled on the subleased premises and in this connection, the Operator herein shall carry and maintain all plugging and improvement damage bonds as may be required by the State and Federal Authorities.

A.7 During the drilling of the Initial Well provided for in Article VI. hereof, Farmoutors' authorized representatives at their sole risk and expense are to have access at all times to each well and to all cores, cuttings, logs and other information of whatever nature obtained during the drilling of such well. In addition, each Farmoutor is to be furnished daily reports and other pertinent well information and data as may be specified by such Farmoutor.

A.8 With respect to all operations conducted on the Initial Well, Mobil agrees to defend, indemnify and hold Farmoutors harmless against any expense, claim or cause of action brought by any third party including but not limited to any governmental agency arising out of said operations unless the condition resulting in said expense, claim or cause of action is due to the sole negligence of any Farmoutor or Operator.

A.9 On all subsequent wells drilled under this Operating Agreement, each party hereto shall be obligated to either participate with its respective working interest or go non-consent under the terms of Article VI.B. of this Operating Agreement. However, notwithstanding the foregoing, at such time as a second test is proposed to be drilled on Contract Area "A" to test formations covered by Contract Area "A" Farmoutors shall not have the option to go non-consent in the drilling of said well. Instead, each Farmoutor shall have the option to either participate with its respective working interest in said well as specified on Exhibit "A" of this Operating Agreement or relinquish all of its working interest in Contract Area "A" to Mobil and in exchange be entitled to an overriding royalty interest under that portion of Contract Area "A" not allocated to the Initial Well for proration unit purposes in an amount equal to the overriding royalty interest of such Farmoutor under the Initial Well proration unit. As under the acreage allocated to the Initial Well for proration unit purposes, said overriding royalty interest to be reserved by each Farmoutor shall be the total overriding royalty for which Mobil shall be obligated to pay on each of such Farmoutor's interest and shall include all existing overriding royalties and obligations payable out of production from such lands. It is the intent of the parties hereto that each Farmoutor shall have a one time election (which shall be made within 30 days after such time as the second well is proposed to be drilled on Contract Area "A") to either retain its remaining working interest in Contract Area "A" or relinquish said working interest in exchange for the aforementioned overriding royalty interest. If any Farmoutor fails to respond within the required thirty (30) day period specified in Article VI.B.1., then for all purposes herein it shall be deemed that said Farmoutor elected to not participate in said second test well. If a Farmoutor's election is to participate with its respective working interest in said second well, then it shall retain its working interest in Contract Area "A" and shall thereafter be obligated to participate or go non-consent under the terms of this Operating Agreement on all subsequent wells proposed on Contract Area "A". If a Farmoutor's elec-

tion is to relinquish its interest in exchange for the aforementioned overriding royalty interest, then such Farmoutor shall immediately deliver to Mobil an assignment of operating rights assigning all of such Farmoutor's working interest in that portion of the lands in Contract Area "A" which are not included in the acreage allocated to the Initial Well for proration unit purposes and reserving in said Assignment the overriding royalty interest described herein and the working interest percentage for subsequent wells in Contract Area "A" on Exhibit "A" shall be revised accordingly. Said Assignment shall be limited in depth from the surface of the earth down to 100 feet below the total depth drilled in the Initial Well provided for under Article VI.A. of this Operating Agreement.

A.10 In the event the initial well provided for in Article VI.A. hereof or a substitute well therefor, if necessary, is not timely commenced or drilled, Mobil's only penalty therefor shall be the failure to earn the acreage and rights from Farmoutors as specified in this Article XV.A.

A.11 It is understood and agreed that if there is a conflict with the terms and provisions of Article XV.A. and the remainder of this Operating Agreement then the terms and provisions of Article XV.A. shall take precedence.

B. Operations Regarding Respective Contract Areas:

As provided on Exhibit "A", this Operating Agreement has three (3) separate and distinct Contract Areas in which the working interests of the parties hereto vary. It is hereby understood and agreed, that the working interest owners in any proposed operation and the associated costs attributable to such operation shall be allocated to the working interest owners in the proportion set forth on Exhibit "A" in the Contract Area in which the primary objective of the proposed operation is intended to evaluate.

C. Provision Regarding Purchase and Sale Agreement Referred to in Assignments dated December 21, 1984 from ACF Petroleum Company, Inc. to Primary Fuels, Inc. and PW Production Inc.:

Primary Fuels, Inc., Heathary Resources, Inc. and PaineWebber/Geodyne Energy Income Production Partnership I-C (hereinafter collectively referred to as "said parties" in this Article XV.C.) each own an interest in the record title of the Federal lease committed hereto by virtue of being successors in title to ACF Petroleum Company, Inc. ACF Petroleum Company, Inc. conveyed all of its right, title and interest in the Federal lease committed hereto by two instruments entitled Assignment, Bill of Sale and Conveyance, the first from ACF Petroleum Company, Inc. to PW Production Inc., and the second from ACF Petroleum Company, Inc. to Primary Fuels, Inc., both of which are dated December 21, 1984, effective November 1, 1984, recorded in Book 244, Pages 538 and 557, respectively, of the Eddy County Miscellaneous Records. Said Assignments contained among other provisions a provision stating that said Assignments were being made subject to a Purchase and Sale Agreement among the parties to said Assignments dated effective November 1, 1984.

By the execution of this Operating Agreement said parties hereby state that nothing contained in the Purchase and Sale Agreement precludes said parties from farming out their interest to Mobil as specified under Article XV.A. herein. Said parties further represent that nothing contained in the Purchase and Sale Agreement requires said parties to obtain the consent or joinder of ACF Petroleum Company, Inc. to this Operating Agreement.

D. Provision Regarding Consulting Contract Referred to in Assignment dated effective November 2, 1984 from Primary Fuels, Inc. to Heathary Resources, Inc.:

Heathary Resources, Inc. (hereinafter referred to as "Heathary") owns an interest in the record title of the Federal lease committed hereto. Heathary acquired said interest from Primary Fuels, Inc. (hereinafter referred to as "Primary") by that certain Assignment dated effective November 2, 1984 which is recorded in Volume 250, Page 1083 of the

Miscellaneous Records of Eddy County, New Mexico. Said Assignment contained among other provisions a provision stating that said Assignment was being granted subject to that certain unrecorded Consulting Contract dated December 29, 1982 by and between Primary Fuels, Inc. and Mr. Don Wiese which is stated to include, among other things, a right of Primary Fuels, Inc. or its successor to repurchase the assigned interest.

For purposes of confidentiality, Primary and Heathary have refused to allow third parties to review said Consulting Contract. Therefore, by the execution of this Operating Agreement Primary and Heathary hereby state that nothing contained in the Consulting Contract precludes Heathary from farming out its interest to Mobil as specified under Article XV.A. In addition, Primary hereby releases any right it may have under the Consulting Contract to reacquire any interest which Mobil may acquire from Heathary under the terms of this Operating Agreement and agrees to execute and furnish a recordable instrument to Mobil confirming same if Mobil earns assignments from Heathary.

E. APC Operating Partnership Acquisition Rights:

Among the materials filed with the Bureau of Land Management in connection with the competitive bid submitted by the original lessees for the lease committed hereto is a statement by Florida Exploration Company, ACF Petroleum Company, Inc. ("ACF"), and Chessie Exploration, Inc. ("Chessie") that Florida Exploration Company has an optional reversionary right, after certain terms and conditions have been met, to acquire an undivided 20% of the interests of ACF and Chessie, which are now owned by Texas Gas Exploration Corporation, PaineWebber/Geodyne Energy Income Production Partnership I-C, Primary Fuels, Inc. and Heathary Resources, Inc. The status of the right of Florida Exploration Company to acquire 20% of the interest of said companies is unknown at this time. However, by the execution of this Operating Agreement APC Operating Partnership, being the successor in interest to Florida Exploration Company, hereby releases any right which it may have to reacquire any interest which Mobil may acquire from Texas Gas Exploration Corporation, PaineWebber/Geodyne Energy Income Production Partnership I-C, Primary Fuels, Inc. and Heathary Resources, Inc. under the terms of this Operating Agreement and agrees to execute and furnish a recordable instrument to Mobil confirming same if Mobil earns assignments from said parties.

F. Relinquishment of Operations:

It is understood and agreed by the parties hereto that notwithstanding the fact that Pogo Producing Company is designated as Operator herein, Mobil Producing Texas & New Mexico Inc. shall be the Operator for all subsequent wells proposed or drilled under the terms of this Operating Agreement. However, Pogo Producing Company shall remain as Operator for the Initial Well and the duties, responsibilities and rights attributable to the Operator under this Operating Agreement shall be divided accordingly.

ARTICLE XVI.
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of April, 19 86.

OPERATOR

Pogo Producing Company

By: _____
A. T. Carleton
Vice President

APPROVED AS TO FORM
[illegible], COX, EATON
COFIELD &
HENSLEY
BY: WBB

NON-OPERATORS

Mobil Producing Texas & New Mexico Inc., as Successor in Interest to The Superior Oil Company

By: _____

Primary Fuels, Inc.

By: _____

Santa Fe Energy Company

APPROVED

By: _____
J. L. Bridwell, Senior Vice President

PaineWebber/Geodyne Energy Income Production Partnership I-C

By: _____

Texas Gas Exploration Corporation

By: _____

Heathary Resources, Inc.

By: _____

APC Operating Partnership

By: _____

SANTA FE ENERGY OPERATING PARTNERS, L.P.

By: _____
J. L. Bridwell, Senior Vice President

Santa Fe Pacific Exploration Company, Managing General Partner

APPROVED

ARTICLE XVI.
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of April, 19 86.

OPERATOR

Pogo Producing Company

By: _____
A. T. Carleton
Vice President

APPROVED AS TO FORM
MINER, COX, EATON COFFIELD & HENSLEY
BY: WBB

NON-OPERATORS

Mobil Producing Texas & New Mexico Inc., as Successor in Interest to The Superior Oil Company

By: _____

Primary Fuels, Inc.

By: _____

Santa Fe Energy Company

APPROVED

By: _____
J. L. Bridwell, Senior Vice President

PaineWebber/Geodyne Energy Income Production Partnership I-C

By: _____

Texas Gas Exploration Corporation

By: _____

Heathary Resources, Inc.

By: _____

APC Operating Partnership

By: _____

SANTA FE ENERGY OPERATING PARTNERS, L.P.

By: _____
J. L. Bridwell, Senior Vice President

Santa Fe Pacific Exploration Company, Managing General Partner

APPROVED

EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated April 1, 1986, between Pogo Producing Company, as Operator, and Mobil Producing Texas & New Mexico Inc., et al, as Non-Operators.

I. Contract Area

This Operating Agreement consists of three (3) separate and distinct Contract Areas as follows:

Contract Area "A" - T-23-S, R-31-E, N.M.P.M., Eddy County, New Mexico
Section 34: E½

Contract Area "A" is limited in depth from the surface of the earth down to 100 feet below the total depth drilled in the Initial Well.

Contract Area "B" - T-23-S, R-31-E, N.M.P.M., Eddy County, New Mexico
Section 34: W½

Contract Area "B" is limited in depth from the surface of the earth down to 100 feet below the total depth drilled in the Initial Well.

Contract Area "C" - T-23-S, R-31-E, N.M.P.M., Eddy County, New Mexico
Section 34: All

Contract Area "C" is limited in depth to cover all rights lying beneath 100 feet below the total depth drilled in the Initial Well.

II. Working Interest of Parties to This Agreement:

Working Interest of Parties in Contract Area "A"

Working Interest Owners	Working Interests In Initial Well	Working Interests In All Subsequent Wells**
Pogo Producing Company	25.00%	25.0000%
Mobil Producing Texas & New Mexico Inc., as Successor in Interest to The Superior Oil Company	75.00%	62.5000%
Santa Fe Energy Company (Santa Fe Energy Operating Partners, L.P.)	-0-*	6.2500%
APC Operating Partnership	-0-*	2.0834%
Texas Gas Exploration Corporation	-0-*	2.0833%
Primary Fuels, Inc.	-0-*	1.5469%
PaineWebber/Geodyne Energy Income Production Partnership I-C	-0-*	.5208%
Heathary Resources, Inc.	-0-*	.0156%
	100.00%	100.0000%

*Each of said parties elected to farmout their interest for the drilling of the Initial Well under Article XV.A of this Agreement. Each of said parties is entitled to an overriding royalty interest which will be applicable only to production from the Initial Well. See Article XV.A. for details.

**The calculations in this column are based on the assumption that each Farmoutor will elect not to relinquish its working interest in Contract Area "A" at such time as the second test well is proposed on Contract Area "A". See Article XV.A. for details.

Working Interest of Parties in Contract Area "B"

Working Interest Owners	Working Interest of Parties
Pogo Producing Company	25.0000%
Mobil Producing Texas & New Mexico Inc., as Successor in Interest to The Superior Oil Company	25.0000%
Santa Fe Energy Company (Santa Fe Energy Operating Partners, L.P.)	25.0000%
APC Operating Partnership	8.3334%
Texas Gas Exploration Corporation	8.3333%
Primary Fuels, Inc.	6.1875%
PaineWebber/Geodyne Energy Income Production Partnership I-C	2.0833%
Heathary Resources, Inc.	.0625%
	100.0000%

Working Interest of Parties in Contract Area "C"

Working Interest Owners	Working Interest of Parties
Pogo Producing Company	25.0000%
Mobil Producing Texas & New Mexico Inc., as Successor in Interest to The Superior Oil Company	50.0000%
Santa Fe Energy Company (Santa Fe Energy Operating Partners, L.P.)	12.5000%
APC Operating Partnership	4.1667%
Texas Gas Exploration Corporation	4.1667%
Primary Fuels, Inc.	3.0938%
PaineWebber/Geodyne Energy Income Production Partnership I-C	1.0416%
Heathary Resources, Inc.	.0312%
	100.0000%

IV. Oil and Gas Lease Subject to This Agreement:

Federal Lease No.:	NM-43744
Date of Lease:	May 1, 1981
Lessor:	United States of America
Original Lessee:	Coquina Oil Corporation, Pogo Producing Company, The Superior Oil Company, Florida Exploration Company, ACF Petroleum, Inc., Chessie Exploration, Inc.
Description of Leasehold Committed to this Agreement:	T-23-S, R-31-E, NMPM, Eddy County, New Mexico Section 34: All
Existing Overriding Royalty Interests:	The working interests of APC Operating Partnership, Texas Gas Exploration Corporation, Primary Fuels, Inc., PaineWebber/Geodyne Energy Income Production Partnership I-C and Heathary Resources, Inc. are possibly burdened with an overriding royalty interest of 1.0% of 8/8ths which is to be proportionately reduced to the working interest and net revenue interest of each of said parties.

V. Addresses of Parties for Notice Purposes:

Pogo Producing Company
P. O. Box 10340
Midland, Texas 79702-7340

APC Operating Partnership
1700 Lincoln St., Suite 4900
Denver, Colorado 80203-4549

Mobil Producing Texas & New Mexico Inc.
P. O. Box 633
Midland, Texas 79702

Santa Fe Energy Company
500 West Illinois, Suite 500
Midland, Texas 79701

Texas Gas Exploration Corporation
P. O. Box 4326
Houston, Texas 77210-4326

Primary Fuels, Inc.
P. O. Box 569
Houston, Texas 77001

PaineWebber/Geodyne Energy Income
Production Partnership I-C
320 S. Boston Avenue, The Mezzanine
Tulsa, Oklahoma 74103-3708

Heathary Resources, Inc.
5707 Vestavia
Houston, Texas 77069

KROUSE 601, BOX 800 TULSA OK 74101

COPAS — 1974
Recommended by the Council of Petroleum Accountants Societies

COPAS

EXHIBIT " C"

Attached to and made a part of that certain Operating Agreement dated April 1, 1986 between Pogo Producing Company, as Operator, and Mobil Producing Texas & New Mexico 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%)~~ the percentage most recently recommended by the Council of Petroleum Accountant Societies of North America for such charges.

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~~ $400 or less excluding accessorial charges.

6. Services

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

7. Equipment and Facilities Furnished by Operator

A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

B. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

8. Damages and Losses to Joint Property

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

9. Legal Expense

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

10. Taxes

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

11. Insurance

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

12. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

(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 $ 4,800
Producing Well Rate $ 480

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

(a) Drilling Well Rate

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

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

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

(b) Producing Well Rates

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

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

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

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

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

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

2. Overhead - Major Construction

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

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

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

3. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

(1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.

(2) Line Pipe

(a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.

(b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.

(2) Material moved from the Joint Property

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

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

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

C. Other Used Material (Condition C and D)

(1) Condition C

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

(2) Condition D

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

D. Obsolete Material

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

E. Pricing Conditions

(1) Loading and unloading costs may be charged to the Joint Account at the rate of ~~fifteen~~ twenty-five (25¢) cents ~~(15¢)~~ per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.

(2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

4. Expense of Conducting Periodic Inventories

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

EXHIBIT "D"

Attached to and made a part of that certain Operating Agreement dated April 1, 1986 between Pogo Producing Company, as Operator, and Mobil Producing Texas & New Mexico Inc., et al, as Non-Operators.

Pogo Producing Company will provide only insurance coverage required to comply with Workmen's Compensation Laws of the State where the operations are being conducted and/or Employer's Liability if required. Premiums for the insurance specified above shall be charged to the Joint Account. Any party may, at its own expense, provide for itself such additional insurance as it deems advisable to protect itself against liability not covered by insurance of Operator.

INDEMNITY

Unit Operator shall not be liable for loss, damage or destruction to any property of any Non-Operator in connection with operations hereunder. Each Non-Operator, in proportion to its respective undivided interest in the unit, shall save harmless Unit Operator from claims, losses and expenses that exceed the amounts collectible under the insurance carried by Unit Operator as set forth above, except in cases of gross negligence or willful omission of Unit Operator. Each Non-Operator shall indemnify and save harmless Unit Operator and all other Non-Operators for claims and losses arising from personal injury or death to any employee, agent or representative of such Non-Operator.

EXHIBIT "E"

TO OPERATING AGREEMENT DATED APRIL 1, 1986
BETWEEN POGO PRODUCING COMPANY, AS OPERATOR,
AND MOBIL PRODUCING TEXAS & NEW MEXICO INC.,
ET AL, AS NON-OPERATORS.

GAS BALANCING AGREEMENT

1. Each party shall have the right to take in kind and separately dispose of its proportionate share of the gas produced from the Contract Area and shall be entitled to an opportunity to produce its proportionate share of the allowable production from a well (including lawful tolerances) established by appropriate regulatory authority.

2. It is the intent that each party be entitled to gas produced in the proportion that its ownership interest bears to the sum of all ownership interests. It is the intent that the Operator have the duty of controlling gas production and the responsibility of administering the provisions of this agreement. Operator shall cause deliveries to be made to the gas purchasers at such rates as may be required to give effect to the intent that the gas production accounts of all parties are to be brought into balance under the provisions contained herein.

3. To give effect to the intent of this agreement, the Operator shall be governed by the following rights of each party:

(a) Each underproduced party (a party who has not marketed or has taken a lesser volume of gas than the quantity such party is herein entitled) shall have the right upon giving ten (10) days advance written notice to Operator to take a greater amount of gas than its proportionate share of current production, provided that the right to take such greater amount shall be in proportion that its interest bears to the total interest of all underproduced parties desiring to take more than their proportionate share of the well's current production. It is understood that such "make-up" by the underproduced party shall be attributed to offset his prior underproduction in the order of accrual of the imbalance caused by such underproduction.

(b) Each overproduced party (a party who has taken a greater volume of gas than the quantity such party is herein entitled) shall reduce its respective take in the proportion that such party's interest bears to the total interest of all overproduced parties, but in no event shall any overproduced party be required to reduce its take to less than fifty percent (50.00%) of such overproduced party's proportionate share of the current production of gas.

4. Each party producing and/or delivering gas to its purchaser shall pay any and all royalties and production taxes due on such gas. Nothing herein shall cause a producing party to account for or pay overriding or other leasehold burdens created by or burdening the interest of any nonproducing or underproducing party.

5. The provisions of this agreement shall be separately applicable to each well and each reservoir to the end that, subject to the provisions of paragraph 6 below, production from one reservoir may not be utilized for the purpose of balancing underproduction from other reservoirs unless agreed to by all parties and gas is of similar vintage.

6. When production from a reservoir permanently ceases, Operator shall be responsible to determine the final accounting of underproduction and overproduction. Each overproduced party shall have the option of furnishing each underproduced party gas of like vintage from other sources ("make-up gas") if agreed upon by the underproduced party or settling the imbalance in cash as provided below. Make-up gas shall be supplied from sources determined solely by the overproduced party; provided, no such source may be included unless a delivery point for the gas can be agreed upon by the overproduced and underproduced parties involved.

If any overproduced party does not elect to supply make-up gas, or if such parties do not agree on a delivery point for the make-up gas within 30 days from termination of such production, a monetary settlement will be made between the underproduced and overproduced parties. In making such settlement, each such overproduced party shall remit to the Operator for the account of each underproduced party an amount of money calculated by multiplying the volume of overproduced gas of such vintage by the actual amount of money per m.c.f. of such gas that such overproduced party actually received, less taxes and royalties theretofore paid by the overproduced party. The Operator will disburse to each underproduced party its proportionate share of monies collected. Such amount shall be shared by each underproduced party in the proportion that the underproduction of each bears to the underproduction of all parties. The amount of such royalties or taxes attributable to overproduction shall be deducted from such payment made by the overproduced party. The amount of payment for all such overproduction shall be determined in the order of accrual.

7. Nothing in this gas balancing agreement shall cause the Operator to produce a well or reservoir at higher than maximum allowable rates which might have been established by a regulatory authority.

8. The Operator shall maintain a running account of the gas balance between the parties and will furnish each party monthly statements showing the quantities of gas produced from each reservoir, the amount thereof used in joint account operations, vented or lost, and the total quantities delivered to purchasers together with the over/under status of each party.

EXHIBIT "F"

Attached to and made a part of that certain Operating Agreement dated April 1, 1986 between Pogo Producing Company, as Operator, and Mobil Producing Texas & New Mexico Inc., et al, as Non-Operators.

COMPLIANCE CERTIFICATE

WHEREVER used in the following sections, the terms "contractor" and "undersigned" both refer to each party to this agreement.

A. EQUAL EMPLOYMENT OPPORTUNITY [41 C.F.R. §60-1.4 (a)]

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

(1) The contractor will not discriminate against any employee or applicant for employment because of race, color, religion, sex, or national origin. The contractor will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, sex, or national origin. Such action shall include, but not be limited to the following: Employment, upgrading, demotion, or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of this nondiscrimination clause.

(2) The contractor will, in all solicitations or advertisements for employees placed by or on behalf of the contractor, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex, or national origin.

(3) The contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the contractor'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 contractor 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 contractor will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

(6) In the event of the contractor's noncompliance with the nondiscrimination 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 contractor may be declared ineligible for further Government contracts in accordance with proceedures 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 contractor 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 contractor will take such action with respect to any subcontract or purchase order as may be directed by the Secretary of Labor as a means of enforcing such provisions including sanctions for noncompliance. Provided, however, that in the event the contractor becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction, the contractor may request the United States to enter into such litigation to protect the interests of the United States.

B. CERTIFICATION OF NONSEGREGATED FACILITIES [41 C.F.R. §1-12.803-10 (d)(1)]

Contractor certifies that it does not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not permit its employees to perfrom their services at any location, under its control, where segregated facilities are maintained. Contractor certifies further that it will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it will not permit its employees to perform their services at any location under its control, where segregated facilities are maintained. Contractor agrees that a breach of this certification is a violation of the Equal Opportunity clause in this contract. As used in this certification, the term "segregated facilities" means any waiting rooms, work areas, rest rooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation, and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, color, religion, or national origin, because of habit, local custom, or otherwise. Contractor further agrees that (except where it has obtained identical certifications from proposed subcontractors for specific time periods) it will obtain identical certifications from proposed subcontractors prior to the award of subcontracts exceeding $10,000 which are not exempt from the provisions of the Equal Opportunity clause; that it will retain such certifications in its files; and that it will forward the following notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certifications for specific time periods): "NOTICE TO PROSPECTIVE SUBCONTRACTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NONSEGREGATED FACILITIES. A Certification of Nonsegregated Facilities must be submitted prior to the award of a subcontract exceeding $10,000 which is not exempt from the provisions of the Equal Opportunity clause. The certification may be submitted either for each subcontract or for all subcontracts during a period (i.e., quarterly, semiannually, or annually). (Note: The penalty for making false statements in offers is prescribed in 18 U.S.C. 1001.)"

C. FILING STANDARD FORM 100 (EEO-1) AND DEVELOPMENT OF AFFIRMATIVE ACTION PROGRAM

The contractor further agrees and certifies that, if the value of the contract or purchase order is $50,000 or more and the contractor has 50 or more employees, contractor will:

(1) File a complete and accurate report on Standard Form 100 (EEO-1) with the Joint Reporting Committee, at the appropriate address per the current instructions, within thirty (30) days of the date of contract award, unless such report has been filed within the twelve (12) months' period preceding the date of the contract award and otherwise comply with and file such other compliance reports as may be required under Executive Order 11246, as amended and Rules and Regulations adopted thereunder. (41 C.F.R. §60-1.7)

(2) Develop a written affirmative action compliance program for each of its establishments as required by 41 C.F.R. §60-1.40, 41 C.F.R. § 1-12.810, 41 C.F.R. §60-250.5 and 41 C.F.R. §60-741.5. Contractor will supply Operator with a copy of such program if Operator so requests.

D. AFFIRMATIVE ACTION FOR DISABLED VETERANS AND VETERANS OF THE VIETNAM ERA (41 C.F.R. § 60-250.4)

(1) For the performance of this contract, the contractor agrees to comply with the following:

(a) The contractor will not discriminate against any employee or applicant for employment because he or she is a disabled veteran or veteran of the Vietnam era in regard to any position for which the employee or applicant for employment is qualified. The contractor agrees to take affirmative action to employ, advance in employment and otherwise treat qualified disabled veterans and veterans of the Vietnam era without discrimination based upon their disability or veterans status in all employment practices such as the following: Employment upgrading, demotion or transfer recruitment, advertising, layoff or termination, rates of pay or other forms of compensation, and selection for training, including apprenticeship.

(b) The contractor agrees that all suitable employment openings of the contractor which exist at the time of the execution of this contract and those which occur during the performance of this contract, including those not generated by this contract and including those occurring at an establishment of the contractor other than the one wherein the contract is being performed but excluding those of independently operated corporate affiliates, shall be listed at an appropriate local office of the State employment service system wherein the opening occurs. The contractor further agrees to provide such reports to such local office regarding employment openings and hires as may be required.

State and local government agencies holding Federal contracts of $10,000 or more shall also list all their suitable openings with the appropriate office of the State employment service, but are not required to provide those reports set forth in paragraphs (d) and (e).

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

(d) The reports required by paragraph (b) of this clause shall include, but not be limited to, periodic reports which shall be filed at least quarterly with the appropriate local office or, where the contractor has more than one hiring location in a State, with the central office of that State employment service. Such reports shall indicate for each hiring location (1) the number of individuals hired during the reporting period, (2) the number of nondisabled veterans of the Vietnam era hired, (3) the number of disabled veterans of the Vietnam era hired, and (4) the total number of disabled veterans hired. The reports should include covered veterans hired for on-the-job training under 38 U.S.C. 1787. The contractor shall submit a report within 30 days after the end of each reporting period wherein any performance is made on this contract identifying data for each hiring location. The contractor shall maintain at each hiring location copies of the reports submitted until the expiration of one year after final payment under the contract, during which time these reports and related documentation shall be made available, upon request, for examination by any authorized representatives of the contracting officer or of the Secretary of Labor. Documentation would include personnel records respecting job openings, recruitment and placement.

(e) Whenever the contractor becomes contractually bound to the listing provisions of this clause, it shall advise the employment service system in each State where it has establishments of the name and location of each hiring location in the State. As long as the contractor is contractually bound to these provisions and has so advised the State system, there is no need to advise the State system of subsequent contracts. The

(f) This clause does not apply to the listing of employment openings which occur and are filled outside of the 50 States, the District of Columbia, Puerto Rico, Guam, and the Virgin Islands.
(g) The provisions of paragraphs (b), (c), (d), and (e) of this clause do not apply to openings which the contractor proposes to fill from within his own organization or to fill pursuant to a customary and traditional employer-union hiring arrangement. This exclusion does not apply to a particular opening once an employer decides to consider applicants outside his own organization or employer-union arrangement for that opening.
(h) As used in this clause: (1) "All suitable employment openings" includes, but is not limited to, openings which occur in the following job categories: Production and non-production; plant and office; laborers and mechanics; supervisory and nonsupervisory; technical; and executive, administrative and professional openings as are compensated on a salary basis of less than $25,000 per year. This term includes full-time employment, temporary employment of more than 3 days' duration,and part-time employment. It does not include openings which the contractor proposes to fill from within his own organization or to fill pursuant to a customary and traditional employer-union hiring arrangement nor openings in an educational institution which are restricted to students of that institution. Under the most compelling circumstances an employment opening may not be suitable for listing, including such situations where the needs of the Government cannot reasonably be otherwise supplied, where listing would be contrary to national security, or where the requirement of listing would otherwise not be for the best interest of the Government.
(2) "Appropriate office of the State employment service system" means the local office of the Federal-State national system of public employment offices with assigned responsibility for serving the area where the employment opening is to be filled, including the District of Columbia, Guam, Puerto Rico, and the Virgin Islands.
(3) "Openings which the contractor proposes to fill from within his own organization" means employment openings for which no consideration will be given to persons outside the contractor's organization (including any affiliates, subsidiaries, and the parent companies) and includes any openings which the contractor proposes to fill from regularly established "recall" lists.
(4) "Openings which the contractor proposes to fill pursuant to a customary and traditional employer-union hiring arrangement" means employment openings which the contractor proposes to fill from union halls, which is part of the customary and traditional hiring relationship which exists between the contractor and representatives of his employees.
(5) "Disabled veteran" means a person entitled to disability compensation under laws administered by the Veterans' Administration for disability rated at 30 per centum or more, for a person whose discharge or release from active duty was for a disability incurred or aggravated in line of duty.
(6) "Veteran of the Vietnam era" means a person (1) who (i) served on active duty for a period of more than 180 days, any part of which occurred between August 5, 1964 and May 7, 1975, and was discharged or released therefrom with other than a dishonorable discharge, or (ii) was discharged or released from active duty for service-connected disability if any part of such duty was performed between August 5, 1964 and May 7, 1975, and (2) who was so discharged or released within the 48 months preceding his application for employment covered under this part.
(i) The contractor agrees to comply with the rules, regulations, and relevant orders of the Secretary of Labor issued pursuant to the Act.
(j) In the event of the contractor's noncompliance with the requirements of this clause, actions for noncompliance may be taken in accordance with the rules, regulations, and relevant orders of the Secretary of Labor issued pursuant to the Act.
(k) The contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices in a form to be prescribed by the Director, provided by or through the contracting officer. Such notice shall state the contractor's obligation under the law to take affirmative action to employ and advance in employment qualified disabled veterans and veterans of the Vietnam era for employment, and the rights of applicants and employees.
(l) The contractor will notify each labor union or representative of workers with which it has a collective bargaining agreement or other contract understanding, that the contractor is bound by the terms of the Vietnam Era Veterans Readjustment Assistance Act, and is committed to take affirmative action to employ and advance in employment qualified disabled veterans and veterans of the Vietnam era.

(m) The contractor will include the provisions of this clause in every subcontract or purchase order of $10,000 or more unless exempted by rules, regulations, or orders of the Secretary issued pursuant to the Act, so that such provisions will be binding upon each subcontractor or vendor. The contractor will take such action with respect to any subcontract or purchase order as the Director of the Office of Federal Contract Compliance Programs may direct to enforce such provisions, including action for noncompliance.

E. MINORITY BUSINESS ENTERPRISES (41 C.F.R. § 1-1.1310-2)

The Contractor certifies that in all procurement contracts in amounts which may exceed $10,000 except: (1) contracts which, including all subcontracts thereunder, are to be performed entirely outside the United States, its possessions, and Puerto Rico, and (2) contracts for services which are personal in nature, the following clause shall be included:

(1) Utilization of Minority Business Enterprises
(a) It is the policy of the Government that minority business enterprises shall have the maximum practicable opportunity to partipate in the performance of Government contracts.
(b) The Contractor agrees to use his best efforts to carry out this policy in the award of his subcontracts to the fullest extent consistent with the efficient performance of this contract. As used in this contract, the term "Minority business enterprise" means a business, at least 50 percent of which is owned by minority group members or, in case of publicly owned businesses, at least 51 percent of the stock of which is owned by minority group members.

For the purposes of this definition, minority group members are Negroes, Spanish-speaking American persons, American-Orientals, American-Indians, American-Eskimos, and American Aleuts. Contractors may rely on written representations by subcontractors regarding their status as minority business enterprises in lieu of independent investigation.

The following Minority Business Enterprises Subcontracting Program clause shall be included in all contracts which may exceed $500,000 which contain the Utilization of Minority Business Enterprises clauses and which, in the opinion of the procuring activity, offer substantial subcontracting possibilities, and prime contractors whose contracts are less than $500,000 are urged to accept this clause:

(1) Minority Business Enterprises Subcontracting program
(a) The Contractor agrees to establish and conduct a program which will enable minority business enterprises (as defined in the clause entitled "Utilization of Minority Business Enterprises") to be considered fairly as subcontractors and suppliers under this contract. In this connection, the Contractor shall--
(1) Designate a liaison officer who will administer the Contractor's minority business enterprises program.
(2) Provide adequate and timely consideration of the potentialties of known minority business enterprises in all "make-or-buy" decisions.
(3) Assure that known minority business enterprises will have an equitable opportunity to complete for subcontracts, particularly by arranging solicitations, time for the preparation of bids, quantities, specifications, and delivery schedules so as to facilitate the participation of minority business enterprises.
(4) Maintain records showing (i) procedures which have been adopted to comply with the policies set forth in this clause, including the establishment of a source list of minority business enterprises, (ii) awards to minority business enterprises on the source list, and (iii) specific efforts to identify and award contracts to minority business enterprises.
(5) Include the Utilization of Minority Business Enterprises clause in subcontracts which offer substantial minority business enterprises subcontracting opportunities.
(6) Cooperate with the Contracting Officer in any studies and surveys of the Contractor's minority business enterprises procedures and practices that the Contracting Officer may from time to time conduct.
(7) Submit periodic reports of subcontracting to known minority business enterprises with respect to the records referred to in subparagraph (4), above, in such form and manner and at such time (not more often than quarterly) as the Contracting Officer may prescribe.
(b) The Contractor further agrees to insert, in any subcontract hereunder which may exceed $500,000, provisions which shall conform substantially to the language of this clause, including this paragraph (b), and to notify the Contracting Officer of the names of such subcontractors.

F. AFFIRMATIVE ACTION FOR HANDICAPPED WORKERS (41 C.F.R. § 60-741.4)

(1) On all Contracts which exceed $2,500, the Contractor agrees as follows:
(a) The contractor will not discriminate against any employee or applicant for employment because of physical or mental handicap in regard to any position for which the employee or applicant for employment is qualified. The contractor agrees to take affirmative action to employ, advance in employment and otherwise treat qualified handicapped individuals without discrimination based upon their physical or mental handicap in all employment practices such as the following: Employment, upgrading, demotion or transfer, recruitment, advertising, layoff or termination, rates of pay or other forms of compensation, and selection for training, including apprenticeship.
(b) The contractor agrees to comply with the rules, regulations, and relevant orders of the Secretary of Labor issued pursuant to the Act.
(c) In the event of the contractor's noncompliance with the requirements of this clause, actions for noncompliance may be taken in accordance with the rules, regulations, and relevant orders of the Secretary of Labor issued pursuant to the Act.
(d) The contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices in a form to be prescribed by the Director, provided by or through the contracting officer. Such notices shall state the contractor's obligation under the law to take affirmative action to employ and advance in employment qualified handicapped employees and applicants for employment, and the rights of applicants and employees.
(e) The contractor will notify each labor union or representative of workers with which it has a collective bargaining agreement or other contract understanding, that the contractor is bound by the terms of section 503 of the Rehabilitation Act of 1973, and is committed to take affirmative action to employ and advance in employment physically and mentally handicapped individuals.
(f) The contractor will include the provisions of this clause in every subcontract or purchase order of $2,500 or more unless exempted by rules, regulations, or orders of the Secretary issued pursuant to section 503 of the Act, so that such provisions will be binding upon each subcontractor or vendor. The contractor will take such action with respect to any subcontract or purchase order as the Director of the Office of Federal Contract Compliance Programs may direct to enforce such provisions, including action for noncompliance.
(g) As used in this clause: "Handicapped individual" means any person who (1) has a physical or mental impairment which substantially limits one or more of such person's major life activities, (2) has a record of such impairment, or (3) is regarded as having such an impairment. For purposes of this part, a handicapped individual is "substantially limited" if he or she is likely to experience difficulty in securing, retaining or advancing in employment because of a handicap. "Qualified handicapped individual" means a handicapped individual as defined above who is capable of performing a particular job, with reasonable accomodation to his or her handicap.

G. SMALL BUSINESS UTILIZATION (41 C.F.R. §1-1.710-3)

Contractor further agrees that if the amount of the contract or purchase order exceeds $10,000 it will be bound by the provision set forth in subparagraph (G)(1) below; and that if the amount of the contract exceeds $500,000 and contains the clause set forth in subparagraph (G)(1) below, it will be bound by the provisions set forth in subparagraph (G)(2) below. (Excepted from the foregoing are contracts which, including all subcontracts thereunder, and (i) to be performed entirely outside the United States, its possessions, and Puerto Rico, or (ii) for personal services.)

(1) Utilization of Small Business Concerns
(a) It is the policy of the Government as declared by the Congress that a fair proportion of the purchases and contracts for supplies and services for the Government be placed with small business concerns.
(b) The Contractor agrees to accomplish the maximum amount of subcontracting to small business concerns that the Contractor finds to be consistent with the efficient performance of this contract.

(2) Small Business Subcontracting Program
(a) The Contractor agrees to establish and conduct a small business subcontracting program which will enable small business concerns to be considered fairly as subcontractors and suppliers under this contract. In this connection, the Contractor shall -
(1) Designate a liaison officer who will (i) maintain liaison with the Government on small business matters (ii) supervise compliance with the Utilization of Small Business Concerns clause, and (iii) administer the Contractor's "Small Business Subcontracting Program."
(2) Provide adequate and timely consideration of the potentialities of small business concerns in all "make-or-buy" decisions.
(3) Assure that small business concerns will have an equitable opportunity to compete for subcontracts, particularly by arranging solicitations, time for the preparation of bids, quantities, specifications, and delivery schedules so as to facilitate the participation of small business concerns. Where the Contractor's lists of potential small business subcontractors are excessively long, reasonable effort shall be made to give all such small business concerns an opportunity to compete over a period of time.
(4) Maintain records showing (i) whether each prospective subcontractor is a small business concern, (ii) procedures which have been been adopted to comply with the policies set forth in this clause and (iii) with respect to the letting of any subcontract (including purchase orders) exceeding $10,000, information substantially as follows:
(A) Whether the award went to large or small business.
(B) Whether less than three or more than two small business firms were solicited.
(C) The reason for nonsolicitation of small business if such was the case.
(D) The reason for small business failure to receive the award if such was the case when small business was solicited.
The records maintained in accordance with (iii) above may be in such form as the Contractor may determine, and the information shall be summarized quarterly and submitted by the purchasing department of each individual plant or division to the Contractor's cognizant small business liaison officer. Such quarterly summaries will be considered to be management records only and need not be submitted routinely to the Government; however, records maintained pursuant to this clause will be kept available for review by the Government until the expiration of 1 year after the award of this contract, or for such longer period as may be required by any other clause of this contract or by applicable law or regulation.
(5) Notify the Contracting Officer before soliciting bids or quotations on any subcontract (including purchase orders) in excess of $10,000 if (i) no small business concern is to be solicited, and (ii) the Contracting Officer's consent to the subcontract (or ratification) is required by a "Subcontracts" clause in this contract. Such notice will state the Contractor's reasons for nonsolicitation of small business concerns, and will be given as early in the procurement cycle as possible so that the Contracting Officer may give SBA timely notice to permit SBA a reasonable period to suggest potentially qualified small business concerns through the Contracting Officer. In no case will the procurement action be held up when to do so would, in the Contractor's judgment, delay performance under the contract.
(6) Include the Utilization of Small Business Concerns clause in subcontracts which offer substantial small business subcontracting opportunities.
(7) Cooperate with the Contracting Officer in any studies and surveys of the Contractor's subcontracting procedures and practices that the Contracting Officer may from time to time conduct.
(8) Submit quarterly reports of subcontracting to small business concerns on either Optional Form 61, Small Business Subcontracting Program Quarterly Report of Participating Large Company on Subcontract Commitments to Small Business Concerns, or such other form as may be specified in the contract. Except as otherwise provided in this contract, the reporting requirements of this subparagraph (8) do not apply to small business contractors, small business subcontractors, educational and nonprofit institutions, and contractors or subcontractors for standard commercial items.
(b) A "small business concern" is a concern that meets the pertinent criteria established by the Small Business Administration and set forth in §1-1.701 of the Federal Procurement Regulations.
(c) The Contractor agrees that, in the event he fails to comply with his contractual obligations concerning the small business subcontracting program, this contract may be terminated, in whole or in part, for default.
(d) The Contractor further agrees to insert, in any subcontract hereunder which may exceed $500,000 and which contains the Utilization of Small Business Concerns clause, provisions which shall conform substantially to the language of this clause, including this paragraph (d), and to notify the Contracting Officer of the names of such subcontractors.

H. LABOR SURPLUS AREA SUBCONTRACTING PROGRAM (41 C.F.R. § 1-1.805.3)

This program implements policies for aiding labor surplus areas in the United States, its territories and possessions, Commonwealth of Puerto Rico, the Trust Territory of the Pacific Islands, and the District of Columbia. The following clause shall be inserted in all contracts which may exceed $10,000 except for (1) contracts which are to be performed entirely outside of the areas set out above, (2) contracts for services which are personal in nature, and (3) contracts for construction.

(1) Utilization of Labor Surplus Area Concerns
(a) It is the policy of the Government to award contracts to labor surplus area concerns that agree to perform substantially in labor surplus areas, where this can be done consistent with the efficient performance of the contract and at prices no higher than are obtainable elsewhere. The Contractor agrees to use his best efforts to place his subcontracts in accordance with this policy.
(b) In complying with paragraph (a) of this clause and with paragraph (b) of the clause of this contract entitled "Utilization of Small Business Concerns," the Contractor in placing his subcontracts shall observe the following order of preference: (1) Small business concerns that are labor surplus area concerns, (2) other small business concerns, and (3) other labor surplus area concerns.
(c)(1) The term "labor surplus area" means a geographical area identified by the Department of Labor as an area of concentrated unemployment or underemployment or an area of labor surplus.
(2) The term "labor surplus area concern" means a concern that together with its first-tier subcontractors will perform substantially in labor surplus areas.
(3) The term "perform substantially in a labor surplus area" means that the costs incurred on account of manufacturing, production, or appropriate services in labor surplus areas exceed 50 percent of the contract price.

(2) Labor Surplus Area Subcontracting Program
In all contracts that contain clause (1) above which exceed $500,000 and which offer substantial subcontracting possibilities, the following clause shall be inserted:
(a) The contractor agrees to establish and conduct a program which will encourage labor surplus area concerns to compete for subcontracts within their capabilities. In this connection, the Contractor shall--
(1) Designate a liaison officer who will (i) maintain liaison with duly authorized representatives of the Government on labor surplus area matters, (ii) supervise compliance with the Utilization of Concerns in Labor Surplus Areas clause, and (iii) administer the Contractor's "Labor Surplus Area Subcontracting Program";
(2) Provide adequate and timely consideration of the potentialities of labor surplus area concerns in all "make-or-buy" decisions;
(3) Assure that labor surplus area concerns will have an equitable opportunity to compete for subcontracts, particularly by arranging solicitations, time for the preparation of bids, quantities, specifications, and delivery schedules so as to facilitate the participation of labor surplus area concerns;
(4) Maintain records showing the procedures which have been adopted to comply with the policies set forth in this clause and report subcontract awards (see 41 CFR 1-16.804-5 regarding use of Optional Form 61). Records maintained pursuant to this clause will be kept available for review by the Government until the expiration of 1 year after the award of this contract, or for such longer period as may be required by any other clause of this contract or by applicable law or regulations; and
(5) Include the utilization of Concerns in Labor Surplus Areas clause in subcontracts which offer substantial labor surplus area subcontracting opportunities.
(b)(1) The term "Labor surplus area" means a geographical area identified by the Department of Labor as an area of concentrated unemployment or underemployment or an area of labor surplus.
(2) The term "concern located in a labor surplus area" means a labor surplus area concern.
(3) The term "labor surplus area concern" means a concern that, together with its first-tier subcontractors, will perform substantially in labor surplus areas.
(4) The term "perform substantially in labor surplus areas" means that the costs incurred on account of manufacturing, production, or appropriate services in labor surplus areas exceed 50 percent of the contract price.
(c) The Contractor further agrees to insert, in any subcontract hereunder which may exceed $500,000 and which contains the Utilization of Concerns in Labor Surplus Areas clause, provisions which shall conform substantially to the language of this clause, including this paragraph (c), and to notify the Contracting Officer of the names of such subcontractors.

I. ENVIRONMENTAL PROTECTION

Contractors, as to contracts exceeding $100,000, shall comply with the clause contained in 41 CFR 1-1.2302-2 concerning environmental protection, which clause is incorporated by reference in all nonexempt contracts in effect during the term of this Certificate. Contractor shall comply with all requirements of Section 114 of the Clean Air Act, Section 308 of the Federal Water Pollution Control Act, and regulations thereunder, and with clean air and water standards applicable to the facility in which the contract is performed. Contractor, regardless of value of the contract, shall not perform work at a facility posted on the EPA List of Violating Facilities.

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT BY AND BETWEEN POGO PRODUCING COMPANY, AS OPERATOR AND MOBIL PRODUCING TEXAS & NEW MEXICO INC., ET AL, AS NON-OPERATOR(S), DATED APRIL 1, 1986.

EXHIBIT " G "

RELATIONSHIP OF PARTIES AND TAX PROVISIONS

1. Designation and Effect of Documents.
This Exhibit is referred to in, and is a part of, that certain agreement dated April 1, 1986, by and among MOBIL PRODUCING TEXAS & NEW MEXICO INC., ET AL, AS NON-OPERATORS, and POGO PRODUCING COMPANY, AS OPERATOR, and covering Section 34, T-23-S, R-31-E, Eddy County, New Mexico, hereinafter referred to as the "Agreement". Such Agreement includes all Exhibits thereto, other than this Exhibit, and all other agreements to the extent related to this Agreement, and this Exhibit to the Agreement is hereinafter referred to as the or this "Exhibit". Except as may be otherwise provided in this Exhibit, terms defined and used in the Agreement shall have the same meaning when used in this Exhibit as in the Agreement.

Except as otherwise provided in the Agreement, the liabilities of the parties shall be several and not joint or collective, and each party shall be responsible only for its share of the costs and liabilities incurred hereunder. It is not the purpose or intention of this Exhibit or the Agreement to create any commercial partnership, mining partnership, or other partnership, association or trust, nor to provide for cooperative refining or processing or for the joint sale or marketing of product, and neither this Exhibit nor the Agreement nor the operations hereunder shall be construed or considered as creating any such relationship.

The parties intend, however, pursuant to Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954, as amended (the "Code"), to create by this Exhibit a partnership for United States income tax purposes (and state income tax purposes where required or appropriate), and each party (including any person who hereafter becomes a party) agrees not to elect to be excluded from the application of said Subchapter K and, where appropriate or required, any similar state statute. The effective date of this Exhibit shall be the effective dated of the Agreement. All references to sections of the Code or regulations thereunder in this Agreement shall also constitute references to comparable provisions of state law.

2. Contribution to Partnership.
Notwithstanding anything contained herein, express or implied, to the contrary, for purposes of this article: (i) the entire amount of each party's interest in any property subject to the Agreement, including but not limited to the properties described in Exhibit " ", shall be deemed to be contributed to the Partnership on the effective date of this Agreement, and (ii) all amounts contributed by each party to pay the costs and expenditures arising under this Agreement shall be deemed to be contributed to the Partnership at the time the amounts are actually paid to the Operator.

Following such contributions, each party hereby agrees to hold legal title to its interest in all the property of the Partnership as nominee for the Partnership.

3. A. Partnership Accounting
(1) The tax partnership created by the parties hereto is herein referred to in this Exhibit as the "Partnership".
(2) For purposes of reporting on both federal and state partnership returns, the Partnership shall keep its accounts on the accrual method of accounting.

(3) The taxable year of the Partnership, for purposes of reporting on both federal and state partnership returns, shall be the calendar year.

(4) All necessary tax returns, including federal and state partnership income tax returns covering the operations reportable by the Partnership, shall be prepared and filed by Operator. Each party agrees to furnish to Operator information in its possession that is required for proper preparation of such tax returns. Operator agrees to use its best efforts in the preparation and filing of such tax returns but, in doing so, shall incur no liability to any party with respect to such returns or any elections relating thereto. When preparing such returns, Operator shall furnish a draft copy of the return to the parties within a reasonable time prior to the filing of such returns.

(5) In preparing the necessary partnership tax returns, Operator, on behalf of the Partnership, shall make the following specific elections, as well as any other elections approved by a majority interest of the parties to the Agreement as those interests are described in the Agreement:

(a) To deduct as expenses all intangible drilling and development costs pursuant to section 263 (c) of the Code.

(b) To compute depreciation, amortization and/or capital cost recovery allowances using the most accelerated method and the shortest useful life authorized by the Code, consistent with the maximization of the deductions and credits allowed thereunder.

(c) To deduct currently all research and experimental expenditures pursuant to section 174 of the Code.

(d) To deduct all minimum advanced royalties in the year such minimum advanced royalties are paid or accrued pursuant to Treasury Regulation Section 1.612-3(b)(3).

(e) To amortize start-up expenditures over a 60-month period in accordance with section 195(c) of the Code and/or comparable provisions of state law.

(6) (a) Operator, on behalf of the Partnership, shall not elect pursuant to section 48(q)(4) of the Code to reduce the amount of the credit allowed under section 38 of the Code.

(b) Operator shall not elect to have section 6232(c)(1) of the Code apply to the Partnership.

B. Allocations.

(1) It is the intent of the parties that the income, gains, losses, deductions, and credits allocated pursuant to Subparagraph (2) of this Paragraph B be given effect for federal and state income tax purposes. To accomplish this objective, the Partnership shall allocate to each party the specific tax basis and tax attributes of, or associated with, such party's respective contributions to the Partnership, whether they be in cash or other property. In applying the preceding sentence, where a party contributes cash to the Partnership which is in turn used to acquire property, the property shall be treated as having been purchased by such party and then contributed to the Partnership.

(2) The parties agree that for federal and state income tax purposes, gains and losses from sales, abandonments and other dispositions of property, and all items or classes of costs, expenses, miscellaneous or statutorily created income or credits, recaptures, and/or disallowances, including depreciation and depletion, shall be shared and accounted for as follows:

(a) Except as provided in Subparagraph (b) below, items of income, gain and/or loss reported by the Partnership on federal or state income tax returns shall be allocated to the party or parties realizing or bearing such items as provided in this Agreement.

(b) (1) Gains and/or losses arising from each sale, abandonment, or other disposition of property (other

than oil, gas, and/or other hydrocarbon substances produced from the Partnership properties) shall be allocated to each party in such a manner as will reflect the gain and/or loss that would have been includable in such party's respective income tax return if the parties hereto:

(i) had elected to be excluded from Subchapter K of the code and/or any similar provisions of applicable state laws, and

(ii) had made the same elections that were made by the Partnership pursuant to paragraph A(5) above.

The computation of gain and/or loss shall take into account each party's share of the proceeds derived from each sale or other disposition, selling expenses and the party's respective contributions to the unadjusted cost basis of such property, less any allowed or allowable depreciation, depletion, amortization, or other deductions which have been allocated to each party.

(2) If the application of the preceding Subparagraph results in the allocation of gains and/or losses in excess of the "ceiling limitation" imposed by Treasury Regulation Section 1.704-1(c)(2)(i), the parties agree that the entire gains and/or losses shall be determined at the Partnership level. If such a determination results in Partnership gain, such gain shall be allocated to the party who otherwise would have been allocated a gain under the provisions of the preceding Subparagraph (1). If such a determination results in a Partnership loss, such loss shall be allocated to the Party who otherwise would have been allocated a loss under the preceding Subparagraph (1).

(c) Exploration costs, intangible drilling and development costs, rental costs, and production costs shall be allocated to each party in accordance with such party's respective contributions to such costs. Any subsequent recapture of intangible drilling and development costs under section 1254 of the Code shall be allocated to the party allocated the deduction for such costs.

(d) Depreciation or amortization attributable to tangible equipment shall be allocated to each party in accordance with such party's respective contributions to the adjusted basis of such equipment. The term "adjusted basis" shall mean the adjusted basis as defined in section 1011 of the Code. Any subsequent recapture of depreciation of property under section, 1245 or 1250 of the Code, or any similar state law, shall be allocated to the parties to whom such depreciation was originally allocated.

(e) The deduction for depletion under section 611 of the Code with respect to each separate oil and gas property shall be computed separately by each party rather than by the Partnership in accordance with section 613A(c)(7)(D) of the Code. For purposes of such computation, each party shall be considered to own, and shall be allocated, its proportionate share of the adjusted basis (in accordance with section 1011 of the Code) in each oil and gas property subject to this Agreement. For this purpose, the proportionate share of each party in the adjusted basis of each property subject to the Agreement shall be such party's interest in the Partnership capital with respect to that property and shall be determined in accordance with such party's: (i) contributions of funds used to acquire such property, or (ii) interest in the adjusted basis of such property if contributed to the Partnership. Each of the parties:

(1) shall keep records of its share of the adjusted basis in each oil and gas property,

(2) shall adjust such share of the adjusted basis pursuant to section 1016 of the Code, and

(3) shall use such adjusted basis in the yearly computation of its cost depletion or in its computation of gain or loss on the disposition of such property. Upon the request of Operator, each party shall furnish its percentage or cost depletion calculation to Operator as computed in accordance with the provisions of this subparagraph.

(f) For the purpose of determining each party's share of the investment tax credit, the qualified investment under section 38 of the Code shall be allocated in accordance with Treasury Regulation Section 1.46-3(f)(2)(ii) to each party in accordance with such party's respective contributions to the acquisition of such property. Any subsequent recapture of the investment tax credit by reason of the sale or other disposition of such property under section 47 of the Code shall be allocated to the party allocated such qualified investment.

(g) All other items or classes of cost, expenses, miscellaneous or statutorily created income or credits, recaptures and/or disallowances not falling within Subparagraphs (a) through (f) of this Paragraph shall be allocated to and accounted for by each party in accordance with its respective contributions to, or the benefit from, such costs, expenses, miscellaneous or statutorily created income or credits, recaptures and/or disallowances.

C. Partnership Capital Accounts.

A separate capital account shall be established and maintained for each party and shall be, from time to time, credited with:

(1) the tax basis of the party's interest in the property contributed to the Partnership;

(2) all amounts contributed by the party to pay the costs and expenditures arising pursuant to this Agreement;

(3) all income or gains, including income exempt from tax, if any, allocated to the party under paragraph B(2) hereof; and

(4) such party's percentage depletion with respect to a property (as defined in section 614 of the Code) in excess of that party's basis in such property if and to the extent such depletion is debited to that party's capital account under Paragraph B(2)(e).

Each party's capital account shall be, from time to time, debited with:

(1) all losses, expenses, and deductions allocated to that party under Paragraph B(2) and that Party's share of any expenditures described in Section 705(a)(2)(B) of the Code;

(2) any basis adjustments required by section 48(q) and 1016(a)(24) of the Code;

(3) cash received by that party with respect to Partnership property of by distribution from the Partnership, and

(4) the Partnership's tax basis, if any, of property distributed by the Partnership to that party.

D. Winding Up.

If, upon termination of the Partnership pursuant to the terms of this Agreement or under section 708(b) of the Code, the capital accounts of each party (stated as a percentage of the capital accounts of all parties) are not equal to each party's ownership interest in the Partnership, the parties hereby agree and obligate themselves as follows:

(1) The Partnership will first distribute to each party

(a) any property contributed by that party where no interest has been earned in that property by any other party, and

(b) all cash on hand representing unexpended contributions by any such party.

If any such distributions are made, the capital accounts of the parties shall be adjusted as provided above.

(2) (a) Any party who has a negative capital account, that is, one whose balance is less than zero, shall contribute an amount of cash to the Partnership sufficient to achieve a zero balance capital account.

(b) Following the contribution pursuant to Subparagraph (a) of this Paragraph, if the capital accounts of each and every party (stated as a percentage of the capital accounts of all parties) are not in the same ratio as each such party's ownership interest in the Partnership, then the Partnership shall be deemed to have sold all the property of the Partnership for a price equal to its fair market value at the time of termination. The parties shall agree upon the fair market value of the property of the Partnership; provided, however, in the event that the parties fail to agree, Operator shall cause a nationally recognized independent engineering firm to decide the fair market value of such property. The gain or loss deemed to result from such deemed sales shall be allocated to the parties' respective capital accounts (with no deemed distribution of the proceeds) pursuant to Paragraph B(2)(b)(1) of this article.

(c) Following the deemed sale pursuant to Subparagraph (b) of this Paragraph, if the capital account of each and every party (stated as a percentage of the capital accounts of all parties) is not equal to such party's ownership interest in the Partnership, then all non-equal parties shall, upon ten (10) days notice by Operator, contribute a sufficient amount of cash or other property (valued at fair market value) to the Partnership to cause such parties' capital accounts and their ownership interest in the Partnership to be in parity.

(d) Following the adjustments and/or contributions under Subparagraphs (a) through (c) above, all remaining properties held by the Partnership shall be distributed to the parties in accordance with their capital accounts.

(3) Notwithstanding Subparagraph (2) above, if drilling or other operations have been conducted and the cost or expense thereof has been allocated to the parties in a ratio (the "Special Ratio") other than the ratio of their overall interests under the Agreement, and if, as a result of such operation, the income resulting from production from such operation is being allocated at the date of termination of the Agreement to the parties in the Special Ratio pending satisfaction of the terms of a payout provision, then the allocations, distributions of cash and/or assignments to be made to the parties pursuant to Subparagraph (2) above in such operation shall be entitled to the undivided interest in such well or area and the production accruing thereto in accordance with the Special Ratio instead of the ratio they would otherwise acquire pursuant to Subparagraph (2) above, until the terms of such payout provisions have been satisfied or until the well is plugged and abandoned (or the area is abandoned), whichever is earlier. Thereafter, as provided in Subparagraph (2) above, such well or area and the remaining production therefrom, in whole or in part, shall be transferred to the party or parties entitled to that interest under the payout provision of the Agreement. All parties agree to execute any document and take any other action necessary to accomplish this purpose.

E. Administration and Audits.

(1) Designation of Tax Matters Partner. Operator is designated Tax Matters Partner (hereinafter "TMP") as defined in section 6231(a)(7) of the Code. In the event of any change in TMP, the party serving as TMP for a given taxable year shall continue as TMP with respect to all matters concerning such year. The TMP and other

parties shall use their best efforts to comply with the responsibilities outlined in this section and in sections 6222 through 6232 of the Code (including any Treasury Regulations promulgated thereunder) and in doing so shall incur no liability to any other party. Notwithstanding TMP's obligation to use its best efforts in the fulfillment of its responsibilities, TMP shall not be required to incur any expenses for the preparation for or pursuance of administrative or judicial proceedings unless the parties agree on a method for sharing such expenses.

(2) Notice. The parties shall furnish TMP with such information (including information specified in section 6230(e) of the Code) as it may reasonably request to permit it to provide the Internal Revenue Service with sufficient information to allow proper notice to the parties in accordance with section 6223 of the Code.

(3) Inconsistent Treatment of Partnership Item. If any party intends to file a notice of inconsistent treatment under section 6222(b) of the Code, such party shall notify the other parties in a reasonable time and manner of such intent and the manner in which the party's intended treatment of a partnership item is (or may be) inconsistent with the treatment of that item by the Partnership.

(4) Extensions of Limitations Period. The TMP shall not enter into any extension of the period of limitations for making assessments on behalf of any other party without first securing the written consent of the party.

(5) Requests for Administrative Adjustments. No party shall file, pursuant to section 6227 of the Code, a request for an administrative adjustment of partnership items for any partnership taxable year without first notifying all other parties. If all other parties agree with the requested adjustment, the TMP shall file the request for administrative adjustment on behalf of the Partnership. If unanimous consent is not obtained within 30 days, or within the period required to timely file the request for administrative adjustment, if shorter, any party, including the TMP, may file a request for administrative adjustment on its own behalf.

(6) Judicial Proceedings. Any party intending to file a petition under sections 6226, 6228 or other sections of the Code with respect to any Partnership item, or other tax matters involving the Partnership, shall notify the other parties of such intention and the nature of the contemplated proceeding. In the case where the TMP is the party intending to file such petition, such notice shall be given within a reasonable time to allow the other parties to participate in the choosing of the forum in which such petition will be filed. If the parties do not agree on the appropriate forum, then the appropriate forum shall be decided by majority vote. Each party shall have a vote in accordance with its percentage interest in the venture. If a majority cannot agree, the TMP shall choose the forum. If any party intends to seek review of any court decision rendered as a result of a proceeding instituted under the preceding part of this Paragraph (6) such party shall notify the other parties of such intended action.

(7) Settlements. The TMP shall not bind any other party to a settlement agreement without obtaining the written concurrence of any such party who would be bound by such agreement. Any other party who enters a settlement agreement with the Secretary of the Treasury with respect to any Partnership items, as defined by section 6231(a)(3)

of the Code, shall notify the other parties of such settlement agreement and its terms within 90 days from the date of settlement.

(8) Survival. The provisions of sections E(1) through E(7) shall survive the termination of the Tax Partnership or the termination of any party's interest in the Partnership and shall remain binding on the parties for a period of time necessary to resolve with the Internal Revenue Service or the Department of the Treasury any and all matters regarding the federal income taxation of the Tax Partnership.

4. Amendment of Exhibit.
This Exhibit is intended to satisfy the requirements of section 704(b) of the Code and the regulations thereunder and should be so interpreted. The parties agree that certain amendments will be made in this Exhibit to conform such Exhibit to the requirements of final regulations to be issued under section 704(b) of the Code, provided that such amendments will be consistent with the intention of the Agreement.

5. Priority of This Exhibit.
In the event of any conflict or inconsistency, whether direct or indirect, actual or apparent, between the terms and conditions of this Exhibit and the terms and conditions of the Agreement, the terms and conditions of the Exhibit shall govern.