

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

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

October 16 , 19 86 ,

OPERATOR Barbara Fasken

CONTRACT AREA Union Texas Petroleum - Gladiola Northeast Prospect

being area within red outline on Plat Exhibit A-1 attached hereto
as a part hereof.

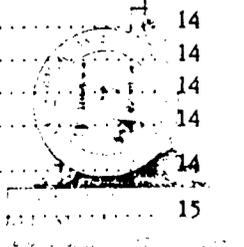
COUNTY ~~OF~~ Lea STATE OF New Mexico

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

BEFORE EXAMINER CATANACH
OIL CONSERVATION DIVISION
Basken EXHIBIT NO. 1
CASE NO: 9201

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OPERATING AGREEMENT

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

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

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

- A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.
B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.
C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.
D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".
E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.
F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.
G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.
H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

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

ARTICLE II.
EXHIBITS

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

- [X] A. Exhibit "A", shall include the following information:
(1) Identification of lands subject to this agreement,
(2) Restrictions, if any, as to depths, formations, or substances,
(3) Percentages or fractional interests of parties to this agreement,
(4) Oil and gas leases and/or oil and gas interests subject to this agreement,
(5) Addresses of parties for notice purposes.
[X] B. Exhibit "B", Form of Lease.
[X] C. Exhibit "C", Accounting Procedure.
[X] D. Exhibit "D", Insurance.
[X] E. Exhibit "E", Gas Balancing Agreement.
[X] F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.
[] G. Exhibit "G", Tax Partnership.

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

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B. Interests of Parties in Costs and Production:

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

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

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

C. Excess Royalties, Overriding Royalties and Other Payments:

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

D. Subsequently Created Interests:

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

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

ARTICLE IV.
TITLES

A. Title Examination:

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

Option No. 1 deleted - Option No. 2 selected.

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

ARTICLE IV
continued

1 Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys for title examination
2 (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties
3 in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Ex-
4 hibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above
5 functions.
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7 Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection
8 with leases or oil and gas interests contributed by such party. Operator shall be responsible for the preparation and recording of pooling
9 designations or declarations as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling orders.
10 This shall not prevent any party from appearing on its own behalf at any such hearing.
11

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

16 **B. Loss of Title:**

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

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

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

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

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

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

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

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

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

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

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

62 **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
63 and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of
64 the Contract Area.
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ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

Barbara Fasken _____ 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:

for the account of the parties hereto

On or before the 1st day of August, 1987, Operator shall commence the drilling of a well for oil and gas at ~~the following location~~ the timing and Location of which shall be mutually agreed by the parties. However, in case of conflicting desires, the desire of the Operator shall prevail.

Upon commencing Operator shall thereafter continue the drilling of the well with due diligence to a depth sufficient to test the Silurian/Devonian formation (footage established by mutual agreement) or a total depth of 12,200 feet, whichever is the lesser.

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

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

ARTICLE VI
continued

1 If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the
2 well as a dry hole, the provisions of Article VI.E.1. shall thereafter apply.
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6 **B. Subsequent Operations:**
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8 1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided
9 for in Article VI.A., or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all
10 the parties and not then producing in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the
11 other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective forma-
12 tion and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice
13 within which to notify the party wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drill-
14 ing rig is on location, notice of a proposal to rework, plug back or drill deeper may be given by telephone and the response period shall be
15 limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays. Failure of a party receiving such notice to reply within
16 the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or
17 response given by telephone shall be promptly confirmed in writing.
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21 If all parties elect to participate in such a proposed operation, Operator shall, within ninety (90) days after expiration of the notice
22 period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on loca-
23 tion, as the case may be), actually commence the proposed operation and complete it with due diligence at the risk and expense of all par-
24 ties hereto; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties,
25 for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary to obtain
26 permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title ex-
27 amination or curative matter required for title approval or acceptance. Notwithstanding the force majeure provisions of Article XI, if the
28 actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein) and
29 if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accor-
30 dance with the provisions hereof as if no prior proposal had been made.
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34 2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VII.D.1. (Option
35 No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties
36 giving the notice and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of
37 the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is
38 on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all
39 work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is
40 a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed opera-
41 tion for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Con-
42 senting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and con-
43 ditions of this agreement.
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47 If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable
48 notice period, shall advise the Consenting Parties of the total interest of the parties approving such operation and its recommendation as
49 to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours
50 (exclusive of Saturday, Sunday and legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit par-
51 ticipation to such party's interest as shown on Exhibit "A" or (b) carry its proportionate part of Non-Consenting Parties' interests, and
52 failure to advise the proposing party shall be deemed an election under (a). In the event a drilling rig is on location, the time permitted for
53 such a response shall not exceed a total of forty-eight (48) hours (inclusive of Saturday, Sunday and legal holidays). The proposing party,
54 at its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.
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58 The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have
59 elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such
60 operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties.
61 If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well and restore the surface location at their
62 sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a pro-
63 ducer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk,
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ARTICLE VI
continued

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

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

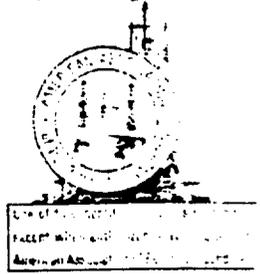
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21 (b) 300 % of that portion of the costs and expenses of drilling, reworking, deepening, plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and 300 % of that portion of the cost of newly acquired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

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

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

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

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



ARTICLE VI
continued

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

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

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

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

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

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

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

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

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

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

ARTICLE VI
continued

1 required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.
2

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

7 In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of
8 the oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not
9 the obligation, to purchase such oil or sell it to others at any time and from time to time, for the account of the non-taking party at the
10 best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to the right of the
11 owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil not previously
12 delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil shall be only for such reasonable periods of
13 time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess
14 of one (1) year.
15

16 In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines and/or
17 deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total gas sales to
18 be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with any gas balancing
19 agreement between the parties hereto, whether such an agreement is attached as Exhibit "E", or is a separate agreement.
20

21 **D. Access to Contract Area and Information:**
22

23 Each party shall have access to the Contract Area at all reasonable times, at its sole cost and risk to inspect or observe operations,
24 and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books
25 and records relating thereto. Operator, upon request, shall furnish each of the other parties with copies of all forms or reports filed with
26 governmental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of
27 each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of
28 gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that re-
29 quests the information.
30

31 **E. Abandonment of Wells:**
32

33 1. Abandonment of Dry Holes: Except for any well drilled or deepened pursuant to Article VI.B.2., any well which has been
34 drilled or deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned
35 without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply
36 within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of notice of the proposal to plug and abandon
37 such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in
38 accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or deepening
39 such well. Any party who objects to plugging and abandoning such well shall have the right to take over the well and conduct further
40 operations in search of oil and/or gas subject to the provisions of Article VI.B.
41

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

1 "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the
2 assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentage of participation in the
3 Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of
4 interests in the remaining portion of the Contract Area.
5

6 Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from
7 the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon re-
8 quest, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges con-
9 templated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned
10 well. Upon proposed abandonment of the producing interval(s) assigned or leased, the assignor or lessor shall then have the option to
11 repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the pro-
12 visions hereof.
13

14 3. Abandonment of Non-Consent Operations: The provisions of Article VI.E.1. or VI.E.2. above shall be applicable as between
15 Consenting Parties in the event of the proposed abandonment of any well excepted from said Articles; provided, however, no well shall be
16 permanently plugged and abandoned unless and until all parties having the right to conduct further operations therein have been notified
17 of the proposed abandonment and afforded the opportunity to elect to take over the well in accordance with the provisions of this Article
18 VI.E.
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20 ARTICLE VII.
21 EXPENDITURES AND LIABILITY OF PARTIES
22

23 A. Liability of Parties:
24

25 The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and
26 shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted
27 among the parties in Article VII.B. are given to secure only the debts of each severally. It is not the intention of the parties to create, nor
28 shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.
29

30 B. Liens and Payment Defaults:
31

32 Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share
33 of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon
34 at the rate provided in Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the
35 state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the ob-
36 taining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien
37 rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share
38 of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from
39 the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest, has been paid. Each
40 purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien
41 and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.
42

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

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

55 Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance
56 of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding
57 month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together
58 with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted
59 on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within
60 ~~fifteen (15) days~~ ^{thirty (30)} days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount
61 due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual ex-
62 pense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.
63

64 D. Limitation of Expenditures:
65

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

Option No. 1 deleted - Option No. 2 ^{continued} selected.

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 Twenty-five Thousand ----- Dollars (\$25,000.00) ~~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.3.

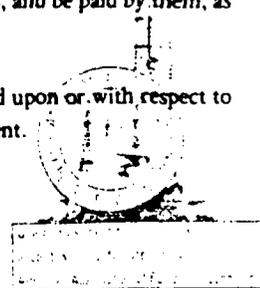
Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holidays), or at the earliest opportunity permitted by circumstances, prior to taking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

F. Taxes:

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

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

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



ARTICLE VII
continued

1 G. Insurance:

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

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

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

15
16 A. Surrender of Leases:

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

20
21 However, should any party desire to surrender its interest in any lease or in any portion thereof, and the other parties do not
22 agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in
23 such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production
24 thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an oil and gas in-
25 terest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering
26 such oil and gas interest for a term of one (1) year and so long thereafter as oil and/or gas is produced from the land covered thereby, such
27 lease to be on the form attached hereto as Exhibit "B". Upon such assignment or lease, the assigning party shall be relieved from all
28 obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well
29 attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and pro-
30 duction other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the
31 party assignor or lessor the reasonable salvage value of the latter's interest in any wells and equipment attributable to the assigned or leas-
32 ed acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of
33 salvaging and the estimated cost of plugging and abandoning. If the assignment or lease is in favor of more than one party, the interest
34 shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties.

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

40
41 B. Renewal or Extension of Leases:

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

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

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

56
57 The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease
58 or cover only a portion of its area or an interest therein. Any renewal lease taken before the expiration of its predecessor lease, or taken or
59 contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or con-
60 tracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease and shall not be subject to
61 the provisions of this agreement.

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

64
65 C. Acreage or Cash Contributions:

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

ARTICLE VIII
continued

1 said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the extent possible, be
2 governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any acreage or cash contributions
3 it may obtain in support of any well or any other operation on the Contract Area. The above provisions shall also be applicable to op-
4 tional rights to earn acreage outside the Contract Area which are in support of a well drilled inside the Contract Area.
5

6 If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such
7 consideration shall not be deemed a contribution as contemplated in this Article VIII.C.
8

9 D. Maintenance of Uniform Interest:

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

- 14
- 15 1. the entire interest of the party in all leases and equipment and production; or
- 16
- 17 2. an equal undivided interest in all leases and equipment and production in the Contract Area.
- 18

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

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

29 E. Waiver of Rights to Partition:

30
31 If permitted by the laws of the state or states in which the property covered hereby is located, each party hereby owning an
32 undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided
33 interest therein.
34

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

~~36
37 Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract
38 Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the
39 name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms
40 of the offer. The other parties shall then have an optional prior right for a period of ten (10) days after receipt of the notice, to purchase
41 on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchas-
42 ing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing par-
43 ties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to
44 dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary of parent com-
45 pany or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

46
47 ARTICLE IX.
48 INTERNAL REVENUE CODE ELECTION
49

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

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Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed Ten Thousand ----- Dollars (\$10,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder. All claims or suits involving title to any interest subject to this agreement shall be treated as a claim or suit against all parties hereto owning the interest upon which claim or suit is made.

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 deleted - Option No. 1 selected.

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

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



ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

C. Regulatory Agencies:

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

With respect to operations hereunder, Non-Operators 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. Media Releases:

No party hereto shall distribute any information or photographs to the press or other media without the approval of all other parties hereto. When all parties hereto have reviewed such material and have approved the issuance of the material, Operator shall have the principle responsibility for its issuance (but shall not be liable for failure or error in exercising such responsibility), and each other party hereto may issue such approved material without restriction. Nothing herein contained, however, shall preclude any party hereto from making such disclosures as may be required by any applicable law, order, rule, regulation or ordinance.

B. Meetings:

The parties hereto agree that prior to drilling operations for any well drilled hereunder, there shall be an operational meeting scheduled and held, (unless mutually waived) at which representatives of the parties will discuss the mechanics and engineering plans of drilling and completing the proposed well.

C. Area of Mutual Interest:

The parties hereto agree that the Contract Area (set forth in Item (A) of Exhibit "A" hereto) shall be an Area of Mutual Interest which shall remain in full force and effect for the life of this agreement and terminate concurrently with termination of this agreement. The Area of Mutual Interest shall be fixed to coincide with the original Contract Area and shall not be enlarged by future acquisitions.

Should either party ("acquiring party") hereto hereafter acquire, or have the option to acquire an oil and/or gas lease or oil and gas interest which is completely or partially within the Area of Mutual Interest, such acquiring party shall promptly notify the other party/ies of such acquisition or option in writing by certified mail specifying the price paid or to be paid or conditions and requirements of such acquisition. The party/ies so notified shall have the option to participate or not in such acquisition for a share equal to its percentage or fractional interest in this agreement as indicated in Exhibit "A", Item (C) "Interests of the Parties." The party receiving notice shall within thirty (30) days from the date of receipt inform the acquiring party whether or not it will participate in the acquisition. Failure of the party receiving notice to so inform the acquiring party within the thirty (30) day period shall be deemed as an election of such party not to participate in the acquisition.

The parties participating in any acquisition shall, to the extent of their participating interest, bear and be responsible for their proportionate share of the cost (cost includes but is not limited to bonuses paid, brokerage costs and applicable attorney fees). If acquisition is by method all or in part other than cash (such as performance obligation, to drill a well to earn the interest), participating parties shall to the extent of their participating interest bear and be responsible for their proportionate share of costs of such acquisition method.

All parties participating in an acquisition shall to the extent of their participating interest bear and be responsible for all burdens such as royalty, overriding royalty, etc., to which the property is subject at the time of acquisition.

If all parties to this agreement participate in an acquisition pursuant to this Area of Mutual Interest provision, the acquired interest shall automatically become subject to this agreement as between the parties hereto. If less than all parties to this agreement participate in an acquisition, the acquired interest shall not be subject to this agreement unless those parties participating in such acquisition mutually agree to make the interest subject to this agreement as between themselves. The remedy for failure by the acquiring party to notify the other party of a proposed acquisition shall be specific performance, at the option of such other party if the acquisition is made.

D. Permian Basin Exploratory Package:

This agreement is being executed contemporaneously with two other operating agreements as part of an overall agreement between Operator and Non-Operator providing for exploration of the Morita-Wilkinson Area in Howard County, Texas, the Gladiola Northeast Area in Lea County, New Mexico and the Allar Prospect in Martin County, Texas. Upon execution of the three operating agreements, Operator shall pay to Non-Operator the sum of \$366,149.00 as consideration for assignment by Non-Operator to Operator of an undivided one-half of Non-Operator's right, title and interest in the oil and gas leases enumerated in Exhibit A-2 of each of the operating agreements. That portion of the total sum of \$366,149.00 which is consideration for the assignment of an undivided one-half of Non-Operator's right, title and interest in the leases listed in Exhibit A-2 of this agreement is \$136,817.50, which represents fifty percent (50%) of the leasehold costs of such leases plus fifty percent (50%) of geophysical exploration costs less the cost of group shoot data for group shoots in which both Operator and Non-Operator participated.

As further consideration, Operator shall pay two-thirds of drilling costs to casing point on the Initial Well as described in Article VI.A. of each operating agreement, including logging and testing of such Initial Well. Subsequent to the casing point election for the Initial Well, as provided in Article VII (D)(1), Operator and Non-Operator shall pay all costs in proportion to their share of interest as provided in Item C of Exhibit "A".

- E. In the event that Barbara Fasken, as Operator, does not commence the drilling of the Initial Test Well as described at Article VI. A., then Barbara Fasken shall re-assign to Union Texas Petroleum Corporation all acreage subject to this agreement, said re-assignment to be without any cost or expense to Union Texas Petroleum Corporation and furthermore, the re-assigned oil and gas leases shall be subject only to those burdens in existence as of October 16, 1986.

- F. If there is any conflict between the provisions of this agreement and any previous contracts, letters and/or verbal understandings and/or agreements, the provisions of this agreement shall prevail and govern.

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 October 1986.

OPERATOR

Barbara Fasken

By: _____

NON-OPERATORS

Union Texas Petroleum Corporation

By: J.S. Empie

J.S. Empie
Vice President
U.S. Exploration

STATE OF TEXAS §
COUNTY OF _____ §

This instrument was acknowledged before me _____, 1986 by Barbara Fasken.

My Commission Expires:

Notary Public, State of Texas

STATE OF TEXAS §
COUNTY OF HARRIS §

This instrument was acknowledged before me on November 6, 1986 by J. S. Empie, Vice President - U. S. Exploration of Union Texas Petroleum Corporation, a Delaware corporation, on behalf of the corporation.

My Commission Expires:



Isabel A. Bishop
Notary Public, State of Texas

EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated October 16, 1986, by and between Barbara Fasken, Operator, and Union Texas Petroleum Corporation, Non-Operator, covering Gladiola Northeast Prospect, Lea County, New Mexico.

A. Lands Subject to this Agreement

The land subject to this Agreement are all lands and area within the red outline on Plat Exhibit A-1 attached hereto and made a part hereof.

B. Restrictions as to Depth

There are no restrictions.

C. Interests of the Parties

<u>PARTY</u>	<u>INTEREST</u>
Barbara Fasken	50.00000%
Union Texas Petroleum Corporation	<u>50.00000%</u>
Total	<u>100.00000%</u>

NOTE: Barbara Fasken hereby agrees to pay 66.66666% of the drilling costs on the Initial Well before casing point. The remaining costs and expenses of the Initial Well and any subsequent wells to be borne by the parties as indicated above.

D. Oil and Gas Leases Subject to this Agreement

The Leases subject to this Agreement are scheduled on Exhibit "A-2" attached hereto and made a part hereof.

E. Addresses of the Parties

Barbara Fasken: Norbert J. Dickman, General Manager
303 West Wall Avenue, Suite 1901
Midland, Texas 79701-5116
Telephone: 915-687-1777

Richard S. Brooks, Land
303 West Wall Avenue, Suite 608
Midland, Texas 79701-0608
Telephone: 915-682-5285

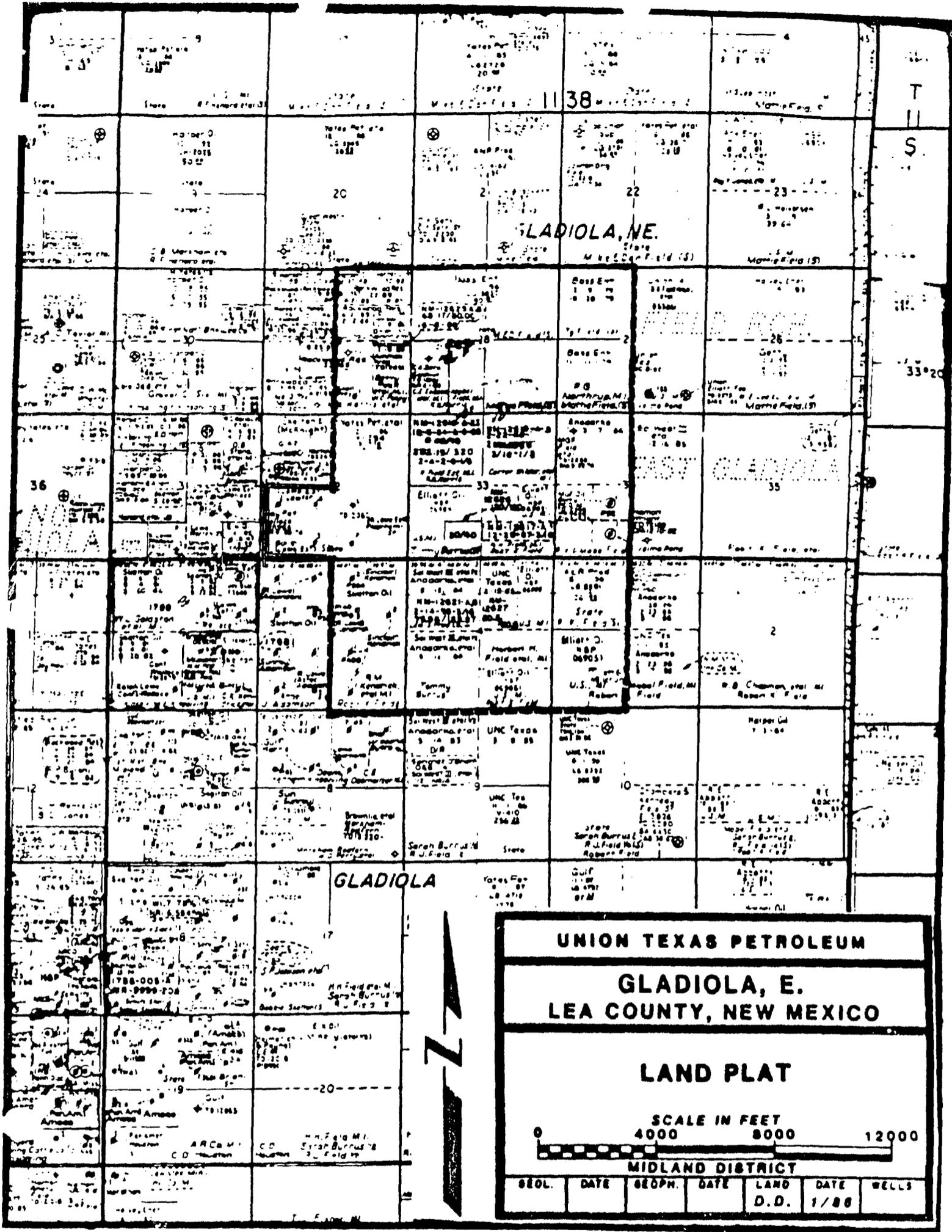
R. C. Leonard, Geology
303 West Wall Avenue, Suite 903
Midland, Texas 79701
Telephone: 915-682-1193

Robert H. Angevine, Engineering and Production
303 West Wall Avenue, Suite 1900
Midland, Texas 79701
Telephone: 915-683-1893

Union Texas Petroleum Corporation

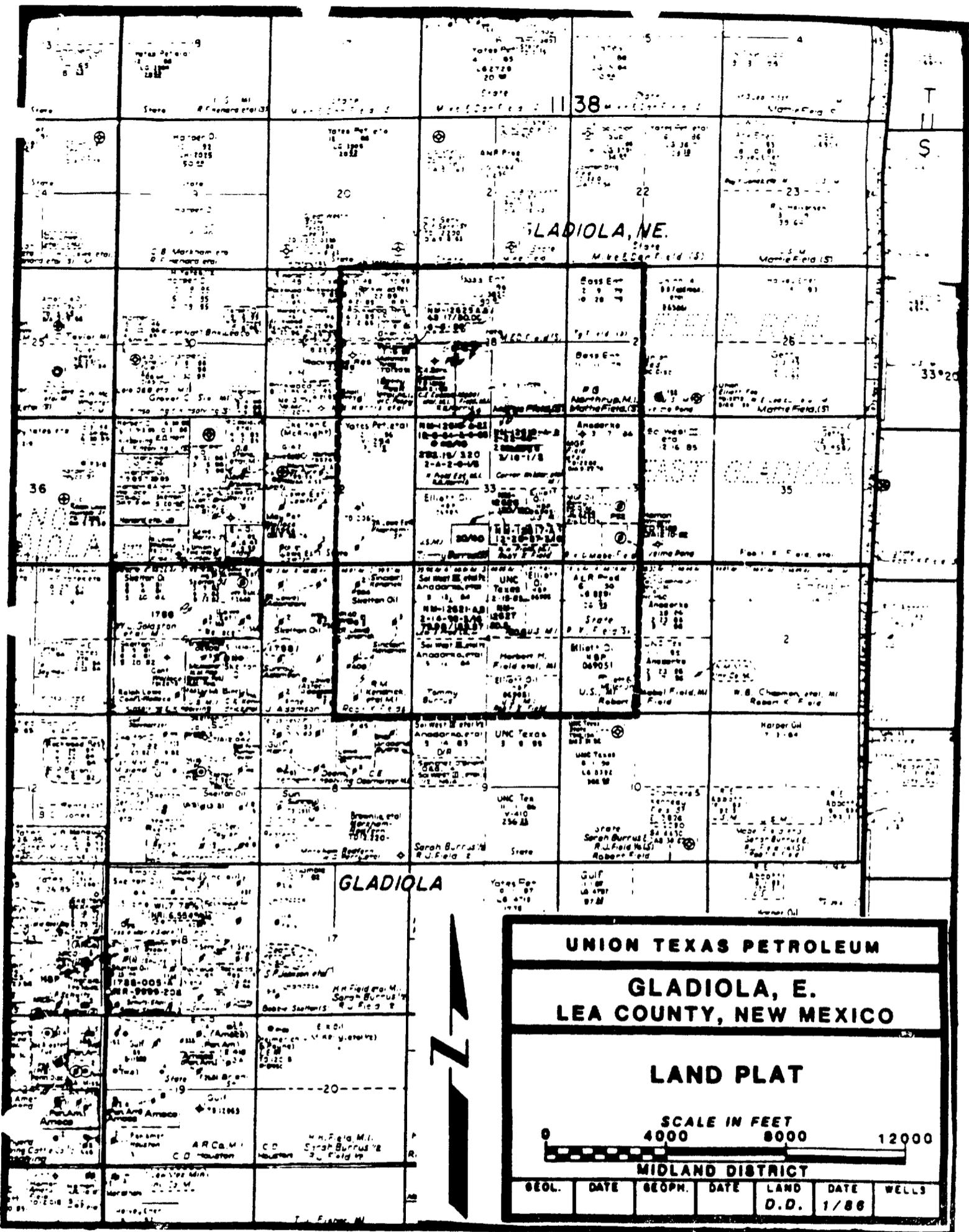
Main Office 1330 Post Oak Boulevard
P. O. Box 2120
Houston, Texas 77252-2120
Phone (switchboard) 713-623-6544

District Office 4000 North Big Spring
Suite 500
Midland, Texas 79705
Phone (switchboard) 915-684-0600



PLAT
EXHIBIT "A-1"

Attached to and made a part of that certain Operating Agreement dated October 16, 1986 by and between Barbara Fasken, Operator, and Union Texas Petroleum Corporation, Non-Operator, covering Gladiola Northeast Prospect, Lea County, New Mexico.



PLAT
EXHIBIT "A-1"

Attached to and made a part of that certain Operating Agreement dated October 16, 1986 by and between Barbara Fasken, Operator, and Union Texas Petroleum Corporation, Non-Operator, covering Gladiola Northeast Prospect, Lea County, New Mexico.

EXHIBIT "A-2"
SCHEDULE OF LEASES SUBJECT TO AGREEMENT

Attached to and made a part of that certain Operating Agreement dated October 16, 1986, by and between Barbara Fasken, Operator, and Union Texas Petroleum Corporation, Non-Operator, covering Gladiola Northeast Prospect, Lea County, New Mexico.

- 1.) Lease No: NM-12627-A
Lease Date: May 17, 1985
Lessor: Tyson M. Field
Lessee: Harold R. Hart
Recording Data: Book 387, Page 585
Description: Lot 2 and SW/4 NE/4 Sec. 4-12S-38E, Lea Co., New Mexico

- 2.) Lease No: NM-12627-B
Lease Date: May 17, 1985
Lessor: Robert J. Field, et al
Lessee: Harold R. Hart
Recording Data: Book 387, Page 588
Description: Lot 2 and SW/4 NE/4 Sec. 4-12S-38E, Lea Co., New Mexico

- 3.) Lease No: NM-12626-A
Lease Date: May 17, 1985
Lessor: Tyson M. Field
Lessee: Harold R. Hart
Recording Data: Book 387, Page 578
Description: SE/4 SE/4 and W/2 SE/4 Sec. 33-11S-38E, Lea Co., New Mexico

- 4.) Lease No: NM-12626-B
Lease Date: May 17, 1985
Lessor: Mabel Field, et al
Lessee: Harold R. Hart
Recording Data: Book 387, Page 581
Description: SE/4 SE/4 and W/2 SE/4 Sec. 33-11S-38E, Lea Co., New Mexico

- 5.) Lease No: NM-12625-A
Lease Date: May 8, 1985
Lessor: 1st National Bank of Lubbock, Trustee of Walter & Hallie Posey Trust
Lessee: Harold R. Hart
Recording Data: Book 385, Page 838
Description: E/2 SE/4 Sec. 29-11S-38E, Lea Co., New Mexico

- 6.) Lease No: NM-12625-B
Lease Date: May 15, 1985
Lessor: Owen McWhorter
Lessee: Harold R. Hart
Recording Data: Book 386, Page 531
Description: E/2 SE/4 Sec. 29-11S-38E, Lea Co., New Mexico

- 7.) Lease No: NM-12625-C
Lease Date: May 14, 1985
Lessor: Nell Shelton, a widow
Lessee: Harold R. Hart
Recording Data: Book 387, Page 576
Description: E/2 SE/4 Sec. 29-11S-38E, Lea Co., New Mexico

- 8.) Lease No: NM-12625-D
 Lease Date: May 16, 1985
 Lessor: Alex Craig McDonald, et al
 Lessee: Harold R. Hart
 Recording Data: Book 387, Page 593
 Description: E/2 SE/4 Sec. 29-11S-38E, Lea Co., New Mexico
- 9.) Lease No: NM-12617-A
 Lease Date: December 26, 1984
 Lessor: Dorothy R. Hennington
 Lessee: Harold R. Hart
 Recording Data: Book 379, Page 818
 Description: SE/4 SW/4 Sec. 33-11S-38E, Lea Co., New Mexico
- 10.) Lease No: NM-12617-B
 Lease Date: December 26, 1984
 Lessor: Ouida M. Spears and James W. Spears, her husband
 Lessee: Harold R. Hart
 Recording Data: Book 380, Page 163
 Description: SE/4 SW/4 Sec. 33-11S-38E, Lea Co., New Mexico
- 11.) Lease No: NM-12619-A
 Lease Date: January 4, 1985
 Lessor: Webster Wilder, Jr. and Sally I. Wilder, his wife
 Lessee: Harold R. Hart
 Recording Data: Book 380, Page 165
 Description: SE/4 Sec. 28 and NE/4 Sec. 33-11S-38E, Lea Co., New Mexico
- 12.) Lease No: NM-12619-B
 Lease Date: January 8, 1985
 Lessor: Harold O. Harriger and Rebecca Harriger, his wife
 Lessee: Harold R. Hart
 Recording Data: Book 380, Page 167
 Description: SE/4 Sec. 28 and NE/4 Sec. 33-11S-38E, Lea Co., New Mexico
- 13.) Lease No: NM-12619-C
 Lease Date: January 4, 1985
 Lessor: Jane Ann Wilder Poynter, separately
 Lessee: Harold R. Hart
 Recording Data: Book 380, Page 726
 Description: SE/4 Sec. 28 and NE/4 Sec. 33-11S-38E, Lea Co., New Mexico
- 14.) Lease No: NM-12619-D
 Lease Date: January 8, 1985
 Lessor: Clarence P. Brazill, Jr.
 Lessee: Harold R. Hart
 Recording Data: Book 380, Page 728
 Description: SE/4 Sec. 28 and NE/4 Sec. 33-11S-38E, Lea Co., New Mexico
- 15.) Lease No: NM-12619-E
 Lease Date: January 24, 1985
 Lessor: Wayne R. Bright
 Lessee: Harold R. Hart
 Recording Data: Book 381, Page 172
 Description: SE/4 Sec. 28 and NE/4 Sec. 33-11S-38E, Lea Co., New Mexico

- 16.) Lease No: NM-12619-F
Lease Date: January 24, 1985
Lessor: Kenneth Lee Bright
Lessee: Harold R. Hart
Recording Data: Book 381, Page 593
Description: SE/4 Sec. 28 and NE/4 Sec. 33-11S-38E, Lea Co., New Mexico
- 17.) Lease No: NM-12619-G
Lease Date: January 24, 1985
Lessor: Mabel Sanderson Ansley, et al
Lessee: Harold R. Hart
Recording Data: Book 381, Page 690
Description: SE/4 Sec. 28 and NE/4 Sec. 33-11S-38E, Lea Co., New Mexico
- 18.) Lease No: NM-12619-H
Lease Date: January 24, 1985
Lessor: Nick Joe Nelson
Lessee: Harold R. Hart
Recording Data: Book 381, Page 692
Description: SE/4 Sec. 28 and NE/4 Sec. 33-11S-38E, Lea Co., New Mexico
- 19.) Lease No: NM-12619-I
Lease Date: January 18, 1985
Lessor: Paul Pugh and Sarita Pugh, his wife
Lessee: Harold R. Hart
Recording Data: Book 381, Page 604
Description: SE/4 Sec. 28-11S-38E, Lea Co., New Mexico
- 20.) Lease No: NM-12619-J
Lease Date: January 18, 1985
Lessor: Paul Pugh and Sarita Pugh, his wife
Lessee: Harold R. Hart
Recording Data: Book 381, page 602
Description: NE/4 Sec. 33-11S-38E, Lea Co., New Mexico
- 21.) Lease No: NM-12619-K
Lease Date: January 30, 1985
Lessor: Buckner Baptist Benevolences
Lessee: Harold R. Hart
Recording Data: Book 381, Page 841
Description: SE/4 Sec. 28-11S-38E, Lea Co., New Mexico
- 22.) Lease No: NM-12619-L
Lease Date: January 30, 1985
Lessor: Buckner Baptist Benevolences
Lessee: Harold R. Hart
Recording Data: Book 381, Page 843
Description: NE/4 Sec. 33-11S-38E, Lea Co., New Mexico
- 23.) Lease No: NM-12619-M
Lease Date: January 4, 1985
Lessor: Carter David Connolly and Citibank, N.A., Trustees u/w Carter Wilder, deceased
Lessee: Harold R. Hart
Recording Data: Book 381, Page 845
Description: SE/4 Sec. 28 and NE/4 Sec. 33-11S-38E, Lea Co., New Mexico

- 24.) Lease No: NM-12619-N
Lease Date: February 14, 1985
Lessor: Grand Lodge Ind. Order of Odd Fellows of St. of Texas
Lessee: Harold R. Hart
Recording Data: Book 381, Page 847
Description: SE/4 Sec. 28 and NE/4 Sec. 33-11S-38E, Lea Co., New Mexico
- 25.) Lease No: NM-12619-O
Lease Date: January 29, 1985
Lessor: Vaunceil Bright Johnson
Lessee: Harold R. Hart
Recording Data: Book 381, Page 849
Description: SE/4 Sec. 28 and NE/4 of Sec. 33-11S-38E, Lea Co., New Mexico
- 26.) Lease No: NM-12619-P
Lease Date: February 22, 1985
Lessor: Leonard M. Ellington, Successor Trustee of Kenneth Lee Kendrick, Jr. Present Interest Trust
Lessee: Harold R. Hart
Recording Data: Book 382, Page 28
Description: SE/4 Sec. 28 and NE/4 Sec. 33-11S-38E, Lea Co., New Mexico
- 27.) Lease No: NM-12619-Q
Lease Date: February 22, 1985
Lessor: Leonard M. Ellington, Successor Trustee of the Karen Lee Kendrick Present Interest Trust
Lessee: Harold R. Hart
Recording Data: Book 382, Page 30
Description: SE/4 Sec. 28 and NE/4 Sec. 33-11S-38E, Lea Co., New Mexico
- 28.) Lease No: NM-12619-R
Lease Date: January 24, 1985
Lessor: Elijah Morris Nelson
Lessee: Harold R. Hart
Recording Data: Book 386, Page 533
Description: SE/4 Sec. 28 and NE/4 Sec. 33-11S-38E, Lea Co., New Mexico
- 29.) Lease No: NM-12619-S
Lease Date: February 21, 1985
Lessor: Gladys K. Stice, et al
Lessee: Harold R. Hart
Recording Data: Book 387, Page 562
Description: SE/4 Sec. 28 and NE/4 Sec. 33-11S-38E, Lea Co., New Mexico
- 30.) Lease No: NM-12616-A
Lease Date: December 6, 1984
Lessor: Frank L. Goodwin
Lessee: Harold R. Hart
Recording Data: Book 379, Page 814
Description: SW/4 Sec. 28-11S-38E, Lea Co., New Mexico
- 31.) Lease No: NM-12616-B
Lease Date: December 6, 1984
Lessor: C. E. Eubanks and Vera Eubanks, his wife
Lessee: Harold R. Hart
Recording Data: Book 379, Page 816
Description: W/2 SW/4 Sec. 28-11S-38E, Lea Co., New Mexico

- 32.) Lease No: NM-12616-C
Lease Date: December 7, 1984
Lessor: Glenn A. Jolliffe and Martha Jolliffe, his wife
Lessee: Harold R. Hart
Recording Data: Book 379, Page 812
Description: NW/4 Sec. 33-11S-38E, Lea Co., New Mexico
- 33.) Lease No: NM-12616-D
Lease Date: January 7, 1985
Lessor: Jospheh C. Lisson and Margaret M. Lisson, his wife
Lessee: Harold R. Hart
Recording Data: Book 380, Page 532
Description: E/2 SW/4 Sec. 28 and NW/4 Sec. 33-11S-38E, Lea Co., New Mexico
- 34.) Lease No: NM-12616-E
Lease Date: January 7, 1985
Lessor: William E. Burke and Josephine M. Burke Hartman, each separately
Lessee: Harold R. Hart
Recording Data: Book 380, Page 534
Description: E/2 SW/4 Sec. 28 and NW/4 Sec. 33-11S-38E, Lea Co., New Mexico
- 35.) Lease No: NM-12616-F
Lease Date: January 7, 1985
Lessor: Ruth L. Winters
Lessee: Harold R. Hart
Recording Data: Book 380, Page 536
Description: W/2 SW/4 Sec. 28-11S-38E, Lea Co., New Mexico
- 36.) Lease No: NM-12616-G
Lease Date: January 7, 1985
Lessor: Barbara Kent Arrington
Lessee: Harold R. Hart
Recording Data: Book 381, Page 149
Description: W/2 SW/4 Sec. 28-11S-38E, Lea Co., New Mexico
- 37.) Lease No: NM-12616-H
Lease Date: January 18, 1985
Lessor: Russell L. Morgan
Lessee: Harold R. Hart
Recording Data: Book 381, Page 151
Description: E/2 SW/4 Sec. 28-11S-38E, Lea Co., New Mexico
- 38.) Lease No: NM-12616-I
Lease Date: January 18, 1985
Lessor: Wanda F. Queenan, et al
Lessee: Harold R. Hart
Recording Data: Book 381, Page 166
Description: E/2 SW/4 Sec. 28-11S-38E, Lea Co., New Mexico
- 39.) Lease No: NM-12616-J
Lease Date: January 10, 1985
Lessor: Helen Chambers Blake
Lessee: Harold R. Hart
Recording Data: Book 381, Page 168
Description: E/2 SW/4 Sec. 28-11S-38E, Lea Co., New Mexico

- 40.) Lease No: NM-12616-K
Lease Date: January 18, 1985
Lessor: Larry A. Morgan
Lessee: Harold R. Hart
Recording Data: Book 381, Page 170
Description: E/2 SW/4 Sec. 28-11S-38E, Lea Co., New Mexico
- 41.) Lease No: NM-12616-L
Lease Date: January 9, 1985
Lessor: Stanford F. Fernald, et al
Lessee: Harold R. Hart
Recording Data: Book 381, Page 839
Description: E/2 SW/4 Sec. 28-11S-38E, Lea Co., New Mexico
- 42.) Lease No: NM-12616-M
Lease Date: February 20, 1985
Lessor: Lorelle Bailey, et al
Lessee: Harold R. Hart
Recording Data: Book 382, Page 444
Description: NW/4 Sec. 33-11S-38E, Lea Co., New Mexico
- 43.) Lease No: NM-12616-N
Lease Date: February 26, 1985
Lessor: Roderick Allen Markham
Lessee: Harold R. Hart
Recording Data: Book 381, Page 894
Description: SW/4 Sec. 28 and NW/4 Sec. 33-11S-38E, Lea Co., New Mexico
- 44.) Lease No: NM-12616-P
Lease Date: February 26, 1985
Lessor: Pete Proctor
Lessee: Harold R. Hart
Recording Data: Book 381, Page 896
Description: SW/4 Sec. 28 and NW/4 Sec. 33-11S-38E, Lea Co., New Mexico
- 45.) Lease No: NM-12616-R
Lease Date: February 26, 1985
Lessor: Billie Joe Markham
Lessee: Harold R. Hart
Recording Data: Book 381, Page 898
Description: SW/4 Sec. 28 and NW/4 Sec. 33-11S-38E, Lea Co., New Mexico
- 46.) Lease No: NM-12616-T
Lease Date: February 26, 1985
Lessor: C. B. Markham, Jr.
Lessee: Harold R. Hart
Recording Data: Book 382, Page 12
Description: SW/4 Sec. 28 and NW/4 Sec. 33-11S-38E, Lea Co., New Mexico
- 47.) Lease No: NM-12616-V
Lease Date: February 26, 1985
Lessor: Sallie Mae White
Lessee: Harold R. Hart
Recording Data: Book 382, Page 14
Description: SW/4 Sec. 28 and NW/4 Sec. 33-11S-38E, Lea Co., New Mexico

- 48.) Lease No: NM-12616-X
Lease Date: February 26, 1985
Lessor: John Markham
Lessee: Harold R. Hart
Recording Data: Book 382, Page 16
Description: SW/4 Sec. 28 and NW/4 Sec. 33-11S-38E, Lea Co., New Mexico
- 49.) Lease No: NM-12616-Z
Lease Date: March 1, 1985
Lessor: R. R. Sheets
Lessee: Harold R. Hart
Recording Data: Book 382, Page 414
Description: W/2 SW/4 Sec. 28-11S-38E, Lea Co., New Mexico
- 50.) Lease No: NM-12616-2A
Lease Date: February 26, 1985
Lessor: Fannye Gae Ratcliff
Lessee: Harold R. Hart
Recording Data: Book 382, Page 300
Description: SW/4 Sec. 28 and NW/4 Sec. 33-11S-38E, Lea Co., New Mexico
- 51.) Lease No: NM-12616-2C
Lease Date: February 26, 1985
Lessor: Manon Markham McMullen
Lessee: Harold R. Hart
Recording Data: Book 382, Page 302
Description: SW/4 Sec. 28 and NW/4 Sec. 33-11S-38E, Lea Co., New Mexico
- 52.) Lease No: NM-12616-2E
Lease Date: February 20, 1985
Lessor: Richard Ladd Brownfield, et al
Lessee: Harold R. Hart
Recording Data: Book 382, Page 453
Description: NW/4 Sec. 33-11S-38E, Lea Co., New Mexico
- 53.) Lease No: NM-12616-2F
Lease Date: February 20, 1985
Lessor: Joe D. Smith and Peggy J. Smith, Trustees of the Joe D. Smith
Revocable Trust
Lessee: Harold R. Hart
Recording Data: Book 382, Page 455
Description: NW/4 Sec. 33-11S-38E, Lea Co., New Mexico
- 54.) Lease No: NM-12616-2G
Lease Date: March 5, 1985
Lessor: J. P. Newman
Lessee: Harold R. Hart
Recording Data: Book 382, Page 517
Description: SW/4 Sec. 28-11S-38E, Lea Co., New Mexico

- 55.) Lease No: NM-12616-2H
 Lease Date: March 21, 1985
 Lessor: Liberty Nat'l Bank and Trust Co. of Okla. City, Okla. Trustee
 Acct.#142348002
 Lessee: Harold R. Hart
 Recording Data: Book 383, Page 682
 Description: E/2 SW/4 Sec. 28-11S-38E, Lea Co., New Mexico
- 56.) Lease No: NM-12616-2I
 Lease Date: February 20, 1985
 Lessor: Lal Copeland, et al
 Lessee: Harold R. Hart
 Recording Data: Book 383, Page 688
 Description: NW/4 Sec. 33-11S-38E, Lea County, New Mexico
- 57.) Lease No: NM-12631
 Lease Date: April 1, 1986
 Lessor: St. of New Mexico (#V-1803)
 Lessee: Union Texas Petroleum Corporation
 Recording Data: Book 400, Page 676
 Description: NE/4 and S/2 Sec. 32-11S-38E, Lea Co., New Mexico
 Insofar and only insofar as said Lease covers the NE/4 and
~~SE/4~~ of Sec. 32. ~~The SW/4 is Excluded and not a part hereof.~~
 S/2
- 58.) Lease No: NM-12621-A
 Lease Date: February 14, 1985
 Lessor: Dorothy R. Hennington
 Lessee: Harold R. Hart
 Recording Data: Book 381, Page 832
 Description: Lots 3&4 and S/2 NW/4 Sec. 4-12S-38E, Lea Co., New Mexico
- 59.) Lease No: NM-12621-B
 Lease Date: February 14, 1985
 Lessor: Ouida M. Spears and Jame W. Spears, her husband
 Lessee: Harold R. Hart
 Recording Data: Book 381, Page 830
 Description: Lots 3&4 and S/2 NW/4 Sec. 4-12S-38E, Lea Co., New Mexico

- 55.) Lease No: NM-12616-2H
 Lease Date: March 21, 1985
 Lessor: Liberty Nat'l Bank and Trust Co. of Okla. City, Okla. Trustee
 Acct.#142348002
 Lessee: Harold R. Hart
 Recording Data: Book 383, Page 682
 Description: E/2 SW/4 Sec. 28-11S-38E, Lea Co., New Mexico
- 56.) Lease No: NM-12616-2I
 Lease Date: February 20, 1985
 Lessor: Lal Copeland, et al
 Lessee: Harold R. Hart
 Recording Data: Book 383, Page 688
 Description: NW/4 Sec. 33-11S-38E, Lea County, New Mexico
- 57.) Lease No: NM-12631
 Lease Date: April 1, 1986
 Lessor: St. of New Mexico (#V-1803)
 Lessee: Union Texas Petroleum Corporation
 Recording Data: Book 400, Page 676
 Description: NE/4 and S/2 Sec. 32-11S-38E, Lea Co., New Mexico
 Insofar and only insofar as said Lease covers the NE/4 and
 SE/4 of Sec. 32. The SW/4 is Excluded and not a part hereof.
- 58.) Lease No: NM-12621-A
 Lease Date: February 14, 1985
 Lessor: Dorothy R. Hennington
 Lessee: Harold R. Hart
 Recording Data: Book 381, Page 832
 Description: Lots 3&4 and S/2 NW/4 Sec. 4-12S-38E, Lea Co., New Mexico
- 59.) Lease No: NM-12621-B
 Lease Date: February 14, 1985
 Lessor: Ouida M. Spears and Jame W. Spears, her husband
 Lessee: Harold R. Hart
 Recording Data: Book 381, Page 830
 Description: Lots 3&4 and S/2 NW/4 Sec. 4-12S-38E, Lea Co., New Mexico

OIL, GAS AND MINERAL LEASE

THIS AGREEMENT made this _____ day of _____, 19____, between _____

of _____
(Post Office Address)

herein called lessor (whether one or more), and _____, lessee:

1. Lessor, in consideration of _____ Dollars (\$ _____) in hand paid, receipt of which is here acknowledged, and of the royalties herein provided and of the agreements of the lessee herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling, mining and operating for and producing oil, gas, and all other minerals, injecting gas, waters, other fluids, and air into subsurface strata, laying pipe lines, storing oil, building tanks, power stations, telephone lines, and other structures and things thereon to produce, save, take care of, treat, process, store and transport said minerals and other products manufactured therefrom, and housing and otherwise

caring for its employees, the following described land in _____ County, New Mexico, to-wit:

EXHIBIT "B" FORM OF LEASE

Attached to and made a part of that certain Operating Agreement dated October 16, 1986 by and between Barbara Fasken, Operator, and Union Texas Petroleum Corporation, Non-Operator, covering Gladiola Northeast Prospect, Lea County, New Mexico.

of Section _____ Township _____ Range _____

For the purpose of calculating the rental payments hereinafter provided for, said land is estimated to comprise _____ acres, whether it actually comprises more or less.

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

3. The royalties to be paid by lessee are: (a) on oil, and on other liquid hydrocarbons saved at the well, 1/5 of that produced and saved from said land, same to be delivered at the wells or to the credit of lessor in the pipe line to which the wells may be connected; lessor's interest in either case shall bear its proportion of any expenses for treating oil to make it marketable as crude; (b) on gas, including casinghead gas or other gaseous substance produced from said land used off the premises or used in the manufacture of gasoline or other products, the market value at the well of 1/5 of the gas used, provided that on gas sold on or off the premises the royalty shall be 1/5 of the amount realized from such sale; (c) on all other minerals mined and marketed, 1/8 either in kind or value at the well or mine, at lessee's election, except that on sulphur the royalty shall be One Dollar (\$1.00) per long ton; and (d) if at any time while there is a gas well or wells on the above land (and for the purposes of this clause (d) the term "gas well" shall include wells capable of producing natural gas, condensate, distillate or any gaseous substances and wells classified as gas wells by any governmental authority) such well or wells are shut in, and if this lease is not continued in force by some other provision hereof, then it shall nevertheless continue in force for a period of ninety (90) days from the date such well or wells are shut in, and before the expiration of any such ninety-day (90-day) period, lessee or any assignee hereunder may pay or tender an advance annual royalty equal to the amount of delay rentals provided for in this lease for the acreage then held under this lease by the party making such payment or tender, and if such payment or tender is made, this lease shall continue in force and it shall be considered that gas is being produced from the leased premises in paying quantities within the meaning of paragraph 2 hereof for one (1) year from the date such well or wells are shut in, and in like manner subsequent advance annual royalty payments may be made or tendered and this lease shall continue in force and it will be considered that gas is being produced from the leased premises in paying quantities within the meaning of said paragraph 2 during any annual period for which such royalty is so paid or tendered; such advance royalty may be paid or tendered in the same manner as provided herein for the payment or tender of delay rentals; royalty accruing to the owners thereof on any production from the leased premises during any annual period for which advance royalty is paid may be credited against such advance payment. The amount realized from the sale of gas on or off the premises shall be the price established by the gas sales contract entered into in good faith by Lessee and gas purchaser for such term and under such conditions as are customary in the industry. "Price" shall mean the net amount received by Lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. In the event Lessee compresses, treats, purifies, or dehydrates such gas (whether on or off the leased premises), or transports gas off the leased premises, Lessee in computing royalty hereunder may deduct from such price a reasonable charge for each of such functions performed.

4. If operations for drilling or mining are not commenced on said land or on land pooled therewith on or before one (1) year from this date, this lease shall

terminate as to both parties, unless on or before one (1) year from this date lessee shall pay or tender to the lessor a rental of _____

Dollars (\$ _____) which shall cover the privilege of deferring commencement of such operations for a period of twelve (12) months. In like manner and upon like payments or tenders, annually, the commencement of said operations may be further deferred for successive periods of the same number of

months, each during the primary term. Payment or tender may be made to the lessor or to the _____ Bank of _____

_____ which bank, or any successor thereof, shall continue to be the agent for the lessor and lessor's successors and assigns. If such bank (or any successor bank) shall fail, liquidate, or be succeeded by another bank, or for any reason fail or refuse to accept rental, lessee shall not be held in default until thirty (30) days after lessor shall deliver to lessee a recordable instrument making provision for another method of payment or tender, and any depositary charge is a liability of the lessor. The payment or tender of rental may be made by check or draft of lessee, mailed or delivered to said bank or lessor, or either lessor if more than one, on or before the rental paying date.

5. Lessee is hereby granted the right to pool or unitize this lease, the land covered by it or any part thereof with any other land, lease, leases, mineral estates or parts thereof for the production of oil, gas, or any other minerals. Units pooled for oil hereunder shall not exceed forty (40) acres plus a tolerance of ten per cent (10%) thereof, and units pooled for gas hereunder shall not exceed six hundred forty (640) acres plus a tolerance of ten per cent (10%) thereof, provided that if any Federal or State law, Executive order, rule or regulation shall prescribe a spacing pattern for the development of the field or allocate a producing allowable on acreage per well, then any such units may embrace as much additional acreage as may be so prescribed or as may be used in such allocation or allowable. Lessee shall file written unit designations in the county in which the premises are located. Such units may be designated either before or after the completion of wells. Drilling operations and production on any part of the pooled acreage shall be treated as if such drilling operations were upon or such production was from the land described in this lease whether the well or wells be located on the land covered by this lease or not. The entire acreage pooled into a unit shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if it were included in this lease. In lieu of the royalties herein provided, lessor shall receive on production from a unit so pooled only such portion of the royalty stipulated herein as the amount of his acreage placed in the unit or his royalty interest therein on an acreage basis bears to the total acreage so pooled in the particular unit involved.

6. If, prior to discovery of oil, gas, or other minerals on said land or on land pooled therewith, lessee should drill and abandon a dry hole or holes thereon, or if, after discovery of oil, gas, or other minerals the production thereof should cease from any cause, this lease shall not terminate if lessee commences additional drilling or reworking operations within sixty (60) days thereafter, or (if it be within the primary term) commences or resumes the payment or tender of rentals on or before the rental paying date next ensuing after the expiration of three (3) months from date of completion and abandonment of said dry hole or holes or the cessation of production. If, at the expiration of the primary term, oil, gas, or other mineral is not being produced on said land or land pooled therewith but lessee is then engaged in operations for drilling, mining or reworking of any well or mine thereon, this lease shall remain in force so long as such operations or said additional operations are commenced and prosecuted (whether on the same or successive wells) with no cessation of more than sixty (60) consecutive days, and, if they result in production, so long thereafter as oil, gas, or other mineral is produced from said land or land pooled therewith. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within two hundred feet (200 ft.) of and draining the leased premises, lessee agrees to drill such offset wells as a reasonable prudent operator would drill under the same or similar circumstances.

7. Lessee shall have free use of oil, gas, and water from said land, except water from lessor's wells and tanks, for all operations hereunder, including repressuring, pressure maintenance, cycling, and secondary recovery operations, and the royalty shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by lessee on said land, including the right to draw and remove all casing. When required by lessor, lessee will bury all pipe lines below ordinary plow depth, and no well shall be drilled within two hundred feet (200 ft.) of any residence or barn now on said land without lessor's consent. Lessor shall have the privilege, at his risk and expense, of using gas from any gas well on said land for stoves and inside lights in the principal dwelling thereon, out of any surplus gas not needed for operations hereunder.

8. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, executors, administrators, successors, and assigns, but no change or division in ownership of the land, rentals or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of lessee. No such change or division in the ownership of the land, rentals or royalties shall be binding upon lessee for any purpose until such person acquiring any interest has furnished lessee with the instrument or instruments, or certified copies thereof, constituting his chain of title from the original lessor. In the event of an assignment of this lease as to a segregated portion of said land, the rentals payable hereunder shall be apportioned as between the several leasehold owners ratably according to the surface area of each, and default in rental payment by one shall not affect the rights of other leasehold owners hereunder. An assignment of this lease, in whole or in part, shall, to the extent of such assignment, relieve and discharge lessee of any obligations hereunder, and, if lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of the rentals due from such lessee or assignee or fail to comply with any other provision of the lease, such default shall not affect this lease in so far as it covers a part of said lands upon which lessee or any assignee thereof shall make payment of said rentals.

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

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

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

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

WITNESSES:

EXHIBIT " C "

Attached to and made a part of that certain Operating Agreement dated October 16, 1986 by and between Barbara Fasken, Operator, and Union Texas Petroleum Corporation, Non-Operator, covering Gladiola Northeast Prospect, Lea County, New Mexico.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

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 _____ ^{*prime, plus 1 1/2%} on the first day of the month in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts. "Prime shall be deemed to be the "prime rate" established by the Chase Manhattan Bank, New York City on the business day immediately preceding the date of billing.

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:

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

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

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

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

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

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

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 4,000.00
 (Prorated for less than a full month)

Producing Well Rate \$ 400.00

- (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 ~~xxxx~~ negotiate a rate prior to the beginning of construction, ~~or shall charge the Joint Account for overhead based on the following rates for any Major Construction project in excess of \$ _____:~~

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

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

3. Catastrophe Overhead

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

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

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

4. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

- (a) Tubular goods, sized 2½ inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.
- (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate truck rate shall be used.
- (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.
- (d) Macaroni tubing (size less than 2½ inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

(2) Line Pipe

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

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

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

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

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

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

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

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

C. Other Used Material

(1) Condition C

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

(2) Condition D

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

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

(3) Condition E

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

D. Obsolete Material

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

E. Pricing Conditions

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

3. Premium Prices

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

4. Warranty of Material Furnished By Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

4. Expense of Conducting Inventories

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

EXHIBIT "D"

Attached to and made a part of that certain Operating Agreement dated October 16, 1986, by and between Barbara Fasken, Operator, and Union Texas Petroleum Corporation, Non-Operator, covering Gladiola Northeast Prospect, Lea County, New Mexico.

INSURANCE

- I. At any and all times while operations are being conducted under this Agreement, OPERATOR shall carry or cause to be carried insurance for the benefit of and at the expense of the Joint Account as follows:
 - A. Workmen's Compensation and Employer's Liability Insurance, including Occupational Disease coverage, all in accordance with the statutory requirements of the state(s) in which the operation is to be located, the state(s) in which OPERATOR'S employees reside and the state(s) in which OPERATOR is domiciled. The Employer's Liability Insurance shall contain limits of \$100,000.00 for accidental injuries or deaths of one or more employees as a result of one occurrence.
 - B. Comprehensive General Liability Insurance, including coverage for contractual liability, with limits of liability per occurrence of \$100,000.00 for injuries to one person, \$300,000.00 for injuries to two or more persons and \$100,000.00 for property damage liability.
 - C. Automobile Public Liability and Property Damage Insurance covering owned and non-owned vehicles used by OPERATOR with limits of liability per occurrence of \$100,000.00 for injuries to one person, \$300,000.00 for injuries to two or more persons and \$100,000.00 for property damage liability.
- II. It is specifically understood that OPERATOR shall have no obligation to carry any other insurance for the benefit of the Joint Account unless mutually agreed in writing by all PARTIES. Any PARTY may individually, at its own expense, acquire additional insurance as it desires; however, any such additional insurance shall contain waiver of subrogation rights in favor of the remaining PARTIES hereto.
- III. OPERATOR shall have the right to require third-party contractor performing work on the Lease Premises to carry such insurance and in such amounts as OPERATOR shall deem necessary.
- IV. If non-consent operations are conducted under the terms of this Agreement, the cost of insurance requirements hereunder in regard to such operations, as well as all losses, liabilities and expenses incurred as a result of such operations, shall be the burden of the Parties participating therein.

EXHIBIT "E"
GAS STORAGE AND BALANCING AGREEMENT

Attached to and made a part of an Operating Agreement dated October 16, 1986 between Barbara T. Fasken as Operator, and Union Texas Petroleum Corporation as Non-Operator, covering Gladiola Northeast Prospect, Lea County, New Mexico.

1. The parties to the Operating Agreement to which this agreement is attached own the working interest in the gas rights in certain wells covered by such agreement in accordance with the percentages of participation as set forth in Exhibit "A" to the Operating Agreement.
2. Notwithstanding anything to the contrary, this Gas Storage and Balancing Agreement shall be considered as a separate agreement as to each well within the Area. The term "well" means a separate reservoir producing from a particular wellbore. If two or more reservoirs are produced separately from the same wellbore, each will be considered as a separate well. If two reservoirs are producing and production is commingled in the same wellbore, it will be considered one well.
3. The term "gas" shall include casinghead gas, gas well gas and residue gas resulting from processing casinghead gas or gas well gas.
4. In accordance with the terms of the Operating Agreement, each party thereto has the right, subject to existing contracts to take its share of gas produced from the well or wells and market the same separately. 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 from any well 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.
5. During the period or periods when any party hereto has no market or fails to take in kind or separately dispose of its share of gas produced from the Contract Area, or the working interests owners purchaser fails to take its share of gas attributable of the working interest owner, the other parties shall be entitled to produce each month one hundred percent (100%) of the allowable gas production assigned by the State Regulatory body having jurisdiction and shall be entitled to take and deliver to its or their purchaser all of such gas production. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests, and subject to the Operating Agreement to which this agreement is attached, the party or parties taking such gas shall own all of the gas delivered to its or their purchaser.
6. 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 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. Each party taking or marketing gas from the Contract Area shall furnish the Operator monthly statements of the gas which it takes or markets.
7. To the end that this Gas Storage and Balancing Agreement shall not affect the interest of any royalty or other owner having an interest in the gas produced from the Contract Area, and that no party to the Operating Agreement shall be required to advance royalty, overriding royalty, or production payments on gas not taken by it nor delivered to its purchaser, the volume of gas taken or delivered to its purchaser by any party shall be applied ratably to the satisfaction of all royalty interest, overriding royalty interest and production payments affecting the Contract Area

precisely as if the volume taken or delivered by such party had been taken or delivered ratably by all parties in conformity with their several interests under the Operating Agreement.

8. After notice (verbal notice within 24 hours and confirmed immediately thereafter in writing) to the Operator, any party at any time may begin taking or delivering to its purchaser its full share of the gas 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 fifty percent (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 in the Contract Area of such party with gas in storage and the denominator of which is the total percentage interest in such well of all parties with gas in storage currently taking or delivering to a purchaser.
9. Each party producing and taking or delivering gas to its purchaser shall pay any and all production taxes due on such gas.
10. Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser its full share of the allowable gas production to meet the deliverability tests required by its purchaser.
11. Should production of gas be permanently discontinued before the gas accounts are balanced, cash settlement shall be made between the underproduced and overproduced parties. In making such settlement, each underproduced party shall be paid a sum of money by the overproduced parties equal to the value, computed as hereafter set forth, of the unrecouped cumulative balance of overproduction attributable to the interest of each such underproduced party, less applicable taxes theretofore paid. In determining the value of the unrecouped cumulative balance of overproduction, beginning with the most recent month in which the overproduced parties took a volume of gas in excess of the quantity to which such parties were entitled, hereafter called "overage", the volume of overage occurring during such month shall be multiplied times the actual prices received for such overage during such month. The same calculation shall be made for the next preceding month in which an overage occurred and for each preceding month (progressing backward in time) in which an overage occurred until the total volume of the overages for these months equals the total volume of the unrecouped cumulative balance of overproduction. During the month in which the total volume of the overage equals the total volume of the unrecouped cumulative balance of overproduction, only the volume of overage necessary to reach such point of equality shall be used in computing a value for that month. The total of the sums of values so obtained for said months in which overage occurred shall be the value of the unrecouped cumulative balance of overproduction for purposes of the cash settlement here contemplated. Prices actually received by the overproduced parties shall be considered as the rates collected from time to time which are not subject to possible refund as provided by law or applicable governmental authority, plus any additional amount which is not ultimately required by law or applicable governmental authority to be refunded, such additional collected amount to be accounted for at such time as final determination is made with respect thereto.
12. Nothing herein shall change or affect each party's obligation to pay its proportionate share of all costs and liabilities incurred as provided in the Operating Agreement whether or not all parties are selling or using their proportionate share of gas at any one particular period in time.
13. The terms, covenants and conditions of this agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

PARTIAL ASSIGNMENT OF OIL AND GAS LEASE

STATE OF NEW MEXICO)
)
COUNTY OF LEA)

KNOW ALL MEN BY THESE PRESENTS:

That Union Texas Petroleum Corporation, whose address is 1330 Post Oak Boulevard, Houston, Texas 77056 (Post Office Box 2120, Houston, Texas 77252-2120) (Hereinafter called "Assignor") for and in consideration of Ten Dollars (\$10.00) and other good and valuable consideration paid by Barbara Fasken, whose address is 303 West Wall Avenue, Suite 1901, Midland, Texas 79701-5116, (hereinafter called "Assignee"), the receipt and sufficiency of which is hereby acknowledged by Assignor, does hereby sell, assign, transfer, set over and convey unto Assignee an undivided one-half (1/2) of Assignor's right, title and interest in and to the oil and gas leases located in Lea County, State of New Mexico, which are described on Exhibit "A" attached hereto and made a part hereof.

This Assignment is made without warranty of title, either express or implied.

By Assignee's acceptance hereof, Assignee recognizes that this assignment is subject to all of the terms, conditions and obligations of the oil and gas leases herein assigned and Assignee expressly assumes all such terms, conditions and obligations, and agrees to comply with all requirements of each such lease, insofar as each such lease covers the assigned interest.

TO HAVE AND TO HOLD unto Assignee the interest in the leases and lands herein assigned forever, subject to the following terms, provisions, covenants, and conditions set out hereafter, to wit:

This assignment is subject to all of the terms including, but not limited to, Article XV.E. of that certain Operating Agreement by and between Assignor and Assignee dated October 16, 1986, which reads "in the event that Barbara Fasken, as Operator, does not commence the drilling of the Initial Test Well as described at Article VI.A., then Barbara Fasken shall re-assign to Union Texas Petroleum Corporation all acreage subject to this agreement, said re-assignment to be without any cost or expense to Union Texas Petroleum Corporation and furthermore, the re-assigned oil and gas leases shall be subject only to those burdens in existence as of October 16, 1986" which may be found at the address of each party given above.

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

This assignment is executed and effective this 16th day of October, 1986.

ASSIGNOR

UNION TEXAS PETROLEUM CORPORATION

By: _____
J. S. Empie
Vice President - U. S. Exploration

ASSIGNEE

BARBARA FASKEN

STATE OF TEXAS)
COUNTY OF HARRIS)

This instrument was acknowledged before me on _____, 1986, by _____ as _____ of Union Texas Petroleum Corporation, a Delaware corporation, on behalf of the corporation.

Notary Public, State of Texas

My Commission Expires:

EXHIBIT "F"

Attached to and made a part of that certain Operating Agreement dated October 16, 1986, by and between Barbara Fasken, Operator, and Union Texas Petroleum Corporation, Non-Operator, covering Gladiola Northeast Prospect, Lea County, New Mexico.

Unless exempted by Federal law, rules, regulations or orders, Operator shall comply with the following terms and conditions.

I. Affirmative Action for Handicapped Workers

The regulations issued under the Rehabilitation Act of 1973 in Title 41, Chapter 60, Part 60-741 of the Code of Federal Regulations are incorporated herein by reference unless this Agreement is exempted by Federal law, rules, regulations or orders of the Secretary of Labor issued pursuant to said Rehabilitation Act of 1973.

II. Affirmative Action for Disabled Veterans and Veterans of the Vietnam War

The regulations issued under the Vietnam Era Veterans' Readjustment Assistance Act of 1974 in Title 41, Chapter 60, Part 60-250 of the Code of Federal Regulations are incorporated herein by reference unless this Agreement is exempted by Federal law, rules, regulations or orders of the Secretary of Labor issued pursuant to said Vietnam Era Veterans' Readjustment Assistance Act of 1974.

III. Certification of Compliance with Equal Opportunity Clauses

Contractor hereby certifies that it will fully comply with Executive Order 11246, as amended by Executive Order 11375, and the rules and regulations issued thereunder, which are hereby incorporated by reference as appropriate. Operator commits itself to such compliance upon execution of this Agreement.

IV. Certificate of Nonsegregated Facilities Clause

The Certificate of Nonsegregated Facilities (Form GO- 279-2) signed by Operator is specifically made a part hereof and is incorporated herein by reference.

NW/4 NW/4:

- 1 Glenn A. Jolliffe* ----- 1/2
- 2 Marion Woodruff, Trustee
of the L. E. Wingerd Trust ----- 1/9 of 66/160
- 3 Lal Copeland* ----- 1/36 of 66/160
- 3 Donald Ray Copeland* ----- 1/36 of 66/160
- 3 Angeline Copeland Packham Eddleman* ----- 1/36 of 66/160
- 3 Gary Michael Copeland* ----- 1/36 of 66/160
- 4 Kenneth Allen Davis* ----- 1/18 of 66/160
- 5 Joe D. Smith and Peggy J.
Smith, Trustees of the Joe
D. Smith Irrevocable Trust ----- 1/18 of 66/160
- 4 Stephen Lynn Brownfield* ----- 1/18 of 66/160
- 4 Richard Todd Brownfield* ----- 1/18 of 66/160
- 2 Sandra Bailey Wilgus* ----- 1/9 of 66/160
- 2 Linda Lee Sacra* ----- 1/27 of 66/160
- 2 Lee A. Brownfield* ----- 1/27 of 66/160
- 2 Mary Jane Young* ----- 1/27 of 66/160
- 2 Pamela Jane Crowe* ----- 1/45 of 66/160
- 2 Liza Jane Morell* ----- 1/45 of 66/160

1/2

8/36 of 66/160

6/18 of 66/160

3/27 of 66/160

2/45 of 66/160

BEFORE EXAMINER CATANACH
OIL CONSERVATION DIVISION
FASKen EXHIBIT NO. 2
CASE NO. 9201

2	Nancy Jane Clark* -----	1/45 of 66/160
2	John Brownfield Shirley* -----	1/45 of 66/160
2	Leta Jane Brownfield Shirley* -----	1/45 of 66/160
2	Joe Ann Hardey -----	1/36 of 66/160
2	Jerry Garland Bailey* -----	1/36 of 66/160
2	Laura Lou Karlen* -----	1/36 of 66/160
2	Laurine Bailey* -----	1/36 of 66/160
2	Robert Walton Allen* -----	1/9 of 66/160
6	C. B. Markham, Jr. and Bessie Markham, Co-Trustees of the C. B. Markham, Jr. Estate Trust -----	1/7 of 5/320
7	Sallie Mae White* -----	1/7 of 5/320
8	John Markham* -----	1/7 of 5/320
9	Gae Ratcliff and Bill J. Markham, Co-Trustees of the Gae Ratcliff Estate Trust -----	1/7 of 5/320
10	Bill J. Markham and Rosemarie Markham, Co-Trustees of the Bill J. Markham Estate Trust -----	1/7 of 5/320
11	Pete Proctor* -----	1/7 of 5/320
12	Manon Markham McMullen* -----	1/112
13	Rodrick Allen Markham* -----	1/112
14	Joseph C. Lisson, whose wife is Margaret M. Lisson -----	1/160
15	Josephine M. Burke Hartman* -----	5/8 of 1/160
15	William E. Burke* -----	3/8 of 1/160
0	Dean S. Merilatt, whose wife is Betty J. Merilatt -----	1/160
18	Rex P. Merilatt, whose wife is Lillian H. Merilatt -----	1/160
20	James D. Young, whose wife is Dorothy Rea Young -----	1/3 of 1/160
17	Russell F. Young, whose wife is Pauline G. Young -----	1/3 of 1/160
19	Robert O. Young, whose wife is Sylvia M. Young -----	1/3 of 1/160

$3/45$ of $66/160$
 $8/36$ of $66/160$

$6/7$ of $5/320$
 $2/112$

$8/8$ of $1/160$ ✓

$2/160$ ✓

$1/160$ ✓

0 Pauline Lawson Larson Bailey* ----- 2/80
 TOTAL: ----- 160/160

$2/80$ ✓

BEFORE EXAMINER CATANACH

OIL CONSERVATION DIVISION

Fasken EXHIBIT NO. 3

CASE NO. 9201

Gladiola Prospect NW/4 S-33
T-15S, R-34E, Lea County, NM

BREAKDOWN OF CONTACTS MADE TO FIND MISSING MINERAL OWNERS
AUGUST 5, 1987

Date

2/23/87 Received letter from Richard Brooks asking me to update the Union Texas run sheet from 1984.

3/18/87 Checked records in Lea County for same.

3/19/87 Sent letter to Nick Joe Nelson, missing owner from Section 28 regarding open interest, lease proposal.

3/19/87 Sent similar letter to Agnes Slater in Oklahoma City, owner in Section 28.

3/24/87 Received letter from Richard Brooks breaking down the abstract of title of lost mineral owners in Section 33, and advises methods that may result in owner contact.

3/25/87 Checked records in Midland for A.M. Gantt. Got address from acknowledgement as Gregg County, and called Abstract Company to run indexes. No such name appeared, so he must not have bought any property there.

3/26/87 Richard Brooks furnishes Rocky with information related to the E. E. Young Estate in Chaves County, NM.

5/16/87 Rocky mails letter to Laurene Bailey, another mineral owner in same area asking if she knew of Paulene Lawson Larson Bailey. Later answered with no.

5/16/87 Rocky mails letter to Jerry Garland Bailey for same reason. Phone call later reveals he knew nothing of her.

5/18/87 Lease mailed to Jeanne McSwain, owner in S-28. Lease mailed to Jane Twing, owner in S-28.

6/25/87 Letter sent certified with return receipt to the following interest owners at their last known address: Harry White, Alexander Frickel, Sadie Hall Thompson, Al Arneson, Noah Dickson, Eugene Westerberg, Paulene Bailey, Rex and

Dean Merilatt, and Mrs. Ernastine W. Carter. Letter included lease proposal and asks for them to call Rocky collect at time of receipt.

- 7/12/87 Received call from Rex Merilatt, gave new address as well as Betty Merilatt's, Dean's widow phone number in Arizona.
- 7/13/87 Mailed lease to Rex Merilatt, tried to call Betty in Arizona.
- 7/13/87-
7/22/87 Attempted calling Betty Merilatt. No Answer.
- 7/29/87 Checked indexes in Chaves County for any clues on the Youngs, as well as Wade Patterson. Got addresses and numbers. Called James Young from there, and negotiated leases for all parties. Sent leases to Youngs.
- 7/30/87 Got phone number for Wade Patterson, but no answer. Got address from Electric Company in Lewistown. Mailed lease to him.
- 7/30/87 Called Rex Merilatt to get information regarding Betty, and got her son's name and address in San Antonio. Called him and got Betty's summer address in Idaho. Mailed lease to her.
- 8/01/87 Called A.D. Morton in San Diego, got his granddaughter. She knew nothing of Jenny Morton, but keep trying for A. D. Morton.
- 8/02/87 Talked to Nancy, another granddaughter of A. D. Morton. Did not know Jenny O. Morton. Left word for him to call when he could.

R. C. Kimball

August 4, 1987

WHITAKER & BROOKS
LAWYERS
608 FIRST NATIONAL BANK BLDG.
MIDLAND, TEXAS
79701-0608

ED M. WHITAKER
RICHARD S. BROOKS
TELEPHONE 682 5285
AREA CODE 915

February 23, 1987

BEFORE EXAMINER CATANACH	
OIL CONSERVATION DIVISION	
<u>FASKEN</u>	EXHIBIT NO. <u>4</u>
CASE NO. <u>9201</u>	

Mr. R. C. Kimball
P. O. Box 1424
Midland, Texas 79702

In re: Union Texas Petroleum Corporation
Barbara Fasken-Gladiola NE Prospect
Lea County, New Mexico
T-11-S, R-38-E, Sec. 27:SW/4;
Sec. 28:S/2; Sec. 29:SE/4;
Sec. 32:E/2, SW/4; Sec. 33:All;
Sec. 34:W/2;
T-12-S, R-38-E, Sec. 3: W/2;
Sec. 4:All; Sec. 5:E/2.

Dear "Rocky":

Gladiola NE, as described in the caption, is the third of a series of three prospects in which Barbara Fasken has purchased 1/2 undivided interest in the leasehold position acquired by Union Texas Petroleum Corporation. The area of interest defined in the agreement between Union Texas and Barbara Fasken is outlined in yellow on the enclosed working sketch of the area. At present our interest is confined to completing the leasehold coverage affecting T-11-S, R-38-E, Sec. 28:S/2; Sec. 29:E/2 SE/4; Sec. 33:All, and T-12-S, R-38-E, Sec. 4:N/2.

I hand you herewith a copy of a take-off prepared for Union Texas Petroleum Corp. by Security Title - Lea County Abstract Company, Lovington, New Mexico, dated Nov. 30, 1984. I have noted on this take-off the interests held under lease by Union Texas Petroleum Corp. and Barbara Fasken by noting the initials "UTP" in the left hand margin, and to the right of the owner name and address, the Union Texas Petroleum lease number, and the land description appearing in the lease.

The purpose of this letter is to request your assistance to update this take-off as to the unleased interests in the S/2 of Sec. 28, E/2 SE/4 of Sec. 29, and Sec. 33, T-11-S, R-38-E, and in the N/2 of Sec. 4, T-12-S, R-38-E.

I have compared the lease files with the take-off and note the following unleased interests:

T-11-S, R-38-E, Sec. 28, SE/4:

Agnes R. Slater
C. E. Nelson, Jr.
Nancy Sanderson Meals

T-11-S, R-38-E, Sec. 28, E/2 SW/4:

T. A. Meyers
Dean S. Merilatt
Rex P. Merilatt
Blanche Blackwell
Charles H. Woods
Jane Donnelly
New Mexico Osage Cooperative Royalty Co.
Flag Redfern Oil Co.
Paul Lawson Bailey
Ernestine Worley Carter
Eugene Westerberg
Harry White
Alexander Frickel
Sadie Hall Thompson
A. L. Arneson
Noah T. Dickson.

T-11-S, R-38-E, Sec. 29:E/2 SE/4:

Charles L. Cobb, Trustee
Lola Craig McDonald
J. M. Denman
Adeline Z. Cone
S. E. Cone, Jr.
Marjorie Cone Kastman
Katherine Cone Keck
Lavena Howard
Lavena Howard, Trustee for Rita Jean Cleere
Lavena Howard, Trustee for Joan Garrison

T-11-S, R-38-E, Sec. 33:NW/4:

James D. Young
Robert R. Young
Dean S. Merilatt
Rex P. Merilatt
Pauline Lawson Bailey
Ernestine Worley Carter
Eugene Westerberg
Harry White

Alexander Frickel
Russell F. Young
A. L. Arneson
Noah H. Dickson
A. M. Gantt
Wade A. Patterson
Jennie O. Morton

T-11-S, R-38-E, Sec. 33:SE/4 SW/4:

Ronald J. Byers

T-12-S, R-38-E, Sec. 4:Lots 3, 4, S/2 NW:

Ronald J. Byers

After updating the take-off, please endeavor to locate the present owners of the unleased interests and to obtain leases from them on the basis of 3 year term, 3/16ths royalty, \$102 per net acre bonus to include paid-up rental. Leases should be on a pooling form due to the finely divided areas affected, and to the fact that this prospect is predicated upon probable Devonian production.

To somewhat more clarify this situation, I point out the fact that we have acquired New Mexico State Lease No. V-1803, covering the E/2 and SW/4 of Sec. 32, and a federal competitive lease, covering the areas noted "US" in Sections 33 and 4. We have no present interest in the SE/4 of Sec. 27, the W/2 of Sec. 34, the W/2 of Sec. 3, the S/2 of Sec. 4, and the E/2 of Sec. 5. The probable initial test location is in the approximate center of the NW/4 of the NW/4 of Sec. 33, and the priorities of this job should be planned accordingly. The priorities of the three prospects on which I have requested your assistance are in the order of Morita-Wilkinson, Allar, and Gladiota NE, since this is the order in which initial test wells are tentatively scheduled.

I recognize that the lease terms suggested above would not be likely to interest Ronald J. Byers, Flag Redfern Oil Co., or New Mexico Osage Cooperative Royalty Co. Contacting these parties may, accordingly, be deferred while efforts are prosecuted to obtain leases covering the other unleased interests.

Personal regards.

Yours very truly,

WHITAKER & BROOKS

R. S. Brooks

RSB:ct

Attachments

cc: Mr. Norbert Dickman
Fasken Oil & Ranch Interest

WHITAKER & BROOKS
LAWYERS
608 FIRST NATIONAL BANK BLDG.
MIDLAND, TEXAS
79701-0608

ED M. WHITAKER
RICHARD S. BROOKS
TELEPHONE 682-5285
AREA CODE 915

March 24, 1987

BEFORE EXAMINER CATTANACH OIL & GAS REGULATION DIVISION ----- EXHIBIT NO. ----- CASE NO. -----

Mr. R. C. Kimball
P. O. Box 1424
Midland, Texas 79702

In re: Fasken - Union Texas Petroleum
Gladiola Northeast Prospect
NW/4 Sec. 33, T-11-S, R-38-E,
Lea County, New Mexico

Dear "Rocky":

I need your assistance, among other matters, to locate and lease unleased interests in the captioned parcel of land. I hand you herewith a title opinion by J. J. Bowden of Stubbeman, McRae, Sealy, Laughlin and Browder, covering the captioned land from inception of the records to August 14, 1985 at 7 a.m. I have examined a supplemental abstract but find nothing of assistance therein. I have annotated this title opinion, principally by supplying and reconciling seven place decimal interests for the various mineral owners, noting the objection numbers in connection with the names of the affected owner, correcting errors in the captions under leasehold estate at page 7, supplying Union Texas lease numbers in connection with the lease outlines, and correcting some evident errors in the objections. I also supply herewith a copy of a worksheet on which I have briefed the lease descriptions by showing the lessor, the Union Texas lease number, the expiration date, the record reference, the royalty rate, and the interest covered in seven place decimals in respect of each the NE/4 of the NW/4, the NW/4 of the NW/4, and the S/2 of the NW/4. At page 2 of the worksheet, lines 9 through 17, I have listed the names of mineral owners from whom no lease has been obtained, and indicated their decimal interests in the NE/4 of the NW/4, the NW/4 of the NW/4, and the S/2 of the NW/4, separately. The unleased mineral interests are held by the following owners:

- 1 Pauline Lawson Larson Bailey
- 2 A. M. Gantt
- 3 Dean S. Merilatt
- 4 Rex P. Merilatt
- 5 Jennie O. Morton
- 6 Wade A. Patterson
- 7 James D. Young
- 8 Robert O. Young, and
- 9 Russell F. Young

I have in hand the abstract examined by J.J. Bowden and summarize below the entries affecting the above listed unleased mineral owners.

PAULINE LAWSON LARSON BAILEY

Page 207, Oil & Gas Lease, June 10, 1957, Book 155, Page 74, Pauline Bailey, widow and sole and only heir at law of D. F. Larson, deceased, and husband, W. G. Bailey, to Rebel Oil Co., acknowledged Choctaw County, Oklahoma.

Page 145, Order on Final Account in No. 14688, estate of David Frederick Larson, deceased, in the County Court of Tarrant County, Texas, in probate, April 4, 1944, determining that Pauline Lawson Bailey, administratrix with the will annexed, is entitled to the entire estate.

Page 102, Mineral Deed, Jay Lewis and wife, Myrtle C. Lewis, to D. F. Larson, July 26, 1937, Book 96, Page 408, reciting grantee's residence as Fort Worth, Texas.

It may be a mere coincidence, but the name Bailey appears for several of the lessors in lease No.2, described in the title opinion. The acknowledgements on this lease were taken in Terry County. I suggest inquiry directed to Lorelle Bailey, Laurine Bailey, or Lee A. Brownfield.

A. M. GANTT

Page 59, Mineral Deed, Florence B. Nixon and husband J. Truman Nixon, of Cherokee County, Oklahoma, to A. M. Gantt of Midland, Texas, September ____, 1928, Book 13, Page 627, acknowledgement of J. Truman Nixon taken by Allen Tolbert, notary public, Midland County, Texas.

This is meager and stale, but I would suggest running the alphabetical indices to the deed and probate records in Midland and Lovington.

DEAN S. MERILATT

Page 64, Mineral Deed, E. E. Young of Roswell, New Mexico, to Dean S. Merilatt, Route 1, Kansas City, Kansas, July 24, 1930, Book 22, Page 364.

Page 204, Oil & Gas Lease, Dean S. Merilatt and wife, Bettie J. Merilatt, to Rebel Oil Co., March 23, 1956, Book 140, Page 454, acknowledged Oklahoma County, Oklahoma, by Helena R. Shower.

REX P. MERILATT

Page 65, Mineral Deed by E. E. Young of Roswell, New Mexico to Rex P. Merilatt, Route 1, Kansas City, Kansas, July 24, 1930, Book 22, Page 365.

Page 201, Oil & Gas Lease by Rex P. Merilatt and wife Lillian H. Merilatt to Rebel Oil Co., March 23, 1956, Book 140, Page 285, acknowledged in Jackson County, Missouri, before Wyla M. Pemberton.

JENNIE O. MORTON

Page 58, Mineral Deed, Florence B. Nixon and husband J. Truman Nixon of Cherokee County, Oklahoma, to Jennie O. Morton, December 11, 1928, Book 14, Page 391, no residence recited for grantee.

Please note objection No. 3 in the title opinion concerning A. D. Morton, Jr. Record references to A. D. Morton, Jr. from the abstracts are as follows:

Page 37, Oil & Gas Lease by Joe Joplin and wife, Anna M. Joplin, to A. D. Morton, January 15, 1928, Book 15, Page 517, without recitation of lessee's residence.

Page 47, Assignment of Oil & Gas Lease by A. D. Morton and wife, Jennie O. Morton, to Pueblo Oil Co., August 16, 1928, Book 16, Page 209, acknowledged Tulsa County, Oklahoma, before Mary Tanner.

Page 48, Assignment of Oil & Gas Lease by A. D. Morton and wife, Jennie O. Morton, to V. S. Douglass and L. A. Rowland, October 31, 1928, Book 16, Page 225, acknowledged Tulsa County, Oklahoma, before Mary Tanner.

Page 263, Oil & Gas Lease by A. D. Morton, Jr., dealing in his separate property, whose mailing address is San Diego, California, to Cities Service Oil Co., November 22, 1961, Book 206, Page 176, acknowledged San Diego County, California, before Cecelia H. Dodd.

WADE A. PATTERSON

Page 259, Mineral Deed by George F. Senner and wife, Clara Pearl Senner, of Gila County, Arizona, to Wade A. Patterson of Chavez County, New Mexico, January 22, 1962, Book 261, Page 570.

Page 260, Oil & Gas Lease by Wade A. Patterson and wife, Lois N. Patterson, of Roswell, New Mexico, to Cities Service Oil Co., January 25, 1962, Book 205, Page 191, acknowledged Chavez County, New Mexico, notary signature illegible.

Page 199, Oil & Gas Lease by Walter W. Patterson and wife, Catherine, Lillian Patterson Sheets and husband, R. R. Sheets, Joe E. Patterson and wife, Jennie May, to Alfred G. Greany, acknowledged by Joe E. Patterson and wife, Chavez County, New Mexico before James M. H. Cullender, and Oklahoma County, Oklahoma before Evelyn M. Land, by R. R. Sheets and wife, and Walter Patterson and wife. It may be of some significance that two Pattersons of Roswell, New Mexico, were dealing with this property about the same time.

JAMES D. YOUNG, ROBERT O. YOUNG, RUSSELL F. YOUNG

I group these names together because of their apparent relationship to E. E. Young, though he is not named as the holder of an unleased interest. The record references are as follows:

Page 141, Mineral Deed, E. E. Young, a single man by reason of death of wife, of Chavez County, New Mexico, to James D. Young, Russell F. Young, and Robert O. Young, residences not recited, conveying all my interests in the NW/4 of Sec. 33, T-11-S, R-38-E, April 6, 1950, Book 141, Page 502, acknowledged Chavez County, New Mexico, by Lillian J. Scott.

Page 143, Notice in Probate, by Russell F. Young in No. 3601 in the matter of the estate of Egbert E. Young, aka E. E. Young, in the Probate Court of Chavez County, New Mexico, April 2, 1953, Book 76, Page 216, signed by James M. H. Cullender, attorney for Russell F. Young, administrator, and reciting that decedent owned 5/160ths mineral interest in the NW/4 of Sec. 33, T-11-S, R-38-E, Lea County, New Mexico, sworn to by Russell F. Young before Lillian J. Scott, notary public Chavez County, New Mexico.

Page 147, Oil & Gas Lease, by Russell F. Young and wife, Pauline G. Young, James D. Young and wife, Dorothy Rea Young, and Robert O. Young and wife, Sylvia M. Young, to J. R. Cone, December 6, 1955, Book 123, Page 490, acknowledgements by James D. Young and Robert O. Young, Los Angeles, California, before Mary S. Phelps, and by Russell F. Young, Chavez County, New Mexico, before Bruce B. Foosbaugh, or possibly Toosbaugh.

Page 256, Oil & Gas Lease by James D. Young and wife, Dorothy Young, Robert O. Young and wife, Sylvia M. Young, and Russell F. Young and wife, Pauline G. Young, to Cities Service Oil Co., December 20, 1961, Book 204, Page 156, reciting lessors' residence as Roswell, New Mexico, and acknowledged as to James D. Young and wife, Dorothy Young, in Orange County, California, before Myrtice L. McCririe, by Russell F. Young and wife in Chavez County, New Mexico before Helen C. Richardson, and by Robert O. Young and wife in Los Angeles County, California, before C. T. Faton.

I recognize that these interests are small and that the references are old. It should, however, be feasible to find several of these owners. I should appreciate your searching on a daywork basis since the total amount involved does not indicate any substantial commission. I suggest that we offer \$102 per acre for three-year paid-up leases, providing for 3/16ths royalty, and that we offer a minimum bonus of \$100 for leases covering less than an acre. In view of the age of the references, I think the probate records should be checked for owners not found by checking directories. I suggest that you contact Randolph M. Richardson, P. O. Box 819, Roswell, New Mexico 88201, Telephone 622-8801. He is a lawyer and landman, who specializes in putting together federal and state approved units, and has a very wide acquaintance in New Mexico, particularly at Roswell.

Yours truly,

WHITAKER & BROOKS

Richard S. Brooks

RSB:ct

Attachments

June 25, 1987

Ms. Pauline Lawson Bailey
P. O. Box 55
Oklahoma City, OK 74101

RE: T-11S, R-38E
NENW S-33 Lea County, NM
Gladiola NE Prospect

Dear Ms. Bailey:

The writer is purchasing Oil and Gas Leases in the above captioned area to drill a test well later this year. I have checked the County Records in Lovington, and find that you own an unleased interest in this area. My offer is based on the following:

393/16000 interest in the NENW/4 Section 33, T-11S, R-38E Lea County, NM being .9825 net acres.

OFFER:

Bonus: \$50.00
Royalty: 3/16ths
Term: three years

Please contact me by calling me collect at your early convenience, or by writing me at the letter-head post office box address. If you have any questions, please advise. My card is included for your convenience.

Thanking you in advance, I am,

Very sincerely,

R. C. KIMBALL

June 25, 1987

Mr. Dean S, Merilatt
8035 Shadow Lane
Tucson, AZ 85715

RE: T-11S, R-38E
NENW S-33 Lea County, NM
Gladiola NE Prospect

Dear Mr. Merilatt:

The writer is purchasing Oil and Gas Leases in the above captioned area to drill a test well later this year. I have checked the County Records in Lovington, and find that you own an unleased interest in this area. My offer is based on the following:

1/160th interest in the NENW/4 Section 33, T-11S, R-38E Lea County, NM being .25 net acres.

OFFER:

Bonus: \$50.00
Royalty: 3/16ths
Term: three years

Please contact me by calling me collect at your early convenience, or by writing me at the letter-head post office box address. If you have any questions, please advise. My card is included for your convenience.

Thanking you in advance, I am,

Very sincerely,

R. C. KIMBALL



MER 35 5R2726N1 06/27/87

RETURN TO SENDER
NO FORWARDING ORDER ON FILE
UNABLE TO FORWARD

Mr. Dean S. Merilatt
8035 Shadow Lane
Tucson, AZ 85715

RC Kimball
8035 Shadow Lane

Postnet barcode
78572

Claim Check No. 099536

Hold

Date

TEST NOTICE
7-27
2ND NOTICE
8-5
Return

Detached from PS Form 3849-4 Oct. 1985

RETURN RECEIPT
RECEIVED

P 248 473 044

R.C. "ROCKY" KIMBALL *Independent Petroleum Landman*

Suite 122 Midland Executive Center • Midland, Texas 79702 • P.O. Box 1424 • (915) 683-1062

July 30, 1987

Mr. Bill Patterson
301 W. Wall Ave. 1901
Midland, TX 79701

*copy for
Allen Hill
Gladiola NE
Fort Ranch/Hilburn file*

Prospect status update
active areas

Dear Bill:

Enclosed you will find the Ammendment to Extend Primary Term for the Henke Petroleum Lease.

Also, I have sent leases to the following people today in the Gladiola NE Prospect drillsite:

- Russell Young et ux
- Robert Young et ux
- James Young et ux

These people have agreed to \$50 for a 3 yr. 3/16ths lease.

I found that Betty Merilatt, Dean's widow, has rented a condo in Rexburg, Idaho for the summer. I have the address but no phone number, so I'm just mailing her the lease with explanations.

Rex Merilatt's wife told me today that she was taking the lease to be Notarized tomorrow, and hasn't until now because of Rex's ailing health.

Also, have copies of letters from Exxon and Marathon requesting Assignment on the Fort Ranch /Hilburn area.

I'll let you know more as I can.

Thanks,

Rocky

R.C. "ROCKY" KIMBALL *Independent Petroleum Landman*

Suite 122 Midland Executive Center • Midland, Texas 79702 • P.O. Box 1424 • (915) 683-1062

August 17, 1987

Mr. Bill Patterson
301 W. Wall Ave. Suite 1901
Midland, TX 79701

RE: Gladiola NE Drillsite
NW/4 S-33 T-11S, R-38E
Lea County, NM

Dear Bill:

Pursuant to your request, I have sent the attached letter to the remaining open interest owners in our drillsite:

Mrs. Dean Merilatt
129 E. Princeton Ct. 17
Rexburg, Idaho 83440

Mr. Robert O. Young
809 S. Lark Ellen
West Covina, CA 91753

Mr. Russell F. Young
Rt 1 Box 117
Lubbock, TX

As I have indicated, I have sent leases with \$50.00 sight drafts to all these people. Mrs. Merilatt said she was going to wait until she returned to her winter home in Mesa AZ, as that is where she has all the probate materials for her deceased husband. The Youngs have had leases sent to them after getting oral approval by phone last month, and their leases should have been here by now.

I will advise when I hear from these individuals.

Very sincerely,


R. C. KIMBALL

Mr. Brooks

HENRY ENGINEERING

Petroleum Engineers

(915) 683-1893

303 WEST WALL AVENUE, SUITE 1900
MIDLAND, TEXAS 79701-5116

March 5, 1987

Mr. Robert Dickson
303 West Wall Avenue, Suite 1901
Midland, TX 79701-5116

BEFORE EXAMINER CATANACH	
OIL CONSERVATION DIVISION	
<u>Fasken</u>	EXHIBIT NO. <u>5</u>
CASE NO.	<u>9201</u>

Re: AFE No. 665
Gladiola No. 1
Wildcat

Section 33, T-11-S, R-38-E,
Lea County, New Mexico

Dear Mr. Dickson:

The cost to drill and complete a well on the Gladiola Prospect as a flowing oil well from the Devonian formation is estimated to be:

	<u>Tangible</u>	<u>Intangible</u>	<u>Total</u>
Drilling Cost	\$68,900	\$397,200	\$466,100
Completion Cost	242,210	\$147,500	\$389,710
Total	\$311,110	\$544,700	\$855,810

An additional \$65,000 will be required to equip the well with a pumping system if the well will not flow.

If this proposal meets with your approval, please signify by signing and returning a copy of this letter.

Yours very truly,

Robert H. Angevine

Robert H. Angevine

RHA:d yg

Approved: Barbara Fasken By: _____
Date: _____

Approved: Union Texas By: _____
Date: _____

RECOMMENDED CASING PROGRAM

A.F.E. No. 665

Barbara Fasken -----Gladiola Prospect No. 1----- Wildcat
Lea Co., NM

	<u>Footage</u>	<u>Size</u>	<u>Weight</u>	<u>Grade</u>	<u>Thread</u>
Surface Casing	400'	13-3/8"	48#/ft.	H-40	ST&C
Intermediate Casing	2550'	8-5/8"	24#/ft.	K-55	ST&C
	<u>1950'</u> 4500'	8-5/8"	32#/ft.	K-55	ST&C
Oil String Casing	2400'	5-1/2"	17#/ft.	N-80	Buttress
	7450'	5-1/2"	17#/ft.	N-80	LT&C
	<u>2350'</u> 12,200'	5-1/2"	20#/ft.	N-80	LT&C
Tubing	12,200'	2-3/8"	4.7#/ft.	N-80	EUE 9rd

RHA:3/2/87

HENRY ENGINEERING
COST ESTIMATE

Operator: Barbara Fasken Date: 3/4/87 AFE No. 665
 Lease Name _____ Well# 1 Field Wildcat Co. Lea State New Mexico
 New Well Recompletion Workover Other

TANGIBLES				SUB	TOTAL	DRY HOLE
01	TUBULAR GOODS					
	Conductor Pipe	In. _____	Ft. _____	\$/Ft. _____		
	Surface Casing	<u>13-3/8</u> In.	<u>400</u> Ft.	<u>21.00</u> \$/Ft.	8,400	8,400
	Inter. Casing	<u>8-5/8</u> In.	<u>4500</u> Ft.	<u>12.00</u> \$/Ft.	54,000	54,000
	Oil String (w/RC)	<u>5-1/2</u> In.	<u>12200</u> Ft.	<u>10.00</u> \$/Ft.	122,000	
	Tubing	<u>2-3/8</u> In.	<u>12200</u> Ft.	<u>3.55</u> \$/Ft.	43,310	
					227,710	
02	WELLHEAD EQUIPMENT, ETC.					
	Starting Head c/w Valves				5,400	2,500
	Inter. Head w/Slips & Seal Assy.				8,000	4,000
	Tubing Head w/Valves & Hanger, Etc.				9,000	
	Christmas Tree				13,000	
					35,400	
03	SUB SURFACE DOWNHOLE EQUIPMENT					
	Tubing Anchor and/or Packer				3,000	
	Sucker Rods, Pumps, BHA, Etc.					3,000
04	SURFACE PRODUCTION EQUIPMENT					
	Pumping Units c/w Prime Mover and/or Triplex					
	Production Units/Compressors					
	Tanks, Treaters, Separator, Circ. Pump, Chemical Pump				45,000	
					45,000	
	TOTAL TANGIBLES				311,110	68,900

INTANGIBLES				SUB	TOTAL	DRY HOLE
05	CONTRACTOR DRILLING COST					
	Drilling Cost (<u>12,200</u> @ \$ <u>12.50</u>)				152,500	152,500
	Day Work (<u>7</u> days @ \$ <u>4200</u> /day)				29,400	29,400
	Pulling Unit For Completion, Etc. (<u>150</u> hrs. @ \$ <u>100</u> /hr.)				15,000	
	Reverse Drilling Equipment				5,000	
					201,900	
06	CEMENTING SERVICES & EQUIPMENT					
	Surface				3,000	3,000
	Intermediates				13,000	13,000
	Oil String				18,000	
	Other					
					34,000	
07	FORMATION TREATMENT					
	Acidizing Services & Material				25,000	
	Fracturing Services & Material					
	Tank Rental & Hauling				3,000	
					28,000	
08	SPECIAL SERVICES					
	Perforating (Production Logging & Wireline Services)				5,000	
	Mud Logging Units (<u>36</u> days @ \$ <u>550</u> /day)				19,800	19,800
	Open Hole Logging				40,000	40,000
	Cores, DST's, Etc.				13,000	13,000
	Packer & BP Rental				2,500	
					80,300	
09	DRILLING FLUIDS					
	Mud & Chemicals				20,000	20,000
	Fresh Water & Brine Water				15,000	15,000
	Oil For Drilling Mud				2,000	2,000
					37,000	
10	MATERIALS & SERVICE OTHER					
	Bits & Reamers					
	Fuel					
	Hauling - Trucking, Transport & Pump Truck				15,000	6,000
	Tubular Inspection and Testing				5,000	
	Casing Expense (Run Csg., PU & LD Machine, Etc.)				7,500	4,000
	Valves, Piping & Connections				15,000	2,000
	Pit Liners				2,500	2,500
	Rental Equipment				7,500	3,000
	Welding and Roustabout Labor				15,000	3,000
	Cattleguard & Fencing				3,000	3,000
	Misc. Service & Supplies				10,000	4,000
					80,500	
11	LOCATION ACCESS & CLEAN UP					
	Surveying				1,000	1,000
	Road, Location, Pits, & Clean Up				20,000	20,000
12	SUPERVISION & LEGAL, ETC.					
	Geological, Engineering, & Supervisory Expense				12,000	12,000
					50,000	36,000
13	CONTINGENCIES <u>10</u> %				544,700	397,200
	TOTAL INTANGIBLES				544,700	397,200
	TOTAL COST				855,810	466,100

RECOMMENDED DRILLING & COMPLETION PROCEDURE

A.F.E. NO. 665

Barbara Fasken -----Gladiola Prospect No. 1 -----Wildcat
Lea Co., NM

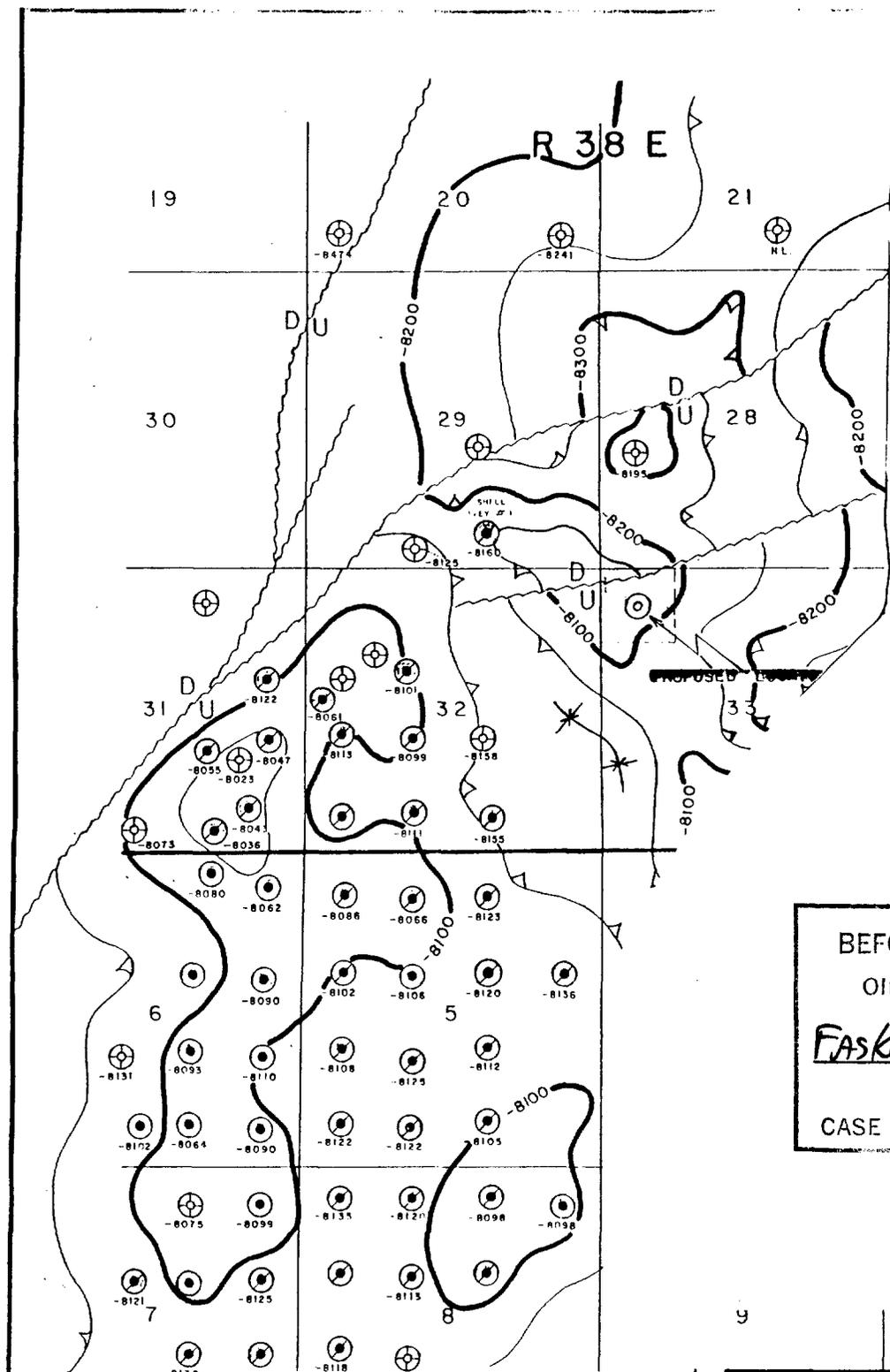
1. Drill 17-1/2" hole to 400' with spud mud.
2. Set 13-3/8" casing at 400', cement to surface and install 12" - 3000 psi WP casinghead and B.O.P. stack (estimate 250 sxs. Halliburton-Lite with 2% CaCl, slurry weight 12.7 ppg, plus 150 sxs. Class "C" with 2% CaCl, slurry weight 14.8 ppg), W.O.C. minimum of 12 hours or time for 500 psi compressive strength.
3. Drill 12-1/4" or 11" hole with fresh water to 2200' and 10.0 ppg brine water from 2200' to 4500', control seepage with paper. It may be necessary to add 75-100 bbls. of oil to mud at 1000' and increase viscosity to maintain hole.
4. Log open hole with BHC - integrated sonic with gamma ray.
5. Set and cement 8-5/8" casing at 4500' with sufficient cement to circulate. (Estimate 1200 sxs. Halliburton-Lite with 15# salt/sack and 1/4# Flocele/sack, slurry weight 12.7 ppg, plus 200 sxs. Class "C" with 2% CaCl, slurry weight 14.8 ppg). W.O.C. 18 hours, install 12" - 3000 psi x 10" - 3000 psi spool with secondary seal and bit guide, choke manifold, B.O.P.'s and Hydril.
6. Before 9000', hydrostatically test 200' of 8-5/8" casing to 2300 psi, casing spool, B.O.P.'s and choke manifold to 3000 psi, and Hydril to 1500 psi.
7. Drill 7-7/8" hole to total depth of 12,200' using fresh water to 9300', mud up with fresh water polyvis mud - 9.2 ppg, 38-55 sec. viscosity, 10 cc water loss. Increase viscosity as necessary to maintain hole to total depth.
8. Drill stem test all shows.
9. Log well, CNL-LDT with Gamma Ray, DIL, Dip Meter, and BHC Integrated Sonic.
10. Set and cement 5-1/2" production casing with D.V. tool at approximately 8000' (resin coated and centralized through possible production zones).

First Stage: 500 sxs. Class "H", Halliburton-Lite with 6# KCl/sack, 0.6% Halad-22, 0.4% CFR-2, 1/4# Flocele/sack, slurry wt. 12.7 ppg, yield 2.00 cf/sack, plus 700 sxs. Class "H" with 3# KCl/sack, 0.8% Halad-22, 0.4% CFR-2, 1/4# Flocele per sack, slurry weight 15.6 ppg, yield 1.22 cf/sack.

Second Stage: With D.V. tool at approximately 8500', 700 sxs. Class "C", Halliburton-Lite with 6# KCl per sack, 0.6% Halad-22, 0.4% CFR-2, 1/2# Flocele per sack, slurry weight 12.7 ppg, plus 100 sxs. Class "C" neat, slurry weight 14.8 ppg.
11. Set slips, nipple down B.O.P.'s, and run temperature survey to locate cement top.
12. Install 10" - 3000 psi x 6" - 3000 psi tubinghead and flow tree.
13. Rig down and move out rotary tools.

Recommended Drilling & Completion Procedure - Continued
A.F.E. No. 665
Barbara Fasken - Gladiola Prospect No. 1
Wildcat
Lea County, New Mexico

14. Level location, set mast anchors, move in and rig up completion unit and reverse unit.
15. Drill out D.V. tool and test to 1500#.
16. Clean out to float collar and test casing and tubinghead to 3000# with pump truck.
17. Displace drilling fluid with 2% KCl water and spot acid over proposed perforating interval. Pull tubing.
18. Perforate pay zone and displace acid.
19. Run packer and seating nipple on tubing and swab test well.
20. Test, evaluate, and stimulate well based upon evaluation.
21. Lay flow line and build tank battery.
22. Put well on production and potential test.
23. Clean up location and level reserve pit.



BEFORE EXAMINER CATANACH
 OIL CONSERVATION DIVISION
Fasken EXHIBIT NO. 6
 CASE NO. 9201

● WOLFCAMP PRODUCER
 ● DEVONIAN PRODUCER

9 10

BARBARA FASKEN
 GLADIOLA, N.E. PROSPECT
 LEA COUNTY, NEW MEXICO
 STRUCTURE
 TOP DEVONIAN

C.I. 50 SCALE 1:2000

STATE OF NEW MEXICO
DEPARTMENT OF ENERGY AND MINERALS
OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION
OF BARBARA FASKEN FOR COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.

CASE: 9201

CERTIFICATE OF MAILING
AND
COMPLIANCE WITH ORDER R-8054

In accordance with Division Rule 1207 (Order R-8054) I hereby certify that on August 4, 1987, notice of the hearing, and a copy of the application for the above referenced case, was mailed at least twenty days prior to hearings originally set for August 20, 1987 to the operators and interested parties listed in Exhibit "A".


W. Thomas Kellahin

SUBSCRIBED AND SWORN to before me this 25th day of August, 1987.


Notary Public

My Commission Expires:

8-26-87

BEFORE EXAMINER CATANACH
OIL CONSERVATION DIVISION
Fasken EXHIBIT NO. 7
CASE NO. 9201

Exhibit "A"

Mrs. Dean Merilatt
129 E. Princeton Court, #17
Rexburg, Idaho 83440

Rex Merilatt
233 Texas
Lindale, Texas 75711

Robert Young
809 South Lark Allen
West Covina, California 91753

Russell Young
Route 1, Box 117
Lubbock, Texas 79401

James Young
1218 Valle Vista Drive
Fullerton, California 92639

*Mailed certified to these addresses:
8/4/87 aa*

PS Form 3811, July 1983 447-845

SENDER: Complete items 1, 2, 3 and 4.

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

- Show to whom, date and address of delivery.
- Restricted Delivery.

3. Article Addressed to:

Russell Young
Route 1, Box 117
Lubbock, Texas 79401

4. Type of Service:	Article Number
<input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail	P 131 072 150

Always obtain signature of addressee or agent and DATE DELIVERED.

5. Signature - Addressee
X *Russell Young*

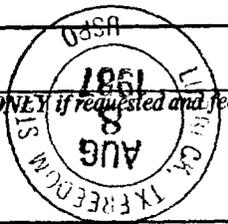
6. Signature - Agent
X

7. Date of Delivery

8. Addressee's Address (ONEY if requested and fee paid)

Barbara Fasken 8/26/87

DOMESTIC RETURN RECEIPT



PS Form 3811, July 1983 447-845

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

1. Show to whom, date and address of delivery.
 2. Restricted Delivery.

3. Article Addressed to:
 Mrs. Dean Merilatt
 129 E. Princeton Court, #17
 Rexburg, Idaho 83440

4. Type of Service: <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail	<input type="checkbox"/> Insured <input type="checkbox"/> COD	Article Number P 131 072 146
--	--	---------------------------------

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

5. Signature - Addressee
 X *Dean Merilatt*

6. Signature - Agent
 X

7. Date of Delivery
 8/26/87

8. Addressee's Address (ONLY if requested and fee paid)

DOMESTIC RETURN RECEIPT

Barbara Fasken - 8/26/87

PS Form 3811, July 1983 447-845

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

1. Show to whom, date and address of delivery.
 2. Restricted Delivery.

3. Article Addressed to:
 Rex P. Merilatt
 Route 4, Box 522 *233 Texas*
 Lindale, Texas 75711

4. Type of Service: <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail	<input type="checkbox"/> Insured <input type="checkbox"/> COD	Article Number P 131 072 145
--	--	---------------------------------

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

5. Signature - Addressee
 X *Rex Merilatt*

6. Signature - Agent
 X *Barbara Fasken*

7. Date of Delivery
 8-1-87

8. Addressee's Address (ONLY if requested and fee paid)

DOMESTIC RETURN RECEIPT

Barbara Fasken 8/26/87

PS Form 3811, July 1983 447-845

SENDER: Complete items 1, 2, 3 and 4.
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1. Show to whom, date and address of delivery.
 2. Restricted Delivery.

3. Article Addressed to:
 James Young
 1218 Valle Vista Drive
 Fullerton, CA 92639

4. Type of Service: <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail	<input type="checkbox"/> Insured <input type="checkbox"/> COD	Article Number P131 072 149
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Always obtain signature of addressee or agent and **DATE DELIVERED.**

5. Signature - Addressee
 X *James Young*

6. Signature - Agent
 X

7. Date of Delivery

8. Addressee's Address (ONLY if requested and fee paid)

DOMESTIC RETURN RECEIPT

PS Form 3811, July 1983 447-845

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1. Show to whom, date and address of delivery.
 2. Restricted Delivery.

3. Article Addressed to:
 Robert Young
 809 South Lark Allen
 West Covina, California 91753
 Roswell, New Mexico 88201

4. Type of Service: <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail	<input type="checkbox"/> Insured <input type="checkbox"/> COD	Article Number P 131 072 144
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Always obtain signature of addressee or agent and **DATE DELIVERED.**

5. Signature - Addressee
 X *Robert O. Young*

6. Signature - Agent
 X

7. Date of Delivery
 8-1-87

8. Addressee's Address (ONLY if requested and fee paid)
 809 S LARK ALLEN
 WEST COVINA, CALIF

DOMESTIC RETURN RECEIPT