STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

TONEY ANAYA
GOVERNOR

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-5800

1-18-85

Mr. Michael T. Garrett
Garrett & Richards
400 Pile, Suite 100
P. O. Box 930
Clovis, NM 88102-0930

RE: Case #8225, Application of
Stevens Operating Corporation

Dear Mr. Garrett:

I am in receipt of your letter of January 4, 1985, wherein you seek a hearing on behalf of your client, Harlow Corporation, in the above-referenced matter. As you recall, Stevens Corporation requested voluntary dismissal of its application but you requested that the voluntary dismissal be denied and that action on the application proceed. It is the opinion of the Division that in this situation the applicant has the right to request and receive voluntary dismissal of his application. If your client desires that a hearing be held on the application, you may file an application on behalf of your client and request a hearing thereon. If you have any further questions regarding this matter, please feel free to contact either myself or R. L. Stamets.

Sincerely,

Jeff Taylor
General Counsel

JT/bok

ERNEST L. PADILLA
ATTORNEY AND COUNSELOR AT LAW

First Northern Plaza
P.O. Box 2523
Santa Fe, New Mexico 87501
(505) 988-7577

January 8, 1985

Jeff Taylor, General Counsel
Oil Conservation Division
Post Office Box 2088
Santa Fe, New Mexico 87501

Re: Case #8225, Application of Stevens Operating Corporation for Compulsory Pooling

Dear Mr. Taylor:

I have received a copy of Mr. Garrett's January 4, 1985 letter to you regarding The Harlow Corporation's request for a de novo hearing in the above referenced case.

Mr. Garrett's argument assumes that The Harlow Corporation made its own application for compulsory pooling and that it asked to be named the operator of the well to which the N/2 of Section 19, Township 8 South, Range 29 East has been dedicated.

I strongly emphasize that The Harlow Corporation, at no material time, applied in any regard to the Division for the drilling and development of the N/2 of Section 19. The only application before the Division was that of Stevens Operating Corporation, which prior to an order being issued, was voluntarily dismissed by Stevens Operating Corporation.

As a result, the only appeal or request for a de novo hearing before the full Commission that could have been made by The Harlow Corporation, under the circumstances, would have been a request for a hearing de novo resulting from the granting of the compulsory pooling application of Stevens Operating Corporation. Accordingly, since there was no other competing claim filed by The Harlow Corporation and the application of Stevens Operating Corporation had been voluntarily dismissed prior to an issuance of an order, the Division has lost jurisdiction of the matter.

Very truly yours,

Ernest L. Padilla

ELP/dd
cc: Stevens Operating Corporation

Michael T. Garrett, Esquire
P. O. Box 930
Clovis, New Mexico 88102-0930

GARRETT & RICHARDS
ATTORNEYS AT LAW
400 PILE, SUITE 100
POST OFFICE BOX 930
CLOVIS, NEW MEXICO 88102-0930
PHONE (505) 762-4544

January 4, 1985

Jeff Taylor, General Counsel
Oil Conservation Division
Energy & Minerals Department
State of New Mexico
P.O. Box 2088
Santa Fe, NM 87501

Re: Case #8225, Application of Stevens Operating Corporation
-- Harlow Corporation
Our File #15,320

Dear Mr. Taylor:

In review of the above file, it is noted that Stevens Operating Corporation did file a compulsory pooling application on May 22, 1984. Hearing on the matter was docketed before the Commission on June 6, 1984. The hearing examiner who heard the case was Richard L. Stamets. A full hearing was conducted on the matter at 8:00 a.m. on June 6, 1984. By a letter dated June 15, 1984, Ernest L. Padilla who represented Stevens Operating Corporation did hand deliver a letter to the hearing examiner confirming a voluntary dismissal of the pending application. Further, on June 14, 1984, the Division Director did grant the request made by the applicant for dismissal and did dismiss the above case without hearing and without notice to any of the parties who participated in the hearing or who were represented at the hearing as parties in interest. Thereafter, this firm was employed and an appeal with respect to the dismissal was filed with the Commission. I did appear before the prior counsel for the Commission requesting the matter to be set down for hearing, whereupon he questioned as to whether or not a hearing could be conducted on the appeal since there was a voluntary dismissal. It is our opinion and position no dismissal may be entered without notice to all of the parties with the opportunity to be heard. Accordingly, the appeal was taken to the dismissal be made without hearing and additionally, on the grounds that, once a party submits the matter to the jurisdiction of the Commission

and there has been a full hearing, that in the event the applicant desires to dismiss the application, the other parties thereto shall have the opportunity to pursue the matter to completion after due and proper notice. As indicated, no such notice was given in this particular matter and, in turn, the appeal is pending. Accordingly, request is hereby made that this appeal be set down for hearing with proper notice to be given.

Sincerely yours,

Michael T. Garrett

MTG/km
cc: Ernest L. Padilla, Esq.
P.O. Box 2523
Santa Fe, NM 87501

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

TONEY ANAYA
GOVERNOR

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-5800

December 26, 1984

Mr. Michael T. Garrett
Garrett & Richards
P. O. Box 930
Clovis, NM 88102

RE: Case No. 8225, Application of Stevens Operating Corporation for forced pooling

Dear Mr. Garrett,

By letter dated September 26, 1984, we requested that you file a written notice setting forth any basis you might have for an appeal of the dismissal of the above-referenced matter. Since we have not heard from you we are assuming that you have abandoned your attempt to appeal the dismissal.

Sincerely,

Jeff Taylor
General Counsel

cc: Earnest Padilla, Esq.

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

September 26, 1984

TONEY ANAYA
GOVERNOR

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-5800

Mr. Michael T. Garrett
Garrett & Richards
P. O. Box 930
Clovis, New Mexico 88102

Re: Case No. 8225, Application of Stevens Operating Corporation for Forced Pooling

Dear Mr. Garrett:

By letter dated August 31, 1984, you requested a hearing on the dismissal of the above-referenced matter. Your hand-written notice of appeal, undated, was received in this office on July 16, 1984, which appears to be more than 30 days after the date that the Order in this matter was rendered. Moreover, because the case was dismissed on the motion of the applicant and no decision on the merits was issued by the OCD, it is unclear what it is you wish to appeal.

If you desire to pursue this matter, could you please set forth in writing the basis for your appeal and the issues to be addressed before the Commission. Since no decision was rendered by the Director, it is not clear to me that a right to an appeal exists pursuant to Rule 1220 of the OCD.

Thank you for your attention to this matter.

Sincerely,

JEFFREY TAYLOR
General Counsel

JT/dr

cc: Ernie Padilla, Esq.

GARRETT & RICHARDS
ATTORNEYS AT LAW
400 PILE, SUITE 100
POST OFFICE BOX 930
CLOVIS, NEW MEXICO 88102-0930
PHONE (505) 762-4544

MICHAEL T. GARRETT
DAVID F. RICHARDS
MARILYN S. PAGE

August 31, 1984

Perry Pearce, Esquire
General Counsel
New Mexico Oil Conservation Division
P.O. Box 2088
Santa Fe, N.M. 87501

Re: Case #8225, Application of Stevens Operating Corporation
Our File: 15,320

Dear Mr. Pearce:

On June 15, 1984, the applicant did request dismissal of the above case. By order of the Division, same was dismissed without notice or hearing on June 6, 1984. Our firm did enter Appearance and file an appeal to the Order of Dismissal in the case in question. Accordingly, we would like this matter set for hearing before the Division during the last week of September or the first part of October 1984. I do recognize this as being an unusual procedure and approach and in turn possibly the first time that you have run into an appeal being filed to a dismissal. Regardless, we have filed the appeal and we would like to have a hearing thereon. I will await your response as to a hearing date.

Sincerely yours,

Michael T. Garrett

Michael T. Garrett

MTG/km
cc: Ernest L. Padilla, Esq.
P.O. Box 2523
Santa Fe, N.M. 87501
cc: W.V. Harlow, Jr.
Harlow Corporation
600 Petroleum Bldg.
Amarillo, Tx. 79101

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

TONEY ANAYA
GOVERNOR

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-5800

September 4, 1984

Michael T. Garrett, Esquire
400 Pile, Suite 100
P. O. Box 930
Clovis, NM 88102-0930

Dear Mr. Garrett:

Your letter of August 31, 1984, to the Division's attorney relative to Case No. 8225 has been received.

Mr. Pearce has left the Division to join the Montgomery firm here in Santa Fe. Mr. Jeff Taylor will be replacing him on September 10 and we will discuss your request after that date.

Sincerely,

R. L. Stamets
Technical Support Chief

RLS/bok

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

September 26, 1984

TONEY ANAYA
GOVERNOR

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-5800

Mr. Michael T. Garrett
Garrett & Richards
P. O. Box 930
Clovis, New Mexico 88102

Re: Case No. 8225, Application of Stevens Operating Corporation for Forced Pooling

Dear Mr. Garrett:

By letter dated August 31, 1984, you requested a hearing on the dismissal of the above-referenced matter. Your hand-written notice of appeal, undated, was received in this office on July 16, 1984, which appears to be more than 30 days after the date that the Order in this matter was rendered. Moreover, because the case was dismissed on the motion of the applicant and no decision on the merits was issued by the OCD, it is unclear what it is you wish to appeal.

If you desire to pursue this matter, could you please set forth in writing the basis for your appeal and the issues to be addressed before the Commission. Since no decision was rendered by the Director, it is not clear to me that a right to an appeal exists pursuant to Rule 1220 of the OCD.

Thank you for your attention to this matter.

Sincerely,

JEFFREY TAYLOR
General Counsel

JT/dr

cc: Ernie Padilla, Esq.

GARRETT & RICHARDS
ATTORNEYS AT LAW
400 PILE, SUITE 100
POST OFFICE BOX 930
CLOVIS, NEW MEXICO 88102-0930
PHONE (505) 762-4544

MICHAEL T. GARRETT
DAVID F. RICHARDS
MARILYN S. PAGE

August 31, 1984

SEP 4 REC'D

Perry Pearce, Esquire
General Counsel
New Mexico Oil Conservation Division
P.O. Box 2088
Santa Fe, N.M. 87501

Re: Case #8225, Application of Stevens Operating Corporation
Our File: 15,320

Dear Mr. Pearce:

On June 15, 1984, the applicant did request dismissal of the above case. By order of the Division, same was dismissed without notice or hearing on June 6, 1984. Our firm did enter Appearance and file an appeal to the Order of Dismissal in the case in question. Accordingly, we would like this matter set for hearing before the Division during the last week of September or the first part of October 1984. I do recognize this as being an unusual procedure and approach and in turn possibly the first time that you have run into an appeal being filed to a dismissal. Regardless, we have filed the appeal and we would like to have a hearing thereon. I will await your response as to a hearing date.

Sincerely yours,

Michael T. Garrett

MTG/km
cc: Ernest L. Padilla, Esq.
P.O. Box 2523
Santa Fe, N.M. 87501
cc: W.V. Harlow, Jr.
Harlow Corporation
600 Petroleum Bldg.
Amarillo, Tx. 79101

RECEIVED

JUL 16 1984

OIL CONSERVATION DIVISION

Oil Conservation Division
Santa Fe, New Mexico

Gentlemen:

Harlow Corp. hereby appeals the dismissal of case no. 8225 by Order R-7563, issued June 14, 1984.

Harlow Corp.
By Garrett V Richards
P.O. Box 930
Clovis, NM 88101

HARLOW CORPORATION

Petroleum Exploration • Drilling • Production

CERTIFIED MAIL NO. 2215910
Return Receipt Requested

June 18, 1984

Stevens Oil Company
P. O. Box 2203
Roswell, NM 88201

Attn: Mr. Donald D. Stevens

Gentlemen:

We received your letter of June 15, 1984. We are perplexed about Stevens Oil Company's position regarding the #1 Lynx well in the N/2 Section 19, T8S, R29E, as to The Harlow Corporation's leasehold rights in said tract and in particular the rights to information on the #1 Lynx well and participation therein.

We would like to know:

1) Do you believe The Harlow Corporation has an interest in said leasehold?

2) Do you believe The Harlow Corporation has the right to information being produced on the drilling of said well?

3) Do you believe The Harlow Corporation has the option to participate in the well at its election?

4) Do you believe The Harlow Corporation is entitled to compensation for use, maintenance, operation and repair of the roads being used by Stevens Oil Company that were paid for, caliched and maintained by The Harlow Corporation?

5) Do you believe Stevens Oil Company is trespassing as to the use of these roads inasmuch as no permission has been gleaned or sought from The Harlow Corporation. In fact, entrance and use of the roads was made without our knowledge or any request made.

6) Do you believe Stevens Oil Company is in fact trespassing on The Harlow Corporation's leasehold rights until such time as an understanding is derived as to our participation or non-participation and to the terms of such agreement?

806 372-7381 • 600 Petroleum Building • Amarillo, Texas 79101

7) Stevens Oil Company required The Harlow Corporation to participate in a force pooling action after the #1 Lynx well in the N/2 of said section was drilling and drilling operations had been proceeding for nine days before the hearing, and in fact, the request for force pooling action was actually made the same day operations were commenced on the subject tract. The opinion of the Commission from that hearing has not been heard as of this date and we assume from your letter that you are dropping your application, in other words, without hearing the decision of the Commission you are dropping application to force pool and we are not sure where this leaves us or the Commission with regard to a drilling operation on our leasehold.

Please advise immediately.

Sincerely,

THE HARLOW CORPORATION

W. V. Harlow, Jr.

WVH:js

cc: Mr. Mike T. Garrett
Garrett & Richards
Box 930
Clovis, NM 88102
w/copy of Stevens Oil Company Letter 6/15/84

Mr. Owen M. Lopez
Hinkle, Cox, Eaton, Coffield & Hensley
P. O. Box 2068
Santa Fe, NM 87504
w/copy of Stevens Oil Company Letter 6/15/84

Mr. Ernest L. Padilla
Attorney and Counsel at Law
P. O. Box 2523
Santa Fe, NM 87501
w/copy of Stevens Oil Company Letter 6/15/84

✓ New Mexico Oil Conservation Division
Attn Mr. Richard L. Stamets
P. O. Box 2088
Santa Fe, NM 87501
w/copy of Stevens Oil Company Letter 6/15/84

STEVENS OIL COMPANY
FIRST NATIONAL TOWER - SUITE 1250
P. O. BOX 2203
ROSWELL, NEW MEXICO 88201
505 622-7273

June 15, 1984

Harlow Corporation
Suite 600 Amarillo Petroleum Building
Amarillo, Texas 79101

ATTENTION: W. B. Harlow, Jr.

Gentlemen:

Stevens Oil Company has previously made offers to The Harlow Corporation to join in the drilling of or to farmout from The Harlow Corporation any interests The Harlow Corporation might have had in the #1 Lynx Well in the N/2 of Section 19, Township 8 South, Range 29 East, Chaves County, New Mexico. These offers have lapsed on their own terms, however, on advice of counsel, effective this date, we hereby withdraw any such offers which might be considered to be current. We have also dismissed our application before the New Mexico Oil Conservation Division, Case No. 8225, to force pool any interests Harlow might have had in said acreage.

Yours very truly,

STEVENS OIL COMPANY

Donald G. Stevens

DGS/clw

ERNEST L. PADILLA
ATTORNEY AND COUNSELOR AT LAW

First Northern Plaza
P.O. Box 2523
Santa Fe, New Mexico 87501
(505) 988-7577

June 15, 1984

HAND DELIVERED

Mr. Richard L. Stamets
Hearing Examiner
New Mexico Oil
Conservation Division
P.O. Box 2088
Santa Fe, New Mexico 87501

RE: Case No. 8225
Application of Stevens Operating Corporation
for Compulsory Pooling, Chaves County, New Mexico

Dear Mr. Stamets:

This letter officially confirms our voluntary dismissal of the above referenced case in accordance with your conversation yesterday with Mr. Donald Stevens.

Very truly yours,

Ernest Padilla

Ernest L. Padilla

ELP/bv

cc: Stevens Operating Corp.

J. M. HUBER CORPORATION

OIL AND GAS DIVISION GENERAL OFFICE

2000 WEST LOOP SOUTH HOUSTON, TEXAS 77027

(713) 871-4400

May 18, 1984

Stevens Oil Company
P.O. Box 2203
Roswell, New Mexico 88201

Re: Farmout Letter Agreement
Pedernal Prospect
Chaves County, New Mexico
14-N-128-S

Gentlemen:

This letter will evidence the agreement between STEVENS OIL COMPANY, hereinafter referred to as "Operator", and J. M. HUBER CORPORATION, hereinafter referred to as "Huber", relative to the acquisition by Operator of an interest in Huber's oil and gas leasehold estates covering the following described land in Chaves County, New Mexico, to wit:

Township 8 South, Range 29 East
Section 19: All

(said land and the leases thereon being hereinafter sometimes referred to as "lease acreage").

The terms, covenants and conditions of this agreement are as follows:

1. Test Well

On or before forty-five (45) days from the day of this agreement, Operator shall commence or cause to be commenced, the actual drilling of a test well for oil and/or gas at a legal location in the N/2 of Section 19, Township 8 South, Range 29 East, Chaves County, New Mexico (such well being hereinafter called the "test well"), and shall thereafter drill said well without unnecessary delay and in a workmanlike manner to a depth sufficient to test adequately the Fusselman formation, expected to require the drilling of the test well to a depth of seven thousand six hundred feet (7,600') below the surface. Operator shall complete

the test well within forty-five (45) days from commencement of the actual drilling thereof.

2. Continuous Drilling

In the event the test well is completed either as a dry hole or a producer of oil and/or gas, Operator shall conduct a continuous drilling program on the remaining lease acreage by not allowing more than sixty (60) days to elapse between the date of the completion of one well (the first of which shall be the completion date of the actual drilling of the test well) as a producer or a dry hole and the date of the commencement of the actual drilling of another well until such time as Operator has fully developed the lease acreage (such well or wells being hereinafter called "development wells"). The lease acreage shall be considered fully developed when all of the lease acreage has been included in a drilling, spacing or proration unit or when Operator has earned all of the lease acreage permissible under this agreement. Each development well shall be drilled in a workmanlike manner to the same depth as required in the test well or, at Operator's sole option, any such well may be drilled to any shallower formations up to and including the San Andres formation. Each development well shall be completed on or before forty-five (45) days from commencement of the actual drilling of each such well.

If Operator fails to drill the test well or any development well on the lease acreage in accordance with the time requirements and depth limits herein set out, this agreement shall automatically terminate as to all unearned lease acreage.

3. Substitute Well

If, in the drilling of any well provided for herein, mechanical difficulties arise or practically impenetrable substances are encountered which render further drilling impossible or impracticable, Operator may abandon the well and within thirty (30) days commence a substitute well therefor at a mutually agreeable location. Any substitute well so commenced shall be drilled to the same depth and in the same manner as is required for such well provided for hereinabove, and the drilling and completion thereof shall have the same effect hereunder as would the drilling and completing of such well.

4. Drilling and Cost of Well

The entire cost, risk and expense of drilling, testing, completing and/or plugging, if dry, any well drilled hereunder shall be borne exclusively by Operator.

Such well shall be drilled and/or plugged and abandoned in compliance with all valid rules, orders, regulations and laws of state, local or federal authorities and in accordance with approved drilling practices. Operator agrees to save and hold harmless Huber from any and all claims, liens, loss, cost and expense, including the cost of investigation and litigation, arising out of or as a result of Operator's operations on the lease acreage.

Operator shall test to the satisfaction of Huber all formations which would appear promising of being productive of oil or gas to a reasonably prudent operator. Huber shall at all times have full and complete access to the derrick floor and to all information obtained in the drilling and testing of any well drilled hereunder.

Operator shall:

(a) Notify Huber when any well is staked;

(b) Notify Huber when the actual drilling is commenced;

(c) Notify Huber when any well has been drilled to contract depth so that Huber shall have the opportunity, if it so desires, to measure the depth of the well;

(d) Furnish Huber a copy of the geologist's report and a certified copy of all forms filed with proper state authorities;

(e) Fully comply with all the terms and requirements set out in Exhibit "A", attached hereto and made a part hereof.

A well shall be drilled into all known or expected producing horizons only after Huber has been given sufficient time to have a representative present to witness such drilling; and in the event of an unexpected encountering of a prospective producing horizon, Operator shall notify Huber by telephone, telegram or TWX, fully prepaid, in sufficient time for Huber to have a representative present to witness the testing of such formation thus encountered prior to drilling ahead.

5. Titles

Huber does not warrant title to the lease acreage in any manner nor does it make any representation with regard to any presence or lack of federal jurisdiction and/or regulation of the lease acreage or the oil, gas and minerals sold therefrom; but it will, upon request, furnish Operator with a copy of such title papers and other relevant papers as it has in its files. There shall be no obligation on the part of Huber to furnish any new or supplemental abstracts of title nor to do any curative work in connection with title to said acreage or in connection with any previous contracts affecting the lease acreage not reflected in Huber's files. Operator shall furnish Huber a copy of any title opinion covering the lease acreage obtained by Operator.

Huber represents, but does not warrant, that it has title to the lease acreage as follows:

(a) all depths as to Lot 1 (NW/4 NW/4), SE/4 NW/4, NW/4 NE/4, SE/4 NE/4 and NE/4 NE/4;

(b) all depths below 2,950' as to SW/4 NW/4;

(c) all depths below 2,900' as to NE/4 NW/4 and SW/4 NE/4;

(d) all depths below 3,400' as to S/2.

Operator shall have thirty (30) days after date Operator accepts this agreement within which to accept or reject title, and title shall be deemed to be accepted unless rejected in writing within such time. In the event that Operator rejects title, this agreement shall terminate forthwith and each party shall be released therefrom.

6. Assignments

A. Proration Unit

Upon completion of the test well, as a well capable of producing oil and/or gas in paying quantities, upon full compliance with the terms of this agreement, and upon written request, Huber shall execute and deliver for acceptance by Operator, an assignment of all Huber's right, title and interest in and to the oil and gas lease covering the lease acreage within the proration unit for the test well.

B. General Provisions

The term "proration unit" as used herein shall mean three hundred twenty (320) acres for a wildcat gas well or forty (40) acres for a wildcat oil well (as defined by the New Mexico Oil Conservation Commission) unless different spacing is approved by said Commission. Operator may apply for one hundred sixty (160) acre spacing for an oil well and if the New Mexico Commission approves such spacing, the assignment from Huber will cover all the lease acreage in the established spacing unit. If Operator does apply for spacing greater than three hundred twenty (320) for gas or forty (40) for oil, Huber reserves the right to oppose such application before the New Mexico Commission if Huber, in its sole opinion, deems such opposition to be in its best interest.

The term "paying quantities" as used herein shall mean the production of oil and/or gas from a well in sufficient quantities to pay a profit over operating and marketing expenses after payment of the Lessor's royalty, but excluding drilling, completing, testing and equipping costs of the well.

Any assignment made hereunder shall be limited to and only assign such lease acreage from the surface to one hundred feet (100') below the total depth drilled in the earning well, but such assignment shall be restricted on shallower depths as set forth in Huber's representation on title in Paragraph 5 above. All of the above assignments shall be made without warranty of title, either express or implied, and without representation with regard to any presence or lack of federal jurisdiction and/or regulation of the lease acreage or the oil, gas and minerals sold therefrom. Said assignments shall be made subject to all royalties, overriding royalties, production payments or other burdens against the lease acreage assigned. Said assignments shall further provide that if Operator desires to surrender, let expire, abandon or release all or any part of Operator's rights in the lease acreage, Operator shall notify Huber not less than sixty (60) days in advance of such surrender, expiration, abandonment or release and if requested to do so by Huber, Operator shall immediately reassign such rights in the lease acreage to Huber.

7. Reservations

Huber shall except and reserve in any assignment due Operator hereunder all leasehold rights below the depth so

assigned. Huber shall further except and reserve in any assignment of the lease acreage an overriding royalty of one-sixteenth of eight-eighths (1/16 of 8/8) of all oil, casinghead gas, dry gas, condensate, distillate and other gaseous and vaporous hydrocarbon substances produced, saved and sold from or attributable to the lease acreage assigned pursuant to the provisions of the lease thereon. Said overriding royalty shall be in addition to and free of all royalties, overriding royalties or other similar outstanding burdens against the lease acreage of record as of the date hereof. Said overriding royalty shall be free and clear of all costs of development, production, operations, gathering and marketing but shall bear its proportionate part of all severance, production, gathering, windfall profits and any other like taxes measured by production. Said overriding royalty shall provide for proportionate reduction in the event the leases covering the lease acreage or Huber's interest therein covers less than the full oil and gas leasehold interest or in the event the lease acreage is pooled with other lands. Said overriding royalty shall apply to and burden any renewal, extension or subsequent new lease covering all or portions of the lease acreage obtained by Operator or acquired through assignment to Operator. Such renewal, extension or acquired lease shall include only a lease taken within six (6) months after the end of the lease term, and/or any extension, renewal or substitute lease taken or acquired by Operator during the lease term.

8. Conversion Option

Upon payout of each well drilled hereunder, Operator shall immediately notify Huber in writing, and at Huber's option and request, Operator shall promptly assign to Huber, effective as of the date of said payout of such well, an undivided twenty-five percent (25%) of Operator's right, title and interest acquired from Huber hereunder in and to the lease acreage, together with a like interest in such well and equipment thereon, at which time Huber will relinquish its overriding royalty interest reserved hereinabove. The term "payout" as used herein shall occur at such time as Operator shall have recovered from the total production from any well drilled hereunder a sum equal to the total cost of drilling, testing, completing, equipping and operating such well while said costs are being recovered (after deducting from said production all royalties, overriding royalties, windfall profit taxes and production taxes). Such assignment shall be made subject to any outstanding burdens on the lease acreage created prior to the date hereof, but said assignment shall be made free and

clear of any burdens, liens or encumbrances placed upon the lease acreage, well or well equipment subsequent to the date hereof. Huber's option shall apply independently to each well when payout of such well occurs. Operator shall furnish Huber with quarterly reports of all production from each well drilled hereunder and proceeds derived from the sale thereof, together with a statement of the above mentioned costs relative to each well.

9. Operating Agreement

All operations by the parties hereto necessary and proper for the development, operations, production and maintenance of the lease acreage or any part thereof, shall be conducted in accordance with the terms and conditions of the Operating Agreement attached as Exhibit "B" hereto and made a part hereof. Said Operating Agreement shall be effective as to the Contract Area described therein when Huber has elected to convert its overriding royalty to a working interest as provided for herein.

However, for the purpose only of computing the wage index adjustment provided for in Paragraph III 1.A(3) of the COPAS Accounting Procedure attached as Exhibit "C" to said Operating Agreement, the effective date of said Operating Agreement shall be the date hereof.

If any provision of said Operating Agreement should be inconsistent with any provision contained in the body of this agreement, the provisions in this agreement shall prevail.

10. Insurance

Operator, its contractors and subcontractors, shall carry insurance hereinafter described with companies satisfactory to Huber to cover the drilling, testing and completing of any well drilled hereunder and all operations in connection therewith; and Operator shall furnish Huber with certificates of insurance showing the following insurance coverage:

(a) Workmen's Compensation and Occupational Disease Insurance as required by the laws of the state or states in which operations will be conducted and Employer's Liability Insurance with a limit of not less than $50,000.

(b) Comprehensive General Public Liability Insurance, excluding products liability

insurance, with limits of not less than: $100,000 applicable to bodily injury, sickness or death of any one person and $300,000 for more than one person in any one accident, and $50,000 for loss of or damage to property in any one accident and $100,000 aggregate limit applicable to all loss of or damage to property during the policy period.

(c) Automobile Public Liability Insurance covering all automotive equipment used in performance of work under this agreement with limits of not less than: $100,000 applicable to bodily injury, sickness or death of any one person and $300,000 for more than one person in any one accident and $50,000 for loss of or damage to property in any one accident.

11. Rentals and Shut-in Payments

All delay rentals falling due subsequent to the date of this letter agreement and prior to the date of any assignment hereunder, or termination of this agreement, shall be paid by Huber, and Operator agrees to reimburse Huber for one hundred percent (100%) of the total amount of such rentals paid by Huber within fifteen (15) days after receiving Huber's billing therefor. All delay rentals falling due subsequent to the date any assignment is earned hereunder shall be paid by Huber, and Operator agrees to reimburse Huber for one hundred percent (100%) of the total amount of such rentals paid by Huber within fifteen (15) days after receiving Huber's billing therefor. Huber shall diligently attempt to make proper payment of all delay rentals but shall not be held liable in damages or otherwise for failure to make such payments provided Huber acts in good faith.

All shut-in well payments which may be due on the lease acreage shall be paid by Operator at its sole expense until the attached Operating Agreement becomes effective, at which time any shut-in payments due will be paid pursuant to the Operating Agreement.

12. Renewals or Extensions

There shall be no duty or liability on Huber to renew or extend any lease subject to this agreement. However,

if Operator desires to renew or extend any such lease, Operator shall do so at its sole cost and expense. Such renewal or extension shall be in Huber's name and shall be subject to this agreement. If Operator was not able to acquire such lease in Huber's name, Operator shall promptly upon such acqusition assign to Huber all of Operator's interest in such lease free and clear of any liens, burdens or encumbrances. If such lease is not renewed or extended by or for the benefit of Operator on or before thirty (30) days from the expiration date of such lease, then such lease shall no longer be subject to this agreement; and if Huber thereafter acquires an interest in such lease acreage, Operator shall have no rights therein pursuant to the terms of this agreement.

13. Assignability and Effect of Agreement

This agreement shall not be assigned in whole or in part without the written consent thereto of Huber obtained prior to such assignment. Any such assignment shall make specific reference to this agreement, and the assignee shall agree in writing to be bound by the provisions of this agreement. This agreement shall not create, nor shall it be construed as creating a partnership or joint venture. The terms, covenants and conditions hereof shall be binding upon and inure to the benefit of the parties hereto, their respective heirs, personal representatives, successors and assigns.

14. Notices

All notices, reports, samples, logs or other information required hereunder shall be given, postage and charges fully prepaid, as set forth in Exhibit "A", attached hereto and made a part hereof.

15. Time is of the Essence

Time is of the essence hereof, and if the operations specified are not commenced by the commencement date and completed by the completion date to the depth and in the manner herein provided, or if Operator has not timely complied with each and all of the terms and provisions of this agreement, Huber shall be relieved of any and all obligations to make any assignment of the acreage herein specified or any part thereof, and this agreement shall terminate. The completion date of a well drilled hereunder shall be the date the same is permanently plugged and abandoned in accordance with applicable laws, rules and regulations, if a dry hole, or the date the drilling rig is officially released, if a producer.

If the above and foregoing is acceptable to you, please indicate your acceptance in the space provided below and return two (2) executed copies to J. M. Huber Corporation, 1900 Wilco Building, Midland, Texas 79701-4480, to the attention of Mr. Bill Enis.

Yours very truly,

J. M. HUBER CORPORATION

D. B. Martin
Vice President

M/s

AGREED TO AND ACCEPTED this
30th day of May, 1984.

STEVENS OIL COMPANY

By: _____

EXHIBIT "A"

1. Allow representative of J. M. Huber Corporation full and free access to the derrick floor, and access to all information including the right to examine samples, cores and observe all tests and producing operations of said well.

2. Furnish daily progress reports of the well either by telephone or telegraph to Huber's Midland Office. In addition, a copy of the daily report should be mailed to J. M. Huber Corporation, 1900 Wilco Building, Midland, Texas 79701.

3. Notify Huber by telephone so that a representative may be present to witness spudding of well, coring, drill-stem tests, running of any electric logs and plugging.

4. Furnish a cut of ten (10) foot samples from the base of the intermediate casing to totaldepth to be preserved at the Midland Sample Library, 707 S. Connell, Midland, Texas 79701. A set of samples must be available at the well site for examination by Huber representatives.

5. Furnish one (1) copy of the mud log to be mailed daily, plus one (1) final print of the mud log, if a mud logging unit is used.

6. Furnish two (2) copies of Core Analysis reports and Drill-Stem test charts.

7. Furnish two (2) field prints and two (2) final prints of all electrical or other surveys run on said well. Adequate down hole surveys must be run so that porosity and water saturations of all potential pay horizons can be made for formation evaluation.

8. Furnish two (2) copies of all fluid analysis secured from formation tests including water samples whether obtained on a drill-stem test or by swabbing or other production tests.

9. Furnish a weekly recap of daily production information, oil, gas, and water for four (4) weeks after completion of the well as producer, thereafter, copies of monthly production reports filed with the State.

10. Secure Huber's approval to plug and abandon said well. Clearance to plug and abandon will not be granted until the objective depth or formation has been reached, unless otherwise authorized.

In complying with any item listed above, by telephone call the Geological Department, Midland, Texas, 915 682-3794. After hours or on Saturday, Sunday or Holidays, notify one of the following persons in Midland, Texas:

Bill Enis 915 694-1815

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

MODEL FORM OPERATING AGREEMENT

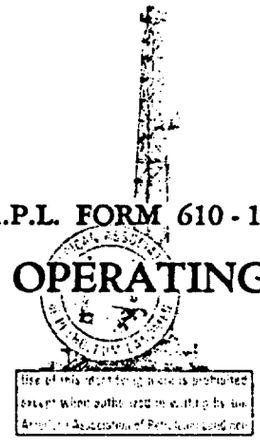

EXHIBIT "B"

Attached to and made a part of that certain Farmout Letter Agreement dated May 18, 1984, between STEVENS OIL COMPANY and J. M. HUBER CORPORATION.

OPERATING AGREEMENT

DATED

May 18, 1984

OPERATOR STEVENS OIL COMPANY

CONTRACT AREA All of Section 19, Township 8 South, Range 29 East, subject to depth limitations as set forth in the Farmout Letter Agreement dated May 18, 1984.

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

14-N-128-S

Pedernal Prospect

TABLE OF CONTENTS

OPERATING AGREEMENT

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

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

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

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

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

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

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

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

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

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

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

I. The terms "deepen", "deepening", "deepened" and "deeper drilling" as used herein shall include sidetracking operations.

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

ARTICLE II.
EXHIBITS

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

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

☐ ~~B. Exhibit "B", Form of Lease.~~

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

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

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

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

ARTICLE III.
INTERESTS OF PARTIES

~~A. Oil and Gas Interests:~~

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

B. Interest of Parties in Costs and Production:

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

ARTICLE IV.
TITLES

A. Title Examination:

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

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

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

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

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

B. Loss of Title:

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE V.
OPERATOR

A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

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

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

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

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

C. Employees:

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

D. Drilling Contracts:

All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature. No drilling operations shall begin until the drilling contractor has been agreed upon by the parties hereto.

ARTICLE VI.
DRILLING AND DEVELOPMENT

~~A. Initial Well:~~

~~On or before the _____ day of _____, 19__, Operator shall commence the drilling~~ of a well for oil and gas at the following location:

and shall thereafter continue the drilling of the well with due diligence ~~to~~

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

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

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

B. Subsequent Operations:

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

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

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

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, 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, windfall profit taxes, royalty, overriding royalty and other interests existing on the effective date hereof, payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

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

(b) 300 % of that portion of the costs and expenses of drilling reworking, deepening, or 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 well-head connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

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

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, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production.

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

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

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

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

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

C. Right to Take Production in Kind:

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

party taking its share of production in kind shall be required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

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

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

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

D. Access to Contract Area and Information:

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

E. Abandonment of Wells:

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

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

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

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

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

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

B. Liens and Payment Defaults:

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

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

C. Payments and Accounting:

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

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

D. Limitation of Expenditures:

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

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

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

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

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Fifteen Thousand and No/100------ Dollars ($15,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of Ten Thousand and No/100---------- Dollars ($10,000.00).

E. Royalties, Overriding Royalties and Other Payments:

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

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

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

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

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

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

G. 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. Operator shall bill other parties for their proportionate share 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, 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.

H. Insurance:

(a) Operator shall at all times during the term of this agreement carry insurance to protect the parties hereto as set forth in Exhibit "D", attached hereto and made a part hereof, and shall require all contractors performing work under this agreement to carry insurance as set forth in Exhibit "D" hereto, and no further insurance for the benefit of the parties in connection with operations under this agreement shall be carried by Operator, and no change in the insurance set forth in Exhibit "D" shall be made unless agreed to in writing.

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

ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

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

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

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

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

B. Renewal or Extension of Leases:

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

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

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

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

The provisions in this Article shall apply also and in like manner to extensions of oil and gas leases.

C. Acreage or Cash Contributions:

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

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

D. Subsequently Created Interest:

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

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

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

E. Maintenance of Uniform Interest:

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

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

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

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

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

F. Waiver of Right to Partition:

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

~~**G. Preferential Right to Purchase:**~~

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

ARTICLE IX.
INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provisions herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for Federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No

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

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single damage claim or suit arising from operations hereunder if the expenditure does not exceed Fifteen Thousand and No/100---------- Dollars ($ 15,000.00) 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 expense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties. 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, the party shall immediately notify Operator, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI.
FORCE MAJEURE

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

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

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

ARTICLE XII.
NOTICES

All notices authorized or required between the parties, and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by United States mail or Western Union telegram, postage or charges prepaid, or by teletype, and addressed to the party 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 United States mail or with the Western Union Telegraph Company, with postage or charges prepaid, or when sent by teletype. Each party shall have the right to change its address at any time, and from time to time, by giving written notice hereof 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 subjected 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.

[X] 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, and/or so long as oil and/or gas production continues from any lease or oil and gas interest.

☐ 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 or reworking 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 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 committed acreage 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:

The essential validity of this agreement and all matters pertaining thereto, 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 where most of the land in the Contract Area is located shall govern.

ARTICLE XV.
OTHER PROVISIONS

A. If at any time after Operator has been Operator for one year or more from the date this Operating Agreement becomes effective, a Non-Operator considers the cost of operating the Contract Area to be excessive and is willing to operate the same for one year at a cost at least ten percent (10%) less than Operator's cost of operating for the previous year, Non-Operator shall deliver to Operator a written statement setting forth in detail the items of expense contributing to the alleged excessive costs, together with a proposal under which Non-Operator agrees to take over operations of the Contract Area for one year. The proposal shall set forth expressly the specific economies which Non-Operator agrees to effect during the period of operation. Operator shall within ten (10) days after receiving such statement and proposal either (a) elect to let said Non-Operator operate the Contract Area for one year on the terms contained in its proposal, in which case Non-Operator shall become Operator for a minimum period of one year, or (b) agree to operate said Contract Area for one year at a cost consistent with the economies agreed to be effected by Non-Operator. Likewise, any Non-Operator may make similar proposals at the end of successive one year periods, and the provisions hereinabove set forth shall apply to such proposals.

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 _____ day of _____, 10___.~~

OPERATOR

ATTEST

Regina L. Taylor
Asst. Secretary

STEVENS Operating Corporation

NON-OPERATORS

J. M. HUBER CORPORATION

EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated May 18, 1984, between STEVENS OIL COMPANY, as Operator, and J. M. HUBER CORPORATION, as Non-Operator.

I. CONTRACT AREA

All of Section 19, Township 8 South, Range 29 East, Chaves County, New Mexico, from the surface down to one hundred feet (100') below the total depth drilled in the earning well. (Some shallow rights not covered. See Farmout Letter Agreement dated December 9, 1983.)

II. PERCENTAGES OF PARTICIPATION

	Percentage Interest Until Payout	Percentage Interest After Payout*
Stevens Oil Company	100%	75%
J. M. Huber Corporation	-0-	25%

*These interests are based on the assumption that Huber converts the overriding royalty reserved by it to a working interest according to the terms of the Farmout Letter Agreement to which this is made a part thereof.

III. ADDRESSES OF THE PARTIES

Stevens Oil Company
P.O. Box 2203
Roswell, New Mexico 88201

J. M. Huber Corporation
2000 West Loop South
Houston, Texas 77027

IV. LEASE COVERING CONTRACT AREA

Huber Lease No. 14-763

Kraftbilt 601, BOX 800 TULSA OK 74101

COPAS — 1974
Recommended by the Council of Petroleum Accountants Societies

COPAS

EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement dated May 18, 1984, between STEVENS OIL COMPANY, as Operator, and J. M. HUBER CORPORATION, as Non-Operator.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

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

4. Adjustments

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

5. Audits

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

6. Approval by Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

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

2. Labor

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

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

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

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

3. Employee Benefits

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed ~~twenty per cent (20%)~~ that percent most recently recommended by the Council of Petroleum Accountants Societies of North America, effective as of the first day of the month following the month of any such recommendation.

4. Material

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

5. Transportation

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

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

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

C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of $200 or less excluding accessorial charges.

6. Services

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

7. Equipment and Facilities Furnished by Operator

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

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

8. Damages and Losses to Joint Property

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

9. Legal Expense

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

10. Taxes

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

11. Insurance

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

12. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

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

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

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate $ 4,396.00
Producing Well Rate $ 439.60

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

(a) Drilling Well Rate

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

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

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

(b) Producing Well Rates

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

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

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

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

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

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

2. Overhead - Major Construction

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

A. 5 % of total costs if such costs are more than $25,000.00 but less than $100,000.00 ; plus

B. 3 % of total costs in excess of $100,000.00 but less than $1,000,000; plus

C. 2 % of total costs in excess of $1,000,000.

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

3. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

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

(2) Line Pipe

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

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

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

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

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

(2) Material moved from the Joint Property

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

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

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

C. Other Used Material (Condition C and D)

(1) Condition C

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

(2) Condition D

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

D. Obsolete Material

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

E. Pricing Conditions

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

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

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

4. Expense of Conducting Periodic Inventories

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

EXHIBIT "D"

Attached to and made a part of that certain Operating Agreement dated May 18, 1984, between STEVENS OIL COMPANY, as Operator, and J. M. HUBER CORPORATION, as Non-Operator.

Operator shall, at all times during the term of this Agreement, carry insurance to protect the parties hereto as follows, and shall require all contractors performing work under this Agreement to carry the following insurance:

1. Workmen's Compensation and Occupational Disease Insurance as required by the laws of the state or states in which operations will be conducted and Employer's Liability Insurance with a limit of not less than $50,000.

2. Comprehensive General Public Liability Insurance, excluding products liability insurance, with limits of not less than: $100,000 applicable to bodily injury, sickness or death of any one person and $300,000 for more than one person in any one accident, and $50,000 for loss of or damage to property in any one accident and $100,000 aggregate limit applicable to all loss of or damage to property during the policy period.

3. Automobile Public Liability Insurance covering all automotive equipment used in performance of work under this Agreement with limits of not less than $100,000 applicable to bodily injury, sickness or death of any one person and $300,000 for more than one person in any one accident, and $50,000 for loss of or damage to property in any one accident.

   If automotive equipment is owned exclusively by Operator, no charge will be made in the Joint Account for premiums for this coverage except as provided in Section II, Paragraph 7 of the Accounting Procedure.

EXHIBIT "E"

Attached to and made a part of that certain Operating Agreement dated May 18, 1984, between STEVENS OIL COMPANY, as Operator, and J. M. HUBER CORPORATION, as Non-Operator.

GAS BALANCING AGREEMENT

The parties to the Operating Agreement to which this Gas Balancing Agreement is attached own the working interest in the gas rights underlying the joint property covered by such agreement and are entitled to share in the percentages as stated in the Operating Agreement.

In accordance with the terms of the Operating Agreement, each party has the right to take and market its share of gas produced from the joint property. In the event any party does not market its full share of gas produced or has contracted to sell its share of gas produced from the joint property to a purchaser which, at any time while this agreement is in effect, fails to take the full share of gas attributable to the interest of such party, the terms of this Gas Balancing Agreement shall automatically become effective.

1.

During any period or periods when a party is not taking or marketing its full share of the gas produced from the joint property, or its purchaser is not taking such party's current full share of gas produced from the joint property, the other party or parties shall be entitled to produce from said joint property (and take or deliver to a purchaser), each month, all or part of the allowable gas production assigned to such joint property by the regulatory body having jurisdiction. However, no party shall be entitled to take or deliver to a purchaser gas production in excess of three hundred percent (300%) of its share of the allowable gas production assigned by such regulatory body unless that party has gas in storage. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by primary separation equipment in accordance with their respective interests and subject to the terms of the above described Operating Agreement.

2.

On a cumulative basis, each party not taking or marketing its share of the gas produced shall be credited with gas in storage equal to the gas which would have been credited to its account had the party been taking or marketing its gas, less any gas used in joint property operations, vented or lost. Each party taking gas shall furnish, or cause to be furnished, to the operator a monthly statement of gas taken or delivered to its purchaser. Operator will maintain a running account of the gas balance between the parties hereto and will furnish each party monthly statements showing the total quantity of gas, the amount thereof used in joint property operations, vented or lost, and the total quantity of gas taken or marketed during such month. Measurement of gas sales meters, and lease measurements shall be in accordance with the AGA requirements.

3.

After written notice to the operator, any party may at any time begin taking or delivering to its purchaser its full

share of the gas produced from said joint property (less any used in joint operations, vented or lost). To allow for the recovery of gas in storage and to balance the gas account of the parties in accordance with their respective interests, a party with gas in storage shall be entitled to take or deliver to a purchaser its full share of gas produced from said joint property (less any used in joint operations, vented or lost) plus an amount not exceeding gas in storage determined by multiplying seventy-five percent (75%) of the interest in the current gas production of the party or parties who are overproduced by a fraction, the numerator of which is the interest in the joint property of such party with gas in storage and the denominator of which is the total percentage interest in the joint property of all parties with gas in storage, such additional gas being herein referred to as "make-up gas".

4.

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 test required by its purchaser. Each party shall at all times use its best efforts to regulate its takes and deliveries from said joint property so that said joint property will not be shut-in for overproducing the allowable assigned thereto by the regulatory body having jurisdiction.

5.

Recovery from storage by an underproduced party from an overproduced party shall be on a first-in, first-out basis and the underproduced party shall pay the overproduced party a storage fee for storing its gas. The storage fee shall be due and payable by such underproduced party to such overproduced party during any monthly accounting period such underproduced party removes gas from storage. The fee to be paid for storing gas in accordance with the provisions of this agreement shall be an amount equal to the increment, if any, in the price the overproduced party is receiving for the gas at the time the underproduction is taken by the underproduced party above the price the overproduced party received for the gas at the time the underproduction was incurred, multiplied by the volume of make-up gas which qualifies for the storage fee charges, less royalty and taxes payable thereon.

Each party shall furnish the Operator upon his request the gas prices necessary to make the gas storage fee computation hereby provided, and the underproduced party or parties shall remit to Operator monthly the amounts so determined to be due for storage fees. Operator shall in turn make monthly distribution of the storage fees received from the underproduced parties to the parties entitled to be paid the storage fees.

6.

When gas sales permanently cease, Operator shall make a final determination of the volumes of the last accrued over and under production, if any, as of the date of such cessation of sales and the identity of the party or parties who are over or underproduced. A cash balancing adjustment shall be made by the overproduced party or parties to the underproduced party or parties for the overproduced volumes which have been taken and sold; the price to be paid for such adjustment shall be the price defined below for the last accrued overproduction by the overproduced party, or parties, less appropriate deductions for taxes paid on such production by the overproduced party.

The price basis shall be the price received for sale of the gas or if such gas is subject to price regulation by the Federal Energy Regulatory Commission or any other regulatory body having jurisdiction, then the price collected from time to time which is not subject to possible refund, plus any additional collected amount which is not ultimately required to be refunded by such regulatory body having jurisdiction, such additional collected amount to be accounted for at such time as final determination is made with respect thereto.

7.

This agreement shall remain in force and effect as long as the aforementioned Operating Agreement, and shall inure to the benefit of and be binding upon the parties hereto, their successors, legal representatives and assigns.

8.

Nothing herein shall change or affect each party's obligations to pay its proportionate share of all costs and liabilities incurred in joint operations, as its share thereof is set forth in the above described Operating Agreement. Each party producing and taking or delivering gas to its purchaser shall pay, or cause to be paid, all taxes due on such gas.

9.

The provisions of this agreement shall be applied to each well and/or each formation separately as if each well and/or formation were a separate well and covered by separate but identical agreements.

RECEIVED MAY 31 1984

STEVENS OIL COMPANY
118 WEST FIRST STREET
P. O. BOX 2203
ROSWELL, NEW MEXICO 88201
505 /622-7273

May 18, 1984

Mr. Randy Click
TXO Production Corp.
900 Wilco Building
Midland, Texas 79701

Re: Lynx #1
Township 8 South, Range 29 East
Section 19: All
Chaves County, New Mexico

Dear Randy:

We are preparing to spud on the Farmout on the #1 Lynx on or before June 1, 1984. As you are aware, we are hoping to encounter gas or oil in the fusselman or above which will warrant a 160 acre or 320 acre proration unit.

We have just learned that the hearing process will take longer than the 60 days allowed us under your farmout as time between wells. Therefore, we are asking for an amendment to the Farmout Agreement wherein we may have 120 days between wells. If we have only the 60 days allowed us under your present Farmout Agreement there will not be enough time to determine what acreage the proration unit encompasses.

As I mentioned to you in our telephone conversation of several weeks ago, our farmouts from Columbia and Huber both give us a 120 day period between wells.

Please indicate your willingness to grant us an additional 60 days between the drilling of the first well and the second well from 60 days to 120 days. Please return the copy of this letter to our office authorizing this change in the farmout agreement.

Yours very truly,

STEVENS OIL COMPANY

Mary Irene Stevens
Land Manager

We agree to allow 120 days between the completion of the first well and the drilling of the second well.

BKC

John D. Huppler, Senior Vice President

TXO-199-1
Revised 7-81

FARMOUT AGREEMENT

STATE OF New Mexico
COUNTY OF Chaves

RE: Section 19, T-8-S, R-29-E
Chaves County, New Mexico
TXO Lease #40,887

This agreement is made and entered into this 25th day of March 19 84 by and between TXO PRODUCTION CORP., a Delaware corporation, hereinafter called Assignor and Stevens Oil Company, hereinafter called Operator. Assignor owns certain oil and gas lease(s) described in Exhibit "I" attached hereto. The lands described in Exhibit "I" are hereinafter referred to as the "farmout area", and such lease(s), insofar only as the same cover the farmout area, are hereinafter referred to as "said lease". Operator has expressed a desire to acquire certain interests in said lease and the farmout area by conducting drilling operations as hereinafter provided; and subject thereto, Assignor hereby assigns to Operator All of its right, title and interest in and to the oil and gas rights only as covered by said lease, subject to the rights, reservations and limitations set out hereinbelow. The recordable assignment to be delivered hereunder shall be in the form of that attached hereto as Exhibit "II".

I. LEASE AND TITLE DATA

Upon request, Assignor shall furnish Operator copies of said lease and title data in its possession, and Operator, at its sole cost and expense, may obtain any additional title data desired, and shall furnish Assignor a copy of all title opinions and curative so obtained.

II. TEST WELL

On or before June 1, 1984, Operator agrees to commence or cause to be commenced the actual drilling of a well, hereinafter referred to as the "test well" at a location in the N/2 of Section 19, T-8-S, R-29-E, Chaves County, New Mexico. The test well shall be drilled in a good and workmanlike manner and with due diligence to a depth of 7,600' feet beneath the surface of the earth or to a depth sufficient to test thoroughly the Fusselman Formation whichever is the lesser depth, hereinafter called the "objective depth".

The test well shall be completed as a commercial producer of oil or gas, or plugged and abandoned as a dry hole, within Sixty (60) days after commencing drilling thereof.

If, prior to reaching the objective depth, formations, conditions, or mechanical wellbore problems are encountered which would render further drilling operations by a prudent operator impracticable or which cannot be penetrated by the use of customary drilling procedures or techniques (hereinafter referred to as "impenetrable conditions Operator shall plug and abandon the test well. In the event impenetrable conditions are encountered before reaching the objective depth, Operator shall have the right to extend the terms of this agreement if Operator commences a substitute test well at a location acceptable to Assignor within 30 days after cessation of drilling operations on the test well. In the event Operator drills the substitute test well, the same shall be drilled in accordance with the terms and conditions contained herein which are applicable to the test well. Any well drilled under this agreement that is not completed as a well capable of commercial production shall be plugged and abandoned at Operator's sole cost in accordance with the rules and regulations of the governmental authority having jurisdiction.

If the initial test well, or substitute therefor, results in a dry hole, Operator, at its option, may drill further or subsequent wells at a location acceptable to Assignor to the depth and under the conditions herein stipulated, provided operations for the drilling of each such well shall be commenced within not more than 45 days following the date that drilling operations cease in the preceding well drilled hereunder. Any well drilled by Operator hereunder to establish initial production shall be referred to as the "test well".

pwr
4 pwl

Operator shall obtain and pay for all permits and licenses, if any, required for conducting operations hereunder and shall strictly comply with all applicable laws and ordinances and all applicable governmental rules, regulations and orders in connection with qualifying for and conducting operations hereunder, including, without limitation, the Fair Labor Standards Act, the Occupational Safety and Health Act, all applicable pollution control laws, ordinances, rules, regulations and orders and those pertaining to ecology and the environment (as all of same have been or may hereafter be amended). Operator shall also, unless exempt, comply with Executive Order 11246 (Equal Employment Opportunity) effective October 24, 1965, as same may hereafter be amended or superseded, together with all relevant governmental rules, regulations and orders promulgated pursuant thereto. Operator agrees that all provisions of said laws, ordinances, rules, regulations and orders shall be deemed incorporated herein by reference and shall be binding upon Operator to the same extent as if copied in full herein.

Unless hereinafter otherwise provided, the entire cost, expense and risk of the drilling, completing, equipping, plugging and abandoning of each and every well drilled under the provisions hereof shall be borne by Operator, it being understood and agreed that the risk to be borne by Operator (and Operator shall indemnify and hold Assignor harmless from such risk) shall include, but shall not be limited to, any claim, demand, action, cause of action, judgment, attorney's fee or expense of investigation or litigation for injury to or loss or destruction of property or for injury to or death of any person arising out of or in connection with the drilling, testing, completing, equipping, plugging or abandoning of any well hereunder, whether through an act or omission of a party hereto or otherwise.

III. FAILURE OF PERFORMANCE

There is no obligation upon Operator to commence a well under the terms of this agreement, and the only penalty for failure to commence such well, or to drill to the objective depth and complete the test well as a well capable of commercial production, will be the forfeiture of all rights hereunder and the automatic reversion to Assignor of the interest hereby assigned effective as of the date hereof.

In the event of Operator's failure or default in the commencement and drilling of the well in the time and manner herein provided, or in the making of reports and/or in the furnishing of information, logs, surveys or other data herein required, or in any of the other requirements, conditions or obligations as herein set forth, then Assignor shall be relieved of the obligation to make any assignment of said lease and then Assignor may, at its option, terminate this agreement by written notice to Operator and upon the giving of such notice, all of Operator's rights, titles and interests under this agreement shall thereupon cease. No such written notice of termination shall be necessary in the event Operator fails to earn the leasehold interest above described.

proper reports not made — we forfeit rights

IV. ASSIGNMENTS, CONDITIONS AND RESERVATIONS

When Operator has drilled the test well provided for herein and has completed it as a well capable of producing in paying quantities, and provided that Operator has fully complied with all the terms, provisions and conditions herein contained, Assignor shall execute and deliver to Operator a recordable assignment of said lease upon request. Such request must be made within 30 days from the completion of the test well. Along with such request Operator shall furnish evidence satisfactory to Assignor that all bills have been paid in oconnection with the drilling and completion of the test well.

The assignment shall convey All of the right, title and interest of Assignor in and to the oil and gas rights only as covered by said lease down to the objective depth of the test well plus 100 feet, for so long as oil and/or gas is being produced, but except and reserve to Assignor as an overriding royalty, one-sixteenth (1/16) of all of the oil and one-sixteenth (1/16) of all of the gas, casinghead gas, condensate and other liquid or gaseous hydrocarbons produced and saved from or attributable to said lease during the term thereof, including any extensions or renewals taken within six (6) months of termination of said lease, which shall be convertible, at Assignor's option to twenty-five (25) % working interest in said lease, well, production, and equipment used or appurtenant thereto when

to convertible to 25% WI APO

the value of the production from the test well, after payment of presently existing lease burdens (including the above reserved overriding royalty), is equal to the cost of drilling, completing, equipping, and operating said well. If Assignor elects to convert the overriding royalty interest to the working interest, then such conversion shall be effective as of 7:00 A.M. on the first day of the month following the month during which said recovery occurred. Such overriding royalty interest reserved shall be free and clear of all costs of exploring, drilling, producing, separating, treating, marketing, and taxes, including ad valorem taxes, but shall bear its part of gross production taxes. Further such overriding royalty interest shall, if on gas including casinghead gas, be marketed with Operator's own share of production, and payment to Assignor for its share shall be based on the gross proceeds received from the sale thereof, including any consideration or payment which Operator may receive for processing rights or for liquids extracted from such gas, regardless of whether such extraction is accomplished on or off the farmout area. The overriding royalty herein reserved and the working interest to which it may be converted shall proportionately reduced if any of said lease(s) does not cover a full mineral interest and/of the assignment made hereunder does not convey full leasehold rights in any of said lease(s).

If, prior to payout of the test well, Operator elects to drill an additional well or wells on the farmout area, then Assignor shall have the option to convert its reserved overriding royalty interest in each such well to a working interest, as aforesaid, after payout on a well-by-well basis.

It is agreed and understood that should Assignor elect to take a working interest in the earning well drilled hereunder, the premises will be operated under the provisions of an Operating Agreement as described in Exhibit "IV" attached hereto and by this reference made a part hereof. It is understood and agreed that in the event the terms of this agreement conflict with any of the terms and conditions of said Operating Agreement, then in such event as between the parties hereto the terms of this agreement shall control.

With respect to Exhibit "II", the parties hereto hereby approve and confirm all the terms, covenants and conditions therein set forth, and which are fully incorporated within this agreement, and agree that the assignment(s) provided for herein shall be subject to, and in accordance with, and shall contain the terms, covenants and conditions contained in said form of assignment.

V. POOLING AND UNITIZATION

No part of said lease shall be pooled with other lands without Assignor's prior written consent.

VI. CONTINUOUS DEVELOPMENT FOR ACREAGE TO BE EARNED

If the test well is completed as a well capable of producing oil or gas in paying quantities, then, unless Operator shall commence another well within ~~sixty~~ one hundred twenty (~~60~~ 120) days ~~after reaching~~ total depth in the test well, there shall be, effective as of the date hereof, an automatic reversion to Assignor of the interest hereby assigned as to all acreage in the farmout area that is not included in a governmental prescribed proration or drilling and spacing unit for the test well. The term governmental prescribed proration or drilling and spacing unit for the test well as used herein, shall be defined as three-hundred twenty (320) acres for a Fusselman Gas Unit and forty (40) acres for an oil unit, formed around each well capable of producing oil or gas in paying quantities, unless otherwise approved by the New Mexico Oil Conservation Commission. Assignor recognizes that operator may apply for one-hundred sixty (160) acre spacing units for a Fusselman Oil Well, and if approved by the New Mexico Oil Conservation Commission Assignor will recognize such ruling. However, Assignor reserves the right to oppose said application, if deemed in Assignor's best interest. Subsequent wells must also be commenced within sixty (60) days after reaching total depth in the preceding well. Operator shall not be required to drill any additional wells, but when Operator fails to commence any well within the prescribed period, there shall be an automatic reversion to Assignor of the interest hereby assigned, effective as of the date hereof, except as to each tract (as described above) upon which there is located a well capable of producing oil or gas in paying quantities.

~~Notwithstanding anything to the contrary contained herein, Operator must commence a 160 Fusselman well in the South Half (S/2) of Section 19, T-8-S, R-29-E, by June 15, 1984, in order to qualify for additional Fusselman Formation spacing units.~~

the value of the production from the test well, after payment of presently existing lease burdens (including the above reserved overriding royalty), is equal to the cost of drilling, completing, equipping, and operating said well. If Assignor elects to convert the overriding royalty interest to the working interest, then such conversion shall be effective as of 7:00 A.M. on the first day of the month following the month during which said recovery occurred. Such overriding royalty interest reserved shall be free and clear of all costs of exploring, drilling, producing, separating, treating, marketing, and taxes, including ad valorem taxes, but shall bear its part of gross production taxes. Further such overriding royalty interest shall, if on gas including casinghead gas, be marketed with Operator's own share of production, and payment to Assignor for its share shall be based on the gross proceeds received from the sale thereof, including any consideration or payment which Operator may receive for processing rights or for liquids extracted from such gas, regardless of whether such extraction is accomplished on or off the farmout area. The overriding royalty herein reserved and the working interest to which it may be converted shall proportionately reduced if any of said lease(s) does not cover a full mineral interest and/of the assignment made hereunder does not convey full leasehold rights in any of said lease(s).

If, prior to payout of the test well, Operator elects to drill an additional well or wells on the farmout area, then Assignor shall have the option to convert its reserved overriding royalty interest in each such well to a working interest, as aforesaid, after payout on a well-by-well basis.

It is agreed and understood that should Assignor elect to take a working interest in the earning well drilled hereunder, the premises will be operated under the provisions of an Operating Agreement as described in Exhibit "IV" attached hereto and by this reference made a part hereof. It is understood and agreed that in the event the terms of this agreement conflict with any of the terms and conditions of said Operating Agreement, then in such event as between the parties hereto the terms of this agreement shall control.

With respect to Exhibit "II", the parties hereto hereby approve and confirm all the terms, covenants and conditions therein set forth, and which are fully incorporated within this agreement, and agree that the assignment(s) provided for herein shall be subject to, and in accordance with, and shall contain the terms, covenants and conditions contained in said form of assignment.

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No part of said lease shall be pooled with other lands without Assignor's prior written consent.

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If the test well is completed as a well capable of producing oil or gas in paying quantities, then, unless Operator shall commence another well within sixty (60) days after reaching total depth in the test well, there shall be, effective as of the date hereof, an automatic reversion to Assignor of the interest hereby assigned as to all acreage in the farmout area that is not included in a governmental prescribed proration or drilling and spacing unit for the test well. The term governmental prescribed proration or drilling and spacing unit for the test well as used herein, shall be defined as three-hundred twenty (320) acres for a Fusselman Gas Unit and forty (40) acres for an oil unit, formed around each well capable of producing oil or gas in paying quantities, unless otherwise approved by the New Mexico Oil Conservation Commission. Assignor recognizes that operator may apply for one-hundred sixty (160) acre spacing units for a Fusselman Oil Well, and if approved by the New Mexico Oil Conservation Commission Assignor will recognize such ruling. However, Assignor reserves the right to oppose said application, if deemed in Assignor's best interest. Subsequent wells must also be commenced within sixty (60) days after reaching total depth in the preceding well. Operator shall not be required to drill any additional wells, but when Operator fails to commence any well within the prescribed period, there shall be an automatic reversion to Assignor of the interest hereby assigned, effective as of the date hereof, except as to each tract (as described above) upon which there is located a well capable of producing oil or gas in paying quantities.

~~Notwithstanding anything to the contrary contained herein, Operator must commence a 7600' Fusselman well in the South Half (S/2) of Section 19, T-8-S, R-29-E, by June 15, 1984, in order to qualify for additional Fusselman Formation spacing units.~~

In order for any of the test or development wells provided for herein to be considered as drilled to completion as a well capable of producing in paying quantities, it must fall within one of the following categories:

(1) Production pipe set in the well, perforated and oil and/or gas being sold to a bonafide market.

(2) Production pipe set, tested and proper Commission forms furnished Assignor indicating the well is a commercial gas well.

VII. INSURANCE

Prior to the commencement of any drilling operations on the farmout area, and for as long as this agreement remains in effect, Operator shall at its own expense provide and maintain in force the following insurance and furnish Assignor certificates of same:

(1) Workmen's Compensation Insurance and Employer's Liability Insurance as may be required by laws of the State of New Mexico.

(2) Comprehensive General Liability Insurance covering both bodily injury liability and property damage liability with a Combined Single Limit of $500,000.00 for each occurrence.

(3) Comprehensive Automobile Public Liability and Property Damage Insurance with a combined single limit of $500,000.00 for each occurrence.

(4) Catastrophe Comprehensive Liability Insurance with minimum limits of not less than $1,000,000.00.

VIII. NOTICES AND REPORTS

Operator agrees to test as a prudent operator any formation that, either before or after logging as hereinafter provided, appears favorable to Assignor for the production of oil and/or gas. Operator agrees to provide the information and perform those services outlined in Exhibit "III" attached to this agreement and made a part hereof.

With respect to any well drilled, or caused to be drilled, by Operator within a one (1) mile radius of the test well provided for herein, Assignor shall (at the sole cost and risk of Assignor, its agents and representatives) have access to the premises, including the derrick floor at all reasonable times to witness all activities conducted by Assignor, and to examine any books, records, test data (including logs, etc.,) kept or obtained by Operator which relate in any way to activities or operations by Operator incident to the referenced test well. This right of access and examination shall be limited to a period of one (1) year following the date of this Agreement.

IX. ABANDONMENT OF WELLS

Prior to Operator abandoning any wells on the farmout area hereunder, Assignor shall have the right within forty-eight (48) hours after receipt of notice of Operator's intention so to abandon, to take over the well or wells for additional testing by any method, or for deepening with Assignor being solely responsible for all costs and expenses in connection therewith, including standby rig time, if required. If the well is taken over by Assignor for the purposes expressed above, and such work results in a completion attempt wherein a well capable of commercial production is encountered, all of Operator's rights in such well and in and to the farmout area except as to lands included in an established spacing or proration unit upon which is located a well capable of producing in paying quantities, shall automatically revert to Assignor effective as of the date hereof; provided that Assignor agrees to pay Operator the reasonable salvage value of any salvageable material in the hole which Operator has contributed, less the cost of salvaging same.

If the completion attempt results in a dry hole, Assignor agrees to plug and abandon the well or wells at its sole cost, risk and expense, and Operator's rights hereunder shall remain in full force and effect.

Likewise, if Assignor takes over the well for the limited purposes expressed above but no completion attempt is made, then and in that event Operator agrees, upon receipt of notice that no completion attempt will be made, to plug and abandon the well or wells at its sole cost, risk and expense, except for abnormal plugging and abandoning costs caused by such operations of Assignor as listed above in which case the amount in excess of the normal costs shall be borne by the Assignor. Operator's rights hereunder shall remain in full force and effect.

X. RESTORATION OF PREMISES

For any well drilled on said lands, Operator agrees to abide by the terms and conditions in said lease and Operator shall restore the surface of the lands as near as practicable to its condition before the commencement of operations hereunder, and in conformance with applicable laws and ordinances and applicable governmental rules, regulations and orders.

XI. RENTAL AND SHUT-INS

During the time in which this agreement is in force, Assignor shall use its best efforts to make payment of annual delay rentals, shut-in royalties or minimum royalties in excess of those paid from actual production as required by said lease, but Assignor shall have no responsibility to Operator for its failure to do so. Operator agrees to reimburse Assignor for all rentals, shut-in royalties or minimum royalties attributable to the farmout area so paid which are allocable to the lands which may be covered by this agreement.

In the event it appears that Operator will complete a gas well and shut it in during the term of this agreement, Operator shall give immediate notice of such intentions and furnish sufficient title information to Assignor in order that timely payments of shut-in gas royalty may be made.

Assignor shall be relieved of the obligation to make such delay rental and/or shut-in gas well payments at any time after giving Operator adequate advance written notice, whereupon Operator shall become responsible for making such payments.

XII. REASSIGNMENT OBLIGATIONS

If, after production has been established, any well on the farmout area capable of commercial production ceases commercial production, and Operator desires to plug and abandon such well, Operator will so notify Assignor, and Assignor shall have an option for thirty (30) days from receipt of such notice to elect to take over the well and the spacing or proration unit for such well in its then condition by paying Operator the net salvageable value and upon such payment, Operator shall reassign the well, the said unit, and all equipment used in connection therewith, to Assignor. In the event Assignor elects to exercise any reassignment option reserved by it under any provision of this agreement, any reassignment into Assignor shall be free and clear of any liens, overriding royalty interests, production payments or similar encumbrances of whatsoever nature on said lease or the said unit which may have been placed thereon, created or caused by any action of Operator or by any person, party or entity claiming by, through or under Operator. If Assignor does not elect to take over such well, then Operator shall properly plug and abandon such well and restore the surface estate in accordance with Section X hereof.

XIII. PREFERENTIAL RIGHT TO PURCHASE PRODUCTION

Operator agrees that Assignor shall have the continuing right to purchase the gas (casinghead and gas well) produced from or allocated to the lands covered hereby by meeting any bonafide offer, acceptable to Operator, to purchase said gas. Such offer must be in writing, and must set forth the proposed buyer's name, price, term and other pertinent and relevant terms and conditions. Assignor shall have (60) days after receipt of a copy of such offer to advise Operator of its election to enter into a contract with Operator on equivalent terms and conditions. If Assignor fails to notify Operator within (60) days after receipt of a copy of the aforesaid offer of its election to meet such offer, Operator shall have the right to accept said offer; provided, however, if for any reason Operator does not accept said offer, or if Operator shall accept and thereafter such contract expires or is terminated, then in either event Assignor shall again have the right to meet any subsequent bonafide offer as above provided. Assignor's rights as set out above shall continue for the term of any presently existing oil and gas lease covering any part of the premises to which

this agreement applies.

Should Operator not receive a bonafide offer, all as aforesaid, within sixty (60) days following (i) completion of a well on the lands covered hereby or (ii) expirat ion or termination of a third-party contract, as applicable, Assignor shall have the continuing right (to be exercised within sixty (60) days after expiration of said sixty (60) day period) to purchase the gas under the terms of its then current gas purchase contract form for the area and pursuant to the price prevailing in the county within which the farmout area is located for wellhead deliveries of gas of like quantity, quality and delivery pressure to pipeline purchasers under similar contracts.

Operator hereby covenants and agrees to exclude from commitment or dedication Assignor's share of the gas attributable to the working interest to which Assignor has the right to convert.

Assignor hereby reserves the continuing right and option to purchase any part or all of the oil, distillate, condensate, drip gasoline, and other liquid hydrocarbons produced from or allocated to the lands covered hereby at the prevailing lawful price at the time of sale.

All gas, including casinghead gas, produced and saved by Operator from the Assigned Premises shall, at Operator's own risk and cost and before sold or otherwise disposed of or used for any purposes by Operator, be run through properly functioning field-type separating equipment (unless the liquid hydrocarbon content thereof is so small as to make installation and operation of such equipment not profitable or unless the gas pressure is such that running the same through such equipment would substantially diminish Operator's ability to sell and deliver the gas against gathering system or pipeline pressure) for the purpose of separating, extracting and saving the liquid and liquifiable hydrocarbons recoverable from the gas by such means before the gas is sold, disposed of, or used for any purpose by Operator.

XIV. RELATIONSHIP OF PARTIES

It is not the purpose or intention of this agreement to create, nor shall the same be construed as creatig any mining partnership, commercial partnership or other partnership relation nor shall the operations of the parties hereunder be construed to be considered as a joint venture. The liability of the parties hereto shall be several and not joint or collective.

Each of the parties hereto elects, under the authority of Section 761(a) of the Internal Revenue Code of 1954, to be excluded from the application of all of the Provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954. If the income tax laws of the states in which the property covered hereby is located contain, or may hereafter contain, provisions similar to those contained in the Subchapter of the Internal Revenue Code of 1954 above referred to under which a similar election is permitted, each of the parties agrees that such election shall be exercised. If applicable, Assignor is hereby authorized to execute and file on behalf of both parties hereto such elections with the appropriate governmental agencies.

XV. OTHER CONDITIONS

A. This Agreement shall not be assigned or encumbered in whole or in part without the prior written consent of the Assignor. Any attempt by Operator, its successors or assigns, to assign or encumber its interest without such consent shall be void. When an assignment is made by Operator hereunder, its successors or assigns, such assignment shall:

(i) be made expressly subject to this Farmout Agreement;

(ii) expressly include in its terms assignor's preferential right to purchase production;

(iii) be assignable only with the consent of TXO Production Corp.; and,

(iv) if the interests of the Operator be divided by such assignment, appoint Operator as Agent with full authority to receive notices, pay expenses, and to generally deal with, and with the power to bind such interests, the right to enter into and execute all

contracts or agreements for the disposition of such interests' respective share of oil or gas, and the right to receive on behalf of and account to each owner for the oil and gas (or the proceeds therefrom) attributable to such interest.

When any assignment or encumbrance is made hereunder, Operator shall promptly furnish a copy thereof to TXO Production Corp.

B. Notwithstanding anything to the contrary contained herein, within 90 days following the first sale of production from the Unit Acreage, but subject to the provisions of the oil and gas leases concerning shut-in wells, settlement shall be made by Operator and/or its assigns or by the product purchaser for oil and/or gas sold or used off the premises and monthly thereafter. If royalty and overriding royalty payments are not made as provided herein or written approval obtained from Assignor to defer such payment, then the Assignor may, at its option, terminate Operator's rights under this Farmout Agreement and any assignment of rights delivered pursuant thereto as of 7:00 a.m. the first day of the month for which no payment was made after the expiration of the 90 day period allowed above, by placing of record in the county (ies) where the Farmout Acreage is located an Affidavit stating the facts of Operator's default.

C. If any well on said lease, or any well or tracts of land with which said lease is pooled, is completed as a commercial producer of oil or gas and ceases to produce, Operator shall notify ASsignor no later than fifteen (15) days from the date of cessation of production. Such notification shall also include the reasons that the well is off production and Operator's plans for re-establishing production or plugging the well. If Operator plans remedial action, Operator shall keep Assignor advised as to the status of Operator's work, such notification to be sent to Assignor on each Monday following the original notification until the well is placed back on production.

Notwithstanding anything to the contrary contained herein, it is expressly understood and agreed that the separate assignment on the form attached hereto as Exhibit "II" will be made on each proration unit only after a well has been completed on said proration unit capable of production in paying quantities and Operator has fully complied with all other terms, provisions, and conditions herein contained.

All headings in the Farmout Agreement are for reference purposes only and have no binding effect on the terms, conditions or provisions of this agreement.

This agreement shall extend to and be binding upon not only the parties hereto but their respective heirs, personal representatives, successors and assigns.

If this agreement is not signed and one (1) copy returned to TXO Production Corp. at the address shown in Exhibit "III" within thirty (30) days from this date hereof, then this agreement is automatically terminated and is of no force and effect.

Executed in duplicate as of the day and year first above written.

ASSIGNOR: TXO PRODUCTION CORP.

John D. Huppler, Senior Vice President

OPERATOR: STEVENS OIL COMPANY

Don Stevens, President

ATTACHED TO AND MADE A PART OF THAT CERTAIN FARMOUT AGREEMENT

DATED March 25, 19 84, BETWEEN TXO PRODUCTION CORP., AND

Stevens Oil Company

EXHIBIT I

PAGE 1 OF 1

SCHEDULE OF LEASES

COUNTY: Chaves)(

STATE: New Mexico)(

(THE RECORDING REFERENCES HEREIN ARE TO THE RECORDS IN SAID COUNTY IN WHICH OIL, GAS AND MINERAL LEASES ARE RECORDED.)

TXO LEASE NO.	DATE OF LEASE	LESSOR	LESSEE	RECORDED BOOK	RECORDED PAGE	DESCRIPTION
40,887-001	July 1, 1974	J. G. O'Brien, et al	J. M. Huber Corporation	149	739	T-8-S, R-29-E Section 19: SE/4 NE/4, NW/4 NE/4, SE/4 NW/4, NW/4 NW/4 Containing 160 acres, more or less, limited in depth from the surface down to 2,900' below the surface, if completed in the San Andres Formation. Section 19: All Containing 640 acres, more or less, limited in depth from 3,400' beneath the surface of the earth down to 7,600', if completed in the Fusselman Formation.

EXHIBIT II
TO
FARMOUT AGREEMENT

PARTIAL ASSIGNMENT OF OIL AND GAS LEASES

STATE OF New Mexico §
§ KNOW ALL MEN BY THESE PRESENTS:
COUNTY OF Chaves §

That, TXO PRODUCTION CORP., a corporation with offices in Dallas, Texas, (hereinafter called "Assignor"), for and in consideration of the sum of Ten Dollars ($10.00) cash and other good and valuable consideration paid by Stevens Oil Company

(hereinafter called "Assignee"), the receipt and sufficiency of which are hereby acknowledged, does, subject to the terms and provisions herein contained, hereby transfer, sell, assign and convey unto the said Assignee, its heirs, successors or assigns, without warranty of title, express or implied, All of Assignor's right, title and interest in and to the oil and gas rights only, as covered by the oil, gas and mineral leases described in Exhibit "A," attached hereto and by reference made a part hereof and the lands covered by such leases insofar only as such lands are described in Exhibit "A" and insofar and only insofar as such leases covers rights down to, but not below, a depth of * feet below the surface of the earth, together with such interest's part of all production, if any, produced under such oil, gas and mineral leases and a like interest in all personal property, fixtures and equipment located on the lands described in Exhibit "A" or used or obtained in connection with such leases.

The oil, gas and mineral leases described in Exhibit "A" insofar as the same cover the lands described therein are hereinafter referred to as "said leases".

The interest in said leases assigned Assignee hereunder shall be subject to such interest's proportionate part of the royalty interest as provided for in said leases and to the terms, conditions and provisions set forth therein. Such

* The number to be inserted here shall be the Objective Depth in feet, plus 100, as that term is defined in the Agreement to which a copy of this form of Assignment is attached as an Exhibit thereto.

interest shall also be subject to such interest's proportionate part of all overriding royalties, production payments and any other payments and agreements of record.

This assignment is further made expressly subject to the following:

(1) This assignment is executed and delivered by Assignor to Assignee in accordance with the terms and provisions of a certain Farmout Agreement dated March 25, 1984, as amended, which provided for, among other things, the drilling of a commercially productive test well as a condition to Assignee's earning this conveyance. When Assignee has recovered out of the proceeds from the sale of production attributable to said acreage an amount equal to 100% of the cost attributable to said acreage for drilling, completing, equipping and operating said test well, Assignor shall have the option, for a period of thirty (30) days after receipt of notice of such payout to elect to retain the overriding royalty interest reserved herein or to convert such overriding royalty interest to an undivided 25 % interest in said leases, which interest shall be proportionately reduced the same as for the overriding royalty interest reserved herein.

(2) Assignor reserves unto itself, its successors and assigns, over, above and in addition to all royalties, overriding royalties and other burdens, if any, against the production from said leases, an overriding royalty of 1/16th of 8/8ths of all of the oil and 1/16th of 8/8ths of all of the gas, casinghead gas, condensate and other liquid or gaseous hydrocarbons produced and saved from or attributable to said leases during the terms thereof, including any extensions or renewals taken within six (6) months of termination of said leases; provided, however, that the overriding royalty interest herein reserved shall be proportionately reduced if any of said leases does not cover a full mineral interest and/or this Assignment does not convey full leasehold rights in any of said leases. The overriding royalty interest reserved hereby shall be free and clear of all costs of exploring, drilling, producing, separating, treating, marketing and taxes, but shall bear its proportionate part of all production, severance or other similar taxes.

(3) In the event that Assignee desires to surrender all or any part of any of the oil and gas leases assigned hereunder by the non-payment of rentals, Assignee shall notify Assignor of such desire at least forty-five (45) days prior to the rental payment date, and Assignor herein may elect, within fifteen (15) days after receiving such notice, to request an Assignment, and Assignee herein shall thereupon execute and deliver an Assignment of Assignee's interest in such leases to Assignor.

(4) In the event Assignee elects to participate in the payment of rentals if and when they may become due, Assignor shall pay same and immediately invoice Assignee for 100 % of the costs thereof which Assignee agrees to pay within fifteen (15) days from receipt of invoice. Assignor shall not be liable for erroneous payments or inadvertent failure to make any such payments.

(5) Assignor or its nominee, shall have the continuing right to purchase the gas (casinghead and gas-well) attributable to Assignee's interest produced from or allocated to said leases by meeting any bona fide offer, acceptable to Assignee, to purchase said gas. Such offer must be in writing, and must set forth the proposed buyer's name, price, term and other pertinent and relevant terms and conditions. Assignor shall have 60 days after receipt of a copy of such offer to advise Assignee of its election to enter into a contract with Assignee on equivalent terms and conditions. If Assignor fails to notify Assignee within 60 days after receipt of a copy of the aforesaid offer of its election to meet such offer, Assignee shall have the right to accept said offer; provided, however, if for any reason Assignee does not accept said offer, or if Assignee shall accept and thereafter such contract expires or is terminated, then in either event Assignor shall again have the right to meet any subsequent bona fide offer as above provided. Assignor's rights as set out above shall continue for the term of any of said leases.

(6) Assignor reserves the continuing right and option to purchase any part or all of the oil, distillate, condensate, drip gasoline, and other liquid hydrocarbons attributable to Assignee's interest produced from or allocated to said leases. Any such purchases shall be at the prevailing lawful price at the well for liquids of like grade and gravity in the field where produced on date of delivery.

(7) This assignment is expressly limited to the oil and gas rights in and to said leases, and Assignor hereby reserves unto itself all right, title and interest in all other valuable substances or minerals covered by said leases, including the right to ingress and egress and the reasonable use of as much of the surface of said leases as needed to extract and produce the same.

(8) This assignment is expressly limited in depth as to rights from the surface of the earth down to a depth of ___*___ feet, and Assignor reserves unto itself, its successors and assigns, all rights below ___*___ feet below the surface, including the right of ingress and egress, and the use of as much of the surface of said land as may be necessary for exploring the same for the production of oil, gas and other minerals.

(9) This assignment shall be for so long as oil and/or gas is being produced from the lands herein assigned.

* Objective Depth plus 100 feet, see above.

The terms, covenants and conditions hereof shall be binding upon and shall inure to the benefit of Assignor and Assignee and their respective successors and assigns; and such terms, covenants and conditions shall be covenants running with the land above described and the assigned premises and with each transfer or assignment of said leases.

Executed this_____day of_____, 1982, however, effective as of _____**_____.

TXO PRODUCTION CORP.

ATTEST:

_____ BY:_____

Assistant Secretary Title_____

** Date of Agreement to which a copy of this form of Assignment is attached as an Exhibit thereto.

TEXAS

ACKNOWLEDGMENT

THE STATE OF TEXAS §
§
COUNTY OF _____ §

This instrument was acknowledged before me on _____ by _____, _____ Vice President of TXO PRODUCTION CORP., a Delaware Corporation, on behalf of said corporation.

_____
Notary Public, State of Texas

My Commission Expires:

_____

EXHIBIT III

TO

FARMOUT AGREEMENT

NOTICES AND REPORTS

(WEST TEXAS DISTRICT)

A. In drilling any well hereunder, Operator agrees:

1. To conduct all operations in accordance with approved and accepted Practices prevailing in the field where the well is drilled.

2. To make adequate evaluation and tests as a prudent operator to determine if the well is capable of producing oil or gas from any formations encountered. This evaluation shall include, but not be limited to, an Induction-Electric Log and a Gamma Ray/Acoustic Log (or equivalent with assignor's approval) from the base of the surface pipe to the total depth drilled.

3. To accord Assignor the freedom of the derrick floor and full and free access to the well and the records thereof at any and all times.

4. To give assignor reasonable notice in sufficient time to have a representative present before spudding, any testing, coring or logging of a prospective oil or gas zone. Said notification shall be given by telephone to assignor's Midland, Texas office to:

	Office Phone	Residence Phone
Mr. John Tittl	(915) 682-7992	(915) 686-8449
Mr. Frank Kieffer	(915) 682-7992	(915) 699-5801
Mr. Marvin Mayfield	(915) 682-7992	(915) 337-4974
Mr. Howard Kemp	(915) 682-7992	(915) 697-3571

5. To advise assignor in writing, before commencing operations, the name and address of the geologist and/or engineer servicing the well.

6. To furnish Assignor without cost the following reports, data, and information:

DURING THE DRILLING OF WELLS

a. Daily on each weekday morning a telephone drilling and completion report to Ms. Jana Johnson in Assignor's Midland, Texas office, at (915) 682-7992, giving the nature of all work done and depth and formations penetrated, beginning with the date actual work is commenced at the location and continuing until initial daily potential has been established, or, if a dry hole, the well has been plugged and abandoned.

b. Drilling time record.

c. Formation samples as requested by assignor. Said samples are to be mailed to assignor weekly unless they request that samples be saved at the well.

d. Water samples and water analyses.

e. Photoprint of forms required by the government office or body having jurisdiction in the premises.

f. A log and history of the well (well record and formation record).

g. Field prints and final prints of an Induction-Electric Survey and of a Gamma Ray/Acoustic Log (or equivalent with assignor's approval), both from the base of the surface pipe to the total depth drilled.

h. Mud log (daily and final reports, if maintained).

i. Certified copy of photoprint of the plugging record required by the government office or body having jurisdiction in the premises, if the test is a dry hole.

j. Core analyses and core reports, if taken.

k. Any bottom hole pressure and surface pressure reports made.

l. Directional survey, if run.

m. Drill stem tests, if taken.

n. Gas/oil ratio tests.

o. One copy of open flow potential and shut-in tests, if gas well.

p. Gas analyses.

B. The following information shall be sent to assignor at the addresses and in the number of copies specified:

TXO PRODUCTION CORP.
900 Wilco Building
Midland, Texas 79701
Attn: Mr. Frank Kieffer

TXO PRODUCTION CORP.
2700 Fidelity Union Tower
Dallas, Texas 75201
Attn: Mr. Donald Chase

COPIES	COPIES	
1	1	Government forms, permits and correspondence.
2	1	Field prints of logs and surveys (IES or equivalent, GR/Acoustic or equivalent)
5*	3	Final print logs (*1 sepia only of main porosity log; 5 prints of all other logs)
2	1	Mud log (daily and final prints, if maintained)
1	1	Drill stem test reports, if run.
1	1	Core analyses, if taken.
1	1	Any bottom hole pressure and surface pressure reports.
1	1	Gas and water analyses.
1	0	Drill cutting samples (only if samples <u>are</u> <u>not</u> delivered to Midland Sample Library)

C. All other notices and reports shall be made to:

TXO PRODUCTION CORP.
Attention:
900 Wilco Building
Midland, Texas 79701
Office Phone: (915) 682-7992
Home Phone:

D. Within sixty (60) days from the completion of the test well and each producing development well, you shall furnish assignor in reasonable detail a certified statement of the cost incurred in drilling, completing and equipping of such well.

E. After completion of the test well and each producing development well, you shall furnish Assignor in reasonable detail, every 120 days, a certified statement of payout status.

EXHIBIT IV

Attachment to Farmout Agreement dated March 25, 1984

Between TXO PRODUCTION CORP. and Stevens Oil Company

MODIFICATIONS AND COMPLETION OF

MODEL FORM OPERATING AGREEMENT A.A.P.L. FORM 610 - 1977

1. Title Page: Fill in blanks as applicable.

2. Table of Contents: Delete VIII.G. - "Preferential Right to Purchase".

3. Preamble, Page 1: Enter name of Operator.

4. Article II. - Exhibits: Indicate that all Exhibits are to be attached.

5. Article III.B. - Interest of Parties in Costs and Production: Delete the words "which will be borne by the Joint Account" in lines 19 and 20, on page 2.

6. Article IV.A. - Title Examination:
   (a) Select Option No. 2.
   (b) Change the word "or" in line 61 on page 2 to "and".

7. Article IV.B. - Loss of Title - Make the following changes on page 3:
   (a) Insert "for" after the word "costs" in line 1.
   (b) Insert "been responsible" after the word "therefore" in line 1 and delete the word "paid" in line 1.
   (c) Insert "subsequently incurred" after the word "for" in line 2.
   (d) Insert the words "whose title failed" after the word "parties" in line 19.

8. Article V. - Operator: Enter name of Operator in line 62 on page 3.

9. Article VI.A. - Initial Well: Delete Article VI.A.

10. Article VI.B.2. - Operations by Less Than All Parties:
   (a) Add the following language to the sentence ending on line 37 on page 5: ", and failure to advise the proposing party shall constitute an election under (b)."
   (b) Change 100% to 300% in line 60, and insert 400 in line 69 on page 5 and in line 1, on page 6. Also, in line 3, on page 6, after "therein.", insert "See Article XV.G. for additional provisions."

11. Article VI.C. - Right to Take Production in Kind: Insert the words "prior written" after the word "days" in line 19 on page 7.

12. Article VII.D.1. - Limitation of Expenditures: Select Option No. 2 in line 10 on page 9.

13. Article VII.D.3. - Limitation of Expenditures - In lines 30 and 38, on page 9, for limitation of expenditure of Operator for single project and amount above which Operator may furnish information AFE, enter $10,000.00.

14. Article VII.E. - Royalties, Overriding Royalties and Other Payments: In line 43 on page 9, enter "one-eighth (1/8)".

15. Article VII.G. - Taxes: In line 17, on page 10, enter "See Article XV.D. for additional provisions."

16. Article VIII.B. - Renewal or Extension of Leases: On page 11, in line 35 after "leases.", add the following: "See Article XV.E. for additional provisions."

17. Article VIII.G. - Preferential Right to Purchase: Delete entire paragraph (lines 39 through 52 on page 12).

18. Article IX. - Internal Revenue Code Election: If, and only if, a tax partnership is provided in the Farmout Agreement to which this Exhibit IV is attached, insert in line 56 on page 12 "SEE EXHIBIT "G" ATTACHED.", and delete the remainder of the Article (lines 57 through 70 on page 12, and lines 1 through 8 on page 13).

19. Article X. - Claims and Lawsuits: Enter on page 13, "Four Thousand" in line 14, and "4,000.00" in line 15.

20. Article XIII. - Term of Agreement:
   (a) Select Option No. 2 in line 1 on page 14.
   (b) In Option No. 2, enter "120" in blanks in lines 4 and 11.

21. Article XV. - Other Provisions - Add the following:

A. Sale of Gas Production:

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

B. Billing Additional Interests:

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

1. Written notice of the conveyance and photostatic or certified copies of the assignments by which the transfer was made.

2. The name of the assignee to be billed and a written statement signed by the assignee to be billed in which it consents to receive statements and billings for the entire interest credited to Selling Party on Exhibit "A" hereof; and, further, consents to handle any necessary sub-billings in the event it does not own the entire interest credited to Selling Party on Exhibit "A".

C. Disbursement of Royalties:

If a purchaser of any oil, gas or other hydrocarbons produced from the Contract Area declines to make disbursements of all royalties, overriding royalties, working interests, and other payments out of, or with respect to, production revenues which are payable on the Contract Area, Operator may, at its option, from time to time, make disbursements on behalf of any Non-Operator who requests in writing that Operator do so. Each Non-Operator for whom such disbursement is made shall furnish Operator with the following:

1. Such documents as may be necessary in the opinion of Operator to enable Operator to receive all payments for oil, gas or other hydrocarbons directly from the purchaser thereof.

2. An initial list of names, addresses, and interests (to a seven place decimal), on a tract, unit, purchase contract, or other such basis as, in the opinion of Operator, is necessary for efficient administration, for all royalty, overriding royalty and other interest owners who are entitled to proceeds from the sale of production attributable to such Non-Operator's interest. Also, any changes to the initial list shall be furnished promptly to Operator in writing.

Operator will use its best efforts to make disbursements correctly, but will be liable for incorrect disbursement only in the event of gross negligence or willful misconduct. Any Non-Operator for whom such disbursements are made hereby agrees to indemnify and hold harmless Operator for any loss, including court costs and attorney's fees, which may be incurred as a result of Operator's making such disbursements in the manner prescribed by Non-Operator.

D. Article VII.G., Addition:

If the Operator is required hereunder to pay ad valorem taxes 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 percentage of tax value generated by each party's working interest.

E. Article VIII.B., Additions

Notwithstanding anything to the contrary contained herein, each party committing a lease or leases to this agreement shall have the option upon the expiration of each lease to renew or extend such lease and to bear the renewal or extension costs and expenses and thereby retain its original interest and title in said lease. By exercising such option, the parties' working interests shall remain unchanged. If the original lease owner does not exercise its option within sixty (60) days after the expiration date of the original lease, the renewal or extension lease will then be subject to the terms of this article as written above. If any working interest owner other than the original lease owner renews or extends the lease, the renewing or extending party shall furnish the original lease owner an itemized statement of the complete renewal or extension costs and expenses of such lease. The original lease owner shall have sixty (60) days after the receipt of such itemized statement to reimburse the renewing or extending party in full. Failure of the original lease owner to do so shall result in the forfeiture of its option hereunder. The provisions hereof shall only apply to leases or portions of leases located in the Contract Area.

F. Notwithstanding any language in Article VI.B.2. to the contrary each non-consenting party to a reworking, deepening or plugging back operation (including "completing" if Option No. 2 in Article VII.D.1. is selected) on a well conducted pursuant to Article VI/B.2. shall, upon commencement of such operation, be deemed to have relinquished to consenting parties, and the consenting parties shall own and be entitled to receive, in proportion to their respective interest, all of such non-consenting party's interest in the well and share of production therefrom, only insofar as the interval or intervals of the formation or formations which are the subject of the reworking, deepening or plugging back operation and to which such non-consenting party does not desire to join in the reworking, deepening or plugging back thereof until the proceeds or market value thereof (after deducting production taxes, excise taxes, royalty, overriding royalty and other interest payable out of, or measured by the production from such well, only insofar as the production secured from the interval or intervals of the formation or formations which are subject to said reworking, deepening or plugging back operation, accruing with respect to such interest until it reverts) shall equal the total of those certain costs as further described in sub-paragraphs (a) and (b) of the third grammatical paragraph under Article VI.B.2.

G. Change of Operator:

In addition to any other rights expressly provided herein, after any Operator has acted in that capacity for a period of not less than six months, then any Non-Operator may call a meeting of all working interest owners for the purpose of selecting a new Operator by giving sixty (60) days written notice to all working interest owners. By approval of a total of more than 50% in interest of the working interest owners, a new Operator may be selected, from among the working interest owners, who shall take over operation of the unit area on the first day of the calendar month which occurs after the passing of thirty (30) days from the date of the selection of the new Operator. Such successor Operator shall be required to perform the duties of Operator in accordance with this Agreement. In such case, the retiring Operator shall surrender possession of and deliver to the successor Operator the exclusive possession of the premises and all common wells, facilities and funds in the possession of Operator, and all pertinent books of account, records pertaining to the operation of the Contract Area, and all documents, agreements and other papers relating thereto. Upon the delivery thereof, the retiring Operator shall be released and discharged from and the successor Operator shall assume all of the duties and obligations of Operator hereunder, except any unfulfilled duties and obligations of such retiring Operator which have accrued prior to the successor Operator's assuming operations hereunder, for which the retiring Operator shall remain liable and responsible notwithstanding the reason for its discharge.

22. Signature Page: Enter effective date and names of parties.

23. Acknowledgments: Insert appropriate acknowledgments for all parties.

24. Exhibit "A" - Contract Area: Use form attached hereto and marked "Exhibit A", inserting appropriate information.

25. Exhibit "B" - Form of Lease: Use the form of lease attached hereto and labeled "Exhibit B".

26. Exhibit "C" - Accounting Procedure - Use the COPAS - 1974 with the following selections and insertions:

1. Section I, Paragraph 3. Advances and Payments by Non-Operators, shall be revised to read in its entirety as follows:

Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of the estimated cash outlay for the succeeding month's operation. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the maximum legal rate permitted by the applicable usury laws in the state in which the joint property is located; or, if the maximum legal permitted rate is less than eighteen percent (18%) per annum and such rate may be modified as agreed between the parties, then, in such event, the unpaid balance shall bear interest monthly at the rate of eighteen percent (18%) per annum. However, pursuant to either rate, attorney's fees, court costs, and all other costs incurred in connection with the collection of these unpaid amounts shall be recoverable.

2. Section III, Paragraph 1. Overhead-Drilling and Producing Operations:

(i) Select: "Fixed Rate Basis, Paragraph 1A"

(ii) Select: "shall not"

A. Overhead-Fixed Rate Basis

Well Depth	Drilling Well Rate	Producing Well Rate
0 - 4,000 ft.		
4,000 - 8,000 ft.	4396.00	439.60
8,000 - 12,000 ft.		
Over - 12,000 ft.		

B. (Not Applicable)

3. Section III, Paragraph 2. Overhead-Major Construction

Line 5 - $25,000

A - 5%, $25,000, $100,000

B - 3%, $100,000

C - 2%

27. Exhibit "D" - Insurance: Use the form attached hereto and marked "Exhibit D".

28. Exhibit "E" - Gas Balancing: Use the form attached hereto and marked "Exhibit E".

29. Exhibit "F" - Non-Discrimination and Certification of Non-Segregated Facilities: Use the form attached hereto and marked "Exhibit F".

30. If used --- Exhibit "G" - Provisions Concerning Taxation: Use the form attached hereto and marked "Exhibit G" only if there is a tax partnership.

Attached to and made a part of that certain Operating Agreement dated _____ by and between _____ _____, as Operator, and _____ _____, as Non-Operators.

EXHIBIT "A"

I. CONTRACT AREA:

II. Such lands are subject to the following restrictions as to depths or formations:

III. NAMES, ADDRESSES AND PERCENTAGES OF THE PARTIES:

IV. Oil and Gas Leases and/or Oil and Gas Interests subject to this Agreement:

EXHIBIT "D"

SCHEDULE OF INSURANCE

A. Unit Operator shall carry the following insurance covering operations under this agreement at the expense and for the benefit of the parties hereto and shall require contractors and subcontractors to carry the same, to-wit:

1. Workmen's Compensation and Employer's Liability Insurance as required by the laws of the state where the property is located.

2. Comprehensive General Liability Insurance covering both injury liability and property damage liability with a Combined Single Limit of $500,000 for each occurrence.

3. Comprehensive Automobile Public Liability and Property Damage Insurance with a combined single limit of $500,000 for each occurence.

4. Insurance coverage on equipment as the Operator deems necessary for the protection of the joint account.

B. Unit Operator may carry and maintain in force for its benefit insurance of the type and in the amount which Operator is in its sole opinion deems necessary to protect it from loss resulting from any claims, damages, cause of action or legal liability in favor of a surface of mineral owner of lands coverd hereby, arising out of, in connection with, or as an incident to any act or ommission of Operator, its officers, agents or employees in carrying out its responsibilities under this Agreement.

EXHIBIT "E"

GAS BALANCING AGREEMENT

During the period or periods when any party hereto has no market for, or its purchaser is unable to take or if any party fails to take its share of gas, the other parties shall be entitled to produce each month one hundred percent of the allowable gas production assigned to the Unit Area by the appropriate governmental entity having jurisdiction, and each of such parties shall take its prorata share. All parties hereto shall share in and own the condensate recovered at the surface in accordance with their respective interests, but each party taking such gas shall own all of the gas delivered to its purchaser. Each party unable to market its share of the gas produced shall be credited with gas in storage equal to its share of the gas produced, less its share of gas used in lease operations, vented or lost. Operator shall maintain a current account of the gas balance between the parties and shall furnish all parties hereto monthly statements showing the total quantity of gas produced, used in lease operations, vented or lost, and the total quantity of condenate recovered.

After notice to Operator, any party may begin taking or delivering its share of the gas produced. In addition to the share, each party, until it has recovered its gas in storage and balanced its gas account, shall be entitled to take or deliver a volume of gas equal to twenty-five percent of each overproduced party's share of gas produced. If more than one party is entitled to the additional gas produced, they shall divide such additional gas in accordance with Unit participation.

In the event production of gas permanently ceases prior to the time that the accounts of the parties have been balanced, a complete balancing shall be accomplished by a money settlement. Such settlement shall be based upon the weighted average price received by each overproduced party for its share of gas produced and sold.

At all times while gas is produced from the Unit Area, each party shall make appropriate settlement of all royalties, overriding royalty interest, and other payments out of or in lieu of production for which it is responsible, as if each party were taking or delivering to a purchaser its share, and its share only, of such gas production. Each party hereto agrees to hold each other party harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable.

EXHIBIT "F"

NONDISCRIMINATION AND CERTIFICATION OF NONSEGREGATED FACILITIES

A. Equal Opportunity Clause (41 CFR 60-1.4). (Applicable only to contracts or purchase orders for more than $10,000.)

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

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

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

(3) The Operator will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Operator's commitments under section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

(4) The Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.

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

(6) In the event of the Operator's noncompliance with the nondiscrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be canceled, terminated, or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

(7) The Operator will include the provisions of paragraph (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Operator will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for noncompliance: Provided, however, that in the event the Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interests of the United States.

B. Certification of Nonsegregated Facilities (41 CFR 60-1.8). (Applicable only to contracts or purchase orders which are not exempt from the provisions of the Equal Opportunity Clause set out above.)

The Operator certifies that it does not, and will not, maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not, and will not, permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. The Operator agrees that a breach of this certification is a violation of the Equal Opportunity Clause in this contract or purchase order. As used in this certification, the term "segregated facilities" means any waiting rooms, work areas, rest rooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation, and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, creed, color, or national origin, because of habit, local custom, or otherwise. The Operator further agrees that (except where it has obtained identical certifications from proposed subcontractors for specific time periods) it will obtain identical certifications from proposed subcontractors prior to the award of subcontracts exceeding $10,000 which are not exempt from the provisions of the Equal Opportunity Clause; that it will retain such certifications in its files; and that it will forward the following notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certifications for specific time periods): NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NONSEGREGATED FACILITIES. A Certificate of Nonsegregated Facilities must be submitted prior to the award of a subcontract exceeding $10,000 which is not exempt from the provisions of the Equal Opportunity Clause. The certification may be submitted either for each subcontract or for all subcontracts during a period (i.e., quarterly, semiannually, or annually).

C. Affirmative Action Compliance Program (41 CFR 60-1.40). (Applicable only if (a) the Operator has 50 or more employees and (b) the contract or purchase order is for $50,000 or more.)

The Operator shall develop a written affirmative action program for each of its establishments, and, within 120 days from the effectiveness of this contract or purchase order, shall maintain a copy of separate programs for each establishment, including evaluations of utilization of minority group personnel and the job classification tables, at each local office responsible for the personnel matters of such establishment.

D. Employer Information Report (41 CFR 60-1.7). (Applicable only if (a) the Operator has 50 or more employees, (b) the Operator is not exempt (pursuant to section 60-1.5 of Title 41 of the Code of Federal Regulations) from the requirement for filing Employer Information Report EEO-1, and (c) the contract or purchase order is for $50,000 or more.)

The Operator agrees to file with the appropriate Federal agency annually, on or before the 31st day of March, complete and accurate reports on Standard Form 100 (EEO-1) promulgated jointly by the Office of Federal Contract Compliance, the Equal Employment Opportunity Commission and Plans for Progress or such form as may hereafter be promulgated in its place.

E. Affirmative Action for Disabled Veterans and Veterans of the Vietnam Era (41 CFR 60-250). (Applicable only to contracts or purchase orders for $10,000 or more.)

The affirmative action clause prescribed in section 60-250.4 of Title 41 of the Code of Federal Regulations is incorporated herein by reference (as permitted by section 60-250.22 of said Regulations) as if set out in full at this point. If the Operator (a) has 50 or more employees and (b) this contract or purchase order is for $50,000 or more, then within 120 days from the effectiveness of this contract or purchase order, the Operator shall prepare and maintain an affirmative action program at each establishment which shall set forth the Operator's policies, practices and procedures in accordance with section 60-250.6 of said Regulations.

F. Affirmative Action for Handicapped Workers (41 CFR 60-741.4). (Applicable only to contracts or purchase orders for $2,500 or more.)

The affirmative action clause prescribed in section 60-741.4 of Title 41 of the Code of Federal Regulations is incorporated herein by reference (as permitted by section 60-741.22 of said Regulations) as if set out in full at this point. If the Operator (a) has 50 or more employees and (b) this contract or purchase order is for $50,000 or more, then, within 120 days of the effectiveness of this contract or purchase order, the Operator shall prepare and maintain an affirmative action program at each establishment, which program shall set forth the Operator's policies, practices and procedures in accordance with section 60-741.6 of said Regulations.

G. Utilization of Minority Business Enterprises (Federal Procurement Regulations 1-1.13). (Applicable only to contracts or purchase orders which may exceed $10,000.)

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

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

ILLEGIBLE

COLUMBIA GAS
Development

John P. Bomman, Jr.
Vice President

May 17, 1984

Stevens Oil Company
P. O. Box 2203
Roswell, NM 88201

Attn: Ms. Mary Irene Stevens

Re: Farmout Agreement
T8S, R29E, N.M.P.M
Section 19,
Chaves County, New Mexico
(CGDC Lease No. NM-2205)

Gentlemen/Mesdames:

The undersigned, COLUMBIA GAS DEVELOPMENT CORPORATION, (hereinafter referred to as "Farmor") represents that it is the owner of that certain Oil, Gas and Mineral Lease, (hereinafter referred to as "Leases", whether one or more), described in Exhibit "A" attached hereto and made a part hereof. For and in consideration of the covenants set forth herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Farmor extends to STEVENS OIL COMPANY, (hereinafter referred to as "Farmee"), a farmout of the Leases upon the following terms and conditions:

GENERAL OPERATIONS AND REQUIREMENTS

Farmee shall conduct all operations in accordance with approved and accepted practices prevailing in the field or locale where the Leases are located, and shall make adequate tests to determine if the Test Well(s) and Option Well(s), as hereinafter defined, are capable of producing oil and/or gas in paying quantities from the objective formation and from all prospective shallower formations encountered. Farmor shall have full and free access to the derrick floor of the Test Well(s) and Option Well(s) and the records thereof at any and all times. Farmee shall give reasonable notice to Farmor in sufficient time so that Farmor may have a representative present before the logging, testing or coring of a prospective oil or gas zone at any depth in said well, and shall furnish, without cost to Farmor, the reports, data and information set out in Exhibit "C" attached hereto.

SPECIAL PROVISIONS

1. LEASE BURDENS

It is understood that any assignment earned hereunder shall be without warranty of title except by, through, and under acts of Farmor, but not otherwise, and shall be subject to the terms of the Leases, intermediate assignments thereof, the overriding royalty(s) reserved herein, and any and all overriding royalties, production payments, net profits obligations, carried working interests and other burdens out of or with respect to production, existing and of record against the Leases as of the date of this agreement.

2. DELAY RENTALS

All delay rentals or other lease payments to be paid on the Leases on or after May 17, 1984, shall be paid by Farmor, and Farmee shall reimburse Farmor for one hundred percent (100%) of such payments. Any such payments paid on the Leases subsequent to the delivery of an assignment by Farmor shall be paid by Farmee. The party who is to pay such payments shall not be liable to the other party for any unintentional or inadvertent failure to make payment or any error in making payment, provided it has acted in good faith. Evidence of such payments made shall be furnished by the paying party to the other party.

3. REASSIGNMENT OF LEASES

Farmee shall not release, surrender, abandon, or allow to expire any of its interest in and to the Leases without giving Farmor at least sixty (60) days written notice prior to any such contemplated action, and if Farmor so requests, Farmee shall reassign the affected interests to Farmor free of cost and without any additional burdens created by Farmee or its assignees. It is understood that no release, surrender, abandonment or assignment shall relieve Farmee of any obligation or liability theretofore incurred by it or accrued against it or from any liability to Farmor by reason of any breach of any covenant of this agreement or of any assignment made hereunder.

4. TEST WELLS

Farmee will at its sole cost, risk and expense commence actual drilling operations on or before June 1, 1984, on a well, (hereinafter sometimes referred to as the "Test Well"), at a legal location of its choice in the North Half (N/2) of Section 19, T8S, R29E, N.M.P.M., Chaves County, New Mexico, and thereafter continue drilling operations in a diligent and workmanlike manner to a depth of seven thousand seven hundred feet (7,700') or to a depth sufficient to thoroughly test the

Fusselman Formation, whichever is the lesser (hereinafter sometimes referred to as the "Objective Depth"). In the event the Test Well is drilled to the Objective Depth and is completed as a commercial producer of oil and/or gas in paying quantities from the Fusselman Formation or any formation encountered in the wellbore except the San Andres Formation, Farmee shall earn the right to commence actual drilling operations on or before July 1, 1984 on a second Test Well at a legal location of its choice in the South Half (S/2) of Section 19, T8S, R29E, N.M.P.M., Chaves County, New Mexico, and thereafter continue drilling operations in a diligent and workmanlike manner to the Objective Depth or the depth to test the formation completed in the Test Well. If after reaching the Objective Depth or, in the case of the second Test Well, the depth to test the formation completed in the Test Well and the Test Well and/or the second Test Well is completed as a commercial producer of oil and/or gas in paying quantities, Farmee shall earn rights as set forth in Paragraph 9 hereof. In the event the Test Well(s) is drilled as a dry hole or is junked and abandoned, it shall be plugged at Farmee's sole risk and expense and the location repaired in compliance with the terms of the Leases and any agreements reached with lessors.

to be changed by letter agreement dated 5/29/84 to 1/1.

5. OPTION WELLS

In the event the second Test Well is drilled to the Objective Depth or the depth of the formation that the Test Well is completed in and the second Test Well is completed as a commercial producer of oil and/or gas in paying quantities, Farmee shall simultaneously earn the right to commence actual drilling operations on an Option Well, within one hundred twenty (120) days from the completion date of the second Test Well, at a legal location of its choice in any of the following quarter/quarter sections in Section 19, T8S, R29E:

SE/4NE/4
NW/4NE/4
SE/4NW/4
NW/4NW/4

Said Option Well shall be drilled in a diligent and workmanlike manner to a depth of three thousand feet (3,000') or to a depth sufficient to thoroughly test the San Andres Formation, whichever is the lesser, but in no event below three thousand feet (3,000') (hereinafter sometimes referred to as the "Second Objective Depth"). The "completion date" is defined herein as the date the completion rig is released from the well. Upon the completion of the first Option Well as a commercial producer of oil and/or gas in paying quantities, Farmee shall simultaneously earn the right to commence actual drilling operations on a second Option Well within one hundred twenty (120) days from the completion date of

the first Option Well at a legal location of its choice in any remaining aforementioned quarter/quarter section not previously earned. Such second Option Well shall be drilled in a diligent and workmanlike manner to the Second Objective Depth. Upon the completion of the second Option Well as a commercial producer of oil and/or gas in paying quantities, Farmee shall earn the right to commence actual drilling operations on a third Option Well, within one hundred twenty (120) days from the completion date of the second Option Well, at a legal location of its choice in any remaining aforementioned quarter/quarter section not previously earned. Such third Option Well shall be drilled in a diligent and workmanlike manner to the Second Objective Depth. Upon completion of the third Option Well as a commercial producer of oil and/or gas in paying quantities, Farmee shall earn the right to commence actual drilling operations on a fourth Option Well, within one hundred twenty (120) days from the completion date of the third Option Well, at a legal location of its choice on the remaining aforementioned quarter/quarter section not previously earned. Such fourth Option Well shall be drilled in a diligent and workmanlike manner to the Second Objective Depth. If after reaching the Second Objective Depth, the Option Well(s) is completed as a commercial producer of oil and/or gas in paying quantities, Farmee shall earn rights, on a well by well basis, as set forth in Paragraph 9 hereof. Farmee's failure to timely drill any Option Well shall result only in its forfeiture of all further rights to explore the Leases under this Agreement.

6. SUBSTITUTE WELL PROVISION

If a well is plugged and abandoned prior to reaching its required depth due to mechanical difficulties or because impenetrable substances are encountered which make further drilling impossible or impracticable, this agreement shall terminate unless Farmee commences actual drilling operations on a substitute well on the Leases within thirty (30) days from such plugging date. Such substitute well shall be drilled in the same manner and subject to the same terms as the well which was plugged and abandoned.

7. DRY HOLE WELL PROVISION

If a Test Well or Option Well is plugged and abandoned as a dry hole, this agreement shall terminate unless Farmee commences actual drilling operations on an additional well, as hereinabove set forth, on the Leases within sixty (60) days from such plugging date. Such additional well, if drilled, shall be drilled in the same manner and subject to the same terms and conditions as the well which was plugged and abandoned as a dry hole.

8. WELL TAKE-OVER

If, after reaching the Objective Depth, Farmee decides not to attempt a completion on the Test Well or any Option Well, Farmee agrees to so notify Farmor within forty-eight (48) hours of such decision, and Farmor shall have a period of twenty-four (24) hours after receipt of such notice, exclusive of weekends and holidays, to elect whether or not to take over the well to make a completion attempt at its sole risk and expense. If Farmor elects to take over the well, and the completion attempt results in a commercial producer of oil and/or gas in paying quantities, then Farmee shall relinquish all of its right and interest in and to the well and the Leases or portions thereof comprising the drillsite unit, subject to a duty by Farmor to reimburse to Farmee the estimated net salvage value of all equipment used in connection with the well, and Farmee shall forfeit all further rights to explore the Leases under this agreement. If the completion attempt is unsuccessful, Farmor shall relinquish the well to Farmee for plugging and abandonment in accordance with the terms of this agreement.

9. RIGHTS EARNED

By drilling the Test Well to the Objective Depth and by complying with the terms hereof, upon the completion of such well as a commercial producer of oil and/or gas in paying quantities, Farmee shall earn an assignment of one hundred percent (100%) of Farmor's interest in the Leases or portions thereof comprising the drillsite unit, subject to the following depth restrictions:

a. NW/4NW/4, SE/4NW/4, NW/4NE/4, NE/4NE/4, and SE/4NE/4 - from three thousand feet (3,000') down to one hundred feet (100') below the total depth drilled, but in no event below eight thousand feet (8,000'); and

b. SW/4NW/4 - from two thousand nine hundred fifty feet (2,950') down to one hundred feet (100') below the total depth drilled, but in no event below eight thousand feet (8,000'); and

c. SW/4NE/4 and NE/4NW/4 - from two thousand nine hundred feet (2,900') down to one hundred feet (100') below the total depth drilled, but in no event below eight thousand feet (8,000').

However, if the Test Well is completed as a commercial producer of oil and/or gas in paying quantities and such well is located in the NW/4NW/4, SE/4NW/4, NW/4NE/4, NE/4NE/4 or the SE/4NE/4, Farmee shall earn rights in one of the aforementioned quarter/quarter sections from the surface of the earth down to one hundred feet (100') below the total depth drilled, but in no event below eight thousand feet (8,000').

By drilling the second Test Well to the Objective Depth or to the depth to test the formation completed in the Test Well and by complying with the terms hereof, upon the completion of such well as a commercial producer of oil and/or gas in paying quantities, Farmee shall earn an assignment of one hundred percent (100%) of Farmor's interest in the Leases or portions thereof comprising the drillsite unit, subject to the following depth restrictions:

a. SE/4SW/4 - from two thousand eight hundred ninety feet (2,890') down to one hundred feet (100') below the total depth drilled, but in no event below eight thousand feet (8,000');

b. SW/4SW/4 - from two thousand nine hundred sixty feet (2,960') down to one hundred feet (100') below the total depth drilled, but in no event below eight thousand feet (8,000');

c. NE/4SW/4 - from two thousand eight hundred ninety-five feet (2,895') down to one hundred feet (100') below the total depth drilled, but in no event below eight thousand feet (8,000');

d. NW/4SW/4, SW/4SE/4, NW/4SE/4 - from two thousand nine hundred feet (2,900') down to one hundred feet (100') below the total depth drilled, but in no event below eight thousand feet (8,000');

e. NE/4SE/4 - from two thousand nine hundred forty-five feet (2,945') down to one hundred feet (100') below the total depth drilled, but in no event below eight thousand feet (8,000'); and

f. SE/4SE/4 - from two thousand nine hundred forty feet (2,940') down to one hundred feet (100') below the total depth drilled, but in no event below eight thousand feet (8,000').

By drilling the Option Well(s) to the Second Objective Depth and by complying with the terms hereof, upon the completion of such well(s) as a commercial producer of oil and/or gas in paying quantities, Farmee shall earn an assignment of one hundred percent (100%) of Farmor's interest in the Leases or portions thereof comprising the forty (40) acre drillsite unit from the surface of the earth down to one hundred feet (100') below the total depth drilled, but in no event below three thousand feet (3,000').

Any assignment(s) earned hereunder shall be subject to Farmor's reservation of an overriding royalty interest equal to one-sixteenth of eight-eighths (1/16 of 8/8), exclusive of any presently existing burdens of record as of December 15, 1983. Upon payout of the Test Well(s) or applicable Option Well(s), said overriding royalty shall be convertible, at Farmor's option, on a well by well basis, to a twenty-five percent (25%) working interest in the Test Well(s) or applicable Option Well(s), the equipment thereto, and the Leases or portions thereof comprising the drillsite unit. If Farmor's ownership in the Leases should be less than a full interest, and/or in the event the Leases cover less than a full mineral interest, then the overriding royalty interest and working interest acquired as a result of the conversion of the overriding royalty as above provided shall be proportionately reduced. Payout shall be defined as the point in time at which Farmee has recovered out of production of the Test Well(s) or applicable Option Well(s), one hundred percent (100%) of its actual cost of drilling, testing, completing, equipping and operating such well after first deducting all severance, ad valorem and other applicable taxes (exclusive of windfall profit tax), lessors' royalty, the overriding royalty herein reserved, and other applicable lease burdens, if any, existing and of record against the Leases as of the date hereof. Payout shall be determined on a well by well basis. Until such time as payout occurs, Farmee shall provide Farmor with monthly payout statements on each well. If such conversion is made, it shall relate back to midnight of the date payout occurred. Farmor's right to elect to convert the overriding royalty to a working interest shall be on a well by well basis. After payout has occurred and in the event Columbia elects to convert said overriding royalty to a working interest on a well, all operations for such well(s) shall be governed by the A.A.P.L. Form 610-1977 Operating Agreement of even date which shall be executed simultaneously with this agreement and attached as Exhibit "B" hereto and made a part hereof. In the event of a conflict in terms between said Operating Agreement and the terms of this agreement, the terms of this agreement shall control.

10. AREA OF INTEREST/RENEWALS

In the event Farmee acquires additional leasehold interests in the area of or adjacent to the Leases, it may do so without obligation to Farmor and such interest shall not be subject to this agreement. During the term of this agreement, if any leasehold interest is acquired which is a renewal, extension or a new lease covering any mineral interest previously covered by the Leases, such acquisition shall be at Farmee's cost and expense and the lease shall be subject hereto as if it were originally listed on Exhibit "A".

11. POOLING AND UNITIZATION

Farmee is authorized to pool the Leases with other acreage provided that such pooling complies with the spacing and density regulations of the New Mexico Oil Conservation Commission. Additionally, Farmor recognizes that Farmee may apply for larger spacing and density regulations and, if such larger unit(s) are approved by the New Mexico Oil Conservation Commission, Farmor shall recognize and reflect such approval in any assignment(s) earned hereunder. The term "drillsite unit" as used herein shall mean the unit ultimately approved by such commission.

12. INDEMNIFICATION

All operations associated with and contemplated to be conducted by Farmee on the Leases shall be conducted at its sole risk and liability at no cost to Farmor, and Farmee agrees to indemnify and hold Farmor harmless from any claim liability, charge, or expense arising directly or indirectly out of any such operation or operations or for any breach of terms or covenants in the Leases.

13. REPORTS

During the term of this agreement, Farmee agrees to abide by the conditions hereof and promptly furnish Farmor all reports and information set out herein in person or by telegram or letter as provided, and if in writing, the mailing or transmission date shall be deemed the compliance date. Farmee shall promptly furnish, without cost to Farmor, copies of all surveys, abstracts and title opinions acquired by Farmee in connection herewith, along with copies of all forms and reports filed by Farmee with any regulatory agency.

14. INSURANCE

At all times during the conduct of operations hereunder Farmee or its contractors or subcontractors shall maintain insurance satisfactory to Farmor in amounts not less than those stipulated in Exhibit "D" attached hereto and made a part hereof. Exhibit "D" shall control the insurance requires prior to payout as defined herein. Insurance requirements after payout shall be governed by the Operating Agreement attached hereto and made a part hereof as Exhibit "B".

15. ASSIGNMENT

This agreement or rights earned hereunder may not be assigned in whole or in part without Farmor's prior written consent, and such consent shall not be unreasonably withheld. When requesting consent to assign this agreement, Farmee shall furnish Farmor with the following: (1) identity of the proposed assignee; (2) evidence of assignee's consent to be governed by the terms of this agreement; and (3) evidence of assignee's appointment of Farmee to be the party authorized to respond to Farmor's inquiries or requests hereunder and to administer regulatory requirements and legal matters pertaining to the Leases.

16. TERMINATION

Time is of the essence in this agreement. This agreement shall terminate ipso facto upon the occurrence of any of the following, with the only penalty to Farmee being forfeiture of all further rights to explore the Leases and earn rights hereunder: (1) Farmee fails to timely drill the Test Well; (2) Farmee fails to timely drill a well under Paragraph 6, Substitute Well Provision; (3) Farmee fails to timely drill a well under Paragraph 7, Dry Hole Well Provision; (4) Farmor takes over the Test Well or Option Well and completes it as a commercial producer of oil and/or gas in paying quantities; and (5) Farmee fails to timely drill any Option Well under Paragraph 5. If at any time Farmee fails to perform any of its other contractual duties or obligations hereunder, Farmor may give seven (7) days written notice thereof to Farmee, during which time Farmee shall have the opportunity to come into compliance. If Farmee fails to comply within seven (7) days of receipt of such notice, Farmor may, at its option and without incurring any liability to Farmee, terminate any further rights of Farmee under this agreement by notifying Farmee thereof in writing. Termination of this agreement shall under no circumstances relieve Farmee of the liabilities, duties and obligations theretofore incurred by it hereunder and Farmor shall retain all rights and remedies available to it in connection therewith, either in law or in equity. Unless otherwise terminated, this agreement shall remain in force and effect so long as any well or wells drilled hereunder produce, or are capable of production, and for an additional period of forty-five (45) 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 or reworking 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.

17. SEISMIC

It is agreed that any seismic data acquired by Farmee over the Leases will be made available to Farmor, at no cost to Farmor.

18. FEDERAL OR STATE LAWS

This agreement shall be subject to all Federal and State laws and to all valid orders, rules, regulations and directives by any duly constituted authority having jurisdiction in the premises.

19. PRODUCTION

Each party hereto shall have the right to take its proportionate share of products in kind from the Leases, exclusive of production which may be used in development and production operations and in preparing and treating oil for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party.

20. GAS BALANCING

The Gas Balancing provision attached hereto as Exhibit "E" shall apply to this agreement.

21. TAXATION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provisions herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for Federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute, on behalf of each party hereby affected, such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence

of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each party states that the income derived by such party from operations hereunder can be adequately determined without the computation of partnership taxable income.

22. NON-DISCRIMINATION

The Non-Discrimination provisions attached hereto as Exhibit "F" shall apply to this agreement.

23. COUNTERPART SIGNATURES

This instrument may be executed in one or more separate counterparts, each of which shall be binding on the party or parties signing, effective on the date hereof.

FARMOR:

COLUMBIA GAS DEVELOPMENT CORPORATION

By: _____
John P. Bornman, Jr.
Vice President, Exploration

FARMEE:

STEVENS OIL COMPANY

By: _____

EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THAT CERTAIN FARMOUT AGREEMENT DATED MAY 17, 1984 BETWEEN COLUMBIA GAS DEVELOPMENT CORPORATION, FARMOR, AND STEVENS OIL COMPANY, FARMEE

LEASE NO.	DATE OF LEASE	LESSOR	LESSEE	RECORDED BOOK	RECORDED PAGE	DESCRIPTION
NM-2205	7/1/74	J. G. O'Brien, et al	J. M. Huber Corp.	149	739	TOWNSHIP 8 SOUTH, RANGE 29 EAST, N.M.P.M. CHAVES COUNTY, NEW MEXICO Section 18: All Section 19: All Section 29: NW/4 TOWNSHIP 9 SOUTH, RANGE 29 EAST, N.M.P.M. CHAVES COUNTY, NEW MEXICO Section 12: S/2
		INSOFAR AND ONLY INSOFAR as said Lease covers T8S R29E, Section		19		

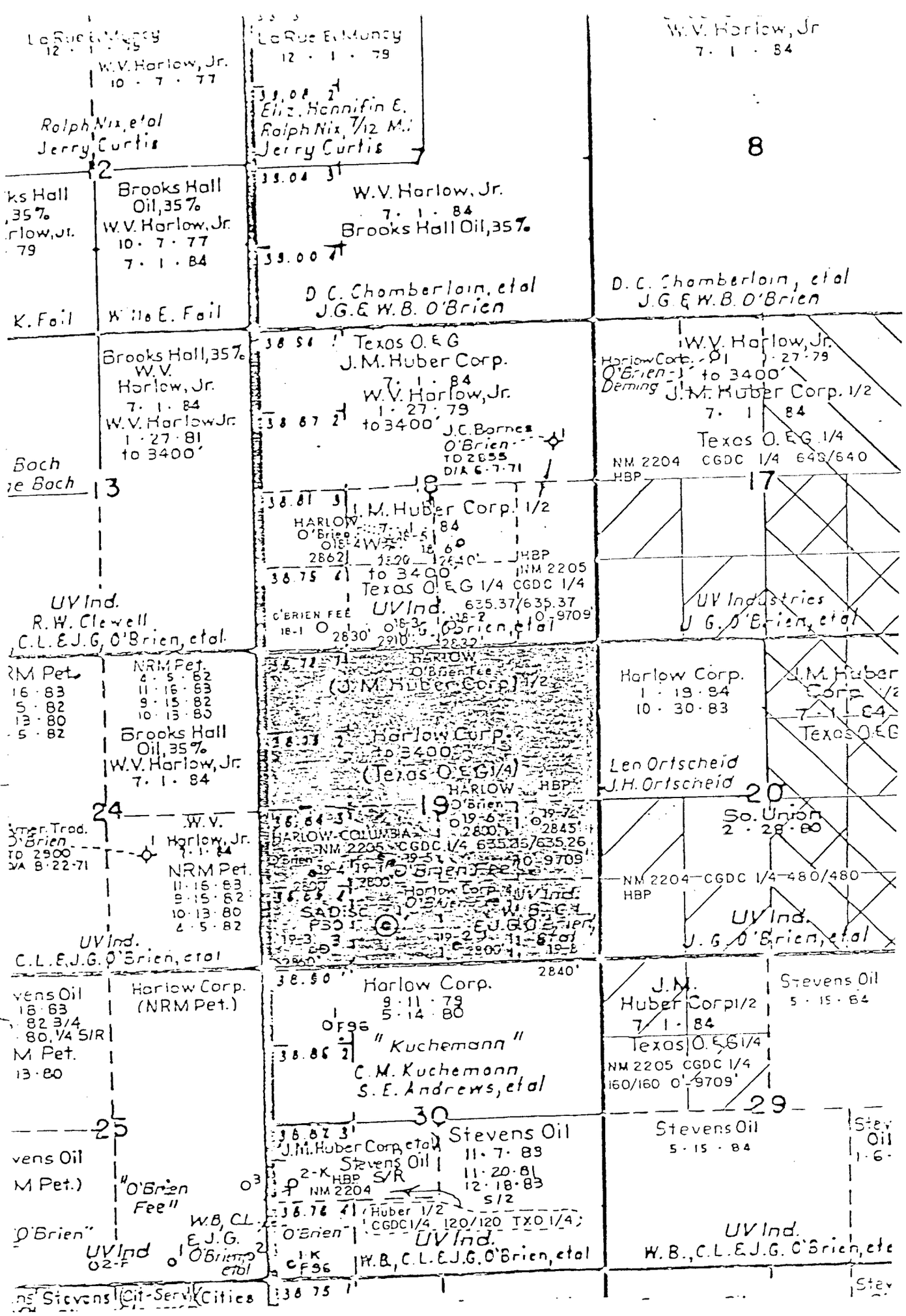

EXHIBIT "A" - Page 2 of 2

ATTACHED TO AND MADE A PART OF THAT CERTAIN FARMOUT AGREEMENT DATED MAY 17, 1984 BETWEEN COLUMBIA GAS DEVELOPMENT CORPORATION, FARMOR, AND STEVENS OIL COMPANY, FARMEE

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

MODEL FORM OPERATING AGREEMENT

EXHIBIT "B"

ATTACHED TO AND MADE A PART OF THAT CERTAIN FARMOUT AGREEMENT
DATED MAY 17, 1984
BETWEEN
COLUMBIA GAS DEVELOPMENT CORPORATION, FARMOR
AND
STEVENS OIL COMPANY, FARMEE

OPERATING AGREEMENT

DATED

May 17, 19 84,

OPERATOR Stevens Oil Company

CONTRACT AREA Township 8 South, Range 29 East, N.M.P.M.

All of Section 19

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

TABLE OF CONTENTS

OPERATING AGREEMENT

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

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

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

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

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

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

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

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

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

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

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

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

ARTICLE II.
EXHIBITS

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

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

☐ ~~B. Exhibit "B", Form of Lease.~~

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

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

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

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

ARTICLE III.
INTERESTS OF PARTIES

~~A. Oil and Gas Interests:~~

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

B. Interest of Parties in Costs and Production:

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

ARTICLE IV.
TITLES

A. Title Examination:

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

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

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

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

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

B. Loss of Title:

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE V.
OPERATOR

A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

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

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

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

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

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 1st day of June, 19 84, Operator shall commence the drilling of a well for oil and gas ~~at the following location~~: pursuant to the terms and provisions of the Farmout Agreement dated May 17, 1984 to which this Exhibit is attached.

~~and shall thereafter continue the drilling of the well with due diligence to~~

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

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

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

B. Subsequent Operations:

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

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

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

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, 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, royalty, overriding royalty and other interests existing on the effective date hereof, payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

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

(b) 300 % of that portion of the costs and expenses of drilling reworking, deepening, or 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 well-head connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

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

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, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production.

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

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

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

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

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

C. Right to Take Production in Kind:

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

party taking its share of production in kind shall be required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

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

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

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

D. Access to Contract Area and Information:

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

E. Abandonment of Wells:

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

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

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

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

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

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

B. Liens and Payment Defaults:

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

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

C. Payments and Accounting:

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

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

D. Limitation of Expenditures:

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

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

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

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

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Twenty Five Thousand Dollars ($25,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of Ten Thousand Dollars ($10,000.00).

E. Royalties, Overriding Royalties and Other Payments:

Each party shall pay or deliver, or cause to be paid or delivered, ~~all royalties to the extent of~~ its share of all royalties due on its share of production and shall hold the other parties free from any liability therefor. If the interest of any party in any oil and gas lease covered by this agreement is subject to any royalty, overriding royalty, production payment, or other charge ~~over and above the aforesaid royalty~~ created subsequent to the effective date of this agreement, such party shall assume and alone bear all such obligations and shall account for or cause to be accounted for, such interest to the owners thereof. Operator or its designee shall make all such disbursements on behalf of the parties in accordance with the division order title opinion. No party shall ever be responsible, on any price basis higher than the price received by such party, to any other party's lessor or royalty owner; and if any such other party's lessor or royalty owner should demand and receive settlements on a higher price basis, the party contributing such lease shall bear the royalty burden insofar as such higher price is concerned.

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

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

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

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

G. 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. Operator shall bill other parties for their proportionate share 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, 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.

H. Insurance:

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

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

ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

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

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

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

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

B. Renewal or Extension of Leases:

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

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

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

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

The provisions in this Article shall apply also and in like manner to extensions of oil and gas leases.

C. Acreage or Cash Contributions:

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

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

D. Subsequently Created Interest:

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

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

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

E. Maintenance of Uniform Interest:

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

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

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

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

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

F. Waiver of Right to Partition:

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

~~**G. Preferential Right to Purchase:**~~

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

ARTICLE IX.
INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provisions herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for Federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No

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

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single damage claim or suit arising from operations hereunder if the expenditure does not exceed Five Thousand Dollars ($ 5,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties. 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, the party shall immediately notify Operator, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI.
FORCE MAJEURE

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

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

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

ARTICLE XII.
NOTICES

All notices authorized or required between the parties, and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by United States mail or Western Union telegram, postage or charges prepaid, or by teletype, and addressed to the party 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 United States mail or with the Western Union Telegraph Company, with postage or charges prepaid, or when sent by teletype. Each party shall have the right to change its address at any time, and from time to time, by giving written notice hereof 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 subjected 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, and/or so long as oil and/or gas production continues from any lease or oil and gas interest.

☒ 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 45 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 or reworking 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 or reworking operations are commenced within 45 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 committed acreage 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:

The essential validity of this agreement and all matters pertaining thereto, 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 where most of the land in the Contract Area is located shall govern.

ARTICLE XV.
OTHER PROVISIONS

This agreement, when executed by the parties hereto, is subject to all the terms and provisions of the Oil, Gas and Mineral Lease listed on Exhibit "A-4" attached hereto and made a part hereof, and is further expressly subject to the terms and provisions of that certain Farmout Agreement dated May 17, 1984 between Columbia Gas Development Corporation, Farmor, and Stevens Oil Company, Farmee. In the event of a conflict between the terms and provisions of this agreement and those of the Farmout Agreement, the terms and provisions of the Farmout Agreement shall control.

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 17th day of May, 19 84.

OPERATOR

STEVENS OIL COMPANY

_____ BY: _____

NON-OPERATORS

COLUMBIA GAS DEVELOPMENT CORPORATION

ATTEST: P. Roy
Secretary

BY: John P. Bornman, Jr.
John P. Bornman, Jr.,
Vice President, Exploration

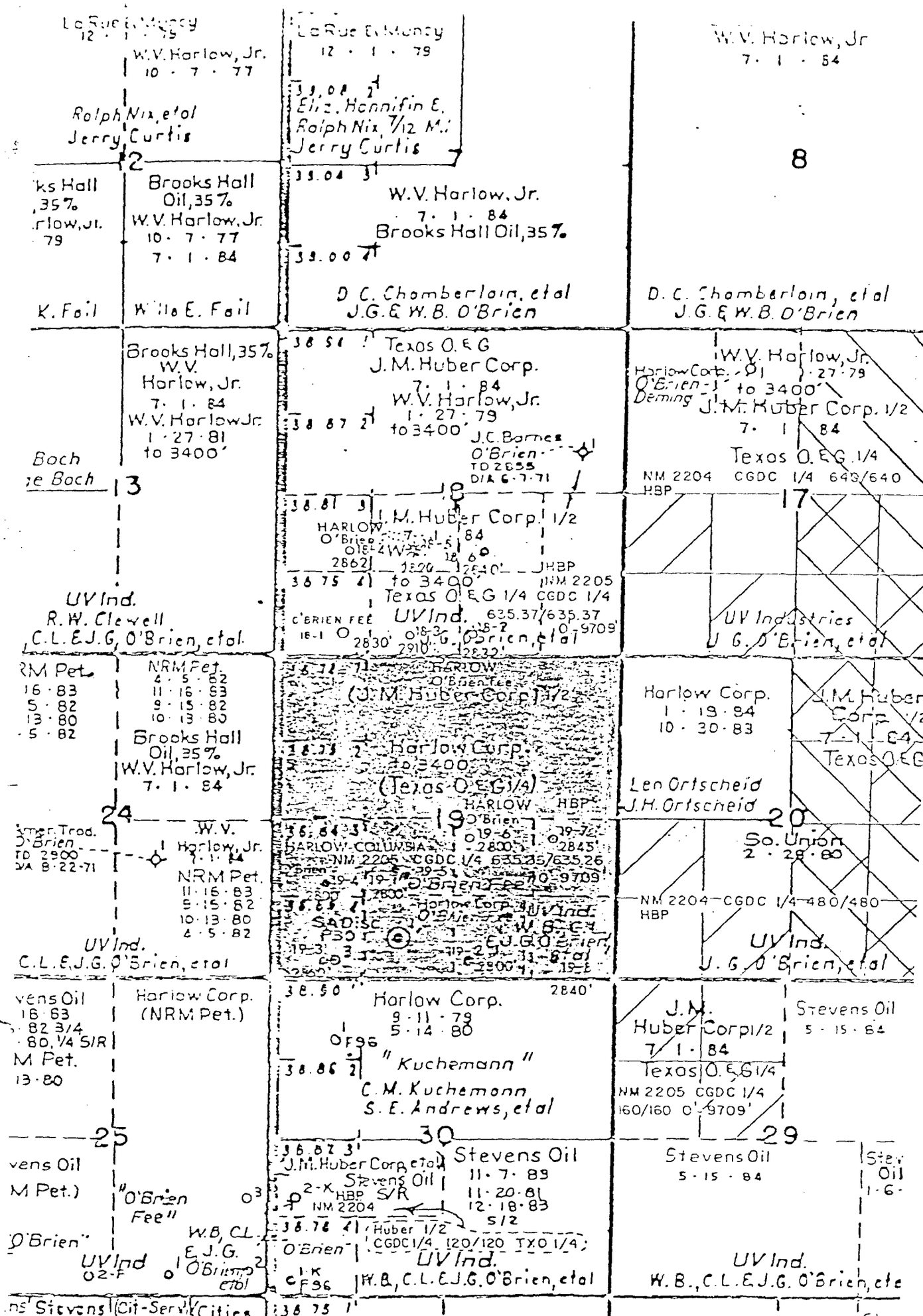

EXHIBIT "A-1"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED MAY 17, 1984 BETWEEN STEVENS OIL COMPANY, OPERATOR, AND COLUMBIA GAS DEVELOPMENT CORPORATION, NON-OPERATOR

EXHIBIT "A-2"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED MAY 17, 1984 BETWEEN STEVENS OIL COMPANY, OPERATOR AND COLUMBIA GAS DEVELOPMENT CORPORATION, NON-OPERATOR

DEPTH LIMITATIONS

Subject to the terms and provisions of that certain Farmout Agreement dated May 17, 1984 between Columbia Gas Development Corporation, Farmor, and Stevens Oil Company, Farmee.

EXHIBIT "A-3"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED MAY 17, 1984 BETWEEN STEVENS OIL COMPANY, OPERATOR AND COLUMBIA GAS DEVELOPMENT CORPORATION, NON-OPERATOR

PERCENTAGES OF THE PARTIES

	BEFORE PAYOUT		AFTER PAYOUT*	
	Working Interest	Net Revenue Interest	Working Interest	Net Revenue Interest
COLUMBIA GAS DEVELOPMENT CORPORATION	0%	6.25% ORI	25%	20.3125%
STEVENS OIL COMPANY	100%	75.00%	75%	60.9375%

*Based on Columbia Gas Development Corporation electing to convert its overriding royalty to a twenty five percent (25%) working interest; figures are proportionately reducible and are subject to Division Order Title Opinion.

EXHIBIT "A-4"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED MAY 17, 1984 BETWEEN STEVENS OIL COMPANY, OPERATOR, AND COLUMBIA GAS DEVELOPMENT CORPORATION, NON-OPERATOR

LEASE NO.	DATE OF LEASE	LESSOR	LESSEE	RECORDED BOOK	RECORDED PAGE	DESCRIPTION
NM-2205	7/1/74	J. G. O'Brien, et al	J. M. Huber Corp.	149	739	TOWNSHIP 8 SOUTH, RANGE 29 EAST, N.M.P.M. CHAVES COUNTY, NEW MEXICO Section 18: All Section 19: All Section 29: NW/4 TOWNSHIP 9 SOUTH, RANGE 29 EAST, N.M.P.M. CHAVES COUNTY, NEW MEXICO Section 12: S/2
		INSOFAR AND ONLY INSOFAR as said Lease covers T8S R29E, Section 19				

EXHIBIT "A-5"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED MAY 17, 1984 BETWEEN STEVENS OIL COMPANY, OPERATOR AND COLUMBIA GAS DEVELOPMENT CORPORATION, NON-OPERATOR

ADDRESSES OF THE PARTIES

STEVENS OIL COMPANY
P. O. Box 2203
Roswell, New Mexico 88201

Attn: Ms. Mary Irene Stevens

(505)622-7273

COLUMBIA GAS DEVELOPMENT CORPORATION
P. O. Box 1350
Houston, Texas 77001

Attn: Director, Land and Lease Records

(713)940-3530

EXHIBIT "B"

There is no Exhibit "B" to said Operating Agreement dated May 17, 1984 between Stevens Oil Company, Operator and Columbia Gas Development Corporation, Non-Operator

Kraftbilt 601, BOX 800 TULSA OK 74101

COPAS — 1974

Recommended by the Council of Petroleum Accountants Societies of North America

COPAS

EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement dated May 17, 1984 between Stevens Oil Company, Operator, and Columbia Gas Development Corporation, Non-Operator

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

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

4. Adjustments

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

5. Audits

A. Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. *(continued on page 1a attached hereto)

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.

EXHIBIT "C"

(continued)

*5. Audits (continued)

Operator shall respond to any claims of discrepancies within six (6) months after receipt of such claims. If the Operator is unable to respond to the claims during the six (6) month period, one extension of three (3) months may be presented by the Operator, in writing, to the Non-Operator for approval. Claims unanswered after the above six (6) month period and the additional three (3) month extension shall be credited forthwith to the Joint Account as originally submitted, until such claims of discrepancies are resolved.

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

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

2. Labor

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

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

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

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

3. Employee Benefits

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

4. Material

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

5. Transportation

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

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

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

C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of $200 or less excluding accessorial charges.

6. Services

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

7. Equipment and Facilities Furnished by Operator

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

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

8. Damages and Losses to Joint Property

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

9. Legal Expense

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

10. Taxes

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

11. Insurance

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

12. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

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

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

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate $ 4,000.00
Producing Well Rate $ 400.00

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

(a) Drilling Well Rate

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

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

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

(b) Producing Well Rates

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

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

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

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

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

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

2. Overhead - Major Construction

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

A. 5 % of total costs if such costs are more than $ 25,000.00 but less than $ 100,000.00 ; plus

B. 3 % of total costs in excess of $ 100,000.00 but less than $1,000,000; plus

C. 2 % of total costs in excess of $1,000,000.

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

3. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

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

(2) Line Pipe

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

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

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

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

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

(2) Material moved from the Joint Property

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

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

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

C. Other Used Material (Condition C and D)

(1) Condition C

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

(2) Condition D

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

D. Obsolete Material

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

E. Pricing Conditions

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

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

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

4. Expense of Conducting Periodic Inventories

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

EXHIBIT "D"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED MAY 17, 1984 BETWEEN STEVENS OIL COMPANY, OPERATOR, AND COLUMBIA GAS DEVELOPMENT CORPORATION, NON-OPERATOR

INSURANCE PROVISIONS

1. Operator shall at all times while performing under this Agreement carry the following insurance for the benefit of the parties hereto.

   A. Workmens' Compensation, including where applicable, Longshoremens' and Harbor Workers Compensation Act coverage (extended to include Outer Continental Shelf and Maritime Coverage) in accordance with Federal Law and the Laws of the State in which operations will be conducted and/or other applicable jurisdiction.

   B. Employer's Liability

a.	Bodily Injury	$100,000 aggregate
b.	Occupational Disease	$100,000 per person

   C. Comprehensive General Public Liability

a.	Bodily Injury	$300,000 aggregate $300,000 per person $300,000 per occurrence
b.	Property Damage	$100,000 aggregate $100,000 per occurrence

   D. Comprehensive Automobile Public Liability

a.	Bodily Injury	$100,000 per person $300,000 per occurrence
b.	Property Damage	$100,000 per occurrence

2. No other insurance will be required other than that set forth above nor will premiums thereon be charged to the joint account.

3. Operator will require that each contractor and subcontractor carry and maintain insurance, and provide evidence of same, at their sole expense in amounts deemed necessary to cover risk inherent to the work and services performed, but not less than $1,000,000 in the categories set forth above in 1(A)-(D); and where permitted by law, Contractors' underwriter shall waive subrogation against Non-operators, and make Non-operators additional assureds, except for Employer's Liability. Contractors engaged in maritime operations or utilizing vessels shall carry hull and machinery, and P. & I. coverage with customary endorsements in amounts deemed appropriate by Operator.

4. Operator shall notify Non-operators as soon as practicable after the occurrence of any accident involving either damage to property or injuries to or death of persons.

EXHIBIT "E"

GAS BALANCING AGREEMENT

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED MAY 17, 1984 BETWEEN STEVENS OIL COMPANY, OPERATOR, AND COLUMBIA GAS DEVELOPMENT CORPORATION, NON-OPERATOR

1. Each party shall have the right to take in kind and separately dispose of its proportionate share of the gas produced from the lands subject to the within agreement and shall be entitled to an opportunity to produce its fair share of the gas producible from the well or wells thereon.

2. It is the intent that each party be entitled to gas produced attributable to its participation as provided for in the within agreement. It is the intent that the Operator have the duty of controlling gas production and the responsibility of administering the provisions of this gas balancing agreement. Operator shall cause deliveries to be made to the gas purchasers at such rates as may be required to give effect to the intent that the gas production accounts for all parties are to be brought into balance under the provisions contained herein.

3. To give effect to the intent of this agreement, the Operator shall be governed by the following rights of each party:

(a) Each underproduced party (a party who has taken a lesser volume of gas than the quantity such party is herein entitled) shall have the right to take a greater amount of gas than its proportionate share of the well's current production, provided that the right to take such greater amount shall be in proportion that its interest bears to the total interest of all underproduced parties desiring to take more than their proportionate share of the well's current production.

(b) Each overproduced party (a party who has taken a greater volume of gas than the quantity such party is herein entitled) shall reduce its respective take in the proportion that such party's interest bears to the total interest of all overproduced parties, but in no event shall any overproduced party be required to reduce its take to less than seventy-five percent (75%) of such overproduced party's proportionate share of the well's current production.

4. The Operator, at the request of any party, may produce the entire well stream, if necessary, for a deliverability test not to exceed seventy-two (72) hours duration required under such requesting party's gas sales contract and may overproduce in any other situation provided that such overproducing would be consistent with prudent operations.

5. Each party taking gas shall furnish the Operator a monthly statement of gas taken. After commencement of production, Operator shall furnish a current account monthly of the gas balance between parties hereto including the total quantity of gas produced, the portion thereof used in operations, vented or lost, and the total quantity of gas delivered to a market.

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

7. The provisions of this gas balancing agreement shall be separately applicable and shall constitute a separate agreement as to each well and each reservoir to the end that production from one reservoir may not be utilized for the purpose of balancing under production from other reservoirs.

8. Should production of gas from or attributed to any of the lands subject to this agreement be permanently discontinued at a time when the gas account is out of balance, settlement will be made between the underproduced and overproduced parties. (In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced pary or parties attributable to the overproduction which said overproduced party received, less applicable taxes and/or royalties theretofore paid.) Such settlement shall be based upon the price, defined below, received for the overproduced volumes of gas which have not been recovered by the underproduced party or parties. The price basis shall be the actual price received for sale of the gas at the time the overproduction was accumulated; provided, however, that for gas sold which is subject to a maximum lawful price, the price basis shall be the rate collected at the time the overproduction was accumulated, from time to time, which is not subject to possible refund, as provided by the Federal Energy Regulatory Commission pursuant to final order or settlement applicable to the gas sold from such well,plus any additional collected amount which is not ultimately required by said Commission to be refunded, such additional collected amount to be accounted for at such time as final determination is made with respect thereto.

9. Nothing herein ever shall be construed as altering, amending or negating any agreement heretofore entered into by any party hereto obligating such party to pay overriding royalty payment out of production or royalties payable under any lease out of its ineterest, regardless of whether such party is or is not taking or selling its full share of production.

10. All parties shall share in and own and dispose of the condensate recovered at the surface in accordance with their respective interests.

11. The party taking gas shall be responsible for royalties, overriding royalties and other similar burdens on the share of production to which it is entitled.

EXHIBIT "F"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED MAY 17, 1984 BETWEEN STEVENS OIL COMPANY, OPERATOR, AND COLUMBIA GAS DEVELOPMENT CORPORATION, NON-OPERATOR

Whenever used in the following Sections I, II, III, IV and V, the terms "contractor" and "undersigned" both refer to each party to this agreement.

I. EQUAL EMPLOYMENT OPPORTUNITY PROVISIONS

(A) During the performance of this contract, the contractor agrees as follows:

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

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

(3) The contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice, to be provided by the agency contracting officer, advising the labor union or workers' representative of the contractor's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.

(4) The contractor will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.

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

facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, color, religion, or national origin, because of habit, local custom or otherwise. Contractor further agrees that (except where it has obtained identical certifications from proposed subcontractors for specific time periods) it will obtain identical certifications from proposed subcontractors prior to the award of subcontracts exceeding $10,000 which are not exempt from the provisions of the Equal Opportunity Clause; that it will retain such certifications in its files; and that it will forward the following notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certifications for specific time periods):

NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NONSEGREGATED FACILITIES. A Certification of Nonsegregated Facilities, as required by the May 9, 1967, order of elimination of Segregated Facilities, by the Secretary of Labor (32 Fed. Reg. 7439, May 19, 1967), must be submitted prior to the award of a subcontract exceeding $10,000 which is not exempt from the provisions of the Equal Opportunity Clause. The certification may be submitted either for each subcontract or for all subcontracts during a period (i.e., quarterly, semi-annually or annually). (1968 MAR.) (Note: The penalty for making false statements in offers is prescribed in 18 U.S.C. 1001.)

III. AFFIRMATIVE ACTION FOR DISABLED VETERANS AND VETERANS OF THE VIET NAM ERA

(A) The contractor will not discriminate against any employee or applicant for employment because he or she is a disabled veteran of the Viet Nam Era in regard to any position for which the employee or applicant for employment is qualified. The contractor agrees to take affirmative action to employ, advance in employment and otherwise treat qualified disabled veterans and veterans of the Viet Nam Era without discrimination based upon their disability or veterans status in all employment practices such as the following: employment upgrading, demotion or transfer, recruitment, advertising, layoff or termination, rates of pay or other forms of compensation and selection for training, including apprenticeship.

(B) The contractor agrees that all suitable employment openings of the contractor which exist at the time of the execution of this contract and those which occur during the performance of this contract, including those not generated by this contract and including those occurring at an establishment of the contractor other than the one wherein the contract is being performed but excluding those of independently operated corporate affiliates, shall be listed at an appropriate local office of the State Employment Service System wherein the opening occurs. The contractor further agrees to provide such reports to such local office regarding employment openings and hires as may be required. State and local government agencies holding Federal contractors of $10,000 or more shall also list all their suitable openings with the appropriate office of the State Employment Service, but are not required to provide those report set forth in paragraphs (D) and (E)

(C) Listing of employment openings with the Employment Service System pursuant to this clause shall be made at least concurrently with the use of any other recruitment

source or effort and shall involve the normal obligations which attach to the placing of a bona fide job order, including the acceptance of referrals of veterans and non-veterans. The listing of employment openings does not require the hiring of any particular job applicant or from any particular group of job applicants, and nothing herein is intended to relieve the contractor from any requirements in Executive Orders or regulations regarding non-discrimination in employment.

(D) The reports required by paragraph (B) of this clause shall include, but not be limited to, periodic reports which shall be filed at least quarterly with the appropriate local office or, where the contractor has more than one hiring location in a State, with the central office of that State employment service. Such reports shall indicate for each hiring location (1) the number of individuals hired during the reporting period, (2) the number of non-disabled veterans of the Viet Nam Era hired, (3) the number of disabled veterans of the Viet Nam Era hired, and (4) the total number of disabled veterans hired. The reports should include covered veterans hired for on-the-job training under 38 U.S.C. 1787. The contractor shall submit a report within 30 days after the end of each reporting period wherein any performance is made on the contract identifying data for each hiring location. The contractor shall maintain at each hiring location copies of the reports submitted until the expiration of one year after final payment under the contract, during which time these reports and related documentation shall be made available upon request for examination by any authorized representatives of the contracting officer or of the Secretary of Labor. Documentations would include personnel records respecting job openings, recruitment and placement.

(E) Whenever the contractor becomes contractually bound to the listing provisions of this clause, it shall advise the Employment Service System in each State where it has establishments of the name and location of each hiring location in the State. As long as the contractor is contractually bound to these provisions and has so advised the State system, there is no need to advise the State system of subsequent contracts. The contractor may advise the State system when it is no longer bound by this contract clause.

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

(G) The provisions of paragraphs (B), (C), (D), and (E) of this clause do not apply to openings which the contractor proposed to fill from within his own organization or to fill pursuant to a customary and traditional employer-union hiring agreement. This exclusion does not apply to a particular opening once an employer decides to consider applicants outside of his own organization or employer-union arrangement for that opening.

(H) As used in this clause: (1) "All suitable employment openings" includes, but is not limited to, openings which occur in the following job categories: production and non-production; plant and office; laborers and mechanics; supervisory and nonsupervisory; technical

and executive, administrative, and professional openings as are compensated on a salary basis of less than $25,000 per year. This term includes full-time employment, temporary employment of more than 3 days' duration and part-time employment. It does not include openings which the contractor proposes to fill from within his own organization or to fill pursuant to a customary and traditional employer-union hiring arrangement nor openings in an educational institution which are restricted to students of that institution. Under the most compelling circumstances an employment opening may not be suitable for listing, including such situations where the needs of the Government cannot reasonably be otherwise supplied, where listing would be contrary to national security, or where the requirement of listing would otherwise not be for the best interest of the Government.

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

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

(4) "Openings which the contractor proposes to fill pursuant to a customary and traditional employer-union hiring arrangement" means employment openings which the contractor proposes to fill from union halls, which is part of the customary and traditional hiring relationship which exists between the contractor and representatives of his employees.

(I) The contractor agrees to comply with the rules, regulations, and relevant orders of the Secretary of Labor issued pursuant to the Act.

(J) In the event of the contractor's noncompliance with the requirements of this clause, actions for noncompliance may be taken in accordance with the rules, regulations, and relevant orders of the Secretary of Labor issued pursuant to the Act.

(K) The contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices in a form to be prescribed by the Director, provided by or through the contracting officer. Such notice shall state the contractor's obligation under the law to take affirmative action to employ and advance in employment qualified disabled veterans and veterans of the Viet Nam Era for employment, and the rights of applicants and employees.

(L) The contractor will notify each labor union or representative of workers with which it has a collective bargaining agreement or other contract understanding, that the contractor is bound by the terms of the Viet Nam Era Veterans Readjustment Assistance Act, and is committed to take affirmative action to employ and advance in employment qualified disabled veterans and veterans of the Viet Nam Era.

(M) The contractor will include the provisions of this clause in every subcontract or purchase order of $10,000 or more unless exempted by rules, regulations, or orders of the Secretary issued pursuant to the Act, so that such provisions will be binding upon each subcontractor or vendor. The contractor will take such action with respect to any subcontract or purchase order as the Director of the Office of Federal Contract Compliance Programs may direct to enforce such provisions, including action for noncompliance.

IV. AFFIRMATIVE ACTION FOR HANDICAPPED WORKERS

Contractor is aware of and is fully informed of Contractor's and Operators's responsibilities under Section 503 of the Rehabilitation Act of 1973, P. L. 93-112, and the rules, regulations, and orders promulgated by the Department of Labor pursuant thereto (41 CFR Part 60-741); and Contractor agrees to and shall be bound by the following provisions contained therein at Section 60-741.4 as follows:

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

(b) The contractor agrees to comply with the rules, regulations, and relevant orders of the Secretary of Labor issued pursuant to the Act.

(c) In the event of the contractor's noncompliance with the requirements of this clause, actions for noncompliance may be taken in accordance with the rules, regulations and relevant orders of the Secretary of Labor issued pursuant to the Act.

(d) The contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices in a form to be prescribed by the Director, provided by or through the contracting officer. Such notices shall state the contractor's obligation under the law to take affirmative action to employ and advance in employment qualified handicapped employees and applicants for employment, and the rights of applicants and employees.

(e) The contractor will notify each labor union or representative of workers with which it has a collective bargaining agreement or other contract understanding, that the contractor is bound by the terms of Section 503 of the Rehabilitation Act of 1973, and is committed to take affirmative action to employ and advance in employment physically and mentally handicapped individuals.

(f) The contractor will include the provisions of this clause in every subcontract or purchase order of $2,500 or more unless exempted by rules, regulations, or orders of the Secretary issued pursuant to Section 503 of the Act, so that such provisions will be binding upon each subcontractor or vendor. The contractor will take such action

with respect to any subcontract or purchase order as the Director of the Office of Federal Contract Compliance Programs may direct to enforce such provisions, including action for noncompliance.

V. OCCUPATIONAL SAFETY AND HEALTH

Contractor shall observe and comply with all safety and health standards promulgated by the Secretary of Labor under Section 107 of the Contract Work Hours and Standards Act, published in 29 CFR Chapter XVII Part 1926 and adopted by the Secretary of Labor as occupational safety and health standards under the Williams-Steiger Occupational Safety and Health Act of 1970. Such safety and health standards shall apply to all subcontractors and their employees as well as to the prime contractor and its employees.

EXHIBIT "C"

ATTACHED TO AND MADE A PART OF THAT CERTAIN FARMOUT AGREEMENT DATED MAY 17, 1984 BETWEEN COLUMBIA GAS DEVELOPMENT CORPORATION, FARMOR, AND STEVENS OIL COMPANY, FARMEE

COLUMBIA GAS DEVELOPMENT CORPORATION

DATA REQUIREMENTS

1.	Well Survey Plat		2 copies	X
2.	All Forms Filed With State or Federal Regulatory Agencies		2 copies	X
3.	Geologic Prognosis		2 copies	X
4.	Drilling Prognosis		2 copies	X
5.	Daily Drilling Reports (mailed daily)		2 copies	
6.	Daily Drilling Reports (telephoned daily to 713/940-3471 prior to 11:00 a.m.)		2 copies	X
7.	Drill Stem Test Reports		2 copies	X
8.	Sidewall Core and Conventional Core Analysis		2 copies	X
9.	Mud Log	2 copies Field Prints		X
		2 copies Final Prints		X
		1 copy of composite final reducible print		X
10.	Electric Logs	2 copies Field Prints		X
		2 copies Final Prints		X
		1 copy of composite final reducible print		X
11.	Directional Survey		2 copies	X
12.	Notification Upon Reaching Logging Depth or Total Depth			X
13.	24-hour Notice of Tentative Logging Schedule			X
14.	One Set of Dry Sample Cuts			X
15.	Representative Core Samples			X

MAILING ADDRESS:

Columbia Gas Development Corporation
P. O. Box 1350
Houston, Texas 77001

Attn: Land Department

EXHIBIT "D"

ATTACHED TO AND MADE A PART OF THAT CERTAIN FARMOUT AGREEMENT DATED MAY 17, 1984 BETWEEN COLUMBIA GAS DEVELOPMENT CORPORATION, FARMOR, AND STEVENS OIL COMPANY, FARMEE

INSURANCE PROVISIONS

1. Farmee shall at all times while performing under this Agreement carry at least the following insurance for the benefit of the parties hereto:

   A. Workmens' Compensation, including where applicable, Longshoremens' and Harbor Workers Compensation Act coverage (extended to include Outer Continental Shelf and Maritime Coverage) in accordance with Federal Law and the Laws of the State in which operations will be conducted and/or other jurisdiction applicable.

   B. Employer's Liability

a.	Bodily Injury	$1,000,000 aggregate
b.	Occupational Disease	$1,000,000 per person
		$1,000,000 aggregate

   C. Comprehensive General Public Liability

a.	Bodily Injury	$1,000,000 per occurrence
b.	Property Damage	$1,000,000 aggregate

   D. Comprehensive Automobile Public Liability

a.	Bodily Injury	$1,000,000 per occurrence
b.	Property Damage	$1,000,000 per occurrence

2. Premiums will be solely the responsibility of Farmee. Farmee's indemnification of Farmor under this Agreement shall not be considered limited by these insurance provisions.

3. Farmee will require that each independent contractor and subcontractor carry and maintain insurance at its own expense in amounts deemed necessary to cover risk inherent to the work and services performed, but not less than that set forth above in 1(A)-(D).

4. Farmee shall notify Farmor as soon as practicable after the occurrence of any accident involving either damage to property or injuries to or death of persons.

5. In addition, Farmee will cause a Certificate of Insurance from its insurer to be furnished to Farmor which is satisfactory to Farmor. Where permissible by law, such certificate shall evidence a waiver of subrogation against Farmor and list Farmor as an additional assured, except as to Employer's Liability. If maritime operations are engaged in or vessels utilized, Farmee shall carry hull and machinery, and P. & I. coverage with such endorsements and in such amounts as Farmor deems appropriate.

EXHIBIT "E"

GAS BALANCING AGREEMENT

ATTACHED TO AND MADE A PART OF THAT CERTAIN FARMOUT AGREEMENT DATED MAY 17, 1984 BETWEEN COLUMBIA GAS DEVELOPMENT CORPORATION, FARMOR, AND STEVENS OIL COMPANY, FARMEE

1. Each party shall have the right to take in kind and separately dispose of its proportionate share of the gas produced from the lands subject to the within agreement and shall be entitled to an opportunity to produce its fair share of the gas producible from the well or wells thereon.

2. It is the intent that each party be entitled to gas produced attributable to its participation as provided for in the within agreement. It is the intent that the Operator have the duty of controlling gas production and the responsibility of administering the provisions of this gas balancing agreement. Operator shall cause deliveries to be made to the gas purchasers at such rates as may be required to give effect to the intent that the gas production accounts for all parties are to be brought into balance under the provisions contained herein.

3. To give effect to the intent of this agreement, the Operator shall be governed by the following rights of each party:

(a) Each underproduced party (a party who has taken a lesser volume of gas than the quantity such party is herein entitled) shall have the right to take a greater amount of gas than its proportionate share of the well's current production, provided that the right to take such greater amount shall be in proportion that its interest bears to the total interest of all underproduced parties desiring to take more than their proportionate share of the well's current production.

(b) Each overproduced party (a party who has taken a greater volume of gas than the quantity such party is herein entitled) shall reduce its respective take in the proportion that such party's interest bears to the total interest of all overproduced parties, but in no event shall any overproduced party be required to reduce its take to less than seventy-five percent (75%) of such overproduced party's proportionate share of the well's current production.

4. The Operator, at the request of any party, may produce the entire well stream, if necessary, for a deliverability test not to exceed seventy-two (72) hours duration required under such requesting party's gas sales contract and may overproduce in any other situation provided that such overproducing would be consistent with prudent operations.

5. Each party taking gas shall furnish the Operator a monthly statement of gas taken. After commencement of production, Operator shall furnish a current account monthly of the gas balance between parties hereto including the total quantity of gas produced, the portion thereof used in operations, vented or lost, and the total quantity of gas delivered to a market.

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

7. The provisions of this gas balancing agreement shall be separately applicable and shall constitute a separate agreement as to each well and each reservoir to the end that production from one reservoir may not be utilized for the purpose of balancing under production from other reservoirs.

8. Should production of gas from or attributed to any of the lands subject to this agreement be permanently discontinued at a time when the gas account is out of balance, settlement will be made between the underproduced and overproduced parties. (In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced pary or parties attributable to the overproduction which said overproduced party received, less applicable taxes and/or royalties theretofore paid.) Such settlement shall be based upon the price, defined below, received for the overproduced volumes of gas which have not been recovered by the underproduced party or parties. The price basis shall be the actual price received for sale of the gas at the time the overproduction was accumulated; provided, however, that for gas sold which is subject to a maximum lawful price, the price basis shall be the rate collected at the time the overproduction was accumulated, from time to time, which is not subject to possible refund, as provided by the Federal Energy Regulatory Commission pursuant to final order or settlement applicable to the gas sold from such well,plus any additional collected amount which is not ultimately required by said Commission to be refunded, such additional collected amount to be accounted for at such time as final determination is made with respect thereto.

9. Nothing herein ever shall be construed as altering, amending or negating any agreement heretofore entered into by any party hereto obligating such party to pay overriding royalty payment out of production or royalties payable under any lease out of its ineterest, regardless of whether such party is or is not taking or selling its full share of production.

10. All parties shall share in and own and dispose of the condensate recovered at the surface in accordance with their respective interests.

11. The party taking gas shall be responsible for royalties, overriding royalties and other similar burdens on the share of production to which it is entitled.

EXHIBIT "F"

ATTACHED TO AND MADE A PART OF THAT CERTAIN FARMOUT AGREEMENT DATED MAY 17, 1984 BETWEEN COLUMBIA GAS DEVELOPMENT CORPORATION, FARMOR, AND STEVENS OIL COMPANY, FARMEE

Whenever used in the following Sections I, II, III, IV and V, the terms "contractor" and "undersigned" both refer to each party to this agreement.

I. EQUAL EMPLOYMENT OPPORTUNITY PROVISIONS

(A) During the performance of this contract, the contractor agrees as follows:

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

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

(3) The contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice, to be provided by the agency contracting officer, advising the labor union or workers' representative of the contractor's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.

(4) The contractor will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.

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

(6) In the event of the contractor's noncompliance with the nondiscrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be canceled, terminated or suspended in whole or in part and the contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246, of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

(7) The contractor will include the provisions of paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1865, so that such provisions will be binding upon each subcontractor or vendor. The contractor will take such actions with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for noncompliance. Provided, however, that in the event the contractor becomes involved in, or is threatened with litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the contractor may request the United States to enter into such litigation to protect the interest of the United States.

(B) The contractor further agrees and certifies that, if the value of the contract or purchase order is $50,000 or more and the contractor has 50 or more employees, contractor will:

(1) File a complete and accurate report on Standard Form 100 (EEO-1) with the Joint Reporting Committee, at the appropriate address per the current instructions, within thirty (30) days of the date of contract award, unless such report has been filed within the twelve (12) months' period preceding the date of the contract award and otherwise comply with the file such other compliance reports as may be required under Executive Order 11246, as amended, and Rules and Regulations adopted thereunder.

(2) Develop a written affirmative action compliance program for each of its establishments as required by Title 41, Code of Federal Regulations, Section 60-1.40.

II. CERTIFICATION OF NONSEGREGATED FACILITIES

Contractor certifies that it does not maintain or provide for its employees any segregated facilities at any of its establishments and that it does not permit its employees to perform their services at any location under its control, where segregated facilities are maintained. Contractor certifies further that it will not maintain or provide for its employees any segregated facilities at any of its establishments and that it will not permit its employees to perform their services at any location, under its control where segregated facilities are maintained. Contractor agrees that a breach of this certification is a violation of the Equal Opportunity Clause in any Government contract between Contractor and Operator. As used in this certification, the term "segregated facilities" means any waiting rooms, work areas, rest rooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation, and housing

facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, color, religion, or national origin, because of habit, local custom or otherwise. Contractor further agrees that (except where it has obtained identical certifications from proposed subcontractors for specific time periods) it will obtain identical certifications from proposed subcontractors prior to the award of subcontracts exceeding $10,000 which are not exempt from the provisions of the Equal Opportunity Clause; that it will retain such certifications in its files; and that it will forward the following notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certifications for specific time periods):

NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NONSEGREGATED FACILITIES. A Certification of Nonsegregated Facilities, as required by the May 9, 1967, order of elimination of Segregated Facilities, by the Secretary of Labor (32 Fed. Reg. 7439, May 19, 1967), must be submitted prior to the award of a subcontract exceeding $10,000 which is not exempt from the provisions of the Equal Opportunity Clause. The certification may be submitted either for each subcontract or for all subcontracts during a period (i.e., quarterly, semi-annually or annually). (1968 MAR.) (Note: The penalty for making false statements in offers is prescribed in 18 U.S.C. 1001.)

III. AFFIRMATIVE ACTION FOR DISABLED VETERANS AND VETERANS OF THE VIET NAM ERA

(A) The contractor will not discriminate against any employee or applicant for employment because he or she is a disabled veteran of the Viet Nam Era in regard to any position for which the employee or applicant for employment is qualified. The contractor agrees to take affirmative action to employ, advance in employment and otherwise treat qualified disabled veterans and veterans of the Viet Nam Era without discrimination based upon their disability or veterans status in all employment practices such as the following: employment upgrading, demotion or transfer, recruitment, advertising, layoff or termination, rates of pay or other forms of compensation and selection for training, including apprenticeship.

(B) The contractor agrees that all suitable employment openings of the contractor which exist at the time of the execution of this contract and those which occur during the performance of this contract, including those not generated by this contract and including those occurring at an establishment of the contractor other than the one wherein the contract is being performed but excluding those of independently operated corporate affiliates, shall be listed at an appropriate local office of the State Employment Service System wherein the opening occurs. The contractor further agrees to provide such reports to such local office regarding employment openings and hires as may be required. State and local government agencies holding Federal contractors of $10,000 or more shall also list all their suitable openings with the appropriate office of the State Employment Service, but are not required to provide those report set forth in paragraphs (D) and (E)

(C) Listing of employment openings with the Employment Service System pursuant to this clause shall be made at least concurrently with the use of any other recruitment

source or effort and shall involve the normal obligations which attach to the placing of a bona fide job order, including the acceptance of referrals of veterans and non-veterans. The listing of employment openings does not require the hiring of any particular job applicant or from any particular group of job applicants, and nothing herein is intended to relieve the contractor from any requirements in Executive Orders or regulations regarding non-discrimination in employment.

(D) The reports required by paragraph (B) of this clause shall include, but not be limited to, periodic reports which shall be filed at least quarterly with the appropriate local office or, where the contractor has more than one hiring location in a State, with the central office of that State employment service. Such reports shall indicate for each hiring location (1) the number of individuals hired during the reporting period, (2) the number of non-disabled veterans of the Viet Nam Era hired, (3) the number of disabled veterans of the Viet Nam Era hired, and (4) the total number of disabled veterans hired. The reports should include covered veterans hired for on-the-job training under 38 U.S.C. 1787. The contractor shall submit a report within 30 days after the end of each reporting period wherein any performance is made on the contract identifying data for each hiring location. The contractor shall maintain at each hiring location copies of the reports submitted until the expiration of one year after final payment under the contract, during which time these reports and related documentation shall be made available upon request for examination by any authorized representatives of the contracting officer or of the Secretary of Labor. Documentations would include personnel records respecting job openings, recruitment and placement.

(E) Whenever the contractor becomes contractually bound to the listing provisions of this clause, it shall advise the Employment Service System in each State where it has establishments of the name and location of each hiring location in the State. As long as the contractor is contractually bound to these provisions and has so advised the State system, there is no need to advise the State system of subsequent contracts. The contractor may advise the State system when it is no longer bound by this contract clause.

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

(G) The provisions of paragraphs (B), (C), (D), and (E) of this clause do not apply to openings which the contractor proposed to fill from within his own organization or to fill pursuant to a customary and traditional employer-union hiring agreement. This exclusion does not apply to a particular opening once an employer decides to consider applicants outside of his own organization or employer-union arrangement for that opening.

(H) As used in this clause: (1) "All suitable employment openings" includes, but is not limited to, openings which occur in the following job categories: production and non-production; plant and office; laborers and mechanics; supervisory and nonsupervisory; technical

and executive, administrative, and professional openings as are compensated on a salary basis of less than $25,000 per year. This term includes full-time employment, temporary employment of more than 3 days' duration and part-time employment. It does not include openings which the contractor proposes to fill from within his own organization or to fill pursuant to a customary and traditional employer-union hiring arrangement nor openings in an educational institution which are restricted to students of that institution. Under the most compelling circumstances an employment opening may not be suitable for listing, including such situations where the needs of the Government cannot reasonably be otherwise supplied, where listing would be contrary to national security, or where the requirement of listing would otherwise not be for the best interest of the Government.

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

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

(4) "Openings which the contractor proposes to fill pursuant to a customary and traditional employer-union hiring arrangement" means employment openings which the contractor proposes to fill from union halls, which is part of the customary and traditional hiring relationship which exists between the contractor and representatives of his employees.

(I) The contractor agrees to comply with the rules, regulations, and relevant orders of the Secretary of Labor issued pursuant to the Act.

(J) In the event of the contractor's noncompliance with the requirements of this clause, actions for noncompliance may be taken in accordance with the rules, regulations, and relevant orders of the Secretary of Labor issued pursuant to the Act.

(K) The contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices in a form to be prescribed by the Director, provided by or through the contracting officer. Such notice shall state the contractor's obligation under the law to take affirmative action to employ and advance in employment qualified disabled veterans and veterans of the Viet Nam Era for employment, and the rights of applicants and employees.

(L) The contractor will notify each labor union or representative of workers with which it has a collective bargaining agreement or other contract understanding, that the contractor is bound by the terms of the Viet Nam Era Veterans Readjustment Assistance Act, and is committed to take affirmative action to employ and advance in employment qualified disabled veterans and veterans of the Viet Nam Era.

(M) The contractor will include the provisions of this clause in every subcontract or purchase order of $10,000 or more unless exempted by rules, regulations, or orders of the Secretary issued pursuant to the Act, so that such provisions will be binding upon each subcontractor or vendor. The contractor will take such action with respect to any subcontract or purchase order as the Director of the Office of Federal Contract Compliance Programs may direct to enforce such provisions, including action for noncompliance.

IV. AFFIRMATIVE ACTION FOR HANDICAPPED WORKERS

Contractor is aware of and is fully informed of Contractor's and Operators's responsibilities under Section 503 of the Rehabilitation Act of 1973, P. L. 93-112, and the rules, regulations, and orders promulgated by the Department of Labor pursuant thereto (41 CFR Part 60-741); and Contractor agrees to and shall be bound by the following provisions contained therein at Section 60-741.4 as follows:

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

(b) The contractor agrees to comply with the rules, regulations, and relevant orders of the Secretary of Labor issued pursuant to the Act.

(c) In the event of the contractor's noncompliance with the requirements of this clause, actions for noncompliance may be taken in accordance with the rules, regulations and relevant orders of the Secretary of Labor issued pursuant to the Act.

(d) The contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices in a form to be prescribed by the Director, provided by or through the contracting officer. Such notices shall state the contractor's obligation under the law to take affirmative action to employ and advance in employment qualified handicapped employees and applicants for employment, and the rights of applicants and employees.

(e) The contractor will notify each labor union or representative of workers with which it has a collective bargaining agreement or other contract understanding, that the contractor is bound by the terms of Section 503 of the Rehabilitation Act of 1973, and is committed to take affirmative action to employ and advance in employment physically and mentally handicapped individuals.

(f) The contractor will include the provisions of this clause in every subcontract or purchase order of $2,500 or more unless exempted by rules, regulations, or orders of the Secretary issued pursuant to Section 503 of the Act, so that such provisions will be binding upon each subcontractor or vendor. The contractor will take such action

with respect to any subcontract or purchase order as the Director of the Office of Federal Contract Compliance Programs may direct to enforce such provisions, including action for noncompliance.

V. OCCUPATIONAL SAFETY AND HEALTH

Contractor shall observe and comply with all safety and health standards promulgated by the Secretary of Labor under Section 107 of the Contract Work Hours and Standards Act, published in 29 CFR Chapter XVII Part 1926 and adopted by the Secretary of Labor as occupational safety and health standards under the Williams-Steiger Occupational Safety and Health Act of 1970. Such safety and health standards shall apply to all subcontractors and their employees as well as to the prime contractor and its employees.