

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
23 June 1982

EXAMINER HEARING

IN THE MATTER OF:

Application of Inexco Oil Company for
compulsory pooling, Lea County, New
Mexico.

CASES
7614
and
7615

BEFORE: Daniel S. Nutter

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

W. Perry Pearce, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

William F. Carr, Esq.
CAMPBELL, BYRD, & BLACK P.A.
Jefferson Place
Santa Fe, New Mexico 87501

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I N D E X

LESLIE J. TACCONI

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1
2 MR. NUTTER: We'll call next Case Numbers
3 7614 and 7615.

4 MR. PEARCE: These cases are on the appli-
5 cation of Inexco Oil Company for compulsory pooling, Lea
6 County, New Mexico.

7 MR. CARR: May it please the Examiner, my
8 name is William F. Carr, from Campbell, Byrd, and Black, P.A.
9 of Santa Fe, appearing on behalf of Inexco Oil Company.

10 We request that the cases be consolidated
11 for the purpose of hearing.

12 MR. NUTTER: The cases will be consolidated
13 for hearing.

14 MR. CARR: And I have one witness who needs
15 to be sworn.

16
17 (Witness sworn.)
18

19 LESLIE J. TACCONI
20 being called as a witness and being duly sworn upon his oath,
21 testified as follows, to-wit:

22
23 DIRECT EXAMINATION

24 BY MR. CARR:

25 Q Will you state your name and place of resi-

1
2 dence?

3 A My name is Leslie J. Tacconi, and I live
4 in the Woodlands, Texas.

5 Q And would you spell your last name, please?

6 A T-A-C-C-O-N-I.

7 Q By whom are you employed?

8 A I'm employed by Inexco Oil Company in
9 their Division office in Houston.

10 Q In what capacity are you employed?

11 A I'm an Area Landman in charge of the State
12 of New Mexico.

13 Q Have you previously testified before this
14 Commission or one of its examiners?

15 A I have appeared as a support witness but
16 I don't believe I was formally sworn in.

17 Q Have you ever had your credentials made
18 a matter of record?

19 A I've never had my credentials made a mat-
20 ter of record for the State of New Mexico, no.

21 Q Would you briefly summarize your educational
22 background and your work experience?

23 A Okay. I have a BA from the University of
24 California in Berkeley. I was employed in the oil industry
25 originally in 1968 by Buttes Gas and Oil Company and I worked

1
2 six years as a petroleum landman for Buttes Gas and Oil.

3 In January of 1974 I transferred my affi-
4 liation to Inexco Oil Company and have been employed by Inexco
5 since that date.

6 I've been a member of the AAPL since 1969.
7 I have testified in the states of Louisiana, Wyoming, and North
8 Dakota on behalf of both of these companies in a capacity as
9 a landman.

10 Q And your area of responsibility, I believe
11 you stated, includes New Mexico.

12 A It includes New Mexico now, yes, sir.

13 Q Are you familiar with the application
14 filed on behalf of Inexco in this case?

15 A Yes, sir.

16 Q Are you familiar with the subject acreage
17 and the proposed well?

18 A Yes, sir.

19 MR. CARR: Are the witness' qualifications
20 acceptable?

21 MR. NUTTER: Yes, they are.

22 Q Will you briefly state what Inexco seeks
23 in this consolidated case?

24 A We would like to seek compulsory pooling
25 of an undivided 1/48th interest, which is owned by Exxon Oil,

1
2 USA, for two 80-acre spacing units in our South Humble City
3 prospect.

4 We would like to seek risk penalty in ad-
5 dition to compulsory pooling, and we feel that we have adequate
6 representation through our exhibits to show that there is risk
7 and show the necessity of the pooling action.

8 Q Have you prepared certain exhibits for
9 introduction in this case?

10 A Yes, sir.

11 Q Will you please refer to what's been marked
12 for identification as Inexco Exhibit Number One and review
13 this for Mr. Nutter?

14 A Exhibit Number One plat is a land plat in
15 addition to a well location plat. It shows Sections 13, 14,
16 23, 24, of Township 17 South, Range 37 East, in Lea County.

17 On the plat it shows Inexco's acreage pos-
18 ition. It shows a producing well in the east half of the
19 southeast of Section 14. It shows a location of a presently
20 drilling Strawn well in the northwest northwest quarter of
21 24, and it shows the two proposed locations for the Inexco
22 No. 1 and 2 Pruietts in the northeast quarter of Section 23,
23 and the proration units attributable to those two wells.

24 Q Are both wells proposed at orthodox loca-
25 tions?

1

2

A. Yes, they are.

3

4

Q And are they standard spacing units for the proposed wells?

5

A For the South Humble City Field.

6

Q What is the status of the acreage involved?

7

A The acreage is fee acreage.

8

9

Q Will you now refer to Inexco Exhibit Number Two and review this for Mr. Nutter?

10

A Okay, the Exhibit Number Two is a recapitulation of the acreage ownership for the northeast quarter

11

of Section 23.

12

13

MR. NUTTER: Now is this acreage ownership uniform throughout the entire northeast?

14

A Yes, sir.

15

16

MR. NUTTER: So this is applicable to each one of these units?

17

A Yes, sir, that's why we requested the

18

applications be combined.

19

20

There is a typographical error for the spelling of Mr. Schlicher's name. It has Schilcher and it should be S-C-H-L-I-C-H-E-R, and I apologize for not catching the error prior to the hearing.

21

22

23

24

Q Now, Mr. Tacconi, referring to Exhibit

25

Two, what interests have committed to the drilling of the well?

1
2 A Inexco, All 1980 Program, Inc., Lovelace,
3 Davis, McMillan, and Schlicher are committed by an operating
4 agreement that covers Sections 13, 14, 23, and 24, for the
5 development of that area.

6 Exxon had been approached before Inexco --
7 the deal was proposed to us by the Lovelace, et al, Group,
8 and we accepted it and took a 75 percent interest in it, our-
9 selves and the All 1980 Program, Inc., and Exxon would not
10 commit at that particular point in time when the 4-section
11 unit, or working interest area, was proposed, in that they did
12 not want to make a decision until a well was imminent on their
13 acreage; therefor that's the reason for their absence from
14 our operating agreement.

15 Q Will you now refer to Inexco Exhibit Number
16 Threes and identify this for Mr. Nutter?

17 A Exhibit Number Three are two letters that
18 were written to Exxon Company, USA, with regard to the proposal
19 of the Strawn test.

20 Now no formal AFE's have been sent to Exxon
21 but the costs, the estimated costs, for each of the wells, both
22 dry and as a completed well, are shown in the letter dated
23 April 8th, 1982. Subsequent conversations with Inexco's Ex-
24 ploration Department had, under separate cover without bene-
25 fit of cover letter, there were logs of our Lottie York No. 1

1
2 Well, and mud logs of our Lottie York No. 1 Well, sent to
3 Exxon, and I had conversations intervening before the June 10,
4 1982, letter to Exxon with a Mr. Orr, who is a geologist em-
5 ployed in Midland in Exxon's Midland office, regarding what
6 Exxon would need from our technical staff.

7 On the June 10th letter, since we could
8 not get Exxon off center to commit to the well, we had already
9 applied for a forced hearing here with the Commission. We
10 advised Exxon that we were going to proceed with our forced
11 pooling efforts, and we again enclosed log information and an
12 additional mud log, and with the request that Mr. Orr direct
13 it to the proper personnel.

14 Copies of the June 10th letter were sent
15 to our working interest partners pursuant to our operating
16 agreement.

17 Q And in your June 10th letter did you advise
18 Exxon of the hearing before the examiner?

19 A Yes, we advised Exxon that the hearing
20 would take place on June 23rd. We asked Exxon to contact us
21 prior to the hearing in order that we could possibly strike a
22 trade and avoid having to come to Santa Fe for the hearing.

23 Q When did you last talk with Exxon repre-
24 sentatives?

25 A I talked with Exxon on Friday of last week,

1
2 on Monday of this week, and again Tuesday morning. Our pro-
3 posal is now in what they call they joint venture group. It's
4 being evaluated and it could take anywhere from three days to
5 six weeks before they decide what to do, and it's a necessity
6 for us to appear before the Commission.

7 We're presently drilling our Daugherty
8 Well in the northwest quarter of 24 and we'd like to move our
9 rig over to save time and money and without a decision from
10 Exxon, we'll have a situation where an outside party could
11 ride us down, and we don't feel that that's equitable.

12 Q How soon do you anticipate you'd be pre-
13 pared to commence a well on the --

14 A The Daugherty is presently at about 8000
15 feet; the last report I had was on Friday of last week and it
16 was at 8025 feet.

17 If we do not have any hole problems, it
18 would probably be 20 to 25 days before we drill to the 11,800
19 foot proposed depth of that well, and probably a few more
20 days before the rig would be released to move to the new loca-
21 tion, which would be the Pruiett No. 1.

22 Q And have you built a location for the
23 Pruiett No. 1?

24 A Yes, sir, and we've settled damages.

25 Q Do you request that any order resulting

1
2 from this hearing be expedited to the fullest extent possible?

3 A We would like that, yes.

4 Q And you are aware that any order resulting
5 from this hearing should provide that Exxon would have thirty
6 days within in which to pay their proportionate share?

7 A We are cognizant of that and we can live
8 with that.

9 Q Will you now refer to what's been marked
10 for identification as Exxon Exhibit Number Four and identify
11 this, please?

12 A Okay, Exhibit Four is entitled Assignment
13 and Agreement and an exhibit to that Assignment and Agreement
14 is the operating agreement under which the Inexco group, being
15 Inexco and AH 1980 Program, Inc., are operating, in addition
16 to Lovelace, Davis, and Schlicher. The Schlicher interest
17 arrive -- was arrived at at a later date and there is an
18 amending letter down in the operating agreement showing that
19 the Schlicher interest came out of the Lovelace interest when
20 Mr. Lovelace died.

21 Q Do you recommend that this operating agree-
22 ment be incorporated by reference in any order that results
23 from this hearing?

24 A Yes, we do.

25 Q Would you now refer to what has been marked

1
2 for identification as Inexco Exhibit Number Five?

3 A Exhibit Number Five, yes, Exhibit Number
4 Five is a twofold exhibit; one is an AFE for the Inexco No. 1
5 Pruiett, and the other one is an AFE for the Inexco No. 2
6 Pruiett. They were prepared by Wendall Caviness, who's an
7 engineer in our Division Office, at my direction.

8 They provide for a dry hole cost of --- for
9 each of the wells, since they will be to an identical depth --
10 of approximately \$1,111,400 dry hole cost, and a completed
11 well cost of \$1,613,000.

12 Q Are these costs in line with what is being
13 charged by other operators in the area?

14 A Yes, we believe so.

15 Q Are you prepared to make a recommendation
16 to the Examiner as to the overhead and administrative costs
17 to be assessed in any proposed order?

18 A The overhead and administrative costs have
19 been negotiated in the operating agreement by all parties
20 except Exxon, and we are probably lower than other parties.
21 It would be in the COPAS exhibit. We have provided for \$2949
22 drilling rates and \$322 producing rate.

23 Now, since the operating agreement predates
24 the COPAS adjustment of 4-1-82, those figures are a little
25 higher, I believe six to seven percent higher.

Our similar wells now, the suggested drilling well rates that Inexco goes by now are \$3333 for a drilling well to that depth, and \$364, but we're willing to abide by the drilling and producing well rates shown in the operating agreement, as adjusted by the COPAS.

Q Do you recommend that these figures be --

A Yes, I do.

Q -- incorporated into any order which results from this hearing?

A And these figures, I believe you indicated, are below what is being charged by other operators in the area.

A In comparable operating agreements for New Mexico, all of which have to cross my desk, we are normally lower than other operators in the area.

Q Are you prepared to make a recommendation to the Examiner as to the risk factor that should be imposed on nonconsenting working interests?

A Well, that has been negotiated, too. We had originally proposed under the operating agreement 200 percent and 500 percent penalty, which by negotiation was reduced to 100 and 300 percent, and I realize that the State doesn't provide for that amount of risk factor, but we would like to ask the State for the maximum amount allowable by

State regulation, which I believe is 200 percent.

Q Does Inexco Oil Company request to be designated operator of the proposed wells?

A Yes, we do.

Q In your opinion will the granting this application be in the best interests of conservation, prevention of waste, and protection of correlative rights?

A I do.

Q Were Exhibits One through Five prepared by you or compiled under your direction?

A They were.

MR. CARR: At this time, Mr. Nutter, we would offer Inexco's Exhibits One through Five.

MR. NUTTER: Inexco Exhibits One through Five will be admitted in evidence.

MR. CARR: That concludes our direct testimony.

CROSS EXAMINATION

BY MR. NUTTER:

Q Mr. Tacconi, I'm looking through your operating agreement you've got attached to the Exhibit Number Four, and I can't find the part where you have the --

A Drilling well rate?

Q No, I found those fixed rates down here.
I'm looking for the part where you carry somebody, what the
penalty is.

A The 100 - 300?

Q Yeah.

A It should be on about page five or six.
I don't have the operating -- let me borrow Bill's operating
agreement and I'll find them.

Q Okay, I --

A Yeah, it's five and six.

Q Okay, 100 percent on surface equipment,
300 percent on -- on drilling operations, is that right?

A Yes, and 300 percent of the newly acquired
equipment.

Q And underground equipment.

A Right.

Then page fifteen has the signature pages.

Q Right. Now have any of these parties that
have signed this gone nonconsent as far as --

A No, sir. No, sir.

Q So they've all agreed to a 300 percent
penalty but they're not subject to it.

A No.

Q Now do you have any geological evidence

1
2 to support the maximum penalty that the State of New Mexico
3 can impose?

4 A. I'm not qualified to testify as to geology.
5 I could refer you back to the information that was submitted
6 with the application for the original South Humble City Pool,
7 which was, I believe, on February 3rd, and the geologist that
8 testified at that time was Mike Vosbien (sic), but I am not
9 qualified to testify as to the geology for the area.

10 Q. Well, I recall that hearing. What well
11 was that for? Was that the --

12 A. That was for the Lottie York No. 1 in the
13 southeast quarter of Section 14.

14 Q. Do you want to incorporate the record of
15 that one in this one, Bill, since you don't have a geologist
16 here?

17 MR. CARR: That's right, we don't have a
18 geologist available today, and with your permission, we would
19 incorporate the record of that hearing, and I can pull the
20 case number for you. The Lottie York is a north offset to the
21 proposed well, and the geology would be virtually the same.
22 The testimony would bear on the request today.

23 MR. NUTTER: I think I was the Examiner
24 on that hearing.

25 A. Yes, you were.

1
2 MR. NUTTER: Well, we will incorporate the
3 record of the compulsory pooling case -- was that a compulsory
4 pooling matter?

5 A. No, that was --

6 MR. NUTTER: Or was that --

7 A. -- an order for allowable, special pool
8 rules, and the designation of the east half southeast --

9 MR. NUTTER: You were going to drill the
10 well and you were seeking a discovery allowable --

11 A. Yes, we were.

12 MR. NUTTER: Yeah.

13 MR. CARR: And it showed the proximity
14 of other Strawn production in the area and I think there would
15 be sufficient --

16 A. Well, we tried to show that it was a sepa-
17 rate pool for the -- from the Humble City Pool.

18 MR. CARR: Yeah.

19 MR. NUTTER: Well, we'll determine that
20 case number and incorporate the record in the case that in-
21 volved the Lottie York in the record of this case.

22 Q. Now everyone has agreed to this with the
23 exception of Exxon, is that correct?

24 A. Yes, sir.

25 MR. NUTTER: And the --

1
2 A And Exxon has advised me that it's in the
3 joint venture group and the joint venture group at this parti-
4 cular point in time is leaning towards recommendation but
5 they're running everything through the computer and it could
6 be anywhere from three -- three days to six weeks before we
7 have a decision.

8 Q And their share is going to be roughly
9 two percent of --

10 A 2.08 --

11 Q -- a million dollars on a dry hole --

12 A Yes, sir.

13 Q -- and two percent of \$1.6 million cost
14 for --

15 A Yes, sir. Their cost is shown on the
16 letter of April 8th. Their cost share of the well would be
17 2.0833 percent of the \$1,111,400.

18 Q Okay.

19 MR. NUTTER: Are there any --

20 A The AFE's were prepared in the event that
21 Inexco would be granted a lease from Exxon, and we would carry,
22 our group would carry 75 percent and the LBM group 25 percent.

23 Q And you never actually have furnished Ex-
24 xon with an AFE?

25 A Not with a formal AFE.

1
2 Q But you told them what the cost would be
3 on an AFE.

4 A The cost -- the cost reflected, if they
5 wanted an AFE that they -- all they had to do was ask for it
6 and we would provide them with an AFE and an operating agree-
7 ment, and they aren't to the stage where it is far enough along
8 to be negotiated by the land department.

9 Q Do you have any recent correspondence with
10 them or has all their --

11 A All their correspondence to me has been
12 via telephone, Mr. Nutter.

13 Q I see.

14 MR. NUTTER: Are there any further ques-
15 tions of Mr. Tacconi? He may be excused.

16 Do you have anything further, Mr. Carr?

17 MR. CARR: Nothing further, Mr. Nutter.

18 MR. NUTTER: Does anyone have anything
19 they wish to offer in Cases 7614 and 7615?

20 We'll take the cases under advisement.

21
22 (Hearing concluded.)
23
24
25

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing Before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7614-7615 heard by me on 6/23 19 82

[Signature], Examiner
Oil Conservation Division

SALLY W. BOYD, C.S.R.

Box 193-B

Sanita Pk. New Mexico 87501

Phone (505) 433-7409

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 7615
Order No. R-7017

APPLICATION OF INEXCO OIL COMPANY
FOR COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on June 23, 1982, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 2nd day of July, 1982, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Inexco Oil Company, seeks an order pooling all mineral interests from the surface through the Strawn formation underlying the E/2 NE/4 of Section 23, Township 17 South, Range 37 East, NMPM, Lea County, New Mexico.

(3) That the applicant has the right to drill and proposes to drill a well at a standard location thereon.

(4) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

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Case No. 7615
Order No. R-7017

(6) That the applicant should be designated the operator of the subject well and unit.

(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(11) That \$2949.00 per month while drilling and \$322.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated within 60 days following completion of the well on the lands pooled by Order No. R-7016 in Case No. 7614, the order pooling said unit should become null and void and of no effect whatsoever.

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Case No. 7615
Order No. R-7017

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, from the surface through the Strawn formation underlying the E/2 NE/4 of Section 23, Township 17 South, Range 37 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 80-acre oil spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well within 60 days following completion of the well on the lands pooled by Order No. R-7016 in Case No. 7614 and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Strawn formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well within the time period described immediately above, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Inexco Oil Company is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days

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Case No. 7615
Order No. R-7017

following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That \$2949.00 per month while drilling and \$322.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

-5-

Case No. 7615

Order No. R-7017

(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(13) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinafter designated.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Joe D. Ramey
JOE D. RAMEY,
Director

S E R

T 17 S

Mesa Pet.

HBP
A.C.F. Harding

Schwartzberg
1011750

Harding Oil
Schwartzberg

1011750
O.A. 2-25-84

Schwartzberg
Schwartzberg, et al.

M.H. Smith (S)

NM1-185 AA-AD, K, N

78.46/160.00

6-25-83

AH 43.66/160.00

NM1-185A-C, E, H, J, L,

W-2.

91.97/160.00

1-19-84

AH 50.37/160.00

NM1-185 F-L

60.60/160.00

3-11-84

AH 33.20/160.00

NM1-185 M, N

24.98/160.00

3-3-84

AH 13.69/160.00

NM1-185 AA-AD, K, N

78.46/160.00

6-25-83

AH 43.66/160.00

NM1-186 AA-AF&N

10.78/160.00

6-25-83

AH 5.91

NM1-186 O

1.94/160.00

AH 1.06

9-28-84

NM1-186 Q-Z

71/160.00

6-26-84

AH 77/160.00

INEXCO

Daugherty

NM1-186A-H

23.82/160.00

10-9-85

AH 26.12

NM1-186 AA-AF&N

10.78/160.00

6-25-83

AH 5.91

NM1-186 P

1.94/160.00

9-28-84

AH 1.06/160.00

NM1-186 Q-Z

71/160

6-26-84

AH 77/160.00

Little L.H. York, et al.
Lee Ann Richards (S)

NM1-186 I, J, K, L, M

7.95/160.00

6-19-84

AH 3.03/160.00

NM1-185 AB-AD, N

76.04/160.00

1-15-84

AH 42.34/160.00

NM1-185 H, J, L,

O, Q, R, Z

85.15/160.00

1-19-84

10-4-85

AH 46.65/160.00

NM1-185 AE, R, U

26.07/80.00

10-19-84

10-4-85

AH 14.27/80.00

NM1-185 AE, M, R, U

41.29/80.00

1-19-84

10-4-85

AH 22.61/80.00

NM1-185 V

53.28/120.00

3-3-84

AH 14.15/120.00

NM1-185 AB-AD, K, N

78.46/160.00

1-15-84

AH 42.34/160.00

NM1-185 H, J, L,

O, P, Y, Z

85.14/160.00

10-9-85

AH 46.65/160.00

NM1-185 AE, R, U

53.59/160.00

10-4-84

AH 29.38/160.00

NM1-185-I

5.45/160.00

3-20-84

AH 1.45/160.00

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION

INEXCO EXHIBIT NO. 1

CASE NO. 7614 and 7615

HUMBLE CITY PROSPECT

LEA CO., NEW MEXICO

WELL LOCATION PLAT

6-22-82

NM-181



INEXCO OIL COMPANY

1100 Milam Bldg. - Houston, Texas 77002
713-651-3300



INEXCO OIL COMPANY

BREAKDOWN OF ACREAGE OWNERSHIP

NE/4 Sec 23-T17S, R37E Lea County, New Mexico

Inexco Oil Company	47.42838 % ✓
AH 1980 Program, Inc	26.00912 % ✓
Loveless	5.69141 % ✓
David	9.17969 % ✓
McMillan	7.64974 % ✓
Schlicher Schlicher	1.95833 % ✓
Exxon	<u>2.08333 %</u>
	100.00000 %

✓ = Committed
Exxon not committed

BEFORE EXAMINER NUTTER OIL CONSERVATION DIVISION INEXCO EXHIBIT NO. <u>2</u> CASE NO. <u>7614 and 7615</u>



INEXCO OIL COMPANY
June 10, 1982

Exxon Company
P.O. Box 1600
Midland, Texas 79701

Att: Mr. Orr

BEFORE EXAMINER NUTTER
OIL CONSERVATION DIVISION

INEXCO EXHIBIT NO. 3
CASE NO. 7614 AND 7415

*8025 Friday
last (6/18)*

Re: Proposed Strawn Test
NWNE Sec 23-T17S, R 37E - *location*
SENE Sec 23-T17S, R 37E *built*
Humble City Prospect NM 181
Lea County, New Mexico

Gentlemen:

Please be advised that Inexco Oil Company has filed an application for force pooling on the referenced locations in the event we are unable to reach a timely trade with your Company. We are presently drilling at about 7,700 ' in our # 1 Daughterty located in the NWNE Sec 24-T17S, R37E, and would like to move the rig from the Daughterty into the NWNE Sec 23 T-17S, R37E, and commence drilling an 11,800 foot Strawn test.

In the event the logs and other material forwarded to Exxon did not reach you I enclose for your review to assist you in your recommendation the following materials:

1. Compensated Neutron Formation Density Logs
Lottie York # 1 NESE Sec 14-T17S, R37E
2. Dual Induction- SFL Log Lottie York # 1
3. Mud Log Lottie York # 1

We originally contacted Exxon by letter dated April 8, 1982, we would appreciate as prompt of a response as possible. The hearing for the force pooling action will take place on June 23, 1982 in Santa Fe, New Mexico.

We look forward to hearing from you and consummating a trade.

Very truly yours,

L.J. Tacconi
L.J. Tacconi
Area Landman

LJT/bkb
CC/ LDM Associates
Fred J. Schlicher
AH 1980 Program, Inc

55



INEXCO OIL COMPANY

April 8, 1982

Exxon Company, U.S.A.
P. O. Box 1600
Midland, Tx. 79701

Attn: Land Department

Re: Proposed Strawn Tests
Humble City Prospect NM181
NW/4NE/4 Sec. 23-T17S, R37E
SE/4NE/4 Sec. 23-T17S, R37E
Lea County, New Mexico

Gentlemen:

Inexco Oil Company hereby proposes, subject to management approval, the drilling of two Strawn tests, each to an approximate depth of 11,800 feet at legal locations as more particularly described in the reference hereinabove. The estimated cost for each test will be approximately \$1,111,400.00 for a dry hole and \$1,615,000.00 for a completed well.

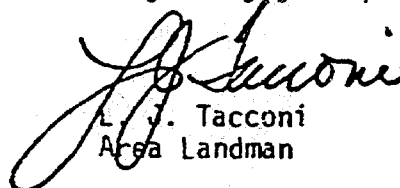
Our review of the E/2 Section 23-T17S, R37E shows you to own or control an unleased mineral interest of 2.08333% or an undivided 6.67 acres.

We would appreciate your prompt consideration to one of the following proposals:

1. Grant a lease providing for 1/4 royalty, 3 year term and \$1.00 per acre delay rentals.
2. Join in the drilling of the test wells as to your prorata share. (AFE and Operating Agreement will be supplied upon request).

Since we need as much time as possible in order to schedule rigs, we look forward to your response or alternate proposal within the next thirty (30) days.

Very truly yours,


L. J. Tacconi
Area Landman

LJT/mf

19258

ASSIGNMENT AND AGREEMENT

344 680

THIS ASSIGNMENT AND AGREEMENT made and entered into this 29th day of October, 1981, by and between CHARLES C. LOVELESS, JR. and wife, NADINE LOVELESS, (hereinafter sometimes called "Loveless"), DAVID PETROLEUM CORP., a Texas corporation, (hereinafter sometimes called "David"), and COLIN R. McMILLAN and wife, KAY McMILLAN, (hereinafter sometimes called "McMillan"), whose address is 714 Petroleum Building, Roswell, New Mexico 88201 (all of whom are sometimes collectively referred to as "LDM"), as Assignors, and INEXCO OIL COMPANY, whose address is 1100 Milam Building, Suite 1900, Houston, Texas 77002 (hereinafter called "Inexco"), as Assignee.

W I T N E S S E T H:

For consideration of the cash payment hereinafter noted, and in further consideration of the mutual covenants herein contained, and upon the terms and conditions herein set forth, the parties hereto agree as follows:

1. Definitions. For the purposes hereof, the following terms shall have the following designated meaning:

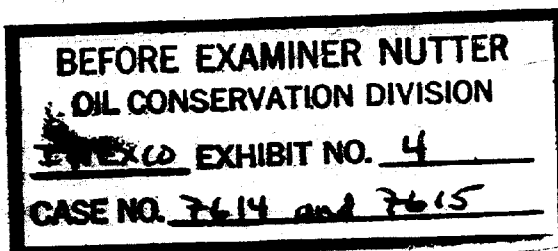
- (a) Leasehold Estate: The entire interest in and to those certain Oil and Gas Leases described in Exhibit "A" attached hereto, recorded in the Office of the County Clerk of Lea County, New Mexico, insofar as each of said leases cover any part of the Subject Land, subject to the Lessor's royalty reserved in each such lease.
- (b) Subject Land: The following described land situated in Lea County, New Mexico:

Township 17 South, Range 37 East, N.M.P.M.

Section 13: All
Section 14: NE $\frac{1}{4}$, S $\frac{1}{2}$
Section 23: All
Section 24: All

containing 2,400 acres, more or less.

- (c) Initial Test Well: The initial test well to be drilled within the SE $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 14 of the Subject Land at a location to be mutually agreed upon between the parties.
- (d) Objective Depth: The Lower Mississippian formation expected to be encountered at approximately 12,300 feet subsurface.



- (e) Casing Point: That point in time when the Initial Test Well has been drilled to the Objective Depth and has been adequately tested so that a decision is to be made whether to plug and abandon said well as a dry hole or to set casing to the Objective Depth or a shallower depth in an attempt to complete said well as a producing well.
- (f) Test Well Proration Unit: The acreage in Section 14 of the Subject Land dedicated to the Initial Test Well pursuant to the rules and regulations of the Oil Conservation Division of the New Mexico Energy and Minerals Department. Upon dedication of said acreage to the Initial Test Well, Inexco shall execute an Affidavit, in the form set forth in Exhibit "B" attached hereto, designating the description thereof and shall record the same in the office of the County Clerk of Lea County, New Mexico. Said recorded Affidavit shall be binding on the parties hereto, their respective heirs, successors and assigns, and shall constitute Notice of the specific description of said Test Well Proration Unit. If the Initial Test Well is plugged and abandoned as a dry hole, the SE $\frac{1}{4}$ SE $\frac{1}{4}$ of said Section 14 shall be designated as the Test Well Proration Unit.
- (g) Area of Interest: The following described land in Lea County, New Mexico:

Township 17 South, Range 37 East, N.M.P.M.

Section 13: All
 Section 14: All
 Section 23: All
 Section 24: All

containing 2,560 acres, more or less.
- (h) LDM Override: The overriding royalty interest reserved by LDM hereinbelow.
- (i) LDM Option: The option of LDM to convert the LDM Override to a working interest as provided hereinbelow.
- (j) Joint Operating Agreement: A Joint Operating Agreement to be entered into between the parties hereto, a copy of which is attached hereto as Exhibit "C".

2. In the proportions of 31.25% by Loveless, 37.5% by David and 31.25% by McMillan, LDM hereby assigns, sells and conveys to Inexco, its successors and assigns, the following interests in and to all right, title and interest in the Leasehold Estate, together with the rights incident thereto:

Part I: The entire interest in the Leasehold Estate in the Test Well Proration Unit, subject to the LDM Override and the LDM Option.

PART II: An undivided 75% interest in the balance of the Leasehold Estate, excepting the Test Well Proration Unit. The assigned interest and the retained interest in this Part II are subject to the Joint Operating Agreement.

3. In the proportion of 31.25% to Loveless, 37.5% to David and 31.25% to McMillan, LDM reserves an overriding royalty interest equal to 1.25% of all of the oil, gas and other hydrocarbons in and under and that may be produced and saved from the Test Well Proration Unit in the Leasehold Estate assigned hereby. Said overriding royalty shall be computed and paid at the same time and in the same manner as royalty is computed and paid to the lessor under the terms of said Oil and Gas Leases, and shall be free and clear of all costs, claims and charges except gross production taxes and taxes of a similar nature.

4. Inexco shall promptly notify LDM when Casing Point has been reached. Notice shall be given by telephone to the first of the following representatives of LDM that Inexco is able to contact by telephone, Area Code 505, namely:

<u>Name</u>	<u>Office Phone</u>	<u>Home Phone</u>
Edward David	622-8850	622-5267
Colin R. McMillan	623-1225	623-4086
Charles C. Loveless	622-1958	622-7313
Fred Schlicher	623-8800	622-7320

Upon receipt of said notice by LDM as above provided, Loveless, David and McMillan, individually, shall each have the option to convert his proportionate share of the LDM Override to the following specified interests in the Leasehold Estate covering the Test Well Proration Unit:

David	37.50% of 25%
McMillan	31.25% of 25%
Loveless	31.25% of 25%

Said Option shall be exercised by giving notice of the exercise thereof by telephone to Inexco within 24 hours after LDM has received notice from Inexco that Casing Point has been reached. Notice to Inexco shall be given to the first of the following representatives of Inexco that LDM is able to reach:

<u>Name</u>	<u>Office Phone</u>	<u>Home Phone</u>
Mike Vosbein	713-651-3486	713-358-5881
M. L. Feldman	713-651-3404	713-334-2946
L. J. Tacconi	713-651-3483	713-367-1986

Failure of LDM to notify Inexco of its exercise of the option shall be deemed an election to convert the LDM Override to the above stated interests in the Leasehold Estate covering the Test Well Proration Unit if Inexco attempts to complete the Initial Test Well as a producing well. Failure by LDM to notify Inexco of its exercise of this option shall be deemed an election to retain the LDM Override if Inexco elects to plug and abandon the Initial Test Well as a dry hole.

In the event any party attempting to give notice by telephone is unable to make telephone contact with any of the specified parties within a period of 3 hours, the notice may then be given by telegram and notice shall be deemed to have been given when said telegram is delivered to the addressee.

As to each of Loveless, David and McMillan who exercise the option to convert his share of the LDM Override to said interest in the Leasehold Estate covering the Test Well Proration Unit, that part of the LDM Override shall terminate, effective at Casing Point and Inexco will reassign to the party so electing the specified interest in the Leasehold Estate covering the Test Well Proration Unit together with a like interest in all casing, equipment and all other personal property then appurtenant thereto. Said assignment shall be free and clear of any burdens thereon hereafter created by Inexco or its successors. The party receiving such assignment shall simultaneously execute and deliver to Inexco a release of its share of the LDM Override. Thereupon the relationship of the parties owning an interest in the Leasehold Estate covering the Test Well Proration Unit shall be controlled by the Joint Operating Agreement.

5. Inexco assumes and agrees to perform its proportionate part of any duties owed the lessor under the terms of said Oil and Gas Leases, including the payment of any shut-in royalty payments that may be necessary to maintain said Leases in effect

or that may become due under said Leases. In the event LDM elects to make any shut-in royalty payments, Inexco agrees to reimburse LDM for its proportionate share of the amount of said payment within thirty (30) days after receipt of invoice therefor.

6. On or before January 1, 1982, Inexco agrees to commence or cause to be commenced the Initial Test Well and thereafter drill the same with due diligence to the Objective Depth. Prior to Casing Point, all costs and expenses pertaining to the drilling and testing of the Initial Test Well attributable to the Test Well Proration Unit in the Leasehold Estate shall be borne solely by Inexco. After Casing Point, Inexco and each of LDM as have exercised the LDM Option shall bear all costs and expenses pertaining to the drilling, testing, completing, equipping and operating of the Initial Test Well attributable to the Test Well Proration Unit in the Leasehold Estate. Prior to Casing Point, Inexco agrees to indemnify LDM, their agents and employees, and to hold them harmless from and against all claims, demands, actions and causes of action (including costs of defending the same) for injuries to or death of any and all persons and damage to property arising out of or connected with their operations on the Test Well Proration Unit of the Leasehold Estate assigned hereby. After Casing Point, Inexco, and such of LDM as have exercised the LDM Option, agree to so indemnify such of LDM as have not exercised the LDM Option.

In the event the Initial Test Well is not timely commenced, or, having been timely commenced, is not diligently drilled to the Objective Depth or if Inexco otherwise fails to comply with the obligations hereof, the rights assigned hereunder shall terminate and Inexco shall immediately reassign its entire interest in the Leasehold Estate to LDM. The obligation to reassign and the forfeiture of the bonus consideration paid by Inexco shall be the sole liability of Inexco for failure to so commence and drill said well.

7. LDM is negotiating to acquire oil and gas leases or farmout agreements covering additional interests in the Subject

Land. If said leases or agreements are obtained prior to commencement of the Initial Test Well, Inexco shall reimburse LDM for the entire cost thereof and the interest so acquired shall constitute part of the Leasehold Estate. Assignments shall be executed to create the interests of the parties therein in accordance with Paragraph 2 hereof. LDM and Inexco further agree that, so long as:

- (a) Inexco, its successors and assigns, retain the rights assigned hereby, and
- (b) Any of the leases assigned hereby or pursuant hereto remain in force and effect,

any acreage acquired within the Subject Land after commencement of the Initial Test Well, or any acreage acquired before or after the commencement of the Initial Test Well which is not part of the Subject Land but is part of the Area of Interest, shall be subject to the option of each non-acquiring party hereto to pay its proportionate share of the purchase price and receive an assignment of its proportionate share of the acreage so acquired. Said option must be exercised in writing within 30 days of receipt of the offer from the acquiring party. Failure to respond within said period shall be deemed as an election not to participate. If said option is exercised by all non-acquiring parties, the proportionate share of the parties shall be 7.8125% to Loveless, 9.375% to David, 7.8125% to McMillan, and 75% to Inexco. Should any non-acquiring party fail to exercise its option, the specified proportionate part of the acquired acreage offered to said party may be reoffered to each remaining non-acquiring party electing to exercise its option on a proportionate basis and upon the same terms as set forth hereinabove, or retained by the acquiring party, at its sole election. Any interest acquired pursuant to this paragraph shall become part of the Leasehold Estate.

8. Except as required in Paragraph 4 hereof pertaining to the LDM Option, any notice hereunder shall be given by certified

mail or telegram confirmed by certified mail. Each such notice shall be given to the parties at the addresses stated hereinabove or at such other addresses as the parties may designate by certified mail from time to time.

9. Inexco agrees to pay LDM a cash consideration of \$330,445.00 for the interest in the Leasehold Estate assigned to Inexco hereby to be paid upon delivery of this Assignment and Agreement.

10. If any party hereto should at any time desire to surrender any part of the Leasehold Estate to the lessor as to all or any portion of the Subject Land, said party, for the purposes of this paragraph, shall be called "Assignor", and the nonassigning parties, for the purpose of this paragraph, shall be called "Assignee". Assignor shall tender to Assignee a reassignment of the Leasehold Estate as to that part of the Subject Lands sought to be surrendered at least forty-five (45) days prior to the date Assignor intends to surrender said lease as to said land. If some but not all of the Assignee shall fail to accept the reassignment within twenty (20) days from the time it is tendered, Assignor shall tender the unaccepted reassignments to the Assignee who has accepted the previously tendered reassignment. If reassignment of the entire interest tendered has not been accepted within twenty (20) days after the first tender or ten (10) days after the subsequent tender, Assignor shall be free to surrender the lease as to such lands. If the reassignment of the Assignor's interest is accepted by all or some of the Assignee, the accepting Assignee shall save, hold and protect Assignor harmless from all rentals and liability of whatsoever character subsequently accruing with respect to the lands covered by the reassignment.

11. Despite anything hereinto the contrary, the rights and duties of the parties hereto shall be several and not joint, and nothing herein contained shall create a partnership or joint venture between any of the parties hereto.

12. In the event any lease in the Leasehold Estate covers an interest in that part of the Subject Land described therein less than the entire fee simple oil and gas mineral estate in that land, the overriding royalty reserved in Paragraph 3 hereof and the interest to be reassigned to LDM pursuant to Paragraph 4 hereof in said lease shall be reduced proportionately.

13. This Assignment is made without warranties of title, either express or implied, covers an interest in the Oil and Gas Leases creating the Leasehold Estate and any extensions and renewals thereof, and the provisions hereof shall bind and benefit the parties hereto and their respective heirs, personal representatives, successors and assigns.

EXECUTED the day and year first above written.

Charles C. Loveless, Jr.
Charles C. Loveless, Jr.

Nadine Loveless
Nadine Loveless

DAVID PETROLEUM CORP.

BY Edward David
Edward David, President

Colin R. McMillan
Colin R. McMillan

Kay McMillan
Kay McMillan

ATTEST:

Register
Register, Secretary

STATE OF NEW MEXICO)
) ss.
COUNTY OF CHAVES)

INEXCO OIL COMPANY

BY William G. Goodwin
*William G. Goodwin, Vice-President

The foregoing instrument was acknowledged before me this 24 day of 11, 1981 by Charles C. Loveless, Jr. and Nadine Loveless, his wife.

Notary Public
Notary Public

My Commission Expires:

1-10-84

STATE OF NEW MEXICO)
) ss.
 COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this 2nd day of December, 1981 by Edward David, President of David Petroleum Corp., a Texas corporation, on behalf of said corporation.

James H. Chapman
 Notary Public

My Commission Expires:

1-10-84

STATE OF NEW MEXICO)
) ss.
 COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this 2nd day of December, 1981 by Colin R. McMillan and Kay McMillan, his wife.

James H. Chapman
 Notary Public

My Commission Expires:

1-10-84

STATE OF Texas)
) ss.
 COUNTY OF Harris)

The foregoing instrument was acknowledged before me this 1st day of December, 1981 by William G. Goodwin, Vice President of Inexco Oil Company, a corporation, on behalf of said corporation.

Dean C. L. Legg
 Notary Public

My Commission Expires:

11-2-85

EXHIBIT "A"
TO ASSIGNMENT AND AGREEMENT

Prospect: HUMBLE CITY T-17-S, R-37-E, NNPN County Lea State New Mexico

SCHEDULE OF LEASES

Lease Date	Lessor	Lessee	Land Description	Recording Data Book/Page	Gross Acres	Term
10-9-60	Roderick J. Skidmore	Donald E. Blackmar	Sec. 13: S½	333/408	320	5 years
10-9-80	Charlotte M. Gleason	Donald E. Blackmar	Sec. 13: S½	331/870	320	5 years
10-9-80	Pauline Lawson Bailey, et vir	Donald E. Blackmar	Sec. 13: S½	331/615	320	5 years
2-27-81	Hazel O. Cunningham, et al	J. P. Carnes, Inc.	Sec. 13: S½	335/783	320	3 years
3-4-81	Maxine Raburn, et vir	J. P. Carnes, Inc.	Sec. 13: S½	337/177	320	3 years
4-7-81	Roy G. Barton	J. P. Carnes, Inc.	Sec. 13: S½	337/20	320	3 years
5-3-81	Promco, Inc.	J. P. Carnes, Inc.	Sec. 13: S½	338/252	320	3 years
5-22-81	Bryant Williams, Trustee	J. P. Carnes, Inc.	Sec. 13: S½	338/254	320	3 years
6-19-81	Ruth A. White, Exec.	J. P. Carnes, Inc.	Sec. 13: S½	339/64	320	3 years
6-22-81	Sally Hunter Trolinger	J. P. Carnes, Inc.	Sec. 13: S½	339/66	320	3 years
6-25-81	Ruby Webster March	J. P. Carnes, Inc.	Sec. 13: S½	339/88	320	3 years
6-18-81	W. T. Mendeli	J. P. Carnes, Inc.	Sec. 13: S½	339/243	320	3 years
5-1-81	Charles Francis Bedford, et al	J. P. Carnes, Inc.	Sec. 13: S½	340/25	320	3 years
6-25-81	Jessie B. Crump, et al	Donald E. Blackmar	Sec. 13: S½	341/751	320	2 years
7-29-81	First Nat'l Bank, Midland					
	& Jessie Blewins Crump	Donald E. Blackmar	Sec. 13: S½	341/808	320	2 years
6-18-81	Ford M. Boulware	J. P. Carnes, Inc.	Sec. 13: S½	341/608	320	3 years
6-25-81	Mrs. Grace Beck	J. P. Carnes, Inc.	Sec. 13: S½	339/476	320	3 years
6-22-81	Dwight L. Hunter	J. P. Carnes, Inc.	Sec. 13: S½	339/478	320	3 years
6-26-81	David D. Wakefield	J. P. Carnes, Inc.	Sec. 13: S½	339/474	320	3 years
6-26-81	Robert W. Wakefield	J. P. Carnes, Inc.	Sec. 13: S½	340/28	320	3 years
6-26-81	Frank Grier Wakefield	J. P. Carnes, Inc.	Sec. 13: S½	341/194	320	3 years
7-1-81	Austin C. Millsbaugh, Indiv. & Ex. J.	F. F. Carnes, Inc.	Sec. 13: S½	339/698	320	3 years
7-14-81	Mrs. Anna Claire Beazley					
	Henderson, et al	J. P. Carnes, Inc.	Sec. 13: S½	340/238	320	4 years
7-16-81	Helen Schneemann Straus, et al	J. P. Carnes, Inc.	Sec. 13: S½	340/134	320	3 years

EXHIBIT "A"
TO ASSIGNMENT AND AGREEMENTProspect HUMBLE CITYT-17-S, R-37-E, N4PMCounty LeaState New Mexico

SCHEDULE OF LEASES

Lease Date	Lessor	Lessee	Land Description	Recording		Gross Acres	Term
				Data	Book/Page		
7-28-81	John Bayard Tweedy, Ind. Exec.	J. P. Carnes, Inc.	Sec. 13: S $\frac{1}{2}$	340/634		320	3 years
6-25-81	Norma L. Clarke	J. P. Carnes, Inc.	Sec. 13: S $\frac{1}{2}$	340/30		320	3 years
7-28-81	A. M. Tweedy, Jr., Indiv. & Ind. Exec.	J. P. Carnes, Inc.	Sec. 13: S $\frac{1}{2}$	340/636		320	3 years
7-28-81	Elizabeth R. Sykes, Indiv. & Ind. Exec.	J. P. Carnes, Inc.	Sec. 13: S $\frac{1}{2}$	340/507		320	3 years
6-18-81	Edith Anson Boulware	J. P. Carnes, Inc.	Sec. 13: S $\frac{1}{2}$	343/925		320	3 years
9-28-81	Ronald J. Byers	J. P. Carnes, Inc.	Sec. 13: SE $\frac{1}{4}$	343/892		160	3 years
9-28-81	Ronald J. Byers	J. P. Carnes, Inc.	Sec. 13: SW $\frac{1}{4}$	343/894		160	3 years

344 691

EXHIBIT "A"
TO ASSIGNMENT AND AGREEMENTProspect: HUMBLE CITY

T-17-S. R-37-E, NMPM

County LeaState New Mexico

SCHEDULE OF LEASES

Lease Date	Lessor	Lessee	Land Description	Recording Data Book/Page	Gross Acres	Term
3-11-81	Ross L. Elliott, et al	J. P. Carnes, Inc.	Sec. 13: NW $\frac{1}{4}$	336/171	160	3 years
3-11-81	A. B. Waldron, Jr., et al	J. P. Carnes, Inc.	Sec. 13: NW $\frac{1}{4}$	335/643	160	3 years
10-4-80	Marie Jane Devoss	Donald E. Blackmar	Sec. 13: NW $\frac{1}{4}$	331/709	640	5 years
			Sec. 14: NE $\frac{1}{4}$;			
			Sec. 23: E $\frac{1}{2}$			
3-20-81	1st National Bank, Roswell	Donald E. Blackmar	Sec. 13: NW $\frac{1}{4}$	335/718	320	3 years
			Sec. 24: SE $\frac{1}{2}$			
1-19-81	Joseph Richard Nickson, et ux	Donald E. Blackmar	Sec. 13: NW $\frac{1}{4}$;	334/48	640	3 years
			Sec. 14: NE $\frac{1}{2}$;			
			Sec. 23: E $\frac{1}{2}$			
1-19-81	Martha Nickson	Donald E. Blackmar	Sec. 13: NW $\frac{1}{4}$;	334/44	640	3 years
			Sec. 14: NE $\frac{1}{2}$;			
			Sec. 23: E $\frac{1}{2}$			
1-19-81	John Nickson Beers, et ux	Donald E. Blackmar	Sec. 13: NW $\frac{1}{4}$;	334/46	640	3 years
			Sec. 14: NE $\frac{1}{2}$;			
			Sec. 23: E $\frac{1}{2}$			
3-3-81	Clarence V. Shelfer, et al	J. P. Carnes, Inc.	Sec. 13: NE $\frac{1}{4}$	335/720	240	3 years
			Sec. 24: SE $\frac{1}{4}$ NW $\frac{1}{4}$			
1-14-81	Jerry Cypert, et ux	Donald E. Blackmar	Sec. 13: NE $\frac{1}{4}$;	334/230	800	3 years
			Sec. 14: SE $\frac{1}{2}$			
			Sec. 23: W $\frac{1}{2}$			
3-12-81	Sharon Bishop, et al	Donald E. Blackmar	Sec. 14: SE $\frac{1}{2}$	338/420	640	3 years
			Sec. 23: W $\frac{1}{2}$			

EXHIBIT "A"
TO ASSIGNMENT AND AGREEMENT

Prospect HUNBLE CITYT-17-S, R-37-E, NM2MCounty LeaState New Mexico

SCHEDULE OF LEASES

Lease Date	Lessor	Lessee	Land Description	Recording Data Book/Page	Gross Acres	Term
4-7-81	Roy G. Barton, Jr., et ux	J. P. Carnes, Inc.	Sec. 14: NE $\frac{1}{4}$	337/24	160	3 years
1-31-81	H. Dillard Schenck, et al	Donald E. Blackmar	Sec. 14: NE $\frac{1}{4}$	334/586	160	3 years
1-19-81	Albuquerque National Bank, Trustee	Donald E. Blackmar	Sec. 14: NE $\frac{1}{4}$	334/374	480	3 years
10-9-80	Edna P. Pruiett	Donald E. Blackmar	Sec. 14: NE $\frac{1}{4}$	331/609	480	5 years
4-7-81	Roy G. Barton, Jr., et ux	J. P. Carnes, Inc.	Sec. 23: E $\frac{1}{2}$			
1-15-81	Lottie L. Holloway York	Donald E. Blackmar	Sec. 14: S $\frac{1}{2}$	337/22	320	3 years
1-16-81	E. W. Stratman, et al	Donald E. Blackmar	Sec. 14: S $\frac{1}{2}$	334/54	640	3 years
1-15-81	Frances Murle Crow	Donald E. Blackmar	Sec. 23: W $\frac{1}{2}$			
1-16-81		Donald E. Blackmar	Sec. 14: S $\frac{1}{2}$	335/141	640	4 years
1-15-81		Donald E. Blackmar	Sec. 23: W $\frac{1}{2}$			
1-15-81		Donald E. Blackmar	Sec. 14: S $\frac{1}{2}$	334/52	640	3 years
1-16-81		Donald E. Blackmar	Sec. 23: W $\frac{1}{2}$			
5-26-81	Rodney Carter	Donald E. Blackmar	Sec. 14: NE $\frac{1}{4}$	338/370	440	3 yrs from 1-19-81
5-26-81		Donald E. Blackmar	Sec. 14: NE $\frac{1}{4}$			
5-26-81	Powhatan Carter, III	Donald E. Blackmar	Sec. 24: NE $\frac{1}{4}$	338/373	440	3 yrs from 1-19-81
5-26-81		Donald E. Blackmar	Sec. 24: NE $\frac{1}{4}$			
5-26-81	Beverly Ann Carter Overton	Donald E. Blackmar	Sec. 14: NE $\frac{1}{4}$	338/376	440	3 yrs from 1-19-81
5-26-81		Donald E. Blackmar	Sec. 24: NE $\frac{1}{4}$			
5-26-81	Powhatan Carter, Jr., et ux	Donald E. Blackmar	Sec. 24: NE $\frac{1}{4}$	338/379	360	3 yrs from 1-19-81
5-26-81		Donald E. Blackmar	Sec. 24: NE $\frac{1}{4}$			
5-26-81	Anderson Carter II, et al	Donald E. Blackmar	Sec. 14: NE $\frac{1}{4}$	338/382	440	3 yrs from 1-19-81
5-26-81		Donald E. Blackmar	Sec. 24: NE $\frac{1}{4}$			
5-26-81		Donald E. Blackmar	Sec. 24: NE $\frac{1}{4}$			
5-26-81		Donald E. Blackmar	Sec. 24: NE $\frac{1}{4}$			

EXHIBIT "A"
TO ASSIGNMENT AND AGREEMENTProspect HUMBLE CITY

T-17-S, R-37-E, NMPM

County LeaState New Mexico

SCHEDULE OF LEASES

Lease Date	Lessor	Lessee	Land Description	Recording Data Book/Page	Gross Acres	Term
3-5-81	Evelyn Elizabeth Machen	J. F. Carnes, Inc.,	Sec. 23: E $\frac{1}{2}$	335/285	320	3 years
3-13-81	Lynda Yost Lindh, Individ. and as Trustee	J. F. Carnes, Inc.	Sec. 23: E $\frac{1}{2}$	335/545	320	3 years
1-16-81	Beatrice Zappe	Donald E. Blackmar	Sec. 23: W $\frac{1}{2}$	334/50	320	4 years
10-4-80	Robert E. Daughtry, et ux	Donald E. Blackmar	Sec. 24: NE $\frac{1}{4}$ NE $\frac{1}{4}$ & W $\frac{1}{2}$	331/617	360	5 years
10-4-80	Peggy N. Daughtry	Donald E. Blackmar	Sec. 24: NE $\frac{1}{4}$ NE $\frac{1}{4}$ & W $\frac{1}{2}$	331/619	360	5 years
10-4-80	Joe W. Huff	Donald E. Blackmar	Sec. 24: NE $\frac{1}{4}$ NE $\frac{1}{4}$ & W $\frac{1}{2}$	331/611	360	5 years
10-4-80	Ruth Daughtry Huff	Donald E. Blackmar	Sec. 24: NE $\frac{1}{4}$ NE $\frac{1}{4}$ & W $\frac{1}{2}$	331/613	360	5 years
3-3-81	James Roy Tomlinson	J. F. Carnes, Inc.	Sec. 24: SE $\frac{1}{4}$ NE $\frac{1}{4}$ & W $\frac{1}{2}$ NE $\frac{1}{4}$	335/143	120	3 years
5-26-81	Anderson Carter, et ux	Donald E. Blackmar	Sec. 24: NE $\frac{1}{4}$ NE $\frac{1}{4}$; NW $\frac{1}{4}$; SW $\frac{1}{4}$	339/245	360	3 yrs from 1-19-81

AFFIDAVIT

Before me, the undersigned authority, on this day personally appeared _____, _____ of Inexco Oil Company, of lawful age, who being by me first duly sworn, on his oath deposes and says as follows:

Township 17 South, Range 37 East, N.M.P.M.
Section 14:

That the Initial Test Well drilled on said _____ acre tract, known as the _____ Well, is located _____ feet from the _____ line and _____ feet from the _____ line of said Section 14, and [completed as a producing well in the _____ formation in the interval between _____ feet and _____ feet subsurface.] [plugged and abandoned as a dry hole.]

Notary Public in and for
Lea County, New Mexico

The foregoing instrument was acknowledged before me this
day of _____, 1981 by _____,
President of Inexco Oil Company, a _____
corporation, on behalf of said corporation.

Notary Public

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

MODEL FORM OPERATING AGREEMENT

Exhibit "C"

Attached to and made a part of
that Assignment and Agreement dated
October 28, 1981, between LDM Associates
Assignor and INEXCO OIL COMPANY, Assignee

OPERATING AGREEMENT

DATED

October 28, , 19 81 ,OPERATOR INEXCO OIL COMPANYCONTRACT AREA T17S, R37E Lea County, New MexicoSec. 13, 14, 23, 24: All

COUNTY OR PARISH OF _____ STATE OF _____

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APPROVED FORM. A.A.P.L. NO. 610 - 1977 REVISED
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A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1977

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Inexco 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) Percentages or fractional interests of parties to this agreement.

(3) Oil and gas leases and/or oil and gas interests subject to this agreement,

(4) 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~~

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

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

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

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

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

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

24
25 2. Loss by Non-Payment or Erroneous Payment of Amount Due. If, through mistake or oversight,
26 any rental, shut-in well payment, minimum royalty or royalty payment, is not paid or is erroneously
27 paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against
28 the party who failed to make such payment. Unless the party who failed to make the required payment
29 secures a new lease covering the same interest within ninety (90) days from the discovery of the fail-
30 ure to make proper payment, which acquisition will not be subject to Article VII.B., the interests of
31 the parties shall be revised on an acreage basis, effective as of the date of termination of the lease in-
32 volved, and the party who failed to make proper payment will no longer be credited with an interest in
33 the Contract Area on account of ownership of the lease or interest which has terminated. In the event
34 the party who failed to make the required payment shall not have been fully reimbursed, at the time of
35 the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an
36 acreage basis, for the development and operating costs theretofore paid on account of such interest, it
37 shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the
38 cost of any dry hole previously drilled or wells previously abandoned) from so much of the following
39 as is necessary to effect reimbursement:

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

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

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

51
52 3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2.
53 above, shall not be considered failure of title but shall be joint losses and shall be borne by all parties
54 in proportion to their interests. There shall be no readjustment of interests in the remaining portion of
55 the Contract Area.

57 ARTICLE V. 58 OPERATOR

60 A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

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

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 _____ 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.

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

1. B. Subsequent Operations:

2
3 1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area
4 other than the well provided for in Article VI.A., or to rework, deepen/^{sidetrack} or plug back a dry hole drilled
5 at the joint expense of all parties or a well jointly owned by all the parties and not then producing
6 in paying quantities, the party desiring to drill, rework, deepen/^{sidetrack} or plug back such a well shall give the
7 other parties written notice of the proposed operation, specifying the work to be performed, the loca-
8 tion, proposed depth, objective formation and the estimated cost of the operation. The parties receiv-
9 ing such a notice shall have thirty (30) days after receipt of the notice within which to notify the
10 parties wishing to do the work whether they elect to participate in the cost of the proposed operation.
11 If a drilling rig is on location, notice of proposal to rework, plug back/^{complete} or drill deeper may be given
12 by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday,
13 Sunday or legal holidays. Failure of a party receiving such notice to reply within the period above fixed
14 shall constitute an election by that party not to participate in the cost of the proposed operation. Any
15 notice or response given by telephone shall be promptly confirmed in writing.

16
17 2. Operations by Less than All Parties: If any party receiving such notice as provided in Article
18 VI.B.1. or VI.E.1. elects not to participate in the proposed operation, then, in order to be entitled to
19 the benefits of this article, the party or parties giving the notice and such other parties as shall elect
20 to participate in the operation shall, within sixty (60) days after the expiration of the notice period of
21 thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period
22 where the drilling rig is on location, as the case may be) actually commence work on the proposed
23 operation and complete it with due diligence. Operator shall perform all work for the account of the
24 Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Op-
25 erator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform
26 the work required by such proposed operation for the account of the Consenting Parties, or (b) desig-
27 nate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when
28 conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms
29 and conditions of this agreement.

30
31 If less than all parties approve any proposed operation, the proposing party, immediately after the
32 expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest
33 of the parties approving such operation, and (b) its recommendation as to whether the Consenting Par-
34 ties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48)
35 hours (exclusive of Saturday, Sunday or legal holidays) after receipt of such notice, shall advise the
36 proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A",
37 or (b) carry its proportionate part of Non-Consenting Parties' interest. The proposing party, at its
38 election, may withdraw such proposal if there is insufficient participation, and shall promptly notify
39 all parties of such decision.

40
41 The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in
42 the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting
43 Parties shall keep the leasehold estates involved in such operations free and clear of all liens and
44 encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such
45 an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole
46 cost, risk and expense. If any well drilled, reworked, deepened/^{completed, sidetracked} or plugged back under the provisions
47 of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall
48 complete and equip the well to produce at their sole cost and risk, and the well shall then be turned
49 over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties.
50 Upon commencement of operations for the drilling, reworking, deepening/^{completing, sidetracking} or plugging back of any such
51 well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party
52 shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and
53 be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's
54 interest in the well and share of production therefrom, until the proceeds of the sale of such share,
55 calculated at the well or market value thereof if such share is not sold (after deducting production
56 taxes, royalty/^{windfall profit taxes} overriding royalty and other interests existing on the effective date hereof, payable out of
57 or measured by the production from such well accruing with respect to such interest until it reverts)
58 shall equal the total of the following:

59
60 (a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface
61 equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators,
62 treaters, pumping equipment and piping), plus % of each such Non-Consenting Party's share of the
63 cost of operation of the well commencing with first production and continuing until each such Non-
64 Consenting Party's relinquished interest shall revert to it under other provision of this Article, it being
65 agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which
66 would have been chargeable to each Non-Consenting Party had it participated in the well from the be-
67 ginning of the operation; and

68
69 (b) 300% of that portion of the costs and expenses of drilling reworking, deepening, or plugging
70 back, testing and completing, after deducting any cash contributions received under Article VIII.C., and

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1 300% of that portion of the cost of newly acquired equipment in the well (to and including the well-
2 head connections), which would have been chargeable to such Non-Consenting Party if it had partici-
3 pated therein.

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

13
14 During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share
15 of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of
16 all production, ^{windfall profit} severance, gas lifting and other taxes, and all royalty, overriding royalty and other
17 burdens applicable to Non-Consenting Party's share of production.

18
19 In the case of any reworking, plugging back ^{completing, sidetracking} or deeper drilling operation, the Consenting Parties shall
20 be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of
21 all such equipment shall remain unchanged, and upon abandonment of a well after such reworking,
22 plugging back ^{completing, sidetracking} or deeper drilling, the Consenting Parties shall account for all such equipment to the
23 owners thereof, with each party receiving its proportionate part in kind or in value, less cost of
24 salvage.

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

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

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

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

63 64 C. Right to Take Production in Kind:

65
66 Each party shall have the right to take in kind or separately dispose of its proportionate share of
67 all oil and gas produced from the Contract Area, exclusive of production which may be used in de-
68 velopment and producing operations and in preparing and treating oil for marketing purposes and
69 production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate dispo-
70 sition by any party of its proportionate share of the production shall be borne by such party. Any-

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

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

7
8 In the event any party shall fail to make the arrangements necessary
9 to take in kind or separately dispose of its proportionate share of the
10 oil and gas produced from the Contract Area, Operator shall have the right,
11 subject to the revocation at will by the party owning it, but not the
12 obligation, to purchase such oil and gas or sell it to others at any time
13 and from time to time; provided, however, that should one or more of the
14 parties to this agreement have a market and all of the facilities necessary
15 to transport and deliver gas to their market have been completed, but the
16 Operator cannot at such time commence selling its gas due to lack of a
17 market, then the party or parties which desire to commence selling or
18 utilizing gas shall have the option, but not the obligation, to dispose
19 of all the gas produced from the well pursuant to Paragraph No. III B of
20 the Operating Agreement as if such party or parties were the Operator. Any
21 such purchase or sale by Operator or Non-Operator shall be subject always
22 to the right of the owner of the production to exercise at any time its
23 right to take in kind, or separately dispose of, its share of all oil and
24 gas not previously delivered to a purchaser. Any purchase or sale by
25 Operator or Non-Operator of any other party's share of oil and gas shall
26 be only for such reasonable periods of time as are consistent with the
27 minimum needs of the industry under the particular circumstances, but in
28 no event for a period in excess of one (1) year.

29 D. Access to Contract Area and Information:

30
31 Each party shall have access to the Contract Area at all reasonable times, at its sole risk to inspect
32 or observe operations, and shall have access at reasonable times to information pertaining to the de-
33 velopment or operation thereof, including Operator's books and records relating thereto. Operator, upon
34 request, shall furnish each of the other parties with copies of all forms or reports filed with govern-
35 mental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports
36 of stock on hand at the first of each month, and shall make available samples of any cores or cuttings
37 taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to
38 Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the
39 information. (1) as provided for in the Accounting Procedure attached hereto (2)
40 monthly oil run statements and gas purchase statements

41 E. Abandonment of Wells:

42
43 1. Abandonment of Dry Holes: Except for any well drilled pursuant to Article VI.B.2., any well
44 which has been drilled under the terms of this agreement and is proposed to be completed as a dry hole
45 shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent
46 effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours
47 (exclusive of Saturday, Sunday or legal holidays) after receipt of notice of the proposal to plug and
48 abandon such well, such party shall be deemed to have consented to the proposed abandonment. All
49 such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost,
50 risk and expense of the parties who participated in the cost of drilling of such well. Any party who ob-
51 jects to the plugging and abandoning such well shall have the right to take over the well and conduct
52 further operations in search of oil and/or gas subject to the provisions of Article VI.B.

53
54 2. Abandonment of Wells that have Produced: Except for any well which has been drilled or re-
55 worked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reim-
56 bursed as therein provided, any well which has been completed as a producer shall not be plugged and
57 abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall
58 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense
59 of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment
60 of such well, all parties do not agree to the abandonment of any well, those wishing to continue its op-
61 eration shall tender to each of the other parties its proportionate share of the value of the well's salvable
62 material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated
63 cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall
64 assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity,
65 quality, or fitness for use of the equipment and material, all of its interest in the well and related equip-
66 ment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the
67 formation or formations then open to production. If the interest of the abandoning party is or includes
68 an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an
69 oil and gas lease, limited to the interval or intervals of the formation or formations then open to produc-
70 tion, for a term of one year and so long thereafter as oil and/or gas is produced from the interval or inter-

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.

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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:

~~the necessary expenditures for the drilling or deepening, 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 one-eighth (1/8) 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. 3.

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

1 of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article
 2 IV.B.3. When sales commence, Operator agrees to notify Non-Operator of the actual
 3 date of first sales; however, Operator assumes no liability for failure to do so.

4 G. Taxes:

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

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

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

29
 30 H. Insurance:

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

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

45
 46 ARTICLE VIII.

47 ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

48
 49 A. Surrender of Leases:

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

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

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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...

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

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.~~

BOOK 344 PAGE 710

☒ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of 90 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling 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 90 days from the date of abandonment of said well.

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

ARTICLE XIV. COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

This agreement shall be subject to the conservation laws of the state in which the 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. Metering of Production:

If a diversity of the working interest ownership in production from a lease subject to this agreement occurs as a result of operations by less than all parties pursuant to any provision of this agreement, it is agreed that the oil and other hydrocarbons produced from the well or wells completed by the consenting party or parties shall be separately measured by standard metering equipment to be properly tested periodically for accuracy, and the setting of a separate tank battery will not be required unless the purchaser of the production or governmental regulatory body having jurisdiction will not approve metering for separately measuring the production.

B. Non-Discrimination:

In the performance of this agreement, Operator shall not engage in any conduct or practice which violates any law, order or regulation prohibiting discrimination against any person by reason of his or her race, religion, color, sex, national origin, or age; and Operator further agrees to comply fully with the non-discrimination provisions of Section 202 of Executive Order No. 11246 (30 F.R. 12319), as amended which are hereby included as Exhibit "F"

C. Priority of Operations:

Whenever there is more than one proposal in connection with any well subject to this agreement, such proposals shall be considered and disposed of in the following order of priority:

- (a) Drilling the well to its authorized depth or attempting a completion including testing and logging of such well at such depth shall have first priority over all other operations and proposals;

- (b) A proposal to plug back a well shall prevail over a proposal to deepen or to sidetrack such well; if there is more than one proposal to plug back, the proposal to plug back to the next deepest prospective interval shall have priority over proposal(s) to plug back to shallower prospective intervals;
- (c) A proposal to sidetrack a well in order to reach the authorized depth shall prevail over a proposal to deepen;
- (d) A proposal to deepen a well shall have last priority; and
- (e) Proposals of the same type and to the same depth shall be given precedence in the order in which they were made.

D. Department of Energy Regulations:

Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or predecessor agencies to the extent Operator's interpretation or application of such rules, rulings, regulations or orders were made in good faith.

Non-Operators further agree to reimburse Operator for their proportionate share of any amounts Operator may be required to refund, rebate or pay as a result of an incorrect interpretation or application of the above noted rules, rulings, regulations or orders, together with the Non-Operators' part of interest and penalties owing by Operator as a result of such incorrect interpretation or application of such rules, rulings, regulations or orders.

- E. A sale or assignment of interest by any party will not relieve or release such party of its obligations hereunder. Further, the assigning party shall be and remain liable for the obligations incurred by its assignee unless and until the sale or assignment has been approved by the other parties hereto, which approval shall not be unreasonably withheld. However, no approval shall be given unless and until all monies due and accounts payable accruing out of the development and operation of the lease(s) subject hereto shall have been paid in full by the party assigning its interest and the Operator has been furnished with a certified copy of a recorded instrument evidencing the sale or assignment.

F. REAL COVENANT

The terms, covenants and conditions of this Agreement shall be covenants running with the lands covered hereby and the leasehold estates therein, and with each transfer or assignment of said lands or leasehold estates. Each party making an assignment or transfer of any lands or leasehold estates covered hereby shall state in such assignment or transfer that it is subject to all of the terms, covenants and conditions hereof, and shall promptly give notice to the Operator of any such assignment or transfer.

G. OBLIGATION WELL

Furthermore, notwithstanding any provisions to the contrary appearing in Article VI hereof, it is agreed that if the drilling of a well should be necessary under the express terms or requirements of any lease or leases covered hereby in order to maintain said lease or any portion thereof in force and effect, and if any party or parties desire not to participate in the drilling of such well and the other party or parties desire to conduct such drilling operations, then such well may be drilled by such party or parties without the joinder of the other party or parties. In that event and if and when said well shall have been so drilled and completed or abandoned, the party or parties not participating in the drilling thereof shall transfer and assign to the other party or parties all of its right, title and interest in and to said lease or portion thereof except that, if production is then being obtained from the land held thereunder by a well or wells previously drilled for the joint account, there shall be excepted from such assignment 40 acres around any such well producing oil and 160 acres around any well producing gas in as near a square form as possible with the well in the approximate center thereof, provided that if a spacing pattern or production unit shall have been established by a legal authority around any such well, only the acreage assigned to it shall be so excepted and reserved to the parties jointly. In the event of any such assignment, the acreage as to which it should be so made and leasehold rights thereon shall no longer be subject to this Agreement.

H. WORKOVER OPERATIONS

It is agreed that without the mutual consent of all parties no workover operations will be conducted under the provisions of Article VI so long as any completion in the well proposed to be worked over is producing in paying quantities.

I. FILINGS WITH GOVERNMENTAL AGENCIES

The parties hereto authorize and direct the Operator to prepare and submit to the appropriate jurisdictional agency such filings as the Operator may deem necessary in order that proper well classification may be made for the purposes of the Natural Gas Policy Act of 1978 ("NGPA"). In the event that Operator shall have determined that a well does not qualify for a classification requiring a jurisdictional agency determination under the NGPA and any other party hereto desires to request a jurisdictional agency determination that a well qualifies for a particular category under the NGPA, Operator shall, at the request of such party, advise such party in writing that Operator does not intend to request a jurisdictional agency determination for such well. Operator shall use its best efforts to make such filings under the NGPA in sufficient time after completion of a well to enable any party to make such additional filings as may be necessary to enable such party to collect the maximum rate to which it may be entitled. However, Operator shall not be held liable or responsible for failure to file an appropriate request with a jurisdictional agency unless such resulted from gross or willful negligence or misconduct.

Operator's responsibility for filing shall cease at such time as filings must be made by each party separately.

J. WINDFALL PROFITS TAX ACT OF 1980

The Non-Operators hereto authorize Operator to prepare and submit such documents as may be required to be submitted to the Purchaser of any crude oil sold hereunder or to any other person or entity pursuant to the requirements of the "Windfall Profits Tax Act of 1980" (the "WPTA") and the Non-Operators further agree to submit to Operator such certifications as Operator may deem necessary in order to comply with the WPTA. The Non-Operators agree to indemnify and hold Operator harmless for any and all liabilities caused as a result of any action taken by Operator on the basis of any certification prepared by any party hereto and for any other action undertaken, or certification prepared, by Operator unless Operator is grossly negligent or acts with willful misconduct in taking such action or preparing such certification. Operator agrees to submit all documents on behalf of Non-Operators unless Operator gives written notice to the contrary.

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 25th day of October, 1981.

ATTEST

OPERATOR

INEXCO OIL COMPANY

Assistant Secretary

By: William G. Goodwin, Vice President

NON-OPERATORS
LDM ASSOCIATES

Colin R. McMillan

Charles C. Loveless

By:

By:

David Petroleum Corp.

By:

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 28 day of October 1981.

OPERATOR

INEXCO OIL COMPANY

[Signature]
Assistant Secretary

By: [Signature]
William G. Goodwin, Vice President

NON-OPERATORS
LDM ASSOCIATES

DAVID PETROEUM CORP.

[Signature]
Secretary

By: [Signature]
President

[Signature]
Kay McMillan

[Signature]
Nadine Prideaux Loveless, Individually and as Personal Representative, Estate of Charles C. Loveless, Jr., Deceased
[Signature]
Collin R. McMillan
COLIN

[Signature]
Carolyn L. Schlicher

[Signature]
Fred J. Schlicher

Signature page to Operating Agreement attached to "Assignment and Agreement" of same date between LDM, Assignors, and Inexco Oil Company, Assignee.

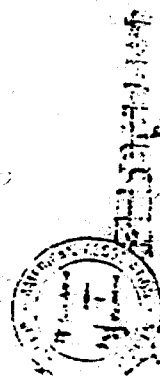


EXHIBIT "A"

Attached to and made a part of that certain
Operating Agreement dated October 28, 1981,
between Inexco Oil Company, Operator and
LDM Associates, Non-Operator

- A. 1. Lands subject to this Agreement
T17S, R37E, Lea County, New Mexico
Sections 13,14,23, and 24: all.

- A. 2. Percentage Interest of Parties
Before Casing Point Initial

	<u>Test Well</u>
Inexco	100%
Loveless	-0-
David	-0-
McMillan	-0-

After Casing Point Initial Test
Well and Other Wells

Inexco	75%	
* Loveless	31.25%	of 25%
* David	37.5%	of 25%
* McMillan	31.25%	of 25%

*Each party has the option to elect to retain its proportionate share of an overriding royalty of 1.25% or join as to its proportionate interest as shown in the Initial Test Well after Casing Point has been reached.

- A. 3. Oil and Gas Leases and/or interests subject to agreement
See Exhibit "A-1" attached hereto

- A. 4. Addresses of Parties for Notice Purposes

LDM Associates
714 Petroleum Building
Roswell, New Mexico 88201
Attn: Edward David

Inexco Oil Company
1100 Milam Bldg. Suite 1900
Houston, Texas 77002
Attn: L. J. Tacconi



MEMORANDUM

April 19, 1982

TO: A. Parras
FROM: LJ Tacconi
RE: Humble City, NM 181A
Lea County, New Mexico

My memo to you of 2-16-82 concerning revised WI's contained erroneous figures. (Haven't determined whether it was me or a typo, so I'll take the blame.)

Please accept my apologies for any inconvenience and correct your records as follows.

IOC	48.4375	%
AH	26.5625	%
Loveless	5.8125	%
David	9.3750	%
McMillan	7.8125	%
Schlicher	2.0000	%

L.J. Tacconi

LJT/bb

RECEIVED
APR 26 1982
CONTRACT SECTION

EXHIBIT "A"
Attached to and made a part of that certain
Operating Agreement dated October 28, 1981,
between Inexco Oil Company, Operator and
LDM Associates, Non-Operator

A. 1. Land subject to this Agreement
T17S, R37E, Lea County, New Mexico
Sections 13, 14, 23, and 24: All

A.2.	Percentage Interest of Parties			
	<u>Before Casing Point Initial</u>	<u>After Casing Point Initial Test</u>		
	<u>Test Well</u>	<u>Well and Other Wells</u>		
	Inexco	100%	Inexco	75%
	Loveless	-0-	*Loveless	31.25% of 25% less 2%
	David	-0-	*David	37.5% of 25%
	McMillan	-0-	*McMillan	31.25% of 25%
	Schlicher	-0-	Schlicher	2%

A.3. Oil and Gas Leases and/or interests subject to agreement.
See Exhibit "A-1" attached hereto.

A.4. Addresses of Parties for Notice Purposes:

*LDM Associates
714 Petroleum Building
Roswell, New Mexico 88201
Attn: Edward David

Inexco Oil Company
1100 Milam Building, Suite 1900
Houston, Texas 77002
Attn: L. J. Tacconi

Fred J. Schlicher
P.O. Box 566
Roswell, New Mexico 88201

EXHIBIT "A-1"

Attached to and made a part of that
certain Operating Agreement dated October 28, 1981,
between INEXCO OIL COMPANY, as Operator
and LDM ASSOCIATES, as Non-Operator

SCHEDULE OF LEASES T-17-S, R-37-E, MNPM County Lea State New Mexico

Lease Date	Lessor	Lessee	Land Descr.	Recording Data Book/Page	Gross Acres	Term
0-9-80	Roderick J. Skidmore	Donald E. Blackmar	Sec.13: S $\frac{1}{2}$	333/408	320	5 yrs.
0-9-80	Charlotte M. Gleason	Donald E. Blackmar	Sec.13: S $\frac{1}{2}$	331/870	320	5 yrs.
0-9-80	Pauline Lawson Bailey, et vir	Donald E. Blackmar	Sec.13: S $\frac{1}{2}$	331/615	320	5 yrs.
-27-81	Hazel O. Cunningham, et al	J. P. Carnes, Inc.	Sec.13: S $\frac{1}{2}$	335/783	320	3 yrs.
-4-81	Maxine Raburn, et vir	J. P. Carnes, Inc.	Sec.13: S $\frac{1}{2}$	337/177	320	3 yrs.
-7-81	Roy G. Barton, Jr.,	J. P. Carnes, Inc.	Sec.13: S $\frac{1}{2}$	337/20	320	3 yrs.
-3-81	Pronco, Inc.	J. P. Carnes, Inc.	Sec.13: S $\frac{1}{2}$	338/252	320	3 yrs.
-22-81	Bryant Williams, Trustee	J. P. Carnes, Inc.	Sec.13: S $\frac{1}{2}$	338/254	320	3 yrs.
-19-81	Ruth A. White, Exec.	J. P. Carnes, Inc.	Sec.13: S $\frac{1}{2}$	339/64	320	3 yrs.
-22-81	Sally Hunter Trollinger	J. P. Carnes, Inc.	Sec.13: S $\frac{1}{2}$	339/66	320	3 yrs.
-25-81	Ruby Webster March	J.P. Carnes, Inc.	Sec.13: S $\frac{1}{2}$	339/88	320	3 yrs.
-18-81	W. T. Mendell	J. P. Carnes, Inc.	Sec.13: S $\frac{1}{2}$	339/243	320	3 yrs.
-11-81	Ross L. Elliott, et al	J. P. Carnes, Inc.	Sec.13: NW $\frac{1}{4}$	336/171	160	3 yrs.
-11-81	A. B. Waldron, Jr., et al	J. P. Carnes, Inc.	Sec.13: NW $\frac{1}{4}$	335/643	160	3 yrs.
0-04-80	Marie Jane DeVoss	Donald E. Blackmar	Sec.13: NW $\frac{1}{4}$ Sec.14: NE $\frac{1}{4}$; Sec.23: E $\frac{1}{2}$	331/709	640	5 yrs.
-20-81	1st National Bank, Roswell	Donald E. Blackmar	Sec.13: NW $\frac{1}{4}$ Sec.24: SE $\frac{1}{4}$	335/718	320	3 Yrs.
-19-81	Joseph Richard Nickson, et ux	Donald E. Blackmar	Sec.13: NW $\frac{1}{4}$; Sec.14: NE $\frac{1}{4}$; Sec.23: E $\frac{1}{2}$	334/48	640	3 yrs.
-19-81	Martha Nickson	Donald E. Blackmar	Sec.13: NW $\frac{1}{4}$; Sec.14: NE $\frac{1}{4}$; Sec.23: E $\frac{1}{2}$	334/44	640	3 yrs.
-19-81	John Nickson Beers, et ux	Donald E. Blackmar	Sec.13: NW $\frac{1}{4}$; Sec.14: NE $\frac{1}{4}$; Sec.23: E $\frac{1}{2}$	334/46	640	3 yrs.
-3-81	Clarence V. Shalfer, et al	J. P. Carnes, Inc.	Sec.13: NE $\frac{1}{4}$ Sec.24: S $\frac{1}{2}$ NW $\frac{1}{4}$	335/720	240	3 yrs.
-14-81	Jerry Cypert, et ux	Donald E. Blackmar	Sec.13: NE $\frac{1}{4}$; Sec.14: S $\frac{1}{2}$ Sec.23: W $\frac{1}{2}$	334/230	800	3 yrs.
-5-81	Evelyn Elizabeth Machen	J. P. Carnes, Inc.,	Sec.23: E $\frac{1}{2}$	335/285	320	3 yrs.
-13-81	Lynda Yost Lindh, Individ. and as Trustee	J. P. Carnes, Inc.	Sec.23: E $\frac{1}{2}$	335/545	320	3 yrs.
-16-81	Beatrice Zappe	Donald E. Blackmar	Sec.23: W $\frac{1}{2}$	334/50	320	4 yrs.
0-4-80	Robert E. Daughtry, et ux	Donald E. Blackmar	Sec.24: NE $\frac{1}{4}$ NE $\frac{1}{4}$ & W $\frac{1}{2}$	331/617	360	5 yrs.
0-4-80	Peggy M. Daughtry	Donald E. Blackmar	Sec.24: NE $\frac{1}{4}$ NE $\frac{1}{4}$ & W $\frac{1}{2}$	331/619	360	5 yrs.
0-4-80	Joe W. Huff	Donald E. Blackmar	Sec.24: NE $\frac{1}{4}$ NE $\frac{1}{4}$ & W $\frac{1}{2}$	331/611	360	5 yrs.
0-4-80	Ruth Daughtry Huff	Donald E. Blackmar	Sec.24: NE $\frac{1}{4}$ NE $\frac{1}{4}$ & W $\frac{1}{2}$	331/613	360	5 yrs.
-3-81	James Roy Tomlinson	J. P. Carnes, Inc.	Sec.24: SE $\frac{1}{4}$ NE $\frac{1}{4}$ & W $\frac{1}{2}$ NE $\frac{1}{4}$	335/143	120	3 yrs.
-7-81	Roy G. Barton, Jr., et ux	J. P. Carnes, Inc.	Sec. 14:NE $\frac{1}{4}$	337/24	160	3 yrs.
-31-81	H. Dillard Schenck, et al	Donald E. Blackmar	Sec.14:NE $\frac{1}{4}$	334/586	160	3 yrs.
-19-81	Albuquerque National Bank, Trustee	Donald E. Blackmar	Sec.14:NE $\frac{1}{4}$; Sec.23:E $\frac{1}{2}$	334/374	480	3 yrs.
0-9-80	Edna P. Pruiett	Donald E. Blackmar	Sec.14:NE $\frac{1}{4}$; Sec.23:E $\frac{1}{2}$	331/609	480	5 yrs.
-7-81	Roy G. Barto., Jr., et ux	J. P. Carnes, Inc.	Sec.14:S $\frac{1}{2}$	337/22	320	3 yrs.

EXHIBIT "B"

Attached to and made a part of that
certain Operating Agreement dated October 28, 1981,
between INEXCO OIL COMPANY, as Operator
and LDM ASSOCIATES, as Non-Operator

There is no Exhibit "B" to this agreement.

PLU 24: INF 718

EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement dated Oct. 23, 1981, between Inco Oil Co., Operator, and LDM Associates, 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 proportionate share of all invoices within thirty (30) days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest monthly at a rate per annum equivalent to the Prime Rate of the Texas Commerce Bank, Houston, Texas, plus 2%, which rate may vary from time to time, or the maximum contract or conventional 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 any other costs incurred by the Operator 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%).

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 \$	2949.00
Producing Well Rate \$	322.00

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

(a) Drilling Well Rate

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

(b) Producing Well Rates

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

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

2. Overhead - Major Construction TO BE NEGOTIATED

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

~~A. _____ % of total costs if such costs are more than \$_____ but less than \$_____; plus~~

~~B. _____ % of total costs in excess of \$_____ but less than \$1,000,000; plus~~

~~C. _____ % 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 (i) 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.

INSURANCE

Operator shall at all times during the term of this Agreement maintain the following insurance, for the benefit of the parties hereto, subject to availability on acceptable terms:

1. Worker's Compensation, including an "all states" endorsement, as required by the laws of the state where the operations are to be conducted and Employers' Liability Insurance with a limit of not less than \$100,000.

2. Comprehensive General Liability Insurance, including completed operations and blanket contractual liability insurance, with limits not less than:

\$500,000 - each occurrence

\$100,000 - for loss of or damage to property in any one occurrence

3. Comprehensive Automobile Liability Insurance covering all automotive equipment used in performance of work under this agreement with limits of not less than:

\$250,000 - each person

\$500,000 - each occurrence

\$100,000 - for loss of or damage to property in any one occurrence

Excess liability insurance may be carried to meet the above requirements.

OFFSHORE AND INLAND WATER

Whenever the operations under this Agreement will be conducted in offshore, coastal or inland water areas, operator's Worker's Compensation policy shall be extended to provide the following additional minimum insurance.

U.S. Longshoremen and Harbor Worker's Compensation Act Coverage;
Outer Continental Shelf Lands Act Endorsement; The General Maritime law including Jones Act with limits of not less than \$500,000; "In Rem" Endorsement; and voluntary compensation (maritime) \$250,000 limits.

Any contractor furnishing waterborne vessel services for any work to be performed hereunder shall carry protection and indemnity insurance in an amount equal to the sound value of the vessel with a minimum limit of \$100,000, including collision liability with provisions for transportation, wages, maintenance and cure to a master or member of the crew of the insured vessel, and Hull and Machinery coverage to the sound value of the vessel. Further, where applicable, said contractors shall carry towers liability, pollution liability and debris removal coverage.

Upon request, Operator shall furnish satisfactory evidence of well control insurance as well as those coverages required by the terms of this agreement.

Operator shall use its best efforts to require its Contractors performing work under this Agreement to carry insurance as outlined above.

EXHIBIT "E"

Attached to and made a part of that
certain Operating Agreement dated October 28, 1981,
between INEXCO OIL COMPANY, as Operator
and LIM, ASSOCIATES, as Non Operator

There is no Exhibit "E" to this Agreement.

EQUAL EMPLOYMENT OPPORTUNITY PROVISION

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

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

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

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

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

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

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

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

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

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

SUPPLEMENT "B"

CERTIFICATION OF NON-SEGREGATED FACILITIES

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

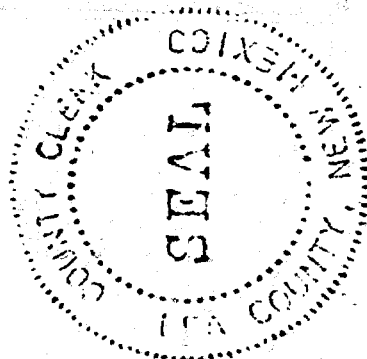
Operator further understands and agrees that a breach of the assurance herein contained subjects it to the provisions of the Order at 41 CFR Chapter 60 of the Secretary of Labor dated May 21, 1968, and the provisions of the equal opportunity clause enumerated in contracts between the United States of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

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

STATE OF NEW MEXICO
COUNTY OF LEA
FILED

DEC 22 1981

at 11:00 o'clock A. M.
and recorded in Book 344
Page 680
By [Signature] County Clerk
Deputy



19638

INEXCO OIL COMPANY

AUTHORIZATION FOR EXPENDITURE

AFE No. (Inexco Property No.) _____
 Prospect South Humble City Strawn
 Well Name and Number Inexco #1 Pruett
 Estimated Days to Drill 47
 Estimated Days to Complete 10

Location: 660' FNL & 1980'
FEL, Sec. 23, T17S,
R37E
Lea Co., New Mexico

OBJECTIVES Wolfcamp SANDS AND DEPTH 9,965'
Wolfcamp Det. 11,008'
Strawn 11,425'
Atoka 11,658'

Est. T.D. 11,800'
 Est. Spud _____
 A F E Prepared April 7, 1982
 By: Wyndell R. Caviness

☒ Drill ☐ Workover Same Zone ☐ Recomplete in New Zone

DESCRIPTION	ESTIMATED COSTS		ACTUAL COST
	DRILLING	COMPLETION	
INTANGIBLE COSTS (321)			
Access and Location Costs	24,000		
Move-in, Rig-up, Rig-down, Move-out	60,000		
Contract Drilling			
Footage _____ ft. at \$ _____ ft.			
Daywork <u>47</u> days at \$ <u>8,200</u> day	385,400		
Completion Unit <u>10</u> days at \$ <u>2,400</u> day		24,000	
Fuel, Power, Water and Water Lines	50,000	1,500	
Bits, Reamers and Stabilizers	30,000		
Equipment Rental	47,000	5,000	
Cementing and Squeezing			
Conductor Casing	5,500		
Surface Casing	20,000		
Intermediate Casing		15,000	
Production Casing			
Liner			
Other			
Drilling Mud and Chemicals	40,000	3,000	
Mud Logger	14,000		
Logging, Coring and Testing			
Cores <u>30'</u> conventional core	5,000		
DST's <u>1</u>	5,000		
Logs <u>DISFL-4850'-11800', FDC/CNL-4850'-</u>	65,000		
<u>11800', DIPMETER 10000'-11800'</u>	7,000		
<u>GR/CBL</u>		6,000	
Perforating & wireline work		9,000	
Acidizing and Fracturing		20,000	
Labor and Supervision	23,500	5,000	
Contract Labor	30,000	3,000	
Drilling Overhead	80,000		
Transportation & hauling	7,000	2,000	
Sales Tax	20,000	2,000	
Other Miscellaneous Intangible Costs testing, pipe inspec., etc	25,000	18,000	
Losses, Damages and Abandonment	12,000		
Fishing Tool Expense and/or Directional Drilling			
Dry Hole Contributions			
Well Control Insurance			
TOTAL INTANGIBLE	\$ 1,068,900	\$ 955,400	\$ 113,500

BEFORE EXAMINER NUTTER
 OIL CONSERVATION DIVISION

INEXCO EXHIBIT NO. 5

CASE NO. 7614 and 7615

DESCRIPTION						ESTIMATED COSTS		ACTUAL COST
						DRILLING	COMPLETION	
TANGIBLE COSTS (313-314)								
1	Conductor Csg	ft of	at	ft				
1	Surface Csg	450	ft of 13-3/8 at	ft	10,800			
2	Intermediate Csg	4,200	ft of 9-5/8 at	ft	139,200			
2	Liner	ft of	at	ft				
2	Liner	ft of	at	ft				
2	Tieback	ft of	at	ft				
3	Production Csg	11,800	ft of 5-1/2 at	ft		117,400		
4	Tubing	11,800	ft of 2-7/8 at	ft		82,600		
2	Installation Costs and Non-Controllable Well Equipment						8,000	
1	Casing Head Assembly				6,000			
1	Tubing Head Assembly & tree					29,000		
2	Pumping Unit & rods					81,000		
3	Prime Mover					5,000		
4	Storage Tanks					30,000		
5	Separator					3,600		
6	Dehydrator							
7	Heater - Treater					8,500		
3	LACT Unit							
3	LTX or Production Unit							
1	Line Pipe					5,000		
4	Gas Recorders					4,000		
2	Installation Costs and Non-Controllable Lease Equipment						16,000	
TOTAL TANGIBLE						\$ 546,100	\$ 156,000	\$ 390,100
TOTAL WELL						\$ 1,615,000	\$ 1,111,400	\$ 503,600

OWNERSHIP APPROVALS:

INEXCO OIL COMPANY

AUTHORIZATION FOR EXPENDITURE

AFE No. (Inexco Property No.) _____
 Prospect South Humble City Strawn
 Well Name and Number Inexco #2 Pruitt
 Estimated Days to Drill 47
 Estimated Days to Complete 10

Location 1980' FNL 3 660'
EEL, Sec 23, T17S, R37E
Lea Co., New Mexico

OBJECTIVES SANDS AND DEPTH
Wolfcamp 9,265'
Wolfcamp Det. 11,000'
Strawn 11,425'
Atoka 11,653'

Est. T.O. 11,000'
 Est. Spud _____
 AFE Prepared April 7, 1982
 By Wyndell R. Caviness
WR

() Drill () Workover Same Zone () Recomplete in New Zone

DESCRIPTION	ESTIMATED COSTS		ACTUAL COST
	DRILLING	COMPLETION	
INTANGIBLE COSTS (321)			
Access and Location Costs	24,000		
Move-in, Rig-up, Rig-down, Move-out	60,000		
Contract Drilling			
Footage _____ ft. at \$ _____ ft.			
Daywork <u>47</u> days at \$ <u>8,200</u> day	385,400		
Completion Unit <u>10</u> days at \$ <u>2,400</u> day		24,000	
Fuel, Power, Water and Water Lines	50,000	1,500	
Bits, Reamers and Stabilizers	30,000		
Equipment Rental	47,000	5,000	
Cementing and Squeezing			
Conductor Casing	5,500		
Surface Casing	20,000		
Intermediate Casing		15,000	
Production Casing			
Liner			
Other			
Drilling Mud and Chemicals	40,000	3,000	
Mud Logger	14,000		
Logging, Coring and Testing			
Cores <u>30'</u> conventional core	5,000		
DST's <u>1</u>	5,000		
Logs <u>DISFL-4850'-11800', FDC/CNL-4850'-</u>	55,000		
<u>11800', DIPMETER 10000'-11800'</u>	7,000		
<u>GR/CBL</u>		5,000	
Perforating & wireline work		9,000	
Acidizing and Fracturing		20,000	
Labor and Supervision	23,500	5,000	
Contract Labor	30,000	3,000	
Drilling Overhead	80,000		
Transportation & hauling	7,000	2,000	
Sales Tax	20,000	2,000	
Other Miscellaneous Intangible Costs testing, pipe inspec., etc	25,000	18,000	
Losses, Damages and Abandonment	12,000		
Fishing Tool Expense and/or Directional Drilling			
Dry Hole Contributions			
Well Control Insurance			
TOTAL INTANGIBLE	\$ 1,068,900	\$ 955,400	\$ 113,500

CASES 7614 AND 7615: Application of Inexco Oil Company for compulsory pooling, Lea County, New Mexico. Applicant, in each of the following cases seeks an order pooling all mineral interests from the surface through the Strawn formation underlying the lands specified in each case, to form a standard 80-acre oil proration unit in the South Humble City-Strawn Pool to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the wells and a charge for risk involved in drilling said wells:

CASE 7614: W/2 NE/4 Section 23, Township 17 South, Range 37 East

CASE 7615: E/2 NE/4 Section 23, Township 17 South, Range 37 East

CASES 7616 AND 7617: Application of Southland Royalty Company for compulsory pooling, Eddy County, New Mexico. Applicant, in each of the following cases seeks an order pooling all mineral interests in the Pennsylvanian formation underlying the lands specified in each case, to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said wells and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the wells and a charge for risk involved in drilling said wells:

CASE 7616: N/2 Section 21, Township 18 South, Range 29 East

CASE 7617: S/2 Section 21, Township 18 South, Range 29 East

CASE 7618: Application of Doyle Hartman for an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location of a gas well to be drilled 1450 feet from the South line and 1980 feet from the East line of Section 20, Township 20 South, Range 37 East, Eumont Gas Pool, the SE/4 of said Section 20 to be dedicated to the well.

CASE 7605: (Continued from June 9, 1982, Examiner Hearing)

Application of Yates Petroleum Corporation for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the top of the Wolfcamp formation through the uppermost 100 feet of the Mississippian Chester Limestone underlying the W/2 of Section 35, Township 19 South, Range 24 East, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

CASE 7458: (Continued from April 28, 1982, Examiner Hearing)

Application of Marks & Garner Production Company for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of salt water into the Bough C formation in the perforated interval from 9596 feet to 9616 feet in its Betenbough Well No. 2, located in Unit M of Section 12, Township 9 South, Range 35 East.

CASE 7598: (This case was heard on May 26, 1982. However, due to an error in originally advertising the case in the Torrance County newspaper, it has been readvertised in Torrance County only and will be reopened June 23, 1982, with respect to Torrance County only.)

Application of ANR Production Company and Yates Petroleum Corporation for designation of a tight formation in San Miguel, Torrance, Guadalupe, De Baca, Lincoln and Chaves Counties, New Mexico. Pursuant to Section 107 of the Natural Gas Policy Act of 1978 and 18 CFR Section 271.701-705, applicants, in the above-styled cause, seeks the designation as a tight formation of the Abo formation underlying the following described lands in the above-named counties.

All of:

Townships 1 thru 4 North, Ranges 14 thru 27 East;
Townships 5 thru 11 North, Ranges 14 thru 26 East;
Township 1 South, Ranges 14 thru 27 East;
Townships 2 thru 5 South, Ranges 14 thru 21 East;
Townships 6 thru 11 South, Ranges 15 thru 21 East;
Township 12 South, Ranges 17 thru 21 1/2 East; and
Townships 13 and 14 South, Ranges 17 thru 21 East;
containing 5,168,563 acres, more or less, but excluding the not yet defined Capitan Wilderness Area.

CAMPBELL, BYRD & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
HARL D. BYRD
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
WILLIAM G. WARDLE
KEMP W. GORTNEY

JUN 07 1982
OIL AND GAS
SUITE 1 - 110 NORTH
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87501
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 988-6043

June 4, 1982

Mr. Joe D. Ramey
Division Director
Oil Conservation Division
New Mexico Department of Energy
& Minerals
Post Office Box 2088
Santa Fe, New Mexico 87501

Case 7615

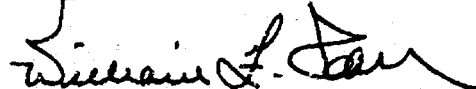
Re: Application of Inexco Oil Company for Compulsory
Pooling, Lea County, New Mexico

Dear Mr. Ramey:

Enclosed in triplicate is the application of Inexco Oil
Company in the above-referenced matter.

The applicant requests that this matter be included on the
docket for the examiner hearing scheduled to be held on June 23,
1982.

Very truly yours,



William F. Carr

WFC:kb
enclosures

cc: Mr. L.J. Tacconi

RECEIVED
JUN 07 1982
SANTA FE

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

IN THE MATTER OF THE APPLICATION
OF INEXCO OIL COMPANY FOR COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO. CASE 7615

APPLICATION

Comes now, INEXCO OIL COMPANY, by and through its undersigned attorneys and, as provided by Section 70-2-17, New Mexico Statutes Annotated, 1978 Compilation, hereby makes application for an order pooling all of the mineral interests in all formations from the surface down through and including the Strawn formation in and under the E/2 NE/4 of Section 23, Township 17 South, Range 37 East, N.M.P.M., Lea County, New Mexico, and in support thereof would show the Division:

1. Applicant owns 47.43% of the working interest in and under the E/2 NE/4 of Section 23, and applicant has the right to drill thereon.
2. Applicant proposes to dedicate the above-referenced pooled unit to a well to be drilled at an orthodox location in the E/2 NE/4 of said Section 23.
3. Applicant has sought and obtained either voluntary agreement for pooling or farmout from all other working interest owners in the E/2 NE/4 of said Section 23 except Exxon Company, U.S.A. the owner of a 2.08% working interest.
4. Said pooling of interest and well completion will avoid the drilling of unnecessary wells, will prevent waste and will protect correlative rights.

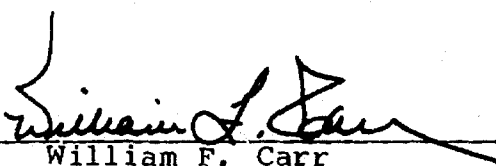
5. In order to permit the applicant to obtain its just and fair share of the oil and gas underlying the subject lands, the mineral interest should be pooled, and applicant should be designated the operator of the well to be drilled.

WHEREFORE, applicant prays that this application be set for hearing before the Division's duly appointed examiner, and that after notice and hearing as required by law the Division enter its order pooling the lands, including provisions designating the applicant as operator of the well, providing for application to recover its costs of drilling, equipping and completing the well, and its costs of supervision while drilling, and after completion, including overhead charges, and imposing a risk factor for the risk assumed by the applicant in drilling, completing and equipping the well, and making such other and further provisions as may be proper in the premises.

Respectfully submitted,

CAMPBELL, BYRD & BLACK, P.A.

By


William F. Carr
Post Office Box 2208
Santa Fe, New Mexico 87501
Attorneys for Applicant

Memo

From

FLORENE DAVIDSON
ADMINISTRATIVE SECRETARY

To Called in by Bill Carr

6/3/52

Santa Fe Oil Company
Compulsory Pooling

Lea County

E1/2 NE1/4 Section 23-17S-37E

Surface through Strawn
formation

Order is

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

Roll

JAR

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

*Holome - PLS be sure
and give case 7614 an
R- number immediately
preceding the one for
this case*

CASE NO. 7615

Order No. R- 7017

APPLICATION OF INEXCO OIL COMPANY
FOR COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.

[Signature]
M.S.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on June 23, 1982,
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this _____ day of July, 1982, the Division
Director, having considered the testimony, the record, and the
recommendations of the Examiner, and being fully advised in the
premises,

FINDS:

(1) That due public notice having been given as required
by law, the Division has jurisdiction of this cause and the
subject matter thereof.

(2) That the applicant, Inexco Oil Company, seeks an order pooling all mineral interests from the surface through the Strawn formation underlying the E/2 NE/4 of Section 23, Township 17 South, Range 37 East, NMPM, Lea County, New Mexico.

(3) That the applicant has the right to drill and proposes to drill a well at a standard location thereon.

(4) That there are interest owners in the proposed proration unit who have not agreed to pool their interests.

(5) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(6) That the applicant should be designated the operator of the subject well and unit.

(7) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) That any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) That following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(11) That \$ 2949.00 per month while drilling and \$ 322.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); that the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(13) That upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated ~~on or before~~ within 60 days following completion of the well on ~~the lands pooled by Order No. R-7016 in Case No. 7614,~~ the order pooling ~~this~~ unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, from the surface through the Strawn formation underlying the E/2 NE/4 of Section 23, Township 17 South, Range 37 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 80-acre oil spacing and proration unit to be dedicated to a well to be drilled at a standard location thereon.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well ~~on or before the~~ *within 60 days following completion* ~~of the well on lands pooled by Order No. 80~~ *in Case No. 7614* ~~day of~~ *1982*, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Strawn formation;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well ~~on or before the~~ *within the time period described* ~~immediately above,~~ *immediately above,* ~~day of~~ *1982*, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) That Inexco Oil Company is hereby designated the operator of the subject well and unit.

(3) That after the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) That within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That the operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; that if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

- (A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within

30 days from the date the schedule of estimated well costs is furnished to him.

- (B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That \$ 2949.00 per month while drilling and \$ 322.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(13) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

JOE D. RAMEY,
Director

S E A L