
CASE NO.

6399

APPLICATION,
TRANSCRIPTS,
SMALL EXHIBITS,

ETC.

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
State Land Office Building
Santa Fe, New Mexico
7 December 1978

EXAMINER HEARING

IN THE MATTER OF:

Application of Texas Oil & Gas
Corporation for compulsory pooling,
Eddy County, New Mexico.

CASE
6399

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

Lynn Teschendorf, Esq.
Legal Counsel for the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

Joel Carson, Esq.
LOSEE, CARSON & DICKERSON, P.A.
Artesia, New Mexico

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I N D E X

CHARLES W. COOKMAN

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DOYLE J. SNOW

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E X H I B I T S

Applicant Exhibit One, Plat 7

Applicant Exhibit Two, Plat 7

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Applicant Exhibit Four, Structure Map 7

Applicant Exhibit Five, Logs 7

Applicant Exhibit Six, AFE 13

Applicant Exhibit Seven, Operating Agreement 13

Applicant Exhibit Eight, List 13

1 MR. STAMETS: Call next Case 6399.

2 MS. TESCHENDORF: Case 6399. Application of
3 Texas Oil and Gas Corporation for compulsory pooling, Eddy
4 County, New Mexico.

5 MR. CARSON: Mr. Examiner, my name is Joel
6 Carson, Losee, Carson, and Dickerson, P. A., Artesia, New
7 Mexico, appearing for the Applicant.

8 I have two witnesses.

9 MR. STAMETS: Any other appearances in this
10 case? I'd like to have the witnesses stand -- are these
11 the same witnesses you had in the last case?

12 MR. CARSON: No, sir, one of them is differ-
13 ent. One of them will be Mr. Cookman and one of them would
14 by Doyle Snow.

15 MR. STAMETS: Let's just have them both stand
16 and be sworn, please.

17 (Witnesses sworn.)

18
19 CHARLES W. COOKMAN
20 being called as a witness and having been duly sworn upon
21 his oath, testified as follows, to-wit:

22
23 DIRECT EXAMINATION

24 BY MR. CARSON:

25 Q Would you state --

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Santa Fe, New Mexico 87501

1 MR. STAMETS: Let the record show that this
2 witness was qualified in the previous case and is still
3 qualified.

4 Q Your name is Charles Cookman, is it not?

5 A Yes.

6 Q And you previously testified in the previous
7 case?

8 A Yes.

9 Q Would you state the purpose of this applica-
10 tion?

11 A I don't know just how to do this.

12 Q What this is, to expedite matters just a bit,
13 is an application to -- for compulsory pooling, is it not?

14 A It's an application for compulsory pooling
15 of all mineral interests in the Wolfcamp and Pennsylvanian
16 formations underlying the west half of Section 32, Township
17 18 South, Range 27 East, Eddy County, New Mexico, to be
18 dedicated to a well 710 feet from the north line and 2330
19 feet from the west line of said section.

20 Q Mr. Cookman, I'm going to hand you Applicant's
21 Exhibit Number One, and ask if you've examined that exhibit?

22 A I have.

23 Q Is it true and correct to the best of your
24 knowledge?

25 A It is.

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1 Q And are you aware of the data underlying the
2 exhibit? I mean the information upon which it's based?

3 A Yes.

4 Q I will hand you Applicant's Exhibit Number
5 Two and ask you to identify it.

6 A This is a production map in the Red Lake
7 South area of Eddy County, New Mexico.

8 Q Would you explain the color code?

9 A The color code is elaborated upon in the
10 lefthand corner of the production map, red indicating a
11 Strawn map; turquoise indicating a Morrow well; and blue
12 indicating a Pennsylvanian well.

13 Q Okay.

14 A There are two good wells in the area that
15 have been completed in the Morrow, and they are in Sections
16 20 and 29 of Township 18 South, Range 27 East.

17 The Yates Petroleum Rio Pecos Well No. 2-GB
18 in Section 20 had an initial rate of fourteen five. It was
19 completed 8-17-78.

20 The well directly to the south of that, the
21 Yates Petroleum Rio Pecos GB Com No. 1 in Section 29 of
22 Township 18 South, Range 27 East, has produced in excess of
23 2 Bcf of gas and in excess of 21,000 barrels of condensate
24 from the Morrow. It is presently producing 9.4 million
25 cubic feet of gas per day.

1 Q Would you -- have you examined the information
2 underlying that exhibit?

3 A I have.

4 Q And is it true and correct to the best of
5 your knowledge?

6 A It is.

7 Q I'll hand you Applicant's Exhibit Number
8 Three and ask you to identify that.

9 A Exhibit Number Three is an Isolith map in
10 the Red Lake South area, Eddy County, New Mexico, on Upper
11 Morrow Sand. It indicates that we have a dominant sand
12 trend that goes roughly from the northwest to the southeast.

13 Q Okay. Have you examined the information on
14 which that exhibit is based?

15 A I have.

16 Q And is it true and correct to the best of your
17 knowledge?

18 A It is.

19 Q I hand you Applicant's Exhibit Number Four
20 and ask you to identify that.

21 A This is a structure map from the base of the
22 Morrow massive shale in the Red Lake South area, Eddy County,
23 New Mexico, and it indicates that we have dip to the south-
24 west, roughly one degree.

25 Q I hand you Applicant's Exhibit Number Five

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Santa Fe, New Mexico 87501

1 and ask you to identify that.

2 A Exhibit Number --

3 MR. STAMETS: Is it southwest or southeast?

4 A If I misspoke, I meant to say southeast.

5 MR. STAMETS: Okay.

6 A Exhibit Number Five is a cross section labeled
7 A to A-prime in the Red Lake South area of Eddy County, New
8 Mexico. And it is an east/west cross section.

9 Q Now, would you -- were both Exhibits Four and
10 Five prepared -- have you examined the information under-
11 lying both Exhibits Number Four and Five?

12 A I have.

13 Q And are these exhibits true and correct, to
14 the best of your knowledge?

15 A They are.

16 MR. CARSON: Mr. Examiner, I'd like to move
17 the introduction of Exhibits One through Five.

18 MR. STAMETS: These exhibits are admitted.

19 MR. CARSON: Mr. Examiner, I'm kind of going,
20 as you notice, I'm kind of going about this in a backwards
21 manner, which I'll show you why in a minute, but could I go
22 ahead and ask this witness about the penalty and then go
23 back and establish the need for forced pooling?

24 MR. STAMETS: Okay, that's -- that's fine.

25 Q (Mr. Carson continuing.) Mr. Cookman, what

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1 do you believe would be a fair penalty in the event that
2 these -- that the people that Mr. Snow is going to testify
3 about are force pooled? Based on Exhibits One through Five?

4 A Based on Exhibits One through Five I would
5 say 300 percent would be adequate.

6 Q In other words, the cost of the well plus 200
7 percent?

8 A Yes.

9 Q Okay.

10 MR. CARSON: No further questions of this
11 witness at this time. I may want to recall him after we
12 have Mr. Snow.

13 MR. STAMETS: Is somebody going to testify
14 to the need for this unorthodox location?

15 MR. CARSON: Well, the unorthodox location
16 has already been approved. We've put that case on already.

17 MR. STAMETS: Well, good.

18 MR. CARSON: Glad to say.

19 MR. STAMETS: I'm glad about that.

20 Any other questions of this witness? He
21 may be excused.

22
23 DOYLE J. SNOW
24 being called as a witness and having been duly sworn upon
25 his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. CARSON:

Q Mr. Snow, would you please state your full name?

A Doyle John Snow.

Q And by whom are you employed, Mr. Snow?

A Texas Oil and Gas Corporation.

Q In what capacity?

A Landman.

Q Have you previously testified before this Commission?

A Yes, I have.

Q And have your qualifications been acceptable?

A Yes.

MR. STAMETS: The witness is considered qualified.

Q (Mr. Carson continuing.) Mr. Snow, would you tell the Examiner why it's become necessary for Texas Oil and Gas to seek this order for compulsory pooling?

A Yes, as shown on Exhibit One, the northwest northwest quarter, which is also referred to as Lot One of Section 32, Township 18 South, 27 East, after having title examined it was brought to our attention that there was a possible -- a possibility that the existing United States oil and gas lease covering the west quarter of the section

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1 may not cover the mineral rights under that particular area.
2 This question arose due to a condemnation proceeding in the
3 early part of the century.

4 Q The question really is when they condemned
5 the property that -- that whether they also condemned the
6 mineral rights, isn't that correct?

7 A That's the question, and this has not been
8 determined.

9 Q The United States considers that it owns the
10 minerals and you in fact have a lease from them, do you
11 not?

12 A That's correct.

13 Q And the purpose of your application would be
14 to protect yourself in the case that the United States
15 loses its case.

16 A That's correct.

17 I might also explain that we have from a
18 small clue attempted to locate those people who possibly,
19 if the case were to be decided adversely to the United
20 States, we have attempted to locate these people and have
21 been successful in locating one-fourth of the heirs and
22 possibly another fourth, but as to the remaining fifty
23 percent of the heirs, we have been able to locate them at
24 this time. And we're continuing to try to do that.

25 Q And those that you have located, you have

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1 either gotten a lease from or have offered to lease, is
2 that right?

3 A That's correct.

4 Q Mr. Snow, I hand you what's marked as Appli-
5 cant's Exhibit Six and ask if you would identify that.

6 A This is the authorization for expenditure
7 prepared by Texas Oil and Gas for the drilling and completion
8 of the Coquina Federal Com No. 1 Well.

9 Q And is that the standard -- or is that the
10 AFE that you're going to use for that well?

11 A Yes, it is.

12 Q And is it in your opinion reasonable?

13 A Yes.

14 Q I'll hand you Applicant's Exhibit Number
15 Seven and ask you to identify that.

16 A This is the operating agreement that we in-
17 tend to employ and have distributed to the various working
18 interest owners for their approval, which will cover oper-
19 ations on Section 32.

20 Q And you have distributed to those people
21 that you know of that you're seeking to force pool except
22 for some of those that you've mentioned in Exhibit Eight,
23 which we're going to get to in a minute?

24 A That's correct.

25 Q You have asked that the Commission set a

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Boca Raton, New Mexico 87801

1 reasonable supervision charge both for drilling and producing
2 well, attributable to the interest of each nonconsenting
3 working interest owner.

4 Now, what is -- what do you feel is reasonable

5 A We feel a drilling well rate of \$1,980 and
6 and producing well rate of \$335 per well is reasonable.

7 Q Is that the usual charge that your company
8 makes?

9 A Yes, at the time this agreement was prepared,
10 that's right.

11 Q And is that -- is that reasonable in the
12 industry?

13 A Yes.

14 MR. STAMETS: Where is that shown in the
15 operating agreement?

16 MR. CARSON: It's under the COPAS part of
17 it, Mr. Examiner, page --

18 A Page three of Exhibit C to the operating
19 agreement.

20 MR. STAMETS: Okay, thank you.

21 Q I refer you to Applicant's Exhibit Number
22 Eight and ask you to identify that.

23 A This is a listing of working interest owners
24 under a tract of land described as Lot Two, which is a par-
25 tial covering 4/10ths of an acre in the southwest portion of

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1 northwest northwest quarter.

2 It shows the parties participation in the
3 Coquina Federal Com No. 1 Well, and I might add, percentage
4 participation, not their decimal participation.

5 Q And you have acquired leases from those that
6 were sufficiently large to cover the postage, have you not?

7 A What we have done is obtained an AFE and
8 approved operating agreement from those parties who have
9 an asterisk close by the percentage figure.

10 MR. CARSON: I'd like to move the introduction
11 of Applicant's Exhibit Number Eight, Six through Eight,
12 excuse me.

13 MR. STAMETS: These exhibits will be admitted.

14 Q And, Mr. Snow, it's your request that the
15 Oil Conservation Division enter its order pooling all miner-
16 al interests on the Wolfcamp through the Pennsylvanian.

17 A That's correct.

18 Q Underlying the west half of 32, 19, 27.

19 A That's correct.

20 MR. CARSON: We have no further questions of
21 this witness, Mr. Examiner.

22

23

CROSS EXAMINATION

24

BY MR. STAMETS:

25

Q Mr. Snow, on Exhibit Number One, now, you

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1 have circles -- you've marked off in green the northwest
2 quarter northwest quarter of Section 32, is that right?

3 A That's correct.

4 Q Okay, and is that the acreage that you're
5 having problems with in this case?

6 A Yes, it is, that's right.

7 Q Okay. And you have a lease with the Federal
8 government, whatever branch it is, that covers all of that
9 acreage?

10 A Yes, we do.

11 Q Okay, and the only problem would arise if the
12 Federal government loses in court then there would be other
13 owners involved.

14 A That's correct.

15 Q All right, now, are all of those other owners
16 which are involved shown on your Exhibit Eight or where are
17 there additional owners?

18 MR. CARSON: Not all of them are shown on
19 Exhibit Eight, Mr. Examiner. I guess we moved too fast.
20 That's a different tract.

21 A There are two tracts in the northwest north-
22 west quarter. Lot Number One covers 39.63 acres and Lot
23 Number Two covers 4/10ths of an acre.

24 Q Okay, now you've given a list of companies
25 and people on Lot Two. How many people are involved in Lot

1 One?

2 A That is -- I don't know how many people are
3 involved because we've been unable to locate the heirs and
4 determine that number.

5 I have located one-fourth of the heirs.

6 Q A fourth of the heirs.

7 A A fourth.

8 Q Okay, well --

9 A Well, let me explain that.

10 Q -- if you know what a fourth of the heirs
11 are, we ought to be able to know what all of the heirs are.

12 A Okay. I'll go through the genealogy a little
13 bit, if it will help you.

14 Q What I'm --

15 A I'll go through the chain of title, whatever
16 you want to call it.

17 MR. CARSON: We can, if it would be helpful,
18 and expedite matters, Mr. Examiner, we will be glad to fur-
19 nish the Commission the list of the owners to the extent
20 that we know them.

21 MR. STAMETS: I'm simply trying to determine
22 for the record what attempts have been made to find and
23 contact these people, and that's not really in evidence at
24 this point.

25 A What I've attempted to do, Mr. Examiner, is

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1 in our -- in the abstracts that we obtained covering this
2 particular area, there's an indication of a lady residing
3 in Kansas. I checked with the particular county and had
4 the abstractor go through their records to find any probate
5 proceedings with regard to this woman.

6 They were successful in finding some of them.
7 We determined that she had four children. One of them had
8 some heirs still residing in Kansas or other parts of the
9 country, but at least through that connection I've established
10 all of the heirs of the first child, which is one-fourth of
11 the interest.

12 In talking with one of the older gentlemen,
13 I think I have located a second child in Oklahoma, and I
14 have no idea where the other two are, but maybe in talking
15 with some of these people I can locate them.

16 And that's where we stand now.

17 Q Now you said they have been located. Have
18 you had any correspondence with them?

19 A Yes. I've submitted an offer to lease and
20 an oil and gas lease in draft to them and I do have their
21 addresses.

22 Q Okay. If you could send copies of those
23 letters to us, I think that would help the record in this
24 case.

25 A Okay.

1 MR. STAMETS: Any other questions of the
2 witness? He may be excused.

3 Anything further in this case?

4 MR. CARSON: No, Mr. Examiner.

5 MR. STAMETS: We'll take the case under
6 advisement.

7 (Hearing concluded.)
8
9
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25

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(410) 521-4444

REPORTER'S CERTIFICATE

I, SALLY WALTON BOYD, a Certified Shorthand Reporter
DO HEREBY CERTIFY that the foregoing and attached 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, knowledge, and skill, from my notes taken at the
time of the hearing.

Sally W. Boyd CSR
Sally W. Boyd, CSR

I do hereby certify that the foregoing is
a complete and correct transcript of the proceedings in
the Examiner's hearing of Case No. 6399,
heard by me on 12-7, 1975.

Richard H. Stan, Examiner
Oil Conservation Division

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CERTIFIED SHORTHAND REPORTER
3020 Plaza, Kansas (913) 471-4402
Kansas City, New Mexico 87501

TEXAS OIL & GAS CORP.
FIDELITY UNION TOWER
DALLAS, TEXAS 75201

0cc
RECEIVED

JUN 8 1 16 PM '79

May 30, 1979 STATE LAND OFFICE
SANTA FE, N.M.

State of New Mexico
Energy and Minerals Department
Oil Conservation Division

Stamets
BLS

Re: Case No. 6399
Order No. R-5894

Dear Sirs:

Pursuant to Article 5, page 4 of the captioned order, the attached is an itemized schedule of actual well costs incurred @ April 30, 1979, in the drilling and completion of the Coquina Federal Community 01, located as follows: w/2 of Section 32, Township 18 South, Range 27 East, NMPM, Eddy County, New Mexico.

Yours very truly,

TEXAS OIL & GAS CORP.

Bob Grace

Bob Grace

BG:bb
Attachment

cc: Amoco Production Co.
Bixco Inc.
ENI Exploration Co.
Read & Stevens Inc.
Mark Wilson
Yates Petroleum
File

State of New Mexico
May 30, 1979
Page 2

Nature of Expenditure

Actual Cost to Date
@ April 30, 1979

Location, Road, Dirt Work	\$ 27,454.95
Drilling - Day Rate w/Drill Pipe	197,379.79
Drilling - Day Rate without Drill Pipe	25,937.51
8 5/8" Casing	26,548.17
Wellhead Equipment	9,353.33
Cementing Service & Supplies	25,858.53
Rentals - Equipment	13,523.05
Mud & Chemicals	51,304.58
Testing, Logging, Perforating	29,617.62
Supervision	12,854.31
Service Rig	9,132.24
4 1/2" Casing	59,079.70
2 3/8" Tubing	30,514.56
Subsurface Equipment	2,838.83
Stimulation	59,384.47
Overhead	894.18
Lease Lines	3,438.35
Capitalized Labor	1,795.25
Tanks	2,840.69
Separators, Heaters, Treaters	5,850.55
Miscellaneous	<u>6,218.57</u>
 TOTAL COST	 <u>\$ 601,819.23</u>

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STATE LAND OFFICE
SANTA FE, N.M.

TEXAS OIL & GAS CORP.

900 WILCO BUILDING
MIDLAND, TEXAS 79701

December 8, 1978

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DEC 11 1978

Oil Conservation Commission

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

Attn: Mr. R. L. Stamets
Technical Support Chief

Re: Case #6399, Compulsory pooling
of W/2 Sec. 32, T-18S, R-27E
NMPM, Eddy County, New Mexico
(Coquina Federal Com #1 Well)

Dear Mr. Stamets:

Pursuant to your instructions in the hearing concerning the above matter on December 7, 1978, I am enclosing for your reference copies of Texas Oil & Gas Corp.'s letters to the heirs of Mattie D. Pees. Mattie D. Pees may have inherited an undivided 1/4 interest in Lot 1, Sec. 32, T-18S, R-27E from Mary M. Blakely, her mother, who in turn inherited the acreage from her daughter, Ella Kaiser. However, as discussed in the hearing, whether the acreage is owned by the United States of America or the heirs of Ella Kaiser, has not been determined at this point, according to our title examination. USA Oil & Gas Lease No. NM-A-32593, which purports to cover all of Lot 1, among other lands, is held by Texas Oil & Gas Corp. via farmout agreement.

At the time of her death, Mary M. Blakely had four living children, namely Mattie D. Pees, Francis M. Blakely, Almer G. Blakely and Georgiana Price. I have obtained a copy of the transcript of probate in the matter of the estate of Georgiana Blakely Price, deceased, and hopefully I have located her heirs. At this point however, I have no information as to where to locate the heirs of Francis M. Blakely and Almer G. Blakely.

It is Texas Oil & Gas Corp.'s desire, if at all possible, to obtain oil and gas leases from all the potential owners of Lot 1, Sec. 32. If possible, I would appreciate your keeping the information confidential with regard to the potential owners of Lot 1, since Texas Oil & Gas has gone to considerable effort and expense

Page 2
Mr. R. L. Stamets
December 8, 1978

to locate these individuals. Once oil and gas leases are obtained, they will be filed of record, thereby making the whereabouts of the various heirs a matter of public record.

Sincerely,


Doyle John Snow

DJS/sf
Enclosures

cc: Mr. Joel Carson
Losee, Carson & Dickerson
300 American Home Bldg.
Artesia, New Mexico 88210

November 15, 1978

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NOV 17 1978
Oil Conservation Commission

Mary Pees Sickler
Rt. 1, Box 455
Dry Prong, LA 71423

Re: Lot 1, Section 32, T18S, R27E,
NMPM, Eddy County, New Mexico

Dear Ms. Sickler:

Enclosed are the following items:

1. Draft for the amount of \$106.15 which represents a \$50 per acre bonus consideration for the attached Oil and Gas Lease.
2. Five year Paidup Oil and Gas Lease covering all of Lot 1, Section 32, T18S, R27E NMPM, Eddy County, New Mexico, containing 39.63 gross acres, more or less, and 2.12 net acres.

The enclosed Draft and Oil and Gas Lease represent our offer to lease your 5.3572% interest in the above described acreage. According to our information you are heir to a portion of Mattie D. Pees Estate. Mattie D. Pees may have inherited a 1/4 interest of the acreage from Mary M. Blakely who in turn inherited the above acreage from Ella Kaiser, who I believe was your aunt. At this time we are uncertain whether you own the mineral rights under the acreage or whether the mineral rights are owned by the United States of America. Since we are interested in the area and desire to protect ourselves from a possible loss of Title, we are offering the \$50 per acre bonus as consideration for your undivided 5.3572% interest in the acreage.

In order to receive the money, you must comply with the following procedures:

At the center of the page on the front side of the Oil, Gas and Mineral Lease, please write the name of your bank and the address. On the draft and the lease immediately below your signature please write your social security number and your bank account number at the bank named on the oil and gas lease. After you have complied with the above procedure, please deposit the draft and the 5-year Paidup Oil and Gas Lease with your bank for collection from The First National Bank of Dallas, Texas.

If you have any questions regarding the enclosed material, please call me
collect at AC915/682-7992.

Sincerely yours,

Doyle John Snow

DJS/scs
attachments

bcc/Pees et al lease file

November 15, 1978

Fred A. Pees
c/o Mr. L. B. Campbell
1st National Bank of Madison
Madison, KA 66860

George Pees
c/o Mr. L. B. Campbell
1st National Bank of Madison
Madison, KA 66860

NOV 15 1978
Oil Conservation Commission

Re: Oil, Gas and Mineral Lease
covering Lot 1, Section 32,
T18S, R27E, N4PM,
Eddy County, New Mexico
containing 39.63 gross acres, More or Less.

Dear Mr. Campbell:

Pursuant to our previous telephone conversation, I am enclosing herewith
for your further handling with Fred A. Pees and George Pees, the following
items:

1. Draft for the amount of \$176.92 payable to Fred A. Pees, dealing in his separate property which represents a \$50 per acre bonus consideration for a 5-year Paidup Oil and Gas Lease bearing a 1/8th royalty. According to our information, Fred owns an undivided 8.9286% of the above described property being 3.54 net acres.
2. Draft payable to George Pees dealing in his separate property for \$106.15 for a 5-year Paidup Oil and Gas Lease bearing a 1/8th royalty. Our records indicate that George Pees owns 5.3572% of the above described property being 2.12 net acres.
3. Five year Paidup Oil, Gas and Mineral Lease between Fred A. Pees, dealing in his separate property, and George Pees, dealing in his separate property, as Lessors, and Texas Oil & Gas Corp., Lessee. The lease provides for a 1/8th royalty.

Please have Fred and George Pees execute each of their respective drafts and each of them execute the oil and gas lease before a notary public. After the drafts and oil and gas lease have been executed, please deposit the same for collection from the First National Bank of Dallas.

If any questions arise concerning this matter, please contact me at telephone No. 915/682-7992.

Sincerely yours,

Doyle John Snow

DJS/scs
attachments

bcc/Pees et al Lease File

40866

November 15, 1978

Carolle Anne Austin
7515 Belle
Plain Drive
Dayton, OH 45424

Re: Lot 1, Section 32, T18S, R27E NMPM,
Eddy County, New Mexico

Dear Mrs. Austin:

Enclosed for your review and execution are the following items:

1. Draft for the amount of \$5.31 which represents a \$50 per acre bonus consideration for your undivided 0.2678% interest in the above described acreage, being .1062 net acres.
2. Five year Paidup Oil, Gas and Mineral Lease covering the above described acreage.

In order to take care of this matter properly, please write the name of your bank in the space provided in the center of the front side of the lease and the banks address and, in the presence of a notary public please execute the Oil and Gas Lease and include your social security number and your bank account number immediately below your signature. Do the same for the enclosed draft. After you have signed the lease and draft, please deposit the draft and the oil and gas lease with your bank for collection from The First National Bank in Dallas, Texas.

If you have any questions regarding the enclosed material or the procedures, please call me collect at AC915/682-7992.

Sincerely yours,

Doyle John Snow

DJS/scs
Attachments

bcc/Pees et al lease file

November 15, 1978

Mr. Charles Menghini
Suite 316, National Bank Bldg.
Pittsburg, KA 66762

Re: Oil, Gas and Mineral Lease
Lot 1, Section 32,
R18S, R27E N4PM,
Eddy County, New Mexico

Dear Mr. Menghini:

Pursuant to our previous telephone conversations, I am enclosing herewith for your review and execution as Guardian and Conservator of Sandra Sue Pees, NCM the following items:

1. Draft for the amount of \$90.23 representing a \$50 per acre bonus for a 5-year paid up oil and gas lease covering 39.63 gross acres and 1.80 net acres.
2. Oil, Gas and Mineral Lease dated November 10, 1978, covering Lot 1 of Section 32. The paid up oil and gas lease provides for a 1/8th royalty and a 5-year primary term.

Also enclosed is a draft payable to you for the amount of \$80 which represents full and complete compensation for your efforts and expenses involved in obtaining approval from the Court to execute the draft and oil and gas lease as Guardian and Conservator of Sandra Sue Pees, NCM. Please deposit the draft for \$90.23, along with the oil and gas lease with the Miners State Bank in Frontenac, Kansas, after which the draft will be submitted to the Collection Department of the First National Bank in Dallas, Texas. Also please deposit the draft for \$80, along with the appropriate papers from the court evidencing your authority to execute the draft and oil and gas lease for and in behalf of Sandra Sue Pees.

If any questions arise concerning the procedure, please contact me at AC915/682-7992.

Sincerely yours,

Doyle John Snow

DJS/scs

Attachments
bcc/Pe-et al file
Pees

40866

November 15, 1978

William J. Pees
12030 Pine Street, Apt. 1.
Norwalk, CA 90650

Re: Lot 1, Section 32, T18S, R27E,
HMPH, Eddy County, New Mexico

Dear Mr. Pees:

Enclosed for your review and execution are the following items:

1. Draft for the amount of \$5.31 which represents a \$50 per acre bonus consideration for the attached Oil and Gas Lease covering .1062 net acres.
2. Five year Paidup Oil, Gas and Mineral Lease covering your 0.2678% interest in the above described acreage. Please execute the lease in the presence of a notary public and after the same has been executed and your signature acknowledged, please deposit the draft and lease with your bank for collection from the First National Bank of Dallas, Texas.

If you have any questions concerning the procedure or the enclosures, please contact me at AC915/682-7992.

Sincerely yours,

Doyle John Snow

DJS/scs
attachments

bcc/Fred Pees Lease File

November 15, 1978

Mrs. Judy Lynn Callen
c/o Carl W. Shewmaker
402 N. Main, Box 228
Eureka, KA 67045

Re: Lot 1, Section 32, T18S, R27E
RMPH, Eddy County, New Mexico

Dear Mr. Shewmaker:

As previously discussed in our telephone conversation, Mrs. Callen may have inherited some property in Eddy County, New Mexico. To protect ourselves from Loss of Title, we are enclosing the following items:

1. Draft for the amount of \$5.31 which represents a \$50 per acre bonus consideration for Mrs. Callen's undivided 0.2678% interest in the above described acreage.
2. Five Year Paidup Oil, Gas and Mineral Lease covering the above described acreage which contains 39.63 gross acres and .1062 net acres. The Oil and Gas Lease provides for a 1/8th royalty.

Please have Mrs. Callen fill in the name of her bank in the space provided on the front side of the lease and on the back side near her signature, please indicate the social security number and bank account number at her bank. After she has executed the lease in the presence of a notary public, please deposit the draft and the oil and gas lease with Mrs. Callen's bank for collection from The First National Bank in Dallas, Texas.

If there are any questions concerning this matter, please have Mrs. Callen call me collect at AC915/682-7992.

Sincerely yours,

Doyle John Snow

DJS/scs
attachments

bcc/Pees et al Lease file

copies of the oil and gas leases, drafts and corr should be filed in an appropriate

410966

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. 6399
Order No. R-5894

APPLICATION OF TEXAS OIL & GAS
CORPORATION FOR COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on December 7, 1978, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 29th day of December, 1978, 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, Texas Oil & Gas Corporation, seeks an order pooling all mineral interests in the Wolfcamp and Pennsylvanian formations underlying the W/2 of Section 32, Township 18 South, Range 27 East, NMPM, Eddy County, New Mexico.
- (3) That the applicant has the right to drill and proposes to drill a well 710 feet from the North line and 2330 feet from the West line of said section.
- (4) That because of pending litigation, there may be 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

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Case No. 6399

Order No. R-5894

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 that 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 that 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 \$1980.00 per month while drilling and \$335.00 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.

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Case No. 6399
Order No. R-5894

(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 April 1, 1979, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Wolfcamp and Pennsylvanian formations underlying the W/2 of Section 32, Township 18 South, Range 27 East, NMPM, Eddy County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit to be dedicated to a well to be drilled at an unorthodox location 710 feet from the North line and 2330 feet from the West line of said section, said location having been previously approved.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 1st day of April, 1979, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Wolfcamp and Pennsylvanian formations;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of April, 1979, 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 Texas Oil & Gas Corporation 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

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Case No. 6399

Order No. R-5894

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 that 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.

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Case No. 6399
Order No. R-5894

(9) That \$1980.00 per month while drilling and \$335.00 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 interests 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 Eddy 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.

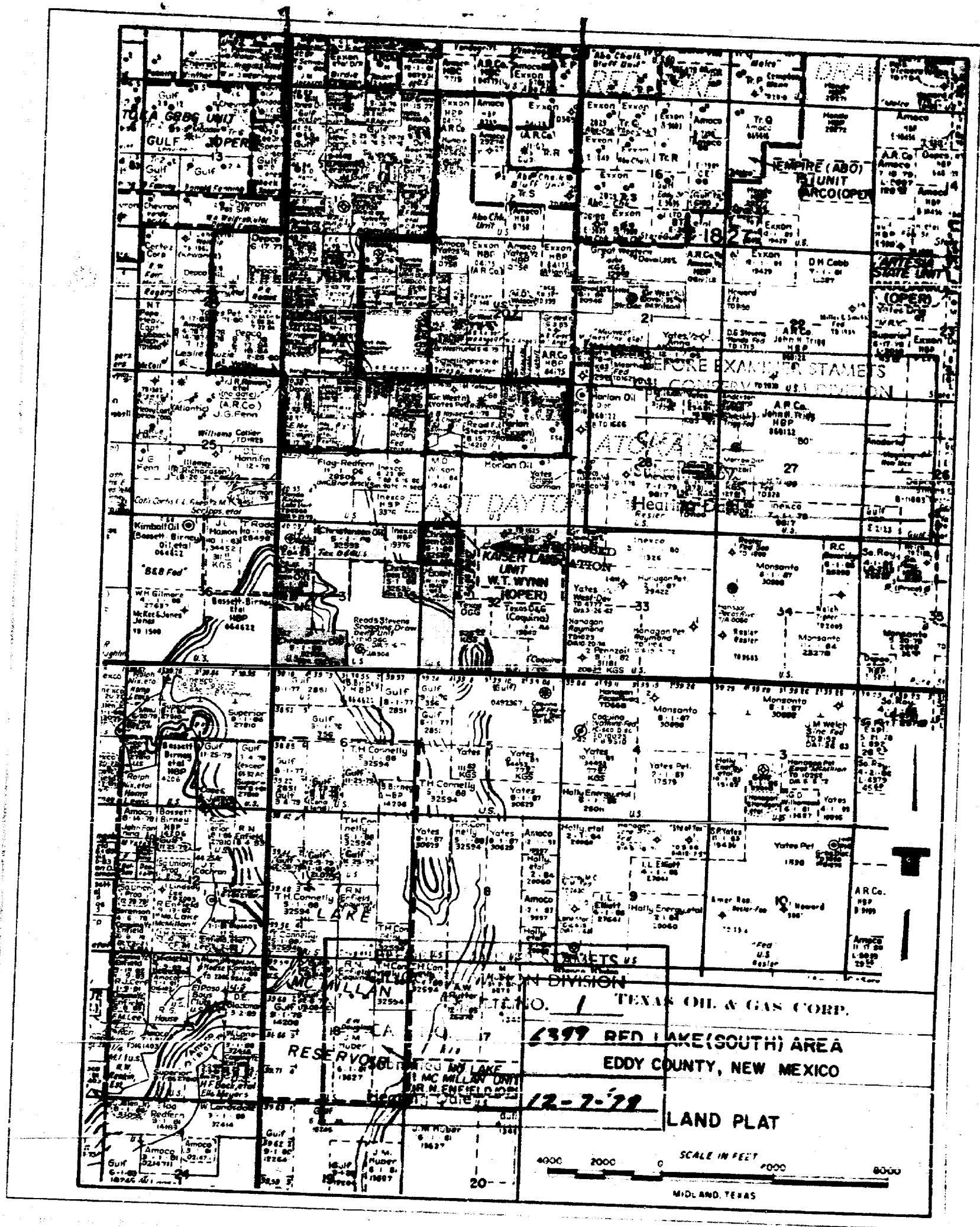
DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


JOE D. RAMEY,
Director

S E

dr/



TEXAS OIL & GAS CORP.

FORM 24

Rev. 7/1/75

AUTHORITY FOR EXPENDITURE

DRILLING WELL

District Nest Texas Date 8-7-78
 Lease Name Coquina Fed Com Well No. 1 Depth 9600'
 Field _____ County Eddy State N.M.
 Requested By: S. P. Baker *SPB* Approved By: _____

NATURE OF EXPENDITURE	QUANTITY	PRICE	ESTIMATED COST	
			CASH	MAT'L. ON HAND
DRILLING				
243 Location, Roads, Dirt Work			12 000	
DRILLING CONTRACT - 231 Footage				
265 Daywork WDP	40	4350	174 000	
266 Daywork WDP	2	4150	8 300	
267 Turnkey MIRU			25 000	
102 Casing <i>11-3/4" CSA 200'</i> <i>8-5/8" CSA 2000'</i>			21 500	
104 Casinghead			7 000	
233 Cementing Service & Supplies			11 000	
242 Rentals			15 000	
230 Mud & Chemicals			30 000	
234 Testing & Logging			31 250	
204 Supervision	42	200	8 400	
290 Other Fuel, bits, reamers, etc.			45 000	
TOTAL DRILLING			388 450	
COMPLETION				
241 Rig (Incl. Day Work)	7	1000	7 000	
102 Casing <i>4 1/2" 10.5X11.6#, K-55 & N-80</i>	9600		41 900	
233 Cementing Service & Supplies			5 000	
242 Rentals			3 000	
103 Tubing <i>2-3/8" 4.7# N-80 EUE</i>	9500	2.95	28 000	
108 Sub-Surface Equipment			5 000	
234 Testing, Logging & Perforating			6 000	
236 Stimulation <i>Acid & Frac</i>			40 000	
104 Wellhead			10 000	
204 Supervision	7	200	1 400	
290 Other			2 000	
TOTAL COMPLETION			149 300	
PRODUCTION EQUIPMENT				
105 Pumping Unit				
106 Engine & Motors				
107 Rods				
110 Flow Lines			1 500	
111 Installation			2 000	
115 Storage			5 000	
117 Separators, Heaters, Treaters			9 600	
120 Other Equipment			2 000	
TOTAL PRODUCTION EQUIPMENT			20 100	
TOTALS			557 850	

OWNER NAME

WORKING
INTEREST

APPROVED:

Company: _____

By: _____

Name: _____

Title: _____

Date: _____

BEFORE EXAMINATION
OIL COMPANY

_____ 6

CASH 6399

TXO

ending date 12-7-78

AFE No. _____

Lease No. _____

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

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

July 10, 1978,

OPERATOR TEXAS OIL & GAS CORP.

CONTRACT AREA Section 32, Township 18 South, Range 27 East, N.M.P.M.

COUNTY OR PARISH OF Eddy STATE OF New Mexico

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

BEFORE EXAMINER STATEMENTS
OR CONSERVATION DIVISION

EXHIBIT NO. 7

CASE NO. 6399

Submitted by TXO

Hearing Date 12-7-78

GUIDANCE IN THE PREPARATION OF THIS AGREEMENT:

1. Title Page - Fill in blank as applicable.
2. Preamble, Page 1 - Name of Operator.
3. Article II - Exhibits:
 - (a) Indicate Exhibits to be attached.
 - (b) If it is desired that no reference be made to Non-discrimination, the reference to Exhibit "F" should be deleted.
4. Article IV.A - Title Examination - Select option as agreed to by the parties.
5. Article IV.B - Loss of Title - If "Joint Loss" of Title is desired, the following changes should be made:
 - (a) Delete Articles IV.B.1 and IV.B.2.
 - (b) Article IV.B.3 - Delete phrase "other than those set forth in Articles IV.B.1 and IV.B.2 above."
 - (c) Article VII.F. - Change reference at end of the first grammatical paragraph from "Article IV.B.2" to "Article IV.B.3."
6. Article V - Operator - Enter name of Operator.
7. Article VI.A - Initial Well:
 - (a) Date of commencement of drilling.
 - (b) Location of well.
 - (c) Obligation depth.
8. Article VI.B.2.(b) - Subsequent Operations - Enter penalty percentage as agreed to by parties.
9. Article VII.D.1. - Limitation of Expenditures - Select option as agreed to by parties.
10. Article VII.D.3. - Limitation of Expenditures - Enter limitation of expenditure of Operator for single project and amount above which Operator may furnish information AFE.
11. Article VII.E. - Royalties, Overriding Royalties and Other Payments - Enter royalty fraction as agreed to by parties.
12. Article X. - Claims and Lawsuits - Enter claim limit as agreed to by parties.
13. Article XIII - Term of Agreement:
 - (a) Select Option as agreed to by parties.
 - (b) If Option No. 2 is selected, enter agreed number of days in two (2) blanks.
14. Signature Page - Enter effective date.

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Texas Oil & Gas Corp.
900 Wilco Building, Midland, Texas 79701, 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 in-
terests 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 cov-
ering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

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

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

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

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

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

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

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

ARTICLE II EXHIBITS

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

☒ A. Exhibit "A", shall include the following information:

- (1) Identification of lands subject to agreement,
- (2) Restrictions, if any, as to depths or formations,
- (3) Percentages or fractional interests of parties to this agreement,
- (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
- (5) Addresses of parties for notice purposes.

☒ B. Exhibit "B", Form of Lease.

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

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

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

☒ G. Exhibit "G", Income Tax Election

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

for been responsible

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

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 whose title failed

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

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

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

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

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

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

ARTICLE V. OPERATOR

A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

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

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

1. Resignation or Removal of Operator: Operator may resign at any time by giving 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:

The initial Test Well will be drilled pursuant to the provisions of the ~~sublease operating agreement, or farmout agreement, to which this agreement is attached.~~
ing 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 VII.1. hereof.

1 **B. Subsequent Operations:**

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

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

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

40
41 The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in
42 the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting
43 Parties shall keep the leasehold estates involved in such operations free and clear of all liens and
44 encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such
45 an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole
46 cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions
47 of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall
48 complete and equip the well to produce at their sole cost and risk, and the well shall then be turned
49 over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties.
50 Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such
51 well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party
52 shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and
53 be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's
54 interest in the well and share of production therefrom until the proceeds of the sale of such share,
55 calculated at the well, or market value thereof if such share is not sold (after deducting production
56 taxes, royalty, 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 100% of each such Non-Consenting Party's share of the
63 cost of operation of the well commencing with first production and continuing until each such Non-
64 Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being
65 agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which
66 would have been chargeable to each Non-Consenting Party had it participated in the well from the be-
67 ginning of the operation; and

68
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

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

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

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

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

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

63
64 **C. Right to Take Production in Kind:**

65
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 to take in kind or separately
9 dispose of its proportionate share of the oil and gas produced from the Contract Area, Operator shall have
10 the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such
11 oil and gas or sell it to others at any time and from time to time, for the account of the non-taking
12 party at the best price obtainable in the area for such production. Any such purchase or sale by Op-
13 erator shall be subject always to the right of the owner of the production to exercise at any time its
14 right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a
15 purchaser. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for
16 such reasonable periods of time as are consistent with the minimum needs of the industry under the
17 particular circumstances, but in no event for a period in excess of one (1) year. Notwithstanding the
18 foregoing, Operator shall not make a sale, including one into interstate commerce, of any other party's
19 share of gas production without first giving such other party thirty (30) days notice of such intended
20 sale.
21 prior written

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

28
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.

40
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.

D. Limitation of Expenditures:

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

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

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

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

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

E. Royalties, Overriding Royalties and Other Payments:

Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of 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.
See Article XV A. for additional provisions

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

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

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

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

G. Taxes:

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

See Article XV. D. for additional provisions

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

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

H. Insurance:

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

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

ARTICLE VIII. ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

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

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

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

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

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

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

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

23
24 Each party who participates in the purchase of a renewal lease shall be given an assignment of its
25 proportionate interest therein by the acquiring party.

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

33
34 The provisions in this Article shall apply also and in like manner to extensions of oil and gas
35 leases.

36 ~~See Article XV:--E:--for additional provisions--~~

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

38
39 While this agreement is in force, if any party contracts for a contribution of cash toward the drilling
40 of a well or any other operation on the Contract Area, such contribution shall be paid to the party who
41 conducted the drilling or other operation and shall be applied by it against the cost of such drilling or
42 other operation. If the contribution be in the form of acreage, the party to whom the contribution is
43 made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling
44 Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto
45 are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and
46 be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and
47 accept such tender, such acreage shall not become a part of the Contract Area. Each party shall prompt-
48 ly notify all other parties of all acreage or money contributions it may obtain in support of any well or
49 any other operation on the Contract Area. Notwithstanding the above, Texas Oil & Gas Corp. will
50 not be required to share any of its interest in various farmout options, farmout agree-
51 ments, and sublease operating agreements with the other parties hereto.
52 If any party contracts for any consideration relating to disposition of such party's share of substances
53 produced hereunder, such consideration shall not be deemed a contribution as contemplated in this
54 Article VIII.C.

55 **D. Subsequently Created Interest:**

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

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

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

E. Maintenance of Uniform Interest:

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

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

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

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

F. Waiver of Right to Partition:

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

G. Preferential Right to Purchase:

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

**ARTICLE IX.
INTERNAL REVENUE CODE ELECTION**

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

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

"See Exhibit "G", Income Tax Election"

ARTICLE X.

CLAIMS AND LAWSUITS

Operator may settle any single damage claim or suit arising from operations hereunder if the expenditure does not exceed Four Thousand and No/100-----Dollars (\$ 4,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, the party shall immediately notify Operator, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI.

FORCE MAJEURE

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

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

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

ARTICLE XII.

NOTICES

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

ARTICLE XIII.

TERM OF AGREEMENT

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

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

Option No. 2:

☒ Shall run consecutively with the terms of the sublease operating agreement or farmout agreement to which this agreement is attached.

11. ~~11. prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling or reworking a well or wells hereunder this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling or reworking operations are commenced within _____ days from the date of abandonment of said well.~~

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

ARTICLE XIV. COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

ARTICLE XV. OTHER PROVISIONS

A. Sale of Gas Production:

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

B. Billing Additional Interests:

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

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

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

C. Disbursement of Royalties:

If a purchaser of any oil, gas or other hydrocarbons produced from the Unit Area declines to make disbursements of all royalties, overriding royalties and other payments out of, or with respect to, production which are payable on the Unit Area, Operator will, if any Non-Operator so desires, make such disbursements on behalf of said Non-Operator at his direction, provided, Non-Operator shall execute such documents as may be necessary in the opinion of Operator to enable Operator to receive all payments for oil, gas or other hydrocarbons directly from said purchaser. In that event, Operator will use its best efforts to make disbursements correctly but will be liable for incorrect disbursement only in the event of gross or willful negligence.

D. Article VII.G., Addition:

If the Operator is required hereunder to pay ad valorem taxes based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the percentages of tax value generated by each party's working interest.

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 9th day of August, 1978.

OPERATOR

TEXAS OIL & GAS CORP.

BY: [Signature]
Charles L. Canfield
Vice President

NON-OPERATORS

CHRISTIANSSEN OIL & GAS, INC.

BY: _____

COQUINA OIL CORPORATION

BY: _____

BY: _____
Priscilla F. Gilmore

EXXON CORPORATION

BY: _____

YATES PETROLEUM CORPORATION

BY: [Signature]
YATES DRILLING COMPANY

BY: _____

MYCO INDUSTRIES, INC.

BY: _____

~~ARCO PETROLEUM CORPORATION~~

BY: [Signature]

THE STATE OF TEXAS

COUNTY OF Midland

BEFORE ME, the undersigned authority, on this day personally appeared CHARLES L. CANFIELD known to me to be the person whose name is subscribed to the foregoing instrument, as Vice President and Attorney in Fact of TEXAS OIL & GAS CORP., and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 4th day of August
A.D., 19 78.

Mary Louise Davis
Notary Public in and for
Midland County, Texas

My Commission Expires: Feb 15, 1979

THE STATE OF TEXAS

COUNTY OF _____

BEFORE ME, the undersigned authority, on this day personally appeared _____ known to me to be the person whose name is subscribed to the foregoing instrument, as _____ of _____, corporation, and acknowledge to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the _____ day of _____
A.D., 19 _____.

Notary Public in and for
_____ County, Texas

My Commission Expires:

THE STATE OF TEXAS

COUNTY OF _____

BEFORE ME, the undersigned authority, on this day personally appeared _____ known to me to be the identical person whose name is subscribed to the foregoing instrument, and acknowledged to me that _____ he executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the _____ day of _____
A.D., 19 _____.

Notary Public in and for
_____ County, Texas

My Commission Expires:

EXHIBIT "A"

I. CONTRACT AREA: All of Section 32, Township 18 South, Range 27 East, N.M.P.M., Eddy County, New Mexico

II. PARTICIPATION:

	A. Allocation of Acreage in Initial Test Well Prior to Drilling (Acres)	B. Participation in Initial Test Well Prior to Payout (Percentage)	C. Overriding Royalty	D. Participation in Initial Test Well after Payout a. (Percentage)	E. Participation in all Wells Drilled Subsequent to Initial Test Well (Percentage)
<u>West 1/2 of Section 32</u>					
Texas Oil & Gas Corp.	39.8100	99.8750	-----	64.4903	64.4903
Coquina Oil Corp.	160.0000	-0-	2.4998% of 8/8ths b.	16.6656	16.6656
Christiansen Oil and Gas, Inc.	79.8100	-0-	1.5587% of 8/8ths b.	12.4695	12.4695
Jack J. Grynberg, et al.			1.2470% of 8/8ths		
Priscilla F. Gilmore	40.0000	-0-	0.7812% of 8/8ths b.	6.2496	6.2496
Exxon Corporation (et al, c.)	<u>0.4000</u>	<u>0.1250</u>	-----	<u>0.1250</u>	<u>0.1250</u>
TOTAL	320.0200	100.0000		100.0000	100.0000

- Assumes each party elect to convert it's overriding royalty to a working interest at payout.
- Each party may convert overriding royalty to a working interest as shown in Column D.
- The ownership of operating rights to the acreage is set forth as follows:
 - From the base of the San Andres formation down to but not below the top of the Mississippian Chester Limestone formation:

- For all other depths:

Exxon Corporation	50%
Yates Petroleum Corporation	25% of 50%
Yates Drilling Company	25% of 50%
NYCO Industries	25% of 50%
ABO Petroleum Corporation	25% of 50%

Revised
Oct. 30, 1978

Exxon Corporation 100%

EXHIBIT "A" Page 2

CONTRACT AREA: All of Section 32, Township 18 South, Range 27 East, N.M.P.M., Eddy County, New Mexico

PARTICIPATION:	A.	B.	C.	D.	E.
	Allocation of Acreage in Initial Test Well Prior to Drilling (Acres)	Participation in Initial Test Well Prior to Payout (Percentage)	Overriding Royalty	Participation in Initial Test Well after Payout a. (Percentage)	Participation in all Wells Drilled Subsequent to Initial Test Well (Percentage)
at 1/2 of Section 32					
Gas Oil & Gas Corp.	80.1900	100.0000	-----	70.8630	70.8630
Quina Oil Corp.	160.0000	-0-	2.5% of 8/8ths b.	16.6667	16.6667
Christiansen Oil and Gas, Inc.	79.8100	-0-	1.5588% of 8/8ths b. 1.2474% of 8/8ths	12.4703	12.4703
Jack J. Grynberg, et al.	-0-	-0-		-0-	-0-
William F. Gilmore	-0-	-0-		-0-	-0-
Maxon Corporation	320.0000	100.0000		100.0000	100.0000
TOTAL					

- a. Assumes each party elect to convert it's overriding royalty to a working interest at payout.
b. Each party may convert overriding royalty to a working interest as shown in Column D.

Revised 10-24-78

IV. ADDRESS LIST OF PARTIES

Texas Oil & Gas Corp., Operator
900 Wilco Building
Midland, Texas 79701

Christiansen Oil & Gas, Inc.
1050 - 17th Street
Suite 1950
Denver, Colorado 80265

Coquina Oil Corporation
P. O. Box 2960
Midland, Texas 79702

Exxon Corporation
P. O. Drawer 1600
Midland, Texas 79702

Priscilla F. Gilmore
c/o W. H. Gilmore, Jr.
316 Building of the Southwest
Midland, Texas 79701

Yates Petroleum Corporation
Yates Drilling Company
MYCO Industries
ABO Petroleum Corporation
207 South 4th Street
Artesia, New Mexico 88210

EXHIBIT "B"

Unleased Oil and Gas Interests in the
Contract Area are owned by the United
States of America and are subject to
leasing pursuant to CFR 43, Subpart 3100.

EXHIBIT " C "

Attached to and made a part of Operating Agreement dated July 10, 1978 between Texas Oil & Gas Corp., Operator, and Christiansen Oil & Gas, Inc., et al., Non-Operators.

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

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

4. Adjustments

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

5. Audits

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

6. Approval by Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

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

2. Labor

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

3. Employee Benefits

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

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 \$ 1980
Producing Well Rate \$ 335

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

(a) Drilling Well Rate

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

(b) Producing Well Rates

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

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

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

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of \$ 25,000 :

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

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

3. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

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

B. Good Used Material (Condition B)

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

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

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

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

C. Other Used Material (Condition C and D)

(1) Condition C

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

(2) Condition D

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

D. Obsolete Material

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

E. Pricing Conditions

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

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

4. Expense of Conducting Periodic Inventories

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

EXHIBIT "D"

SCHEDULE OF INSURANCE

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

1. **Workmen's Compensation and Employer's Liability Insurance** as required by the laws of the state where the property is located.
2. **Contractor's or Comprehensive General Public Liability Insurance** with minimum limits of at least \$100,000.00 for injuries to one person; \$300,000.00 for injury in one accident and \$100,000.00 for property damage in one accident.
3. **Automobile-Public Liability and Property Damage Insurance** (with an endorsement covering non-owned and hired cars) with minimum limits of at least \$250,000.00 for injuries to one person; \$500,000.00 for injuries in one accident and \$100,000.00 for property damage in any one accident.
4. **Insurance coverage on equipment** as the operator deems necessary for the protection of the joint account.

EXHIBIT "E"

Attached to and made a part of Operating Agreement between TEXAS OIL & GAS CORP. as "Operator" and CHRISTIANSEN OIL & GAS, Inc., et al, as Non-Operators.

GAS BALANCING AGREEMENT

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

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

During the period or periods when any party hereto has no market or fails to take its share of gas produced from any proration unit within the Unit Area, or its purchaser does not take its full share of gas produced from such proration unit, the other parties shall be entitled to produce each month one hundred percent (100%) of the allowable gas production assigned to such proration unit by the state regulatory body having jurisdiction and shall be entitled to take and deliver to its or their purchaser all of such gas production. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser.

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

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

After written notice to the Operator, any party may at any time begin taking or delivering to its purchaser its full share of the gas produced from a proration unit under which it has underproduction (less such party's share of gas used in operations, vented or lost). To allow for the recovery of underproduction and to

balance the gas account of the parties in accordance with their respective interests, as underproduced party shall be entitled to take or deliver to a purchaser, in addition to such full share, an amount determined by multiplying twenty-five percent (25%) of the interest of the overproduced party or parties by a fraction, the numerator of which is the interest in the Unit Area of such underproduced party and the denominator of which is the total percentage interest in the Unit Area of all underproduced parties currently taking or delivery to a purchaser. Recovery of underproduction by the underproduced party or parties will balance the account in the same sequence that the overproduced party or parties accumulated overproduction.

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

Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser its full share of the allowable gas production to meet the deliverability tests required by its purchaser.

Should production of gas from a proration unit be permanently discontinued before the gas account is balanced, settlement will be made between the underproduced and overproduced parties. In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced party or parties attributable to the overproduction which said overproduced party received, less applicable taxes theretofore paid, at the applicable price defined below for the overproduced volumes of gas which have not been recovered by the underproduced party or parties. For gas sold in intrastate commerce, the price basis shall be the actual price received for sale of the gas at the time the overproduction was accumulated. For gas sold in interstate commerce, the price basis shall be the rate collected at the time the overproduction was accumulated, from time to time, which is not subject to possible refund, as provided by the Federal Energy Commission pursuant to final order or settlement applicable to the gas sold from such well, plus any additional collected amount which is not ultimately required by said Commission to be refunded, such additional collected amount to be accounted for at such time as final determination is made with respect thereto.

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

This agreement shall constitute a separate agreement as to each proration unit within the Unit Area and shall become effective in accordance with its terms and shall remain in force and effect as long as the Operating Agreement to which it is attached remains in effect, and shall inure to the benefit of and be binding upon the parties hereto, their successors, legal representatives and assigns.

EXHIBIT "F"

NONDISCRIMINATION AND CERTIFICATION OF NONSEGREGATED FACILITIES

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

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

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

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

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

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

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

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

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

B. Certification of Nonsegregated Facilities (41 CFR 60-1.3). (Applicable only to contracts or purchase orders which are not exempt from the provisions of the Equal Opportunity Clause set out above.)

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

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

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

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

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

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

The affirmative action clause prescribed in section 60-250.4 of Title 41 of the Code of Federal Regulations is incorporated herein by reference (as permitted by section 60-253.22 of said Regulations) as if set out in full at this point. If the Operator (a) has 50 or more employees and (b) this contract or purchase order is for \$50,000 or more, then within 120 days from the effectiveness of this contract or purchase order, the Operator shall prepare and maintain an affirmative action program at each establishment which shall set forth the Operator's policies, practices and procedures in accordance with section 60-250.6 of said Regulations.

F. Affirmative Action for Handicapped Workers (41 CFR 60-741.6). (Applicable only to contracts or purchase orders for \$2,500 or more.)

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

G. Utilization of Minority Business Enterprises (Federal Procurement Regulations 1-1.11). (Applicable only to contracts or purchase orders which may exceed \$10,000.)

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

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

EXHIBIT "G"

Attached to and made a part of Operating Agreement
dated July 10, 1978 between Texas Oil & Gas Corp.,
Operator, and Christiansen Oil & Gas, Inc., et al, Non-Operators.

Income Tax Election

Any provisions in the attached agreement to the contrary notwithstanding, each party hereto agrees not to elect to be excluded from the application of Subchapter K of Chapter 1 of the Subtitle A of the Internal Revenue Code of 1954.

The parties agree that for United States income tax purposes the distributive share of each of the parties hereto in each item of loss from abandonment or other disposition of property and in each item of deduction for costs and expenses, including, but not by way of limitation, the classes for items specifically mentioned below, shall be determined as follows:

- (a) The production costs shall be allocated as deductions to each party in accordance with their respective contributions to such costs.
- (b) The exploration costs and intangible drilling and development costs shall be allocated as deductions to each party in accordance with their respective contributions to such costs.
- (c) Depreciation on tangible equipment shall be allocated to each party in the ratio of their respective contributions to the adjusted basis of such equipment.
- (d) Depletion, gain, loss etc., shall be computed separately by the partners, and not by the partnership.
- (e) All other classes of costs and expenses not falling within paragraphs (a) and (b) above shall be allocated to and accounted for by each party in accordance with their respective contributions to such costs and expenses.

The term "adjusted basis" shall mean the adjusted basis as defined in Section 1011 of the Internal Revenue Code of 1954.

The parties hereby authorize and direct Operator to file with the appropriate office of the Internal Revenue Service a Partnership Income Tax Return (on Form 1065) on behalf of the arrangement between the parties and their joint operations under this agreement and in such return to make the following elections:

- (a) To elect, in accordance with Section 263(c) of said Code and applicable Regulations, to expense all intangible drilling and development costs with respect to both productive and nonproductive wells and the preparation of wells for production of oil and/or gas.
- (b) To elect to use the accrual method of accounting.

Each party agrees to furnish the Operator such information as it may have relating to operations conducted under this agreement as may be required by law for income tax reporting purposes. Operator shall submit a copy of the final partnership return to the other parties at least forty-five (45) days prior to its being filed each year. If requested, Operator agrees to furnish each party a complete analysis of all items in the return, including a reconciliation with actual billings.

It is understood and agreed that in the event the terms of this Exhibit conflict with any of the terms and conditions of any Operating Agreement as described in Exhibit 'C', then and in such event as between the parties hereto the terms of this Exhibit 'G' shall control.

The relationship between the parties hereto and under this agreement shall be such that it may for income tax purposes only, be treated in the same manner as a partnership, but said relationship shall not be a partnership to any other extent or for any other purposes.

OWNERSHIP OF THE 0.4 ACRES IN THE
NW/4 NW/4 of Section 32, T18S, R27E,
Eddy County, New Mexico

Owner	Percentage Participation in Coquina Federal Com #1 Well
Inexco Oil Company	.021826%
Davoll, Inc.	.009298
Great Western Drilling Co.	.016875
Read & Stevens, Inc.	.013381
Exxon Company	.005094
Amoco Production Company	.004238
Anna R. Alford	.004238
Mark D. Wilson	.005888
Yates Petroleum Corporation	.015454*
Depco, Inc.	.001398
J. Hiram Moore, Betty Jane Moore, Michael Harrison Moore	.000636
Featherstone Development Co.	.000127
Yates Drilling Company	.008849*
Myco Industries, Inc.	.008849*
Abo Petroleum Corporation	.008849*
TOTAL	0.12500%

*Have signed the AFE and JOA.

AFE cost: \$557,850.00 x .00125 = \$697.31

BEFORE EXAMINER STAMETS	
OIL CONSERVATION DIVISION	
EXHIBIT NO.	8
CASE NO.	6399
Submitted by	TXO
Hearing Date	12-7-78

Dockets Nos. 40-78 and 41-78 are tentatively set for hearing on December 20, 1978 and January 3, 1979. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: EXAMINER HEARING - THURSDAY - DECEMBER 7, 1978

**9 A.M. - OIL CONSERVATION DIVISION CONFERENCE ROOM
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO**

The following cases will be heard before Richard L. Stamets, Examiner, or Daniel S. Matter, Alternate Examiner:

- CASE 6392:** In the matter of the hearing called by the Oil Conservation Division on its own motion to permit Corinne Grace, The Travelers Indemnity Company, and all other interested parties to appear and show cause why the Indian Hills Com. Well No. 1 located in Unit J of Section 8, Township 21 South, Range 24 East, Eddy County, New Mexico, should not be plugged and abandoned in accordance with a Division-approved plugging program.
- CASE 6393:** In the matter of the hearing called by the Oil Conservation Division on its own motion to consider the amendment of Rule 104 F of the Division Rules and Regulations to provide for the administrative approval of the unorthodox location of wells drilled within secondary recovery or pressure maintenance projects.
- CASE 6394:** In the matter of the hearing called by the Oil Conservation Division on its own motion to consider the adoption of an administrative procedure and Forms C-132 and C-132-A, all for the purpose of making wellhead price ceiling category determinations under the Natural Gas Policy Act of 1978.
- CASE 6395:** Application of David Fasken for pool contraction and pool extension, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the contraction of the Indian Basin-Morrow Gas Pool by the deletion therefrom of Section 9, Township 21 South, Range 24 East, Eddy County, New Mexico, and the extension of the Cemetery-Morrow Gas Pool to include the aforesaid Section 9.
- CASE 6396:** Application of Amoco Production Company for pool creation and contraction, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the contraction of the House Drinkard oil pool by the deletion therefrom of the NE/4 and E/2 SE/4 of Section 12 and the E/2 NE/4 of Section 13, both in Township 20 South, Range 38 East, and the W/2 of Section 7 and the NW/4 of Section 18, Township 20 South, Range 39 East, and the creation of a new gas pool for Lower Drinkard production in the NE/4 of Section 12, Township 20 South, Range 38 East, all in Lea County, New Mexico.
- CASE 6397:** Application of Western Oil Producers, Inc. for compulsory pooling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Morrow formation underlying all of Section 4, Township 24 South, Range 35 East, Cinta Roja-Morrow Gas 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 well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.
- CASE 6398:** Application of Texas Oil & Gas Corporation for an unorthodox gas well location, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the unorthodox location for the Wolfcamp and Pennsylvanian formations of its State Com Well No. 1, to be located 660 feet from the South and West lines of Section 18, Township 21 South, Range 26 East, Catclaw Draw Field, Eddy County, New Mexico, all of said Section 18 to be dedicated to the well in the Morrow formation.
- CASE 6399:** Application of Texas Oil & Gas Corporation for compulsory pooling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Wolfcamp and Pennsylvanian formations underlying the W/2 of Section 32, Township 18 South, Range 27 East, Eddy County, New Mexico, to be dedicated to a well to be drilled 710 feet from the North line and 2330 feet from the West line of said section. 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. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.
- CASE 6400:** Application of Coronado Exploration Corporation for compulsory pooling, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the San Andres formation underlying each of the following 40-acre tracts: SW/4 SW/4 Section 7; SW/4 SW/4 Section 8; SW/4 SE/4 Section 18; NW/4 NW/4 Section 19; and NW/4 NW/4 Section 20, all in Township 10 South, Range 28 East, Race Track-San Andres Pool, Chaves County, New Mexico. Also the NE/4 NE/4 Section 28, Township 10 South, Range 28 East, LE Ranch-San Andres Pool, Chaves County, and the SW/4 NE/4 Section 15, Township 11 South, Range 28 East, East Chisum-San Andres Pool, Chaves County. Each of the aforesaid 40-acre tracts would comprise a drilling unit to be dedicated to a well to be drilled at a standard location thereon. Also to be considered, with respect to each of the above described drilling units and well, will be the cost of drilling and completing the well and the allocation of the cost thereof as well as actual operating costs and charges for supervision; also to be considered will be the designation of applicant as operator of each well and a charge for risk involved in drilling each well.

A. J. LOSEE
JOEL M. CARSON
CHAD DICKERSON

LAW OFFICES
LOSEE & CARSON, P.A.
300 AMERICAN HOME BUILDING
P. O. DRAWER 238
ARTESIA, NEW MEXICO 88210
NOV 13 1978
CONSERVATION COMM.
Santa Fe

AREA CODE 505
748-3508

8 November 1978

Mr. Joe D. Ramey, Director
New Mexico Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Dear Mr. Ramey:

Enclosed for filing, please find three copies of an Application of Texas Oil & Gas Corporation for compulsory pooling, in Eddy County, New Mexico.

We ask that this case be set for hearing before an examiner and that you furnish us with a docket of said hearing.

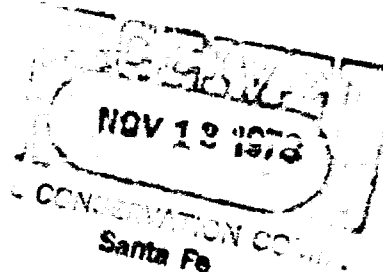
Yours truly,

LOSEE, CARSON & DICKERSON, P.A.


Joel M. Carson

JMC:bjm
Enclosures

cc w/enclosure: Texas Oil & Gas Corporation



BEFORE THE OIL CONSERVATION DIVISION

OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION OF
TEXAS OIL & GAS CORPORATION FOR
COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO

CASE NO. 6399

APPLICATION

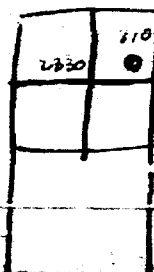
COMES NOW TEXAS OIL & GAS CORPORATION, by its attorneys,
and in support hereof, respectfully states:

1. Applicant has the right to drill its Coquina
Federal Com. No. 1 Well in the Wolfcamp and Pennsylvanian forma-
tions as a gas well, which is to be located at a point 710 feet
from the North line and 2330 feet from the West line of Section 32,
Township 18 South, Range 27 East, N.M.P.M., Eddy County, New
Mexico.

2. The applicant has dedicated the W/2 of said section
to this well, and there are interest owners in the proration
unit who have not agreed to pool their interests.

3. Applicant should be designated the operator of
the well and the proration unit.

4. 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 unit, all mineral interests, whatever they may be,
from the Wolfcamp through the Pennsylvanian formation underlying
the W/2 of said Section 32, should be pooled.



*Loc is
probably about
20' into the top
(should not be
more than 20')*

5. That any non-consenting working interest owner that 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% thereof as a reasonable charge for the risk involved in the drilling of the well.

6. Applicant should be authorized to withhold from production the proportionate share of a reasonable supervision charge for drilling and producing wells attributable to each non-consenting working interest owner.

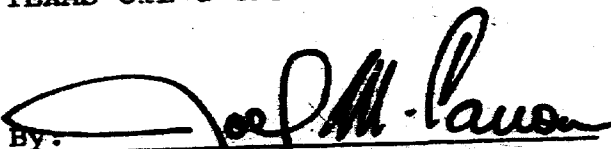
WHEREFORE, applicant prays that:

A. This application be set for hearing before an examiner and that notice of said hearing be given as required by law.

B. Upon hearing the Division enter its order pooling all mineral interests, whatever they may be, from the Wolfcamp through the Pennsylvanian formation underlying the W/2 of said Section 32, Township 18 South, Range 27 East, N.M.P.M., Eddy County, New Mexico, to form a 320-acre spacing unit dedicated to applicant's well.

C. And for such other relief as may be just in the premises.

TEXAS OIL & GAS CORPORATION

By. 
Joel M. Carson

LOSEE, CARSON & DICKERSON, P.A.
P. O. Drawer 239
Artesia, New Mexico 88210

Attorneys for Applicant

DRAFT

dr/

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. 6399

Order No. R- 5894

APPLICATION OF TEXAS OIL & GAS
CORPORATION FOR COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on December 7
19 78, at Santa Fe, New Mexico, before Examiner Richard L. Stames
NOW, on this day of December, 1978, 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, Texas Oil & Gas Corporation,
seeks an order pooling all mineral interests in the Wolfcamp and
Pennsylvanian formations underlying the W/2
of Section 32, Township 18 South, Range 27 East
NMPM, , Eddy County, New
Mexico.

because of pending litigation, there may be

(3) That the applicant has the right to drill and proposes to drill a well 710 feet from the North line and 2330 feet from the West line of said section.

(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 that 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 that 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.

*\$1980⁰⁰ per month while drilling
and \$335⁰⁰ per month while producing*

(11) That _____ ~~per month~~ should be fixed as a reasonable charge 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 April 1, 1979, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, in the Wolfcamp and Pennsylvanian formations underlying the W/2 of Section 32, Township 18 South, Range 27 East, NMPM, Eddy County, New Mexico, are hereby pooled to form a standard 320 - acre gas spacing and proration unit to be dedicated to a well to be drilled *at an un-* 710 feet from the North line and 2330 feet from the West line of said section, said location having been previously approved.

known location
PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the 1st day of April, 1979, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Wolfcamp and Pennsylvanian formations;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the 1st day of April, 1979, 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 Texas Oil & Gas Corporation 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 that has paid his share of estimated costs in advance as provided

-5-

Case No.
Order No. R-

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, 260 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. *\$1980⁰⁰ per month while drilling and \$335⁰⁰ per month while producing are*

(9) That per month ~~is~~ hereby fixed as a reasonable charge for supervision (combined fixed rates); that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge 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.

-6-
Case
Order No.

(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 interests 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 Eddy 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 herein-
above designated.

END OF ROLL

149#
ROLL NUMBER

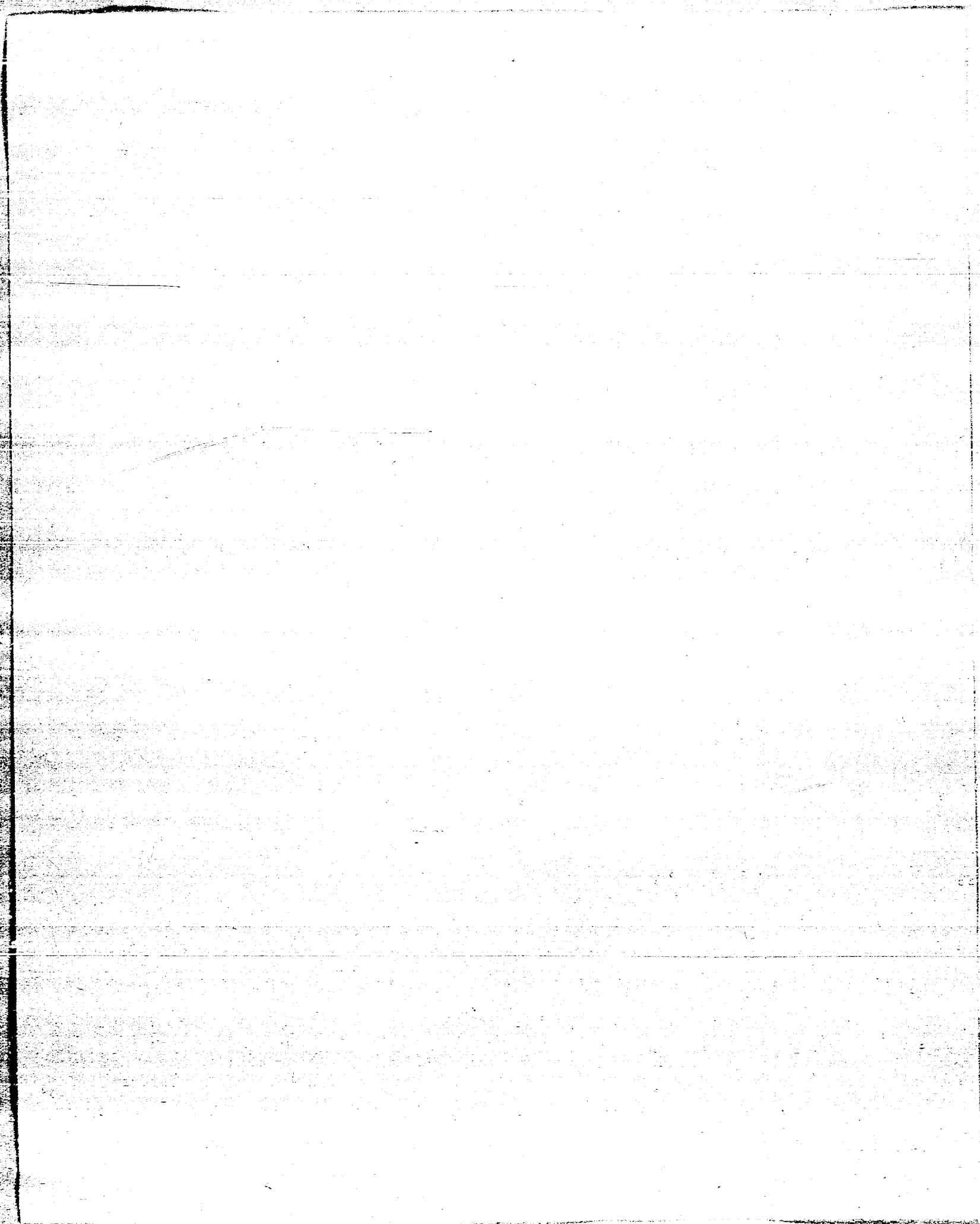
DOCUMENT TYPE Case Files (R. M. Oca)

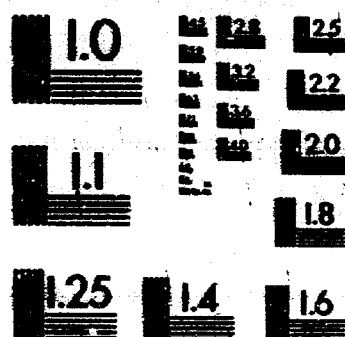
DATE OF FILMING 11-14-85

CAMERA OPERATOR Tony Hatcher

ENDING DOCUMENT Files 6399

*Texas oil and gas Corp.
Eddy con. New Mex.
(APRIL 15 1979)*





MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS
STANDARD REFERENCE MATERIAL 1010a
(ANSI and ISO TEST CHART No. 2)

STATEMENT OF DOCUMENT CERTIFICATION

All microphotographs images of documents following this certificate are of authorized documents in the possession of this Agency. These documents are routinely microfilmed as a necessary operation in the generation of an inviolate document file.

R. David Ortiz
SUPERVISOR

STATE OF NEW MEXICO)
) SS.
COUNTY OF VALENCIA)

Sworn and Subscribed to me, A Notary Public,

This 1st day of December, 19 83

Agnesi Aragon
NOTARY PUBLIC

MY COMMISSION EXPIRES: 10-2-86

CERTIFICATE OF AUTHENTICITY

THIS IS TO CERTIFY that the microphotographs appearing on this Roll of Film are accurate and complete reproductions of the records of the, Del. Conservation Div., delivered in the regular course of business for Micro Filming.

Tony Hatcher
CAMERA OPERATOR

STATEMENT OF DOCUMENT CERTIFICATION

All microphotographs images of documents following this certificate are of authorized documents in the possession of this Agency. These documents are routinely microfilmed as a necessary operation in the generation of an inviolate document file.

R. David Ortiz
SUPERVISOR

STATE OF NEW MEXICO)
) SS.
COUNTY OF VALENCIA)

Sworn and Subscribed to me, A Notary Public,

This 1st day of December, 19 93

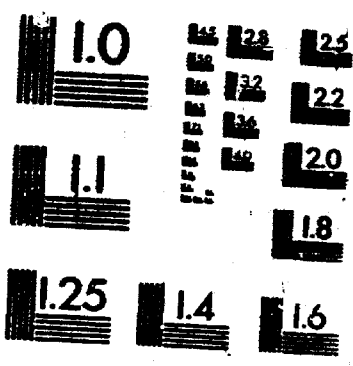
Lydia Aragon
NOTARY PUBLIC

MY COMMISSION EXPIRES: 10-2-86

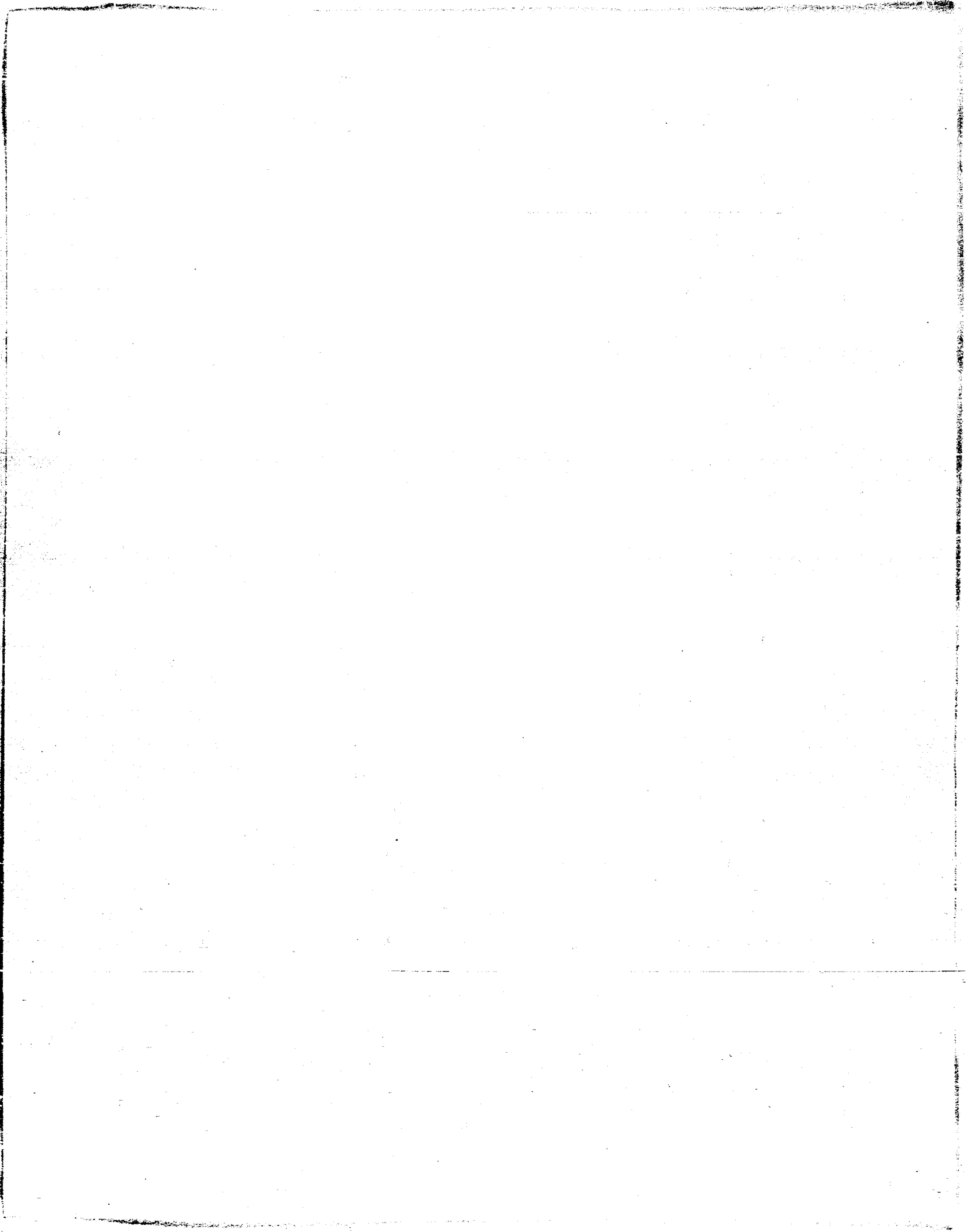
CERTIFICATE OF AUTHENTICITY

THIS IS TO CERTIFY that the microphotographs appearing on this Roll of Film are accurate and complete reproductions of the records of the, Del. Conservation Div., delivered in the regular course of business for Micro Filming.

Tony Hatcher
CAMERA OPERATOR



MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS
STANDARD REFERENCE MATERIAL 1010a
(ANSI and ISO TEST CHART No. 2)



START OF ROLL

149 B

ROLL NUMBER

DOCUMENT TYPE

NM OIL CONSERVATION DIVISION

DATE OF FILMING

11/15/85

CAMERA OPERATOR

Tony Hatcher

BEGINNING DOCUMENT

FILE # 6400 - CORONADO EXPLORATION CORP.

CHAVES CO. N.M.

(DEC. 7th 1978)

Amity

COCKE 64-00: FOTOMATO INFORMATION COPT-
MATTER FOR CONSTRUCTION WORKING, CHARTS
COCKE 64-00: NEW MEXICO