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A.A.P.L. FORM 610

MODEL FORM OPERATING AGREEMENT—1956

Non-Federal Lands

OPERATING AGREEMENT AND FARMOUT
AGREEMENT COVERING SECTION 35-T21S-
R34E & SECTION 2-T22S-R34E, LEA
COUNTY, NEW MEXICO
GRAMMA RIDGE UNIT

OPERATING AGREEMENT

DATED

AUGUST 15, , 1977,

FOR UNIT AREA IN TOWNSHIP 21S & 22S , RANGE 34E ,

LEA COUNTY, STATE OF NEW MEXICO .

BTA EXHIBIT A

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

(1) SEC. 8 PAGE 3 OF OPER. AGREE - 10% INT ON LATE PAYMENTS
ACCTG PROCEDURE - 12%
RATES SHOULD AGREE.
Change to 12% OK.

FILE COPY	
APPROVED BY	
Expl. Auth.	
Law	CEK 1
Fed. Rel.	SNM 4
Expl.	YEL 6
Lse. Rcd.	
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OPERATING AGREEMENT

THIS AGREEMENT, entered into this 15th day of AUGUST, 19 77, between GETTY OIL COMPANY

hereafter designated as "Operator", and the signatory parties other than Operator,

WITNESSETH, THAT:

WHEREAS, the parties to this agreement are owners of oil and gas leases covering and, if so indicated, ~~unleased mineral interests~~ in the tracts of land described in Exhibit "A", and all parties have reached an agreement to explore and develop these leases and interests for oil and gas to the extent and as hereinafter provided;

NOW, THEREFORE, it is agreed as follows:

1. DEFINITIONS

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

(1) The words "party" and "parties" shall always mean a party, or parties, to this agreement.

(2) The parties to this agreement shall always be referred to as "it" or "they", whether the parties be corporate bodies, partnerships, associations, or persons real.

(3) The term "oil and gas" shall include oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons, ~~and other minerals~~ contemporaneously produced with said oil and gas, including but not limited to sulphur, unless an intent to limit the inclusiveness of this term is specifically stated.

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

(5) The term "Unit Area" shall refer to and include 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".

(6) 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 Unit Area or as fixed by express agreement of the parties.

(7) All exhibits attached to this agreement are made a part of the contract as fully as though copied in full in the contract.

(8) The words "equipment" and "materials" as used ~~herein~~ herein are synonymous and shall mean and include all oil field supplies and personal property acquired for use in the Unit Area.

2. TITLE EXAMINATION, LOSS OF LEASES AND OIL AND GAS INTERESTS

A. Title Examination:

Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations, and title examination may be made on acreage included, or planned to be included, in any pooled unit created, or planned to be created, around such well prior to or after commencement or completion of drilling operations. At the time a well is proposed, the party or parties contributing the drillsite lease to the unit area (and the party or parties contributing other leases which are, or planned to be, included within any pooled unit around such well, if examination prior to commencement of drilling operations is deemed advisable by the parties,) shall furnish Operator, free of charge, all abstracts, title opinions, and curative materials in its possession covering the drillsite (or other leases which may be involved, as aforesaid). Operator shall also furnish all such abstracts, title opinions, and curative materials in its possession free of charge. In the event abstracts have not been prepared, or additional abstracts are required for examination of title, such abstracts shall be procured by Operator and the cost of same shall be charged to the joint account.

Operator shall cause title to be examined by attorneys on its staff or by outside attorneys employed for the purpose. No charge shall be made to the joint account for services of Operator's own attorneys and examination of title, but if title is examined by outside attorneys, then the fees paid to such outside attorneys shall be charged to the joint account. Operator shall attempt to procure curative materials to satisfy requirements made by the examining attorney. Costs incurred by Operator in procuring, (including brokers per diem and expenses, cost of reproduction, etc., but expressly excluding costs of services rendered by Operator's personnel) shall also be charged to the joint account.

Copies of all title opinions and title reports, together with all curative materials secured to satisfy the examining attorney's requirements, shall be submitted by Operator to each party and each party shall then notify Operator as promptly as possible whether it approves title.

No well shall be drilled on the unit area until after (1) the title to the drillsite 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.

to which title is approved or accepted, or until the parties fail to select another drillsite. As in the case of the drillsite first selected, so also with successive choices if the time comes that the parties have not approved title and are unable to agree upon an alternate drillsite, the contract shall, in that case and at that time, come to an end and all parties shall forfeit their rights and be relieved of obligations under this contract.

No well other than the first test shall be drilled in the Unit Area until after (1) the title to the lease covering the lands upon which such well is to be located has been examined by Operator's attorney, and (2) the title has been approved by the examining attorney and the title has been accepted by all of the parties who are to participate in the drilling of the well.

B. Failure of Title:

Should any oil and gas lease, or interest therein, be lost through failure of title, this agreement shall, nevertheless, continue in force as to all remaining leases and interests, and

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

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

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

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

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

C. Loss of Leases for Causes Other Than Title Failure:

If any lease or interest subject to this agreement be lost through failure to develop or because express or implied covenants have not been performed, or if any lease be permitted to expire at the end of its primary term and not be renewed or extended, or if any lease or interest therein is lost due to the fact that the production therefrom is shut in by reason of lack of market, the loss shall not be considered a failure of title and all such losses shall be joint losses and shall be borne by all parties in proportion to their interests and there shall be no readjustment of interests in the Unit Area.

3. UNLEASED OIL AND GAS INTERESTS

If any party owns an unleased oil and gas interest in the Unit Area, that interest shall be treated for the purpose of this agreement as if it were a leased interest under the form of oil and gas lease attached as "Exhibit "B" and for the primary term therein stated. As to such interests, 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. There are no unleased interests committed hereto; therefore, there is no Exhibit "E

4. INTERESTS OF PARTIES

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 contract shall be borne and paid, and all equipment and material acquired in operations on the Unit Area shall be owned, by the parties as their interests are given in Exhibit "A" All production of oil and gas from the Unit Area, subject to the payment of lessor's royalties, shall also be owned by the parties in the same manner.

If the interest of any party in any oil and gas lease covered by this agreement is subject to an overriding royalty, production payment, or other charge over and above the usual one-eighth (⅛) royalty, such party shall assume and alone bear all such excess obligations and shall account for them to the owners thereof, regardless of whether such party in selling its share of the unit production ~~share of the working interest attributable to the Unit Area~~.

5. OPERATOR OF UNIT

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

6. EMPLOYEES

The number of employees and their selection, and the hours of labor and the compensation for services performed, shall be determined by Operator. All employees shall be the employees of Operator.

7. TEST WELL *

On or before the 15th day of November, 1977, Operator** shall commence the drilling of a well for oil and gas in the following location:

1980' from the West line and 1980' from the North line of Section 2-T22S-R34E, Lea County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to a depth of 13,500' or a depth sufficient to evaluate the Morrow formation, whichever is the lesser depth,

unless granite or other practically impenetrable substance is encountered at a lesser depth or unless all parties agree to complete 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 test as a dry hole, it shall first secure the consent of all parties to the plugging, and the well shall then be plugged and abandoned as promptly as possible.

8. COSTS AND EXPENSES

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge all costs and expenses incurred in the development and operation of the Unit Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the cost and expense basis provided in the Accounting Procedure attached hereto and marked Exhibit "C". If any provision of Exhibit "C" should be inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

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 costs 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 costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated costs 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 at the rate of twelve (12%) ~~six percent (6%)~~ per annum until paid. Proper adjustment shall be made monthly between advances and actual cost, to the end that each party shall bear and pay its proportionate share of actual costs incurred, and no more.

* See Section 31 A for additional provisions

9. OPERATOR'S LIEN

Operator is given a first and preferred lien on the interest of each party covered by this contract, and in each party's interest in oil and gas produced and the proceeds thereof, and upon each party's interest in material and equipment, to secure the payment of all sums due from each such party to Operator.

In the event any party fails to pay any amount owing by it to Operator as its share of such costs and expense or such advance estimate within the time limited for payment thereof, Operator, without prejudice to other existing remedies, is authorized, at its election, to collect from the purchaser or purchasers of oil or gas, the proceeds accruing to the working interest or interests in the Unit Area of the delinquent party up to the amount owing by such party, and each purchaser of oil or gas is authorized to rely upon Operator's statement as to the amount owing by such party.

In the event of the neglect or failure of any non-operating party to promptly pay its proportionate part of the cost and expense of development and operation when due, the other non-operating parties and Operator, within thirty (30) days after the rendition of statements therefor by Operator, shall proportionately contribute to the payment of such delinquent indebtedness and the non-operating parties so contributing shall be entitled to the same lien rights as are granted to Operator in this section. Upon the payment by such delinquent or defaulting party to Operator of any amount or amounts on such delinquent indebtedness, or upon any recovery on behalf of the non-operating parties under the lien conferred above, the amount or amounts so paid or recovered shall be distributed and paid by Operator to the other non-operating parties and Operator proportionately in accordance with the contributions theretofore made by them.

10. TERM OF AGREEMENT

This agreement shall remain in full force and effect for as long as any of the oil and gas leases subjected to this agreement remain or are continued in force as to any part of the Unit Area, whether by production, extension, renewal or otherwise; provided, however, that in the event the first well drilled hereunder results in a dry hole and no other well is producing oil or gas in paying quantities from the Unit Area, then at the end of ninety (90) days after abandonment of the first test well, this agreement shall terminate unless one or more of the parties are then engaged in drilling a well or wells pursuant to Section 12 hereof, or all parties have agreed to drill an additional well or wells under this agreement, in which event this agreement shall continue in force until such well or wells shall have been drilled and completed. If production results therefrom this agreement shall continue in force thereafter as if said first test well had been productive in paying quantities, but if production in paying quantities does not result therefrom this agreement shall terminate at the end of ninety (90) days after abandonment of such well or wells. 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.

11. LIMITATION ON EXPENDITURES*

Without the consent of all parties: (a) No well shall be drilled on the Unit Area except any well drilled pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the drilling of a well shall include consent to all necessary expenditures in the drilling and testing of the well; (b) No well shall be reworked, plugged back, deepened or sidetracked after it has been drilled to the depth authorized by the parties participating therein, except a well reworked, plugged back, deepened or sidetracked pursuant to the provisions of Section 12 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 to produce, including necessary tankage, and consent to deepening or sidetracking shall include all necessary expenditures in the deepening or sidetracking of the well, including test; (c) Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of TEN THOUSAND AND NO/100---------- Dollars ($10,000.00) except in connection with a well the drilling, reworking, deepening, 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 and to safeguard life and property, but Operator shall, as promptly as possible, report the emergency to the other parties. Operator shall, upon request, furnish copies of its "Authority for Expenditures" for any single project costing in excess of $10,000.00.

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12. OPERATIONS BY LESS THAN ALL PARTIES *

~~or upon completion of a well after it has been drilled to the depth authorized by the parties~~

If all the parties cannot mutually agree upon the drilling of any well on the Unit Area ~~other than the test well provided for in Section 7,~~ or upon the reworking, deepening, ~~or~~ plugging back/or sidetracking of a dry hole drilled at the joint expense of all parties or a well/completed jointly owned by all the parties and not then producing/capable of in paying quantities on the Unit Area, any party or parties wishing to drill/complete, rework, deepen, ~~or~~ plug back/or sidetrack such a well may give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days (except as to/completing, reworking, plugging back, ~~or~~ drilling deeper/or sidetracking, where a drilling rig is on location, the period shall be limited to forty-eight (48) hours exclusive of ~~Saturday, or Sunday~~ and legal holidays) after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. Failure of a party receiving such a notice to so reply to it within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.

If any party receiving such a notice elects not to participate in the proposed operation (such party or parties being hereafter referred to as "Non-Consenting Party"), then in order to be entitled to the benefits of this section, the party or parties giving the notice and such other parties as shall elect to participate in the operation (all such parties being hereafter referred to as the "Consenting Parties") shall, within thirty (30) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the 48-hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions that their respective interests as shown in Exhibit "A" bear to the total interests of all Consenting Parties. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled/completed, reworked, deepened, ~~or~~ plugged back/or sidetracked under the provisions of this section results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking/completing, deepening, ~~or~~ plugging back/or sidetracking of any such well by Consenting Parties in accordance with the provisions of this section, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well, its leasehold operating rights, and share of production therefrom until the proceeds or market value thereof (after deducting production taxes, royalty, ** overriding royalty ** and other interests ** payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

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

(B) ~~200%~~ 300% of that portion of the costs and expenses of drilling, reworking, deepening, sidetracking/or plugging back, testing and completing, after deducting any cash contributions received under Section 25, and ~~200%~~ 300% of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

* See Section 31.A for additional provisions.

** of record in ... on the date of

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

Within sixty (60) days after the completion of any operation under this section, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, sidetracking, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased, in determining when the interest of such Non-Consenting Party shall revert to it as above provided; if there is a credit balance it shall be paid to such Non-Consenting Party.

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

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

The provisions of this section shall have no application whatsoever to the drilling of the initial test well on the Unit Area, but shall apply to the completing of said well and such provisions also shall apply to the reworking, deepening, or plugging back or sidetracking of the initial test well after it has been drilled to the depth specified in Section 7, if it is, or thereafter shall prove to be, a dry hole or non-commercial well, and to all other wells drilled, completed, reworked, deepened, or plugged back, or sidetracked, or proposed to be drilled, completed, reworked, deepened, or plugged back or sidetracked, upon the Unit Area subsequent to the drilling of the initial test well.

13. RIGHT TO TAKE PRODUCTION IN KIND

Each party shall take in kind or separately dispose of its proportionate share of all oil and gas produced from the Unit Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil for marketing purposes and production unavoidably lost. Subject to the last paragraph of Section 4 hereof, each party shall pay or deliver, or cause to be paid or delivered, all royalties, overriding royalties, or other payments due on its share of such production, and shall hold the other parties free from any liability therefor. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party.

Each party shall execute such division orders and contracts as may be required for the sale of its interest in production from the Unit Area, and shall be entitled to receive payment direct from the purchaser or purchasers thereof for its share of all production.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil and gas produced from the Unit Area, Operator shall have the right, subject to revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others for the time being at not less than the market price prevailing in the area, which shall in no event be less than the price which Operator receives for its portion of the oil and gas produced from the Unit Area. All contracts of sale by Unit Operator of any other party's share of such oil and gas shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a purchaser. Notwithstanding the foregoing, Operator shall not make a sale into interstate commerce of any other party's share of gas production without first giving such other party sixty (60) days notice of such intended sale.

14. ACCESS TO UNIT AREA*

Each party shall have access to the Unit Area at all reasonable times, at its sole risk, to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator shall, upon request, furnish each of the other parties with copies of all drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Unit Area.

15. DRILLING CONTRACTS

All wells drilled on the Unit Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. Operator, if it so desires, may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the field, 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 shall be customary and usual in the field in contracts of independent contractors who are doing work of a similar nature.

16. ABANDONMENT OF WELLS

No well, other than any well which has been drilled or reworked pursuant to Section 12 hereof for which the Consenting Parties have not been fully reimbursed as therein provided, which has been completed as a producer shall be plugged and abandoned without the consent of all parties; provided, however, if within twenty (20) days after receipt of notice of the proposed abandonment of such well all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall then assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and its equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production which each abandoning party desires to abandon. The assignments so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Unit Area to the aggregate of the percentages of participation in the Unit Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Unit Area.

After the assignment, the assignors shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open. Upon request of the assignees, 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.

*See Section 21 B.

17. DELAY RENTALS AND SHUT-IN WELL PAYMENTS

Delay rentals and shut-in well payments which may be required under the terms of any lease shall be paid by the party who has subjected such lease to this agreement, at its own expense. Proof of each payment shall be given to Operator at least ten (10) days prior to the rental or shut-in well payment date. Operator shall furnish similar proof to all other parties concerning payments it makes in connection with its leases. Any party may request, and shall be entitled to receive, proper evidence of all such payments. If, through mistake or oversight, any delay rental or shut-in well payment is not paid or is erroneously paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to pay a rental or shut-in well payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, the interests of the parties shall be revised on an acreage basis effective as of the date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in the Unit Area on account of the ownership of the lease which has terminated. In the event the party who failed to pay the rental or the shut-in well payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

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

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

(3) any moneys, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest lost, for the privilege of participating in the Unit Area or becoming a party to this contract.

Operator shall attempt to notify all parties when a gas well is shut-in or returned to production, but assumes no liability whatsoever for failure to do so.

~~18. PREFERENTIAL RIGHT TO PURCHASE~~

~~Should any party desire to sell all or any part of its interests under this contract, or its rights and interests in the Unit 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 of its assets, or a sale or transfer of its interests to a subsidiary or parent company, or subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

SALE BY OPERATOR

~~19. RESIGNATION OF OPERATOR~~

Should a sale be made by Operator of its rights and interests, the other parties shall have the right within sixty (60) days after the date of such sale, by majority vote in interest, to select a new Operator. If a new Operator is not so selected, the transferee of the present Operator shall assume the duties of and act as Operator. In either case, the retiring Operator shall continue to serve as Operator, and discharge its duties in that capacity under this agreement, until its successor Operator is selected and begins to function, but the present Operator shall not be obligated to continue the performance of its duties for more than 120 days after the sale of its rights and interests has been completed.

20. MAINTENANCE OF UNIT OWNERSHIP

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this contract, 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 Unit 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 Unit 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 rights 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 may, at its discretion, 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 contract; however, all such co-owners shall enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Unit Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

21. RESIGNATION OF OPERATOR

Operator may resign from its duties and obligations as Operator at any time upon written notice of not less than ninety (90) days given to all other parties. In this case, all parties to this contract shall select by majority vote in interest, not in numbers, a new Operator who shall assume the responsibilities and duties, and have the rights, prescribed for Operator by this agreement. The retiring Operator shall deliver to its successor all records and information necessary to the discharge by the new Operator of its duties and obligations.

22. 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 Unit Area. Accordingly, the lien granted by each party to Operator in Section 9 is 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 them liable as partners.

23. RENEWAL OR EXTENSION OF LEASES *

If any party secures a renewal of any oil and gas lease subject to this contract, each and all of the other parties shall be notified promptly, and shall have the right to participate in the ownership of the renewal lease by paying to the party who acquired it their several proper proportionate shares of the acquisition cost, which shall be in proportion to the interests held at that time by the parties in the Unit Area.

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

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

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

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

24. SURRENDER OF LEASES

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

However, should any party desire to surrender its interest in any lease or in any portion thereof, and ther parties not agree or consent, the party desiring to surrender shall assign, without express or implied arranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment hich may be located thereon and any rights in production thereafter secured, to the parties not desiring to rrender it. Upon such assignment, the assigning party shall be relieved from all obligations thereafter ac- uing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well there- , and the assigning party shall have no further interest in the lease assigned and its equipment and production. e parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any lls and equipment on the assigned acreage, determined in accordance with the provisions of Exhibit "C", s the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment is in or of more than one party, the assigned interest shall be shared by the parties assignee in the proportions t the interest of each bears to the interest of all parties assignee.

Any assignment or surrender made under this provision shall not reduce or change the assignors' or sur- dering parties' interest, as it was immediately before the assignment, in the balance of the Unit Area; and acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter be subject to the ms and provisions of this agreement.

25. ACREAGE OR CASH CONTRIBUTIONS

If any party receives while this agreement is in force a contribution of cash toward the drilling of a l or any other operation on the Unit Area, such contribution shall be paid to the party who conducted the ing or other operation and shall be applied by it against the cost of such drilling or other operation. If contribution be in the form of acreage, the party to whom the contribution is made shall promptly execute ssignment of the acreage, without warranty of title, to all parties to this agreement in proportion to their ests in the Unit Area at that time, and such acreage shall become a part of the Unit Area and be governed ll the provisions of this contract. Each party shall promptly notify all other parties of all acreage or ey contributions it may obtain in support of any well or any other operation on the Unit Area.

26. PROVISION CONCERNING TAXATION *

~~Each of the parties hereto elects, under the authority of Section 761(a) of the Internal Revenue Code of~~ , to be excluded from the application of all of the provisions of Subchapter K of Chapter 1 of Subtitle A of nternal Revenue Code of 1954. If the income tax laws of the state or states in which the property covered y is located contain, or may hereafter contain, provisions similar to those contained in the Subchapter of nternal Revenue Code of 1954 above referred to under which a similar election is permitted, each of the s agrees that such election shall be exercised. Each party agrees that the deemed election provided by ations, Section 1.761-2(b)(2)(ii) will apply and no party will file an application under Regulations Section -1(5)(3)(i) or (ii) to revoke said election. ~~If requested by the Operator so to do, each party agrees to execute and join in such an election.~~

Beginning with the first tax year following the effective date of this agreement, Operator shall render for ad valorem taxation all property subject to this agreement which by law l be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delin- . Operator shall bill all other parties for their proportionate share of all tax payments in the manner ~~ed in Exhibit "C".~~

any tax assessment is considered unreasonable by Operator, it may at its discretion protest such valua- ithin the time and manner prescribed by law, and prosecute the protest to a final determination, unless ties agree to abandon the protest prior to final determination. When any such protested valuation shall een finally determined, Operator shall pay the assessment for the joint account, together with interest and accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided ibit "C".

*See Section 31.L for additional provisions.

27. 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. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as may be outlined in Exhibit "D" attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Unit 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.

28. CLAIMS AND LAWSUITS

If any party to this contract is sued on an alleged cause of action arising out of operations on the Unit Area, or on an alleged cause of action involving title to any lease or oil and gas interest subjected to this contract, it shall give prompt written notice of the suit to the Operator and all other parties.

The defense of lawsuits shall be under the general direction of a committee of lawyers representing the parties, with Operator's attorney as Chairman. Suits may be settled during litigation only with the joint consent of all parties. No charge shall be made for services performed by the staff attorneys for any of the parties, but otherwise all expenses incurred in the defense of suits, together with the amount paid to discharge any final judgment, shall be considered costs of operation and shall be charged to and paid by all parties in proportion to their then interests in the Unit Area. Attorneys, other than staff attorneys for the parties, shall be employed in lawsuits involving Unit Area operations only with the consent of all parties; if outside counsel is employed, their fees and expenses shall be considered Unit Area expense and shall be paid by Operator and charged to all of the parties in proportion to their then interests in the Unit Area. The provisions of this paragraph shall not be applied in any instance where the loss which may result from the suit is treated as an individual loss rather than a joint loss under prior provisions of this agreement, and all such suits shall be handled by and be the sole responsibility of the party or parties concerned.

Damage claims caused by and arising out of operations on the Unit Area, conducted for the joint account of all parties, shall be handled by Operator and its attorneys, the settlement of claims of this kind shall be within the discretion of Operator so long as the amount paid in settlement of any one claim does not exceed one thousand ($1000.00) dollars and, if settled, the sums paid in settlement shall be charged as expense to and be paid by all parties in proportion to their then interests in the Unit Area.

29. 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 possible diligence to remove the force majeure as quickly as possible.

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 restraint, 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.

30. NOTICES

All notices authorized or required between the parties, and required by any of the provisions of this agreement, shall, unless otherwise specifically provided, be given in writing by United States mail or Western Union Telegram, postage or charges prepaid, and addressed to the party to whom the notice is given at the

C. In order to insure compliance with Federal Equal Employment provisions, Operator agrees and certifies as follows:

(a) Operator is aware of and is fully informed of Operator's responsibilities under Executive Orders 11246, 11375, 11141, and 11701, and shall file compliance reports as required by Section 203 of Executive Order 11246 and otherwise comply with the requirements of such orders and with all rules and regulations promulgated thereunder, including but not limited to, 41 CFR Part 60-1, 41 CFR Part 60-2, 41 CFR Part 60-3, 41 CFR Part 60-20, 41 CFR Part 60-30, and 41 CFR Part 50-250, and all amendments or additions thereto.

(b) During the performance of this contract, Operator shall be bound by and agrees to the following provisions as contained in Section 202 of Executive Order 11246, to wit:

(1) Operator will not discriminate against any employee or applicant for employment because of race, color, religion, sex, age, or national origin. Such action shall include, but not be limited to, the following: employment, upgrading, demotion, or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation, and selection for training, including apprenticeship. 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) 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, age, or national origin.

(3) Operator will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice, to be provided by the agency contracting officer, advising the labor union or workers' representative of the Operator's commitments under Section 202 of Executive Order No. 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

(4) Operator will comply with all provisions of Executive Order No. 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.

(5) Operator will furnish all information and reports required by Executive Order No. 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

(6) In the event of Operator's noncompliance with the nondiscrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be cancelled, terminated, or suspended in whole or in part and Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order No. 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order No. 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

(7) Operator will include the provisions of Paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order No. 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. 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.

(c) Operator certifies that he does not maintain or provide for his employees any segregated facilities at any of his establishments, and that he does not permit his employees to perform their services at any location, under his control, where segregated facilities are maintained. He certifies further that he will not maintain or provide for his employees any segregated facilities at any of his establishments, and that he will not permit his employees to perform their services at any location, under his control, where segregated facilities are maintained. Operator agrees that a breach of his certification is a violation of the Equal Opportunity Clause in this contract. As used in this certification, the term "segregated facilities" means any waiting rooms, work areas, rest rooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, color, religion, sex, age, or national origin, because of habit, local custom or otherwise; Operator's policies and practices must assure appropriate physical facilities to both sexes. He further agrees that (except where he has obtained identical certifications from proposed subcontractors for specific time periods) he will obtain identical certifications from proposed subcontractors prior to the award of subcontracts exceeding $10,000 which are not exempt from the provisions of Equal Opportunity Clause; that he will retain such certifications in his files; and that he will forward the following notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certifications for specific time periods): NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NONSEGREGATED FACILITIES. A Certification of Nonsegregated Facilities as required by the May 9, 1967, order on Elimination of Segregated Facilities, by the Secretary of Labor (32 Fed. Reg. 7439, May 19, 1967), must be submitted prior to the award of a subcontract exceeding $10,000 which is not exempt from the provisions of the Equal Opportunity Clause. The certification may be submitted either for each subcontract or for all subcontracts during a period (i.e., quarterly, semiannually, or annually). (1969 MAR.) (Note: The penalty for making false statements in offers is prescribed in 18 U.S.C. 1001.)

(d) Operator further agrees and certifies that, if the value of any contract or purchase order is $50,000 or more and Operator has 50 or more employees, Operator will:

(1) File a complete and accurate report on Standard Form 100 (EEO-1) with the Joint Reporting Committee, Federal Depot, Jeffersonville, Indiana, within thirty (30) days of the date of contract award, unless such report has been filed within the twelve (12) months' period preceding the date of the contract award and otherwise comply with and file such other compliance reports as may be required under Executive Order 11246, as amended, and Rules and Regulations adopted thereunder.

(2) Develop a written affirmative action compliance program for each of its establishments as required by Title 41, Code of Federal Regulations, Section 60-1.40 and 6, Title 41, Code of Federal Regulations, Part 60.2, as amended.

(e) Operator shall be bound and agrees to the provisions contained in Executive Orders 11598 and 11701, the Vietnam Era Veterans' Readjustment Assistance Act of 1972 (Public Law 92-540), as amended by the Vietnam Era Veterans' Readjustment Assistance Act of 1974 (Public Law 93-508), Rules and Regulations promulgated thereunder and the Listing of Employment Openings Clause contained in 41 CFR Part 50-250.2, which clause shall be deemed incorporated herein by this reference.

(f) During the performance of this contract, Operator shall be bound by and agrees to all provisions and obligations imposed by the Rehabilitation Act of 1973, Public Law 93-112, and all of the rules and regulations promulgated thereunder, including but not limited to, Title 20, Chapter VI, Subchapter C, Part 741. Unless exempted by Federal law, regulation or order, the following terms and conditions shall apply during the performance of this contract, to wit:

This clause applies to all nonexempt contracts and subcontracts which exceed $2,500 as follows: (1) Part A applies to contracts and subcontracts which provide for performance in less than 90 days, (2) Parts A and B apply to contracts and subcontracts which provide for performance in 90 days or more and the amount of the contract or subcontract is less than $500,000, and (3) Parts A, B, and C apply to contracts and subcontracts which provide for performance in 90 days or more and the amount of the contract or subcontract is $500,000 or more.

PART A

(1) Operator will not discriminate against any employee or applicant for employment because of physical or mental handicap in regard to any position for which the employee or applicant for employment is qualified. Operator agrees to take affirmative action to employ, advance in employment and otherwise treat qualified handicapped individuals without discrimination based upon their physical or mental handicap in all employment practices such as the following: employment, upgrading, demotion or transfer, recruitment or recruitment advertising, layoff or termination, rates of pay or other forms of compensation, and selection for training, including apprenticeship.

(2) [illegible] with the requirements of the Act, he will (a) investigate the complaint and take appropriate action consistent with the requirements of 20 CFR 741.29 and (b) maintain on file for three years, the record regarding the complaint and the actions taken.

(3) Operator agrees that, if a handicapped individual files a complaint with the Department of Labor that he has not complied with the requirements of the Act, (a) he will cooperate with the Department in its investigation of the complaint, and (b) he will provide all pertinent information regarding his employment practices with respect to the handicapped.

(4) Operator agrees to comply with the rules and regulations of the Secretary of Labor in 20 CFR Ch VI, Part 741.

(5) In the event of Operator's noncompliance with the requirements of this clause, the contract may be terminated or suspended in whole or in part.

(6) This clause shall be included in all subcontracts over $2,500.

PART B

(7) Operator agrees (a) to establish an affirmative action program, including appropriate procedures consistent with the guidelines and the rules of the Secretary of Labor, which will provide the affirmative action regarding the employment and advancement of the handicapped required by P.L. 93-112, (b) to publish the program in his employee's or personnel handbook or otherwise distribute a copy to all personnel, (c) to review his program on or before March 31 of each year and to make such changes as may be appropriate, and (d) to designate one of his principal officials to be responsible for the establishment and operation of the program.

(8) Operator agrees to permit the examination by appropriate contracting agency officials or the Assistant Secretary for Employment Standards or his designee, of pertinent books, documents, papers and records concerning his employment and advancement of the handicapped.

(9) Operator agrees to post in conspicuous places, available to employees and applicants for employment, notices in a form to be prescribed by the Assistant Secretary for Employment Standards, provided by the contracting officer stating operator's obligation under the law to take affirmative action to employ and advance in employment qualified handicapped employees and applicants for employment and the rights and remedies available.

(10) Operator will notify each labor union or representative of workers with which he has a collective bargaining agreement or other contract understanding, that the operator is bound by the terms of Section 503 of the Rehabilitation Act, and is committed to take affirmative action to employ and advance in employment physically and mentally handicapped individuals.

PART C

(11) Operator agrees to submit a copy of his affirmative action program to the Assistant Secretary for Employment Standards within 90 days after the award to him of a contract or subcontract.

(12) Operator agrees to submit a summary report to the Assistant Secretary for Employment Standards, by March 31 of each year during performance of the Contract, and by March 31 of the year following completion of the contract, in the form prescribed by the Assistant Secretary, covering employment and complaint experience, accommodations made and all steps taken to effectuate and carry out the commitments set forth in the affirmative action program.

(g) UTILIZATION OF MINORITY BUSINESS ENTERPRISES (Applicable to all non-exempt contracts in excess of $5,000, except contracts, including all subcontracts thereunder, which are to be performed entirely outside the United States, its possessions, and Puerto Rico, and contracts for services which are personal in nature.)

(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) 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. Operator may rely on written representations by subcontractors regarding their status as minority business enterprises in lieu of an independent investigation.

(h) MINORITY BUSINESS ENTERPRISES SUBCONTRACTING PROGRAM (Applicable to all non-exempt contracts in excess of $500,000.)

(1) Operator agrees to establish and conduct a program which will enable minority business enterprises (as defined in the clause entitled "Utilization of Minority Business Enterprises") to be considered fairly as subcontractors and suppliers under this contract. In this connection, Operator shall -

(a) Designate a liaison officer who will administer Operator's minority business enterprises program.

(b) Provide adequate and timely consideration of the potentialities of known minority business enterprises in all "make-or-buy" decisions.

(c) Assure that known minority business enterprises will have an equitable opportunity to compete for subcontracts, particularly by arranging solicitations, time for the preparation of bids, quantities, specifications, and delivery schedules so as to facilitate the participation of minority business enterprises.

(d) Maintain records showing (i) procedures which have been adopted to comply with the policies set forth in this clause, including the establishment of a source list of minority business enterprises, (ii) awards to minority business enterprises on the source list, and (iii) specific efforts to identify and award contracts to minority business enterprises.

(e) Include the Utilization of Minority Business Enterprises clause in subcontracts which offer substantial minority business enterprises subcontracting opportunities.

(f) Cooperate with the Contracting Officer in any studies and surveys of the Operator's minority business enterprises procedures and practices that the Contracting Officer may from time to time conduct.

(g) Submit periodic reports of subcontracting to known minority business enterprises with respect to the records referred to in subparagraph (d), above, in such form and manner and at such time (not more often than quarterly) as the Contracting Officer may prescribe.

(2) Operator further agrees to insert, in any subcontract hereunder which may exceed $500,000, provisions which shall conform substantially to the language of this clause, including this paragraph (2), and to notify the Contracting Officer of the names of such subcontractors.

D. At least twenty-four (24) hours prior to conducting any testing, coring, logging, completing or abandoning operations, Operator shall notify the other parties participating in the costs thereof so that they may have a representative present to witness such tests or operations if they so desire.

E. If any party hereto shall create any overriding royalty, production payment or other burden against its working interest production and if any other party or parties shall conduct non-consent operations pursuant to any provisions of this agreement and, as a result, become entitled to receive working interest production otherwise belonging to said non-participating party, the party entitled to receive the working interest production of the non-participating party shall receive the production free and clear of burdens against such production which may have been created subsequent to this agreement and the non-participating party creating such subsequent burden shall save the participating party or parties harmless with respect to said burden or burdens and will bear same at his own expense.

F. The parties hereto recognize that this agreement shall be subject to all valid and applicable State and Federal laws, rules, regulations and orders, and the operations conducted hereunder shall be performed in accordance with said laws, rules, regulations and orders. In the event this agreement or any provision hereof is, or the operations contemplated hereby are, found to be inconsistent with or contrary to any such laws, rules, regulations or orders the latter shall be deemed to control and this agreement shall be regarded as modified accordingly and as so modified shall continue in full force and effect.

G. Nothing herein contained shall grant, nor be construed to grant, Operator the right nor authority to waive or release any rights, privileges, or obligations which Non-Operators hereunder may have under Federal or State laws or under rules, regulations or orders promulgated under such laws in reference to oil, gas and mineral operations on tracts offsetting or adjacent to the area covered by this agreement, as for example but without limitation, Operator shall not have the right to waive any rights which Non-Operators may have in reference to the location, operation, or production of wells on tracts offsetting or adjacent to the area covered hereby.

H. Notwithstanding anything contained herein to the contrary, in the event any well drilled hereunder is plugged and abandoned, all tubular goods which are a part of said well shall be subject to the right of the party procuring and furnishing same for joint operations hereunder to receive such goods in kind at the well site, such option to be exercised by notice in writing to Operator prior to abandonment. In the event such option is exercised, the remaining party or parties hereto shall be credited with their proportionate shares of the value of such goods as provided in the attached Accounting Procedure.

I. An election by any party hereto to complete a well at the original objective depth or horizon of any operation conducted hereunder, whether such operation be the drilling of a new well or the re-entering, deepening, sidetracking or plugging back of a well, shall take precedence over an election to complete a well at a lesser depth or horizon than the original objective depth or horizon or drill a well to a deeper depth or horizon.

J. No party to this agreement shall propose the drilling of more than one well at a time nor shall any party to this agreement propose the drilling of a well during the time that another well is being drilled except: (1) by the mutual consent of all parties hereto; or (2) if one or more of said proposed wells are obligations necessary for the maintenance of any leasehold interest on acreage covered by this agreement.

K. After this agreement has been in force for one (1) year, Operator shall be subject to removal by an affirmative vote for such removal of the majority according to interest of the owners of the working interest in the Unit Area; provided that said vote for removal shall be preceded by the Non-Operator who, in good faith, believes that Operator is not reasonably prudent in the

addresses listed on Exhibit "A" The originating notice to be 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. Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other parties.

31. OTHER CONDITIONS, IF ANY, ARE:

A. Notwithstanding any provision to the contrary appearing in Sections 7, 11 and 12 hereof, agreement to drill, deepen or sidetrack any well shall not be deemed agreement to the setting of production string casing and attempting to complete the well as a producer of oil and/or gas but shall be considered consent only to drill to the production string casing point. The term "casing point" as used herein shall mean the point of attempted completion of the well and shall not occur until after the authorized well depth has been reached and Operator shall have completed making all required tests* therein including electric logging of the well. When said well has reached casing point, Operator shall give immediate telegraphic notice to all other parties hereto participating in the costs of drilling, deepening or sidetracking said well. Each party receiving such notice shall have a period of forty-eight (48) hours (exclusive of Saturday, Sunday, and legal holidays) after the receipt of such notice to inform Operator whether it wishes to participate in the cost of setting production string casing and making a completion attempt. Failure of a party receiving such notice to so reply within the period above fixed shall be deemed an election by that party not to participate in such completion attempt. If no party elects to participate in the completion attempt, the Operator shall plug and abandon the well at the expense of all parties who participated in the drilling, deepening or sidetracking of such well. If one or more but less than all of the said parties elect to participate in such completion attempt, the provisions of Section 12 hereof shall apply to the operations thereafter conducted by less than all the parties. The costs and liabilities incurred in reaching casing point shall include shutdown time incurred pending a decision to plug and abandon or attempt a completion and shall remain the obligation of all parties who originally consented to the drilling, deepening or sidetracking of such well. The costs so paid shall not be included in the costs to be recouped under Section 12 hereof by the parties participating in the setting of production string casing and completion attempt.

The option herein provided not to participate in the completion attempt shall also be available to Operator. When Operator does not participate in such completion attempt, it shall have the right, but not the obligation, to be Operator of such operation. If Operator declines to act as operator, then the parties bearing the cost of such operation shall designate one of their number to operate same in the capacity of "Interim Operator" and thereafter the Operator named herein shall not have any control or supervision over such operation thereafter conducted. After said well is either plugged and abandoned or completed as a producer of oil and/or gas, the Operator named herein shall assume all subsequent operations and thereafter discharge its duties in that capacity under this agreement.

B. Notwithstanding any of the provisions of Sections 11, 12 and 31.A hereof, approval of the "Authority for Expenditure" proposing a particular operation shall not constitute the approving party as a Consenting Party (as defined in Section 12 hereof) to the operation if less than all parties hereto qualified to participate in the operation approve the AFE until said approving party (a) has been notified in writing that less than all such parties have consented to the operation and (b) has notified Operator in writing that it agrees to be a Consenting Party to the operation as one participated in by less than all parties.

operations hereof, furnishing in writing the terms under which said Non-Operator is prepared to act as Operator. Such removal shall be effective upon giving not less than 90-days written notice thereof to Operator, executed by such majority of parties hereto so voting for removal, and upon the acceptance in writing of the successor Operator of the duties and responsibilities as Operator. Similarly, and in the same manner, a Non-Operator shall have the same privilege after one year of operations by the new Operator.

31 I. FARMOUT TERMS

I. It is recognized and agreed, as evidenced by its execution and delivery of this agreement, that Mesa Petroleum Co. and Southland Royalty Company, herein referred to as "Farmout Parties" do hereby farmout all of its right, title and interest in and to the proration unit or units established for the first commercially productive well drilled hereunder (subject to the reservations hereinafter set out as to overriding royalty and optional reversionary working interest) plus 50% of its right, title and interest in the remainder of the Unit Area as described in Exhibit "A" to Getty Oil Company and Belring Petroleum herein referred to as "Farmin Parties" upon the following terms and conditions:

1. If Farmin Parties bear the working interest participation of Farmout Party and participate in the drilling of the initial test well (or a substitute test well as herein permitted) in accordance with the provisions of Section 7 hereof to the objective depth or any greater depth as permitted in Section 31.I.6 hereof, and completes same at any depth as a well capable of producing oil and/or gas in commercial quantities, Farmin Party shall become entitled to the following:

(a) All of Farmout Party's working interest in and to the oil and gas which may be produced, saved and marketed from the proration unit established for the initial well in accordance with rules of the Oil Conservation Commission of the State of New Mexico (subject to the provisions hereinafter set out as to overriding royalty and optional reversionary working interest);

(b) Fifty percent (50%) of Farmout Party's working interest in the Unit Area described in Exhibit "A" hereof not situated with said initial well proration unit; and

(c) Recordable assignments executed by Farmout Party assigning to Farmin Party, without warranty of title, either express or implied, subject to the provisions of this Operating Agreement, all of its respective leasehold rights under the leases described in Exhibit "A" and within said initial well proration unit and 50% of its leasehold rights in the Unit Area under the leases described in Exhibit "A" and outside said initial well proration unit. The assignment shall be limited to the depths and horizons situated above the geological stratigraphic equivalent of the producing horizon in the earning or initial test well.

In the assignment to Farmin Party, Farmout Party shall reserve an overriding royalty in an amount which shall entitle Farmout Party to 1/16th of 8/8ths of all oil and gas that may be produced from the land within the surface boundaries of the initial well proration unit or units established for the aforementioned well,

(1) Said overriding royalty shall be in addition to the presently effective royalties, production payments, and other like interests in the production, if any. Said overriding royalty shall be free and clear of all production, gathering, compression, dehydration, trucking, transportation, marketing, and treating or other costs and taxes except production or severance taxes. In the event Farmout Party's oil and gas leasehold interest in the lands covered by the leases contributed by it as described in Exhibit "A" shall be less than 50% of the full oil and gas leasehold interest in said lands, then the overriding royalty to be reserved by Farmout Party shall be proportionately reduced. The precentage of overriding royalty interest of each Farmout Party is reflected in Exhibit "A", Part II, Column II.

2. In the event Farmin Party (1) drills the initial test well provided for in Section 7 hereof to the objective depth in accordance with the terms hereof and completes same as a dry hole, or (2) encounters mecnanical difficulties in the initial test well resulting in permanent loss of the hole prior to reaching the objective depth, or (3) encounters, prior to reaching the objective depth, heaving shale, domal formations, excessively high-pressure water sands, cavity, or similar formations where returns are lost or other impenetrable formations through which Farmin Party is unable to drill after diligent effort by appropriate and customary means, the, in any such events, Farmin Party may drill successive substitute test wells, in lieu of the initial test well, at mutually agreeable locations upon the same terms and conditions as is provided for the initial test well in Section 7 hereof, provided that the first such substitute well be commenced within 30-days after plugging and abandoning the initial test well and that each successive substitute test well thereafter be commenced within 30-days after plugging and abandoning the preceding substitute test well.

3. Upon such time as Farmin Party has recovered out of 8/8ths of the net proceeds received from the sale of production from the first commercially productive well drilled hereunder (whether same be the initial test well or a substitute test well), less presently effective royalties, production payment, overriding royalties, (including those retained herein by Farmout Party), shut-in royalties, and production or severance taxes, 100% of the cost and expense, both tangible and intangible, of locating, drilling, equipping (including but not limited to all casing, surface equipment and personal property used in connection therewith), testing and completing said well for production and operating said well during such recovery period, Farmout Party shall be notified accordingly in writing. Further, if said first commercially productive well requires side tracking at any point in order to effect completion thereof, such sidetracking shall, for the purposes of computing payout, be considered as recoupable drilling and/or completion operations in connection with said well. It is understood that the costs heretofore referred to will be computed in accordance with the Accounting Procedure attached hereto and marked Exhibit "C" and Operator will furnish to the Farmout Party quarterly payout status reports.

4. Within forty-five (45) days after Farmout Party has received the payout notice described in the immediately preceding paragraph, Farmout Party shall have the option of:

(a) Converting its overriding royalty interest in production from the proration unit for said initial test well which earns the assignment to the working interest specified for such party in Column III, Exhibit "A", Part 2, without bearing any of the costs of drilling, completing, equipping and operating such initial test well prior to such election, or

(b) retaining its overriding royalty interest in production from the proration unit for said well which carries the assignment, in which event, Column II, Part II, Exhibit "A", shall be deemed to be revised to credit Farmin Party with the interest of such non-converting party on the same basis as prior to payout. The retained overriding royalty shall be free and clear of all production, gathering, compression, dehydration, trucking, transportation, marketing, treating, or other costs, and taxes, except production of severance taxes.

Such election to convert the overriding royalty interest shall become effective as of 7:00 A.M. local time where the well is situated, on the first day next following the day during which the above described recovery shall have occurred.

5. All operations in the Unit Area, subsequent to the drilling and completion of the first commercially productive well drilled hereunder and outside of the proration unit or units created for said well, shall be conducted subject to the terms and provisions of the Operating Agreement and shared in proportion to the interests shown in Column III, Exhibit "A", Part II, except as otherwise provided herein.

6. In the event Farmin Party fails to timely commence or drill the initial test well (or substitute test well permitted hereby) provided for in Section 7 hereof, its only penalty for failure to do so shall be failure to earn the acreage and rights specified in Section 31.I.1 hereof. Nothing herein contained shall be construed as between Farmout Party and Farmin Party to prohibit Farmin Party from voluntarily drilling the initial test well provided for in Section 7 hereof or any substitute well provided for herein below the objective depth set forth in said Section 7.

7. Notwithstanding anything herein to the contrary, if Operator runs a velocity survey and/or continuous velocity log in the initial test well (or substitute therefore) for the account of Farmin Party, it is understood that it is not intended that same be furnished free to Farmout Party. However, Farmout Party shall have the right to receive any such velocity survey and/or continuous velocity log that might be made by paying their prorata share of the cost.

J. It is understood that Getty Oil Company, as Operator, and Belring Company, as Non-Operator, shall earn the Farmout Party's acreage based on its percentage of participation under the initial test well. Assignments from Farmout Parties shall be made on this basis.

K. Upon execution of this Operating Agreement by all parties named as signatory parties herein, Operator shall endeavor to secure, for the account of the parties hereto at the usual rates prevailing in the area, a rotary drilling rig capable of drilling and running casing to the objective depth provided for in Section 7 hereof. However, in the event Operator is unable to secure such rig in sufficient time to comply with the drilling commencement date specified in said Section 7, Operator shall have no liability to the other parties hereto for losses sustained, or liabilities incurred.

4. Provisions Concerning Taxation.

(a) Internal Revenue Provision. Each party hereby agrees not to elect to be excluded from the application of all or any part of the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954 as amended (hereafter referred to in this Section as "Code") or similar provisions of any applicable state laws. The parties recognize that they are a partnership for income tax purposes and agree that they shall be treated as a partnership for income tax purposes only. Operator shall be responsible for the filing of the required partnership returns; however, a copy of such returns shall be furnished to the other party at least fourteen (14) days prior to the date of filing. Any required or specified partnership elections shall be made on such returns. Allocations of gains and losses and of costs, expenses, and tax credits for income tax purposes, as well as any elections or tax accounting procedures expressly provided for shall be in accordance with the provisions set forth herein.

(b) Tax Partnership Provision. Each party agrees that for income tax purposes the gains and losses from dispositions of property (other than an oil and gas property as defined in Code Sec. 614) and all classes of costs, expenses (including depreciation) and tax credits, shall be allocated to each party in any applicable income tax return in accordance with the provisions set forth herein:

Definitions as Used in this Section-

(i) The term "Respective Contributions" shall mean each party's contribution to the expenses incurred hereunder.

(ii) "Respective Contributions" as the term applies to the adjusted basis of property shall mean:

(1) the party's adjusted basis of the property as defined in Code Section 1011 at the time such property was made subject to the provisions of this Agreement.

(2) plus the portion of the costs incurred hereunder.

(3) plus or minus any depreciation, cash or other basis adjustments which are allocated to the party under this Agreement.

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(c) Operating and Maintenance Expenses. Operating and maintenance expenses shall be allocated to each party in accordance with its Respective Contributions to such expenses.

(d) Intangible Drilling and Development Costs and Exploration Costs. Intangible drilling and development costs and exploration costs shall be allocated to each party in accordance with its Respective Contributions to such costs. Any subsequent recapture of intangible costs under Code Section 1254 shall also be allocated to the party who was initially allocated such costs.

(e) Depreciation and Amortization. Depreciation shall be allocated to each party in accordance with its Respective Contributions to the adjusted basis of the property in a depreciation vintage account (both ADR and Non-ADR) as defined in the Regulations to Code Section 167 and as may be adjusted for ordinary and extraordinary retirements. Amortization shall be allocated to each party in accordance with its Respective Contribution to the adjusted basis of the item.

(f) Depletion and Gain or Loss on Oil and Gas Properties. As provided in Code Section 613A (c) (7) (D), depletion on and gain or loss upon disposition of an oil and gas property are to be computed separately by each party. The parties desire that depletion and gain or loss be shared among the parties so as to take account of the variation between the depletable tax basis of the property to the partnership and its fair market value at the time of contributions as authorized by Code Section 704 (c) (2) and the regulations thereunder. Each party agrees that this is to be accomplished by allocating the adjusted depletable tax basis of each partnership oil and gas property contributed to the partnership to each party according to its proportionate share of the adjusted basis contributed to the partnership as authorized by Code Section 613A (c) (7) (D).

In the event that the adjusted depletable tax basis of oil and gas properties is not permitted to be allocated as specified above for the purpose of computing depletion, then in the alternative the adjusted depletable tax basis of each oil and gas property shall be allocated according to the capital interest in the partnership as to such property and the capital interest in the partnership for such purpose as to each such property shall be considered to be owned by the parties hereto in the ratio in which the expenditure giving rise to the depletable tax basis of each such property has been contributed as of the end of the year to the respective party's capital accounts.

(g) ADR Retirements. (i) Ordinary Retirements. The additon to the reserve for depreciation account required by an ordinary retirement as defined in the ADR (Asset Depreciation Range) Regulations Section 1.167(a)-11 to the Code shall be made to the reserve for depreciation of the appropriate vintage account(s). For purposes of determining a party's allocable share of the remaining basis in a vintage account(s), its allocable share of the basis shall be reduced by the amount of proceeds, if any, from ordinary retirements allocated to it under this Agreement.

(ii) Extraordinary Retirements. Gains and losses from extraordinary retirements, to the extent recognized by the partnership for income tax purposes, shall be allocated to each party in the same manner as proceeds, if any, from extraordinary retirements are allocated.

(h) Non-ADR Retirements. Gains and losses from non-ADR retirements, to the extent recognized by the partnership for income tax purposes, shall be allocated to each party in the same manner as proceeds, if any, from said retirements are allocated.

(i) Investment Tax Credit. For purposes of investment tax credit only, the basis of Section 38 property shall be allocated to each party in accordance with its Respective Contributions to qualified investment in Section 38 property as defined in the applicable provisions of the Code. If permitted by law, the tax partnership shall elect to treat qualified progress expenditures as qualified investment under Code Section 46. Any restoration of investment tax credit required by a subsequent disposition of qualified investment shall be allocated to the party(ies) who initially received or was allocated the investment tax credit on such qualified investment.

(j) Other Costs, Expenses, and Tax Credits. All other classes of costs, expenses and tax credits not falling within the paragraphs above shall be allocated to each party in accordance with its Respective Contributions to such costs, expenses and tax credits.

(k) Method of Accounting. The accrual method of accounting shall be adopted by the tax partnership and such accounting shall be maintained on a calendar year basis.

(l) Tax Elections. The partnership shall elect (1) to expense as incurred all intangible drilling and development costs, pursuant to Code Section 263(c), (2) to apply the tax depreciation provisions of Regulations Section 1.167 (a)-11 (Class Life (ADR) System) to the Code and to use the maximum accelerated tax depreciation method and shortest permissible life authorized by law with respect to all depreciable assets regardless of their qualifications as ADR Property, (3) to deduct currently all research and experimental expenses as permitted by Code Section 174, and (4) in the event of the transfer of a party's interest; or, in the event of the distribution of property to any party, to elect in accordance with the applicable Regulations, to cause the basis of the property to be adjusted for Federal Income Tax purposes as provided by Code Section 734 and 743, provided the parties so agree.

Any other significant tax partnership elections, allocations or reporting procecures not provided for herein, or any change to the provisions set forth above, shall be made by the parties in accordance with the provisions of the Agreement.

It is the intent of each party that the provisions of Section (b) shall be limited in their application to matters relating to income taxes and shall not in any way change, amend or affect the substantive rights and obligations of the parties otherwise contained in the Agreement.

(m) State Income Tax. In the event any other elections and procedures are required or become available other than those listed for Federal Income Tax purposes, the parties agree that the partnership will make all necessary elections and reports to minimize State Income Taxes.

(n) Ad Valorem Taxes. Beginning with the first calendar year after the effective date of this Agreement, Operator shall make and file with proper taxing authorities all necessary ad valorem tax renditions and returns and shall settle all valuations and pay all taxes arising therefrom before they become delinquent. If the interest of any party is subject to a separately assessed overriding royalty interest, production payment or other interest in excess of one-eighth (1/8th) royalty, then such party shall notify Operator of such interest prior to the rendition date and such party's tax allocation shall be reduced accordingly.

(o) Production Taxes. Each party receiving in kind or separately disposing of all or part of its share of all oil and gas produced hereunder shall pay or cause to be paid all production, severance and other taxes imposed upon or with respect to the production of such Unitized Substances and shall indemnify the other party against any liability for such payment; provided, however, that the party paying or causing to be paid such taxes on behalf of or for the benefit of any Royalty Owner shall be reimbursed by such Royalty Owner for the amount of such taxes attributable to the Royalty Owner's share of such production and shall have a lien on such Royalty Owner's oil and gas rights to secure payment thereof.

A.A.P.L. FORM 610

This agreement may be signed in counterpart and shall be binding upon the parties and upon their heirs, successors, representatives and assigns.

GETTY OIL COMPANY

BY: Victor E. Bartlett

VICTOR E. BARTLETT ATTORNEY-IN-FACT

O P E R A T O R

ATTEST:

BELRING COMPANY

_____

BY: _____

ATTEST:

SOUTHLAND ROYALTY COMPANY

_____

BY: _____

ATTEST:

MESA PETROLEUM CO.

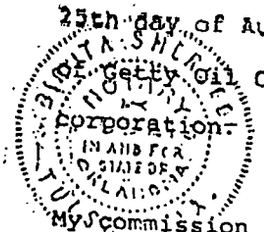
_____

BY: _____

N O N - O P E R A T O R

STATE OF OKLAHOMA)
) SS:
COUNTY OF TULSA)

The foregoing instrument was acknowledged before me this 25th day of August, 1977, by Victor E. Bartlett, Attorney in Fact of Getty Oil Company, a Delaware corporation, on behalf of said corporation.



My commission expires
December 23, 1978.

Biruta Sherwood
Notary Public

AAPL FORM 610

This agreement may be signed in counterpart and shall be binding upon the parties and upon their heirs, successors, representatives and assigns.

GETTY OIL COMPANY

BY: Walter E. Bartlett

O P E R A T O R

ATTEST:

BELRING COMPANY

_____

BY: _____

AZTEC OIL & GAS COMPANY

ATTEST:

Patricia A. Cox

Patricia A. Cox, Asst. Secretary

BY: C. J. Caskey FEW

C. J. Caskey, Vice President

ATTEST:

MESA PETROLEUM CO.

_____

BY: _____

N O N - O P E R A T O R

COUNTY OF X

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this _____ day of _____, 19___, personally appeared _____, to me known to be the identical person who subscribed the name of _____ to the foregoing instrument, as its _____ and acknowledged to me that he executed the same as the free and voluntary act and deed of such corporation, for the uses and purposes therein set forth.

GIVEN under my hand and seal of office the day and year last above written.

My Commission Expires:

_____ _____

Notary Public

NEW MEXICO ACKNOWLEDGMENT
(Attorney-in-Fact)

STATE OF X
X SS:
COUNTY OF X

The foregoing instrument was acknowledged before me this _____ day of _____, 19___, by _____, as Attorney-in-Fact on behalf of _____.

My Commission Expires:

_____ _____

Notary Public

STATE OF TEXAS X
X SS:
COUNTY OF TARRANT X

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this 7th day of October, 1977, personally appeared C. J. CASKEY, to me known to be the identical person who subscribed the name of AZTEC OIL & GAS COMPANY, a Delaware corporation, to the foregoing instrument, as its Vice President and acknowledged to me that he executed the same as the free and voluntary act and deed of such corporation, for the uses and purposes therein set forth.

GIVEN under my hand and seal of office the day and year last above written.

My Commission Expires:
September 30, 1978

Notary Public

STATE OF X
X SS:
COUNTY OF X

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this _____ day of _____, 19___, personally appeared _____, to me known to be the identical person who subscribed the name of _____ to the foregoing instrument, as its _____ and acknowledged to me that he executed the same as the free and voluntary act and deed of such corporation, for the uses and purposes therein set forth.

GIVEN under my hand and seal of office the day and year last above written.

A.A.P.L. FORM 610

This agreement may be signed in counterpart and shall be binding upon the parties and upon their heirs, successors, representatives and assigns.

GETTY OIL COMPANY

BY: Victor E. Bartlett

O P E R A T O R

WITNESS:

Jeanette LeBleu

BELRING COMPANY, A Texas Limited Partnership
BY: Belco Petroleum Corporation,
Its Sole General Partner

BY: D. B. Martin, Attorney-in-Fact

ATTEST:

AZTEC OIL & GAS COMPANY

BY: _____

ATTEST:

MESA PETROLEUM CO.

BY: _____

N O N - O P E R A T O R

STATE OF TEXAS I

COUNTY OF HARRIS I

BEFORE ME, the undersigned authority, on this day personally appeared D. B. MARTIN, known to me to be the person whose name is subscribed to the foregoing instrument, as Attorney-in-Fact of Delco Petroleum Corporation, a corporation, 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 12th day of September, 1977.

Rebecca W. Yarbrough
Notary Public, Harris County, Texas.

EXHIBIT "A"

Attached to and made part of that certain Operating Agreement dated August 15, 1977, between GETTY OIL COMPANY, as Operator, and BELRING COMPANY, ET AL, as Non-Operator, and covering lands in Lea County, New Mexico

PART I

A. Unit Area: Section 35-T21S-R34E and Section 2-T22S-R34E, Lea County, New Mexico, from the surface down to the geological stratigraphic equivalent of the total depth drilled in the first commercially productive well drilled hereunder.

B. Names and Addresses of the Parties:

GETTY OIL COMPANY
P. O. Box 1231
Midland, Texas 79702
Attention: Mr. H. O. Woods, Jr.

BELRING COMPANY ~~411 Petroleum Building~~ MITCHELL ENERGY CORPORATION ~~2001 TIMBERLOCH PLACE~~ 400 W. Illinois Suite 1000
Midland, Texas 79702 ~~THE WOODLANDS, TX 77387~~ MIDLAND 79701
Attention: Mr. Ben L. Wolfe

SOUTHLAND ROYALTY COMPANY ~~1100 Wall Towers West~~ C/O MERIDIAN OIL INC. 3300 N. "A" BLDG 6
~~Midland, Texas 79702~~ MIDLAND 79705
~~Attention: Mr. G. E. Moar~~

MESA PETROLEUM CO. Parker & Parsley Development Partners, L.P.
Suite 1000, Vaughn Building P.O. Box 3178
Midland, Texas 79702 MIDLAND 79702
Attention: Mr. Robert H. Northington

BIT "A", PART I (Continued)

Leasehold Interests Committed to the Agreement:

Each of the following Oil and Gas Leases are committed to this Agreement insofar and only insofar as they cover the Unit Area hereinabove described:

Lessor	Lease Date	Net Acres Committed	Base Royalty	Excess Burdens	Recording Reference Lea County, New Mexico Miscellaneous Records Volume	Page
Lease Contributed by Getty Oil Company (100%)						
1) State of New Mexico LG-1207	6-01-73	489.00	1/8	-	-	-
Lease Contributed by Mesa Petroleum Co. (100%)						
2) State of New Mexico LG-1146	4-01-73	160.00	EXPIRED 1/8	-	282	474
Lease Contributed by Belring Company (100%)						
3) State of New Mexico LG-1487	1-01-74	320.00	1/8	-	-	-
Lease Contributed by Southland Royalty Company (100%)						
4) State of New Mexico LG-723	3-19-68	320.00	1/8	-	-	-

EXHIBIT "A" - PART II

	I	II	III	IV
'centile Interest f the Parties	Participation in Initial Test Well to Payout	ORRI in Test Well Until Payout	Working Interest After Payout of Initial Test Well & Subsequent Wells	Net Revenue Interest After Payout
ty Oil Company	60.44499%	-	49.19069%	43.04185%
~~ring~~ Company	39.55501%	-	32.19023%	28.16645%
thland Royalty Company	-	1.55159	* 12.41272%	10.86113%
a Petroleum Co.	-	.77580	* 6.20636%	5.43057%
	100.00000%		100.00000%	87.50000%

Computed on the basis that Mesa Petroleum and Southland Royalty elect to convert their ORRI to a working interest after payout of the initial test well.

l leases contributed have 1/8 base royalty with no burdens)

[illegible] 691, TULSA 74101

COPAS —
Recommended by
Council of Petr
Accountants Societ
North America

EXHIBIT "C"

Attached to and made a part of the Operating Agreement between GETTY OIL COMPANY, as Operator, and BELRING COMPANY, ET. AL., as Non-Operator dated August 15, 1977.

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 Account Procedure is attached.

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

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Jo 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 dir supervision of other employees and/or contract labor directly employed on the Joint Property in a field oper ing capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or otl professional skills, and whose primary function in Joint Operations is the handling of specific operating con tions 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 Man 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 t Joint Account for the preceding month. Such bills will be accompanied by statements which identify the auth ity for expenditure, lease or facility, and all charges and credits, summarized by appropriate classifications of i vestment and expense except that items of Controllable Material and unusual charges and credits shall be se arately 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 th share of estimated cash outlay for the succeeding month's operation. Operator shall adjust each monthly billi 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 r made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) p annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joi Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection wi 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 correc ness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during a calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months followi the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator tak written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator sh be made unless it is made within the same prescribed period. The provisions of this paragraph shall not preve 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 Op rator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) mon period following the end of such calendar year; provided, however, the making of an audit shall not extend th time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of th Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Oper tor. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agre 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 sec tions of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contain 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-Opera

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 $ 2,500.00
Producing Well Rate $ 250.00

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

(a) Drilling Well Rate

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

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

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

(b) Producing Well Rates

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

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

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

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

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

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

2. Overhead - Major Construction

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

A. 5 % of total costs if such costs are more than $ 25,000 but less than $ 100,000 ; plus

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

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

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

3. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

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

(2) Line Pipe

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

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

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

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

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

(2) Material moved from the Joint Property

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

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

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

C. Other Used Material (Condition C and D)

(1) Condition C

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

(2) Condition D

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

D. Obsolete Material

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

E. Pricing Conditions

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

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

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

4. Expense of Conducting Periodic Inventories

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

EXHIBIT "D"

Attached to and made a part of Operating Agreement dated August 15, 1977, between GETTY OIL COMPANY, as Operator, and BELRING COMPANY, ET AL, covering lands in LEA COUNTY, NEW MEXICO.

Unit Operator shall carry Workmen's Compensation Insurance meeting the requirements of law. Premimums for such insurance coverage shall be charged to the joint account. No other insurance will be carried by Operator for benefit of the Joint Account.

All damage or injury to the Unit Area or property thereon shall be borne by the parties hereto in proportion to their interest therein. The liability, if any, of the parties hereto in damages for claims growing out of personal injury to or death of third parties or injury to or destruction of property of third parties resulting from the operations conducted hereunder shall be borne in proportion to their interests in the Unit Area property, and each party indivudually may acquire such insurance as it deems proper to protect itself against such claims.

EXHIBIT "E"

GAS BALANCING AGREEMENT

Attached to and made a part of the Operating Agreement
between GETTY OIL COMPANY, as Operator
and BEIRING COMPANY, ET AL as
Non-Operators, dated August 15, 1977.

1. The parties to the Operating Agreement to which this gas balancing 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", Part I, to the Operating Agreement.

2. In accordance with the terms of the Operating Agreement, each party thereto has the right 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 able to market its share of gas or has contracted to sell its share of gas produced from the Unit Area to a purchaser which is unable at any time while the Operating Agreement is in effect to take the share of gas attributable to the interest of such party, the terms of this balancing agreement shall automatically become effective.

3. During the period or periods when any party hereto has no market for its share of gas produced from the Unit Area, or its purchaser is unable to take its share of gas produced from the Unit Area, the other parties shall be entitled to produce each month one hundred percent of the allowable gas production (including lawful tolerances) assigned to such Unit by the New Mexico Oil Conservation Commission 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. Each party unable to market its share of the gas produced shall be credited with underproduction equal to its full share of the gas produced under the Operating Agreement, less its share of gas used in lease operations, vented or lost. 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, and the total quantity of liquid hydrocarbons recovered therefrom.

4. 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 such gas production, exclusive of gas used in lease operations, vented or lost. Each party hereto agrees to hold each other party harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable. The term "royalty owner" shall include owners of royalty, overriding royalties, production payments and similiar interests.

5. It is the intent that each party be entitled to gas produced in the proportion that its ownership interest bears to the sum of the ownership interests. It is the intent that the Unit Operator have the duty of controlling gas well production and the responsibility of administering the provisions of this agreement. Unit Operator shall cause deliveries to be made to the gas purchasers at such rates as may be required to give effect to the intent that the gas production accounts of all parties are to be brought into balance under the provisions contained herein.

6. To give effect to the intent of this agreement, the Unit Operator shall be governed by the following rights of each party:

(a) When the well's current production is less than the well allowable due to either the capacity of the well to produce or the Unit Operator causing the well to produce below allowable in order to properly balance well allowable overproduction:

(1) Each underproduced party (a party who has taken a lesser volume of gas than the quantity such party is herein entitled) shall have the right to take a greater amount of gas than its proportionate share of the well's current production, provided that the right to take such greater amount shall be in proportion that its interest bears to the total interest of all underproduced parties desiring to take more than their proportionate share of the well's current production.

(2) Each overproduced party (a party who has taken a greater volume of gas than the quantity such party is herein entitled) shall reduce its respective take in the proportion that such party's interest bears to the total interest of all overproduced parties, but in no event shall any overproduced party be required to reduce its take to less than fifty percent (50%) of such overproduced party's proportionate share of the well's current production.

(b) When the well's current production is less than the well allowable due to combined pipeline takes or for reasons other than in subparagraph (a) above:

(1) Each underproduced party shall have the right as in subparagraph (a)(1) above.

(2) Each overproduced party shall reduce its respective take in the proportion that such party's interest bears to the total interest of all overproduced parties, but in no event shall any overproduced party be required to reduce its take to less than fifty percent (50%) of such overproduced party's proportionate share of the well allowable.

(c) When the well's current production is equal to or greater than the well allowable:

(1) Each underproduced party shall have the right to take a greater amount of gas than its proportionate share of the well allowable, provided that the right to take such greater amount shall be in proportion that its interest bears to the total interests of all underproduced parties desiring to take more than their proportionate share of the well allowable.

(2) Each overproduced party shall have the right as in subparagraph (a) (2) above.

(d) The Unit Operator, at the request of any party, may produce the entire well stream, if necessary, for a deliverability test not to exceed seventy-two (72) hours duration required under such requesting party's gas sales contract and may overproduce in any other situation provided that such overproducing would be consistent with prudent operations.

7. Each party taking gas shall furnish, or cause to be furnished, the Unit Operator a monthly statement of gas taken. After commencement of production, Unit Operator shall furnish a current account monthly of the gas balance between parties hereto including the total quantity of gas produced, the portion thereof used in Unit Operations, vented or lost, and the total quantity of gas delivered to a market.

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

9. The provisions of this agreement shall be separately applicable to each reservoir to the end that production from one reservoir in a gas well may not be utilized for the purpose of balancing underproduction from other reservoirs.

10. When gas sales from a reservoir in a gas well permanently cease, Unit Operator shall be responsible to determine the final accounting of underproduction and overproduction and each overproduced party shall account to and compensate each underproduced party with a sum of money equal to the amount actually received, less applicable taxes, by any overproduced party ~~from the sale of that~~ part of the total ~~cumulative~~ volume of gas produced which the underproduced party was entitled to take and payment for such overproduction shall be in the order of accrual.

1. Reduce take to 50% of interest
2 Limited to balancing on a reservoir basis
3 Cash balance on basis of actual receipts in basis and
Question:
(1) interest, Chris Mike Short called. on accrual,
(2)
points?

2005 Wells
Tr. I #2

BURGUNDY OIL & GAS OF NEW MEXICO, INC.

RESIGNATION OF OPERATOR

WHEREAS, Burgundy Oil & Gas of New Mexico, Inc. ("Burgundy") has entered into that certain Purchase and Sale Agreement ("PSA") dated May 9, 2016, effective as of March 1, 2016, between Burgundy et al, as Sellers, and Black Mountain Operating, LLC ("BMO"), as Purchaser, covering all of such Sellers' oil and gas leasehold working interests in the Properties, as more particularly described in such PSA.

WHEREAS, pursuant to the terms and provisions of the PSA, Burgundy intends to and shall resign its position as Operator under the respective Operating Agreements covering one or more of such Properties.

NOW, THEREFORE, effective as of May 16th, 2016, Burgundy hereby resigns its position as Operator under each of the Operating Agreements listed below and covering any one or more of the Properties (as defined in the PSA):

(a) Operating Agreement and Farmout Agreement (Grama Ridge Unit) dated August 15, 1977, between Getty Oil Company, as Operator, and Belring Company et al, as Non-Operators, covering the following tracts of land in Lea County, New Mexico: Section 35, T-21-S, R-34-E; and Section 2, T-22-S, R-34-E.

b) Operating Agreement (East Grama Ridge Unit, Getty "36" State No. 1) dated February 8, 1979, between Getty Oil Company, as Operator, and Phillips Petroleum Company et al, as Non-Operators, covering the following tract of land in Lea County, New Mexico:

Depths from the Surface down to the Base of the Pennsylvanian formation in Section 36, T-21-S, R-34-E.

(c) Operating Agreement dated April 1, 1994, between Burgundy Oil & Gas of New Mexico, Inc., as Operator, and Trinity Bay Oil & Gas, Inc. et al, as Non-Operators, covering the following tract of land in Lea County, New Mexico:

S/2 of Section 25, T-21-S, R-34-E.

Dated this 16th day of May, 2016.

BURGUNDY OIL & GAS OF NEW MEXICO, INC.
By: Bob Statton
Printed Name: Bob Statton
Title: Vice President

BTA EXHIBIT B

Tel. (432) 684-4033 Fax (432) 683-8720 401 W. Texas, Suite 1003 Midland, Texas 79701