STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

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

APPLICATION OF LIME ROCK RESOURCES II-A, L.P. FOR APPROVAL OF COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO. **Case No. 14,820**

APPLICATION OF LIME ROCK RESOURCES II-A, L.P. FOR APPROVAL OF COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO. **Case No. 14,821**

APPLICATION OF LIME ROCK RESOURCES II-A, L.P. FOR APPROVAL OF COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO. **Case No. 14,822**

APPLICATION OF LIME ROCK RESOURCES II-A, L.P. FOR APPROVAL OF COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO. **Case No. 14,823**

MOTION TO DISMISS

Mewbourne Oil Company ("Mewbourne") moves the Division for an order dismissing the above compulsory pooling applications, and in support thereof, states:

1. Lime Rock Resources II-A, L.P. ("Lime Rock") has filed the above applications seeking to force pool all depths from the surface to the base of the Yeso formation underlying the E½SW¼ of Section 7, Township 18 South, Range 27 East, N.M.P.M. The Yeso formation is apparently the primary target of the four wells involved in these cases.

2. Mewbourne is the operator of the S½ of Section 7 under an Operating Agreement dated May 15, 1973. This agreement covers one hundred percent (100%) of the working interests as to the following depths:

(a) Below the base of the San Andres formation in the W½SW¼ of and W½SE¼ Section 7;

(b) All depths except the Grayburg and San Andres formations underlying the E½SW¼ and NE¼SE¼ of Section 7;

(c) All depths in the SE¼SE¼ of Section 7.

See Affidavit of Corey Mitchell, attached hereto as Exhibit A.

5. The Operating Agreement remains in effect due to the following:

(a) The initial well drilled under the Operating Agreement was the Peterson Com. Well No. 1, located 1980 feet from the south and east lines of Section 7. The Peterson Com. Well No. 1 was a commercial well, and is still producing; and

(b) The Operating Agreement provides, in Section 10, that it shall remain in effect so long as any of the oil and gas leases subject to the agreement remain in effect. All of the oil and gas leases listed in Exhibit A to the Operating Agreement remain in effect.

Id.

3. The depths which Lime Rock seeks to pool in these cases include depths covered by the May 15, 1973 Operating Agreement and the West Red Lake Unit Agreement.

4. The pooling statutes provide that a working interest owner may force pool other interest owners in a well where other owners "have not agreed to pool their interests." **NMSA 1978 §70-2-17.C**. In these cases all of the interest owners in the E½SW¼ of Section 7 have voluntarily agreed to pool their interests (i) as to the Grayburg and San Andres formations under the West Red Lake Unit Agreement and Unit Operating Agreement, and (ii) as to all other depths under the May 15, 1973 Operating Agreement. Thus, force pooling is improper.

WHEREFORE, Mewbourne Oil Company requests that these cases be dismissed.

Respectfully submitted,

James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043

Attorney for Mewbourne Oil Company

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing pleading was served upon the following counsel of record this 23rd day of April, 2012 by hand delivery:

Ernest L. Padilla
P.O. Box 2523
Santa Fe, New Mexico 87504

James Bruce

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

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

APPLICATION OF LIME ROCK RESOURCES II-A, L.P. FOR APPROVAL OF COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO. **Case No. 14,820**

APPLICATION OF LIME ROCK RESOURCES II-A, L.P. FOR APPROVAL OF COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO. **Case No. 14,821**

APPLICATION OF LIME ROCK RESOURCES II-A, L.P. FOR APPROVAL OF COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO. **Case No. 14,822**

APPLICATION OF LIME ROCK RESOURCES II-A, L.P. FOR APPROVAL OF COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO. **Case No. 14,823**

AFFIDAVIT OF COREY MITCHELL

COUNTY OF MIDLAND)
) ss.
STATE OF TEXAS)

Corey Mitchell, being duly sworn upon his oath, deposes and states:

1. I am over the age of 18, and have personal knowledge of the matters stated herein.

2. I am a landman for Mewbourne Oil Company ("Mewbourne").

3. Except as noted below, Mewbourne is the operator of the S½ of Section 7, Township 18 South, Range 27 East, N.M.P.M. under an Operating Agreement dated May 15, 1973, a true copy of which is attached hereto as Attachment 1 (the "Operating Agreement").

4. The original operator under the Operating Agreement was Mark Production Company, which is now known as Mewbourne Oil Company.

EXHIBIT A

5. The initial well drilled under the Operating Agreement was the Peterson Com. Well No. 1, located 1980 feet from the south and east lines of Section 7. The Peterson Com. Well No. 1 was a commercial well, and is still producing.

6. The Operating Agreement provides, in Section 10, that it shall remain in effect so long as any of the oil and gas leases subject to the agreement remain in effect. All of the oil and gas leases listed in Exhibit A to the Operating Agreement remain in effect.

7. The Operating Agreement covers all depths in the S½ of Section 7 except the following shallow depths:

(a) The surface to 1900 feet subsurface underlying the SW¼SW¼ of Section 7, which was assigned by Gulf Oil Corporation (a party to the Operating Agreement) to Nearburg & Ingram by the Assignment of Oil and Gas Lease, dated September 8, 1958, a true copy of which is attached hereto as Attachment 2.

(b) The Grayburg and San Andres formations underlying the E½SW¼, W½SE¼, and NE¼SE¼ of Section 7, as defined in the Unit Agreement for the West Red Lake Unit, dated August 1, 1967, a portion of which is attached hereto as Attachment 3.

(c) The surface to 1910 feet subsurface underlying the NW¼SW¼ of Section 7, and the surface to the base of the San Andres formation underlying the W½SE¼ of Section 7, which were retained under a farmout agreement from Exxon Corporation to Mark Production Company, dated May 11, 1973, a true copy of which is attached hereto as Attachment 4.

8. One hundred percent (100%) of the working interests in the oil and gas leases described in the Operating Agreement, except as to the shallow depths described above, are committed to the Operating Agreement.

9. The depths which Lime Rock Resources II-A, L.P. seek to pool in these cases include depths below the shallow depths described above.

Corey Mitchell

Corey Mitchell

SUBSCRIBED AND SWORN TO before me this 23rd day of April, 2012 by Corey Mitchell.

My Commission Expires: 5/13/2015

Notary Public

SHERRY BARCLAY
Notary Public, State of Texas
My Commission Expires
May 13, 2015

A.A.P.L. FORM 610

MODEL FORM OPERATING AGREEMENT—1956

Non-Federal Lands

OPERATING AGREEMENT

DATED

May 15, , 19 73,

FOR UNIT AREA IN TOWNSHIP 18S, RANGE 27E,

Eddy COUNTY, STATE OF New Mexico.

Red Lake Area

MARK PRODUCTION COMPANY #1 PETERSON
S/2 SECTION 7

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

Attachment 1

84223

TABLE OF CONTENTS

A.A.P.L. FORM 610

OPERATING AGREEMENT

THIS AGREEMENT, entered into this 15th day of May, 1973, between MARK PRODUCTION 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, 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 here 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:

There shall be no examination of title to leases, or to oil and gas interests, except that title to the lease covering the land upon which the exploratory well is to be drilled in accordance with Section 7, shall be examined on a complete abstract record by Operator's attorney, and the title to both the oil and gas lease and to the fee title of the lessors must be approved by the examining attorney, and accepted by all parties. A copy of the examining attorney's opinion shall be sent to each party immediately after the opinion is written, and, also, each party shall be given, as they are written, a copy of all subsequent supplemental attorney's reports. A good faith effort to satisfy the examining attorney's requirements shall be made by the party owning the lease covering the drillsite.

If title to the proposed drillsite is not approved by the examining attorney or the lease is not acceptable for a material reason, and all the parties do not accept the title, the parties shall select a new drillsite for the first exploratory well; provided, if the parties are unable to agree upon another drillsite, this agreement shall, in that case, come to an end and all parties shall then forfeit their rights and be relieved of obligations hereunder. If a new drillsite is selected, title to the oil and gas lease covering it and to the fee title of the lessor shall be examined, and title shall be approved or accepted or rejected in like manner as provided above concerning the drillsite first selected. If title to the oil and gas lease covering the second choice drillsite is not approved or accepted, other drillsites shall be successively selected and title examined, until a drillsite is chosen

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.~~

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 out of its share of the working interest production of the Unit Area.

5. OPERATOR OF UNIT

MARK PRODUCTION 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 August, 19 73, Operator shall commence the drilling of a well for oil and gas in the following location:

1980' FEL & 1980' FSL of Section 7, T-18-S, R-27-E
Eddy County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to a depth of 9,600' or to a depth sufficient to test the Morrow sand formation

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 ~~six~~ ten (10%) 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.

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.

including reasonable attorney fees in the event of suit to collect any delinquency plus 10% interest

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 expressly provided for in this agreement and 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, testing, completing, and equipping of the well, including necessary tankage; (b) No well shall be reworked, plugged back or deepened except a well reworked, plugged back or deepened pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the reworking, plugging back or deepening 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; (c) Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of FIVE THOUSAND AND NO/100---------- Dollars ($5,000.00) 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 $5,000.00

12. OPERATIONS BY LESS THAN ALL 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 of a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities on the Unit Area, any party or parties wishing to drill, rework, deepen or plug back 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 reworking, plugging back or drilling deeper, where a drilling rig is on location, the period shall be limited to forty-eight (48) hours exclusive of Saturday, ~~and~~ 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, reworked, deepened or plugged back 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, deepening or plugging back 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) ~~xxxx~~ 300% of that portion of the costs and expenses of drilling, reworking, deepening or plugging back, testing and completing, after deducting any cash contributions received under Section 25, and ~~xxxx~~ 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.

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

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, 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, reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this agreement and the accounting procedure 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 reworking, deepening, or plugging back 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, reworked, deepened, or plugged back, or proposed to be drilled, reworked, deepened, or plugged back, 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. 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 all division orders and contracts of sale pertaining to 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. 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.~~ Sales by Operator of any other party's share of production shall be only for such reasonable times as are consistent with the minimum needs of the industry under the circumstances but in no event shall such sale be for a period in excess of one (1) year.

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 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. 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.

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.~~

19. SELECTION OF NEW 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 other parties not agree or consent, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not desiring to surrender it. Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall be shared by the parties assignee in the proportions that the interest of each bears to the interest of all parties assignee.

Any assignment or surrender made under this provision shall not reduce or change the assignors' or surrendering parties' interest, as it was immediately before the assignment, in the balance of the Unit Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms 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 well or any other operation on the Unit Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly execute an assignment of the acreage, without warranty of title, to all parties to this agreement in proportion to their interests in the Unit Area at that time, and such acreage shall become a part of the Unit Area and be governed by all the provisions of this contract. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the 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 1954, to be excluded from the application of all of the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954. If the income tax laws of the state or states in which the property covered hereby is located contain, or may hereafter contain, provisions similar to those contained in the Subchapter of the Internal Revenue Code of 1954 above referred to under which a similar election is permitted, each of the parties agrees that such election shall be exercised. Each party authorizes and directs the Operator to execute such an election or elections on its behalf and to file the election with the proper governmental office or agency. If requested by the Operator so to do, each party agrees to execute and join in such an election.

Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Operator shall bill all other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

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

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

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:

31A. Notwithstanding any provision contained herein to the contrary, consent to the drilling or deepening of any well in the Unit Area, including the initial well located thereon, shall not be deemed consent to the running and setting of a production string of casing therein or to the completion of said well as a producing well. After the drilling or deepening of such well to the depth or formation authorized and after appropriate testing, coring and logging have been made, Operator shall then give immediate notice to the Non-Operators participating in the drilling or deepening of such well; setting forth Operator's recommendations with respect to such attempted completion. Each such party shall within 48 hours after receipt of such notice (exclusive of Saturdays and Sundays) notify Operator as to whether or not such party elects to set production casing and to participate in such completion attempt. Failure to so notify Operator shall be deemed an election not to participate. Should all parties hereto elect to so participate, Operator shall conduct such operations for the joint account of all parties. Should less than all parties elect to so participate, then such completion operations shall be conducted under the provisions of Section 12 hereof, as an operation by less than all parties. Should no party elect to attempt such completion, Operator shall plug and abandon the well at the joint cost of all parties who participated in the drilling or deepening of the well.

31B. Each Non-Operator shall have a lien on the working interest of Operator in the unit area and on the oil and gas produced therefrom and on the proceeds thereof so far as to secure the payment of any amount that may at anytime become due and payable by Operator to such Non-Operator under the terms of this agreement, together with interest thereon at 10% as herein provided, and including reasonable attorney fees in the event of suit to collect any delinquency.

31C. If any party should hereafter create any overriding royalty, production payment or other burden against its working interest production, and if any other party or parties should conduct non-consent operations pursuant to any provisions of this agreement, and as a result become entitled to receive the working interest production otherwise belonging to the non-participating party, the party or parties entitled to receive the working interest production of the non-participating party shall receive such 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 burdens shall save the participating party or parties harmless with respect to the receipt of such working interest production.

31D. The parties hereto agree to comply with the nondiscrimination provisions of Section 202 (1) to (7), inclusive, of Executive Order No. 11246, 30 F. R. 12319 (which are incorporated herein by reference(, and all rules and regulations issued pursuant thereto.

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.

MARK PRODUCTION COMPANY

ATTEST:

Jeanne G. Mathews
Assistant Secretary

BY: Curtis Mewbourne
President

OPERATOR

AMOCO PRODUCTION COMPANY

ATTEST:

BY: C. W. Henning
ATTORNEY-IN-FACT

APPROVED

ATLANTIC RICHFIELD COMPANY

ATTEST:

BY:

GULF OIL CORPORATION

ATTEST:

BY:

CURTIS W. MEWBOURNE

Barbara Dunnam

SOUTHERN UNION PRODUCTION COMPANY

ATTEST:

BY:

NON-OPERATORS

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.

ATTEST:

~~Assistant~~ Secretary

MARK PRODUCTION COMPANY

BY: _____
President

OPERATOR

AMOCO PRODUCTION COMPANY

ATTEST:

BY: _____

ATLANTIC RICHFIELD COMPANY

~~ATTEST:~~

BY: _____
ATTORNEY IN FACT

GULF OIL CORPORATION

ATTEST:

BY: _____

CURTIS W. MEWBOURNE

SOUTHERN UNION PRODUCTION COMPANY

ATTEST:

BY: _____

NON-OPERATORS

Cont 84223
Unit 522064

84,223

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

MARK PRODUCTION COMPANY

ATTEST:

Jimmy G. Mashburn
Assistant Secretary

BY: Curtis W. Mewbourne
President

OPERATOR

AMOCO PRODUCTION COMPANY

ATTEST:

BY: _____
ATTORNEY-IN-FACT

APPROVED

ATLANTIC RICHFIELD COMPANY

ATTEST:

BY: _____

GULF OIL CORPORATION

ATTEST:

BY: _____

CURTIS W. MEWBOURNE

Barbara Lawson

SOUTHERN UNION PRODUCTION COMPANY

ATTEST:

BY: _____

NON-OPERATORS

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

MARK PRODUCTION COMPANY

ATTEST:

BY: ______________________
President

~~Assistant~~ Secretary

OPERATOR

AMOCO PRODUCTION COMPANY

ATTEST:

BY: ______________________

ATLANTIC RICHFIELD COMPANY

ATTEST:

BY: ______________________

GULF OIL CORPORATION

ATTEST:

BY: ______________________

CURTIS W. MEWBOURNE

SOUTHERN UNION PRODUCTION COMPANY

ATTEST:

BY: ______________________

NON-OPERATORS

84,223

FORM 610

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

MARK PRODUCTION COMPANY

ATTEST:

Gaylon Thompson
Assistant Secretary

BY: Curtis W. Mewbourne
President

OPERATOR

AMOCO PRODUCTION COMPANY

ATTEST:

BY: _____

ATTEST:

ATLANTIC RICHFIELD COMPANY

BY: _____

ATTEST:

GULF OIL CORPORATION

BY: _____

CURTIS W. MEWBOURNE

Gaylon Thompson

SOUTHERN UNION PRODUCTION COMPANY

ATTEST:

William S. Jamison
Secretary

BY: _____
Senior Vice-President

NON-OPERATORS

84,223

THE STATE OF TEXAS X

COUNTY OF SMITH X

The foregoing instrument was acknowledged before me this 17th day of July, 1973, by CURTIS W. MEWBOURNE, President of MARK PRODUCTION COMPANY, a Texas corporation, on behalf of said corporation.

Barbara Dunnam
Notary Public in and for
Smith County, Texas

My commission expires: June 1, 1975

THE STATE OF TEXAS X

COUNTY OF HARRIS X

The foregoing instrument was acknowledged before me this 1 day of August, 1973, by C. N. MENNINGER, Attorney-in-fact of AMOCO PRODUCTION COMPANY, on behalf of said corporation.

Irene Hallas
Notary Public in and for
Harris County, Texas
IRENE HALLAS
Notary Public in and for Harris County, Texas

My commission expires: 6-1-75

THE STATE OF TEXAS X

COUNTY OF MIDLAND X

The foregoing instrument was acknowledged before me this _____ day of _____, 1973, by _____, _____ of ATLANTIC RICHFIELD COMPANY, on behalf of said corporation.

_____
Notary Public in and for
Midland County, Texas

My commission expires: _____

THE STATE OF TEXAS X

COUNTY OF MIDLAND X

The foregoing instrument was acknowledged before me this _____ day of _____, 1973, by _____, _____ of GULF OIL CORPORATION, on behalf of said corporation.

_____
Notary Public in and for
Midland County, Texas

My commission expires: _____

THE STATE OF TEXAS I

COUNTY OF SMITH I

The foregoing instrument was acknowledged before me this 17th day of July, 1973, by CURTIS W. MEWBOURNE.

Barbara Dunman
Notary Public in and for
Smith County, Texas

My commission expires: June 1, 1975

THE STATE OF TEXAS I

COUNTY OF DALLAS I

The foregoing instrument was acknowledged before me this _____ day of _____, 1973, by _____, _____ of SOUTHERN UNION PRODUCTION COMPANY, on behalf of said corporation.

_____
Notary Public in and for
Dallas County, Texas

My commission expires: _____

STATE OF TEXAS X

COUNTY OF SMITH X

The foregoing instrument was acknowledged before me this 20th day of June, 1973, by CURTIS W. MEWBOURNE.

Barbara Dunnard
Notary Public in and for
Smith County, Texas

My commission expires: 6-1-75

THE STATE OF TEXAS X

COUNTY OF DALLAS X

The foregoing instrument was acknowledged before me this 21st day of June, 1973, by L K Mannink, Senior Vice Pres. of SOUTHERN UNION PRODUCTION COMPANY, on behalf of said corporation.

Sharon L. Hutchinson
Notary Public in and for
Dallas County, Texas

My commission expires: June 1, 1975

THE STATE OF TEXAS X

COUNTY OF SMITH X

The foregoing instrument was acknowledged before me this 14th day of Aug., 1973, by CURTIS W. MEWBOURNE, President of MARK PRODUCTION COMPANY, a Texas corporation, on behalf of said corporation.

Barbara Durrman
Notary Public in and for
Smith County, Texas

My commission expires: June 1, 1975

THE STATE OF TEXAS X

COUNTY OF HARRIS X

The foregoing instrument was acknowledged before me this 7 day of August 1973, by C. R. [illegible], Attorney-in-Fact of AMOCO PRODUCTION COMPANY, on behalf of said corporation.

Drew Haddan
Notary Public in and for
Harris County, Texas
IRENE HADDAN
Notary Public in and for Harris County, Texas

My commission expires: 6-1-75

THE STATE OF TEXAS X

COUNTY OF MIDLAND X

The foregoing instrument was acknowledged before me this _____ day of _____, 1973, by _____, _____ of ATLANTIC RICHFIELD COMPANY, on behalf of said corporation.

Notary Public in and for
Midland County, Texas

My commission expires: _____

THE STATE OF TEXAS X

COUNTY OF MIDLAND X

The foregoing instrument was acknowledged before me this _____ day of _____, 1973, by _____, _____ of GULF OIL CORPORATION, on behalf of said corporation.

Notary Public in and for
Midland County, Texas

My commission expires: _____

THE STATE OF TEXAS X

COUNTY OF SMITH X

The foregoing instrument was acknowledged before me this 17th day of July, 1973, by CURTIS W. MEWBOURNE, President of MARK PRODUCTION COMPANY, a Texas corporation, on behalf of said corporation.

Barbara Duncan
Notary Public in and for
Smith County, Texas

My commission expires: June 1, 1975

THE STATE OF TEXAS X

COUNTY OF HARRIS X

The foregoing instrument was acknowledged before me this _____ day of _____, 1973, by _____, _____ of AMOCO PRODUCTION COMPANY, on behalf of said corporation.

_____
Notary Public in and for
Harris County, Texas

My commission expires: _____

THE STATE OF TEXAS X

COUNTY OF MIDLAND X

The foregoing instrument was acknowledged before me this _____ day of _____, 1973, by _____, _____ of ATLANTIC RICHFIELD COMPANY, on behalf of said corporation.

_____
Notary Public in and for
Midland County, Texas

My commission expires: _____

THE STATE OF TEXAS X

COUNTY OF MIDLAND X

The foregoing instrument was acknowledged before me this 7 day of August, 1973, by [illegible], [illegible] of GULF OIL CORPORATION, on behalf of said corporation.

[signature]
Notary Public in and for
Midland County, Texas

My commission expires: 6-1-75

THE STATE OF TEXAS X

COUNTY OF SMITH X

The foregoing instrument was acknowledged before me this 7th day of Dec., 1973, by CURTIS W. MEWBOURNE, President of MARK PRODUCTION COMPANY, a Texas corporation, on behalf of said corporation.

Barbara Duncan
Notary Public in and for
Smith County, Texas

My commission expires: June 1 1975

THE STATE OF TEXAS X

COUNTY OF HARRIS X

The foregoing instrument was acknowledged before me this _____ day of _____, 1973, by _____, _____ of AMOCO PRODUCTION COMPANY, on behalf of said corporation.

_____
Notary Public in and for
Harris County, Texas

My commission expires: _____

THE STATE OF TEXAS X

COUNTY OF MIDLAND X

The foregoing instrument was acknowledged before me this 31st day of July, 1973, by S. L. Smith, Attorney in Fact of ATLANTIC RICHFIELD COMPANY, on behalf of said corporation.

Yvonne Brooks Yvonne Brooks
Notary Public in and for
Midland County, Texas

My commission expires: June 1, 1975

THE STATE OF TEXAS X

COUNTY OF MIDLAND X

The foregoing instrument was acknowledged before me this _____ day of _____, 1973, by _____, _____ of GULF OIL CORPORATION, on behalf of said corporation.

_____
Notary Public in and for
Midland County, Texas

My commission expires: _____

EXHIBIT "A"

Attached to and made a part of that Operating Agreement dated May 15, 1973, between MARK PRODUCTION COMPANY, Operator, and AMOCO PRODUCTION COMPANY, et al, Non-Operators.

I. Description of Lands:

The Unit Area consists of the South half (S/2) of Section 7, T-18-S, R-27-E, Eddy County, New Mexico.

II. Interests of Parties to Contract:

Amoco Production Company	24.869%
Atlantic Richfield Company	18.651%
Gulf Oil Corporation	12.705%
Curtis W. Mewbourne	32.831%
Southern Union Production Company	10.944%
	100.000%

III. Addresses of Parties:

Amoco Production Company
P. O. Box 3092
Houston, Texas 77001

Atlantic Richfield Company
P. O. Box 1610
Midland, Texas 79701

Gulf Oil Corporation
P. O. Drawer 1150
Midland, Texas 79701

Curtis W. Mewbourne
330 Citizens Bank Building
Tyler, Texas 75701

Southern Union Production Company
Suite 1700, Campbell Centre
8350 North Central Expressway
Dallas, Texas 75206

IV. Oil, Gas and Mineral Leases subject to this Contract:

1. Oil and Gas Lease dated January 1, 1970, from The United States of America to Pan American Petroleum Corporation, covering 40 acres, more or less, being the NE/4 of the SE/4, Section 7-18S-27E, Eddy County, New Mexico; being recorded in Vol. 102, Page 53, of the Oil and Gas Lease Records of the said Eddy County, New Mexico.

2. Oil and Gas Lease dated December 1, 1971, from The United States of America to Amoco Production Company, covering 40 acres, more or less, being the SE/4 of the SE/4 of Section 7-18S-27E, Eddy County, New Mexico; said lease being of record in Vol. 84, Page 378, of the Oil and Gas Records of Eddy County, New Mexico.

3. Oil and Gas Lease dated August 12, 1935, from A. A. Kaiser, et ux, to Lee Vandergriff, covering 10 acres, more or less, being the NE/4 of the NW/4 of the SE/4 of Section 7-18S-27E, Eddy County, New Mexico; said lease being recorded in Vol. 15, Page 69, of the Oil and Gas Records of Eddy County, New Mexico.

4. Oil and Gas Lease dated October 30, 1947, from Birdie Kaiser to Weier Drilling Company, covering 70 acres, more or less, being the W/2 of the SE/4 of Section 7-18S-27E, N.M.P.M., except the NE/4 of the NW/4 of the SE/4 of said Section 7; said lease being of record in Vol. 30, Page 132, of the Oil and Gas Records of the said Eddy County, New Mexico.

84223

5. Oil and Gas Lease dated October 30, 1947, from B. F. Kaiser, et al, to Wier Drilling Company, covering 80 acres, more or less, being the E/2 of the SW/4 of Section 7-18S-27E, Eddy County, New Mexico; said lease being of record in Vol. 30, Page 498, of the Oil and Gas Records of the said Eddy County, New Mexico.

6. Oil, Gas and Mineral Lease dated December 16, 1955, from Elsie Gates Johnston to Eugene E. Nearburg, covering 40 acres, more or less, being the NW/4 of the SW/4 of Section 7-18S-27E, Eddy County, New Mexico; said lease being of record in Vol. 71, Page 417, of the Oil and Gas Records of Eddy County, New Mexico.

7. Oil and Gas Lease dated October 31, 1951, from J. R. Jackson, et ux, to A. C. Holder, insofar, and only insofar as said lease covers 40 acres, being the SW/4 of the SW/4 of Section 7-18S-27E, Eddy County, New Mexico; said lease being of record in Vol. 44, Page 99, of the Oil and Gas Records of the said Eddy County, New Mexico.

THERE IS NO EXHIBIT "B"

Form 601 ROSS-MARTIN COMPANY TULSA, OKLAHOMA 74101

COPAS — 1968
Recommended by the Council of Petroleum Accountants Societies of North America

EXHIBIT "C"

Attached to and made a part of Operating Agreement dated May 15, 1973, between MARK PRODUCTION COMPANY, Operator, and AMOCO PRODUCTION COMPANY, et al, Non-Operators

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Account" shall mean the account showing the charges and credits accruing because of the Joint Operations and which are to be shared by the Parties.

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

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

"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.

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

"Controllable Material" shall be defined as set forth under the subparagraph selected below:

A. [X] Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

B. [ ] Material which is ordinarily so classified and controlled by Operator in the conduct of its operations. List shall be furnished Non-Operators upon request.

2. Statements and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of costs and expenses for the preceding month. Such bills will be accompanied by statements reflecting the total charges and credits as set forth under the subparagraph selected below:

A. [ ] Statement in detail of all charges and credits to the Joint Account.

B. [ ] Statement of all charges and credits to the Joint Account, summarized by appropriate classifications indicative of the nature thereof.

C. [X] Statement of all charges and credits to the Joint Account, summarized by appropriate classification indicative of the nature thereof, except that items of Controllable Material and unusual charges and credits shall be detailed.

3. Advances and Payments by Non-Operators

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

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of ten per cent (10%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser.

4. Adjustments

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

5. Audits

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

6. Approval by Non-Operators

Where an approval or other agreement of Non-Operators is expressly required under Paragraphs 5A, 5B, 6A and 8 of Section II, Section III, Section V, Section VI, and Paragraph 4 of Section VII, of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, the Operator shall notify all Non-Operators and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

84223

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 employees directly employed on the Joint Property in the conduct of Joint Operations.

   (2) Salaries of first-level supervisors in the field if such charges are excluded from overhead rates in Option A of Section III.

   (3) Salaries and wages of technical employees temporarily assigned to and directly employed on the Joint Property if such charges are excluded from overhead rates in Option B of Section III.

   (4) Salaries and wages of technical employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from overhead rates in Option C of Section III.

   B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to the employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1A of Section III; except that in the case of those employees only a pro rata portion of whose salaries and wages are chargeable to the Joint Account under Paragraph 1A of Section III, not more than the same pro rata portion of the benefits and allowances herein provided for shall be charged to the Joint Account. Cost 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 and Paragraph 1A of Section III. 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 labor cost of salaries and wages chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1A of Section III.

   D. Reasonable personal expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and for which expenses the employees are reimbursed under Operator's usual practice.

3. **Employee Benefits**

   Operator's current cost 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 and Paragraph 1A of Section III shall be chargeable as indicated in the subparagraph selected below:

   A. [ ] Operator's actual cost.

   B. [X] Operator's actual cost not to exceed fifteen per cent (15%).

4. **Material**

   Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. So far as it is reasonably practical and consistent with efficient and economical operation, only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use; and 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 Operator and Non-Operators.

   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 Operators and Non-Operators. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by Operator and Non-Operators.

   C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking costs of $100 or less.

6. **Services**

   A. The cost of contract services and utilities procured from outside sources other than services covered by Paragraph 8 of this Section II and Paragraph 1B of Section III. The cost of professional consultant services shall not be charged to the Joint Account unless agreed to by Operator and Non-Operators.

   B. Use and service of equipment and facilities furnished by Operator as provided in Paragraph 5 of Section IV.

7. **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 to the extent that the damage or loss could have been avoided through the exercise of reasonable diligence on the part of Operator. Operator shall furnish Non-Operators written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

8. **Legal Expense**

   All costs and expenses of handling, investigating, and settling litigation or claims arising by reason of the Joint Operations or necessary to protect or recover the Joint Property, including, but not limited to, attorney's fees, court costs, cost of investigation or procuring evidence and amounts paid in settlement or satisfaction of any such litigation or claims; provided, (a) no charge shall be made for the services of Operator's legal staff or other regularly employed personnel (such services being considered to be Administrative Overhead under Section III), unless agreed to by Operator and Non-Operators, and (b) no charge shall be made for the fees and expenses of outside attorneys unless the employment of such attorneys is agreed to by Operator and Non-Operators.

9. **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.

10. **Insurance**

Net premiums paid for insurance required to be carried on the Joint Property 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 therefor on the following basis:

Operator is not self-insured.

11. **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 for the necessary and proper conduct of the Joint Operations.

III. INDIRECT CHARGES

Operator may charge the Joint Account for indirect costs either by use of an allocation of district expense items plus the rate for administrative overhead, and plus the warehousing charges, all as provided for in Paragraph 1 of this Section III or by combining all three of said items under the rates provided for in Paragraph 2 or 3 of this Section III, as indicated next below:

OPERATOR SHALL CHARGE INDIRECT COSTS TO THE JOINT ACCOUNT UNDER THE TERMS OF:

[ ] Paragraph 1. (District Expense, Administrative Overhead and Warehousing)
[X] Paragraph 2. (Combined Rates - Well Basis)
[ ] Paragraph 3. (Combined Rates - Percentage Basis)

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 Operator and Non-Operators as a direct charge to the Joint Account.

THE OVERHEAD RATES PROVIDED FOR IN ANY OF THE PARAGRAPHS SELECTED ABOVE

A. [X] shall [ ] shall not include salaries and personal expenses of first-level supervisors in the field.

B. [ ] shall [X] shall not include salaries, wages and personal expenses of technical employees temporarily assigned to and directly employed on the Joint Property.

C. [X] shall [ ] shall not include salaries, wages and personal expenses of technical employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property.

1. **District Expense, Administrative Overhead and Warehousing**

A. District Expense

Operator shall charge the Joint Account with a pro rata portion of the salaries, wages and expenses of Operator's production superintendent and other employees serving the Joint Property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's _____ office located at or near _____ (or a comparable office if location changed); and necessary sub-offices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in connection with the operations of the Joint Property and other properties in the same operating area. The expense of, less any revenue from, such facilities may, at the option of Operator, include depreciation of investment or a fair monthly rental in lieu of depreciation. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.

B. Administrative Overhead

Operator shall charge administrative overhead to the Joint Account at the following rates, which charge shall be in lieu of the cost and expense of all offices of the Operator not covered by Paragraph 1A of this Section III, including salaries, wages and expenses of personnel assigned to such offices. Such charge shall be in addition to the salaries, wages and expenses of employees of Operator authorized to be charged direct as provided in Paragraphs 2 and 8 of Section II. Such charge shall be made on the basis indicated below, either (1) well basis or (2) percentage basis, at the rates shown thereunder.

(1) [ ] Well Basis

RATE PER WELL PER MONTH

Well Depth	DRILLING WELL RATE (Use Total Depth) Each Well	PRODUCING WELL RATE (Use Current Producing Depth) First Five	Next Five	All Wells Over Ten

(2) [ ] Percentage Basis

PERCENTAGE BASIS

Development:

_____ Percent (%) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 8 of Section II and all salvage credits.

Operating:

_____ Percent (%) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 1 and 8 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.

C. Operator's Warehouse Operating and Maintenance Expense

[ ] Included in district expense

[ ] No charge either direct or indirect

[ ] Percentage basis (describe fully) _____

_____

_____

2. Combined Rates - Well Basis

Operator shall charge the Joint Account for the services covered by Paragraph 1 of this Section III on the basis indicated below:

RATE PER WELL PER MONTH

Well Depth	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten
All Depths	$1,200	$150	$125	$125

3. Combined Rates - Percentage Basis

Operator shall charge the Joint Account for the services covered by Paragraph 1 of this Section III on the basis indicated below:

PERCENTAGE BASIS

A. Development:

_____ Percent (%) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 8 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 8 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.

4. Application of Administrative Overhead or Combined Rates - Well Basis

The following limitations, instructions and charges shall apply in the application of the rates as provided under either Paragraph 1B (1) or Paragraph 2 of this Section III.

A. Charges for drilling wells shall begin on the date each 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 the suspension of drilling operations for fifteen (15) or more consecutive days.

B. The status of wells shall be as follows:

(1) Producing gas wells, injection wells for recovery operations, water supply wells utilized for waterflooding operations and salt water disposal wells shall be considered the same as producing oil wells.

(2) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the well schedule at the time the shutdown is effected. Any well being plugged or produced during any portion of the month shall be considered as a producing well for the entire month.

(3) Wells being plugged back, drilled deeper, converted to a source or input well, or which are undergoing any type of workover that requires the use of a drilling rig or workover rig capable of drilling shall be considered the same as drilling wells.

(4) Temporarily shut-down wells, which are not produced or worked upon for a period of a full calendar month, shall not be included in the well schedule, provided however, wells shut in by governmental regulatory body shall be included in the well schedule only in the event the allowable production is transferred to some other well or wells on the Joint Property. In the event of a unit allowable, shut-in wells shall be counted in determining the charge hereunder for such month if said wells contribute allowable production that is actually produced during such month from one or more unit wells as a result of allowable transfer, inclusion in the unit allowable or other circumstances, but the total shut-in well count shall be limited to the minimum number of shut-in wells necessary to provide the contributed allowable actually produced during the month.

(5) Gas wells shall be included in the well schedule if directly connected to a permanent sales outlet even though temporarily shut in due to overproduction or failure of purchaser to take the allowed production.

(6) Wells completed in multiple horizons, shall be considered as a producing well for each separately producing horizon, providing each completion is considered a separate well by governmental or other statewide regulatory authority.

C. The well rates for producing wells shall be applied to the individual leases; provided that, whenever leases covered by this agreement are operated as a unitized project, the well rates shall be applied to the total number of producing wells, irrespective of individual leases.

D. 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 preceding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian Index as published by the Dominion Bureau of Statistics, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

5. Application of Administrative Overhead or Combined Rates - Percentage Basis

For the purpose of determining charges on a Percentage Basis under Paragraph 1B (2) or Paragraph 3 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 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 6 of this Section III. All other costs shall be considered as Operating.

6. Major Construction Overhead

For the construction of compressor plants, water stations, secondary recovery systems, drilling and production platforms, salt water disposal facilities, and other such projects, as distinguished from the more usual drilling

and producing operations, Operator in addition to the Administrative Overhead or Combined Rates provided for in Paragraph 1, 2 or 3 of this Secton III shall either negotiate a rate prior to beginning of construction or shall charge the Joint Account with an additional overhead charge as follows:

A. Total cost less than $25,000, no charge.

B. Total cost more than $25,000, but less than $100,000, 3 % of total cost.

C. Total cost of $100,000 or more, 3 % of the first $100,000 plus 2 % of all over $100,000 of total cost.

Total cost shall mean the total 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 wells shall be excluded.

7. Amendment of Rates

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

IV. BASIS OF CHARGES TO JOINT ACCOUNT

Subject to the further provisions of this Section IV, Operator will procure all Material and services for the Joint Property. At the Operator's option, Non-Operators may supply Material or services for the Joint Property.

1. Purchases

Material purchased and service procured shall be charged at the price paid by Operator after deduction of all discounts actually received.

2. Material furnished from Operator's Warehouse or Other Properties

A. New Material (Condition "A")

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

(2) Line pipe shall be priced at the current replacement cost effective at date of transfer from a reliable supply store nearest the Joint Property where such Material is normally available if the movement is less than 30,000 pounds. If the movement is 30,000 pounds or more, it shall be priced on the same basis as casing and tubing under Subparagraph (1) of this paragraph.

(3) When the Operator has equalized actual hauling costs as provided for in Paragraph 5 of Section II, Operator is permitted to include ten cents (10¢) per hundred-weight on all tubular goods furnished from his stocks in lieu of loading and unloading costs sustained.

(4) Other Material shall be priced at the current replacement cost of the same kind of Material, effective at date of movement and f.o.b. the supply store or railway receiving point nearest the Joint Property where Material of the same kind is normally available.

(5) The Joint Account shall not be credited with cash discounts applicable to prices provided for in this Paragraph 2 of Section IV.

B. Used Material (Condition "B" and "C")

(1) Material in sound and serviceable condition and suitable for reuse without reconditioning, shall be classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material.

(2) Material which is not suitable for its original function until after reconditioning shall be furnished to the Joint Account under one of the two methods defined below:

(a) Classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material. The cost of reconditioning shall be absorbed by the Operator of the transferring property.

(b) Classified as Condition "C" and priced at fifty per cent (50%) of current price of new Material. The cost of reconditioning also shall be charged to the receiving property, provided Condition "C" value, plus cost of reconditioning, does not exceed Condition "B" value.

(3) Obsolete Material or Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use. 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.

(4) 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 prices specified in Paragraphs 1 and 2 of this Section IV 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 procuring such Material, in making it suitable for use, and in moving it to the Joint Property, provided, that 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 10 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.

5. Equipment and Facilities Furnished by Operator

A. Operator shall charge the Joint Account for use of equipment and facilities at rates commensurate with cost of ownership and operation. Such rates shall include cost of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed six per cent (6%) per annum, provided such rates shall not exceed those currently prevailing in the immediate area within which the Joint Property is located. In lieu of rates based on costs of ownership and operation of equipment, other than automotive, Operator may elect to use commercial rates prevailing in the area of the Joint Property less 20%; for automotive equipment, rates as published by the Petroleum Motor Transport Association may be used. Rates for laboratory services shall not exceed those currently prevailing if performed by

outside service laboratories. Rates for trucks, tractors and well service units may include wages and expenses of operator.

B. Whenever requested, Operator shall inform Non-Operators in advance of the rates it proposes to charge.

C. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

V. DISPOSAL OF MATERIAL

The Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus Condition "A" or "B" Material. The disposition of surplus Controllable Material, not purchased by Operator, shall be agreed to by Operator and Non-Operators, provided Operator shall dispose of normal accumulations of junk and scrap Material either by transfer or sale from Joint Property.

1. **Material Purchased by the Operator or Non-Operators.**
   Material purchased by either the Operator or Non-Operators shall be credited by the Operator to the Joint Account for the month in which the Material is removed by the purchaser.
2. **Division in Kind**
   Division of Material in kind, if made between Operator and Non-Operators, shall be in proportion to the respective interests in such Material. The Parties will thereupon be charged individually with the value of the Material received or receivable. Proper credits shall be made by the Operator to the Joint Account.
3. **Sales to Outsiders**
   Sales to outsiders of Material from the Joint Property shall be credited by Operator to the Joint Account at the net amount collected by Operator from vendee. Any claim by vendee related to such sale shall be charged back to the Joint Account if and when paid by Operator.

VI. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operators or divided in kind, unless agreed to by Operator and Non-Operators shall be priced on the following basis:

1. **New Price Defined**
   New price as used in this Section VI shall be the price specified for new Material in Section IV.
2. **New Material**
   New Material (Condition "A"), being new Material procured for the Joint Property but never used, at one hundred per cent (100%) of current new price (plus sales tax if any).
3. **Good Used Material**
   Good used Material (Condition "B"), being used Material in sound and serviceable condition, suitable for reuse without reconditioning:
   A. At seventy-five per cent (75%) of current new price if Material was charged to Joint Account as new, or
   B. At sixty-five per cent (65%) of current new price if Material was originally charged to the Joint Account as secondhand at seventy-five per cent (75%) of new price.
4. **Other Used Material**
   Used Material (Condition "C"), at fifty per cent (50%) of current new price, being used Material which:
   A. Is not in sound and serviceable condition but suitable for reuse after reconditioning, or
   B. Is serviceable for original function but not suitable for reconditioning.
5. **Bad-Order Material**
   Material (Condition "D"), no longer suitable for its original purpose without excessive repair cost but usable for some other purpose at a price comparable with that of items normally used for such other purpose.
6. **Junk Material**
   Junk Material (Condition "E"), being obsolete and scrap Material, at prevailing prices.
7. **Temporarily Used Material**
   When the use of Material is temporary and its service to the Joint Property does not justify the reduction in price as provided for in Paragraph 3B of this Section VI, such Material shall be priced on a basis that will leave a net charge to the Joint Account consistent with the value of the service rendered.

VII. 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 inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable to Non-Operators 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 Operator and Non-Operators.

EXHIBIT "D"

INSURANCE TO BE CARRIED

As to all operations hereunder Operator shall obtain, and carry for the benefit and protection of the parties hereto, insurance if same is obtainable, as follows:

A. Workmen's Compensation Insurance in an amount as required by the laws of the State of New Mexico.

B. Employer's Liability Insurance in an amount of not less than $100,000 for all damages from one or more claims arising from each accident;

C. Comprehensive Automobile Liability and Property Damage Insurance on all motor vehicles used in connection with the operations conducted hereunder, with limits of not less than $100,000 for any one person injured or killed and not less than $300,000 maximum as a result of any one accident where more than one person is injured or killed, and property damage limits of not less than $50,000;

D. Public Liability Insurance on all operations conducted hereunder with limits of not less than $100,000 for any one person injured or killed and not less than $300,000 maximum as a result of any one accident where more than one person is injured or killed. No public property damage coverage is included in this Section D.

E. Such additional insurance as may be required by law.

Insurance of the type mentioned above may be carried for the joint account in amounts in excess of the minimums set forth above. The actual premiums paid for all insurance shall be changed to the joint account of the parties hereto.

Any liability, loss, damage claim or expense resulting from accidents or occurrences not covered by insurance of the character referred to above, or in excess of the insurance actually carried under the above provisions, shall be borne by the parties hereto in the proportions in which they own in the unit area. ~~In the event Operator is unable to procure and maintain any~~ of the insurance enumerated above, Operator shall promptly give written notice thereof to the other parties and in such event, resulting loss, damage, claim and expense shall be borne by the parties hereto in proportion to their respective interests in the unit area. Such notice shall also constitute a waiver of the requirement that Operator procure and maintain the insurance ~~which is the subject of notice.~~

84223

EXHIBIT "E"

GAS STORAGE AND BALANCING AGREEMENT

Attached to and made a part of the
Operating Agreement between MARK
PRODUCTION COMPANY, Operator, and
AMOCO PRODUCTION COMPANY, et al,
Non-Operators, dated May 15, 1973

1. The parties to the Operating Agreement to which this gas storage and 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" 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 storage 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 and shall be entitled to take and deliver to its or their purchaser all of such gas production, except, however, that no party shall be entitled to take or deliver to a purchaser gas production in excess of three hundred percent of its share of such allowable unless that party has gas in storage. 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 gas in storage equal to its 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. 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.

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

84223

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 seventy-five percent (75%) 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 seventy-five percent (75%) 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 interest 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 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 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.

11. The direct expense, including wages, transportation and out-of-pocket expenses, of first-level supervisors required to implement and cause this agreement to be effected shall be charged to and paid by the joint expense.

82

0669132

ASSIGNMENT OF OIL AND GAS LEASE

STATE OF NEW MEXICO)

COUNTY OF EDDY)

This assignment and agreement made and entered into by and between GULF OIL CORPORATION, hereinafter called "Gulf" or "Assignor", and NEARBURG & INGRAM, a partnership composed of Eugene E. Nearburg and Tom L. Ingram, 127 South Richardson, Roswell, New Mexico, hereinafter called "Assignee", upon the following terms and conditions,

W I T N E S S E T H :

Gulf is the owner and holder of an oil and gas lease described as follows, to-wit:

> Oil and Gas Lease dated October 31, 1951, executed by J. M. Jackson and Lizzie J. B. Jackson, his wife, as Lessor, in favor of A. C. Holder, as Lessee, covering the SW/4 SW/4 of Section 7 and the NW/4 NW/4 of Section 18, Township 18 South, Range 27 East, N.M.P.M., Eddy County, New Mexico, recorded in Book 44 at Page 99 of the Records of Eddy County, New Mexico;

reference to said lease and to the record thereof is here made for all purposes;

NOW, THEREFORE, for and in consideration of the sum of One Dollar ($1.00) and other good and valuable consideration to it paid, the receipt and sufficiency of which is hereby acknowledged and confessed, subject to the reservations, convenants and conditions hereinafter contained, Gulf does by these presents assign and transfer to NEARBURG & INGRAM, as Assignee, all of its leasehold estate rights in and to all of the oil and gas in and underlying the following described tract of land, to-wit:

> The SW/4 SW/4 of Section 7 and the NW/4 NW/4 of Section 18, Township 18 South, Range 27 East, Eddy County, New Mexico, from the surface to 100 feet below the greatest depth drilled, not to exceed 1900 feet below the surface.

Attachment 2

It is specifically understood that the rights herein assigned are subject to the right of Assignor to use as much of the surface as it deems necessary to explore for, develop and produce oil and gas below the depth of 1900 feet.

This assignment is expressly made subject to the following conditions and covenants, to-wit:

1.

Assignee agrees to perform all obligations, express or implied, of Assignor under the above described lease insofar as such obligations are applicable to the rights herein assigned, as well as the obligations hereof.

2.

On or before sixty (60) days from the date of this Assignment, Assignee shall commence the actual drilling of a test well for oil and gas purposes at a location of his choice on the above described premises, and will thereafter drill such well with due diligence and in a good and workmanlike manner to a depth sufficient, in the opinion of Gulf, to adequately test the San Andres formation or to a depth of 1900 feet below the surface, whichever first occurs. Should Assignee fail to comply with their obligation to drill the above mentioned test well within the time, in the manner and to the depth specified, all of their rights under the terms and provisions of this assignment shall ipso facto terminate and the leasehold rights and estate herein assigned shall revert to and revest in Assignor.

3.

If Assignee drills and completes the above mentioned test well, either as a dry hole or as a producer of oil or gas in commercial quantities, as herein required, Assignee obligates themselves to commence actual drilling of a second test well for oil and gas purposes at a location of their choice on the assigned premises within ninety (90) days after completion of the test well required under Section 2 hereof and thereafter to drill said well in the same manner and to the same objective depth as the test well required under Section 2 hereof, and Assignee shall thereafter carry on continuous

drilling operations on the assigned premises until as many wells have been drilled thereon as are permitted under the spacing regulations of the regulatory body having jurisdiction. "Continuous drilling" shall mean that an interval of not more than ninety (90) days shall lapse between the completion of one well and the commencement of actual drilling of a subsequent well. Assignee will protect the premises covered by this assignment against drainage, meeting all offset obligations and otherwise operating the premises as a reasonable, prudent operator would under the same or similar circumstances.

4.

Upon completion of any well as a producer of oil or gas in commerical quantities, Assignee shall furnish to Gulf, at its Roswell, New Mexico, office a recordable instrument containing a sufficient legal description of the spacing unit upon which the well was drilled as authorized by the regulatory body having jurisdiction.

5.

Failure of Assignee to comply with the drilling obligations set out above shall, except as herein otherwise provided, result in a termination of all of Assignee's rights under the terms and provisions of this assignment and said leasehold estate and rights herein granted shall ipso facto terminate and revert to and revest in Gulf, except as to each spacing unit on which Assignee has completed a producing well and has furnished to Gulf a recordable instrument containing a sufficient legal description of the spacing unit. In the absence of applicable spacing rules, the spacing unit allocated to a producing well shall be a maximum of forty (40) acres.

6.

All costs and expenses incident to the drilling and equipping of all wells shall be borne by Assignee, and neither Assignor nor any other leasehold interest owned or retained by Assignor shall be liable for any part of the costs or expenses of drilling, completing and equipping of such wells or for producing oil or gas therefrom or for any injury to any person or damages resulting from such

drilling or producing operations.

7.

Assignor expressly reserves the following overriding royalties:

(a) Three thirty-seconds of eight-eighths (3/32nds of 8/8ths) of all oil produced and saved from the premises herein assigned, the oil to be delivered to Gulf's credit in the pipeline to which the well or wells may be connected, free of cost to Gulf except for gross production, pipeline, severance or any tax, other than ad valorem, which may be imposed upon or attributable to Gulf's interest; and

(b) Three thirty-seconds of eight-eighths (3/32nds of 8/8ths) of the value, as hereinafter defined, of all gas, casinghead gas, distillate and condensate produced and saved from the premises herein assigned, free of all cost and expense to Gulf except for gross production, pipeline, severance or any tax, other than ad valorem, which may be imposed upon or attributable to Gulf's interest; the value of such gas, casinghead gas, distillate and condensate so sold to be deemed to be the total proceeds received by Assignee from such sale, and, if used off the premises, the value shall be based upon the existing market price at the time, in the area, for gas sold for the same purpose.

The overriding royalties on oil and gas to be delivered or paid to Gulf, as above provided, shall be in addition to the royalties due the Lessor as provided for in the original lease covering the premises herein assigned, payment of which royalties in accordance with the terms of such lease the Assignee expressly assumes insofar as the premises and rights therein herein assigned are concerned.

8.

Immediately after location has been staked off for the drilling of the above mentioned test well, Assignee agrees to furnish to Gulf at its Roswell, New Mexico, office a report giving the number of feet from an established corner where said well is to be drilled; and thereafter, not later than Friday of each week, subsequent to the making of such location until said well is completed to mail to Gulf at its Roswell, New Mexico, office a report giving the progress of the well. Likewise, similar information

and reports shall be given with respect to all other wells drilled by Assignee under the provisions of this Assignment. In the event any well drilled upon the premises covered herein results in the production of oil or gas, Assignee agrees to mail to Gulf at its Roswell, New Mexico, office a monthly production report thereof not later than the tenth day of each month.

9.

Assignee agrees that representatives of Gulf shall at all times have access to the premises and to the derrick floor of the wells drilled by them under the provisions of this Assignment for the purpose of observing the progress of drilling operations and of obtaining information concerning such wells, and that such representatives shall be furnished with full information pertaining to the wells or formations encountered therein.

10.

Assignee shall save samples at intervals of ten (10) feet during the drilling of the above mentioned test well and any other wells drilled by them on the assigned premises, and deliver same to Gulf at Roswell, New Mexico, unless Gulf elects to accept said samples at the well. Assignee further agrees to furnish Gulf samples of all cores taken during the drilling of all wells drilled by them under the provisions hereof.

11.

Assignee agrees, at their expense, to make an electrical survey or a comparable analysis satisfactory to Gulf and to run a gamma ray-neutron log of the hole of each well drilled hereunder, to conduct a microlog survey of each potential pay zone after reaching the objective depth, and to deliver a certified copy of the resultant electrical logs, gamma ray-neutron logs and micrologs to Gulf's Roswell, New Mexico, office. Assignee further agrees to make all required reports to the appropriate agencies of the State of New Mexico. In the event any well is to be plugged and abandoned Assignee shall have furnished all technical data and given Gulf's District Production Geologist notice twenty-four (24) hours before plugging.

If, in the opinion of Gulf, it appears from the data obtained from such surveys, when considered alone or in conjunction with other indications from cuttings or cores, that any formation encountered during the drilling of said well is a prospective oil or gas horizon, Assignee agrees to properly test such horizon to the satisfaction of Gulf if it was not adequately tested at the time it was penetrated. Assignee shall notify Gulf prior to any test to be made in order that Gulf may have a representative present to witness such test should it desire to do so.

12.

Irrespective of whether any well drilled hereunder is completed as a producer or as a dry hole, Gulf shall have and is hereby granted the right to lower geophones and other instruments into such well or wells for the purpose of conducting any geophysical survey it may desire. It is specifically understood, however, in the event Gulf exercises the right herein granted, that all actual expense and risk in connection therewith shall be borne by Gulf and Gulf agrees to indemnify and hold Assignee harmless from any and all damages to property, injuries to, or death of, any person or persons occasioned by or arising from such operations.

13.

In the event any well is completed as a dry hole, Assignee agrees that they will notify Gulf's Roswell, New Mexico, office at least twenty-four (24) hours prior to the final measurement of the well so that Gulf can have a representative present to witness such measurement if it so desires; and Assignee agrees that they will, as soon as practicable, furnish to Gulf at its Roswell, New Mexico, office a certified copy of the log of each well drilled by them on the assigned premises, irrespective of whether such well is completed as a dry hole or as a producer.

14.

Assignee agrees that Gulf shall have the right, at its option to be exercised, waived and re-exercised at any time, to take and purchase at the current posted price in the field for

oil or like grade and quality all or any part of the oil that may be produced and saved from the premises herein assigned. Assignee further agrees that Gulf shall have the right, at its option to be exercised, waived and re-exercised at any time, to take and purchase all gas, including casinghead gas produced and saved from the premises herein assigned upon the same terms and conditions and at the same price offered by a bona fide third party purchaser, or if there is no bona fide offer by a third party purchaser, then upon such terms and conditions as may be agreeable to Gulf and Assignee; Assignee, however, shall have the right to utilize such gas as may be necessary in the development and operation of the premises herein assigned.

15.

After production has been obtained, should Assignee conclude to abandon the premises herein assigned or any part thereof, they agree to notify Gulf at Roswell, New Mexico, in writing of their intention to abandon at least sixty (60) days before production of oil or gas is ceased; and in the event such abandonment is made, Assignee agrees, at the election of Gulf, to assign said well, together with the leasehold rights in the horizon abandoned under the spacing unit upon which said well is located, to Assignor; Assignor, however, to pay Assignee the reasonable salvage value of any equipment on such well. In the absence of any spacing rules in effect as may be applicable to the property hereby assigned, it is agreed that one producing well shall hold forty (40) acres.

16.

All lease operations conducted by Assignee hereunder shall be subject to all laws, rules and regulations, both Federal and State, applicable thereto.

17.

All ad valorem taxes, including those based upon production from the leasehold estate covered by this assignment, shall be rendered and paid by Assignee, together with all taxes upon leasehold equipment and other personal property owned by Assignee

and used in connection with or in developing the premises covered by this assignment.

18.

Assignee shall, from the date hereof, be liable for any production or other taxes that may be levied against his interest in the assigned premises and against his interest in the oil and gas which may be produced therefrom. Gulf shall be liable only for taxes other than ad valorem that may be levied against the overriding royalty interests herein reserved by it and that may be levied against the proceeds from the sale of the oil and gas creditable to such interests.

19.

After fifteen (15) days from the date of commencement of the initial test well under the terms of this assignment, should Assignee desire to sell all or any part of the leasehold estate herein assigned to him, Gulf shall have a preferential right to purchase. In such event, Assignee shall notify Gulf in writing at Roswell, New Mexico, giving the complete terms of any bona fide offer acceptable to Assignee made by a prospective purchaser ready, able and willing to purchase, together with the name and address of such prospective purchaser. Gulf shall have an option for a period of thirty (30) days after receipt of the notice in which to purchase the leasehold estate which Assignee desires to sell, at the price and upon the terms offered by the prospective purchaser. Any assignment made by the Assignee covering any of their rights under this agreement shall specifically provide that such assignment is subject to all the terms and conditions of this agreement and the Assignee herein agrees to furnish Gulf with either an executed or certified copy of such assignment.

20.

This assignment and the terms hereof shall inure to the benefit of and be binding upon the parties hereto, their successors in title, personal representatives and assigns, but no assignment or transfer by Assignee of any interest acquired

90

hereunder shall release them of any liability herein assumed except with the written consent of Assignor, its successors or assigns.

TO HAVE AND TO HOLD unto the said NEARBURG & INGRAM, their heirs, successors and assigns forever; subject, however to compliance on their part with terms and conditions of the original lease insofar as it affects the leasehold interest herein assigned, and to compliance on their part with the obligations and conditions herein contained for oil and gas purposes, at the time and in the manner herein provided; and it is understood and agreed that this assignment is made without warranty of title on the part of the Assignor except that it warrants that it has not heretofore transferred or encumbered the leasehold rights and the privileges herein assigned.

Except as otherwise herein provided, all notices to Assignor shall be mailed to Gulf Oil Corporation, Post Office Box 669, Roswell, New Mexico, and all notices to Assignee shall be mailed to Nearburg & Ingram, 127 South Richardson, Roswell, New Mexico, until either party is notified in writing of a change of address by the other.

EXECUTED in duplicate originals this the 8th day of September, 1958.

Law	WHK
Com-tr.	
Ex-	EB
Prod	CHB

GULF OIL CORPORATION

ATTEST:

G. A. Price
Assistant Secretary G. A. PRICE

GULF OIL CORPORATION PITTSBURGH PA. 1922

By W A Shellshear
Attorney-in-Fact

NEARBURG & INGRAM,
a Partnership

By Eugene E. Nearburg
EUGENE E. NEARBURG

By Tom L. Ingram
TOM L. INGRAM

STATE OF NEW MEXICO }
COUNTY OF CHAVES }

The foregoing instrument was acknowledged before me this 11th day of September, 1958, by W. A. SHELLSHEAR, Attorney-in-Fact for GULF OIL CORPORATION, a Pennsylvania corporation, on behalf of said corporation.

Eva Maxie Cooper
Notary Public

EVA MAXIE COOPER NOTARY PUBLIC CHAVES COUNTY, NEW MEXICO

My Commission Expires:
My Commission Expires August 15, 1962

STATE OF NEW MEXICO }
COUNTY OF CHAVES }

The foregoing instrument was acknowledged before me this 8th day of September, 1958, by EUGENE E. NEARBURG and TOM L. INGRAM, partners on behalf of NEARBURG & INGRAM, a Partner-

Evelyn P. Lake
Notary Public

EVELYN P. LAKE NOTARY PUBLIC CHAVES CO. N.M.

My Commission Expires:
MY COMMISSION EXPIRES JUNE 28th, 1961

STATE OF NEW MEXICO, County of Eddy, ss. I hereby certify that this instrument was filed for record on the 5 day of January, 19 59 at 9:05 o'clock A.M. and duly recorded in Book 93, page 82, of the Records of Oil & Gas

Mildred Pate, County Clerk

By C. B. Hainberry Deputy

WVK:ejl
9-3-58
(7)

UNIT AGREEMENT

WEST RED LAKE UNIT

EDDY COUNTY, NEW MEXICO

INDEX

Attachment 3

UNIT AGREEMENT

FOR THE DEVELOPMENT AND OPERATION OF THE

WEST RED LAKE UNIT

EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of August, 1967, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as "parties hereto".

W I T N E S S E T H :

WHEREAS, the parties hereto are the owners of working, royalty or other oil or gas interests in the land subject to this Agreement; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico is authorized by law (Chap. 72, Laws of 1935, as amended by Chap. 193, Laws of 1937, Chap. 166, Laws of 1941, and Chap. 168, Laws of 1949, Chap. 65, Art. 3, Sec. 14, N.M.S., 1953 Anno.) to approve this Agreement, and the conservation provisions hereof; and

WHEREAS, the Mineral Leasing Act of February 25, 1920 (41 Stat. 437, as amended, 30 U.S.C. Sections 181 et seq.) authorizes Federal lessees and their representatives to unite with each other or jointly or separately with others in collectively adopting and operating a cooperative or unit plan of development or operation of any oil or gas pool, field or like area or any part thereof for the purpose of more properly conserving the natural resources thereof whenever determined and certified by the Secretary of the Interior to be necessary or advisable in the public interest; and

WHEREAS, the parties hereto hold sufficient interests in the West Red Lake Unit Area covering the land hereinafter described to give reasonably effective control of operation therein; and

WHEREAS, it is the purpose of the parties hereto, to enable institution and consummation of secondary recovery operations, conserve natural resources, prevent waste and secure the other benefits obtainable through development and operation of the area subject to this Agreement under the terms, conditions and limitations herein set forth;

NOW THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this Agreement their entire respective interests in the unitized formation and agree severally among themselves as follows:

SECTION 1. ENABLING ACT AND REGULATIONS: The Mineral Leasing Act of February 25, 1920, as amended, supra, and all valid, pertinent regulations, including operating and unit plan regulations, heretofore issued thereunder and valid, pertinent and reasonable regulations hereafter issued thereunder are accepted and made a part of this Agreement as to Federal lands, provided such regulations are not inconsistent with the terms of this Agreement; and as to non-Federal lands, the oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations, not inconsistent with the terms hereof or the laws of the State of which the non-Federal land is located, are hereby accepted and made a part of this Agreement.

SECTION 2. UNIT AREA AND DEFINITIONS: The area described by tracts in Exhibit B and depicted on Exhibit A attached hereto is hereby designated and recognized as constituting the Unit Area, containing 1,236.85 acres, more or less, in Eddy County, New Mexico. Said land is described as follows:

Township 18 South, Range 27 East
N.M.P.M., Eddy County, New Mexico

Section 4: $NE\frac{1}{4}SW\frac{1}{4}$, $S\frac{1}{2}SW\frac{1}{4}$
Section 5: $SE\frac{1}{4}SE\frac{1}{4}$, $S\frac{1}{2}SW\frac{1}{4}$
Section 6: $SE\frac{1}{4}SE\frac{1}{4}$, $SW\frac{1}{4}SW\frac{1}{4}$
Section 7: $NE\frac{1}{4}$, $E\frac{1}{2}NW\frac{1}{4}$, $NW\frac{1}{4}NW\frac{1}{4}$, $E\frac{1}{2}SW\frac{1}{4}$, $W\frac{1}{2}SE\frac{1}{4}$, $NE\frac{1}{4}SE\frac{1}{4}$
Section 8: $NE\frac{1}{4}$, $NW\frac{1}{4}$, $NE\frac{1}{4}SE\frac{1}{4}$
Section 9: $N\frac{1}{2}NW\frac{1}{4}$

For the purpose of this agreement, the following terms and expressions as used herein shall mean:

(a) "Commission" is defined as the Oil Conservation Commission of the State of New Mexico.

(b) "Director" is defined as the Director of the United States Geological Survey.

(c) "Secretary" is defined as the Secretary of the Interior of the United States of America.

(d) "Department" is defined as the Department of the Interior of the United States of America.

(e) "Supervisor" is defined as the Oil and Gas Supervisor of the United States Geological Survey.

(f) "Unitized Formation" is defined as that portion of the Grayburg and San Andres formations underlying the Unit Area which includes the continuous stratigraphic interval occurring between a point from the top of the Grayburg formation and a correlative point in the San Andres formation, said interval having been penetrated between 1240 feet (the top of the Grayburg formation) and 2240 feet beneath the derrick floor in the Hondo Oil & Gas Company Federal "EG" No. 1 Well (drilled as the Humble Oil & Refining Company's Abo Chalk Bluff Draw Unit No. 21 Well) located 1650 feet from the south line and 2310 feet from the west line of Section 4, Township 18 South, Range 27 East, Eddy County, New Mexico, as shown by the radioactivity log dated February 7, 1961.

(g) "Unitized Substances" is defined as all oil, gas, gaseous substances, sulphur contained in gas, condensate, and all associated and constituent liquids or liquefiable hydrocarbons within or produced from the Unitized Formation.

(h) "Working Interest" is defined as the right to search for, produce and acquire Unitized Substances whether held as an incident of ownership of mineral fee simple title, under an oil and gas lease, or otherwise held.

(i) "Working Interest Owner" is defined as any party hereto owning a Working Interest, including a carried working interest owner, in Unitized Substances by virtue of a lease, operating agreement, fee title or otherwise, which interest is chargeable with and obligated to pay or bear, either in cash or out of production, or otherwise, all or a portion of the cost of drilling, developing and producing Unitized Substances from and operating the Unitized Formation hereunder. The owner of oil and gas rights that are free of lease or other instrument conveying the Working Interest to another shall be regarded as a Working Interest Owner to the extent of seven-eights (7/8) of his interest in Unitized Substances, and as a Royalty Owner with respect to his remaining one-eighth (1/8) interest therein.

(j) "Royalty Interest" or "Royalty" is defined as an interest other than a Working Interest in or right to receive a portion of the Unitized Substances or the proceeds thereof and includes the royalty interest

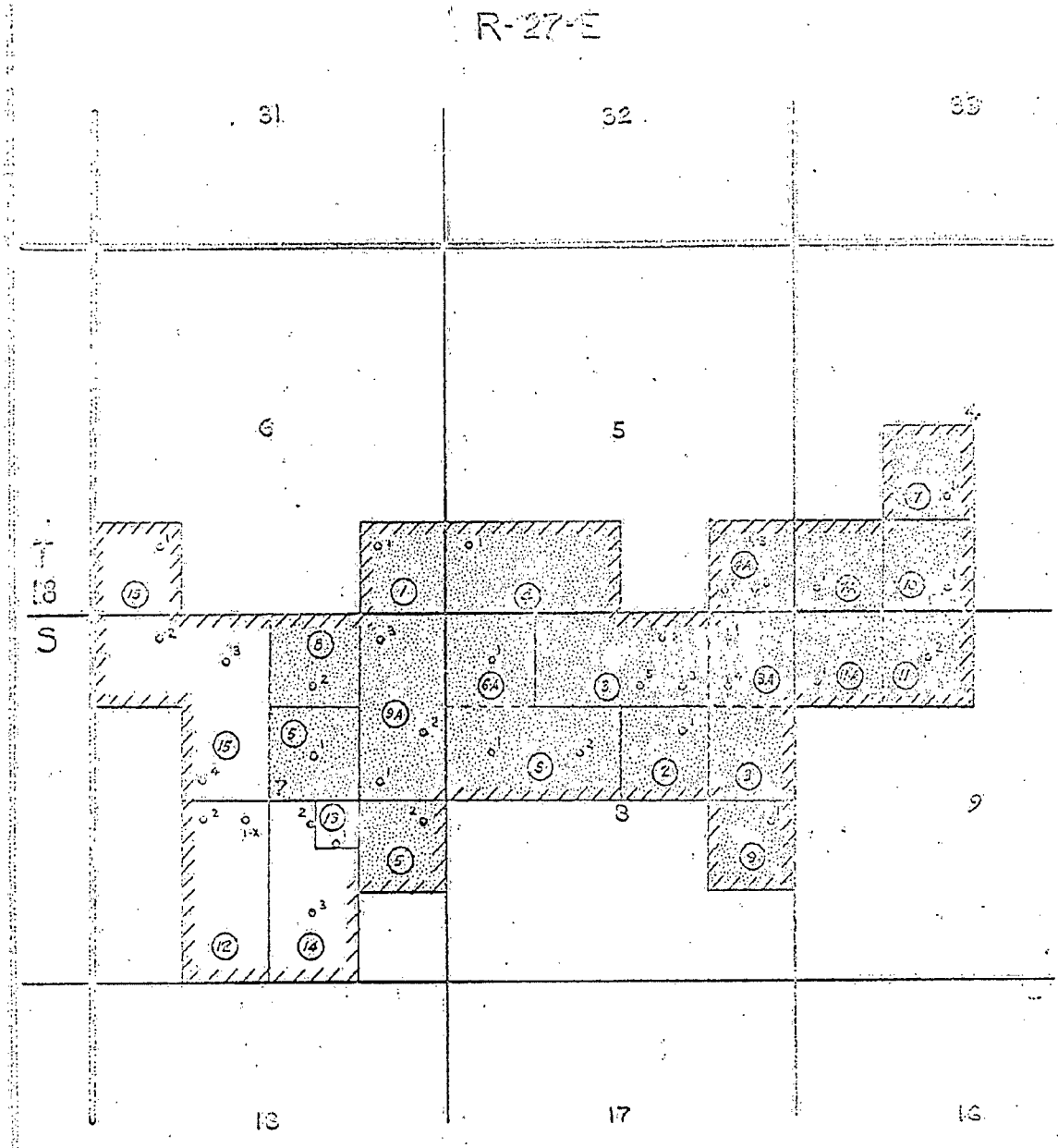

EXHIBIT "A"

WEST RED LAKE UNIT
UNIT AGREEMENT
EDDY COUNTY, NEW MEXICO

UNIT AREA
FEDERAL LANDS
FEE LANDS
③ TRACT NUMBER

SCALE: 1" = 2000'

EX-101-PO
0429-0141

EXXON COMPANY, U.S.A.
POST OFFICE BOX 1600 · MIDLAND, TEXAS 79701 · (915) 684-6111

R. JACK NAUMANN
DIVISION LANDMAN

May 11, 1973

Trade AC-55-73 (P)
Chalk Bluff Draw Area 0300
EDDY COUNTY, NEW MEXICO

RE: E-214033, 224269, 233059

Mark Production Company
330 Citizens Bank Building
Tyler, Texas 75701

Gentlemen:

This will evidence our agreement to assign to you down to the depth of 100 feet below the total depth drilled, not to exceed 9,700 feet, all of our present right, title and interest in and to the lease(s) numbered above, subject to the limitations and reservations herein contained, insofar as said lease(s) cover(s) oil and gas only in and under the following described lands:

214033 - NE/4 NW/4 SE/4, below the base of the San Andres formation,
224269 - NW/4 SW/4, below 1,910 feet,
233059 - SW/4 SE/4, W/2 NW/4 SE/4, SE/4 NW/4 SE/4, below the base of the San Andres formation,

All in Section 7, T-18-S, R-27-E,
EDDY COUNTY, NEW MEXICO

subject to the following numbered paragraphs which are sometimes herein referred to as Conditions, and which it is agreed shall govern and determine the rights and obligations of the parties and the conduct of your operations hereunder, both as to the well required to be drilled herein and as to any substitute or subsequent well or wells which may be drilled under the terms of this agreement or which may be drilled on the above described land after an assignment has been earned.

A DIVISION OF EXXON CORPORATION

Attachment 4

1. It is understood and agreed that you shall commence operations for the drilling of a well, on or before July 11, 1973, time being of the essence, at a regular location in the SE/4 Section 7, T-18-S, R-27-E, EDDY COUNTY, NEW MEXICO,

and that you shall drill with due diligence to a depth sufficient to thoroughly test the Morrow formation:

This well is to be drilled and completed by you free of any cost or liability to us, whether completed as a well capable of producing oil and/or gas in commercial or paying quantities, or found to be dry and plugged and abandoned, as the case may be.

2. During the progress of drilling the well, our authorized representatives are to have access at all times to it, and to all cores, cuttings, depths, logs and other information of whatever nature obtained in the drilling of the well, including but not limited to such as hereinafter specifically set forth. We shall have the right to receive such samples, cores and cuttings, to be delivered to Exxon at 503 South Marienfeld Street, Midland, Texas,

at least twice weekly, unless you may be requested otherwise. Samples, properly labelled, and drilling time, are to be taken at intervals of not more than ten (10) feet and should start from base of surface casing and be taken continuously to total depth. We reserve the right to slab any cores. If we do not choose to slab the cores, then you will furnish us with core chips taken at one-foot intervals from all cores cut. You agree to drill the well in a good faith effort to discover oil and/or gas and to test adequately all oil and/or gas shows encountered. If a velocity survey is run, it is understood that it is not intended that same be furnished free to us. We, however, shall have the right to receive any velocity survey or log that might be made of the hole at a reasonable and fair price, or by trade, as is usual and customary in the industry. If you elect not to run a velocity survey, we shall have the right to run such survey at our sole risk and expense. You agree to notify us of the spudding of your well within twenty-four (24) hours after spudding, and to give us like notification upon reaching total depth. Should you plan to plug and abandon the well as a dry hole, you shall give us advance notice thereof, allowing us, after receipt by us of copies of all final logs and surveys from said well, plus proper drilling time and samples to total depth, at least twenty-four (24) hours thereafter, exclusive of Saturdays, Sundays and holidays, to ascertain whether you have complied with the obligations under the terms of this letter. All logs, oil and/or gas show information, formation testing information and related data as provided for in this agreement shall be delivered promptly and expeditiously to us, but in no event shall more than twenty-four (24) hours expire before such delivery.

You agree to furnish: Mr. R. L. Longstreet
Exxon Company, U. S. A. Area Code: 915
P. O. Box 1897 Office Phone: 523-3650
Andrews, Texas 79714 Home Phone: 523-4260

the following:

a. Drilling time taken at not more than 10-foot intervals, from surface to total depth.
b. One (1) Mud Logger report, daily, and two (2) final Mud Logger reports if Mud Logger is used.
c. Two (2) copies of any fluid (hydrocarbon or water) analysis.
d. Two (2) copies of any core analysis.
e. Two (2) copies of any and all Drill Stem Test Charts and any Service Company analyses.

Also, you agree to furnish: Mr. R. W. Vivion
Exxon Company, U. S. A. Area Code: 915
P. O. Box 1600 Office Phone: 684-4411
Midland, Texas 79701 Home Phone: 682-7440

the following:

a. Daily drilling reports which should include such information as drilling depth, lithologies, hydrocarbon shows, lost circulation zones and formation tops.

b. Notification of Drill Stem Tests, coring, significant shows, running Electric logs and plugging shall be given in sufficient time to allow R. W. Vivion or his authorized representative to be present as a witness. (In the event R. W. Vivion cannot be located to receive these notifications, contact R. L. Longstreet

c. Two (2) field prints and two (2) final prints of all Electric logs run which will include: Your choice.
~~1) Induction Electric Survey or Laterolog from base of casing to total depth.~~
~~2) Gamma Ray Sonic log with Caliper from base of casing to total depth, with Gamma Ray portion of the log from surface to total depth.~~
~~3)~~
4) Two (2) copies of the final prints and one (1) copy of the monitor print of any Dipmeter Surveys you may elect to run.

~~and you also agree to furnish~~

~~the following:~~

~~One (1) field print and one (1) final print of all down hole logs, including Item "c." listed above to be furnished~~

In the event the well is indicated to be a producer, our representative shall have the right to witness and shall be notified twenty-four (24) hours in advance of any well capability test (i.e., 4-point capability gas test, completion test or initial potential test). Our representative to be contacted prior to these tests is Mr. B. M. Bradley of our Andrews Office. Office Phone: (915) 523-3650
Home Phone: (915) 523-3750

You shall forward to the Division Landman copies of all forms required by any governmental regulatory agency, which shall include but shall not be limited to those pertaining to the permit for drilling, deepening or plugging back, completion or re-completion, potentials or plugging, on all wells drilled hereunder.

3. In the event any well or wells drilled hereunder should be plugged and abandoned, you shall clean up the premises, leave the surface free and clear of debris and assume all liability for any claims asserted on account of or occasioned by your operations hereunder.

4. If you shall drill and complete a well capable of producing oil and/or gas in commercial quantities in accordance with all the terms and provisions herein set forth and furnish to us satisfactory evidence thereof, and only in such event, we shall make and execute an assignment to you of the above described lease(s) insofar as it (they) cover(s) the oil and gas in and under the land earned by such well, subject to the depth limitations herein set forth. Our assignment to you shall be subject to the reservations, covenants, Conditions and agreements herein set forth, which reservations, covenants, Conditions and agreements shall, unless otherwise clearly indicated by the context, be fully binding and effective while this agreement is in effect, whether or not you earn an assignment or assignments as herein provided. In the assignment or assignments:

a. We shall reserve overriding royalties of 10% of 8/8

of all oil, gas, casinghead gas and liquid constituents, free of all costs of development and operation and free of all taxes except applicable gross production and severance taxes. Said overriding royalties shall be subject to proportionate reduction but shall be exclusive of and in addition to all presently existing lease burdens, overrides and payments out of production.

b. Our overriding royalties and other reserved and retained interests shall apply to any renewal or extension of any lease or leases herein committed which you may secure within one (1) year from the expiration thereof.

c. We shall have and reserve the right of ingress and egress to the land committed to this agreement for the enjoyment of any rights reserved or retained by us.

d. While the lease(s) herein described is (are) committed to this agreement and after the assignment thereof, if an assignment is earned, we shall make delay rental and shut-in gas well payments at the times and in the amounts which, in our opinion, are necessary to maintain said lease(s) in force; however, we shall not be liable to you in damages or otherwise for any inadvertent error or failure with respect to such payments.

We shall be entitled to a reimbursement from you, without reduction by reason of any depth limitation, for the full amount of delay rentals and shut-in gas well payments, provided that, your reimbursement obligation shall be limited to the amount applicable to the land committed to this agreement on a surface acre basis.

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

If it appears that you will complete a well capable of producing gas and shut it in, or, if having established gas production, you should contemplate shutting in such well, then you shall give immediate notice to us of your intentions prior to such shutting in.

e. If you earn an assignment pursuant to the terms hereof, you shall covenant to use your best efforts to maintain the assigned lease(s) in force by production in paying quantities or drilling or reworking operations and we shall reserve an optional right to a reassignment in the event you decide to release or abandon the lease(s) assigned. If at any time you shall decide to surrender or abandon the assigned premises, or any portion thereof, you shall give us at least forty-five (45) days prior written notice thereof. We shall thereafter have the option for thirty (30) days to require you to make a reassignment of the assigned premises or that portion thereof which you wish to surrender or abandon. Such reassignment shall be free and clear of all lease burdens, overrides and payments out of production in excess of or in addition to those presently existing.

f. We shall have and shall reserve the optional right for twenty-one (21) years from the date hereof, to purchase all oil produced and saved from the lands and lease(s) committed hereto at the prevailing market price.

g. We shall have and shall reserve for a period of twenty-one (21) years from the date hereof, the preferential right to enter into a contract to purchase the gas (casinghead and/or gas-well gas) produced from or allocated to the lands and lease(s) committed hereto, except gas used for operating purposes thereon, subject to the following:

If you elect to sell said gas production and shall receive a bona fide offer acceptable to you to purchase such production, you shall promptly furnish us written notice thereof, and we shall have thirty (30) days after receipt of such notice to elect to enter into a contract to purchase such gas on the same terms and conditions of such offer.

If we shall fail to notify you within said thirty (30) days that we elect to exercise our preferential right to purchase said gas production, then we shall have no right to purchase the gas during the contract term. If we elect not to exercise our said preferential right and for any reason you shall not thereafter accept said offer, or if you shall accept said offer and the resulting contract expires or is terminated within the period of this reservation, then in either event the foregoing reservation of a preferential right to enter into a contract to purchase the gas shall continue in full force and effect and said right shall apply with respect to any new offer for such gas within the aforementioned twenty-one (21) year period, all as more particularly described above.

h. You shall assume all the burdens and obligations of the lessee in the lease(s) committed hereto and you shall comply with all the expressed and implied covenants thereof to the extent they are applicable to the lands and depths committed.

i. You shall comply with all valid laws, rules and regulations in your operations upon the lands and lease(s) committed.

j. If you earn an assignment pursuant to the terms hereof, you shall pay all ad valorem taxes assessed against the assigned premises and such taxes shall be prorated for the year in which the assignment is effective.

k. If you earn an assignment pursuant to the terms hereof, the assignment shall be without warranty of title, express or implied.

5. This agreement is intended to commit to you only the rights as are herein specifically described and it is understood that we do not by reason hereof agree to commit or assign to you any properties, rights, installations, plants or appurtenances of any nature except as expressly herein set forth.

6. In the event of your failure or default in the commencement and drilling of the well in the time and manner herein provided, or in the event of your failure or default in the making of reports and/or in the furnishing of information, logs, surveys or other data herein required, or in the event of your failure or default in any of the other requirements, conditions or obligations as herein set forth, then we shall be relieved of the obligation to make any assignment of lease(s) and then we may, at our option, terminate this agreement by written notice to you and upon the giving of such notice, all your rights, titles and interests under this agreement shall thereupon cease. No such written notice of termination shall be necessary in the event you fail to earn the leasehold interest above described. Our right of termination as herein set forth shall be in addition and without prejudice to any other rights or causes of action which we may have either at law or in equity arising out of your failure or default hereunder.

7. After having tested the objective, you shall, by written notice, advise us at casing point if you desire to abandon the test well as a dry hole, and we shall have two (2) full office working days, commencing on the morning following the date of receipt of such notice and receipt of copies of all electrical logs and other technical data, in which to elect to take over such well, free of any costs to us, solely or in conjunction with other contributors and/or participants, for the purpose of attempting completion or for drilling to any greater depth. If we elect to so take over the well, it is agreed as follows:

a. You shall not be entitled to an assignment of the acreage such well may have earned.

b. You shall assign to us all oil and gas leasehold rights in the drilling unit for the well which you have earned or are entitled to earn by the drilling of said well, and which you are not obligated to assign or reassign to other parties having an interest in the well as participants in drilling, contributors thereto, or the like. For the purposes of this paragraph, said drilling unit shall be S/2 Section 7, T-18-S, R-27-E, Eddy County, New Mexico.

c. You shall also assign to us all acreage held by you in your own right which is located within said drilling unit, retaining an overriding royalty on production of 10% of 8/8

to be reduced proportionately according to your interest, and all leasehold rights below a depth of 100 feet below the total depth drilled by you or us.

d. We shall reimburse you for that part of the reasonable salvage value of material in and on the hole which is proportionate to your interest in the well (taking into account any interest acquired by us under subsections b and c above) and shall become responsible (or jointly responsible with others joining in taking over the well) for the proper plugging and abandonment of the well.

e. Any notice to us given pursuant to the provisions of this paragraph shall be addressed to us at
P. O. Box 1600, Midland, Texas 79701,
to the attention of Mr. L. H. Byrd.
The requirement for such written notice may not be waived unless we give you notice of such waiver in writing.

8. The terms and Conditions hereof shall extend to and be binding upon the parties hereto, their respective heirs, successors, legal representatives and assigns, provided, however, that neither this agreement nor any rights hereunder shall be assigned by you to a third party without our written consent.

In the event you contemplate an assignment of rights to another party or parties, you shall give prompt notice to us of such proposed assignment. If we consent to such assignment, it shall not be effective until we have received, in writing, an instrument or letter executed by you and your assignee evidencing that such assignment has occurred and that your assignee has assumed all the obligations of this agreement.

9. You shall give us notice, to Mr. R. L. Longstreet or alternate, Mr. R. W. Vivion, of your intent to run a velocity survey or not to run such survey, at least 48 hours prior to reaching total depth, exclusive of Saturdays, Sundays, and holidays.

10. It is understood and agreed if the acreage as described on Page 1 herein is earned, that all of said acreage will be included in one proration unit made up of the S/2 Section 7, T-18-S, R-27-E, Eddy County, New Mexico.

If the foregoing paragraphs correctly set forth your understanding of our agreement, please evidence your acceptance by returning within ten (10) days from the date hereof two (2) copies of this agreement properly executed by you or on your behalf by your duly authorized officer in the space provided. If we fail to receive such accepted copies within ten (10) days, we may, at our option, terminate the offer or grant you additional time in which to accept.

Very truly yours,

EXXON CORPORATION

BY: H. Jack Naumann
H. Jack Naumann

WHL:kr

ACCEPTED this 15TH day of
May, 1973.

MARK PRODUCTION COMPANY

BY: Linda M. Williamson