

HUDSON OIL COMPANY OF TEXAS

616 TEXAS STREET

FORT WORTH, TEXAS 76102-4696

EDWARD R. HUDSON, JR.
WILLIAM A. HUDSON II
E. RANDALL HUDSON III

817.336.7109
FAX 817.334.0442

September 9, 2005

See Attached List:

RE: Francotte Federal #1 Well
660' FNL & 660' FWL, Section 12
Township 17 South, Range 31 East
Eddy County, New Mexico

Dear Working Interest Owner:

Hudson Oil Company of Texas hereby proposes the captioned well to be drilled to a depth of 12,400' to test the Morrow formation.

Enclosed for your review is our AFE #2005-045, along with a JOA covering the N/2 of Section 12. Should you desire to participate in the drilling of this well, please return executed copies of the AFE and signature pages for the JOA, along with a copy of your well requirements to Hudson Oil at your earliest convenience.

Please do not hesitate to call should you have any questions or need additional information.

Sincerely,



E. Randall Hudson III

ERHIII/sb

Enclosures

FILE COPY

BEFORE THE OIL CONSERVATION DIVISION

Santa Fe, New Mexico

Case Nos. 13598 Exhibit No. 3

Submitted by:

HUDSON OIL COMPANY OF TEXAS

Hearing Date: June 8, 2006

WORKING INTERST OWNERS

✓ Marbob Energy Corporation
P.O. Box 227
Artesia, NM 88211-0227

Yates Petroleum Corporation
105 South Fourth Street
Artesia, NM 88210

Edward R. Hudson Trust 4
Mary Hudson Ard, Trustee
222 W. 4th Street PH-5
Fort Worth, Texas 76102

Javelina Partners
E. Randall Hudson III, Managing Ptnr.
616 Texas Street
Fort Worth, Texas 76102

S.J. Iverson Trust
H.Greg Holcomb, Trustee
Bank of America NA
Act. No. 01/0258100
P.O. Box 840738
Dallas, Texas 75284-0738

Edward R. Hudson Trust 2
Edward R. Hudson, Jr., Trustee
616 Texas Street
Fort Worth, Texas 76102

Edward R. Hudson Trust 3
William A. Hudson, II, Trustee
616 Texas Street
Fort Worth, Texas 76102

Zorro Partners
William A. Hudson, II, Managing Ptnr.
616 Texas Street
Fort Worth, Texas 76102

Ernest Closuit, Jr.
616 Texas Street
Fort Worth, Texas 76102

✓ John F. Cranz
P.O. Box 470037
Fort Worth, Texas 76147-0037

✓ The P.I.P. 1990 Trust
S.J.I. Jr. 1990 Trust
W.W.I. 1990 Trust
Wendell W. Iverson, Trustee
P.O. Box 10508
Midland, Texas 79702

William A. Hudson, II
616 Texas Street
Fort Worth, Texas 76102

Mary Hudson Ard
222 W. 4th Street PH-5
Fort Worth, Texas 76102

AUTHORITY FOR EXPENDITURE

AFE NO.	2005-045	LEASE	Francotte Federal	WELL NO.	1
DESCRIPTION	660' FNL & 660' FWL Sec. 12, T17S-R31E	COUNTY	Eddy		
STATE	NM	AREA		OPERATOR	Hudson Oil Company of Texas
FORMATION	Morrow	PREPARED BY	Sheryl Baker		
TOTAL DEPTH	12500'	DATE	September 6, 2005		

DRILLING INTANGIBLES

STAKING PERMITS LEGAL FEES ROW
 SITE PREPARATION ROADS & LOC
 DRILLING FOOTAGE CONTRACT
 DRILLING DAYWORK/MOBILIZATION
 EQUIP RNTL MACHINERY/MAN HIRE
 DRILLING WATER, HAULING FUEL
 DRILING MUD & CHEMICALS
 CEMENT SURFACE CASING
 FISHING TOOL SERVICES
 OTHER DRILLING COSTS/MATERIALS
 CORING & FORMATION TESTING
 MUD LOGGING & GEOLOGICAL SVCS
 ELEC LOGGING, WIRELINE, PERF
 DRILLING OVERHEAD CHARGE
 DRILLING WELLSITE SUPERVISION
 CONTINGENCY 5%
TOTAL DRILLING

SUB	DRY HOLE W/O PIPE	COMPLETED WELL	ACTUAL COST	OVER UNDER
100	10,000			
110	45,000	3,500		
200				
210	580,000			
220	45,000			
250	37,500			
260	37,500			
280	38,000			
295				
299	85,000			
300	9,500			
310	24,000	22,500		
350	22,500			
950	5,000			
955	28,000			
	48,350	1,300		
	1,015,350	27,300		

COMPLETION INTANGIBLES

CEMENT PRODUCTION CASING
 FORMATION FRACTURING
 FORMATION ACIDIZING
 COMPLETION UNIT
 CONTRACT LABOR/PROFESSIONAL SVCS
 COMPLETION WATER, POWER, FUEL
 BATTERY CONST/SER/MATERIALS
 COMPLETION EQUIP RNTS/SERVICES
 DRIL/COM OVERHEAD CHARGE
 DRIL/COM OVERHEAD CHARGE
 MISCELLANEOUS IDC EXPENSES
 CONTINGENCY 5%
TOTAL COMPLETION

400		60,000		
410		125,000		
420		18,000		
450		18,000		
500		20,000		
905		4,500		
910		20,000		
915		35,000		
950		5,000		
955		5,000		
900		3,500		
		15,700		
	0	329,700		
	1,015,350	357,000		

TOTAL INTANGIBLES

DRILLING AND COMPLETION TANGIBLES

SURFACE & INTERMEDIATE CASING
 PRODUCTION CASING
 TUBING & ATTACHMENTS
 PUMPING WELL HOOK UP
 WELLHEAD EQUIPMENT
 PUMP JACKS & PUMPS
 TREATER, SEPAR, EQ, METER/ELEC
 TANKS & STORAGE FACILITIES
 MISCELLANEOUS L&W EQUIPMENT
 CONTINGENCY 5%
TOTAL EQUIPMENT COST

200	125,000			
250		203,000		
300		83,000		
350				
400	18,000	18,000		
500				
600		22,500		
700		22,500		
900		7,500		
	7,150	17,825		
	150,150	374,325		

TOTAL WELL COST

	1,165,500	731,325		
--	-----------	---------	--	--


LEASE ACRES @ PER ACRE

TOTAL WELL COST

		1,896,825		
--	--	-----------	--	--

APPROVALS:

This AFE is only an estimate. By signing you agree to pay your share of the actual costs incurred.

OPERATOR	Hudson Oil Company of Texas	BY		WI	DATE
COMPANY		BY		WI	DATE
PRINT NAME		TITLE			

FILE COPY

A.A.P.L. FORM 610-1982

MODEL FORM OPERATING AGREEMENT

Francotte Federal #1

OPERATING AGREEMENT

DATED

September 1 , 2005 ,
year

OPERATOR Hudson Oil Company of Texas

CONTRACT AREA **Township 17 South, Range 31 East**

Section 12: N/2

Depth Restrictions outlined on Exhibit "A" attached hereto.

COUNTY OR PARISH OF **Eddy** STATE OF **New Mexico**

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AMERICAN ASSOCIATION OF PETROLEUM
LANDMEN, 4100 FOSSIL CREEK BLVD., FORT
WORTH, TEXAS, 76137-2791, APPROVED
FORM. A.A.P.L. NO. 610 - 1982 REVISED

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Hudson Oil Company of Texas

hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators".

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

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

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

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

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

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

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

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

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

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

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

ARTICLE II.
EXHIBITS

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

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

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

☐ B. Exhibit "B", Form of Lease.

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

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

☒ F. Exhibit "F", ~~Non-Discrimination and Certification of Non-Segregated Facilities~~ Notice of Joint Operating Agreement Lien, Security Interests, and Financing Statement.

☐ G. Exhibit "G", Tax Partnership.

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

ARTICLE III.
INTERESTS OF PARTIES

4 A. Oil and Gas Interests:

6 ~~If any party owns an oil and gas interest in the Contract Area, that interest shall be treated for all purposes of this agreement~~
7 ~~and during the term hereof as if it were covered by the form of oil and gas lease attached hereto as Exhibit "B", and the owner thereof~~
8 ~~shall be deemed to own both the royalty interest reserved in such lease and the interest of the lessee thereunder.~~

10 B. Interests of Parties in Costs and Production:

12 Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and
13 paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set
14 forth in Exhibit "A". In the same manner, the parties shall also own all production of oil and gas from the Contract Area subject to the
15 payment of royalties to the extent of 1/8 or the lowest royalty affecting the lease which shall be borne as hereinafter set forth.

17 Regardless of which party has contributed the lease(s) and/or oil and gas interest(s) hereto on which royalty is due and
18 payable, each party entitled to receive a share of production of oil and gas from the Contract Area shall bear and shall pay or deliver, or
19 cause to be paid or delivered, to the extent of its interest in such production, the royalty amount stipulated hereinabove and shall hold the
20 other parties free from any liability therefor. No party shall ever be responsible, however, on a price basis higher than the price received
21 by such party, to any other party's lessor or royalty owner, and if any such other party's lessor or royalty owner should demand and
22 receive settlement on a higher price basis, the party contributing the affected lease shall bear the additional royalty burden attributable to
23 such higher price.

25 Nothing contained in this Article III.B. shall be deemed an assignment or cross-assignment of interests covered hereby.

27 C. Excess Royalties, Overriding Royalties and Other Payments:

29 Unless changed by other provisions, if the interest of any party in any lease covered hereby is subject to any royalty,
30 overriding royalty, production payment or other burden on production in excess of the amount stipulated in Article III.B., such party so
31 burdened shall assume and alone bear all such excess obligations and shall indemnify and hold the other parties hereto harmless from any
32 and all claims and demands for payment asserted by owners of such excess burden.

34 D. Subsequently Created Interests:

36 If any party should hereafter create an overriding royalty, production payment or other burden payable out of production
37 attributable to its working interest hereunder, or if such a burden existed prior to this agreement and is not set forth in Exhibit "A", or
38 was not disclosed in writing to all other parties prior to the execution of this agreement by all parties, or is not a jointly acknowledged and
39 accepted obligation of all parties (any such interest being hereinafter referred to as "subsequently created interest" irrespective of the
40 timing of its creation and the party out of whose working interest the subsequently created interest is derived being hereinafter referred
41 to as "burdened party"), and:

- 43 1. If the burdened party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion
44 of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or
45 production free and clear of said subsequently created interest and the burdened party shall indemnify and save said other party,
46 or parties, harmless from any and all claims and demands for payment asserted by owners of the subsequently created interest;
47 and,
- 49 2. If the burdened party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B. shall be
50 enforceable against the subsequently created interest in the same manner as they are enforceable against the working interest of
51 the burdened party.

ARTICLE IV.
TITLES

56 A. Title Examination:

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

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

ARTICLE IV
continued

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

7 Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection
8 with leases or oil and gas interests contributed by such party. Operator shall be responsible for the preparation and recording of pooling
9 designations or declarations as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling orders.
10 This shall not prevent any party from appearing on its own behalf at any such hearing.

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

16 **B. Loss of Title:**

18 1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a
19 reduction of interest from that shown on Exhibit "A", the party contributing the affected lease or interest shall have ninety (90) days
20 from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acqui-
21 sition will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining oil
22 and gas leases and interests: and,

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

26 (b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has
27 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 oc-
28 curred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract
29 Area by the amount of the interest lost;

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

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

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

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

43 2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well
44 payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates,
45 there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required
46 payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment,
47 which acquisition will not be subject to Article VIII.B., the interests of the parties shall be revised on an acreage basis, effective as of the
48 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
49 the Contract Area on account of ownership of the lease or interest which has terminated. In the event the party who failed to make the
50 required payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to
51 the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it
52 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
53 or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

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

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

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

63 3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall be joint losses
64 and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of
65 the Contract Area.

ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

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

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

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

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. The successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A"; provided, however, if an Operator which has been removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was removed.

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 28th day of February, (year) 2006, Operator shall commence the drilling of a well for oil and gas at the following location:

660' FNL 660' FWL, Section 12, T-17S, R-31E

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

A depth sufficient in Operator's opinion to test the Morrow Formation.

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

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

ARTICLE VI
continued

1 If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the
2 well as a dry hole, the provisions of Article VI.E.1. shall thereafter apply.

3
4
5
6 **B. Subsequent Operations:**
7

8 1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided
9 for in Article VI.A., or to rework, deepen ^{sidetrack} / or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all
10 the parties and not then producing in paying quantities, the party desiring to drill, rework, deepen ^{sidetrack} / or plug back such a well shall give the
11 other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective forma-
12 tion and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice
13 within which to notify the party wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drill-
14 ing rig is on location, notice of a proposal to rework, plug back or drill deeper may be given by telephone ^{or fax transmission} / and the response period shall be
15 limited to forty-eight (48) hours, exclusive of Saturday, Sunday, and legal holidays. Failure of a party receiving such notice to reply within
16 the period above fixed shall constitute an ^{irrevocable} election by that party not to participate in the cost of the proposed operation. Any notice or
17 response given by telephone shall be promptly confirmed in writing.
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21 If all parties elect to participate in such a proposed operation, Operator shall, within ninety (90) days after expiration of the notice
22 period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on loca-
23 tion, as the case may be), actually commence the proposed operation and complete it with due diligence at the risk and expense of all par-
24 ties hereto; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties,
25 for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary to obtain
26 permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title ex-
27 amination or curative matter required for title approval or acceptance. Notwithstanding the force majeure provisions of Article XI, if the
28 actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein) and
29 if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accor-
30 dance with the provisions hereof as if no prior proposal had been made.
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34 2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VII.D.1. (Option
35 No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties
36 giving the notice and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of
37 the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is
38 on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all
39 work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is
40 a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed opera-
41 tion for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Con-
42 senting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and con-
43 ditions of this agreement.
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47 If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable
48 notice period, shall advise the Consenting Parties of the total interest of the parties approving such operation and its recommendation as
49 to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours
50 (exclusive of Saturday, Sunday and legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit par-
51 ticipation to such party's interest as shown on Exhibit "A" or (b) carry its proportionate part of Non-Consenting Parties' interests, and
52 failure to advise the proposing party shall be deemed an election under (a). In the event a drilling rig is on location, the time permitted for
53 such a response shall not exceed a total of forty-eight (48) hours (inclusive of Saturday, Sunday and legal holidays). The proposing party,
54 at its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.
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58 The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have
59 elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such
60 operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties.
61 If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well and restore the surface location at their
62 sole cost, risk and expense. If any well drilled, reworked, deepened ^{sidetracked} / or plugged back under the provisions of this Article results in a pro-
63 ducer 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,
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ARTICLE VI
continued

1 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, ^{sidetracking} / or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold, (after deducting production taxes, excise taxes, royalty, overriding royalty and other interests not excepted by Article III.D. 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:

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

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

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28 An election not to participate in the drilling, ^{sidetracking} / or the deepening of a well shall be deemed an election not to participate in any reworking or plugging back operation proposed in such a well, or portion thereof, to which the initial Non-Consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment account. Any such reworking or plugging back operation conducted during the recoupment period shall be deemed part of the cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties one hundred percent (100%) of that portion of the costs of the reworking or plugging back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If such a reworking or plugging back operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting Parties in said well.

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39 During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, excise, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production not excepted by Article III.D.

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

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

66 See Article XV for further provisions relating to Article VI.

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ARTICLE VI
continued

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

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

The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A. except (a) as to Article VII.D.1. (Option No. 2), if selected, or (b) as to the ~~completing, sidetracking~~ reworking, deepening and plugging back of such initial well after it has been drilled to the depth specified in Article VI.A. if it shall thereafter prove to be a dry hole or, if initially completed for production, ceases to produce in paying quantities.

3. Stand-By Time: When a well which has been drilled or deepened has reached its authorized depth and all tests have been completed, and the results thereof furnished to the parties, stand-by costs incurred pending response to a party's notice proposing a reworking, deepening, plugging back or completing operation in such a well shall be charged and borne as part of the drilling or deepening operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted, whichever first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms of the second grammatical paragraph of Article VI.B.2., shall be charged to and borne as part of the proposed operation, but if the proposal is subsequently withdrawn because of insufficient participation, such stand-by costs shall be allocated between the Consenting Parties in the proportion each Consenting Party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all Consenting Parties.

4. Sidetracking: Except as hereinafter provided, those provisions of this agreement applicable to a "deepening" operation shall also be applicable to any proposal to directionally control and intentionally deviate a well from vertical so as to change the bottom hole location (herein call "sidetracking"), unless done to straighten the hole or to drill around junk in the hole or because of other mechanical difficulties. Any party having the right to participate in a proposed sidetracking operation that does not own an interest in the affected well bore at the time of the notice shall, upon electing to participate, tender to the well bore owners its proportionate share (equal to its interest in the sidetracking operation) of the value of that portion of the existing well bore to be utilized as follows:

(a) If the proposal is for sidetracking an existing dry hole, reimbursement shall be on the basis of the actual costs incurred in the initial drilling of the well down to the depth at which the sidetracking operation is initiated.

(b) If the proposal is for sidetracking a well which has previously produced, reimbursement shall be on the basis of the well's salvable materials and equipment down to the depth at which the sidetracking operation is initiated, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning.

In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays; provided, however, any party may request and receive up to eight (8) additional days after expiration of the forty-eight (48) hours within which to respond by paying for all stand-by time incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, stand by costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties. In all other instances the response period to a proposal for sidetracking shall be limited to thirty (30) days.

C. TAKING PRODUCTION IN KIND:

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

ARTICLE VI
continued

1 required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

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

6

7 In the event any party shall fail to make the arrangements necessary to take in kind or separately ~~dispose of~~^{market} its proportionate share of
8 the oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not
9 the obligation, to purchase such oil or sell it to others at any time and from time to time, for the account of the non-taking party at the
10 ~~best price obtainable in the area for such production.~~^{a price negotiated in good faith by the Operator.} Any such purchase or sale by Operator shall be subject always to the right of the
11 owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil not previously
12 delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil shall be only for such reasonable periods of
13 time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess
14 of one (1) year.

15

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

20 ***See Below

21 D. Access to Contract Area and Information:

22

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

30

31 E. Abandonment of Wells:

32

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

41

42 2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted
43 hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a
44 producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall
45 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within
46 thirty (30) days after receipt of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well,
47 those wishing to continue its operation from the interval(s) of the formation(s) then open to production shall tender to each of the other
48 parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of
49 Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign
50 the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and
51 material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the in-
52 terval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and
53 gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or in-
54 tervals of the formation or formations then open to production, for a term of one (1) year and so long thereafter as oil and/or gas is pro-
55 duced from the interval or intervals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit

56

57 ***Notwithstanding any provision to the contrary to this or any other agreement each party shall have the right at all times and
58 from time to time, upon written notice, to audit all of taking party and/or operator's records and accounts related to or in connection
59 with production or allocation of production from the contract area. Auditing of settlement records shall also be applicable if taking
60 party and/or operator distributes proceeds to the auditing party.

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ARTICLE VI
continued

1 "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the
2 assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentage of participation in the
3 Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of
4 interests in the remaining portion of the Contract Area.

5
6 Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from
7 the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon re-
8 quest, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges con-
9 templated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned
10 well. Upon proposed abandonment of the producing interval(s) assigned or leased, the assignor or lessor shall then have the option to
11 repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the pro-
12 visions hereof.

13
14 3. Abandonment of Non-Consent Operations: The provisions of Article VI.E.1. or VI.E.2 above shall be applicable as between
15 Consenting Parties in the event of the proposed abandonment of any well excepted from said Articles; provided, however, no well shall be
16 permanently plugged and abandoned unless and until all parties having the right to conduct further operations therein have been notified
17 of the proposed abandonment and afforded the opportunity to elect to take over the well in accordance with the provisions of this Article
18 VI.E.

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

23 A. Liability of Parties:

24
25 The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and
26 shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted
27 among the parties in Article VII.B. are given to secure only the debts of each severally. It is not the intention of the parties to create, nor
28 shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

30 B. Liens and Payment Defaults:

31
32 Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share
33 of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon
34 at the rate provided in Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the
35 state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the ob-
36 taining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien
37 rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share
38 of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from
39 the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest, has been paid. Each
40 purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien
41 and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

42
43 If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by
44 Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that
45 the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain
46 reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

48 C. Payments and Accounting:

49
50 Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development
51 and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective propor-
52 tionate shares upon the expense basis provided in Exhibit "C". Operator shall keep an accurate record of the joint account hereunder,
53 showing expenses incurred and charges and credits made and received.

54
55 Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance
56 of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding
57 month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together
58 with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted
59 on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within
60 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
61 due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual ex-
62 pense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

64 D. Limitation of Expenditures:

65
66 1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened
67 pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the drilling or deepening shall include:

ARTICLE VII
continued

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

3
4 ☒ Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its
5 authorized depth, and all tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice
6 to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight
7 (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion at-
8 tempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, in-
9 cluding necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall
10 constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties,
11 elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging
12 back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less
13 than all parties.

14
15 2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or
16 plugged back pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the reworking or plugging back of a well shall
17 include all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage
18 and/or surface facilities.

19
20 3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated
21 to require an expenditure in excess of twenty-five thousand Dollars (\$ 25,000.00)
22 except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been
23 previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden
24 emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required
25 to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other
26 parties. If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator so requesting
27 an information copy thereof for any single project costing in excess of fifteen thousand
28 Dollars (\$ \$15,000.00) but less than the amount first set forth above in this paragraph.

29
30 **E. Rentals, Shut-in Well Payments and Minimum Royalties:**

31
32 Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the
33 party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have con-
34 tributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on
35 behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of
36 failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such pay-
37 ment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the pro-
38 visions of Article IV.B.2.

39
40 Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production
41 of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holidays), or at the earliest opportunity permitted by
42 circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator to so notify
43 Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments of any shut-in well payment
44 shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

45
46 **F. Taxes:**

47
48 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property
49 subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they
50 become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not
51 be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-
52 Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, over-
53 riding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or
54 owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduc-
55 tion. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding
56 anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax
57 value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in
58 the manner provided in Exhibit "C".

59
60 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner
61 prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final deter-
62 mination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any
63 interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint ac-
64 count, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as
65 provided in Exhibit "C".

66
67 Each party shall pay or cause to be paid all production, severance, excise, gathering and other taxes imposed upon or with respect
68 to the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.

ARTICLE VII
continued**1 G. Insurance:**

2
3 At all times while operations are conducted hereunder, Operator shall comply with the workmen's compensation law of
4 the state where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said com-
5 pensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C". Operator shall
6 also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part
7 hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workmen's compensation
8 law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.

9
10 In the event automobile public liability insurance is specified in said Exhibit "D", or subsequently receives the approval of the
11 parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's automotive equipment.

12
13 ARTICLE VIII.
14 ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST
15**16 A. Surrender of Leases:**

17
18 The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole
19 or in part unless all parties consent thereto.

20
21 However, should any party desire to surrender its interest in any lease or in any portion thereof, and the other parties do not
22 agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in
23 such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production
24 thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an oil and gas in-
25 terest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering
26 such oil and gas interest for a term of one (1) year and so long thereafter as oil and/or gas is produced from the land covered thereby, such
27 lease to be on the form attached hereto as Exhibit "B". Upon such assignment or lease, the assigning party shall be relieved from all
28 obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well
29 attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and pro-
30 duction other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the
31 party assignor or lessor the reasonable salvage value of the latter's interest in any wells and equipment attributable to the assigned or leas-
32 ed acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of
33 salvaging and the estimated cost of plugging and abandoning. If the assignment or lease is in favor of more than one party, the interest
34 shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties.

35
36 Any assignment, lease or surrender made under this provision shall not reduce or change the assignor's, lessor's or surrendering
37 party's interest as it was immediately before the assignment, lease or surrender in the balance of the Contract Area; and the acreage
38 assigned, leased or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this
39 agreement.

40
41 B. Renewal or Extension of Leases:

42
43 If any party secures a renewal of any oil and gas lease subject to this agreement, all other parties shall be notified promptly, and
44 shall have the right for a period of thirty (30) days following receipt of such notice in which to elect to participate in the ownership of the
45 renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper pro-
46 portionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the
47 interests held at that time by the parties in the Contract Area.

48
49 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
50 who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area
51 to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease.
52 Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

53
54 Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein
55 by the acquiring party.

56
57 The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease
58 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
59 contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or con-
60 tracted 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
61 the provisions of this agreement.

62
63 The provisions in this Article shall also be applicable to extensions of oil and gas leases.

64
65 C. Acreage or Cash Contributions:

66
67 While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other
68 operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be
69 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 con-
70 tribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions

ARTICLE VIII
continued

1 said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the extent possible, be
2 governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any acreage or cash contributions
3 it may obtain in support of any well or any other operation on the Contract Area. The above provisions shall also be applicable to op-
4 tional rights to earn acreage outside the Contract Area which are in support of a well drilled inside the Contract Area.

6 If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such
7 consideration shall not be deemed a contribution as contemplated in this Article VIII.C. ~~This paragraph shall not be applicable to the~~
8 ~~contribution of acreage by purchase, farmout, or term assignment, to the Initial, Substitute, or Option Test Well(s).~~

9 **D. Maintenance of Uniform Interests:**

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

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

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

22 If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may
23 require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for
24 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
25 party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter
26 into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract
27 Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

29 **E. Waiver of Rights to Partition:**

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

35 **F. Preferential Right to Purchase:**

37 ~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract~~
38 ~~Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the~~
39 ~~name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms~~
40 ~~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~~
41 ~~on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchas-~~
42 ~~ing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing par-~~
43 ~~ties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to~~
44 ~~dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent com-~~
45 ~~pany or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

47 **ARTICLE IX.**
48 **INTERNAL REVENUE CODE ELECTION**

50 This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association
51 for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several
52 and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax
53 purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded
54 from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as per-
55 mitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to ex-
56 ecute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the
57 United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements,
58 and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further
59 evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the
60 Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other
61 action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract
62 Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1,
63 Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is per-
64 mitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing elec-
65 tion, each such party states that the income derived by such party from operations hereunder can be adequately determined without the
66 computation of partnership taxable income.

**ARTICLE X.
CLAIMS AND LAWSUITS**

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed fifteen thousand Dollars (\$ 15,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

**ARTICLE XI.
FORCE MAJEURE**

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

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

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

**ARTICLE XII.
NOTICES**

All notices authorized or required between the parties and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by mail or telegram, postage or charges prepaid, or by telex or telecopier and addressed to the parties to whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the mail or with the telegraph company, with postage or charges prepaid, or sent by telex or telecopier. 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.

**ARTICLE XIII.
TERM OF AGREEMENT**

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

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

☐ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of _____ days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, reworking, deepening, plugging back, testing or attempting to complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling, deepening, plugging back or reworking operations are commenced within _____ days from the date of abandonment of said well.

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

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

This agreement and all matters pertaining hereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties, and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state of New Mexico shall govern.

C. Regulatory Agencies:

Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any rights, privileges, or obligations which Non-Operators may have under federal or state laws or under rules, regulations or orders promulgated under such laws in reference to oil, gas and mineral operations, including the location, operation, or production of wells, on tracts offsetting or adjacent to the Contract Area.

With respect to operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or predecessor or successor agencies to the extent such interpretation or application was made in good faith. Each Non-Operator further agrees to reimburse Operator for any amounts applicable to such Non-Operator's share of production that Operator may be required to refund, rebate or pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such incorrect interpretation or application.

Non-Operators authorize Operator to prepare and submit such documents as may be required to be submitted to the purchaser of any crude oil sold hereunder or to any other person or entity pursuant to the requirements of the "Crude Oil Windfall Profit Tax Act of 1980", as same may be amended from time to time ("Act"), and any valid regulations or rules which may be issued by the Treasury Department from time to time pursuant to said Act. Each party hereto agrees to furnish any and all certifications or other information which is required to be furnished by said Act in a timely manner and in sufficient detail to permit compliance with said Act.

ARTICLE XV.
OTHER PROVISIONS

In the event of a conflict between the provisions of this Article XV, and any other provision of this Operating Agreement, the Provisions of this Article XV shall govern and control.

A. Priority of Operation

Notwithstanding anything herein to the contrary, it is agreed that when a well drilled under the terms of this Agreement shall have been drilled to the objective formation or depth and the parties participating in the well cannot mutually agree upon the sequence and timing of further operations regarding said well, the proposals shall be considered in the following order:

1. A proposal to attempt to complete the well at either the objective depth or objective formation, including the testing and logging of such well at such depth;
2. A proposal to plug back and attempt to complete said well above the objective formation (if there is more than one proposal to plug back, the proposals will be considered in ascending order);
3. A proposal to deepen said well in order to attempt a completion below the objective formation (if there is more than one proposal to deepen, the proposals shall be considered in descending order);
4. A proposal to sidetrack the well; and
5. A proposal to plug and abandon the well.

1 B. Notwithstanding any language under Article VI.B. to the contrary, in any well in which a completion attempt may be made at
2 more than one depth, each party who participated in the initial operations hereto shall have the right to make a separate election
3 as to each interval in which a completion is proposed. Should a party hereto elect not to participate in a completion attempt as
4 to any one interval, then those parties who elect to participate in the completion attempt as to that interval, shall in the
5 proportions they have elected to bear, share all costs, risks and expenses of such completion attempt. Any recoupment of said
6 expenses shall be made solely from the production attributable to that interval.

7 Notwithstanding any provisions to the contrary in this or any other agreement, a Non-Consenting Party, upon notice in the
8 writing to Operator, and/or any party carrying all or part of the non-consenting interest shall have the right at all times and
9 from time to time within two (2) years of the date if received notice that payout has occurred, to audit Operator's and/or
10 carrying party's accounts and record relating to or connected with its operations on the Contract Area or on land pooled
11 therewith, regardless of when such operations were conducted.

12 C. Any party creating the necessity for separate measurement facilities shall alone bear all costs of such facilities. Any party using
13 separate production measurement facilities shall keep accurate records of such production in accordance with applicable state
14 and federal regulations, and upon Operator's request, under the terms of this agreement or any agreement executed in
15 conjunction with this agreement, true and complete copies of said records shall be furnished to Operator. Said production
16 records supplied to the Operator shall be treated as confidential information and shall be used by Operator only to the extent
17 necessary to fulfill its duties as Operator.

18 D. All costs and expenses including fees and expenses of attorneys and consultants incurred by Operator in the event Operator
19 must represent the Contract Area in non-standard locations and/or other regulatory matters herein shall be borne by all parties
20 in accordance with their respective interests as set forth in Exhibit "A" attached hereto and made a part hereof.

21 E. The parties hereto agree to execute a Notice of Joint Operating Agreement Lien in the form of Exhibit "F" to this agreement in
22 order to permit perfection of the hereinabove described security interests by placing said NOTICE of record in the county in
23 which the Contract Area is located and in accordance with the Uniform Commercial Code of the State in which the Contract
24 Area is located.

25 F. Operator shall comply where applicable with the following clauses contained in 41 CFR:

26 60-1.4(a)	(Equal Employment Opportunity);
27 1-12.803-10	(Certification of Non-Segregated Facilities);
28 60-250	(Employment Opportunity for Veterans);
29 60-741	(Employment Opportunity for Handicapped Individuals);
30 1-1.710	(Subcontracting With Small Business Concerns);
31 1-1.805	(Subcontracting With Labor Surplus Area Concerns);
32 1.1.1310	(Subcontracting With Minority Business Enterprises);
33 1.1.2302-2	(Environmental Protection).

34 These clauses are incorporated herein by reference if and to the extent applicable to this contract by law, executive order, or
35 regulation. Operator represents that he is in compliance with the reporting requirements of 41 CFR 60-1.7 and the Affirmative
36 Action Program requirements of 41 CFR 60-1.40 and 60-2.

37 G. The parties hereby acknowledge that the contract area for this Operating Agreement is limited to those depths shown in Exhibit
38 A II. Any operations within the Contract Area that involve the evaluation and/or testing in those formations outside the
39 contract depths shall be at the sole expense of the parties requesting such test. The wellbore of any well drilled under the terms
40 and provisions of this Operating Agreement shall be owned by the parties participating in the drilling of such well. In the event
41 any party desires to complete an abandoned well drilled under this agreement for any other purpose all the participating parties
42 must consent to that use.

43 H. Drilling Well Information - Notwithstanding anything to the contrary in this agreement, Operator shall provide all participating
44 Non-Operators with timely daily drilling reports, well logs, mud logs, testing information obtained by Operator during the
45 drilling of such well, and shall make available samples of any core or cuttings. Operator shall also provide all Non-Operators,
46 whether or not they participate, all regulatory filings.

47 I. Completed Well Information - Notwithstanding to the contrary in this agreement, Operator shall supply all participating Non-
48 Operators with timely daily production reports for a period of thirty days from the date of first production from each well.
49 Operator shall also provide all Non-Operators, whether or not they participate, copies of the monthly C-115 if so requested.
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ARTICLE XVI.
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of September, (year) 2005.

Hudson Oil Company of Texas, who has prepared and circulated this form for execution, represents and warrants that the form was printed from and with the exception listed below, is identical to the AAPL Form 610-1982 Model Form Operating Agreement, as published in diskette form by Forms On-A-Disk, Inc. No changes, alterations, or modifications, other than those in Articles _____, have been made to the form.

OPERATOR

HUDSON OIL COMPANY OF TEXAS

ATTEST OR WITNESS

Kristal Ree

E. Randall Hudson, III
By: E. Randall Hudson, III, Vice President

NON-OPERATORS

MARBOB ENERGY CORPORATION

By: Raye Miller, Attorney-in-Fact

YATES PETROLEUM CORPORATION

By: _____

EDWARD R. HUDSON TRUST 4

By: Mary Hudson Ard, Trustee

JAVELINA PARTNERS

Kristal Ree

E. Randall Hudson III
By: E. Randall Hudson III, Managing Partners

S.J. IVERSON TRUST

By: H. Greg Holcomb, Trustee

EDWARD R. HUDSON TRUST 2

Kristal Ree

E. Randall Hudson, Jr.
By: Edward R. Hudson, Jr., Trustee

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Kristal Rea

Kristal Rea

Kristal Rea

EDWARD R. HUDSON TRUST 3

By: William A. Hudson, II, Trustee

ZORRO PARTNERS, LTD.

By: William A. Hudson, II, Managing Partner

ERNEST CLOSUIT, JR.

By: Ernest Closuit, Jr.

JOHN F. CRANZ

By: John F. Cranz

THE P.L.P. 1990 TRUST

By: Wendell W. Iverson, Trustee

S.J.L JR. 1990 TRUST

By: Wendell W. Iverson, Trustee

W.W.I. 1990 TRUST

By: Wendell W. Iverson, Trustee

WILLIAM A. HUDSON, II

By: William A. Hudson, II

MARY HUDSON ARD

By: Mary Hudson Ard

EXHIBIT "A"

Attached to and made a part of that certain Joint Operating Agreement dated September 1, 2005 between Hudson Oil Company of Texas, as OPERATOR, and Marbob Energy Corporation et al, as NON-OPERATORS.

I. CONTRACT AREA:

Township 17 South, Range 31 East, N.M.P.M., Eddy County, New Mexico

Section 12: N/2

II. DEPTH RESTRICTIONS:

Acreage in the contract area only as to those depths below the stratigraphic equivalent of the base of the San Andres formation, identified at a depth of 4230 feet on the Compensated Neutron/Litho density log dated October 9, 1988 for the BTA Oil Producers 8809 JV-P Puckett #1 well; such well being located at 1880 feet from the north line and 1880 feet from the east line of Section 25, Township 17 South, Range 31 East, N.M.P.M., Eddy County, New Mexico, to the base of the Morrow formation.

III. NAME, WORKING INTEREST PERCENTAGES, AND ADDRESSES OF THE PARTIES FOR NOTICE PURPOSES:

	<u>Working Interest</u>
Marbob Energy Corporation P.O. Box 227 Artesia, New Mexico 88211-0227	15.50729170%
Yates Petroleum Corporation 105 South Fourth Street Artesia, New Mexico 88210	33.49791669%
Edward R. Hudson Trust 4 Mary Hudson Ard, Trustee 222 W. 4th Street PH - 5 Fort Worth, TX 76102	10.50104162%
Javelina Partners E. Randall Hudson III, Managing Partner 616 Texas Street Fort Worth, Texas 76102	9.26406242%
S.J. Iverson Trust H. Greg Holcomb, Trustee Bank of America NA Act. No. 01/0258100 P.O. Box 840738 Dallas, Texas 75284-0738	8.95312500%
Edward R. Hudson Trust 2 Edward R. Hudson, Jr., Trustee 616 Texas Street Fort Worth, Texas 76102	7.87578127%
Edward R. Hudson Trust 3 William A. Hudson, II, Trustee 616 Texas Street Fort Worth, Texas 76102	5.87578127%

Zorro Partners 616 Texas Street Fort Worth, Texas 76102	2.62526042%
Ernest Closuit, Jr. 616 Texas Street, Suite 103 Fort Worth, Texas 76102	1.00000000%
John F. Cranz P.O. Box 470037 Fort Worth, Texas 76147-0037	1.00000000%
The P.I.P. 1990 Trust Wendell W. Iverson, Trustee P.O. Box 10508 Midland, Texas 79702	.99479167%
S.J.I. Jr. 1990 Trust Wendell W. Iverson, Trustee P.O. Box 10508 Midland, Texas 79702	.99479167%
W.W.I. 1990 Trust Wendell W. Iverson, Trustee P.O. Box 10508 Midland, Texas 79702	.99479167%
William A. Hudson, II 616 Texas Street Fort Worth, Texas 76102	.58203120%
Mary Hudson Ard 222 W. 4th Street PH - 5 Fort Worth, TX 76102	.33333340%
	<hr/>
	100.00000000%

IV. OIL AND GAS LEASES SUBJECT TO THE AGREEMENT:

Lease Number:	LC-029415B
Lessor:	United State of America
Description:	Township 17 South, Range 31 East Section 12: N/2 Eddy County, New Mexico

EXHIBIT "B"

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EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement by and between Hudson Oil Company of Texas,
as Operator, and Marbob Energy Corporation, et al, as Non Operators dated September 1, 2005.

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

A. 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 within fifteen (15) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

B. Each Non-Operator shall pay its proportion of all bills within ^{thirty (30)} ~~fifteen (15)~~ days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Bank of America of Dallas, Texas on the first day of the month in which delinquency occurs plus 1% or the maximum 2%, or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

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

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5. Audits

A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit 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. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.

B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

6. Approval By Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Ecological and Environmental

Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or archaeological nature and pollution control procedures as required by applicable laws and regulations.

2. Rentals and Royalties

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

3. Labor

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

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

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

(4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation or the Joint Property if such charges are excluded from the overhead rates, which shall include the salaries and wages of professional employees associated with the sale of gas and/or casinghead gas from any well located in the Contract Area.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II. Such costs under this Paragraph 3B 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 3A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.

4. Employee Benefits

Operator's current costs or 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 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies.

5. **Material**

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

6. **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 where like material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.

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

C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

7. **Services**

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

8. **Equipment and Facilities Furnished By Operator**

A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed prime rate of interest in effect at Bank of America of Dallas, Texas, on the first day of the month in which usage occurs plus two percent (2 %) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

B. In lieu of charges in Paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

9. **Damages and Losses to Joint Property**

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

10. **Legal Expense**

Expenses of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, title examinations and opinions, oil and gas sales contracts, and regulatory actions as provided for in Article XV of the Operating Agreement. ~~except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 2.~~

11. **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. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties hereto in accordance with the tax value generated by each party's working interest.

12. Insurance

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

13. Abandonment and Reclamation

Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory authority.

14. Communications

Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.

15. 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 of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

- (X) Fixed Rate Basis, Paragraph IA, or
() Percentage Basis, Paragraph IB

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 3A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property:

- () shall be covered by the overhead rates, or
(X) shall not be covered by the overhead rates.

iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property:

- (X) shall be covered by the overhead rates, or
() shall not be covered by the overhead rates.

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 5,500 for a Morrow or deeper test or \$4000 for all others
(Prorated for less than a full month)

Producing Well Rate \$ 550 for a Morrow or deeper producer or \$400 for all others

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

(a) Drilling Well Rate

(1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever

is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.

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

(b) Producing Well Rates

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

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

B. Overhead - Percentage Basis

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

(a) ~~Development~~

~~Percent () of the cost of development of the Joint Property exclusive of costs provided under Paragraph 10 of Section II and all salvage credits.~~

(b) ~~Operating~~

~~Percent () of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.~~

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

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

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint

Account for overhead based on the following rates for any Major Construction project in excess of \$_____.

- A. 5 % of first \$100,000 or total cost if less, plus
- B. 3 % of costs in excess of \$100,000 but less than \$1,000,000, plus
- C. 2 % of costs in excess of \$1,000,000.

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

3. Catastrophe Overhead

To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account for overhead based on the following rates:

- A. 5 % of total costs through \$100,000; plus
- B. 3 % of total costs in excess of \$100,000 but less than \$1,000,000; plus
- C. 2 % of total costs in excess of \$1,000,000.

Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead provisions of this Section III shall apply.

4. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following basis exclusive of cash discounts: Operator shall account for material purchases and transfers in accordance with COPAS Interpretation 23, or the pricing procedure most recently recommended by COPAS. See www.copas.org.

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

(a) ~~Tubular goods, sized 2 3/8 inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.~~

(b) ~~For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000~~

~~pound Oil Field Haulers Association interstate truck rate shall be used.~~

~~(c) Special end finish tubular goods shall be priced at the lowest published out of stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.~~

~~(d) Macaroni tubing (size less than 2 3/8 inch OD) shall be priced at the lowest published out of stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.~~

(2) Line Pipe

~~(a) Line pipe movements (except size 24 inch OD and larger with walls 1/4 inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.~~

~~(b) Line Pipe movements (except size 24 inch OD) and larger with walls 1/4 inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.~~

~~(c) Line pipe 24 inch OD and over and 1/4 inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.~~

~~(d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.~~

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.

(4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2.A.(1) and (2).

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

~~Operators actual cost~~
~~At seventy-five percent (75%) of current new price, as determined by Paragraph A.~~

(2) Material used on and moved from the Joint Property

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

(b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as used Material

(3) Material not used on and moved from the Joint Property

~~Operators actual cost~~
~~At seventy-five percent (75%) of current new price as determined by Paragraph A.~~

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

C. Other Used Material

(1) Condition C

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

(2) Condition D

Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material under procedures normally used by Operator without prior approval of Non-Operators.

(a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.

(b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

(3) Condition E

Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally utilized by Operator without prior approval of Non-Operators.

D. Obsolete Material

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

E. Pricing Conditions

(1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained, at the stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph 1.A.(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.

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

3. Premium Prices

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

4. Warranty of Material Furnished By Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made at the expense of the party(s) causing such inventory to occur within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for

overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. Special Inventories

Special inventories may be taken whenever there is any sale, change of interest, or change of Operator 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. In cases involving a change of Operator, all Parties shall be governed by such inventory.

4. Expense of Conducting Inventories

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

B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

EXHIBIT "D"

Attached to and made a part of that certain Operating Agreement dated September 1, 2005, between **HUDSON OIL COMPANY OF TEXAS**, as Operator, and **MARBOB ENERGY CORPORATION**, et al, as Non-Operators.

1. **OPERATOR** shall, at all times while conducting operations hereunder, comply with all Workers' Compensation and Occupational Disease Laws including the United States Longshoremen's and Harbor Worker's Compensation Act; provided, however, that **OPERATOR** may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be **OPERATOR'S** actual cost but not exceeding an amount equivalent to the premium which would have been paid had such insurance been obtained.
2. No other insurance shall be carried by **OPERATOR** for the joint account unless agreed to by all parties hereto.
3. **OPERATOR** shall require all contractors and subcontractors to carry such insurance in such amounts as **OPERATOR** deems adequate.
4. Each co-owner may procure such insurance with respect to the jointly owned properties and operations as it deems necessary to protect itself against claims and damages and all insurance policies shall be endorsed to provide that underwriters and insurance carriers of co-owner shall not have any right of subrogation against **OPERATOR** and other co-owners.

EXHIBIT " E "

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED THE 1ST DAY OF SEPTEMBER 2005, BETWEEN HUDSON OIL COMPANY OF TEXAS, AS OPERATOR, AND MARBOB ENERGY CORPORATION, ET AL, AS NON-OPERATORS.

GAS BALANCING AGREEMENT

During the period or periods when any party hereto has no market for, or such party's purchaser is unable to take, or if any party fails to take its share of gas, the other parties shall be entitled to produce, take and deliver each month one hundred percent of the allowable gas production assigned to the unit area by the appropriate governmental entity having jurisdiction, and each of such parties shall be entitled to take its pro-rata share of such production. All parties hereto shall share in and own the condensate recovered at the surface in accordance with their respective interests, but each party taking such gas shall own all of the gas delivered to its purchaser.

Each party unable to market its full share of the gas produced shall be credited with underproduction equal to its share of the gas produced, less its share of gas taken or sold, used in lease operations, vented or lost. Operator shall maintain a current account of the gas balance between the parties and shall furnish all parties hereto annual statements showing the total quantity of gas produced, taken or sold, used in lease operations, vented or lost, and the total quantity of condensate recovered. After seventy two (72) hours prior notice to Operator, any party may begin taking or delivering its share of the gas produced.

In addition to its share, each under produced party, until it has recovered its underproduction and balanced its gas account, shall be entitled to take or deliver a volume of gas equal to twenty-five percent (25%) of each overproduced party's share of gas produced. If more than one party is entitled to take additional gas, they shall divide such additional gas in proportion to their unit participation.

It is recognized that the purpose of this Provision is to permit any party not marketing or taking its share of current gas production to defer its production from the reservoir and permit the other party or parties to pass clear title to all gas which is marketed or taken on a current basis. Therefore, in the event production of gas permanently ceases prior to the time that the accounts of the parties have been balanced, the complete balancing shall be made based upon the price actually received by each overproduced party for gas produced and sold in excess of its share, such gas being the last volumes produced from such well or wells.

Each party producing and taking gas shall pay any and all production taxes due on such gas. At all times while gas is produced from the contract area, each party hereto, while producing, taking or delivering any gas to a purchaser, shall pay or cause to be paid, all royalties due on the gas produced, taken or delivered to a purchaser. Such royalty payments shall be paid to all royalty owners in the well spaced unit of the well being produced and shall be for each royalty owner's proportionate share of the royalty due on the production.

If, after one (1) year from the date of first sales and on a quarterly basis thereafter, an out-of-balance condition exists because of any party's inability or failure to take or deliver its share of production, then at the election of either the over-balanced party or the under-balanced party, either may require a cash balancing. The price basis for a cash-balancing pursuant to terms of this paragraph shall be the lower of either the over-balanced party's or parties' average price received during the period for which the cash balancing covers or the under-balanced party's or parties' average gas purchase contract price for such period. In the event an under-balanced party does not have a gas purchase contract, the price basis shall be the average price received by the over-balanced party or parties. This option may be exercised quarterly by either party during the thirty day period immediately following the quarterly anniversary of the date of first sales of gas by the first party selling any gas from the well.

EXHIBIT " F "

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT
DATED THE 1ST DAY OF SEPTEMBER 2005, BETWEEN HUDSON OIL COMPANY OF
TEXAS, AS OPERATOR, AND MARBOB ENERGY CORPORATION, ET AL, AS NON-
OPERATORS.

NOTICE OF JOINT OPERATING AGREEMENT, LIEN,
SECURITY INTERESTS AND FINANCING STATEMENT

STATE OF NEW MEXICO §
§
COUNTY OF EDDY §

WHEREAS, A Joint Operating Agreement dated September 1, 2005, has been entered into
between Hudson Oil Company of Texas, as Operator, and Marbob Energy Corporation, et al, as Non-
Operators, with respect to the exploration, development and operation of their Working Interest and
Mineral Interest, insofar as said interests pertain to the following described land (hereinafter called
"Contract Area") in Eddy County, New Mexico, to wit:

N/2 of Section 12
Township 17 South, Range 31 East
Eddy County, New Mexico

AND, WHEREAS the said Operating Agreement provides in part that the parties hereto have
granted certain liens and security interests in the above referenced property, fixtures and production
located thereon or produced therefrom, to wit:

"Liens and Payment Defaults"

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

WHEREAS, it is the intent of the parties to give third parties notice of this instrument by filing
same in the records of Eddy County, New Mexico.

NOW, THEREFORE, the undersigned parties do hereby grant to each other those rights
described in said Agreement regarding liens priority and security interests upon the property described
above insofar as said parties' property is covered by the terms of the Joint Operating Agreement outlined
herein.

Operator and Non-Operator agree that a carbon, photograph or other reproduction of this Notice
shall be sufficient as a financing statement.

For the purpose of filing this Notice of Joint Operating Agreement Lien, Security Interests and
Financing Statement as a financing statement, the mailing address of secured parties and debtor are set
forth on the signature page attached hereto.

ATTENTION OF RECORDING OFFICE: This instrument gives notice of and grants liens and
security interests to both Operator and Non-Operators. Operator is both a secured party and a debtor.
Non-Operators are both a secured party and debtor. This notice, as a financing statement should be
indexed accordingly.

EXHIBIT "F"
NOTICE OF JOINT OPERATING AGREEMENT LIEN,
SECURITY INTERESTS AND FINANCING STATEMENT
PAGE -2-

The original of the Operating Agreement herein referenced, or a copy thereof, is maintained at Operators office at 616 Texas Street, Fort Worth, Texas 76102.


This instrument may be executed in multi-counterparts, no one of which need be executed by all parties hereto and the same shall be binding upon those parties, as well as their successors and assigns, who execute same, whether or not all named parties joint in execution hereof. Counterparts thus executed shall together constitute but one and the same instrument. In the interest of facilitating, filing or recording this instrument thus executed in multi-counterparts, each executing party hereby authorizes removal of signature and acknowledgement pages and reassembly of the same into a single document composed of one copy of the substantive portions of this instrument attached to multiple, separately executed signature and acknowledgement pages.

This Agreement shall be effective the 1st day of September, 2005.

OPERATOR

HUDSON OIL COMPANY OF TEXAS

616 Texas Street
Fort Worth, Texas 76102

By: 
E. Randall Hudson III, Vice President

NON-OPERATORS

MARBOB ENERGY CORPORATION

P.O. Box 227
Artesia, New Mexico 88211-0227

By: _____
Raye Miller, Attorney-in-Fact

YATES PETROLEUM CORPORATION

105 South Fourth Street
Artesia, New Mexico 88210

By: _____
Its: _____


EDWARD R. HUDSON TRUST 4

222 W. 4th Street, PH-5
Fort Worth, Texas 76102

By: _____
Mary Hudson Ard, Trustee

JAVELINA PARTNERS

616 Texas Street
Fort Worth, Texas 76102

By: 
E. Randall Hudson, III, Managing Partner

S.J. IVERSON TRUST

Bank of America
Account No. 01/0258100
P.O. Box 840738
Dallas, Texas 75284-0738

By: _____
H. Greg Holcomb, Trustee

EXHIBIT "F"
NOTICE OF JOINT OPERATING AGREEMENT LIEN,
SECURITY INTERESTS AND FINANCING STATEMENT
PAGE -3-

616 Texas Street
Fort Worth, Texas 76102

EDWARD R. HUDSON TRUST 2

By: Edward R. Hudson, Jr.
Edward R. Hudson, Jr., Trustee

616 Texas Street
Fort Worth, Texas 76102

EDWARD R. HUDSON TRUST 3

By: William A. Hudson, II
William A. Hudson, II, Trustee

616 Texas Street
Fort Worth, Texas 76102

ZORRO PARTNERS

By: William A. Hudson, II
William A. Hudson, II, Managing Partner

616 Texas Street, Suite 103
Fort Worth, Texas 76102

ERNEST CLOSUIT, JR.

By: _____
Ernest Closuit, Jr.

P.O. Box 470037
Fort Worth, Texas 76147-0037

JOHN F. CRANZ

By: _____
John F. Cranz

P.O. Box 10508
Midland, Texas 79702

THE P.I.P. 1990 TRUST

By: _____
Wendell W. Iverson, Trustee

P.O. Box 10508
Midland, Texas 79702

S.J.I. Jr. 1990 Trust

By: _____
Wendell W. Iverson, Trustee

P.O. Box 10508
Midland, Texas 79702

W.W.I. 1990 TRUST

By: _____
Wendell W. Iverson, Trustee

616 Texas Street
Fort Worth, Texas 76102

WILLIAM A. HUDSON, II

By: William A. Hudson, II
William A. Hudson, II

222 W. 4th Street, PH-5
Fort Worth, Texas 76102

MARY HUDSON ARD

By: _____
Mary Hudson Ard

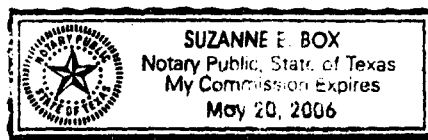
EXHIBIT "F"
NOTICE OF JOINT OPERATING AGREEMENT LIEN,
SECURITY INTERESTS AND FINANCING STATEMENT
PAGE -4-

STATE OF TEXAS §
 §
COUNTY OF TARRANT §

The foregoing instrument was acknowledged before me on this the 9th day of September, 2005, by E. RANDALL HUDSON III, as VICE PRESIDENT OF HUDSON OIL COMPANY OF TEXAS, a Texas CORPORATION, on behalf of said CORPORATION.

Suzanne E. Box
Suzanne E. Box - Notary Public

My Commission Expires:
May 20, 2006



STATE OF NEW MEXICO §
 §
COUNTY OF _____ §

The foregoing instrument was acknowledged before me on this the _____ day of _____, 2005, by RAYE MILLER as ATTORNEY-IN-FACT of MARBOB ENERGY CORPORATION, a New Mexico CORPORATION on behalf of said CORPORATION.

Notary Public State of New Mexico

My Commission Expires:

STATE OF NEW MEXICO §
 §
COUNTY OF _____ §

The foregoing instrument was acknowledged before me on this the _____ day of _____, 2005, by _____ as _____ of YATES PETROLEUM CORPORATION, a New Mexico CORPORATION on behalf of said CORPORATION.

Notary Public State of New Mexico

My Commission Expires:

STATE OF TEXAS §
 §
COUNTY OF TARRANT §

The foregoing instrument was acknowledged before me on this the _____ day of _____, 2005, by MARY HUDSON ARD as TRUSTEE of THE EDWARD R. HUDSON TRUST 4, a Texas TRUST on behalf of said TRUST.

Notary Public State of Texas

My Commission Expires:

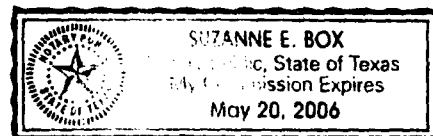
EXHIBIT "F"
NOTICE OF JOINT OPERATING AGREEMENT LIEN,
SECURITY INTERESTS AND FINANCING STATEMENT
PAGE -5-

STATE OF TEXAS §
 §
COUNTY OF TARRANT §

The foregoing instrument was acknowledged before me on this the 9th day of September, 2005, by E. RANDALL HUDSON III as MANAGING PARTNER of JAVELINA PARTNERS, a Texas PARTNERSHIP on behalf of said PARTNERSHIP.

Suzanne E. Box
Suzanne E. Box - Notary Public

My Commission Expires:
May 20, 2006



STATE OF TEXAS §
 §
COUNTY OF _____ §

The foregoing instrument was acknowledged before me on this the _____ day of _____, 2005, by H. GREG HOLCOMB as TRUSTEE of S.J. IVERSON TRUST, a Texas TRUST on behalf of said TRUST.

Notary Public State of Texas

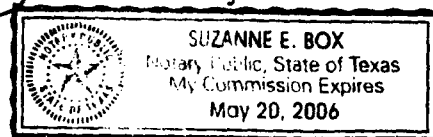
My Commission Expires:

STATE OF TEXAS §
 §
COUNTY OF TARRANT §

The foregoing instrument was acknowledged before me on this the 14th day of September, 2005, by EDWARD R. HUDSON, JR. as TRUSTEE of THE EDWARD R. HUDSON TRUST 2, a Texas TRUST on behalf of said TRUST.

Suzanne E. Box
Suzanne E. Box - Notary Public

My Commission Expires:
May 20, 2006



STATE OF TEXAS §
 §
COUNTY OF TARRANT §

The foregoing instrument was acknowledged before me on this the 9th day of September, 2005, by WILLIAM A. HUDSON, II as TRUSTEE of THE EDWARD R. HUDSON TRUST 3, a Texas TRUST on behalf of said TRUST.

Suzanne E. Box
Suzanne E. Box - Notary Public

My Commission Expires:
May 20, 2006

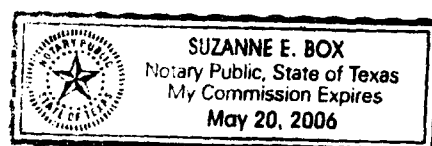


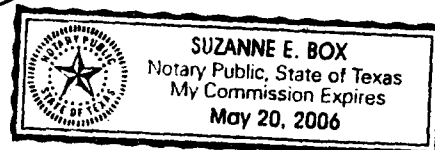
EXHIBIT "F"
NOTICE OF JOINT OPERATING AGREEMENT LIEN,
SECURITY INTERESTS AND FINANCING STATEMENT
PAGE -6-

STATE OF TEXAS §
 §
COUNTY OF TARRANT §

The foregoing instrument was acknowledged before me on this the 9th day of September, 2005, by WILLIAM A. HUDSON, II as MANAGING PARTNER of ZORRO PARTNERS, a Texas PARTNERSHIP on behalf of said PARTNERSHIP.

Suzanne E. Box
Suzanne E. Box - Notary Public

My Commission Expires:
May 20, 2006



STATE OF TEXAS §
 §
COUNTY OF TARRANT §

The foregoing instrument was acknowledged before me on this the ____ day of _____, 2005, by ERNEST CLOSUIT, JR., individually, and known to me to be the person whose name is subscribed to the foregoing instrument and acknowledged to me that he executed the same for the purposes therein expressed and in the capacity therein stated.

Notary Public State of Texas

My Commission Expires:

STATE OF TEXAS §
 §
COUNTY OF TARRANT §

The foregoing instrument was acknowledged before me on this the ____ day of _____, 2005, by JOHN F. CRANZ, individually, and known to me to be the person whose name is subscribed to the foregoing instrument and acknowledged to me that he executed the same for the purposes therein expressed and in the capacity therein stated.

Notary Public State of Texas

My Commission Expires:

STATE OF TEXAS §
 §
COUNTY OF _____ §

The foregoing instrument was acknowledged before me on this the ____ day of _____, 2005, by WENDELL W. IVERSON as TRUSTEE of THE P.I.P. 1990 TRUST a Texas TRUST on behalf of said TRUST.

Notary Public State of Texas

My Commission Expires:

EXHIBIT "F"
NOTICE OF JOINT OPERATING AGREEMENT LIEN,
SECURITY INTERESTS AND FINANCING STATEMENT
PAGE -7-

STATE OF TEXAS §
 §
COUNTY OF _____§

The foregoing instrument was acknowledged before me on this the _____ day of _____, 2005, by WENDELL W. IVERSON as TRUSTEE of S.J.I. JR. 1990 TRUST, a Texas TRUST on behalf of said TRUST.

Notary Public State of Texas

My Commission Expires:

STATE OF TEXAS §
 §
COUNTY OF _____§

The foregoing instrument was acknowledged before me on this the _____ day of _____, 2005, by WENDELL W. IVERSON as TRUSTEE of W.W.I. 1990 TRUST, a Texas TRUST on behalf of said TRUST.

Notary Public State of Texas

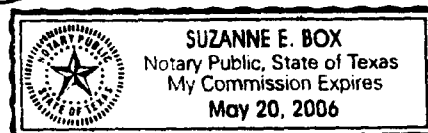
My Commission Expires:

STATE OF TEXAS §
 §
COUNTY OF TARRANT §

The foregoing instrument was acknowledged before me on this the 9th day of September, 2005, by WILLIAM A. HUDSON, II, individually, and known to me to be the person whose name is subscribed to the foregoing instrument and acknowledged to me that he executed the same for the purposes therein expressed and in the capacity therein stated.

Suzanne E. Box
Suzanne E. Box - Notary Public

My Commission Expires:
May 20, 2006



STATE OF TEXAS §
 §
COUNTY OF TARRANT §

The foregoing instrument was acknowledged before me on this the _____ day of _____, 2005, by MARY HUDSON ARD, individually, and known to me to be the person whose name is subscribed to the foregoing instrument and acknowledged to me that she executed the same for the purposes therein expressed and in the capacity therein stated.

Notary Public State of Texas

My Commission Expires:

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR REENTER

FORM APPROVED
OMB No. 1004-0136
Expires January 31, 2004

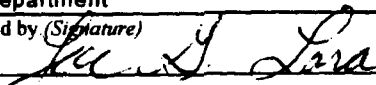
1a. Type of Work: <input checked="" type="checkbox"/> DRILL <input type="checkbox"/> REENTER		5. Lease Serial No. LC-029415-B
1b. Type of Well: <input type="checkbox"/> Oil Well <input checked="" type="checkbox"/> Gas Well <input type="checkbox"/> Other <input type="checkbox"/> Single Zone <input type="checkbox"/> Multiple Zone		6. If Indian, Allottee or Tribe Name
2. Name of Operator Hudson Oil Company of Texas		7. If Unit or CA Agreement, Name and No.
3a. Address 616 Texas Street, Fort Worth, TX 76102	3b. Phone No. (include area code) 817-336-7109	8. Lease Name and Well No. Francotte Federal #1
4. Location of Well (Report location clearly and in accordance with any State requirements. *) At surface 660' FNL & 660' FWL At proposed prod. zone		9. API Well No.
14. Distance in miles and direction from nearest town or post office*		10. Field and Pool, or Exploratory Fren; Morrow
15. Distance from proposed* location to nearest property or lease line, ft. (Also to nearest drig. unit line, if any)	16. No. of Acres in lease	11. Sec., T., R., M., or Blk. and Survey or Area Section 12, T17S, R31E
18. Distance from proposed location* to nearest well, drilling, completed, applied for, on this lease, ft.	19. Proposed Depth 12700'	12. County or Parish Eddy
21. Elevations (Show whether DF, KDB, RT, GL, etc.) 3983' GL	22. Approximate date work will start* August 6, 2005	13. State NM
20. BLM/BIA Bond No. on file 585716		17. Spacing Unit dedicated to this well 320
23. Estimated duration 21 Days		

24. Attachments

The following, completed in accordance with the requirements of Onshore Oil and Gas Order No. 1, shall be attached to this form:

1. Well plat certified by a registered surveyor.
2. A Drilling Plan.
3. A Surface Use Plan (if the location is on National Forest System Lands, the SUPO shall be filed with the appropriate Forest Service Office).
4. Bond to cover the operations unless covered by an existing bond on file (see Item 20 above).
5. Operator certification.
6. Such other site specific information and/or plans as may be required by the authorized officer.

25. Signature 	Name (Printed Typed) Amy Reid	Date 7/6/2005
---	----------------------------------	------------------

Title		
Land Department		
Approved by (Signature) 	Name (Printed Typed) Joe G. Lara	Date 10/13/05
Title Acting FIELD MANAGER	Office CARLSBAD FIELD OFFICE	

Application approval does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon.

Conditions of approval, if any, are attached.

APPROVAL FOR 1 YEAR

Title 18 U.S.C. Section 1001 and Title 43 U.S.C. Section 1212, make it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

*(Instructions on reverse)

Roswell Controlled Water Basin

Witness Surface Casing

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS AND
SPECIAL STIPULATIONS
ATTACHED

DISTRICT II
1301 W. GRAND AVENUE, ARTESIA, NM 88210

OIL CONSERVATION DIVISION
1220 SOUTH ST. FRANCIS DR.
Santa Fe, New Mexico 87505

Revised JUNE 10, 2003
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

DISTRICT III
1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV
1220 S. ST. FRANCIS DR., SANTA FE, NM 87505

WELL LOCATION AND ACREAGE DEDICATION PLAT

☐ AMENDED REPORT

API Number		Pool Code	Pool Name
		96663	FREN; MORROW (GAS)
Property Code	Property Name		Well Number
	FRANCOTTE FEDERAL		1
OGRID No.	Operator Name		Elevation
14049	HUDSON OIL COMPANY OF TEXAS		3983'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
D	12	17-S	31-E		660	NORTH	660	WEST	EDDY

Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
Dedicated Acres	Joint or Infill	Consolidation Code	Order No.						
320									

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

	<p>OPERATOR CERTIFICATION</p> <p>I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.</p> <p><i>Amy Reid</i> Signature</p> <p>AMY REID Printed Name</p> <p>LAND DEPARTMENT Title</p> <p>JULY 6, 2005 Date</p> <p>SURVEYOR CERTIFICATION</p> <p>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</p> <p>MAY 9, 2005 Date Surveyed</p> <p>Signature & Seal of Professional Surveyor <i>Gary E. Eason</i> 5/17/05</p> <p>05.11.0713</p> <p>Certificate No. GARY EIDSON 12641</p>
--	--

HUDSON OIL COMPANY OF TEXAS
DRILLING AND OPERATIONS PROGRAM

Francotte Federal #1
660' FNL & 660' FWL, Unit D
Section 12, T17S, R31E
Eddy County, New Mexico

In conjunction with Form 3160-3, Application for Permit to Drill subject well, Hudson Oil Company of Texas submits the following ten items of pertinent information in accordance with BLM requirements.

1. The geological surface formation is Permian.
2. The estimated tops of geologic markers are as follows:

Top of Salt	585'	Cisco	9560'
Base of Salt	1790'	Strawn	10850'
San Andres	3680'	Atoka	11900'
Wolfcamp	8290'	Morrow	12350'

3. The estimated depths at which anticipated water, oil or gas formations are expected to be encountered:

Wolfcamp	8290'	Oil
Cisco	9560'	Oil
Strawn	10850'	Gas
Atoka	11900'	Gas
Morrow	12350'	Gas

No other formations are expected to give up oil, gas, or fresh water in measurable quantities. The surface fresh water sands will be protected by setting 13 3/8" casing at 600' and circulating cement back to surface. Any shallower zones above TD which contain commercial quantities of oil and/or gas will have cement circulated across them by inserting a float shoe joint into the 5 1/2" production casing which will be run at TD to sufficiently cover 500' above all known oil and gas horizons.

4. Proposed Casing Program:

Hole Size	Interval	OD Casing	Wt	Grade	WITNESS
17 1/2"	0 - 600'	13 3/8"	48#	H-40	
12 1/4"	0 - 4000'	8 5/8"	32#	Buttress	
7 7/8"	0 - 12700'	5 1/2"	17#	S95/P-110	

Proposed Cement Program:

13 3/8" Surface Casing: Cement w/ 700 sx P+. Circulate to surface.

8 5/8" Intermediate Casing: Cement w/ 1600 sx Class C. Attempt to tie in to 13 3/8" csg.

5 1/2" Production Casing: Cement w/ 850 sx Class C. Will bring TOC to 500' above any oil and/or gas bearing zones.

5. Pressure Control Equipment: See Exhibit 1. Marbob proposes to nipple up on the 13 3/8" casing with a 2M system, testing it to 1000# with rig pumps, then nipple up on the 8 5/8" casing with a 5M system, tested to 5000# before drilling out.

6. Mud Program: The applicable depths and properties of this system are as follows:

Depth	Type	Weight (ppg)	Viscosity (sec)	Waterloss (cc)
0 - 500	Fresh Wtr	8.4 - 9.2	32 - 36	N.C.
500 - 4000'	Brine	9.9 - 10.2	28 - 32	N.C.
4000 - 12700'	Cut Brine	8.7 - 9.5	28 - 34	N.C.

7. Auxiliary Equipment: Kelly Cock; Sub with full opening valve on floor; and drill pipe connections.

8. Testing, Logging and Coring Program:

No drillstem tests are anticipated.

The electric logging program will consist of Dual Laterolog Micro SFL, Spectral Density Dual Spaced Neutron Csg Log, and Depth Control Log.

No conventional coring is anticipated.

9. No abnormal pressures or temperatures are anticipated.

10. Anticipated starting date: As soon as possible after approval.

HUDSON OIL COMPANY OF TEXAS
MULTI-POINT SURFACE USE AND OPERATIONS PLAN

Francotte Federal #1
660' FNL & 660' FWL, Unit D
Section 12, T17S, R31E
Eddy County, New Mexico

This plan is submitted with Form 3160-3, Application for Permit to Drill, covering the above described well. The purpose of this plan is to describe the location of the proposed well, the proposed construction activities and operations plan, the magnitude of the surface disturbance involved and the procedures to be followed in rehabilitating the surface after completion of the operations, so that a complete appraisal can be made of the environmental effect associated with the operations.

1. EXISTING ROADS:

Exhibit 2 is a portion of a topo map showing the well and roads in the vicinity of the proposed location. The proposed wellsite and the access route to the location are indicated in red on Exhibit 2.

DIRECTIONS:

On US Hwy 82 at mile marker 140.5, turn northwest on caliche road (at Wiser Oil Co. sign) and go 0.3 miles to good caliche road on right, turn right (north) and follow meandering main caliche road approximately 1.5 miles to a caliche road on right. Turn right (east) and go 0.4 miles to where the road turns north and continue approx. 2450' to road survey stake on the right. Follow road survey approximately 1172' to location.

2. PLANNED ACCESS ROAD:

A new access road of 1172' will be necessary. The new road will be constructed as follows:

- A. The maximum width of the running surface will be 10'. The road will be crowned and ditched and constructed of 6" of rolled and compacted caliche. Ditches will be at 3:1 slope and 4 feet wide. Water will be diverted where necessary to avoid ponding, prevent erosion, maintain good drainage, and to be consistent with local drainage patterns. BLM may specify any additions or changes during the onsite inspection.
- B. The average grade will be less than 1%.
- C. No turnouts are planned.
- D. No culverts, cattleguard, gates, low-water crossings, or fence cuts are necessary.

- E. Surfacing material will consist of native caliche. Caliche will be obtained from the nearest BLM-approved caliche pit. Any additional materials that are required will be purchased from the dirt contractor.
- F. The proposed access road as shown in Exhibit 2 will be centerline flagged by John West Engineering.

3. LOCATION OF EXISTING AND/OR PROPOSED FACILITIES:

- A. Hudson Oil Company of Texas proposes a collection facility, if well is productive, to be located on Knockabout Federal #1 well pad.

4. METHODS OF HANDLING WASTE DISPOSAL:

- A. Drill cuttings will be disposed of in the lined pit.
- B. Drilling fluids will be allowed to evaporate in the lined pit until the pit is dry.
- C. Water produced during completion may be disposed into the lined reserve pit.
- D. All trash and debris will be removed from the wellsite within 30 days after finishing drilling and/or completion operations. All waste material will be contained to prevent scattering by the wind.

5. WELLSITE LAYOUT:

- A. Exhibit 3 shows the relative location and dimensions of the well pad, the pit.
- B. The reserve pit will be lined with high quality plastic sheeting.

6. PLANS FOR RESTORATION:

- A. After finishing drilling and/or completion operations, all equipment and other material not needed for further operations will be removed. The location will be cleaned of all trash and junk to leave the wellsite in as aesthetically pleasing a condition as possible.
- B. Reserve pit will be fenced until they have dried and been leveled.
- C. All rehabilitation and/or vegetation requirements of the BLM will be complied with and will be accomplished as expeditiously as possible. All pits will be filled level within 90 days after abandonment.

7. SURFACE OWNERSHIP:

The well site and lease are located on Federal surface

- D. The area around the well site is grassland and the top soil is sandy. The vegetation is native scrub grasses with abundant oakbrush, sagebrush, yucca, and prickly pear.
- E. A Cultural Resources Examination has been requested and will be forwarded to your office in the near future.

8. OTHER INFORMATION:

- a. Topography: Refer to the existing archaeological report for a description of the topography, flora, fauna, soil characteristics, dwellings, historical and cultural sites.

9. OPERATOR'S REPRESENTATIVE:

A. Through A.P.D. Approval:

Dean Chumbley, Authorized Agent
Hudson Oil Company of Texas
P. O. Box 227
Artesia, NM 88211-0227
Phone (505)748-3303
Cell (505)748-5988

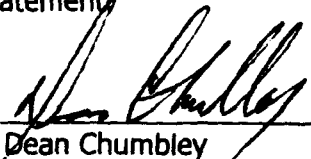
B. Through Drilling Operations

Sheryl Baker, Drilling Supervisor
Hudson Oil Company of Texas
P. O. Box 227
Artesia, NM 88211-0227
Phone (505)748-3303
Cell (505)748-5489

10. CERTIFICATION:

I hereby certify that I, or persons under my direct supervision, have inspected the proposed drillsite and access route, that I am familiar with the conditions which presently exist; that the statements made in this plan are to the best of my knowledge, true and correct; and that the work associated with the operations proposed herein will be performed by Hudson Oil Company of Texas and its contractors and subcontractors in conformity with this plan and the terms and conditions under which it is approved. This statement is subject to the provisions of 18 U.S.C. 1001 for the filing of a false statement.

7-6-2005
Date



Dean Chumbley
Authorized Agent

**HUDSON OIL COMPANY OF TEXAS
HYDROGEN SULFIDE DRILLING OPERATIONS PLAN**

I. HYDROGEN SULFIDE TRAINING

All personnel, whether regularly assigned, contracted, or employed on an unscheduled basis, will receive training from a qualified instructor in the following areas prior to commencing drilling operations on this well:

- A. The hazards and characteristics of hydrogen sulfide (H₂S).
- B. The proper use and maintenance of personal protective equipment and life support systems.
- C. The proper use of H₂S detectors, alarms, warning systems, briefing areas, evacuation procedures, and prevailing winds.
- D. The proper techniques for first aid and rescue procedures.

In addition, supervisory personnel will be trained in the following areas:

- A. The effects of H₂S on metal components. If high tensile tubulars are to be used, personnel will be trained in their special maintenance requirements.
- B. Corrective action and shut-in procedures when drilling or reworking a well and blowout prevention and well control procedures.
- C. The contents and requirements of the H₂S Drilling Operations Plan and the Public Protection Plan.

There will be an initial training session just prior to encountering a known or probable H₂S zone (within 3 days or 500 feet) and weekly H₂S and well control drills for all personnel in each crew. The initial training session shall include a review of the site specific H₂S Drilling Operations Plan and the Public Protection Plan. This plan shall be available at the well site. All personnel will be required to carry documentation that they have received the proper training.

II. H₂S SAFETY EQUIPMENT AND SYSTEMS

Note: All H₂S safety equipment and systems will be installed, tested, and operational when drilling reaches a depth of 500 feet above, or three days prior to penetrating the first zone containing or reasonably expected to contain H₂S.

A. Well Control Equipment:

Flare line.

Choke manifold.

Blind rams and pipe rams to accommodate all pipe sizes with properly sized closing unit.

Auxiliary equipment to include: annular preventer, mud-gas separator, rotating head.

B. Protective equipment for essential personnel:

Mark II Surviveair 30-minute units located in the dog house and at briefing areas.

C. H₂S detection and monitoring equipment:

2 - portable H₂S monitor positioned on location for best coverage and response. These units have warning lights and audible sirens when H₂S levels of 20 ppm are reached.

D. Visual warning systems:

Caution/Danger signs shall be posted on roads providing direct access to location. Signs will be painted a high visibility yellow with black lettering of sufficient size to be readable at a reasonable distance from the immediate location. Bilingual signs will be used, when appropriate. See example attached.

E. Mud Program:

The mud program has been designed to minimize the volume of H₂S circulated to the surface.

A mud-gas separator will be utilized.

F. Metallurgy:

All drill strings, casings, tubing, wellhead, blowout preventers, drilling spool, kill lines, choke manifold and lines, and valves shall be suitable for H₂S service.

G. Communication:

Company vehicles equipped with cellular telephone and 2-way radio.

W A R N I N G

**YOU ARE ENTERING AN H₂S AREA
AUTHORIZED PERSONNEL ONLY**

- 1. BEARDS OR CONTACT LENSES NOT ALLOWED**
- 2. HARD HATS REQUIRED**
- 3. SMOKING IN DESIGNATED AREAS ONLY**
- 4. BE WIND CONSCIOUS AT ALL TIMES**
- 5. CK WITH MARBOB FOREMAN AT MAIN OFFICE**

HUDSON OIL COMPANY OF TEXAS

1-505-748-3303

STATEMENT ACCEPTING RESPONSIBILITY FOR OPERATIONS

The undersigned accepts all applicable terms, conditions, stipulations, and restrictions concerning operations conducted on the leased land or portion thereof, as described below:

Date: July 1, 2004

Lease #: LC-029415
Francotte Federal #1

Legal Description: N/2 Sec. 12-T17S-R31E
Eddy County, New Mexico

Formation(s): Morrow

Bond Coverage: Statewide

BLM Bond File #: ~~580716~~

HUDSON OIL COMPANY OF TEXAS

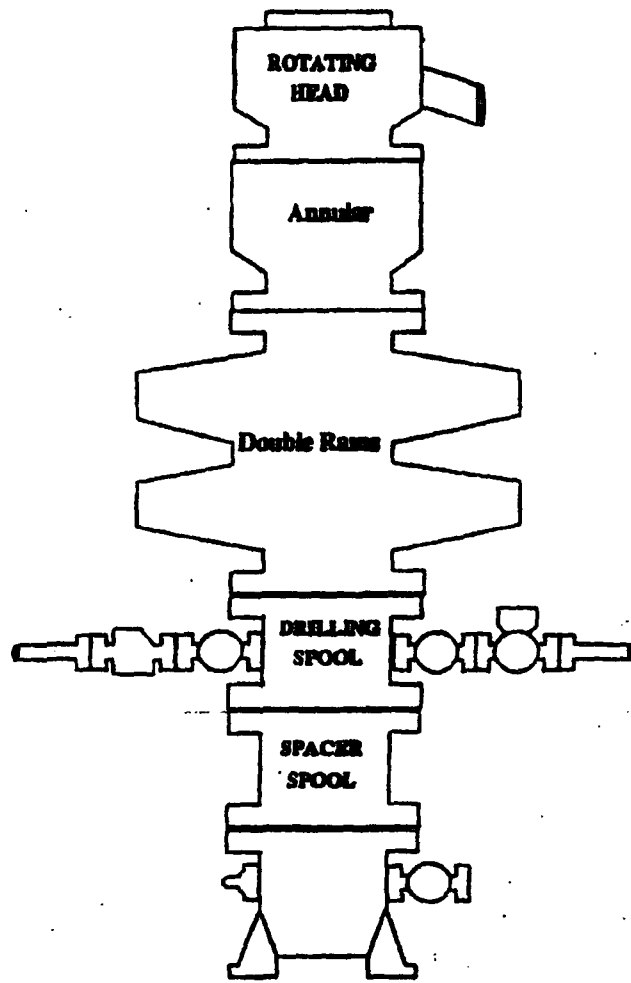
By: 

Printed Name: E. RANDALL HUDSON III

Title: V.P.



BOPE SCHEMATIC



Choke Manifold

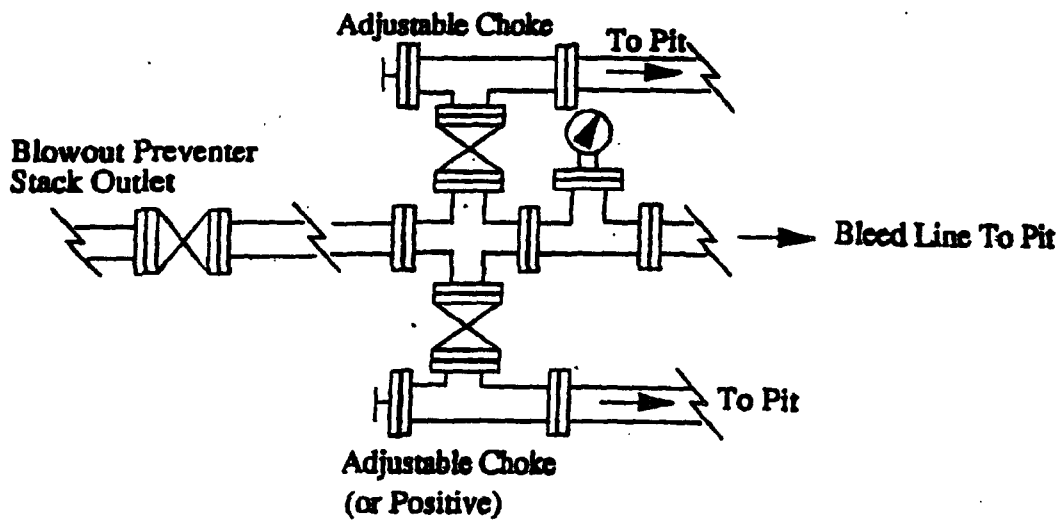
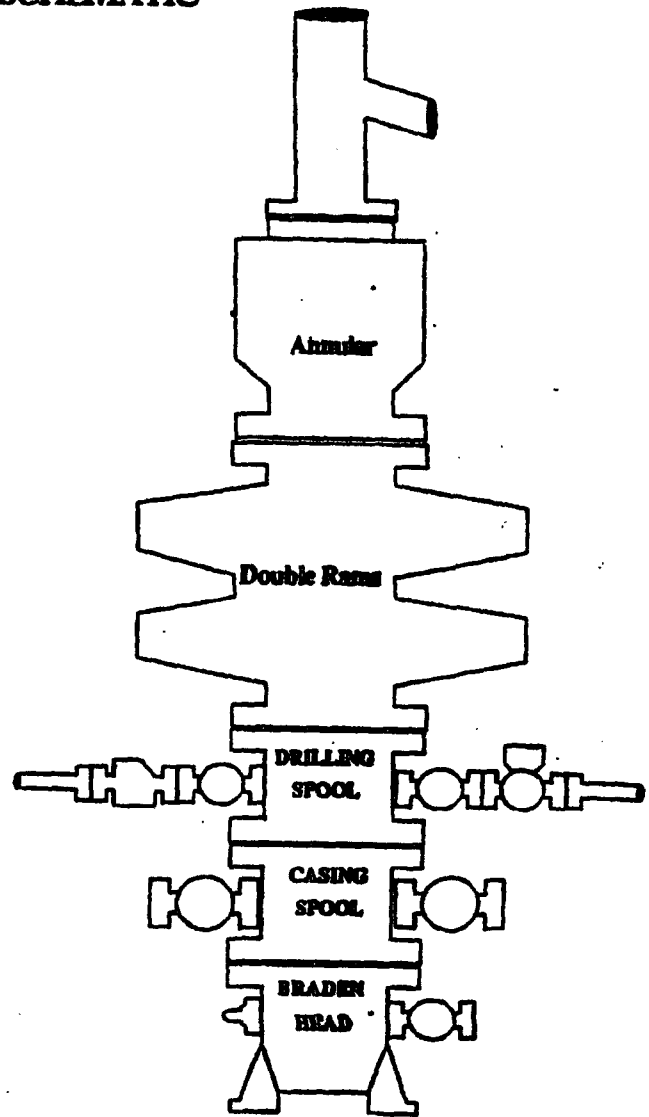
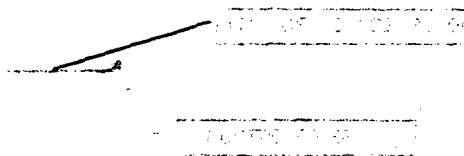
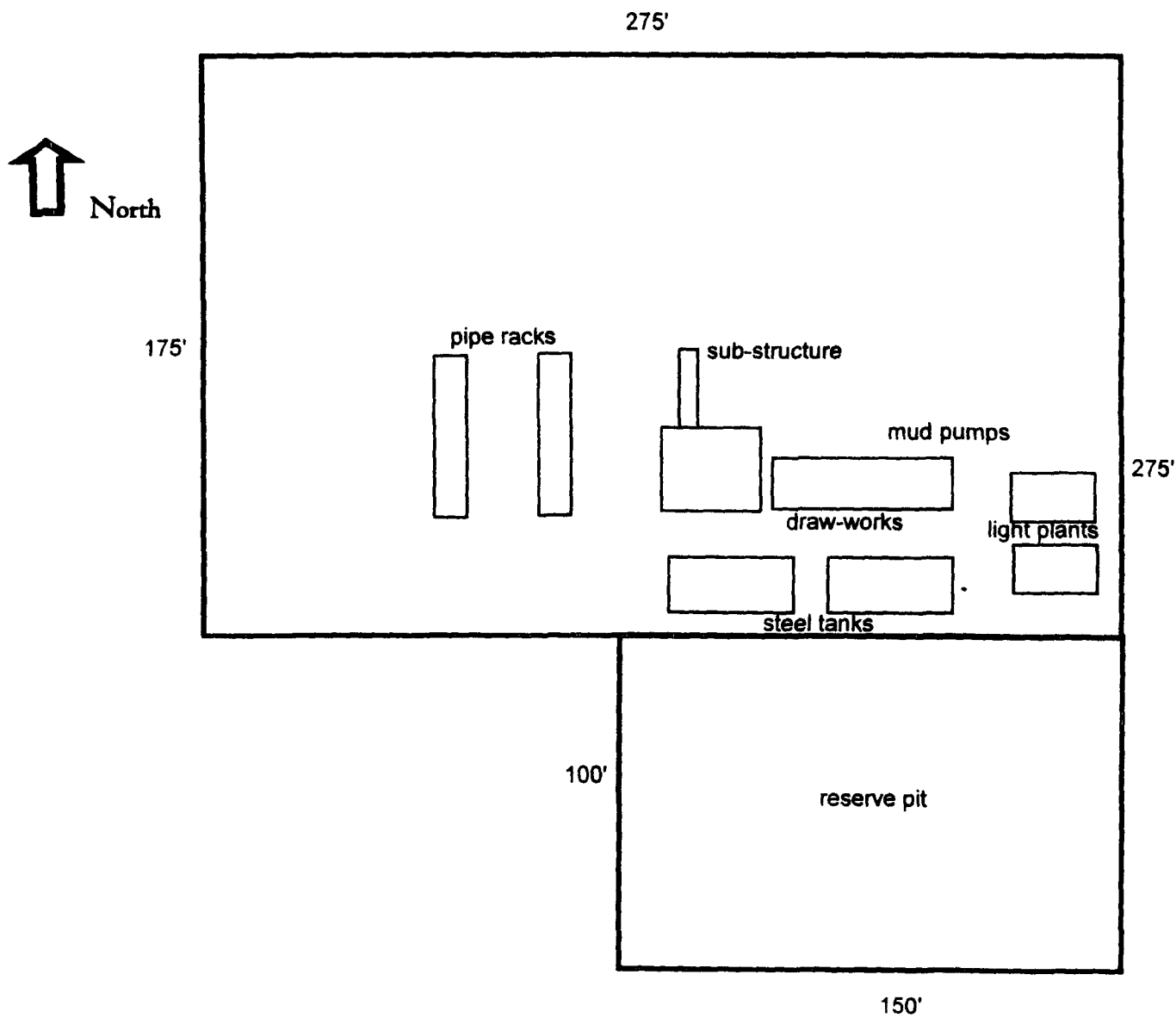


Exhibit One



1:25000
RED - EXISTING ROAD
BLUE - ACCESS ROAD

U.S. S. TOPOGRAPHIC MAP
MILITARY, N.M.



Francotte Federal #1
660' FNL & 660' FSL Unit D
Section 12, T17S, R31E
Eddy County, New Mexico

EXHIBIT THREE

1622 N. French Dr., Hobbs, NM 88240
District II
1301 W. Grand Avenue, Artesia, NM 88210
District III
1000 Rio Brazos Road, Aztec, NM 87410
District IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy Minerals and Natural Resources

Oil Conservation Division
1220 South St. Francis Dr.
Santa Fe, NM 87505

Form C-144
March 12, 2004
For drilling and production facilities, submit to appropriate NMOCD District Office.
For downstream facilities, submit to Santa Fe office

Pit or Below-Grade Tank Registration or Closure

Is pit or below-grade tank covered by a "general plan"? Yes ☒ No ☐

Type of action: Registration of a pit or below-grade tank ☒ Closure of a pit or below-grade tank ☐

Operator: **Marbob Energy Corporation**

Telephone: **505-748-3303**

e-mail address: **marbob@marbob.com**

Address: **PO Box 227, Artesia, NM 88211-0227**

Facility or well name: **Francotte Federal No. 1**

API #: _____ U/L or Qtr/Qtr **N/2** Sec **12** T **17S** R **31E**

County: **Eddy**

Latitude _____ Longitude _____ NAD: 1927 ☐ 1983 ☐ Surface Owner Federal ☒ State ☐ Private ☐ Indian ☐

Pit

Type: Drilling ☒ Production ☐ Disposal ☐

Workover ☐ Emergency ☐

Lined ☒ Unlined ☐

Liner type: Synthetic ☒ Thickness **12** mil Clay ☐ Volume

_____ bbl

Below-grade tank

Volume: _____ bbl Type of fluid: _____

Construction material: _____

Double-walled, with leak detection? Yes ☐ If not, explain why not.

Depth to ground water (vertical distance from bottom of pit to seasonal high water elevation of ground water.)

Less than 50 feet

(20 points)

50 feet or more, but less than 100 feet

(10 points)

100 feet or more

(0 points)

0 points

Wellhead protection area: (Less than 200 feet from a private domestic water source, or less than 1000 feet from all other water sources.)

Yes

(20 points)

No

(0 points)

0 points

Distance to surface water: (horizontal distance to all wetlands, playas, irrigation canals, ditches, and perennial and ephemeral watercourses.)

Less than 200 feet

(20 points)

200 feet or more, but less than 1000 feet

(10 points)

1000 feet or more

(0 points)

0 points

Ranking Score (Total Points)

0 points

If this is a pit closure: (1) attach a diagram of the facility showing the pit's relationship to other equipment and tanks. (2) Indicate disposal location:

onsite ☐ offsite ☐ If offsite, name of facility _____ (3) Attach a general description of remedial action taken including remediation start date and end date. (4) Groundwater encountered: No ☐ Yes ☐ If yes, show depth below ground surface _____ ft. and attach sample results. (5) Attach soil sample results and a diagram of sample locations and excavations.

I hereby certify that the information above is true and complete to the best of my knowledge and belief. I further certify that the above-described pit or below-grade tank has been/will be constructed or closed according to NMOCD guidelines ☐, a general permit ☒, or an (attached) alternative OCD-approved plan ☐.

Date: **July 6, 2005**

Printed Name/Title: **Amy Reid / Land Department**

Signature _____

Your certification and NMOCD approval of this application/closure does not relieve the operator of liability should the contents of the pit or tank contaminate ground water or otherwise endanger public health or the environment. Nor does it relieve the operator of its responsibility for compliance with any other federal, state, or local laws and/or regulations.

Approval:

Date: _____

Printed Name/Title _____ Signature _____

SPECIAL DRILLING STIPULATIONS

THE FOLLOWING DATA IS REQUIRED ON THE WELL SIGN

Operator's Name Hudson Oil Company of Texas Well Name & No. 1-Francotte Federal
 Location 660' F N L & 660' F W L Sec. 12, T. 17 S, R. 31 E.
 Lease No. LC-029415-B County Eddy State New Mexico

The Special stipulations check marked below are applicable to the above described well and approval of this application to drill is conditioned upon compliance with such stipulations in addition to the General Requirements. The permittee should be familiar with the General Requirements, a copy of which is available from a Bureau of Land Management office. EACH PERMITTEE HAS THE RIGHT OF ADMINISTRATIVE APPEAL TO THESE STIPULATIONS PURSUANT TO TITLE 43 CRF 3165.3 AND 3165.4.

This permit is valid for a period of one year from the date of approval or until lease expiration or termination whichever is shorter.

I. SPECIAL ENVIRONMENT REQUIREMENTS

- (☒) Lesser Prairie Chicken (stips attached) () Flood plain (stips attached)
 () San Simon Swale (stips attached) () Other

II. ON LEASE - SURFACE REQUIREMENTS PRIOR TO DRILLING

(☒) The BLM will monitor construction of this drill site. Notify the (☒) Carlsbad Field Office at (505) 234-5972 () Hobbs Office (505) 393-3612, at least 3 working days prior to commencing construction.

(☒) Roads and the drill pad for this well must be surfaced with 6 inches of compacted caliche upon completion of well and it is determined to be a producer.

() All topsoil and vegetation encountered during the construction of the drill site area will be stockpiled and made available for resurfacing of the disturbed area after completion of the drilling operation. Topsoil on the subject location is approximately _____ inches in depth. Approximately _____ cubic yards of topsoil material will be stockpiled for reclamation.

() Other.

III. WELL COMPLETION REQUIREMENTS

() A Communitization Agreement covering the acreage dedicated to the well must be filed for approval with the BLM. The effective date of the agreement must be prior to any sales.

(x) Surface Restoration: If the well is a producer, the reserve pit(s) will be backfilled when dry, and cut-and-fill slopes will be reduced to a slope of 3:1 or less. All areas of the pad not necessary for production must be re-contoured to resemble the original contours of the surrounding terrain, and topsoil must be re-distributed and re-seeded with a drill equipped with a depth indicator (set at depth of 1/2 inch) with the following seed mixture, in pounds of Pure Live Seed (PLS), per acre.

() A. Seed Mixture 1 (Loamy Sites)
 Side Oats Grama (*Bouteloua curtipendula*) 5.0
 Sand Dropseed (*Sporobolus cryptandrus*) 1.0

(☒) B. Seed Mixture 2 (Sandy Sites)
 Sand Dropseed (*Sporobolus cryptandrus*) 1.0
 Sand Lovegrass (*Eragrostis trichodes*) 1.0
 Plains Bristlegrass (*Setaria macrostachya*) 2.0

() C. Seed Mixture 3 (Shallow Sites)
 Side oats Grama (*Boute curtipendula*) 1.0

() D. Seed Mixture 4 (Gypsum Sites)
 Alkali Sacaton (*Sporobolus airoides*) 1.0
 Four-Wing Saltbush (*Atriplex canescens*) 5.0

() OTHER SEE ATTACHED SEED MIXTURE

Seeding should be done either late in the fall (September 15 - November 15, before freeze up, or early as possible the following spring to take advantage of available ground moisture.

() Other.

RESERVE PIT CONSTRUCTION STANDARDS

The reserve pit shall be constructed entirely in cut material and lined with 6 mil plastic. Mineral material extracted from within the boundary of the APD during construction of the well pad and reserve pits and be used for the construction of this well pad and its immediate access road only, as long as that portion of the access road it is use on remains on-lease. Removal of any additional material from this location for construction or improvement of other well pads and other access or lease roads must first be purchased from BLM.

Reclamation: Reclamation of this type of deep pit will consist of pushing the pit walls into the pit when sufficiently dry to support track equipment. The pit liner is NOT TO BE RUPTURED to facilitate drying; a ten month period after completion of the well is allowed for drying of the pit contents.

The pit area must be contoured to the natural terrain with all contaminated drilling mud buried with at least 3 feet of clean soil. The reclaimed area will then be seeded as specified in this permit.

OPTIONAL PIT CONSTRUCTION STANDARDS

The reserve pit may be constructed in predominantly fill material if:

- (1) Lined as specified above and
- (2) A temporary or emergency pit may be constructed immediately adjacent to the reserve pit as long as the pit remains within the APD boundary. Mineral material removed from this pit may be used for the construction of this well pad only and its immediate access road, as long as that portion of the access road the material is used on remains on-lease. Removal of any material from the APD boundary for use on other well locations or roads must first be purchased from BLM.

Reclamation of the reserve pit consists of bulldozing all reserve pit contents and contaminants into the borrow pit and covering with a minimum of 3 feet of clean soil material. The entire area must be recontoured, all trash removed, and reseeded as specified in this permit.

CULTURAL

Whether or not an archaeological survey has been completed and notwithstanding that operations are being conducted as approved, the lessee/operator/grantee shall notify the BLM immediately if previously unidentified cultural resources are observed during surface disturbing operations. From the time of the observation, the lessee/operator/grantee shall avoid operations that will result in disturbance to these cultural resources until directed to processed by BLM.

TRASH PIT STIPS

All trash, junk, and other waste material shall be contained in trash cages or bins to prevent scattering and will be removed and deposited in an approved sanitary landfill. Burial on site is not permitted.

PRAIRIE CHICKENS

No surface use is allowed during the following time periods; unless otherwise specified, this stipulation does not apply to operation and maintenance of production facilities.

On the lands described below:

T. 17 S., R. 31 E
Sec. 12: ALL

For the purpose of: Protecting Prairie Chickens:

Drilling for oil and gas, and 3-D geophysical exploration operations will not be allowed in Lesser Prairie Chicken Habitat during the period of March 15 through June 15, each year. During that period, other activities that produce noise or involve human activity, such as the maintenance of oil and gas facilities, geophysical exploration other than 3-D operations, and pipeline, road, and well pad construction, will be allowed except between 3:00 a.m. and 9:00 a.m. The 3:00a.m. and 9:00a.m. restriction will not apply to normal, around-the-clock operations, such as venting, flaring, or pumping, which do not require a human presence during the period. Additionally, no new drilling will be allowed within up to 200 meters of leks known at the time of permitting. Normal vehicle use on existing roads will not be restricted. Exhaust noise from pump jack engines must be muffled or otherwise controlled so as not to exceed 75 db measured at 30 feet from the source of the noise.

CONDITIONS OF APPROVAL - DRILLING

Operator's Name: Hudson Oil Company of Texas
Well Name & No. Francotte Federal #1
Location: 660' FNL, 660' FWL, Section 12, T. 17 S., R. 31 E., Eddy County, New Mexico
Lease: LC-029415-B

I. DRILLING OPERATIONS REQUIREMENTS:

1. The Bureau of Land Management (BLM) is to be notified at the Carlsbad Field Office, 620 East Greene St., Carlsbad, NM 88220, (505) 361-2822 for wells in Eddy County in sufficient time for a representative to witness:

A. Well spud

B. Cementing casing: 13-3/8 inch 8-5/8 inch 5-1/2 inch

C. BOP tests

2. A Hydrogen Sulfide (H₂S) Drilling Operation Contingency Plan shall be activated prior to drilling into the Queen formation. A copy of the plan shall be posted at the drilling site.

3. Unless the production casing has been run and cemented or the well has been properly plugged, the drilling rig shall not be removed from over the hole without prior approval.

4. Submit a Sundry Notice (Form 3160-5, one original and five copies) for each casing string, describing the casing and cementing operations. Include pertinent information such as; spud date, hole size, casing (size, weight, grade and thread type), cement (type, quantity and top), water zones and problems or hazards encountered. The Sundry shall be submitted within 15 days of completion of each casing string. The reports may be combined into the same Sundry if they fall within the same 15 day time frame.

5. The API No. assigned to the well by NMOCD shall be included on the subsequent report of setting the first casing string.

II. CASING:

1. The 13-3/8 inch surface casing shall be set at approximately 710 feet or 25 feet into the top of the Rustler Anhydrite and cement circulated to the surface. If cement does not circulate to the surface the appropriate BLM office shall be notified and a temperature survey or cement bond log shall be run to verify the top of the cement. Remedial cementing shall be completed prior to drilling out that string.

2. The minimum required fill of cement behind the 8-5/8 inch first intermediate casing is to be circulated to the surface.

3. The minimum required fill of cement behind the 5-1/2 inch production casing is to be sufficient to reach at least 500 feet above the uppermost hydrocarbon productive interval.

III. PRESSURE CONTROL:

1. All BOP systems and related equipment shall comply with well control requirements as described in Onshore Oil and Gas Order No. 2. The BOP and related equipment shall be installed and operational before drilling below the 13-3/8 inch casing shoe and shall be tested as described in Onshore Order No. 2. Any equipment failing to test satisfactorily shall be repaired or replaced.

2. Minimum working pressure of the blowout preventer and related equipment (BOPE) from base of surface casing to 4000 feet shall be 2000 psi. Test to 1000 psi with rig pumps is ok.

3. Minimum working pressure of the blowout preventer and related equipment (BOPE) from base of intermediate

casing shall be 5000 psi.

4. The appropriate BLM office shall be notified in sufficient time for a representative to witness the tests.

- The tests shall be done by an independent service company.
- The results of the test shall be reported to the appropriate BLM office.
- Testing fluid must be water or an appropriate clear liquid suitable for sub-freezing temperatures. Use of drilling mud for testing is not permitted since it can mask small leaks.
- Testing must be done in a safe workman-like manner. Hard line connections shall be required.

IV. DRILLING MUD:

Mud system monitoring equipment, with derrick floor indicators and visual and audio alarms, shall be operating before drilling into the Wolfcamp formation, and shall be used until production casing is run and cemented. Monitoring equipment shall consist of the following:

- Recording pit level indicator to indicate volume gains and losses.
- Mud measuring device for accurately determining the mud volumes necessary to fill the hole during trips.
- Flow-sensor on the flow-line to warn of abnormal mud returns from the well.

7/13/2005

acs

BLM Serial Number: LC-029415-B
Company Reference: Hudson Oil Company of Texas
Well No. & Name: 1-Francotte Federal

STANDARD STIPULATIONS FOR PERMANENT RESOURCE ROADS
CARLSBAD FIELD OFFICE

A copy of the grant and attachments, including stipulations and map, will be on location during construction. BLM personnel may request to view a copy of your permit during construction to ensure compliance with all stipulations.

The holder/grantee/permittee shall hereafter be identified as the holder in these stipulations. The Authorized Officer is the person who approves the Application for Permit to Drill (APD) and/or Right-of-Way (ROW).

GENERAL REQUIREMENTS

A. The holder shall indemnify the United States against any liability for damage to life or property arising from the occupancy or use of public lands under this grant.

B. The holder shall comply with all applicable Federal laws and regulations existing or hereafter enacted or promulgated. In any event, the holder shall comply with the Toxic Substances Control Act of 1976, as amended (15 U.S.C. 2601, *et. seq.*) with regard to any toxic substances that are used, generated by or stored on the right-of-way or on facilities authorized by this grant. (See 40 CFR, Part 702-799 and especially, provisions on polychlorinated biphenyls, 40 CFR 761.1-761.193.) Additionally, any release of toxic substances (leaks, spills, etc.) in excess of the reportable quantity established by 40 CFR, Part 117 shall be reported as required by the Comprehensive Environmental Response, Compensation and Liability Act, Section 102b. A copy of any report required or requested by any Federal agency or State government as a result of a reportable release or spill of any toxic substances shall be furnished to the Authorized Officer concurrent with the filing of the reports to the involved Federal agency or State government.

C. The holder agrees to indemnify the United States against any liability arising from the release of any hazardous substance or hazardous waste (as these terms are defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. 9601, *et. seq.* or the Resource Conservation and Recovery Act, 42 U.S.C. 6901, *et. seq.*) on the right-of-way (unless the release or threatened release is wholly unrelated to the right-of-way holder's activity on the right-of-way). This agreement applies without regard to whether a release is caused by the holder, its agent, or unrelated third parties.

D. If, during any phase of the construction, operation, maintenance, or termination of the road, any oil or other pollutant should be discharged, impacting Federal lands, the control and total removal, disposal, and cleaning up of such oil or other pollutant, wherever found, shall be the responsibility of the holder, regardless of fault. Upon failure of the holder to control, dispose of, or clean up such discharge on or affecting Federal lands, or to repair all

damages to Federal lands resulting therefrom, the Authorized

Officer may take such measures as deemed necessary to control and cleanup the discharge and restore the area, including, where appropriate, the aquatic environment and fish and wildlife habitats, at the full expense of the holder. Such action by the Authorized Officer shall not relieve the holder of any liability or responsibility.

E. The holder shall minimize disturbance to existing fences and other improvements on public domain surface. The holder is required to promptly repair improvements to at least their former state. Functional use of these improvements will be maintained at all times.

The holder will make a documented good-faith effort to contact the owner of any improvements prior to disturbing them. When necessary to pass through a fence line, the fence shall be braced on both sides of the passageway prior to cutting of the fence.

F. The Holder shall ensure that the entire right-of-way, including the driving surface, ditching and drainage control structures, road verges and any construction sites or zones, will be kept free of the following plant species: Malta starthistle, African rue, Scotch thistle and salt cedar.

Holder agrees to comply with the following stipulations:

1. ROAD WIDTH AND GRADE

The road will have a driving surface of 14 feet (all roads shall have a minimum driving surface of 12 feet, unless local conditions dictate a different width). The maximum grade is 10 percent unless the box below is checked. Maximum width of surface disturbance from construction will be 30 feet.

☒ Those segments of road where grade is in excess of 10% for more than 300 feet shall be designed by a professional engineer.

2. CROWNING AND DITCHING

Crowning with materials on site and ditching on one side of the road on the uphill side will be required. The road cross-section will conform to the cross section diagrams in Figure 1. If conditions dictate, ditching may be required for both sides of the road; if local conditions permit, a flat-bladed road may be considered (if these conditions exist, check the appropriate box below). The crown shall have a grade of approximately 2% (i.e., 1" crown on a 12' wide road).

☒ Ditching will be required on both sides of the roadway as shown on the attached map or as staked in the field.

☐ Flat-blading is authorized on segment(s) delineated on the attached map.

3. DRAINAGE

Drainage control shall be ensured over the entire road through the use of borrow ditches, outsloping, insloping, natural rolling topography, lead-off (turnout) ditches, culverts, and/or drainage dips.

A. All lead-off ditches shall be graded to drain water with a 1 percent minimum to 3 percent maximum ditch slope. The spacing interval for lead-off ditches shall be determined according to the following table, but may be amended depending upon existing soil types and centerline road slope (in %):

SPACING INTERVAL FOR TURNOUT DITCHES

Percent slope	Spacing interval
0% - 4%	400' - 150'
4% - 6%	250' - 125'
6% - 8%	200' - 100'
8% - 10%	150' - 75'

A typical lead-off ditch has a minimum depth of 1 foot below and a berm 6 inches above natural ground level. The berm will be on the down-slope side of the lead-off ditch. The ditch end will tie into vegetation whenever possible.

For this road the spacing interval for lead-off ditches shall be at

☒ 400 foot intervals.

☐ _____ foot intervals.

☐ locations staked in the field as per spacing intervals above.

☐ locations delineated on the attached map.

B. Culvert pipes shall be used for cross drains where drainage dips or low water crossings are not feasible. The minimum culvert diameter must be 18 inches. Any culvert pipe installed shall be of sufficient diameter to pass the anticipated flow of water. Culvert location and required diameter are shown on the attached map (Further details can be obtained from the Roswell District Office or the appropriate Resource Area Office).

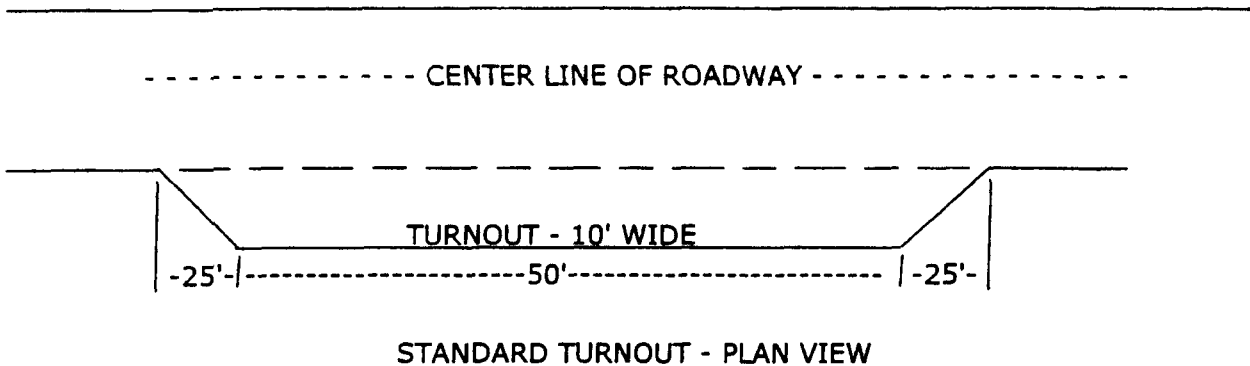
C. On road slopes exceeding 2%, drainage dips shall drain water into an adjacent lead-off ditch. Drainage dip location and spacing shall be determined by the formula:

$$\text{spacing interval} = \frac{400'}{\text{road slope in \%}} + 100'$$

Example: 4% slope: spacing interval = $\frac{400}{4} + 100 = 200$ feet

4. TURNOUTS

Unless otherwise approved by the Authorized Officer, vehicle turnouts will be required. Turnouts will be located at 2000-foot intervals, or the turnouts will be intervisible, whichever is less. Turnouts will conform to the following diagram:



5. SURFACING

Surfacing of the road or those portions identified on the attached map may, at the direction of the Authorized Officer, be required, if necessary, to maintain traffic within the right-of-way with caliche, gravel, or other surfacing material which shall be approved by the Authorized Officer. When surfacing is required, surfacing materials will be compacted to a minimum thickness of six inches with caliche material. The width of surfacing shall be no less than the driving surface. Prior to using any mineral materials from an existing or proposed Federal source, authorization must be obtained from the Authorized Officer.

A sales contract for the removal of mineral materials (caliche, sand, gravel, fill dirt, etc.) from an authorized pit, site, or on location must be obtained from the BLM prior to using any such mineral material from public lands. Contact the BLM solid minerals staff for the various options to purchase mineral material.

6. CATTLEGUARDS

Where used, all cattleguard grids and foundation designs and construction shall meet the American Association of State Highway and Transportation Officials (AASHTO) Load Rating H-20, although AASHTO U-80 rated grids shall be required where heavy loads (exceeding H-20 loading), are anticipated (See BLM standard drawings for cattleguards). Cattleguard grid length shall not be less than 8 feet and width of not less than 14 feet. A wire gate (16-foot minimum width) will be provided on one side of the cattleguard unless requested otherwise by the surface user.

7. MAINTENANCE

The holder shall maintain the road in a safe, usable condition. A maintenance program shall include, but not be limited to blading, ditching, culvert installation, culvert cleaning, drainage installation, cattleguard maintenance, and surfacing.

8. PUBLIC ACCESS

Public access along this road will not be restricted by the holder without specific written approval being granted by the Authorized Officer. Gates or cattleguards on public lands will not be locked or closed to public use unless closure is specifically determined to be necessary and is authorized in writing by the Authorized Officer.

9. CULTURAL RESOURCES

Any cultural and/or paleontological resource (historic or prehistoric site or object) discovered by the holder, or any person working on the holder's behalf, on public or Federal land shall be immediately reported to the authorized officer. The holder shall suspend all operations in the immediate area of such discovery until written authorization to proceed is issued by the authorized officer. An evaluation of the discovery will be made by the authorized officer to determine appropriate actions to prevent the loss of significant cultural or scientific values. The holder will be responsible for the cost of evaluation and any decision as to the proper mitigation measures will be made by the authorized officer after consulting with the holder.

10. SPECIAL STIPULATIONS: *None. See Attached LPC Timing Sheet*



July 12, 2005

Bureau of Land Management
620 E. Greene Street
Carlsbad, NM 88220

ATTN: Don Peterson

**RE: North Puckett
Sec.12; T17s – R31e
Eddy County, New Mexico
Plan of Development**

Dear Mr. Peterson:

Enclosed for further handling please find a Plan of Development, submitted on behalf of Hudson Oil Company concerning the above referenced lands. This modifies the previous plan of development that was proposed for the Knockabout Federal #1. Hudson Oil Company and Marbob Energy Corporation are partners in the development of this lease, with Hudson being the primary operator for shallow zones. We would respectfully request that upon review and concurrence of the enclosed plan that the three APD's (North Puckett #1, Three Dog Night, and Francotte) be approved. I have visited with the Carlsbad biologist in the field to minimize impacts to sensitive habitats. Please do not hesitate to contact us should you require further information. Please carbon copy all correspondence regarding this lease to Hudson Oil Company. Thank you for your assistance with this matter.

Sincerely,

Rand French
Biologist

dc/ Hudson Oil Company

POD APPROVED

Steve Bates
WILDLIFE BIOLOGIST

FIELD MANAGER

SURFACE

~~AEM RESOURCES~~

AEM LANDS & MINERALS

Hudson Oil Company
North Puckett Lease
Section 12-17S-31E
LC-029415B

Application:

Form 3160-3 was submitted on July 3, 2004 to drill the Knockabout Federal No. 1 at a surface location of 1830' FSL and 1980 FWL in Section 12 of Township 17 South, Range 31 East. This well was completed and is in production at this time. A POD was also completed at that time for several other potential locations. As a result of the success of the Knockabout well and geologic information gathered, a modification to the previous POD is needed at this time.

Form 3160 is attached for the North Puckett #1, Three Dog Night, and the Francotte.

Well Locations:

Other than the recently drilled Knockabout, there are no other wells located in Section 12. The North Puckett #1 is a oil well (660FWL, 1980FSL). This well will utilize most of the existing pad location for the Knockabout, except for an additional 150 feet to the west. This will minimize impacts to the shinnery oak dune plant community and protect sand dune lizard habitat. An effort to co-locate wells from the same location as is described above will be taken. The attached plat identifies 12 potential locations for oil and gas wells within Section 12. The priority will be as follows: North Puckett #1, Three Dog Night, and Francotte. The remaining 9 wells sites identified on the map will be explored based on the information gathered from drilling the priority wells.

Access:

Access to the North Puckett #1 is the same as the Knockabout Federal #1. The attached plat identifies the access routes to all potential wells within the area. Field reviews have been completed to determine the most prudent access to avoid or minimize impacts to SDL habitat and reduce fragmentation of wildlife habitat. After staff review, access may require re-routing to address other resource concerns.

Pipelines:

All existing pipelines are identified on the attached plat. Potential pipelines are also identified. Please be advised that we do not know the type of pipeline needed until the wells are completed. Additionally, most pipelines will follow the proposed access to centralize impacts. However it may be necessary at some point in the future to have pipeline cross country.

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Power-lines:

Existing power-lines are identified on the map. The results of drilling operations (gas/oil) will determine if power is needed. If needed power-lines would generally be constructed along access routes, but may depend upon the electrical provider and their gridlines.

Wildlife Habitat:

Section 12 of Township 17 South, Range 31 East is comprised of shinnery oak dunes with mesquite grassland dunes surrounding the perimeter. The eastern half is located on private surface as is comprised mostly of mesquite dunes and grasslands along with a fairly large drainage traversing north to south across the section. The shinnery oak dune plant community is comprised of dune complexes that are occupied by sand dune lizards. Not all of the area has been surveyed to determine occupancy but the area is either occupied or suitable habitat. Proposed access routes and potential wells pads have been placed to either avoid these habitats or minimize surface impacts to sand dune complexes. The drainage on the eastern side of the section may need to be crossed to access wells on the western side to avoid the shinnery oak dune plant community.

Please do not hesitate to contact Randall Hudson at 817-336-7109 or myself at 505-748-3303 if you have any questions or require further information.

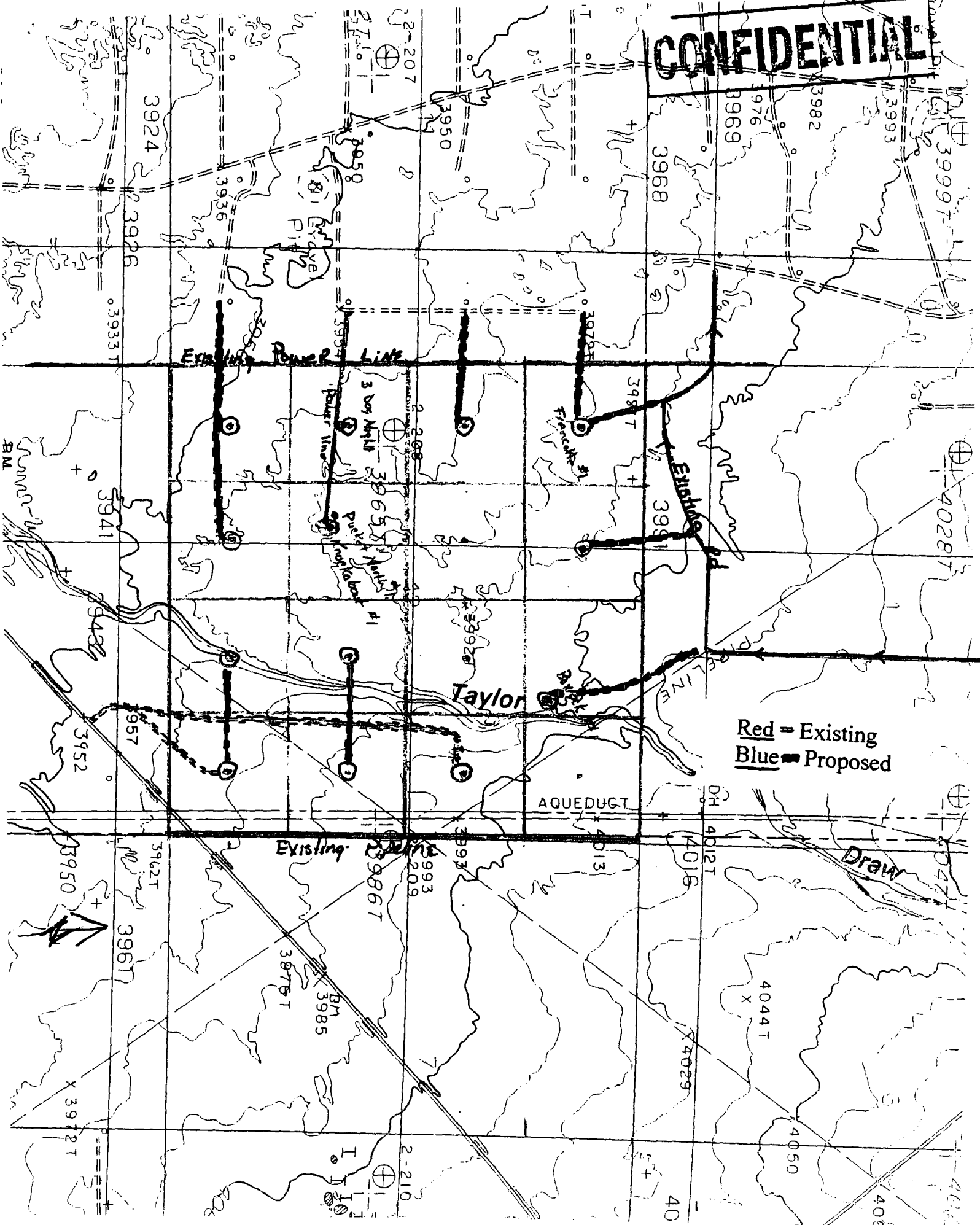
Sincerely,



Rand French
Biologist

RM/mp
Enclosure

CONFIDENTIAL



Red = Existing
Blue = Proposed

HUDSON OIL COMPANY OF TEXAS

616 TEXAS STREET

FORT WORTH, TEXAS 76102-4696

EDWARD R. HUDSON, JR.
WILLIAM A. HUDSON II
E. RANDALL HUDSON III

October 10, 2005

817.336.7109
FAX 817.334.0442

Working Interest Owners
See Attached List:

RE: Francotte Federal #1 Well
660' FNL & 660' FWL, Section 12
Township 17 South, Range 31 East
Eddy County, New Mexico

Ladies & Gentlemen:

Under my cover letter dated September 9, 2005, each of you received our AFE and JOA for the referenced well.

We have again contracted with Marbob Energy Corp. to handle the drilling operations for this well, and their rig schedule is getting tighter everyday. If we are going to try and drill the well this year, as several of you have indicated you would prefer, we need to move along.

If you intend to participate in the drilling of the well, please return an executed copy of our AFE and the JOA signature pages to me at your earliest convenience.

If you do not wish to participate, please contact either me, at the above number, or Raye Miller with Marbob at (505) 748-3303, about a farm out, term assignment, or sale of your interest.

Sincerely,



E. Randall Hudson III

ERHIII/sb

FILE COPY

ARD ENERGY LLC
222 WEST 4TH STREET, PH-5
FORT WORTH, TEXAS 76102
(817) 882-9377
FAX (817) 882-9460

October 22, 2005

Sent Via US Mail and
FAX: (817) 334-0442

Mr. E. Randall Hudson III
Hudson Oil Company of Texas
616 Texas Street
Fort Worth, Texas 76102-4696

RE: Proposed Francoeur Federal #1 Well
660' FNL & 660' FWL of Section 12
Township 17 South, Range 13 East
Eddy County, New Mexico

Dear Randall:

I am in the process of reviewing the AFE and Joint Operating Agreement furnished with your letter of September 9, 2005 relative to your proposal to drill the subject well. In order for me to properly review your proposal, please furnish me with the following information:

1. In your letter of October 10, 2005 you indicated that you had "contracted with Marbob Energy Corp. to handle the drilling operations" for the proposed well. Please furnish me with a copy of the relevant contract(s) or agreement(s).
2. Hudson Oil Company of Texas' contract with the Drilling Contractor (owner of the drilling rig).
3. Your drilling prognosis for the subject well.
4. Any geological and/or geophysical data pertinent to your decision to propose the well.
5. Specific pipe and casing program and cost per foot.
6. Copies of all information prepared for filing with the State of New Mexico.

As you are probably aware, the interest of the Edward R. Hudson Trust 4 in this area is now owned by Ard Oil LTD, a Texas Limited Partnership and the interest of Mary Hudson Ard in this area is now owned by Ard Energy Group LTD, a Texas Limited Partnership.

Should you want to discuss this request or you feel a meeting would be productive, please give me a call at the telephone number noted above.

Sincerely,


Ronald E. Grappe
Oil & Gas Consultant



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

**IN THE MATTER OF THE APPLICATION
OF HUDSON OIL COMPANY OF TEXAS,
WILLIAM A. HUDSON, AND EDWARD R.
HUDSON FOR COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.**

CASE NO. _____

2005 NOV 1 PM 5 04

APPLICATION

HUDSON OIL COMPANY OF TEXAS, WILLIAM A. HUDSON AND EDWARD R. HUDSON (hereinafter collectively referred to as "Hudson") through its undersigned attorneys, hereby makes application to the Oil Conservation Division pursuant to the provisions of NMSA 1978, § 70-2-17(C), for an order pooling all mineral interests from the Base of the San Andres formation through the base of the Morrow formation in the following described acreage in Section 12, Township 17 South, Range 31 East, NMPM: the N/2 to form a standard 320-acre spacing and proration unit for all formations developed on a 320-acre spacing within that vertical extent which includes but is not necessarily limited to the Undesignated Fren-Morrow Gas Pool; the NW/4 to form a standard spacing and proration unit for all formations developed on 160-acre spacing within that vertical extent; and the NW/4 NW/4 to form a standard spacing and proration unit for all formations developed on 40-acre spacing within that vertical extent which includes but is not necessarily limited to the Undesignated East Fren-Paddock Pool, and in support thereof states:

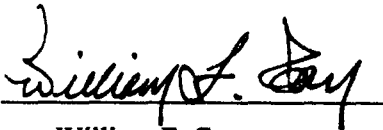
1. Hudson is a working interest owner in the N/2 of said Section 12 and has the right to drill thereon.
2. Hudson proposes to dedicate the above-referenced spacing and proration unit to its Francotte Federal Well No. 1 to be drilled at a standard location 660 feet from the North and West lines of said Section 12 to an approximate depth of 12,500 feet to test all formations from the base of the San Andres formation through the base of the Morrow formation.
3. Hudson has sought and been unable to obtain voluntary agreement for the development of these lands from the interest owners identified on Exhibit A to this application.
4. Said pooling of interests will avoid the drilling of unnecessary wells, will prevent waste and will protect correlative rights.
5. In order to permit Hudson the opportunity to obtain its just and fair share of the oil and gas underlying the subject lands, all mineral interests should be pooled, and Hudson Oil Company of Texas should be designated the operator of the well to be drilled.

WHEREFORE, Hudson requests that this application be set for hearing before an Examiner of the Oil Conservation Division on December 1, 2005 and, after notice and hearing as required by law, the Division enter its order:

- A. pooling all mineral interests in the subject spacing units,
- B. designating Hudson Oil Company of Texas operator of this spacing unit and the well to be drilled thereon,
- C. authorizing Hudson to recover its costs of drilling, equipping and completing the well,
- D. approving the actual operating charges and costs of supervision while drilling and after completion, together with a provision adjusting the rates pursuant to the COPAS accounting procedures, and
- E. imposing a 200% penalty for the risk assumed by Hudson in drilling and completing the well against any working interest owner who does not voluntarily participate in the drilling of the well.

Respectfully submitted,

HOLLAND & HART LLP

By: 

William F. Carr
Post Office Box 2208
Santa Fe, New Mexico 87504
Telephone: (505) 988-4421

ATTORNEYS FOR HUDSON OIL
COMPANY OF TEXAS, WILLIAM A.
HUDSON AND EDWARD R. HUDSON

Exhibit A

**Application of Hudson Oil Company of Texas,
William A. Hudson and Edward R. Hudson
for compulsory pooling
Eddy County, New Mexico.**

**(Francotte Federal Well No. 1)
Section 12: Unit Letter D
Township 17 South, Range 31 East, NMPM
Eddy County, New Mexico.**

**The P.I.P. 1990 Trust
Wendell W. Iverson, Trustee
Post Office Box 10508
Midland, Texas 79702**

**S.J.I. 1990 Trust
Wendell W. Iverson, Trustee
Post Office Box 10508
Midland, Texas 79702**

**W.W.I. 1990 Trust
Wendell W. Iverson, Trustee
Post Office Box 10508
Midland, Texas 79702**

**S. J. Iverson Trust
H. Greg Holcomb, Trustee
bank of America NA
Act. No. 01/0258100
Post Office Box 840738
Dallas, Texas 75284-0738**

**Ard Oil Limited
Ard Energy Group Limited
222 West 4th Street, PH-5
Fort Worth, Texas 76102**

CASE _____:

Application of Hudson Oil Company of Texas, Willaim A. Hudson and Edward R. Hudson for compulsory pooling, Eddy County, New Mexico. Applicant in the above-styled cause seeks an order pooling all mineral interests from the base of the San Andres formation through the base of the Morrow formation in the following described acreage in Section 12, Township 17 South, Range 31 East, NMPM: the N/2 to form a standard 320-acre spacing and proration unit for all formations developed on a 320-acre spacing within that vertical extent which includes but is not necessarily limited to the Undesignated Fren-Morrow Gas Pool; the NW/4 to form a standard spacing and proration unit for all formations developed on 160-acre spacing within that vertical extent and the NW/4 NW/4 to form a standard spacing and proration unit for all formations developed on 40-acre spacing within that vertical extent which includes but is not necessarily limited to the Undesignated East Fren-Paddock Pool. Said units are to be dedicated to its Francotte Federal Well No. 1 to be drilled 660 feet from the North and West lines of said Section 12 to an approximate depth of 12,500 feet. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of Hudson Oil Company of Texas as operator of the well and a 200% charge for risk involved in drilling said well. Said area is located approximately 3 miles east northeast of Maljamar, New Mexico.

JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

369 MONTEZUMA, NO. 213
SANTA FE, NEW MEXICO 87501

(505) 982-2043 (Phone)
(505) 660-6612 (Cell)
(505) 982-2151 (Fax)

jamesbruce@aol.com

November 28, 2005

Via fax

William F. Carr
Holland & Hart LLP
P.O. Box 2208
Santa Fe, New Mexico 87504

Re: Case 13598/Hudson Oil Company, *et al.*

Dear Bill:

You told me this matter would be continued to December 15th. I will be out of town on the 14th and 15th, taking John to his new posting at Fort Hood, Texas, and will be unavailable for that hearing. Therefore, I request a continuance until the first January hearing. Thanks for your consideration of this matter.

Very truly yours,


James Bruce

January 26, 2006

VIA HAND DELIVERY

James Bruce, Esq.
Attorney at Law
Post Office Box 1056
Santa Fe, New Mexico 87505

Re: Oil Conservation Division Case No. 13598: Application of Hudson Oil Company of Texas, William A. Hudson and Edward R. Hudson for compulsory pooling, Eddy County, New Mexico.

Dear Jim:

Pursuant to our discussions concerning the subpoena issued by the Oil Conservation Division for the production of certain data in the above-referenced case, I am enclosing the following information that I have received for Hudson. I have requested a continuance of the hearing in this matter to February 16, 2005 to allow time for us to meet to discuss the enclosed data and the prior subpoenas issued to compel the attendance of William A. Hudson, Edward R. Hudson and Randall Hudson.

I will be back in Santa Fe on Wednesday, February 1, 2006 and will contact you on that date to schedule a time when we can meet.

Sincerely,



William F. Carr

Enclosures



January 26, 2006

2006 JUN 27 PM 2 37

HAND-DELIVERED

Mr. Mark E. Fesmire, P.E.
Director
Oil Conservation Division
New Mexico Energy, Minerals and
Natural Resources Department
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Re: Case No. 13598: Application of Hudson Oil Company of Texas, William A. Hudson and Edward R. Hudson for compulsory pooling, Eddy County, New Mexico.

Dear Mr. Fesmire:

Hudson Oil Company of Texas hereby requests that the Examiner Hearing in the above-referenced case that is currently scheduled for February 2, 2006, be continued to the February 16, 2005 Examiner Hearing Docket. James Bruce, attorney for the Ards does not oppose this request.

Your attention to this request is appreciated.

Very truly yours,

William F. Carr
of Holland & Hart LLP

WFC:keh

cc: James Bruce, Esq.

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March 10, 2006

2006 MAR 10 PM 3 06

HAND-DELIVERED

Mr. Mark E. Fesmire, P.E.
Director
Oil Conservation Division
New Mexico Energy, Minerals and
Natural Resources Department
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

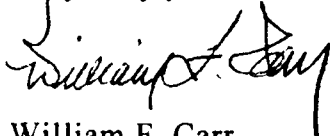
Re: Case No. 13598: Application of Hudson Oil Company of Texas, William A. Hudson and Edward R. Hudson for compulsory pooling, Eddy County, New Mexico.

Dear Mr. Fesmire:

Hudson Oil Company of Texas hereby requests that the Examiner Hearing in the above-referenced case that is currently scheduled for March 16, 2006, be continued to the March 30, 2006, Examiner Hearing Docket. James Bruce, attorney for the Ards does not oppose this request.

Your attention to this request is appreciated.

Very truly yours,



William F. Carr
of Holland & Hart LLP

WFC:keh

cc: James Bruce, Esq.

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HOLLAND & HART



William F. Carr

wcarr@hollandhart.com

2006 MAR 28 PM 3 21

March 28, 2006

HAND-DELIVERED

Mr. Mark E. Fesmire, P.E.
Director
Oil Conservation Division
New Mexico Energy, Minerals and
Natural Resources Department
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Re: Case No. 13598: Application of Hudson Oil Company of Texas, William A. Hudson and Edward R. Hudson for compulsory pooling, Eddy County, New Mexico.

Dear Mr. Fesmire:

Hudson Oil Company of Texas hereby requests that the Examiner Hearing in the above-referenced case that is currently scheduled for March 30, 2006, be continued to the April 13, 2006, Examiner Hearing Docket. James Bruce, attorney for the Ards does not oppose this request.

Your attention to this request is appreciated.

Very truly yours,

William F. Carr
of Holland & Hart LLP

WFC:keh

cc: James Bruce, Esq.

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Holland & Hart LLP

Phone: (505) 442-4421 Fax: (505) 442-4421 www.hollandhart.com

110 North Guadalupe Suite 1 Santa Fe, NM 87501 Mailing Address: P.O. Box 1298 Santa Fe, NM 87501-1298

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HOLLAND & HART



William F. Carr
wcarr@hollandhart.com

April 6, 2006

2006 APR 6 PM 4 18

VIA HAND DELIVERY

Mark E. Fesmire, P.E., J.D.
Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 88505

Re: Case No. 13598: Application of Hudson Oil Company of Texas, William A. Hudson and Edward R. Hudson for compulsory pooling, Eddy County, New Mexico.

Dear Mr. Fesmire;

Hudson Oil Company of Texas, William A. Hudson and Edward R. Hudson hereby requests that the hearing in the above-referenced case scheduled April 13, 2006 be continued to April 27, 2006 examiner hearing docket.

You attention to this request is appreciated.

Very truly yours,

William F. Carr

Enclosure

cc: Mr. Randall Hudson
James Bruce Esq.

Holland & Hart LLP

Phone (505) 988-4421 Fax (505) 983-6043 www.hollandhart.com

110 North Guadalupe Suite 1 Santa Fe, NM 87501 Mailing Address P.O. Box 2208 Santa Fe, NM 87504-2208

Aspen Billings Boise Boulder Cheyenne Colorado Springs Denver Denver Tech Center Jackson Hole Salt Lake City Santa Fe Washington, D.C. ☐



May 2, 2006

VIA FACSIMILE
FAX NO. (505) 982-2151

James Bruce, Esq.
Post Office Box 1056
Santa Fe, New Mexico 87505-1056

Re: New Mexico Oil Conservation Division Case No. 13598: Application of Hudson Oil Company of Texas, Willaim A. Hudson and Edward R. Hudson for compulsory pooling, Eddy County, New Mexico.

Dear Mr. Bruce:

This letter confirms our recent conversations in which you requested geological data supporting the above-referenced application. I have discussed this request with my clients and with Raye Miller at Marbob Energy Corporation and can confirm that the data you are requesting does not exist.

I request that you confer with your clients and advise if they are still interested in entering a Join Operating Agreement pursuant to which Marbob Energy Corporation will operate the well that is the subject of this application. If they are not interested in resolving this matter in this way, Hudson Oil Company of Texas will proceed to hearing on our pending pooling application.

Very truly yours,

William F. Carr

cc: E. Randall Hudson