

## 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 <sup>thirty (30)</sup> ~~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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BEFORE THE OIL CONSERVATION DIVISION  
Santa Fe, New Mexico  
Case Nos. 13598 Exhibit No. 5  
Submitted by:  
HUDSON OIL COMPANY OF TEXAS  
Hearing Date: June 8, 2006

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 3.

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 1A, or  
( ) Percentage Basis, Paragraph 1B

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 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, redrilling, 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](http://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.

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

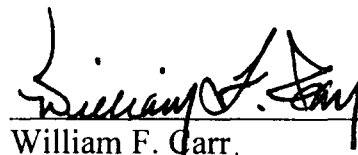
**APPLICATION OF HUDSON OIL COMPANY OF  
TEXAS, WILLIAM A. HUDSON AND EDWARD R.  
HUDSON FOR COMPULSORY POOLING, EDDY  
COUNTY, NEW MEXICO.**

**CASE NO. 13598**

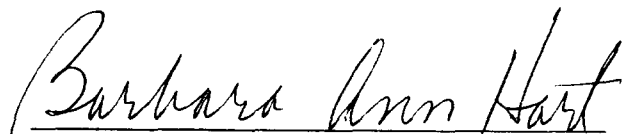
**AFFIDAVIT**

STATE OF NEW MEXICO        )  
  )     ss.  
COUNTY OF SANTA FE    )

William F. Carr, attorney in fact and authorized representative of Hudson Oil Company of Texas, William A. Hudson and Edward R. Hudson, the Applicants herein, being first duly sworn, upon oath, states that notice of the above-referenced Application was mailed to the interested parties shown on Exhibit "A" attached hereto in accordance with Oil Conservation Division Rules, and that true and correct copies of the notice letter and proof of notice are attached hereto.

  
\_\_\_\_\_  
William F. Carr

SUBSCRIBED AND SWORN to before me this 21<sup>st</sup> day of December 2005 by  
William F. Carr.

  
\_\_\_\_\_  
Notary Public

My Commission Expires: March 28, 2008

BEFORE THE OIL CONSERVATION DIVISION  
Santa Fe, New Mexico  
Case Nos. 13598 Exhibit No. 6  
Submitted by:  
HUDSON OIL COMPANY OF TEXAS  
Hearing Date: June 8, 2006

**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**



November 3, 2005

**CERTIFIED MAIL**  
**RETURN RECEIPT REQUESTED**

ALL AFFECTED INTEREST OWNERS:

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

Ladies and Gentlemen:

This letter is to advise you that Hudson Oil Company of Texas, William A. Hudson and Edward R. Hudson have filed the enclosed application with the New Mexico Oil Conservation Division seeking an order pooling all mineral interests from the base of the San Andres formation to 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 Fren-Paddock Pool. Said units are to be dedicated to Francotte Federal Well No. 1 to be drilled 660 feet from the North and West lines of said Section 6 to a depth sufficient to test all formations from the surface through the base of the Morrow formation.

This application has been set for hearing before a Division Examiner on December 1, 2005. The hearing will be held in Porter Hall in the Oil Conservation Division's Santa Fe Offices located at 1220 South Saint Francis Drive, Santa Fe, New Mexico 87505. You are not required to attend this hearing, but as an owner of an interest that may be affected by this application, you may appear and present testimony. Failure to appear at that time and become a party of record will preclude you from challenging the matter at a later date.

Parties appearing in cases are required by Division Rule 1208.B to file a Pre-hearing Statement four days in advance of a scheduled hearing, but no later than the Thursday preceding the hearing. This statement must be filed at the Division's Santa Fe office at the above specified address and should include: the names of the parties and their attorneys; a concise statement of the case; the names of all witnesses the party will call

**Holland & Hart LLP**

Phone (505) 988-4421 Fax (505) 983-6043 [www.hollandhart.com](http://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. 3

HOLLAND & HART



to testify at the hearing; the approximate time the party will need to present its case; and identification of any procedural matters that are to be resolved prior to the hearing.

Very truly yours,

A handwritten signature in black ink, which appears to read "William F. Carr".

William F. Carr

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

cc: E. Randall Hudson III

**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. \_\_\_\_\_**

**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:

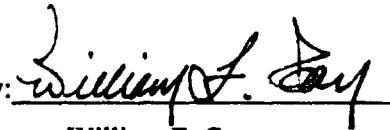
1. Hudson is a working interest owner in the N/2 of said Section 12 and has the right to drill thereon.
2. Hudson proposes to dedicate the above-referenced spacing and proration unit to its Francotte Federal Well No. 1 to be drilled at a standard location 660 feet from the North and West lines of said 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

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.



U.S. Postal Service  
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 Hudson  
 Franette

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Certified Fee	2.30
Return Receipt Fee (Endorsement Required)	1.75
Restricted Delivery Fee (Endorsement Required)	4.88
<b>Total Postage &amp; Fees</b>	<b>\$ 10.76</b>

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Sent To Ard Oil Limited  
 Ard Energy Group Limited  
 Street, Apt. No. or PO Box No. 222 West 4th Street, PH-5  
 City, State, ZIP Fort Worth, Texas 76102

PS Form 3800

2672 9558 2000 0477 7002

U.S. Postal Service  
**CERTIFIED MAIL RECEIPT**  
 (Domestic Mail Only: No Insurance Coverage Provided)

03 2 2 0 1 4 6 0 5 E

WFC  
 Hudson  
 Franette

Postage	\$ 1.83
Certified Fee	2.30
Return Receipt Fee (Endorsement Required)	1.75
Restricted Delivery Fee (Endorsement Required)	4.88
<b>Total Postage &amp; Fees</b>	<b>\$ 10.76</b>

Stamp: SANTA FE NM 87501 NOV - 3 2005 USPS

Sent To The P.I.P. 1990 Trust  
 Wendell W. Iverson, Trustee  
 Street, Apt. No. or PO Box No. Post Office Box 10508  
 City, State, ZIP Midland, Texas 79702

PS Form 3800

9692 9558 2000 0477 7002

**SENDER: COMPLETE THIS SECTION**

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- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:  
 Ard Oil Limited  
 Ard Energy Group Limited  
 222 West 4th Street, PH-5  
 Fort Worth, Texas 76102

2. Article Number (Copy from 7001 1140 0002 9558 2672)  
 PS Form 3811, July 1999 Domestic Return Receipt

**COMPLETE THIS SECTION ON DELIVERY**

A. Received by (Please Print Clearly) Jo Marie Graf B. Date of Delivery 11/8/05

C. Signature *[Signature]* Agent ☐ Addressee ☒

D. Is delivery address different from item 1? ☐ Yes ☐ No  
 If YES, enter delivery address below:

3. Service Type  
☒ Certified Mail ☐ Express Mail  
☐ Registered ☒ Return Receipt for Merchandise  
☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee) ☐ Yes ☐ No

102595-00-M-0952

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
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1. Article Addressed to:  
 The P.I.P. 1990 Trust  
 Wendell W. Iverson, Trustee  
 Post Office Box 10508  
 Midland, Texas 79702

2. Article Number (Copy from 7001 1140 0002 9558 2672)  
 PS Form 3811, July 1999 Domestic Return Receipt

**COMPLETE THIS SECTION ON DELIVERY**

A. Received by (Please Print Clearly) Pam Birkle B. Date of Delivery 11-10-05

C. Signature *[Signature]* Agent ☒ Addressee ☐

D. Is delivery address different from item 1? ☐ Yes ☐ No  
 If YES, enter delivery address below:

3. Service Type  
☒ Certified Mail ☐ Express Mail  
☐ Registered ☒ Return Receipt for Merchandise  
☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee) ☐ Yes ☐ No

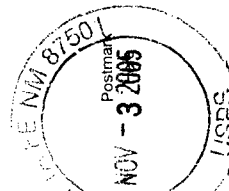
102595-00-M-0952



<b>U.S. Postal Service</b> <b>CERTIFIED MAIL RECEIPT</b> (Domestic Mail Only, No Insurance Coverage Provided)	
Sent To W.I. 1990 Trust Wendell W. Iverson, Trustee Post Office Box 10508 Midland, Texas 79702	Street, Apt. No. or PO Box No. City, State, Zip
Postage \$ 1.83 Certified Fee 2.30 Return Receipt Fee (Endorsement Required) 1.75 Restricted Delivery Fee (Endorsement Required) 4.88 Total Postage & Fees \$ 10.76	PS Form 3800, July 1999

<b>SENDER: COMPLETE THIS SECTION</b> Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. Print your name and address on the reverse so that we can return the card to you. Attach this card to the back of the mailpiece, or on the front if space permits. 1. Article Addressed to: W.W.I. 1990 Trust Wendell W. Iverson, Trustee Post Office Box 10508 Midland, Texas 79702	<b>COMPLETE THIS SECTION ON DELIVERY</b> Received by Please Print Clearly: <b>Wendell W. Iverson</b> Signature: <i>Wendell W. Iverson</i> D. Is delivery address different from item 1? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If YES, enter delivery address below:
2. Article Number (Copy fr 7001 1140 0002 9558 2665 PS Form 3811, July 1999	3. Service Type <input checked="" type="checkbox"/> Certified Mail <input type="checkbox"/> Express Mail <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> Insured Mail <input type="checkbox"/> C.O.D. 4. Restricted Delivery? (Extra Fee) <input type="checkbox"/> Yes

5992 8556 2000 0111 1002



# Affidavit of Publication

NO. 19063

STATE OF NEW MEXICO

County of Eddy:

Gary D. Scott

being duly

sworn, says: That he is the Publisher of The

Artesia Daily Press, a daily newspaper of general

circulation, published in English at Artesia, said county

and county and state, and that the here to attached

## Legal Notice

was published in a regular and entire issue of the said

Artesia Daily Press, a daily newspaper duly qualified

for that purpose within the meaning of Chapter 167 of

the 1937 Session Laws of the state of New Mexico for

1 Consecutive week/days on the same

day as follows:

First Publication

November 4 2005

Second Publication

Third Publication

Fourth Publication

*Gary D. Scott*

Subscribed and sworn to before me this

8th Day

November

2005

# Copy of Publication:

## LEGAL NOTICE

**NOTICE OF PUBLICATION**  
**STATE OF NEW MEXICO**  
**ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT**  
**OIL CONSERVATION DIVISION**  
**SANTA FE, NEW MEXICO**

The State of New Mexico through its Oil Conservation Division hereby gives notice pursuant to law and the Rules and Regulations of the Division of the following public hearing to be held at 8:15 A.M. on December 1, 2005, in the Oil Conservation Division Hearing Room at 1220 South St. Francis, Santa Fe, New Mexico, before an examiner duly appointed for the hearing. If you are an individual with a disability who is in need of a reader, amplifier, qualified sign language interpreter, or any other form of auxiliary aid or service to attend or participate in the hearing, please contact: Florene

## LEGAL NOTICE

Davidson at 505-476-3458 or through the New Mexico Relay Network 1-800-659-1779 by November 28, 2005. Public documents including the agenda and minutes, can be provided in various accessible forms. Please contact Florene Davidson if a summary or other type of accessible form is needed.

## STATE OF NEW MEXICO TO:

All named parties and persons hearing any right, title, interest or claim in the following cases and notice to the public.

(NOTE: All land descriptions herein refer to the New Mexico Principal Meridian whether or not so stated.)

CASE 13868:

Application of Hudson Oil Company of Texas, William 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

## LEGAL NOTICE

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 NW/2 to form a standard and 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 690 feet from the

## LEGAL NOTICE

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 Majanar, New Mexico. Given under the Seal of the State of New Mexico Oil Conservation Commission at Santa Fe, New Mexico on this 2nd day of November 2005

STATE OF NEW

MEXICO

OIL CONSERVATION DIVISION

Mark E. Feenbre, P.E., Director

Published in the Artesia Daily Press, Artesia, N.M. November 4, 2005. Legal 19063