



**POGO PRODUCING COMPANY**

January 30, 2004

To: Working Interest Owners  
(See Attached List)

Re: MCMILLAN PROSPECT  
Eddy County, New Mexico  
MCMILLAN 4 FEDERAL COM No 1 WELL  
660' FNL and 2,550' FWL Section 4  
T-20-S, R-27-E, N.M.P.M.  
Pogo Lease L2382.000

OIL CONSERVATION DIVISION  
CASE NUMBER 13216  
POGO EXHIBIT NUMBER 4

Ladies and Gentlemen:

On July 21, 2003, Pogo Producing Company ("Pogo") proposed the drilling of the McMillan 4 Fed Com No 1 (the "Test Well") to a depth of 11,000' to test the Morrow formation. In connection with said proposal, Pogo submitted for your approval its AFE No 530207. Pogo has received an executed AFE by the following parties which have elected to participate in the drilling of the Test Well:

Nortex Corporation	Sacramento Partners, L.P.
Robert Kent	Estate of Lillie Yates
Read & Stevens, Inc.	Sharbro Oil Ltd.
EAKO, LLC	FNB Chicago, Aston Partnership
CALCO, LLC	Tom P. Stephens Trust
VALKO, LLC	Mary Ann Morrison

This letter shall serve as notification that Pogo intends to spud the Test Well prior to March 1, 2004. Time is of the essence, as this date is the expiration date of Federal Lease NM-92756.

Enclosed for your review and execution is that certain Operating Agreement dated January 1, 2004, which covers the N½ Section 4, T-20-S, R-27-E, N.M.P.M., Eddy County, New Mexico, as to all depths below 4,000'. This operating agreement will supercede and take the place of that certain Operating Agreement dated February 7, 1964, by and between Harvey E. Yates, Operator, and Franklin, Aston & Fair, Inc., et al., Non-Operators, insofar as said February 7, 1964 Operating Agreement covers the N½ Section 4 only. If you have previously executed Pogo's AFE No 530207, Pogo respectfully requests that you execute two signature pages of the enclosed Operating Agreement and return one to the undersigned at your earliest convenience. Upon our receipt of all signatures, Pogo will execute the Operating Agreement and return a complete set of signature pages for your file.

In light of the time constraints, Pogo has applied for compulsory pooling which is scheduled for hearing on February 19, 2004, to pool any party who has not elected to participate in the drilling of the Test Well. As stated in our letter of July 21, 2003, in the event you do not wish to participate, Pogo is willing to acquire a Term Assignment or a farmout of your interest. Should you now elect to participate in the drilling of the Test Well, enclosed for your execution is Pogo's AFE No 530207. Additionally, please execute two signature pages of the enclosed Operating Agreement, and return both the AFE and the signature pages to the undersigned at your earliest convenience.

Working Interest Owners  
McMillan 4 Federal Com № 1 Well  
January 30, 2004  
Page 2

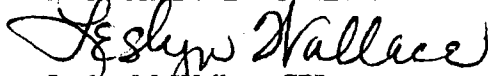
As a matter of housekeeping, please be advised that the Test Well is staked at an unorthodox location. Enclosed for your information is NMOCD Administrative Order NSL-4944 which approves the unorthodox location of the Test Well. Also, please review the "Addresses of the Parties" portion of the Exhibit "A" to the Operating Agreement and provide current phone and fax numbers to the undersigned so that it may be fully completed.

If you have not previously done so, or if you are electing to participate in the Test Well at this time, please provide your well information requirements to the undersigned. Finally, be advised that Pogo has approved title for drilling purposes and upon our receipt of your executed AFE and signature pages of the Operating Agreement, a copy of the drilling opinion will be forwarded to you.

Thank you in advance for your prompt attention to this matter. Should you have any questions, please do not hesitate to contact me directly at (432) 685-8127.

Very truly yours,

POGO PRODUCING COMPANY



Leslyn M. Wallace, CPL  
District Landman

LMW/dkr

Enclosures

EXHIBIT "A"

WORKING INTEREST OWNERS

N½ of Section 4  
T-20-S, R-27-E, N.M.P.M.  
Eddy County, New Mexico  
324.4 acres, more or less,  
as to depths below 4,000' subsurface

OWNER	WORKING INTEREST
Pogo Producing Company ..... Attn: Land Department P.O. Box 10370 Midland, Texas 79702-7340	62.74044
Harvey E. Yates Company ..... Attn: Mr. Vernon Dyer P.O. Box 1933 Roswell, New Mexico 88202-1933	10.63482
Jalapeño Corporation ..... Attn: Ms. Ann Riggs P.O. Box 1608 Albuquerque, New Mexico 87103-1608	5.60824
Nortex Corporation ..... Attn: Mr. Robert Kent 1415 Louisiana Street, Suite 3100 Houston, Texas 77002	3.72596
Sacramento Partners Limited Partnership ..... Attn: Mr. Chuck Moran P.O. Box 1344 (88210-1344) 105 South Fourth Street (88210) Artesia, New Mexico	3.72596
EOG Resources, Inc. .... Attn: Mr. Pat Tower P.O. Box 2267 Midland, Texas 79702	3.05645
The Estate of Lillie M. Yates ..... P.O. Box 1344 (88210-1344) 105 South Fourth Street (88210) Artesia, New Mexico	2.79447
Sharbro Oil Ltd. Co. .... P.O. Box 1344 (88210-1344) 105 South Fourth Street (88210) Artesia, New Mexico	2.79447
Yates Energy Corporation ..... Attn: Mr. Fred G. Yates P.O. Box 2323 Roswell, New Mexico 88202-2323	2.38671
Robert Kent ..... % Nortex Corporation 1415 Louisiana Street, Suit 3100 Houston, Texas 77002	0.93149

OWNER	WORKING INTEREST
Read & Stevens, Inc. .... Attn: Mr. Bob Watson P.O. Box 1518 Roswell, New Mexico 88202	0.43664
EAKO, LLC, a New Mexico limited liability company ..... % Deborah L. Goluska P.O. Box 1090 Roswell, New Mexico 88202-1090	0.23919
CALCO, LLC, a New Mexico Limited Liability Company ..... % Deborah L. Goluska P.O. Box 1090 Roswell, New Mexico 88202-1090	0.19406
FNB Chicago, Aston Partnership ..... % Deborah L. Goluska P.O. Box 1090 Roswell, New Mexico 88202-1090	0.19406
Bank of America, Trustee of the Tom P. Stephens Trust ..... under Trust Agreement dated 10/30/95 % Bank of America P.O. Box 2546 Fort Worth, Texas 76113	0.13972
Grant M. Smith ..... 1112 Rancho Road Roswell, New Mexico 88203-4344	0.11644
VALKO, LLC, a New Mexico limited liability company ..... % Deborah L. Goluska P.O. Box 1090 Roswell, New Mexico 88202-1090	0.09459
Glen David Miller ..... P.O. Box 2412 Roswell, New Mexico 88202	0.06986
Lucas Properties, LLC ..... % REDW Trust Company, Agent P.O. Box 93656 Albuquerque, New Mexico 87119	0.06986
Mary Ann Morrison ..... P.O. Box 5581 Hobbs, New Mexico 88241	0.04657
<b>TOTAL</b>	<b>100.00000</b>

POGO PRODUCING COMPANY  
AUTHORITY FOR EXPENDITURE FOR \$1,256,075  
GROSS AFE - DETAILED

PAGE: 1

AFE#: 530207 DC MCMILLAN 4 FEDERAL COM #1  
WELL: 6122 MCMILLAN 4 FEDERAL COM #1  
PROSPECT: MCMILLAN PROSPECT  
FIELD: MCMILLAN MORROW - C/O  
COUNTY/PARISH: EDDY  
STATE: NM

OPERATOR: POGO PRODUCING COMPANY  
AFE TYPE: EXPLORATORY DRILLING  
DATE: 06/25/03  
WELL TYPE:  
FORMATION: MORROW  
TOTAL DEPTH: 11,000'

ADDITIONAL COMMENTS: LOCATION OF THE SUBJECT WELL IS 660' FNL & 2550'  
FWL, SECTION 4, T20S, R27E, EDDY COUNTY, NM.

DESCRIPTION	ESTIMATED DRYHOLE	ESTIMATED COMPLETION	TOTAL
IDC EXPLORATORY DRILLING			
725.471 IDC MOBILIZATION/DEMOB	30,000		30,000
725.472 IDC ROAD, LOC. PITS & KEYWAYS	20,000		20,000
725.473 IDC CEMENTING & CEMENTING SVS.	20,000		20,000
725.474 IDC MUD LOGGING	23,800		23,800
725.475 IDC MUD MATERIALS & CHEMICALS	75,000		75,000
725.478 IDC LOGGING & SIDEWALL CORING	35,000		35,000
725.482 IDC FORMATION TESTING	12,000		12,000
725.488 IDC TOOLS & EQUIPMENT RENTAL	65,000		65,000
725.490 IDC DRILLING DAY RATE	327,600		327,600
725.491 IDC FLOAT EQUIPMENT	2,500		2,500
725.492 IDC BITS, CORE BARRELS, ETC.	40,000		40,000
725.494 IDC OTHER SPECIAL WELL SERV.	10,000		10,000
725.501 IDC COMPANY LABOR	27,300		27,300
725.510 IDC CONTRACT SERVICES & EQUIP.	10,000		10,000
725.528 IDC COMMUNICATION SERVICES	1,500		1,500
725.539 IDC FUEL & POWER	35,000		35,000
725.545 IDC AUTO & TRUCK EXPENSE	3,000		3,000
725.599 IDC MISCELLANEOUS	50,000		50,000
TOTAL IDC EXPLORATORY DRILLING	787,700		787,700
ICC EXPLORATORY COMPLETION			
726.472 ICC ROAD, LOC, PITS & KEYWAYS		1,000	1,000
726.473 ICC CEMENTING & CEMENTING SVS.		40,000	40,000
726.475 ICC MUD MATERIALS & CHEMICALS		5,500	5,500
726.478 ICC LOGGING & SIDEWALL CORING		2,500	2,500
726.479 ICC PERFORATING		18,000	18,000
726.480 ICC STIMULATION TREATMENT		10,000	10,000
726.484 ICC TESTING TUBULAR GOODS		2,500	2,500
726.488 ICC TOOL & EQUIPMENT RENTAL		5,000	5,000
726.490 ICC COMPLETION RIG		16,000	16,000
726.491 ICC FLOAT EQUIPMENT		7,500	7,500
726.492 ICC BITS, CORE BARRELS, ETC.		500	500
726.494 ICC OTHER SPECIAL WELL SERVICE		2,500	2,500
726.501 ICC COMPANY LABOR		6,500	6,500
726.510 ICC CONTRACT SERVICES & EQUIP.		2,500	2,500
726.545 ICC AUTO & TRUCK		3,000	3,000
726.599 ICC MISCELLANEOUS COST & CONT.		10,000	10,000
TOTAL ICC EXPLORATORY COMPLETION		133,000	133,000
ICC PRODUCTION FACILITIES			
745.472 ICC ROAD, LOC, PITS & KEYWAYS		1,000	1,000
745.510 ICC CONTRACT SERVICES & EQUIP.		12,000	12,000
745.545 ICC AUTO & TRUCK EXPENSE		1,000	1,000
745.566 ICC WELDING SERVICES		2,500	2,500
745.568 ICC PAINTING SERVICES		2,500	2,500
745.599 ICC MISC. COSTS & CONTINGEN.		2,500	2,500
TOTAL ICC PRODUCTION FACILITIES		21,500	21,500
*** TOTAL INTANGIBLES	787,700	154,500	942,200
EXPLORATORY LEASE & WELL			
727.441 LWE SURFACE CASING 250' 13-3/8"	4,250		4,250
727.442 LWE CONDUCTOR PIPE	4,200		4,200
727.443 LWE INTERMEDIATE CASING 3000' 9-5/8"	55,125		55,125

POGO PRODUCING COMPANY  
AUTHORITY FOR EXPENDITURE FOR \$1,256,075  
GROSS AFE - DETAILED

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COUNTY/PARISH: EDDY  
STATE: NM

OPERATOR: POGO PRODUCING COMPANY  
AFE TYPE: EXPLORATORY DRILLING  
DATE: 06/25/03  
WELL TYPE:  
FORMATION: MORROW  
TOTAL DEPTH: 11,000'

ADDITIONAL COMMENTS: LOCATION OF THE SUBJECT WELL IS 660' FNL & 2550'  
FWL, SECTION 4, T20S, R27E, EDDY COUNTY, NM.

	DESCRIPTION	ESTIMATED DRYHOLE	ESTIMATED COMPLETION	TOTAL
727.444	LWE PRODUCTION CASING 11000' 5-1/2"		78,000	78,000
727.445	LWE CASINGHEAD	3,000	2,500	5,500
727.446	LWE XMAS TREE		10,000	10,000
727.447	LWE COMPLETION EQUIPMENT		2,500	2,500
727.448	LWE RETRIEVABLE PACKER		4,500	4,500
727.449	LWE TUBING 10800' 2-7/8"		38,000	38,000
727.469	LWE OTHER MATERIALS & EQUIP.	1,000	2,500	3,500
	TOTAL EXPLORATORY LEASE & WELL	67,575	138,000	205,575
LWE PRODUCTION FACILITIES				
746.153	LWE MISC. VALVES & FITTINGS		15,000	15,000
746.438	LWE CORROSION CONTROL SYSTEM		1,500	1,500
746.456	LWE FIELD LINES		5,000	5,000
746.457	LWE TANK, STAIR, WALK & MISC.		19,000	19,000
746.458	LWE SEPARATORS & FITTINGS		2,800	2,800
746.459	LWE HEATERS, TREATERS & CONN.		30,000	30,000
746.469	LWE OTHER MATERIALS & EQUIP.		35,000	35,000
	TOTAL LWE PRODUCTION FACILITIES		108,300	108,300
***	TOTAL TANGIBLES	67,575	246,300	313,875
***	TOTAL ESTIMATED COST - GROSS	855,275	400,800	1,256,075

APPROVAL:

  
RICHARD L. WRIGHT

DATE: JUNE 25, 2003



AUTHORIZATION:

  
JERRY A. COOPER

DATE: JUNE 25, 2003

PARTICIPANT: \_\_\_\_\_

INTEREST: \_\_\_\_\_

BY: \_\_\_\_\_  
NAME: \_\_\_\_\_  
TITLE: \_\_\_\_\_  
DATE: \_\_\_\_\_



# NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

**BILL RICHARDSON**

Governor

**Joanna Prukop**

Cabinet Secretary

September 2, 2003

**RECEIVED**

SEP 08 2003

**MIDLAND**

**Lori Wrotenbery**

Director

Oil Conservation Division

Pogo Producing Company  
c/o James Bruce  
P. O. Box 1056  
Santa Fe, New Mexico 87504

*Administrative Order NSL-4944*

Dear Mr. Bruce:

Reference is made to the following: (i) your application on behalf of the operator, Pogo Producing Company ("Pogo"), submitted to the New Mexico Oil Conservation Division ("Division") on August 26, 2003 (*administrative application reference No. pMES0-323935568*); and (iii) the Division's records in Santa Fe: all concerning Pogo's request for an exception to the well location provisions of Division Rule 104.C (2) (a), revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999, limited to only those formations within the Pennsylvanian system, for its proposed McMillan "4" Federal Com. Well No. 1 to be drilled at an unorthodox deep gas well location 660 feet from the North line and 2550 feet from the West line (Lot 3/Unit C) of Section 4, Township 20 South, Range 27 East, NMPM, Eddy County, New Mexico.

Pursuant to Division Rule 104.C (2), this well is to be dedicated to Lots 1 through 4 and the S/2 N/2 (N/2 equivalent) of Section 4, being a standard 324.40-acre lay-down gas spacing unit for any and all formations and/or pools from the base of the Wolfcamp formation to the base of the Morrow formation, which presently include but are not necessarily limited to the Undesignated Angell-Atoka/Morrow Gas Pool (70310) and Undesignated North McMillan-Morrow Gas Pool (81280).

This application has been duly filed under the provisions of Division Rule 104.F, as revised.

The geological interpretation submitted with this application indicates that a well drilled at the proposed unorthodox gas well location will be at a more favorable geologic position within the Cisco dolomite, which is the primary zone of interest, then a well drilled at a location considered to be standard within the N/2 equivalent of Section 4.

By the authority granted me under the provisions of Division Rule 104.F (2), as revised, the above-described unorthodox deep gas well location, limited to the above-described vertical extent, within this 324.40-acre unit comprising the N/2 equivalent of Section 4 is hereby approved.

Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

Sincerely,

Lori Wrotenbery  
Director

LW/mes

cc: New Mexico Oil Conservation Division - Artesia  
U. S. Bureau of Land Management - Carlsbad

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

**MODEL FORM OPERATING AGREEMENT**

OPERATING AGREEMENT

DATED

January 1 , 2004 ,  
year

OPERATOR POGO PRODUCING COMPANY

CONTRACT AREA N½ Section 4

T-20-S, R-26-E, N.M.P.M.

\_\_\_\_\_

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 POGO PRODUCING COMPANY

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.

☐ 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.

☒ H. Exhibit "H", Memorandum of Operating Agreement (and Mortgage and Financing Statement

**ARTICLE III.  
INTERESTS OF PARTIES**

**A. ~~Oil and Gas Interests:~~**

~~If any party owns an oil and gas interest in the Contract Area, that interest shall be treated for all purposes of this agreement 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 shall be deemed to own both the royalty interest reserved in such lease and the interest of the lessee thereunder.~~

**B. Interests of Parties in Costs and Production:**

Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set 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 payment of royalties to the extent of one-eighth (1/8) which shall be borne as hereinafter set forth.

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

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

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

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

**D. Subsequently Created Interests:**

If any party should hereafter create an overriding royalty, production payment or other burden payable out of production attributable to its working interest hereunder, or if such a burden existed prior to this agreement ~~and is not recorded with the County Clerk of Eddy County, New Mexico~~ and is not set forth in Exhibit "A", or 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 accepted obligation of all parties (any such interest being hereinafter referred to as "subsequently created interest" irrespective of the timing of its creation and the party out of whose working interest the subsequently created interest is derived being hereinafter referred to as "burdened party"), and:

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

**ARTICLE IV.  
TITLES**

**A. Title Examination:**

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

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

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.

6  
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.

11  
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 <sup>Operator</sup> ~~all of the parties who are to par-~~  
14 ~~ticipate in the drilling of the well.~~

15  
16 **B. Loss of Title:**

17  
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 acquisi-  
21 tion 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.

42  
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.

62  
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:**

POGO PRODUCING COMPANY 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 1<sup>st</sup> day of March, (year) 2004, Operator shall commence the drilling of a well for oil and gas at the following location:  
660' FNL and 2,550' FWL Section 4, T-20-S, R-27-E, Eddy County, New Mexico,

and shall thereafter continue the drilling of the well with due diligence to 11,000' or a depth sufficient to adequately test the Morrow formation, whichever is the lesser depth.

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's only liability for failure to commence said well shall be the ipso facto termination of this Agreement.

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.

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6 **B. Subsequent Operations:**

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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 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 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 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 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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33  
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 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,

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 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:

2 (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

3 (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.

4 An election not to participate in the drilling 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.

5 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.

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

7 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, 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.

**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, 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 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 <sup>Have the right to</sup> take in kind or separately dispose of its proportionate share of all oil and gas produced from the Contract Area, exclusive of (a) production which may be used in development and producing operations and in preparing and treating oil and gas for marketing purposes and (b) 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.

2

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 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. 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 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

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:**

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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~~

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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**

19  
20  
21  
22  
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.

29  
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.

47  
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.

63  
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 Forty-Five Thousand and No/100s Dollars (\$ 45,000.00 )  
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 Twenty-Five Thousand and No/100s  
28 Dollars (\$ 25,000.00 ) 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.

69  
70

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.

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.~~

**ARTICLE IX.**  
**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 1986, 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 1986, 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 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~~ \_\_\_\_\_ 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**

**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 Thirty Thousand and No/100s Dollars (\$ 30,000.00 ) 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 120 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 120 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 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 1<sup>st</sup> day of January, (year) 2004.

~~\_\_\_\_\_ 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

POGO PRODUCING COMPANY

By: \_\_\_\_\_  
Jerry A. Cooper, Executive Vice President

NON-OPERATORS

HARVEY E. YATES COMPANY

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

SACRAMENTO PARTNERS LIMITED PARTNERSHIP

By: \_\_\_\_\_  
NAME: \_\_\_\_\_  
TITLE: \_\_\_\_\_

EOG RESOURCES, INC.

By: \_\_\_\_\_  
NAME: \_\_\_\_\_  
TITLE: \_\_\_\_\_

SHARBRO OIL LTD. CO.

By: \_\_\_\_\_  
NAME: \_\_\_\_\_  
TITLE: \_\_\_\_\_

READ & STEVENS, INC.

By: \_\_\_\_\_  
NAME: \_\_\_\_\_  
TITLE: \_\_\_\_\_

FNB CHICAGO, ASTON PARTNERSHIP

By: \_\_\_\_\_  
NAME: \_\_\_\_\_  
TITLE: \_\_\_\_\_

LUCAS PROPERTIES, LLC

By: \_\_\_\_\_  
NAME: \_\_\_\_\_  
TITLE: \_\_\_\_\_

BANK OF AMERICA, TRUSTEE OF THE TOM P. STEPHENS  
TRUST UNDER TRUST AGREEMENT DATED 10/30/95

By: \_\_\_\_\_  
NAME: \_\_\_\_\_  
TITLE: \_\_\_\_\_

GLEN DAVID MILLER

NORTEX CORPORATION

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

JALAPEÑO CORPORATION

By: \_\_\_\_\_  
NAME: \_\_\_\_\_  
TITLE: \_\_\_\_\_

THE ESTATE OF LILLIE M. YATES

By: \_\_\_\_\_  
NAME: \_\_\_\_\_  
TITLE: \_\_\_\_\_

YATES ENERGY CORPORATION

By: \_\_\_\_\_  
NAME: \_\_\_\_\_  
TITLE: \_\_\_\_\_

EAKO, LLC, A NEW MEXICO LIMITED LIABILITY COMPANY

By: \_\_\_\_\_  
NAME: \_\_\_\_\_  
TITLE: \_\_\_\_\_

CALCO, LLC, A NEW MEXICO LIMITED LIABILITY COMPANY

By: \_\_\_\_\_  
NAME: \_\_\_\_\_  
TITLE: \_\_\_\_\_

VALKO, LLC, A NEW MEXICO LIMITED LIABILITY COMPANY

By: \_\_\_\_\_  
NAME: \_\_\_\_\_  
TITLE: \_\_\_\_\_

ROBERT KENT

GRANT M. SMITH

MARY ANN MORRISON



1 STATE OF TEXAS §  
 2 COUNTY OF \_\_\_\_\_ §  
 3 This instrument was acknowledged before me on this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
 4 by \_\_\_\_\_, as \_\_\_\_\_ of BANK OF AMERICA, TRUSTEE OF THE TOM P. STEPHENS  
 5 TRUST UNDER TRUST AGREEMENT DATED 10/30/95, on behalf of said trust.

6 My Commission Expires: \_\_\_\_\_  
 7 \_\_\_\_\_  
 8  
 9  
 10  
 11  
 12  
 13  
 14 Notary Public, State of Texas

14 STATE OF TEXAS §  
 15 COUNTY OF \_\_\_\_\_ §  
 16 This instrument was acknowledged before me on this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
 17 by \_\_\_\_\_, as \_\_\_\_\_ of NORTEX CORPORATION, a \_\_\_\_\_  
 18 corporation, on behalf of said corporation.

19 My Commission Expires: \_\_\_\_\_  
 20 \_\_\_\_\_  
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 25  
 26  
 27 Notary Public, State of Texas

27 STATE OF TEXAS §  
 28 COUNTY OF \_\_\_\_\_ §  
 29 This instrument was acknowledged before me on this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
 30 by ROBERT KENT.

31 My Commission Expires: \_\_\_\_\_  
 32 \_\_\_\_\_  
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 39 Notary Public, State of Texas

39 STATE OF NEW MEXICO §  
 40 COUNTY OF \_\_\_\_\_ §  
 41 This instrument was acknowledged before me on this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
 42 by GRANT M. SMITH.

43 My Commission Expires: \_\_\_\_\_  
 44 \_\_\_\_\_  
 45  
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 49  
 50  
 51 Notary Public, State of New Mexico

51 STATE OF NEW MEXICO §  
 52 COUNTY OF \_\_\_\_\_ §  
 53 This instrument was acknowledged before me on this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
 54 by GLEN DAVID MILLER.

55 My Commission Expires: \_\_\_\_\_  
 56 \_\_\_\_\_  
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 60  
 61  
 62 Notary Public, State of New Mexico

62 STATE OF NEW MEXICO §  
 63 COUNTY OF \_\_\_\_\_ §  
 64 This instrument was acknowledged before me on this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
 65 by MARY ANN MORRISON.

66 My Commission Expires: \_\_\_\_\_  
 67 \_\_\_\_\_  
 68  
 69  
 70  
 71 Notary Public, State of New Mexico

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1982

1 STATE OF NEW MEXICO §  
2 COUNTY OF \_\_\_\_\_ §  
3 This instrument was acknowledged before me on this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
4 by \_\_\_\_\_, as Trustee of the ESTATE OF LILLIE M. YATES, on behalf of said trust.  
5 My Commission Expires: \_\_\_\_\_  
6 \_\_\_\_\_ Notary Public, State of New Mexico

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14 STATE OF NEW MEXICO §  
15 COUNTY OF \_\_\_\_\_ §  
16 This instrument was acknowledged before me on this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
17 by \_\_\_\_\_, as \_\_\_\_\_ of SHARBRO OIL LTD. CO., a \_\_\_\_\_  
18 corporation, on behalf of said corporation.  
19 My Commission Expires: \_\_\_\_\_  
20 \_\_\_\_\_ Notary Public, State of New Mexico

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28 STATE OF NEW MEXICO §  
29 COUNTY OF \_\_\_\_\_ §  
30 This instrument was acknowledged before me on this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
31 by \_\_\_\_\_, as \_\_\_\_\_ of YATES ENERGY CORPORATION, a \_\_\_\_\_  
32 corporation, on behalf of said corporation.  
33 My Commission Expires: \_\_\_\_\_  
34 \_\_\_\_\_ Notary Public, State of New Mexico

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42 STATE OF NEW MEXICO §  
43 COUNTY OF \_\_\_\_\_ §  
44 This instrument was acknowledged before me on this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
45 by \_\_\_\_\_, as \_\_\_\_\_ of READ & STEVENS, INC., a \_\_\_\_\_  
46 corporation, on behalf of said corporation.  
47 My Commission Expires: \_\_\_\_\_  
48 \_\_\_\_\_ Notary Public, State of New Mexico

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55 STATE OF NEW MEXICO §  
56 COUNTY OF \_\_\_\_\_ §  
57 This instrument was acknowledged before me on this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
58 by \_\_\_\_\_, as \_\_\_\_\_ of HARVEY E. YATES COMPANY, a \_\_\_\_\_  
59 corporation, on behalf of said company.  
60 My Commission Expires: \_\_\_\_\_  
61 \_\_\_\_\_ Notary Public, State of New Mexico

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1 STATE OF NEW MEXICO §  
 2 COUNTY OF \_\_\_\_\_ §  
 3 This instrument was acknowledged before me on this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
 4 by \_\_\_\_\_, as \_\_\_\_\_ of FNB CHICAGO, ASTON PARTNERSHIP, a  
 5 \_\_\_\_\_ partnership, on behalf of said partnership.

6 My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
 Notary Public, State of New Mexico

14  
 15 STATE OF NEW MEXICO §  
 16 COUNTY OF \_\_\_\_\_ §  
 17 This instrument was acknowledged before me on this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
 18 by \_\_\_\_\_, as \_\_\_\_\_ of LUCAS PROPERTIES, LLC, a \_\_\_\_\_  
 19 limited liability company, on behalf of said limited liability company.

20 My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
 Notary Public, State of New Mexico

28  
 29 STATE OF NEW MEXICO §  
 30 COUNTY OF \_\_\_\_\_ §  
 31 This instrument was acknowledged before me on this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
 32 by \_\_\_\_\_, as \_\_\_\_\_ of EAKO, LLC, A NEW MEXICO LIMITED LIABILITY  
 33 COMPANY, on behalf of said limited liability company.

34 My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
 Notary Public, State of New Mexico

42  
 43 STATE OF NEW MEXICO §  
 44 COUNTY OF \_\_\_\_\_ §  
 45 This instrument was acknowledged before me on this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
 46 by \_\_\_\_\_, as \_\_\_\_\_ of CALCO, LLC, A NEW MEXICO LIMITED LIABILITY  
 47 COMPANY, on behalf of said limited liability company.

48 My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
 Notary Public, State of New Mexico

56  
 57 STATE OF NEW MEXICO §  
 58 COUNTY OF \_\_\_\_\_ §  
 59 This instrument was acknowledged before me on this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
 60 by \_\_\_\_\_, as \_\_\_\_\_ of VALKO, LLC, A NEW MEXICO LIMITED LIABILITY  
 61 COMPANY, on behalf of said limited liability company.

62 My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
 Notary Public, State of New Mexico

1 STATE OF TEXAS §  
2 COUNTY OF MIDLAND §

3 This instrument was acknowledged before me on this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
4 by Jerry A. Cooper, Executive Vice President of POGO PRODUCING COMPANY, a Delaware corporation, on behalf of said  
5 corporation.

6 My Commission Expires: \_\_\_\_\_  
7 \_\_\_\_\_ Notary Public, State of Texas

14  
15 STATE OF NEW MEXICO §  
16 COUNTY OF \_\_\_\_\_ §

17 This instrument was acknowledged before me on this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
18 by \_\_\_\_\_, as \_\_\_\_\_ of HARVEY E. YATES COMPANY, a \_\_\_\_\_  
19 corporation, on behalf of said corporation.

20 My Commission Expires: \_\_\_\_\_  
21 \_\_\_\_\_ Notary Public, State of New Mexico

28  
29 STATE OF NEW MEXICO §  
30 COUNTY OF \_\_\_\_\_ §

31 This instrument was acknowledged before me on this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
32 by \_\_\_\_\_, as \_\_\_\_\_ of SACRAMENTO PARTNERS LIMITED PARTNERSHIP, a  
33 \_\_\_\_\_ limited partnership, on behalf of said limited partnership.

34 My Commission Expires: \_\_\_\_\_  
35 \_\_\_\_\_ Notary Public, State of New Mexico

42  
43 STATE OF NEW MEXICO §  
44 COUNTY OF \_\_\_\_\_ §

45 This instrument was acknowledged before me on this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
46 by \_\_\_\_\_, as \_\_\_\_\_ of JALAPENO CORPORATION, a \_\_\_\_\_  
47 corporation, on behalf of said corporation.

48 My Commission Expires: \_\_\_\_\_  
49 \_\_\_\_\_ Notary Public, State of New Mexico

56  
57 STATE OF TEXAS §  
58 COUNTY OF \_\_\_\_\_ §

59 This instrument was acknowledged before me on this \_\_\_\_\_ day of \_\_\_\_\_, 2004,  
60 by \_\_\_\_\_, as \_\_\_\_\_ of EOG RESOURCES, INC., a \_\_\_\_\_  
61 corporation, on behalf of said corporation.

62 My Commission Expires: \_\_\_\_\_  
63 \_\_\_\_\_ Notary Public, State of Texas

## EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated January 1, 2004,  
by and between POGO PRODUCING COMPANY, Operator, and  
HARVEY E. YATES COMPANY, ET AL., Non-Operators

### 1. IDENTIFICATION OF LANDS SUBJECT TO THIS AGREEMENT:

T-20-S, R-27-E, N.M.P.M., Eddy County, New Mexico

Section 4: N½

containing 324.4 acres of land, more or less.

### 2. RESTRICTIONS, IF ANY, AS TO DEPTHS, FORMATIONS, OR SUBSTANCES:

All depths below 4,000'.

### 3. PERCENTAGES OR FRACTIONAL INTERESTS OF PARTIES:

<u>WORKING INTEREST OWNER</u>	<u>WORKING INTEREST %</u>
Pogo Producing Company .....	62.74044
Harvey E. Yates Company .....	10.63482
Jalapeño Corporation .....	5.60824
Nortex Corporation .....	3.72596
Sacramento Partners, LP .....	3.72596
EOG Resources, Inc. ....	3.05645
Estate of Lillie M. Yates .....	2.79447
Sharbro Oil Ltd. ....	2.79447
Yates Energy Corporation .....	2.38671
Robert Kent .....	0.93149
Read & Stevens, Inc. ....	0.43664
EAKO, LLC .....	0.23919
CALCO, LLC .....	0.19406
FNB Chicago, Aston Partnership .....	0.19406
Bank of America, Trustee of the Tom P. Stephens Trust .....	0.13972
Grant M. Smith .....	0.11644
VALKO, LLC .....	0.09459
Glen David Miller .....	0.06986
Lucas Properties, LLC .....	0.06986
Mary Ann Morrison .....	0.04657
<b>TOTAL</b>	<b>100.00000</b>

### 4. OIL AND GAS LEASES SUBJECT TO THIS AGREEMENT:

1. Pogo Lease No: L2382.000  
Date: March 1, 1994  
Lessor: USA NM-92756  
Lessee: Maralo, Inc.  
Recording: Book 183, Page 827  
Lands: Lots 2, 3, 4, S½NW¼ of Section 4, T-20-S, R-27-E, N.M.P.M., Eddy County, New Mexico, containing 203.53 acres, more or less  
Mineral Interest: 8/8  
Royalty: 1/8  
ORRI: 12.5%
2. Pogo Lease No: N/A  
Date: April 1, 1952  
Lessor: USA NM-02295  
Lessee: Harold A. Thompson  
Recording: Unrecorded  
Lands: Lot 1, S½NE¼ of Section 4, T-20-S, R-27-E, N.M.P.M., Eddy County, New Mexico, containing 120.87 acres, more or less  
Mineral Interest: 8/8  
Royalty: 1/8  
ORRI: 5%

5. ADDRESSES OF PARTIES:

Pogo Producing Company  
Attn: Land Department  
P.O. Box 10340  
Midland, Texas 79702-7340  
Telephone: (432) 685-8100  
Fax: (432) 685-8151

Harvey E. Yates Company  
Attn: Mr. Vernon Dyer  
P.O. Box 1933  
Roswell, New Mexico 88202-1933  
Telephone: (505) 623-6601  
Fax: (505) \_\_\_\_\_

Jalapeño Corporation  
Attn: Ms. Anne Riggs  
P.O. Box 1608  
Albuquerque, New Mexico 87103  
Telephone: (505) 242-2050  
Fax: (505) 242-8501

Nortex Corporation  
Attn: Mr. Robert Kent  
1415 Louisiana Street, Suite 3100  
Houston, Texas 77002  
Telephone: (713) 658-1142  
Fax: (713) \_\_\_\_\_

Sacramento Partners Limited Partnership  
Attn: Mr. Chuck Moran  
P.O. Box 1344 (88210-1344)  
105 South Fourth Street (88210)  
Artesia, New Mexico  
Telephone: (505) 748-1471  
Fax: (505) \_\_\_\_\_

EOG Resources, Inc.  
Attn: Mr. Rick Lanning  
P.O. Box 2267  
Midland, Texas 79702  
Telephone: (432) 686-3730  
Fax: (432) \_\_\_\_\_

The Estate of Lillie M. Yates  
P.O. Box 1344 (88210-1344)  
105 South Fourth Street (88210)  
Artesia, New Mexico  
Telephone: (505) 748-1471  
Fax: (505) \_\_\_\_\_

Sharbro Oil Ltd. Co.  
P.O. Box 1344 (88210-1344)  
105 South Fourth Street (88210)  
Artesia, New Mexico  
Telephone: (505) 748-1471  
Fax: (505) \_\_\_\_\_

Yates Energy Corporation  
Attn: Mr. Fred G. Yates  
P.O. Box 2323  
Roswell, New Mexico 88202-2323  
Telephone: (505) 623-4935  
Fax: (505) \_\_\_\_\_

Robert Kent  
% Nortex Corporation  
1415 Louisiana Street, Suit 3100  
Houston, Texas 77002  
Telephone: (713) 658-1142, ext. 311  
Fax: (713) \_\_\_\_\_

Read & Stevens, Inc.  
Attn: Mr. Bob Watson  
P.O. Box 1518  
Roswell, New Mexico 88202  
Telephone: (505) 622-3770  
Fax: (505) \_\_\_\_\_

EAKO, LLC, a NM limited liability company  
% Deborah L. Goluska  
P.O. Box 1090  
Roswell, New Mexico 88202-1090  
Telephone: (505) 622-2040  
Fax: (505) \_\_\_\_\_

CALCO, LLC, a NM limited liability company  
% Deborah L. Goluska  
P.O. Box 1090  
Roswell, New Mexico 88202-1090  
Telephone: (505) 622-2040  
Fax: (505) \_\_\_\_\_

FNB Chicago, Aston Partnership  
% Deborah L. Goluska  
P.O. Box 1090  
Roswell, New Mexico 88202-1090  
Telephone: (505) 622-2040  
Fax: (505) \_\_\_\_\_

Bank of America, Trustee of the Tom P.  
Stephens Trust under Trust Agreement dated  
10/30/95  
% Bank of America, Attn: Bill Bledsoe  
P.O. Box 2546  
Fort Worth, Texas 76113  
Telephone: (817) 390-6762  
Fax: (817) \_\_\_\_\_

Grant M. Smith  
1112 Rancho Road  
Roswell, New Mexico 88203-4344  
Telephone: (505) 622-7330  
Fax: (505) \_\_\_\_\_

VALKO, LLC, a NM limited liability company  
% Deborah L. Goluska  
P.O. Box 1090  
Roswell, New Mexico 88202-1090  
Telephone: (505) 622-2040  
Fax: (505) \_\_\_\_\_

Glen David Miller  
P.O. Box 2412  
Roswell, New Mexico 88202  
Telephone: (505) \_\_\_\_\_  
Fax: (505) \_\_\_\_\_

Lucas Properties, LLC  
% REDW Trust Company, Agent  
P.O. Box 93656  
Albuquerque, New Mexico 87119  
Telephone: (505) \_\_\_\_\_  
Fax: (505) \_\_\_\_\_

Mary Ann Morrison  
P.O. Box 5581  
Hobbs, New Mexico 88241  
Telephone: (505) 392-7558  
Fax: (505) \_\_\_\_\_

**EXHIBIT "B"**

Attached to and made a part of that certain Operating Agreement dated January 1, 2004,  
by and between POGO PRODUCING COMPANY, Operator, and  
HARVEY E. YATES COMPANY, ET AL., Non-Operators

*There is no Exhibit "B" to this Agreement.*

EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement dated January 1, 2004,  
by and between POGO PRODUCING COMPANY, Operator, and  
HARVEY E. YATES COMPANY, et al., Non-Operators

ACCOUNTING PROCEDURE  
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council 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 The Chase Manhattan Bank on the first day of the month in which delinquency occurs plus 1% 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.

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 twelve percent (12 %) 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**

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

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 \$ 5,500.00  
(Prorated for less than a full month)

Producing Well Rate \$ 550.00

(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 \$ 25,000.00 :

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:

#### 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

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

2  
3 (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston,  
4 Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate,  
5 to the railway receiving point nearest the Joint Property.

6  
7 (d) Macaroni tubing (size less than 2 3/8 inch OD) shall be priced at the lowest published out-of-stock prices  
8 f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate  
9 per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

10  
11 (2) Line Pipe

12  
13 (a) Line pipe movements (except size 24 inch OD and larger with walls 3/4 inch and over) 30,000 pounds or  
14 more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above.  
15 Freight charges shall be calculated from Lorain, Ohio.

16  
17 (b) Line Pipe movements (except size 24 inch OD) and larger with walls 3/4 inch and over) less than 30,000  
18 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment,  
19 plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular  
20 goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain,  
21 Ohio.

22  
23 (c) Line pipe 24 inch OD and over and 3/4 inch wall and larger shall be priced f.o.b. the point of  
24 manufacture at current new published prices plus transportation cost to the railway receiving point  
25 nearest the Joint Property.

26  
27 (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall  
28 be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at  
29 prices agreed to by the Parties.

30  
31 (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable  
32 supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the  
33 railway receiving point nearest the Joint Property.

34  
35 (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current  
36 new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or  
37 point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint  
38 Property. Unused new tubulars will be priced as provided above in Paragraph 2.A.(1) and (2).

39  
40 B. Good Used Material (Condition B)

41  
42 Material in sound and serviceable condition and suitable for reuse without reconditioning:

43  
44 (1) Material moved to the Joint Property

45  
46 At seventy-five percent (75%) of current new price, as determined by Paragraph A.

47  
48 (2) Material used on and moved from the Joint Property

49  
50 (a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was  
51 originally charged to the Joint Account as new Material or

52  
53 (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was  
54 originally charged to the Joint Account as used Material

55  
56 (3) Material not used on and moved from the Joint Property

57  
58 At seventy-five percent (75%) of current new price as determined by Paragraph A.

59  
60 The cost of reconditioning, if any, shall be absorbed by the transferring property.

61  
62 C. Other Used Material

63  
64 (1) Condition C

65  
66 Material which is not in sound and serviceable condition and not suitable for its original function until  
67 after reconditioning shall be priced at fifty percent (50%) of current new price as determined by  
68 Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition  
69 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 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.

**This Accounting Procedure is not subject to COPAS interpretations.**



## **EXHIBIT "D"**

Attached to and made a part of that certain Operating Agreement dated January 1, 2004,  
by and between POGO PRODUCING COMPANY, Operator, and  
HARVEY E. YATES COMPANY, ET AL., Non-Operators

Operator will provide only insurance coverage required to comply with Workmen's Compensation Laws of the State where the operations are being conducted and/or Employer's Liability if required. Premiums for the insurance specified above shall be charged to the Joint Account. Any party may, at its own expense, provide for itself such additional insurance as it deems advisable to protect itself against liability not covered by insurance of Operator.

### **INDEMNITY**

Operator shall not be liable for loss, damage or destruction to any property of any Non-Operator in connection with operations hereunder. Each Non-Operator, in proportion to its respective undivided interest, shall save harmless Operator from claims, losses and expenses that exceed the amounts collectible under the insurance carried by Operator as set forth above, except in cases of gross negligence or willful omission of Operator. Each Non-Operator shall indemnify and save harmless Operator and all other Non-Operators for claims and losses arising from personal injury or death to any employee, agent or representative of such Non-Operator.

## EXHIBIT "E"

Attached to and made a part of that certain Operating Agreement dated January 1, 2004,  
by and between POGO PRODUCING COMPANY, Operator, and  
HARVEY E. YATES COMPANY, ET AL., Non-Operators

### GAS BALANCING AGREEMENT

1. Each party shall have the right to take in kind and separately dispose of its proportionate share of the gas produced from the Contract Area and shall be entitled to an opportunity to produce its proportionate share of the allowable production from a well (including lawful tolerances) established by appropriate regulatory authority.
2. It is the intent that each party be entitled to gas produced in the proportion that its ownership interest bears to the sum of all ownership interests. It is the intent that the Operator shall have the duty of controlling gas production and the responsibility of administering the provisions of this Agreement. Operator shall cause deliveries to be made to the gas purchasers at such rates as may be required to give effect to the intent that the gas production accounts of all parties are to be brought into balance under the provisions contained herein.
3. To give effect to the intent of this Agreement, the Operator shall be governed by the following rights of each party:
  - (a) Each underproduced party (a party who has not marketed or has taken a lesser volume of gas than the quantity such party is herein entitled) shall have the right upon giving ten (10) days' advance written notice to Operator to take a greater amount of gas than its proportionate share of current production, provided that the right to take such greater amount shall be in proportion that its interest bears to the total interest of all underproduced parties desiring to take more than their proportionate share of the well's current production. It is understood that such "make-up" by the underproduced party shall be attributed to offset his prior underproduction in the order of accrual of the imbalance caused by such underproduction.
  - (b) Each overproduced party (a party who has taken a greater volume of gas than the quantity such party is herein entitled) shall reduce its respective take in the proportion that such party's interest bears to the total interest of all overproduced parties, but in no event shall any overproduced party be required to reduce its take to less than fifty percent (50%) of such overproduced party's proportionate share of the current production of gas.
4. Each party producing and/or delivering gas to its purchaser shall pay any and all royalties and production taxes due on such gas. Nothing herein shall cause a producing party to account for or pay overriding or other leasehold burdens created by or burdening the interest of any nonproducing or underproducing party.
5. The provisions of this Agreement shall be separately applicable to each well and each reservoir to the end that, subject to the provisions of Paragraph 6 below, production from one reservoir may not be utilized for the purpose of balancing underproduction from other reservoirs unless agreed to by all parties and gas is of similar vintage.
6. When production from a reservoir permanently ceases, Operator shall be responsible to determine the final accounting of underproduction and overproduction. Each overproduced party shall have the option of furnishing each underproduced party gas of like vintage from other sources ("make-up gas") or settling the imbalance in cash as provided below. Make-up gas shall be supplied from sources determined solely by the overproduced party; provided, no such source may be included unless a delivery point for the gas can be agreed upon by the overproduced and underproduced parties involved.

If any overproduced party does not elect to supply make-up gas, or if such parties do not agree on a delivery point for the make-up gas within thirty (30) days from termination of such production, a monetary settlement will be made between the underproduced and overproduced parties. In making such settlement, each such overproduced party shall remit to the Operator for the account of each underproduced party an amount of money calculated by multiplying the volume of overproduced gas of such vintage by the actual amount of money per MCF of such gas that such overproduced party actually received, less taxes and royalties theretofore paid by the overproduced party. The Operator will disburse to each underproduced party its proportionate share of monies collected. Such amount shall be shared by each underproduced party in the proportion that the underproduction of each bears to the underproduction of all parties. If any overproduced party has paid royalties or taxes attributable to his overproduction, the amount of such royalties shall be deducted from such payment made by him. The amount of payment for all such overproduction shall be determined in the order of accrual.
7. Nothing in this Gas Balancing Agreement shall cause the Operator to produce a well or reservoir at higher than maximum allowable rates which might have been established by a regulatory authority.
8. The Operator shall maintain a running account of the gas balance between the parties and will furnish each party monthly statements showing the quantities of gas produced from each reservoir, the amount thereof used in joint account operations, vented or lost, and the total quantities delivered to purchasers together with the over/under status of each party.

## EXHIBIT "F"

Attached to and made a part of that certain Operating Agreement dated January 1, 2004,  
by and between POGO PRODUCING COMPANY, Operator, and  
HARVEY E. YATES COMPANY, ET AL., Non-Operators

### GOVERNMENT COMPLIANCE CERTIFICATE

This contract incorporates the following clauses, certifications and programs by reference with the same force and effect as if they were given in full text:

№ AND FAR SOURCE	TITLE AND DATE
48 CFR §52.219-08 FAR 19.708(a)	Utilization of Small Business Concerns and Small Disadvantaged Business Concerns (Jun 1985)
48 CFR §52.219-13 FAR 19.902	Utilization of Women-Owned Small Businesses (Aug 1986)
48 CFR §52.220-03 FAR 20.302(a)	Utilization of Labor Surplus Area Concerns (Apr 1984)
48 CFR §52.222-21 FAR 22.810(a)(1)	Certification of Nonsegregated Facilities (Apr 1984)
48 CFR §52.222-25 FAR 22.810(d)	Affirmative Action Compliance (Apr 1984)
48 CFR §52.222-26 FAR 22.810(e)	Equal Opportunity (Apr 1984)
48 CFR §52.222-35 FAR 22.1308	Affirmative Action for Special Disabled and Vietnam Era Veterans (Apr 1984)
48 CFR §52.222-36 FAR 22.1408	Affirmative Action for Handicapped Workers (Apr 1984)
48 CFR §52.223-02 FAR 23.105(b)	Clean Air and Water (Apr 1984)
48 CFR §52.223-03 FAR 23.303	Hazardous Material Identification and Material Safety Data (Aug 1987)
48 CFR §52.223-06 FAR 23.505(c)	Drug-Free Workplace (Mar 1989)
48 CFR §22-804.1	Affirmative Action Programs
48 CFR §52.220-4 FAR 20.302(b)	Labor Surplus Area Subcontracting Program (Apr 1984)
48 CFR §52.219-9 FAR 19.708(b)	Small Business and Small Disadvantaged Business Subcontracting Plan (Aug 1989)

**EXHIBIT "G"**

Attached to and made a part of that certain Operating Agreement dated January 1, 2004,  
by and between POGO PRODUCING COMPANY, Operator, and  
HARVEY E. YATES COMPANY, ET AL., Non-Operators

*There is no Exhibit "G" to this Agreement.*

## **EXHIBIT "H"**

Attached to and made a part of that certain Operating Agreement dated January 1, 2004,  
by and between POGO PRODUCING COMPANY, Operator, and  
HARVEY E. YATES COMPANY, ET AL., Non-Operators

### **MEMORANDUM OF OPERATING AGREEMENT** **(AND MORTGAGE AND FINANCING STATEMENT)**

KNOW ALL MEN BY THESE PRESENTS

THAT, Pogo Producing Company, whose address is P.O. Box 10340, Midland, Texas 79702-7340 (or such party who may hereafter be designated and serve as Operator under the terms of the below-mentioned Operating Agreement), hereinafter referred to as "Operator", has entered into an Operating Agreement with the following party/parties, hereinafter referred to as "Non-Operator", whether one or more, to-wit:

Such Operating Agreement is dated and effective as of the 1<sup>st</sup> of January, 2004, as the same may have thereafter been amended. That such Operating Agreement provides generally for the joint exploration development and production of oil, gas, and other hydrocarbons lying in and under the following described lands, to-wit:

That the Operating Agreement provides that every sale, encumbrance, transfer or other disposition made by any party to the Agreement, shall be expressly subject to the terms and provisions of the Operating Agreement and shall be made without prejudice to the rights of all other parties to the Operating Agreement.

Among other material provisions of the Operating Agreement, Operator is granted a first lien upon all oil and gas rights of the parties in relation to the above-described land and a security interest in each party's share of oil and/or gas when extracted and each party's interest in all equipment. Such lien and security interest to secure payment of each party's share of expenses, together with interest, attributable to the joint exploration, drilling and production of hydrocarbons from the above-described land. Operator is further entitled to exercise the rights and remedies of a secured party under the Uniform Commercial Code or other comparable law in force in the jurisdiction where the above-described lands are located. Upon default by any Non-Operator in payment of its share of expenses, Operator has the right, without prejudice to other rights and remedies, to collect from purchasers 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. Upon request by the Operator, non-defaulting parties shall reimburse Operator (to the extent unpaid within sixty (60) days from rendition of a statement). Each such non-defaulting party who makes payment of its share of the unpaid amount shall be subrogated to the security rights of Operator mentioned above. The Operating Agreement grants similar security rights to Non-Operators to secure payment of the debts of Operator.

To give further effect to the provisions of the Operating Agreement, each Non-Operator does hereby grant unto the Operator a first lien and mortgage in and to all of Non-Operator's oil and gas rights in the Contract Area, including all its right, title and interest in the oil and gas leases and the leasehold estates in the Contract Area, and a security interest in all of Non-Operator's share of oil and gas extracted and produced from the Contract Area, and Non-Operator's share and interest in the equipment used in the Contract Area, together with proceeds and products of all the foregoing. This mortgage and security agreement shall secure payment of all indebtedness which may (or has) become due and owing to the Operator pursuant to the terms and conditions of the Operating Agreement. Operator grants a similar mortgage and security interest to each Non-Operator.

All prospective assignees, mortgages or other parties claiming some interest or acquiring some interest by, through or under any of the above-mentioned parties are put on notice of the priority of the terms and provisions of the Operating Agreement and are further advised that Operator may now or in the future claim a lien against one or more of the Non-Operators under the terms of the Operating Agreement.

The Operating Agreement contains other provisions which limit and restrict the rights of the parties in relation to their specific interests in and to oil and gas rights. A true and correct copy of such Operating Agreement is available for inspection during business hours at the offices of Operator. Further, information as to amount unpaid by individual Non-Operators in relation to which Operator presently claims a lien and security interests, are available for inspection to all proper persons in the offices of Operator.

This Memorandum may be executed in any number of counterparts. Counterparts may be combined to form a single instrument for recording purposes. All parties need not execute in order for the Memorandum to be effective. Failure of a party to execute is not intended to, in any way, limit the notice given by the filing of this Memorandum.

DATED this the \_\_\_\_\_ day of \_\_\_\_\_, 2004, but effective date of the Operating Agreement above-mentioned.

**POGO PRODUCING COMPANY**

By: \_\_\_\_\_  
Jerry A. Cooper  
Senior Vice President  
Date: \_\_\_\_\_, 2004

**COMPANY**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_, 2004

STATE OF TEXAS           §  
                                  §  
COUNTY OF MIDLAND   §

This instrument was acknowledged before me on this \_\_\_\_\_ day of \_\_\_\_\_, 2004, by Jerry A. Cooper, Senior Vice-President of **POGO PRODUCING COMPANY**, a Delaware corporation, on behalf of said corporation.

My Commission Expires: \_\_\_\_\_  
Notary Public, State of Texas

STATE OF \_\_\_\_\_ §  
                                  §  
COUNTY OF \_\_\_\_\_ §

This instrument was acknowledged before me on this \_\_\_\_\_ day of \_\_\_\_\_, 2004, by \_\_\_\_\_ of \_\_\_\_\_, a \_\_\_\_\_ corporation, on behalf said corporation.

My Commission Expires: \_\_\_\_\_  
Notary Public, State of \_\_\_\_\_