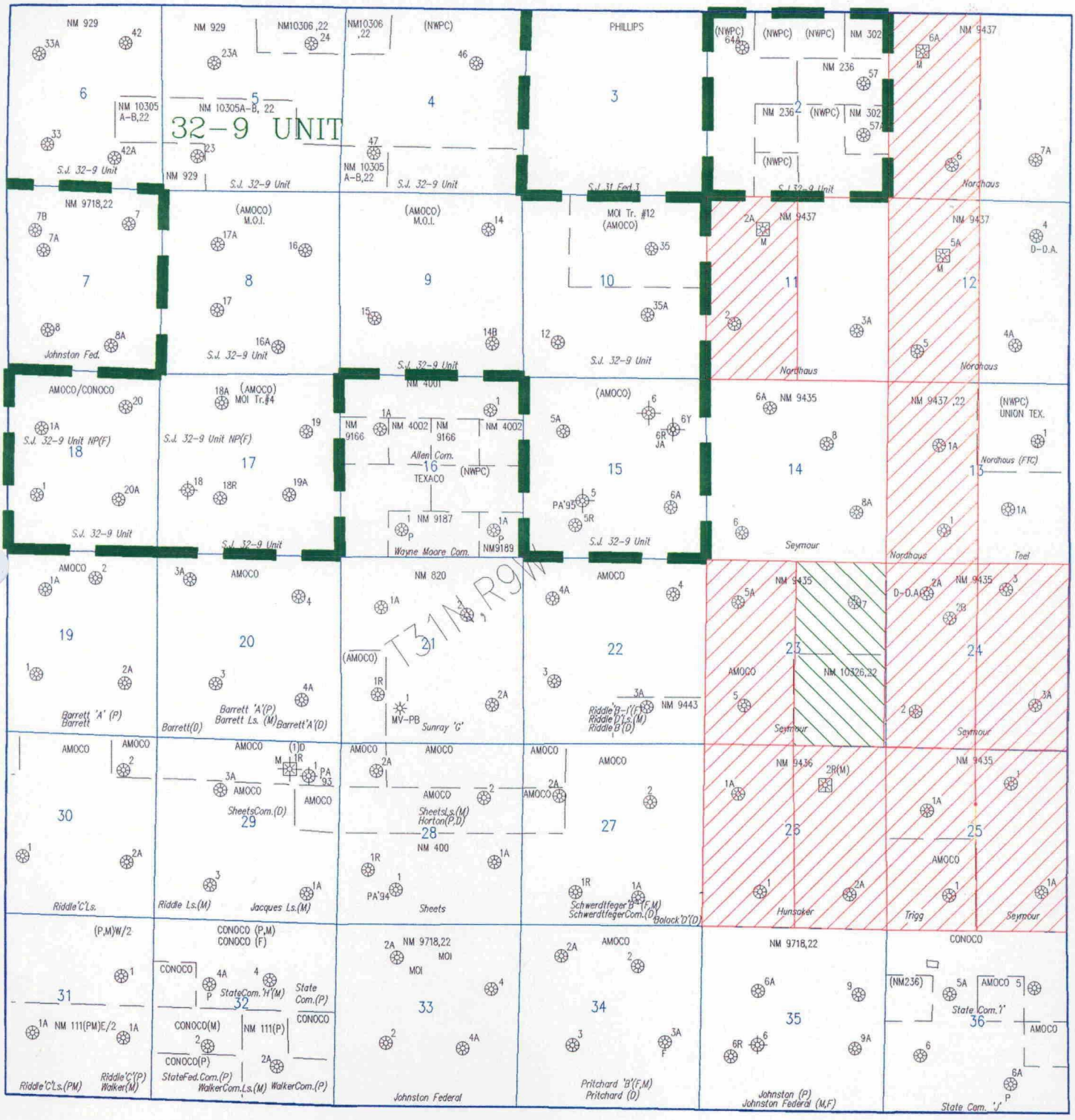
MESAVERDE INFILL WELLS
WESTERN NATURAL CONTRACT
T31N, R9W



INFILL WELLS SUBJECT TO NEW JOA

JCD:rd - 9-3-52 - 1/6/1

FARM OUT AGREEMENT

THIS AGREEMENT made by and between Western Natural Gas Company, a corporation with offices at 1006 Main Street, Houston, Texas, hereinafter called "Assignor", and Southern Union Gas Company, a corporation with offices in the Burt Building, Dallas, Texas, hereinafter called "Assignee",

W I T N E S S E T H T H A T:

WHEREAS, Assignor is the owner of certain options to purchase leases covering lands in San Juan and Rio Arriba Counties, New Mexico more particularly described in Schedule B attached hereto, which is hereby incorporated in this agreement and made a part hereof as though set out in full at this point, such leases covering the following described lands:

Township 29 North, Range 6 West

Section 17:	$NW\frac{1}{4}NW\frac{1}{4}$, $S\frac{1}{2}NW\frac{1}{4}$, $SW\frac{1}{4}$ $W\frac{1}{2}SE\frac{1}{4}$, $SE\frac{1}{4}SE\frac{1}{4}$
Section 18:	$E\frac{1}{2}E\frac{1}{2}$, $NW\frac{1}{4}NE\frac{1}{4}$, $W\frac{1}{2}SW\frac{1}{4}$
Section 19:	$NE\frac{1}{4}$, $W\frac{1}{2}SW\frac{1}{4}$, $SE\frac{1}{4}SW\frac{1}{4}$
Section 20:	$E\frac{1}{2}NE\frac{1}{4}$, $W\frac{1}{2}NW\frac{1}{4}$, $NW\frac{1}{4}SW\frac{1}{4}$, $SW\frac{1}{4}SE\frac{1}{4}$
Section 30:	$N\frac{1}{2}$, $SW\frac{1}{4}$, $N\frac{1}{2}$ of $SE\frac{1}{4}$, and $SW\frac{1}{4}$ of $SE\frac{1}{4}$
Section 31:	$N\frac{1}{2}$, $N\frac{1}{2}SE\frac{1}{4}$

Township 29 North, Range 7 West

Section 8:	All
Section 9:	$N\frac{1}{2}NE\frac{1}{4}$, $SE\frac{1}{4}NE\frac{1}{4}$, $SW\frac{1}{4}NW\frac{1}{4}$ $W\frac{1}{2}SW\frac{1}{4}$, $SE\frac{1}{4}SW\frac{1}{4}$
Section 11:	$N\frac{1}{2}N\frac{1}{2}$, $SE\frac{1}{4}NE\frac{1}{4}$, $S\frac{1}{2}NW\frac{1}{4}$, $NW\frac{1}{4}SW\frac{1}{4}$, $E\frac{1}{2}SE\frac{1}{4}$, $SW\frac{1}{4}SE\frac{1}{4}$
Section 13:	$NW\frac{1}{4}$, $N\frac{1}{2}SW\frac{1}{4}$, $SE\frac{1}{4}SW\frac{1}{4}$, $SW\frac{1}{4}SE\frac{1}{4}$
Section 14:	$N\frac{1}{2}$ of $NW\frac{1}{4}$
Section 17:	All
Section 20:	All
Section 21:	All
Section 22:	$SE\frac{1}{4}$
Section 23:	$NW\frac{1}{4}SW\frac{1}{4}$, $E\frac{1}{2}SE\frac{1}{4}$
Section 24:	$SW\frac{1}{4}$
Section 25:	All
Section 26:	$NE\frac{1}{4}NE\frac{1}{4}$, $SW\frac{1}{4}NW\frac{1}{4}$ $NW\frac{1}{4}SW\frac{1}{4}$, $S\frac{1}{2}SE\frac{1}{4}$
Section 27:	$N\frac{1}{2}$, $SW\frac{1}{4}$
Section 28:	$E\frac{1}{2}NE\frac{1}{4}$
Section 34:	All
Section 35:	$E\frac{1}{2}$, $SW\frac{1}{4}$

Township 31 North, Range 8 West
Section 5: N½, SE¼
Section 6: E½, NW¼, W½SW¼
Section 7: E½ W½NW¼, SW¼
Section 8: All
Section 17: E½ SW¼
Section 18: All
Section 19: All
Section 20: All
Section 30: W½.

Township 31 North, Range 9 West
Section 1: All
Section 11: All
Section 12: All
Section 13: W½, SE¼
Section 14: All
Section 23: N½, SW¼
Section 24: All
Section 25: N½, SE¼
Section 26: All;

and

WHEREAS, Assignor is desirous of assigning to Assignee the said leases described in Schedule B for the purpose of development by Assignee, and

WHEREAS, Assignee is willing to undertake the development of said leases described in Schedule B, and is desirous of having said leases assigned to it for such purpose:

NOW, THEREFORE, for and in consideration of the mutual covenants herein contained, Assignor and Assignee do hereby covenant and agree as follows:

1. Agreement to Assign.

Subject to the terms and conditions contained in this agreement, Assignor does hereby promise and agree to assign or cause to be assigned to Assignee all of the leases described in Schedule B. Assignment of these leases shall be by assignment containing only a special warranty, and shall be without title examination by Assignee.

2. Examination of Title.

Assignee shall examine title to the various leases described in Schedule B in the order which shall most practicably suit its drilling program. If during the progress of title

examination curative material shall be required by Assignee's attorneys, Assignor will submit to Assignee such curative material as may be in Assignor's files. In the event that curative material cannot be secured or for any other reason title to any one or more of the leases or options described in Schedule B shall be considered by Assignee's attorneys to be unsafe for drilling purposes, then such lease shall be promptly reassigned by Assignee to Assignor.

3. Development Obligations of Assignee.

During the first twelve months from the date of this agreement Assignee shall drill on locations to be selected by it on the land covered by said leases, at least eight wells, with suitable drilling equipment, on 320-acre drilling units to a depth sufficient to test the Mesa Verde formation at each such location selected. In the event that a well shall be productive, Assignee shall diligently proceed to connect such well to a gathering system, and within ninety (90) days after completion and testing, shall produce each and every such well into such gathering system. During each subsequent twelve-month period Assignee shall in the same manner drill eight additional Mesa Verde wells on 320-acre drilling units selected by it on the land covered by said leases until all of the land covered by said leases has been drilled to a density of at least one Mesa Verde well to each 320-acre drilling unit. If during any of said twelve-month periods Assignee shall fail to drill as many as eight Mesa Verde wells, Assignee shall forthwith reassign to Assignor all of said leases insofar as they cover land which has not theretofore been included in a 320-acre drilling unit upon which has been drilled at least one Mesa Verde well (either productive or a dry hole). In lieu of such assignment Assignor shall, at its option, receive from Assignee an operating agreement covering the acreage to be assigned as to all depths below

the Pictured Cliff formation. Assignee agrees and obligates itself to drill at least twelve (12) mesa Verde wells on the land covered by said leases on or before the expiration of two (2) years from the date of this agreement, but after said twelve wells have been drilled the only liability which shall attach if Assignee shall fail to drill additional wells shall be Assignee's obligation to reassign undrilled acreage. If during any of the said twelve-month periods above referred to Assignee shall drill more than eight Mesa Verde wells, the number of such wells in excess of eight shall be carried forward to Assignee's credit and shall be considered as having been drilled during any subsequent twelve-month period when Assignee shall have drilled less than eight Mesa Verde wells.

4. Exploration of Formations Other Than the Mesa Verde Formation.

It is understood that Assignee hereunder shall have the right, to the extent granted by the leases described in Schedule B, at any time to explore the lands covered by the leases described in Schedule B and which at such time have not been reassigned to Assignor, for oil, gas, and/or other minerals in formations other than the Mesa Verde, both at depths above and below the Mesa Verde formation.

5. Perpetuation of Leases.

Assignee shall undertake, after assignment of the leases described in Schedule B, to pay the rentals and royalties therein provided to be paid and to take such other steps as may be required in order to continue said leases in force, including the filing of applications for renewals or extensions thereof and the payment of filing fees, deposits, rentals and other payments required in connection therewith. Assignee shall not permit any of said leases to lapse or otherwise terminate without tendering to Assignor at least ninety (90) days prior to the date on which such lease would lapse or terminate

an assignment of said lease. If Assignor shall fail to accept such assignment, Assignee may then permit the lease covered by such assignment to lapse or terminate without liability to Assignor. Anything contained in this agreement to the contrary notwithstanding, Assignee shall drill at least one well on the land covered by each of the first seven (7) leases described in said Schedule B prior to the present expiration dates thereof (which expiration dates all fall within the first half of the year 1953) in a bona fide attempt to secure production on the land covered by each of said leases and thereby maintain each of said leases in force by production.

6. Overriding Royalty Payments to Assignor.

Assignee will compute and pay to Assignor with respect to each gas well drilled hereunder to the Mesa Verde formation or deeper formation, in addition to the other payments herein provided for, the overriding royalty payments on gas production described in Schedule A-1, which is attached hereto and hereby incorporated herein as though set out in full at this point. Assignee will compute and pay to Assignor, with respect to each gas well drilled hereunder to any formation shallower than the Mesa Verde formation, in addition to the other payments herein provided for, the overriding royalty payments on gas production described in Schedule A-2, which is attached hereto and hereby incorporated herein as though set out in full at this point. At any time, beginning on the first of any month, at the option of Assignor, Assignor may, with respect to any gas well drilled hereunder, by written notice to Assignee, elect to convert the overriding royalty payment provided for herein into a one-fourth (1/4) undivided interest in the working interest assigned to Assignee by Assignor in accordance with Section 1 of this agreement. At the request of Assignor, Assignee will execute and deliver with respect to any such election, an assignment of or an operating agreement covering an

undivided one-fourth (1/4) working interest in the well and drilling location as to which such election is exercised. In such event Assignor shall not be charged with any expense of drilling, development or operation incurred prior to the date of such assignment. Such election shall divest Assignor of its right to overriding royalty payments on production obtained subsequent to the date of such election from any such well or wells with respect to which the election is exercised, and such election, once made, shall be irrevocable. The amounts to be paid to Assignor as overriding royalty payments under said Schedules A-1 and A-2 shall be based on production of gas at the wellhead, and shall not include any payments for liquid hydrocarbons extracted or separated.

In the event that Assignor elects to convert its overriding royalty interest to a working interest, as hereinabove provided for, Assignor and Assignee hereby agree to enter into a contract whereby Assignor will sell to Assignee and Assignee will purchase the gas attributable to such working interest at the highest price from time to time being paid by Assignee for gas of the same quality and delivered under substantially the same conditions, in San Juan and Rio Arriba Counties, New Mexico, and under the terms and conditions applicable to such price. Assignor shall have the right to extract liquid hydrocarbons from said gas prior to the sale thereof to Assignee.

It is understood that the limitations on overriding royalty payments provided for in Schedule A-1 may result in a negative amount due to Assignor under the terms thereof with respect to a particular well, but in no event shall Assignor be liable to pay to Assignee any sum or sums represented by any such negative amount.

On oil produced and saved from the lands covered by said leases and on liquid hydrocarbons extracted or separated from the gas produced and saved from the lands covered by said leases, Assignee shall pay to Assignor as an overriding royalty a sum of

money, determined as hereinafter provided, multiplied by the number of barrels of such oil and liquid hydrocarbons which are attributable to the interest assigned by Assignor to Assignee in said production of oil and gas pursuant to Section 1 of this agreement. The sum of money above referred to which shall be multiplied by said number of barrels shall be the sum of fifty cents (50¢) multiplied by a fraction, the numerator of which shall be the posted price in the area at the time of production for oil or liquid hydrocarbons of like grade and gravity as that to which said overriding royalty is applicable, and the denominator of which shall be the posted price in the area on the date of this agreement for oil or liquid hydrocarbons of like grade and gravity as that to which said overriding royalty is applicable. Assignee shall not be obligated to extract or procure the extraction of liquid hydrocarbons from gas produced and saved from the lands covered by said leases and the overriding royalty payments hereinabove provided for with reference to liquid hydrocarbons shall apply only in the event that such liquid hydrocarbons are extracted from the gas produced and saved from the lands covered by said leases.

The overriding royalties provided for in this section of this agreement shall be paid to Assignor on or before the 20th day of each calendar month with respect to production during the preceding calendar month.

It is understood that the United States Department of the Interior may not approve reservations of the overriding royalties described in this section of this agreement unless such overriding royalties on any particular lease from which the average production per well per day is fifteen (15) barrels or less of oil or 500,000 cubic feet or less of gas are convered into a working interest. It is agreed, therefore, that Asignee may

suspend such overriding royalties when production is less than such amount; provided, however, that notwithstanding this provision, it is agreed that during any and all such periods when production on any particular lease shall be less than such amount, Assignor shall receive in lieu of such overriding royalties in such lease a portion of the working interest therein in an amount so that after deducting all of Assignor's part of all costs of operation from the proceeds of the sale of production Assignor shall receive a net amount in cash from such working interest which shall be equal to the amount Assignor would have been entitled to receive otherwise as overriding royalties from such lease during such period.

The volumes of gas upon which the overriding royalties provided for herein shall be paid shall be computed upon a pressure base of 15.025 pounds per square inch absolute and at a temperature base of 60° Fahrenheit and shall be otherwise computed in accordance with the specifications prescribed in Gas Measurement Committee Report No. 2, dated May 6, 1935, of the Natural Gas Department of the American Gas Association, including the appendix thereto and subsequent amendments and appendices from time to time made. Proper corrections shall be made for deviation from Boyle's law, the specific gravity and the flowing temperatures of the gas produced.

7. Ratable Take.

Assignee agrees that it will produce gas wells on lands covered by said leases on a ratable basis with other gas wells on other lands in the same field owned by Assignee or from which Assignee purchases gas. Assignee further agrees to take advantage of opportunity to expand the market for gas by making sale commitments which Assignee may in its business judgment deem advisable.

8. Form of Assignments.

The leases to be assigned by Assignor to Assignee shall be assigned on the form set out in Schedule C attached hereto, which is

hereby incorporated and made a part of this agreement as though set out in full at this point. Likewise, any reassignment of leases shall be made on the same form, but without reservation of any overriding royalty.

It is understood that it may be desirable for record title to some or all of the leases set forth in Schedule B to be retained in the name of Assignor or in the name of the present record Lessee thereunder, and in such event, Assignee shall have the right to receive, upon request, in lieu of an assignment of title in the form set out in Schedule C, an operating agreement from the present record Lessee, such operating agreement to provide that Assignee shall retain and have full title to all oil and/or gas produced, saved, and marketed from the lands covered by said lease or any extensions or renewals thereof, subject to the royalties and overriding royalties theretofore reserved, including any such royalties contracted for or contemplated in Assignor's option agreement affecting the lease or leases and subject to all terms and conditions of the original lease and the instruments creating such overriding royalties and subject further to the overriding royalties and other covenants contained in the assignment form set out in Schedule C. Each such operating agreement shall likewise convey to assignee full operating rights with respect to the lease or leases covered thereby.

In the event of any reassignment contemplated by this agreement, where an operating agreement has been executed in lieu of assignment, as above provided, such reassignment shall be accomplished by a release and cancellation of any such operating agreement to the extent of the acreage intended to be reassigned, such release and cancellation to effect a complete divestiture of any rights in favor of Assignee in the acreage thus intended to be reassigned.

Where assignment to Assignor of a fractional interest

in a well or wells is elected by Assignor pursuant to the provisions of paragraph 6, and such well is on a lease held by Assignee under an operating agreement as above provided, such assignment to Assignor will be accomplished by the transfer to Assignor by Assignee of such fractional interest in such operating agreement as to the well or wells as to which election is made, leaving, however, in Assignee the exclusive right of operation, but vesting in Assignor such fractional interest in such well or wells, including the well site and well equipment located thereon, and in the working interest in production from such well or wells, subject to such fractional part of the costs of operation and/or reworking of such well or wells.

For the purpose of computing the overriding royalties provided in Schedule A-1 and for all other purposes of this agreement, wherever an operating agreement as in the paragraph contemplated is used in lieu of an assignment of lease, it shall be considered that an actual assignment has been made.

9. Operating Agreement.

In the event that Assignor shall elect to become the owner of an undivided one-fourth (1/4) of the working interest with respect to any well or wells in accordance with the provisions of Section 6 above, and if such transfer of interest is effected by an assignment of record title as to such undivided interest, Assignor and Assignee will enter into an Operating Agreement covering such jointly owned well, designating Assignee as Operator in the form attached hereto as Schedule D, which is hereby incorporated in this agreement as though set out in full at this point.

10. Force Majeure.

In the event that either party hereto is rendered unable, wholly or in part, by force majeure or other causes herein specified, to carry out its obligations under this agreement, it is agreed that on such party's giving notice and reasonably full

particulars of such force majeure in writing or by telegraph to the other party within a reasonable time after the occurrence of the cause relied on, then the obligations of the party giving such notice, so far as they are affected by such force majeure or other causes herein specified, shall be suspended during the continuance of any inability so caused, but for no longer period, and such cause shall so far as possible be remedied with all reasonable dispatch. The term "force majeure" as employed herein shall mean acts of God, strikes, lockouts or other industrial disturbances, acts of the public enemy, wars, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, arrests and restraints of the Government, either Federal or State, civil or military, civil disturbances, explosions, sabotage, malicious mischief, breakage or accident to machinery or lines of pipe, temporary failure of gas supply, inability of any party hereto to obtain necessary materials, supplies or permits, due to existing or future rules, regulations, orders, laws or proclamations of governmental authorities (both Federal and State), including both civil and military, and any other causes, whether of the kind herein enumerated or otherwise, not reasonably within the control of the party claiming suspension. It is understood and agreed that the settlement of strikes or lockouts shall be entirely within the discretion of the party having the difficulty, and that the above requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes or lockouts by acceding to the demands of the opposing party when such course is inadvisable in the discretion of the party having the difficulty.

11. Term of Agreement.

This agreement, as to the leases and lands ultimately remaining subject hereto, shall remain in full force and effect so

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long as the oil and gas leases described in Schedule B attached hereto, or any of them, remain in force and effect in accordance with their terms and provisions and conditions.

12. NOTICES.

All notices, statements and other communications required or permitted to be given hereunder shall be in writing and shall be deemed to have been effectively given when mailed by United States mail, postage prepaid, and addressed to the respective parties as follows:

Western Natural Gas Company
1006 Main Street
Houston 2, Texas

Southern Union Gas Company
Burt Building
Dallas, Texas

Notices of change of address of either of the parties hereto shall be given in writing to the other party in the manner aforesaid and shall be observed in the giving of all further notices, statements or other communications required or permitted to be given hereunder.

13. Successors and Assigns.

The provisions hereof shall constitute covenants running with the lands and leases covered or affected hereby and shall extend to and be binding upon the parties hereto, their respective successors and assigns.

IN WITNESS WHEREOF, this agreement is executed on this 3rd day of September, 1952.

WESTERN NATURAL GAS COMPANY

By: _____
Vice President

ATTEST:
_____
Asst. Secretary

SOUTHERN UNION GAS COMPANY

By: _____
Executive Vice President

ATTEST:
_____
Secretary

THE STATE OF TEXAS)
COUNTY OF HARRIS) ss

On this 3rd day of September, 1952, before me appeared J. V. Cowan, to me personally known, who, being by me duly sworn did say that he is the Vice President of Western Natural Gas Company and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said J. V. Cowan acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have set my hand and seal of office on this 3rd DAy of September, 1952.

E. D. Story, Jr.
Notary Public in and for Harris County, Texas.

My Commission Expires:

E. D. STORY, JR.
Notary Public in and for Harris County, Texas
My Commission Expires June 1, 1953

THE STATE OF TEXAS)
COUNTY OF DALLAS) ss

On this 6th day of September, 1952, before me appeared G. C. Reid, to me personally known, who, being by me first duly sworn did say that he is the Vice President of Southern Union Gas Company and that the seal affixed to said instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said G. C. Reid acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have set my hand and seal of office, on this 6th day of September, 1952.

Notary Public in and for Dallas County, Texas.

My Commission Expires:

June 1, 1953

SCHEDULE A-1

SCHEDULE OF OVERRIDING ROYALTY PAYMENTS TO BE MADE TO ASSIGNOR BY ASSIGNEE ON PRODUCTION FROM THE MESA VERDE AND DEEPER FORMATIONS UNDER THE FARM-OUT AGREEMENT DATED AUGUST 25, 1952, BETWEEN WESTERN NATURAL GAS COMPANY AND SOUTHERN UNION GAS COMPANY

(a) From date of first deliveries through December 31, 1953 - 6¢ per MCF times percentage of gross production assigned by Assignor to Assignee.

(b) From January 1, 1954, through December 31, 1958 - 7¢ per MCF times percentage of gross production assigned by Assignor to Assignee.

(c) From January 1, 1959, through December 31, 1963 - 8¢ per MCF times percentage of gross production assigned by Assignor to Assignee.

(d) From January 1, 1964, through December 31, 1968 - 9¢ per MCF times percentage of gross production assigned by Assignor to Assignee.

(e) From January 1, 1969, and thereafter - 10¢ per MCF times percentage of gross production assigned by Assignor to Assignee.

BUT NOT MORE THAN:

(f) From date of first deliveries through December 31, 1953 - 9¢ per MCF times percentage of gross production assigned by Assignor to Assignee, Less $750. per month.

(g) From January 1, 1954, through December 31, 1958 - 10¢ per MCF times percentage of gross production assigned by Assignor to Assignee, Less $625. per month.

(h) From January 1, 1959, through December 31, 1963 - 11¢ per MCF times percentage of gross production assigned by Assignor to Assignee, Less $425. per month.

(i) From January 1, 1964, through December 31, 1968 - 12¢ per MCF times percentage of gross production assigned by Assignor to Assignee, Less $300. per month.

If at any time or times Southern Union Gas Company (or any successor company) shall pay a higher price for gas *in San Juan or Rio Arriba Counties, New Mexico, than the then applicable figure appearing in Parts (f), (g), (h) and (i) above, the then applicable figure appearing in Parts (f), (g), (h) and (i) above shall be increased to equal such higher price so long as the same is being paid by Southern Union Gas Company (or any successor company).

*(of the same quality and delivered under substantially the same conditions)

SCHEDULE A-2

SCHEDULE OF OVERRIDING ROYALTY PAYMENTS TO BE MADE TO ASSIGNOR BY ASSIGNEE ON PRODUCTION FROM FORMATIONS SHALLOWER THAN THE MESA VERDE UNDER THE FARM-OUT AGREEMENT DATED AUGUST 25, 1952, 1952, BETWEEN WESTERN NATURAL GAS COMPANY AND SOUTHERN UNION GAS COMPANY

From date of first deliveries through December 31, 1958 - 4¢ per MCF times percentage of gross production assigned by Assignor to Assignee.

From January 1, 1959, through December 31, 1963 - 5¢ per MCF times percentage of gross production assigned by Assignor to Assignee.

From January 1, 1964, through December 31, 1968 - 6¢ per MCF times percentage of gross production assigned by Assignor to Assignee.

From January 1, 1969, and thereafter - 7¢ per MCF times percentage of gross production assigned by Assignor to Assignee.

SCHEDULE B

SCHEDULE OF LEASES TO BE ASSIGNED BY ASSIGNOR TO ASSIGNEE UNDER FARM-OUT AGREEMENT BETWEEN WESTERN NATURAL GAS COMPANY AND SOUTHERN UNION GAS COMPANY

(1) The following described oil and gas leases, all of which have been issued by the United States of America:

Date	Lessee	Serial No.	Land Covered
2-1-48	James G. Oxnard	S.F. 078423	Township 29 North, Range 7 West, Rio Arriba County, New Mexico: Section 8: All Section 9: SW¼NW¼, NW¼NE¼, SE¼NE¼, NE¼NE¼, S½SW¼, NW¼SW¼ Section 11: NW¼, N½NE¼, SE¼NE¼, NE¼SE¼, S½SE¼, NW¼SW¼ Section 13: NW¼, N½SW¼, SE¼SW¼, SW¼SE¼ Section 14: N½NW¼ Section 17: All Containing 2400 acres, more or less.
5-1-48	R. V. Wickens	S.F. 078426	Township 29 North, Range 6 West, Rio Arriba County, New Mexico: Section 18: E½E½, NW¼NE¼, W½SW¼ Section 17: SW¼, W½SE¼, SE¼SE¼, W½NW¼, SE¼NW¼ Section 19: NE¼, W½SW¼, SE¼SW¼ Section 20: W½NW¼, NW¼SW¼, E½NE¼, SW¼SE¼ Section 30: W/2, NE/4, W/2 SE/4, NE/4 SE/4 Section 31: NW¼, NE¼, N½SE¼ Containing 2200 acres, more or less.
5-1-48	Clinton C. Seymour	S.F. 078505	Township 31 North, Range 9 West, San Juan County, New Mexico: Section 14: All Section 23: N½, SW¼ Section 24: All Section 25: N½, SE¼ Township 31 North, Range 8 West, San Juan County, New Mexico: Section 30: NW¼ Containing 2348.80 acres, more or less.

W/2 SE/4 SE SE reassigned to W/N 6/20/61

Reassigned to W/N 6/20/61

120
240
360

SCHEDULE D

OPERATING AGREEMENT

THIS AGREEMENT made and entered into on this _____ day of _____, 19_____, by and between Southern Union Gas Company, a Delaware corporation authorized to do business in the State of New Mexico, and having its principal office in Dallas, Texas (hereinafter called "Southern Union" or "Operator"), and _____

_____

_____

_____

_____

(hereinafter called "Non-operator", whether one or more),

W I T N E S S E T H T H A T:

WHEREAS, the parties hereto are the owners of undivided interests in the leases covering a certain _____ acre drilling unit (hereinafter referred to as "unit"), embracing the following described land in _____ County, New Mexico:

and

WHEREAS, the parties hereto desire to provide for the economical and joint operation of said unit for the production of gas and/or condensate (and any liquid hydrocarbons produced incidentally thereto) producible from _____, subject to and in accordance with the terms and provisions of this agreement:

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and promises herein contained, the parties hereto agree as follows:

I.

OPERATOR

Section 1. Southern Union Gas Company is hereby designated as Operator of the above described unit and, subject to the terms and conditions of this agreement, shall have full control of and shall conduct and manage all operations on said unit for the joint account of the parties hereto. Southern Union may resign as Operator at any time by giving notice to each Non-operator in writing sixty (60) days in advance of the effective date of such resignation and, in such event, the working interest owners of said unit shall immediately select a successor.

Section 2. In the event Southern Union shall sell or otherwise dispose of all of its interest in said unit, the right of operation herein conferred shall not run with the transfer or assignment of such interest or inure to the benefit of Southern Union's assignee, but Non-operator and Southern Union's assignee shall immediately select a new operator.

Section 3. The number of employees, the selection of such employees, the hours of labor and the compensation for services to be paid any and all employees, in connection with operations hereunder, shall be determined by Operator. All employees and contractors used in operations hereunder shall be employees and contractors of Operator and shall never be considered the employees or contractors of Non-operator.

II.

PERCENTAGE OF INTEREST

It is agreed that for purposes of this agreement the interest of each party hereto in said unit is as follows:

NAME INTEREST

III.

LOSS OR FAILURE OF TITLE

In the event of the loss or failure of the title, in whole or in part, of any party hereto to any lease, or to any interest therein, the interest of such party in and to the production obtained from the unit shall be reduced in proportion to such loss or failure of title as of the date such loss or failure of title is finally determined; provided, that such revision of ownership interest shall not be retroactive as to operating costs and expenses incurred or as to revenues or production obtained prior to such date; and provided, further, that each party hereto whose title has been lost or has failed, as aforesaid, shall indemnify and hold the other parties hereto harmless from and against any and all loss, cost, damage and expense which may result from, or arise because of, the delivery to such party of production obtained hereunder or the payment of proceeds derived from the sale of any such production, prior to the date loss or failure of title is finally determined.

IV.

TERM OF AGREEMENT

This agreement shall remain in full force and effect, unless sooner terminated by the mutual agreement of the parties hereto, as long as the lease(s) covering the land hereinabove described shall remain in force and effect.

V.

COST AND EXPENSES

Section 1. Unless Operator elects to require Non-operator to advance its share of the costs and expenses, as hereinafter provided, Operator shall initially advance and pay all operation expenses of said unit and shall charge each Non-operator with its pro rata part thereof on the basis of its proportionate interest in the unit as set out under Article II hereof.

Section 2. All such costs, expenses, credits and related matters, and the method of handling the accounting with respect thereto, shall be in accordance with the provisions of the Accounting Procedure, attached hereto as Exhibit "A" and made a part hereof for all purposes.

Section 3. In the event that Operator elects to require any Non-operator to advance its proportionate share of the above mentioned costs and expenses, Operator shall submit an itemized estimate of such costs and expenses for the succeeding calendar month to such Non-operator, showing therein the proportionate part of the estimated costs and expenses chargeable to such Non-operator. Within fifteen (15) days after receipt of said estimate, such Non-operator shall pay to the Operator its proportionate share of the estimated costs and expenses. If payment of the estimated costs and expenses is not made when due, the unpaid balance thereof shall bear interest at the rate of six percent (6%) per annum from the due date until paid. Adjustments between estimated and actual costs and expenses shall be made by Operator at the close of each calendar month and the account of the respective parties adjusted accordingly.

Section 4. Operator shall make no single expenditure in excess of One Thousand Dollars ($1,000.00) without first obtaining the consent thereto of each Non-operator.

VI.

DISPOSAL OF PRODUCTION

Each Non-operator shall own its proportionate share of all gas, casinghead gas and other hydrocarbon substances produced and saved from the unit, and shall be entitled to take all or any part thereof in kind, but if any Non-operator takes all or any part of its proportionate part of such production in kind, it shall bear any extra expense incurred by Operator in making such delivery in kind. In case of sales of production, each Non-operator shall collect direct from the purchaser or purchasers of such production for its proportionate part thereof.

VII.

INSURANCE

Section 1. Operator, or Operator's contractors or subcontractors, shall carry for the benefit of the joint account insurance to cover drilling operations on the unit as follows:

KIND	POLICY FORM	MINIMUM LIMITS OF LIABILITY
Workmen's Compensation	Statutory	Statutory
Contractor's Public Liability	Comprehensive (including coverage under all sections of policy)	B.I. ($ 50,000 each person ($100,000 each accident ($100,000 aggregate P.D. ($ 10,000 each accident ($ 50,000 aggregate
Motor Vehicle	Comprehensive (including non-ownership liability and hired automobile coverage)	B.I. ($ 50,000 each person ($100,000 each accident P.D. ($ 10,000 each accident

Section 2. With respect to producing operations conducted hereunder on the unit by the Operator for the joint account of the parties hereto, Operator shall maintain in effect at all times while operations are so conducted hereunder the following insurance coverage:

KIND	POLICY FORM	MINIMUM LIMITS OF LIABILITY
Workmen's Compensation	Statutory	Statutory
Contractor's Public Liability	Comprehensive (including coverage under all sections of policy)	B.I. ($100,000 each person ($300,000 each accident ($300,000 aggregate P.D. ($100,000 each accident ($100,000 aggregate
Motor Vehicle	Comprehensive (including non-ownership liability and hired automobile coverage)	B.I. ($100,000 each person ($300,000 each accident P.D. ($ 10,000 each accident

Operator will, upon request, furnish to Non-operator certificate(s) evidencing such insurance.

VIII.

ABANDONMENT OF WELL

No well on the unit which is capable of producing gas and/or condensate from the formations covered by this agreement shall be abandoned without the mutual consent of the parties hereto. If any of the parties desire to abandon such well, such party or parties shall so notify the other party or parties in writing and the latter shall have ten (10) days after receipt of such notice in which to elect whether to agree to such abandonment. If all parties hereto agree to such abandonment, such well shall be abandoned and plugged by Operator at the expense of the joint account, and as much as possible of the casing and other physical equipment in and on said well shall be salvaged for the benefit of the joint account. If any party or parties do not agree to said abandonment, such party or parties shall purchase the interest(s) of the party or parties desiring to abandon said well in the physical equipment therein and thereon; and, within twenty-five (25) days after the receipt of notice by the party or parties not electing to abandon, the party or parties desiring to abandon shall execute and deliver to the other party or parties an assignment, without warranty of title, of its or their interest in said well and physical equipment, and in

the working interest and gas leasehold estate, insofar as it covers the formation(s) covered by this agreement, in said unit. In exchange for said assignment, the purchasing party or parties shall pay to the assigning party or parties the salvage value of the latter's interest in the salvable casing and other physical equipment in and on said well, such value to be determined in accordance with the provisions of the Accounting Procedure, attached hereto as Exhibit "A".

IX.

TAXES

The Operator shall render, for ad valorem tax purposes, the entire leasehold rights and interests covered by this agreement and all physical property located thereon or used in connection therewith, or such part thereof as may be subject to ad valorem taxation under existing laws of the State of New Mexico or which may be made subject to taxation under future laws, and shall pay for the benefit of the joint account all such ad valorem taxes at the time and in the manner required by law which may be assessed upon or against all or any portion of such leasehold rights and interests and the physical property located thereon or used in connection therewith. Operator shall bill each Non-operator for its proportionate share of such tax payments provided by the Accounting Procedure, attached hereto as Exhibit "A".

X.

OPTION TO PURCHASE

Section 1. In the event that any party hereto receives a bona fide offer which it is willing to accept for the purchase of its interest in the unit, or any part thereof, from a person, firm or corporation ready, able and willing to purchase such interest or part thereof,

the party receiving such offer shall immediately give written notice thereof to each of the other parties hereto, including in such notice the name and address of such offeror, the price offered and all other pertinent terms and conditions of the offer. The other parties hereto, for a period of seven (7) days after the receipt of the notice, shall have the prior and preferred right and option to purchase the lease or leases, or part thereof, covered by the offer, at the price and according to the terms and conditions specified therein.

Section 2. If the other parties hereto fail to exercise their right and option by giving written notice of acceptance within seven (7) days after receipt of the above mentioned notice, the party which received the offer shall accept it and complete the sale to the offeror in accordance with its offer within sixty (60) days after the expiration of said seven (7) day period; provided, that if the party which received the offer fails to accept it or to complete the sale within said period of sixty (60) days, the preferred right and option of the other parties hereto under this Article X shall be considered as revived, and the party which received the offer shall not complete such sale to the offeror unless and until the offer again has been presented to the other parties hereto, as hereinabove provided, and the other parties again have failed to elect to purchase on the terms and conditions of the offer. All offers, except as hereinafter specifically excepted, at any time made to any party hereto for the purchase of its interest in the pooled unit, or a part thereof, shall be subject to all the terms and conditions of this Article X.

Section 3. It is expressly agreed that the foregoing provisions of this Article X shall not apply to a transfer by a corporate party hereto made in connection with a merger, consolidation or reorganization

involving such party and its parent subsidiary or an affiliated company, nor the transfer by any party to a wholly owned subsidiary or to any other person, firm or corporation having an identity of interest or an option agreement covering any of the land and leases subject to this agreement. Further, the limitations contained in this Article X shall not restrict the right of any party hereto to mortgage its interest in the unit, and the transfer thereof to any Trustee under any trust indenture executed in connection with any such mortgage shall not be deemed to be a sale nor shall any Trustee by reason of any such assignment become obligated in any manner hereunder, and the provisions of this Article X shall not apply to the judicial foreclosure sale held in enforcement of any such mortgage nor to a sale by any Trustee under the terms of any such trust indenture in the exercise of the powers of sale thereunder.

XI.

RELATION OF PARTIES

The rights, duties, obligations and liabilities of the parties hereto shall be several and not joint or collective, it being the express purpose and intention of the parties hereto that their ownership in said unit shall be as tenants in common; and nothing herein contained shall ever be construed as creating a partnership of any kind, joint venture, an association or a trust or as imposing upon any one or more of the parties hereto any partnership duty, obligation or liability. Each party hereto shall be individually responsible only for its obligations as set out in this agreement.

XIII.

ACCESS TO PREMISES, LOGS AND REPORTS

Operator shall keep accurate logs of the well drilled on said unit, which logs shall be available at all reasonable times for inspection by any Non-operator. Upon request by any Non-operator,

Operator shall furnish to such Non-operator a copy of said logs, samples of cores and cuttings of formations encountered, and monthly progress reports relative to the development and operation of said unit, together with any other information which may be reasonably requested pertaining to such well. Each Non-operator shall have access to said unit and to all books and records pertaining to operations hereunder for the purpose of inspection at all reasonable times.

XIII.

SURRENDER, EXPIRATION, ABANDONMENT OR RELEASE OF LEASE

No lease or leases subject to this agreement shall be surrendered, let to expire, abandoned or released, in whole or in part, unless the parties mutually consent thereto in writing. In the event that less than all of the parties hereto should elect to surrender, let expire, abandon or release all or any part of a lease or leases subject to this agreement and the other party or parties do not consent or agree, the party so electing shall notify the other party or parties not less than sixty (60) days in advance of such surrender, expiration, abandonment or release and, if requested so to do by the party not so electing, immediately shall assign without warranty to the latter party or parties all of its rights, title and interest in and to said lease or leases, the well or wells located thereon, and the casing and other physical equipment in or on said well or wells. If the party or parties not so electing fail(s) to request such assignment within such sixty (60) day period, the party so electing shall have the right to surrender, let expire, abandon or release said lease or leases, or any part thereof. In the event such assignment is so requested, the party or parties to whom such assignment is made, upon the delivery thereof, shall pay to the assigning party the salvage value of its interest in all the

salvable casing and other physical equipment in or on the unit, said value to be determined in accordance with the provisions of the Accounting Procedure, attached hereto as Exhibit "A". After the delivery of any such assignment, the party making the assignment shall be released from and discharged of all the duties and obligations thereafter accruing or arising hereunder, in connection with the operation and development of the unit, with respect to the assigned lease or leases.

XIV.

LAWS AND REGULATIONS

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

XV.

FORCE MAJEURE

Section 1. In the event that any party hereto is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make payments of amounts due hereunder, upon such party's giving notice and reasonably full particulars of such force majeure in writing or by telegraph to the other parties hereto within a reasonable time after the occurrence of the cause relied upon, the obligations of the party giving said notice, so far as they are affected by such force majeure, shall be suspended during the continuance of any inability so caused, but for no longer

period; and the cause of the force majeure as far as possible shall be remedied with all reasonable dispatch.

Section 2. The term "force majeure" as employed herein shall mean an act of God, strike, lockout or other industrial disturbance, act of the public enemy, war, blockade, riot, lightning, fire, storm, flood, explosion, governmental restraint and any other cause, whether of the kind herein enumerated or otherwise, not reasonably within the control of the party claiming suspension.

Section 3. The settlement of strikes, lockouts and other labor difficulty shall be entirely within the discretion of the party having the difficulty. The above 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 acceding to the demands of opponents therein when such course is inadvisable in the discretion of the party having the difficulty.

XVI.

NOTICES

Except as herein otherwise expressly provided, all notices, reports and other communications required or permitted hereunder shall be deemed to have been properly given or delivered when delivered personally or when sent by registered mail or telegraph, with all postage or charges fully prepaid, and addressed to the parties hereto, respectively, as follows:

To Non-operator:

To Operator: Southern Union Gas Company
1104 Burt Building
Dallas 1, Texas

The date of service by mail shall be the date on which such written notice or other communication is deposited in the United States post office, addressed as above provided. Each party hereto shall have the right to change its address for all purposes of this Article XVI by notifying the other parties hereto thereof in writing.

XVII.

EFFECT OF AGREEMENT

The terms, covenants and conditions of this agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns; and said terms, covenants and conditions shall be covenants running with the land and leasehold estates covered hereby and with each transfer or assignment of said land or leasehold estates.

XVIII.

OPERATOR'S LIEN

Operator shall have an express contract lien, which is hereby granted, upon the interest of each Non-operator in said unit, in the oil, gas or other minerals produced from such unit and in the materials and equipment located thereon, to secure the payment by each Non-operator of its proportionate part of the costs and expenses incurred or paid by Operator hereunder, and interest, if any, accrued on such part. Such lien may be enforced and foreclosed as any other contract lien. Moreoever, Operator may to the full extent of any indebtedness owed by it to any such Non-operator, offset such debt against sums owing to Operator hereunder by such Non-operator.

IN WITNESS WHEREOF, the parties hereto have executed this agreement

as of the day and year first above written.

ATTEST:

SOUTHERN UNION GAS COMPANY

_____
Secretary

By: _____
Vice President

OPERATOR

_____

NON-OPERATOR

Attached to and made a part of _____

_____

_____

ACCOUNTING PROCEDURE

(UNIT AND JOINT LEASE OPERATIONS)

I. GENERAL PROVISIONS

1. **Definitions**
The term "joint property" as herein used shall be construed to mean the subject area covered by the agreement to which this "Accounting Procedure" is attached.
The term "Operator" as herein used shall be construed to mean the party designated to conduct the development and operation of the leased premises for the joint account.
The term "Non-Operator" as herein used shall be construed to mean any one or more of the non-operating parties.

2. **Statements and Billings**
Operator shall bill Non-Operator on or before the last day of each month for its proportionate share of costs and expenditures during the preceding month. Such bills will be accompanied by statements, reflecting the total costs and charges as set forth under Sub-Paragraph C below:
A. Statement in detail of all charges and credits to the joint account.
B. Statement of all charges and credits to the joint account, summarized by appropriate classifications indicative of the nature thereof.
C. Statements, as follows:
(1) Detailed statement of material ordinarily considered controllable by Operators of oil and gas properties;
(2) Statement of all other charges and credits to the joint account summarized by appropriate classifications indicative of the nature thereof; and
(3) Statement of any other receipts and credits.

3. **Payments by Non-Operator**
Each party shall pay its proportion of all such bills within fifteen (15) days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest at the rate of six per cent (6%) per annum until paid.

4. **Audits**
Payment of any such bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof. All statements rendered to Non-Operator by Operator during any calendar year shall be conclusively presumed to be true and correct after eighteen months following the close of any such calendar year, unless within said eighteen months period Non-Operator takes written exception thereto and makes claim on Operator for adjustment. Failure on the part of Non-Operator to make claim on Operator for adjustment within such period shall establish the correctness thereof and preclude the filing of exceptions thereto or the making of claims for adjustment thereon. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the accounting hereunder, within eighteen months next following the close of any calendar year. Non-Operator shall have six months next following the examination of the Operator's records within which to take written exception to and make any and all claims on Operator. The provisions of this paragraph shall not prevent adjustments resulting from the physical inventory of property as provided for in Section VI, Inventories, hereof.

II. DEVELOPMENT AND OPERATING CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the joint account with the following items:

1. **Rentals and Royalties**
Delay or other rentals, when such rentals are paid by Operator for the joint account; royalties, when not paid direct to royalty owners by the purchaser of the oil, gas, casinghead gas, or other products.

2. **Labor, Transportation, and Services**
Labor, transportation, and other services necessary for the development, maintenance, and operation of the joint property. Labor shall include (A) Operator's cost of vacation, sickness and disability benefits of employees, and expenditures or contributions imposed or assessed by governmental authority applicable to such labor, and (B) Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of like nature, applicable to Operator's field payroll: provided that the charges under Part (B) of this paragraph shall not exceed five per cent (5%) of the total of such labor charged to the joint account.

3. **Material**
Material, equipment, and supplies purchased or furnished by Operator, for use of the joint property. So far as it is reasonably practical and consistent with efficient and economical operation, only such material shall be purchased for or transferred to the joint property as required for immediate use, and the accumulation of surplus stocks shall be avoided.

4. **Moving Material to Joint Property**
Moving material to the joint property from Vendor's or from Operator's warehouse in the district or from the other properties of Operator, but in either of the last two events no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where such material is available, except by special agreement with Non-Operator.

F. The above overhead schedule on producing wells shall be applied to individual leases; provided that, whenever leases covered by this agreement are operated as a unitized project in the interest of economic development, the schedule shall be applied to the total number of wells, irrespective of individual leases.
G. The above specific overhead rates may be amended from time to time by agreement between Operator and Non-Operator if, in practice, they are found to be insufficient or excessive.

13. **Warehouse Handling Charges**
None

14. **Other Expenditures**
Any other expenditure incurred by Operator for the necessary and proper development, maintenance, and operation of the joint property.

III. BASIS OF CHARGES TO JOINT ACCOUNT

1. **Purchases**
Material and equipment purchased and service procured shall be charged at price paid by Operator, after deduction of all discounts actually received.

2. **Material Furnished by Operator**
Material required for operations shall be purchased for direct charge to joint account whenever practicable, except that Operator may furnish such material from Operator's stocks under the following conditions:
A. New Material (Condition "A")
(1) New material transferred from Operator's warehouse or other properties shall be priced f. o. b. the nearest reputable supply store or railway receiving point, where such material is available, at current replacement cost of the same kind of material. This will include material such as tanks, rigs, pumps, sucker rods, boilers, and engines. Tubular goods (2" and over), shall be priced on carload basis effective at date of transfer and f. o. b. railway receiving point nearest the joint account operation, regardless of quantity transferred.
(2) Other material shall be priced on basis of a reputable supply company's Preferential Price List effective at date of transfer and f. o. b. the store or railway receiving point nearest the joint account operation where such material is available.
(3) Cash discount shall not be allowed.
B. Used Material (Condition "B" and "C")
(1) Material which is in sound and serviceable condition and is suitable for reuse without reconditioning shall be classed as Condition "B" and priced at 75% of new price.
(2) Material which cannot be classified as Condition "B" but which,
(a) After reconditioning will be further serviceable for original function as good second hand material (Condition "B"), or
(b) Is serviceable for original function but substantially not suitable for reconditioning,
shall be classed as Condition "C" and priced at 50% of new price.
(3) Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use.
(4) Tanks, derricks, buildings, and other equipment involving erection costs shall be charged at applicable percentage of knocked-down new price.

3. **Warranty of Material Furnished by Operator**
Operator does not warrant the material furnished beyond or back of the dealer's or manufacturer's guaranty; and, in case of defective material, credit shall not be passed until adjustment has been received by Operator from the manufacturers or their agents.

4. **Operator's Exclusively Owned Facilities**
The following rates shall apply to service rendered to the joint account by facilities owned exclusively by Operator:
A. Water service, fuel gas, power, and compressor service: At rates commensurate with cost of providing and furnishing such service to the joint account but not exceeding rates currently prevailing in the field where the joint property is located.
B. Automotive Equipment: Rates commensurate with cost of ownership and operation. Such rates should generally be in line with schedule of rates adopted by the Petroleum Motor Transport Association, or some other recognized organization, as recommended uniform charges against joint account operations and revised from time to time. Automotive rates shall include cost of oil, gas, repairs, insurance, and other operating expense and depreciation; and charges shall be based on use in actual service on, or in connection with, the joint account operations. Truck, tractor, and pulling unit rates shall include wages and expenses of driver.
C. A fair rate shall be charged for the use of drilling and cleaning-out tools and any other items of Operator's fully owned machinery or equipment which shall be ample to cover maintenance, repairs, depreciation, and the service furnished the joint property; provided that such charges shall not exceed those currently prevailing in the field where the joint property is located.
D. Whenever requested, Operator shall inform Non-Operator in advance of the rates it proposes to charge.
E. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

IV. DISPOSAL OF LEASE EQUIPMENT AND MATERIAL

The Operator shall be under no obligation to purchase interest of Non-Operator in surplus new or secondhand material. Derricks, tanks, buildings, and other major items shall not be removed by Operator from the joint property without the approval of Non-Operator. Operator shall not sell major items of material to an outside party without giving Non-Operator an opportunity either to purchase same at the price offered or to take Non-Operator's share in kind.

NM-9435
DP # 32292 A
Sequence #7

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San Juan Basin Form

COMMUNITIZATION AGREEMENT

Contract No. 14-08-001-917

THIS AGREEMENT entered into as of the 30th day of March, 19 53, by and between the parties subscribing, ratifying or consenting hereto, such parties being hereinafter referred to as "parties hereto",

W I T N E S S E T H :

WHEREAS, the Act of February 25, 1920, 41 Stat. 437, as amended by the Act of August 8, 1946, 60 Stat. 950, 30 U.S.C. Secs. 181 et seq., authorizes communitization or drilling agreements communitizing or pooling a federal oil and gas lease, or any portion thereof, with other lands, whether or not owned by the United States, when separate tracts under such federal lease cannot be independently developed and operated in conformity with an established well-spacing program for the field or area and such communitization or pooling is determined to be in the public interest; and

WHEREAS, the parties hereto own working, royalty or other leasehold interests, or operating rights under the oil and gas leases and lands subject to this agreement which cannot be independently developed and operated in conformity with the well-spacing program established for the field or area in which said lands are located; and

WHEREAS, the parties hereto desire to communitize and pool their respective mineral interests in lands subject to this agreement for the purpose of developing and producing dry gas and associated liquid hydrocarbons in accordance with the terms and conditions of this agreement:

NOW, THEREFORE, in consideration of the premises and the mutual advantages to the parties hereto, it is mutually covenanted and agreed by and between the parties hereto as follows:

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1. The lands covered by this agreement (hereinafter referred to as "communitized area") are described as follows:

Township 31 North, Range 9 West, N.M.P.M.
San Juan County, New Mexico

Section 23: $E\frac{1}{2}$

containing 320 acres, more or less,

and this agreement shall extend to and include only the Mesaverde formation underlying said lands and the dry gas and associated liquid hydrocarbons (hereinafter referred to as "communitized substances") producible from such formation.

2. Attached hereto, and made a part of this agreement for all purposes, is Exhibit A designating the operator of the communitized area and showing the acreage, percentage and ownership of oil and gas interests in all lands within the communitized area, and the authorization, if any, for communitizing or pooling any patented or fee lands within the communitized area.

3. All matters of operation shall be governed by the Operator under and pursuant to the terms and provisions of this agreement. A successor operator may be designated by the owners of the working interest in the communitized area and four (4) executed copies of a designation of successor operator shall be filed with the Oil and Gas Supervisor.

4. Operator shall furnish the Secretary of the Interior, or his authorized representative, with a log and history of any well drilled on the communitized area, monthly reports of operations, statements of gas sales and royalties and such other reports as are deemed necessary to compute monthly the royalty due the United States, as specified in the applicable oil and gas operating regulations. Operator, in operations hereunder, shall not discriminate against any employee or applicant for employment because of race, creed, color or national origin and an identical provision shall be incorporated in all subcontracts.

5. The communitized area shall be developed and operated as an entirety with the understanding and agreement between the parties hereto that all

communitized substances produced therefrom shall be allocated among the leaseholds comprising said area in the proportion that the acreage interest of each leasehold bears to the entire acreage interest committed to this agreement.

6. The royalties payable on communitized substances allocated to the individual leases comprising the communitized area and the rentals provided for in said leases shall be determined and paid on the basis prescribed in each of the individual leases. Payment of rentals under the terms of leases subject to this agreement shall not be affected by this agreement except as provided for under the terms and provisions of said leases or as may herein be otherwise provided. Except as herein modified and changed, the oil and gas leases subject to this agreement shall remain in full force and effect as originally made and issued.

7. There shall be no obligation on the lessees to offset any dry gas well or wells completed in the same formation as covered by this agreement on separate component tracts into which the communitized area is now or may hereafter be divided, nor shall any lessee be required to measure separately communitized substances by reason of the diverse ownership thereof, but the lessees hereto shall not be released from their obligation to protect said communitized area from drainage of communitized substances by a well or wells which may be drilled offsetting said area.

8. The commencement, completion, continued operation or production of a well or wells for communitized substances on the communitized area shall be construed and considered as the commencement, completion, continued operation or production on each and all of the lands within and comprising said communitized area, and operations or production pursuant to this agreement shall be deemed to be operations or production as to each lease committed hereto.

9. Production of communitized substances and disposal thereof shall be in conformity with allocation, allotments and quotas made or fixed by any duly authorized person or regulatory body under applicable Federal or State statutes. This agreement shall be subject to all applicable Federal and State laws or executive orders, rules and regulations, and no party hereto shall suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this agreement if such compliance is prevented by, or if such failure results from, compliance with any such laws, orders, rules or regulations.

10. This agreement shall be effective as of the date hereof upon execution by the necessary parties, notwithstanding the date of execution, and upon approval by the Secretary of the Interior, or his duly authorized representative, and shall remain in force and effect for a period of two (2) years and so long thereafter as communitized substances are produced from the communitized area in paying quantities; provided, that prior to production in paying quantities from the communitized area and upon fulfillment of all requirements of the Secretary of the Interior, or his duly authorized representative, with respect to any dry hole or abandoned well, this agreement may be terminated at any time by mutual agreement of the parties hereto.

11. It is agreed between the parties hereto that the Secretary of the Interior, or his duly authorized representative, shall have the right of supervision over all operations within the communitized area to the same extent and degree as provided in the oil and gas leases under which the United States of America is lessor and in the applicable oil and gas regulations of the Department of the Interior.

12. The covenants herein shall be construed to be covenants running with the land with respect to the communitized interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer or conveyance of any such land or interest subject hereto, whether voluntary or not, shall be and hereby is conditioned upon the assumption of all obligations hereunder by the grantee, transferree or other successor in interest, and as to Federal land shall be subject to approval by the Secretary of the Interior.

13. This agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors and assigns.

14. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument, in writing, specifically referring hereto, and shall be binding upon all parties who have executed such a counterpart,

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ratification or consent hereto with the same force and effect as if all parties had signed the same document.

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

ATTEST:

_____ Secretary

SOUTHERN UNION GAS COMPANY

By _____

_____ President

OPERATOR

_____

John C. Dawson

_____

Lucille L. Dawson, his wife

_____

Claude A. Teel

_____

Mary Nell Teel, his wife

ATTEST:

_____ Asst. Secretary

Approved as to form _____

SKELLY OIL COMPANY

By _____

_____ President

LESSEES AND WORKING INTEREST OWNERS

_____

C. A. McAdams

_____

McAdams, his wife

_____

A. W. Rutter

_____

Rutter, his wife

_____

R. H. Ernest

_____

Ernest, his wife

ATTEST:

_____ Secretary

ALBUQUERQUE ASSOCIATED OIL COMPANY

By _____

_____ President

RATIFYING OVERRIDING ROYALTY OWNERS

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STATE OF TEXAS)
) SS
COUNTY OF HARRIS)

On this 3rd day of June, 19 53, before me personally appeared John C. Dawson and Lucylle R. Dawson, his wife, known to me to be the person(s) who executed the above and foregoing instrument and acknowledged to me that they executed the same as their free act and deed.

IN WITNESS WHEREOF, I have set my hand and seal of office on this 3rd day of June, 19 53.

E. D. Story, Jr.
Notary Public in and for
Harris County, Texas

My Commission Expires:

E. D. STORY, JR.
Notary Public in and for Harris County, Texas
My Commission Expires June 1, 1955

STATE OF TEXAS)
) SS
COUNTY OF DALLAS)

On this 7th day of April, 19 53, before me appeared J. C. Reid, to me personally known, who, being by me duly sworn, did say that he is the Vice President of SOUTHERN UNION GAS COMPANY and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said J. C. Reid acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have set my hand and seal of office on this 7th day of April, 19 53.

Mary Jane Watkins
Notary Public in and for
Dallas County, Texas

My Commission Expires:
June 1, 1953

168. G

STATE OF New Mexico)
) SS
COUNTY OF Bernalillo)

On this _____ day of _____, 19 53, before me personally appeared Claude A. Teel and Mary Nell Teel, his wife, known to me to be the person(s) who executed the above and foregoing instrument and acknowledged to me that they executed the same as their free act and deed.

IN WITNESS WHEREOF, I have set my hand and seal of office on this 27 day of April, 19 53.

August E Bosch
Notary Public in and for
Bernalillo County, New Mexico

My Commission Expires:
July 3, 1956

STATE OF Okla.)
) SS
COUNTY OF Tulsa)

On this 21st day of May, 19 53, before me appeared A. L. Cashman, to me personally known, who, being by me duly sworn, did say that he is the Vice President of SHELLY OIL COMPANY and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said A. L. Cashman acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have set my hand and seal of office on this 21st day of May, 19 53.

Hazel M Brady
Notary Public in and for
Tulsa County, Oklahoma

My Commission Expires:

HAZEL M. BRADY
Notary Public, Tulsa County, Oklahoma
My Commission Expires January 21, 1957

168-4

OPERATING AGREEMENT

THE STATE OF NEW MEXICO)
)
COUNTY OF BERNALILLO)

On this 27th day of April, 1953, before me personally appeared Georgia McAdams, to me known to be the person who executed the foregoing instrument in behalf of C. A. McAdams, and acknowledged that she executed the same as a free act and deed of said C. A. McAdams.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal on this, the day and year first above written.

My commission expires:

My Commission Expires September 27, 1955

Notary Public in and for Bernalillo County, New Mexico.

THE STATE OF NEW MEXICO)
)
COUNTY OF BERNALILLO)

On this 27th day of April, 1953, before me personally appeared Georgia McAdams, wife of C. A. McAdams, to me known to be the person described in and who executed the foregoing instrument, and acknowledged to me that she executed the same as her free act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal this, the day and year first above written.

My commission expires:

My Commission Expires September 27, 1955

Notary Public in and for Bernalillo County, New Mexico.

168-2

STATE OF ____________)
) SS
COUNTY OF ____________)

On this ______ day of ______________, 1953, before me personally appeared C. A. McAdams and [illegible] McAdams, his wife, known to me to be the person(s) who executed the above and foregoing instrument and acknowledged to me that they executed the same as their free act and deed.

IN WITNESS WHEREOF, I have set my hand and seal of office on this ______ day of ______________, 1953.

____
Notary Public in and for
____________ County, ____________

My Commission Expires:

____

STATE OF ____________)
) SS
COUNTY OF ____________)

On this ______ day of ______________, 1953, before me personally appeared A. W. Butler and Butler, his wife, known to me to be the person(s) who executed the above and foregoing instrument and acknowledged to me that they executed the same as their free act and deed.

IN WITNESS WHEREOF, I have set my hand and seal of office on this ______ day of ______________, 1953.

____
Notary Public in and for
____________ County, ____________

My Commission Expires:

____

168-J

STATE OF _____)
) SS
COUNTY OF _____)

On this _____ day of _____, 19 53, before me personally appeared E. E. Emmet and Emmet, his wife, known to me to be the person(s) who executed the above and foregoing instrument and acknowledged to me that they executed the same as their free act and deed.

IN WITNESS WHEREOF, I have set my hand and seal of office on this _____ day of _____, 19 53.

My Commission Expires: _____

_____ Notary Public in and for _____ County, _____

STATE OF New Mexico)
) SS
COUNTY OF Bernalillo)

On this 27 day of April, 19 53, before me appeared Dudley Cornell, to me personally known, who, being by me duly sworn, did say that he is the _____ President of ALBUQUERQUE ASSOCIATED OIL COMPANY and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said Dudley Cornell acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have set my hand and seal of office on this 27 day of April, 19 53.

My Commission Expires:
LV2-29-56

Matilda A. Downes
Notary Public in and for
Bernalillo County, New Mexico

168-K

Exhibit A to Communitization Agreement
dated March 30, 1953, embracing: E½ of Section 23,
Township 31 North, Range 9 West, N.M.P.M., San Juan County, New Mexico

Operator of Communitized Area: Southern Union Gas Company

DESCRIPTION OF LEASES COMMITTED

Tract No. 1

Lessor: United States of America

Lessee of Record: John C. Dawson

Serial No. of Lease: Santa Fe 078505

Date of Lease: May 1, 1948

Description of Lands Committed: Township 31 North, Range 9 West, N.M.P.M.
Section 23: NE¼

Number of Acres: 160

Working Interest and Percentage: John C. Dawson 84½ %

O.R.R.I. and Percentage:
C. A. McAdams 3/4 of 1%
A. W. Rutter 1/4 of 1%
R. H. Ernest 1/4 of 1%
Albuquerque Associated Oil Co. 1 - 3/4 %

Tract No. 2

Lessor: United States of America

Lessee of Record: Claude A. Teel

Serial No. of Lease: NM-03601

Date of Lease: May 1, 1948

Description of Lands Committed: Township 31 North, Range 9 West, N.M.P.M.
Section 23: SE¼

Number of Acres: 160

Working Interest and Percentage: Skelly Oil Company 81½ %

O.R.R.I. and Percentage:
Claude A. Teel 1 %
(This interest is subject to CFR 192.83)
Albuquerque Associated Oil Co. 5 %

Recapitulation

Tract Number	No. of Acres Committed	Percentage of Interest In Communitized Area
1	160	50%
2	160	50%

PU #69
Seymour #7

5

STATE OF NEW MEXICO, County of San Juan ss.
I hereby certify this instrument was filed for record
June 29, 1953 at 8:22 o'clock A. M.,
and duly recorded in book 214, page 5 of the
Records of said county.
Virginia B. Kittell
Probate Clerk and ex-officio Recorder

OPERATING AGREEMENT

THIS AGREEMENT, made and entered into on this 10th day of April, 1953, by and between SOUTHERN UNION GAS COMPANY, a Delaware corporation authorized to do business in the State of New Mexico, and having its principal office in Dallas, Texas (hereinafter called "Southern Union" or "Operator"), and SKELLY OIL COMPANY

(hereinafter called "Non-operator", whether one or more),

W I T N E S S E T H T H A T :

WHEREAS, under date of March 30, 1953, a certain communitization (or pooling) agreement was made and entered into providing for the communitization, pooling and consolidation of certain oil and gas leases therein described so as to form a drilling unit (hereinafter referred to as "unit"), embracing the following described land in San Juan County, New Mexico:

Township 31 North, Range 9 West, N.M.P.M.

Section 23: E½

to which agreement reference is here made for all purposes; and

WHEREAS, the parties hereto desire to provide for the economical and joint operation of said unit for the production of gas and associated liquid hydrocarbonds producible from Mesaverde formation, subject to and in accordance with the terms and provisions of this agreement:

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and promises herein contained, the parties hereto agree as follows:

I.

OPERATOR

Section 1. Southern Union Gas Company is hereby designated as Operator of

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the above described unit and, subject to the terms and conditions of this agreement, shall have full control of and shall conduct and manage all operations on said unit for the joint account of the parties hereto. Southern Union may resign as Operator at any time by giving notice to each Non-operator in writing sixty (60) days in advance of the effective date of such resignation and, in such event, the working interest owners of said unit shall immediately select a successor.

Section 2. In the event Southern Union shall sell or otherwise dispose of all of its interest in said unit, the right of operation herein conferred shall not run with the transfer or assignment of such interest or inure to the benefit of Southern Union's assignee, but Non-operator and Southern Union's assignee shall immediately select a new Operator.

Section 3. The number of employees, the selection of such employees, the hours of labor and the compensation for services to be paid any and all employees, in connection with operations hereunder, shall be determined by Operator. All employees and contractors used in operations hereunder shall be employees and contractors of Operator and shall never be considered the employees or contractors of Non-operator.

II.

PERCENTAGE OF INTEREST

It is agreed that for purposes of this agreement the interest of each party hereto in said unit is as follows:

NAME	INTEREST
SOUTHERN UNION GAS COMPANY	50%
SKELLY OIL COMPANY	50%

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III.

DRILLING OPERATIONS

Section 1. Subject to all other applicable provisions of this agreement, Operator, on or before sixty (60) days from approval of the above described communitization agreement by the United States Geological Survey, shall commence, or cause to be commenced, operations for the drilling of a well for the joint account of the parties hereto, at the following location:

Township 31 North, Range 9 West, N.M.P.M.

Section 23: NE¼NE¼

and cause said well to be diligently drilled without unnecessary delay and in a good workmanlike manner to a sufficient depth to test the Mesaverde formation, unless the parties hereto mutually agree to discontinue drilling operations at a lesser depth. It is understood and agreed that the commencement date for said well shall be extended for a reasonable period when necessary to perfect title to the lands committed to the unit.

~~Section 2. Upon request of Operator, each Non-operator shall furnish and deliver to Operator its proportionate share of casing and other equipment, except drilling equipment normally furnished by a drilling contractor, which will be required to complete and equip said well.~~

Section 3. Prior to commencement of drilling operations, as provided in Section 1 hereof, Operator shall furnish each Non-operator an estimate of the costs expected to be incurred in drilling and equipping said well.

Section 4. All costs and expenses incurred in connection with the drilling, completing, testing, equipping, and if a dry hole, the plugging and abandoning, of said well shall be borne by the parties hereto in the proportions set out under Article II hereof.

IV.

LOSS OR FAILURE OF TITLE

In the event of the loss or failure of the title, in whole or in part, of

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any party hereto to any lease, or to any interest therein, the interest of such party in and to the production obtained from the unit shall be reduced in proportion to such loss or failure of title as of the date such loss or failure of title is finally determined; provided, that such revision of ownership interest shall not be retroactive as to operating costs and expenses incurred or as to revenues or production obtained prior to such date; and provided, further, that each party hereto whose title has been lost or has failed, as aforesaid, shall indemnify and hold the other parties hereto harmless from and against any and all loss, cost, damage and expense which may result from, or arise because of, the delivery to such party of production obtained hereunder or the payment of proceeds derived from the sale of any such production, prior to the date loss or failure of title is finally determined.

V.

TERM OF AGREEMENT

This agreement shall remain in full force and effect, unless sooner terminated by the mutual agreement of the parties hereto, as long as the communitization (or pooling) agreement hereinabove described shall remain in force and effect.

VI.

COSTS AND EXPENSES

Section 1. Unless Operator elects to require Non-operator to advance its share of the costs and expenses, as hereinafter provided, Operator shall initially advance and pay all costs and expenses for the drilling of the well provided for under Article III hereof as well as operation expenses of said unit and shall charge each Non-operator with its pro rata part thereof on the basis of its proportionate interest in the unit as set out under Article II hereof.

Section 2. All such costs, expenses, credits and related matters, and the method of handling the accounting with respect thereto, shall be in accordance with the provisions of the Accounting Procedure, attached hereto as Exhibit "A" and made a part hereof for all purposes.

Section 3. In the event that Operator elects to require any Non-operator

to advance its proportionate share of the above mentioned costs and expenses, Operator shall submit an itemized estimate of such costs and expenses for the succeeding calendar month to such Non-operator, showing therein the proportionate part of the estimated costs and expenses chargeable to such Non-operator. Within fifteen (15) days after receipt of said estimate, such Non-operator shall pay to the Operator its proportionate share of the estimated costs and expenses. If payment of the estimated costs and expenses is not made when due, the unpaid balance thereof shall bear interest at the rate of six per cent (6%) per annum from the due date until paid. Adjustments between estimated and actual costs and expenses shall be made by Operator at the close of each calendar month and the account of the respective parties adjusted accordingly.

Section 4. Operator shall make no single expenditure in excess of One Thousand Dollars ($1,000.00) without first obtaining the consent thereto of each Non-operator. The approval of the drilling of the well provided for hereinabove, however, shall include all expenditures for the drilling, completing, testing and equipping of such well, including the necessary lines and separators.

VII.

DISPOSAL OF PRODUCTION

Each Non-operator shall own its proportionate share of all gas, casinghead gas and other hydrocarbon substances produced and saved from the unit, and shall be entitled to take all or any part thereof in kind, but if any Non-operator takes all or any part of its proportionate part of such production in kind, it shall bear any extra expense incurred by Operator in making such delivery in kind. In case of sales of production, each Non-operator shall collect direct from the purchaser or purchasers of such production for its proportionate part thereof.

VIII.

INSURANCE

Section 1. Operator, or Operator's contractors or subcontractors, shall carry for the benefit of the joint account insurance to cover drilling operations

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on the unit as follows:

KIND	POLICY FORM	MINIMUM LIMITS OF LIABILITY
Workmen's Compensation	Statutory	Statutory
Contractor's Public Liability	Comprehensive (including coverage under all sections of policy)	B.I. ($ 50,000 each person ($100,000 each accident ($100,000 aggregate P.D. ($ 10,000 each accident ($ 50,000 aggregate
Motor Vehicle	Comprehensive (including non-ownership liability and hired automobile coverage)	B.I. ($ 50,000 each person ($100,000 each accident P.D. ($ 10,000 each accident

Section 2. With respect to producing operations conducted hereunder on the unit by the Operator for the joint account of the parties hereto, Operator shall maintain in effect at all times while operations are so conducted hereunder the following insurance coverage:

KIND	POLICY FORM	MINIMUM LIMITS OF LIABILITY
Workmen's Compensation	Statutory	Statutory
Contractor's Public Liability	Comprehensive (including coverage under all sections of policy)	B.I. ($100,000 each person ($300,000 each accident ($300,000 aggregate P.D. ($100,000 each accident ($100,000 aggregate
Motor Vehicle	Comprehensive (including non-ownership liability and hired automobile coverage)	B.I. ($100,000 each person ($300,000 each accident P.D. ($ 10,000 each accident

Operator will, upon request, furnish to Non-operator certificate(s) evidencing such insurance.

IX.

ABANDONMENT OF WELL

No well on the unit which is capable of producing gas and/or condensate from the formations covered by this agreement shall be abandoned without the mutual consent of the parties hereto. If any of the parties desire to abandon such well, such party or parties shall so notify the other party or parties in writing and the latter shall have ten (10) days after receipt of such notice in which to elect whether to agree to such abandonment. If all parties hereto agree to such abandonment, such well shall be abandoned and plugged by Operator at the expense of the joint account, and as much as possible of the casing and

other physical equipment in and on said well shall be salvaged for the benefit of the joint account. If any party or parties do not agree to said abandonment, such party or parties shall purchase the interest(s) of the party or parties desiring to abandon said well in the physical equipment therein and thereon; and, within twenty-five (25) days after the receipt of notice by the party or parties not electing to abandon, the party or parties desiring to abandon shall execute and deliver to the other party or parties an assignment, without warranty of title, of its or their interest in said well and physical equipment, and in the working interest and gas leasehold estate, insofar as it covers the formation(s) covered by this agreement, in said unit. In exchange for said assignment, the purchasing party or parties shall pay to the assigning party or parties the salvage value of the latter's interest in the salvable casing and other physical equipment in and on said well, such value to be determined in accordance with the provisions of the Accounting Procedure, attached hereto as Exhibit "A".

X.

TAXES

The Operator shall render, for ad valorem tax purposes, the entire leasehold rights and interests covered by this agreement and all physical property located thereon or used in connection therewith, or such part thereof as may be subject to ad valorem taxation under existing laws of the State of New Mexico, or which may be made subject to taxation under future laws, and shall pay for the benefit of the joint account all such ad valorem taxes at the time and in the manner required by law which may be assessed upon or against all or any portion of such leasehold rights and interests and the physical property located thereon or used in connection therewith. Operator shall bill each Non-operator for its proportionate share of such tax payments provided by the Accounting Procedure, attached hereto as Exhibit "A".

XI.

OPTION TO PURCHASE

Section 1. In the event that any party hereto receives a bona fide offer

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which it is willing to accept for the purchase of its interest in the unit, or any part thereof, from a person, firm or corporation ready, able and willing to purchase such interest or part thereof, the party hereto receiving such offer shall immediately give written notice thereof to each of the other parties hereto, including in such notice the name and address of such offeror, the price offered and all other pertinent terms and conditions of the offer. The other parties hereto, for a period of seven (7) days after the receipt of the notice, shall have the prior and preferred right and option to purchase the lease or leases, or part thereof, covered by the offer, at the price and according to the terms and conditions specified therein.

Section 2. If the other parties hereto fail to exercise their right and option by giving written notice of acceptance within seven (7) days after receipt of the above mentioned notice, the party which received the offer shall accept it and complete the sale to the offeror in accordance with its offer within sixty (60) days after the expiration of said seven (7) day period; provided, that if the party which received the offer fails to accept it or to complete the sale within said period of sixty (60) days, the preferred right and option of the other parties hereto under this Article XI shall be considered as revived, and the party which received the offer shall not complete such sale to the offeror unless and until the offer again has been presented to the other parties hereto, as hereinabove provided, and the other parties again have failed to elect to purchase on the terms and conditions of the offer. All offers, except as hereinafter specifically excepted, at any time made to any party hereto for the purchase of its interest in the pooled unit, or a part thereof, shall be subject to all the terms and conditions of this Article XI.

Section 3. It is expressly agreed that the foregoing provisions of this Article XI shall not apply to a transfer by a corporate party hereto made in connection with a merger, consolidation or reorganization involving such party and its parent subsidiary or an affiliated company, nor the transfer by any party to a wholly owned subsidiary or to any other person, firm or corporation having an identity of interest or an option agreement covering any of the land

and leases subject to this agreement.

XII.

RELATION OF PARTIES

The rights, duties, obligations and liabilities of the parties hereto shall be several and not joint or collective, it being the express purpose and intention of the parties hereto that their ownership in said unit shall be as tenants in common; and nothing herein contained shall ever be construed as creating a partnership of any kind, joint venture, an association or a trust or as imposing upon any one or more of the parties hereto any partnership duty, obligation or liability. Each party hereto shall be individually responsible only for its obligations, as set out in this agreement.

XIII.

ACCESS TO PREMISES, LOGS AND REPORTS

Operator shall keep accurate logs of the well drilled on said unit, which logs shall be available at all reasonable times for inspection by any Non-operator. Upon request by any Non-operator, Operator shall furnish to such Non-operator a copy of said logs, samples of cores and cuttings of formations encountered, and monthly progress reports relative to the development and operation of said unit, together with any other information which may be reasonably requested pertaining to such well. Each Non-operator shall have access to said unit and to all books and records pertaining to operations hereunder for the purpose of inspection at all reasonable times.

XIV.

SURRENDER, EXPIRATION, ABANDONMENT OR RELEASE OF LEASE

No lease or leases subject to this agreement shall be surrendered, let to expire, abandoned or released, in whole or in part, unless the parties mutually consent thereto in writing. In the event that less than all the parties hereto should elect to surrender, let expire, abandon or release all or any part of a lease or leases subject to this agreement and the other party or parties do not consent or agree, the party so electing shall notify the other party or parties not less than sixty (60) days in advance of such surrender, expiration, abandon-

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ment or release and, if requested so to do by the party not so electing, immediately shall assign without warranty to the latter party or parties all of its rights, title and interest in and to said lease or leases, the well or wells located thereon, and the casing and other physical equipment in or on said well or wells. If the party or parties not so electing fail(s) to request such assignment within such sixty (60) day period, the party so electing shall have the right to surrender, let expire, abandon or release said lease or leases, or any part thereof. In the event such assignment is so requested, the party or parties to whom such assignment is made, upon the delivery thereof, shall pay to the assigning party the salvage value of its interest in all the salvable casing and other physical equipment in or on the unit, said value to be determined in accordance with the provisions of the Accounting Procedure, attached hereto as Exhibit "A". After the delivery of any such assignment, the party making the assignment shall be released from and discharged of all the duties and obligations thereafter accruing or arising hereunder, in connection with the operation and development of the unit, with respect to the assigned lease or leases.

XV.

LAWS AND REGULATIONS

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

XVI.

FORCE MAJEURE

Section 1. In the event that any party hereto is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make payments of amounts due hereunder, upon such

party's giving notice and reasonably full particulars of such force majeure in writing or by telegraph to the other parties hereto within a reasonable time after the occurrence of the cause relied upon, the obligations of the party giving said notice, so far as they are affected by such force majeure, shall be suspended during the continuance of any inability so caused, but for no longer period; and the cause of the force majeure as far as possible shall be remedied with all reasonable dispatch.

Section 2. The term "force majeure" as employed herein shall mean an act of God, strike, lockout or other industrial disturbance, act of the public enemy, war, blockade, riot, lightning, fire, storm, flood, explosion, governmental restraint and any other cause, whether of the kind herein enumerated or otherwise, not reasonably within the control of the party claiming suspension.

Section 3. The settlement of strikes, lockouts and other labor difficulty shall be entirely within the discretion of the party having the difficulty. The above 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 acceding to the demands of opponents therein when such course is inadvisable in the discretion of the party having the difficulty.

XVII.

NOTICES

Except as herein otherwise expressly provided, all notices, reports and other communications required or permitted hereunder shall be deemed to have been properly given or delivered when delivered personally or when sent by registered mail or telegraph, with all postage or charges fully prepaid, and addressed to the parties hereto, respectively, as follows:

To Non-operator: Skelly Oil Company
~~Box 4083, Station A~~
~~Albuquerque, New Mexico~~
S Kelly Building,
Tulsa, Okla.

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To Operator: Southern Union Gas Company
1104 Burt Building
Dallas 1, Texas

The date of service by mail shall be the date on which such written notice or other communication is deposited in the United States post office, addressed as above provided. Each party hereto shall have the right to change its address for all purposes of this Article XVII by notifying the other parties hereto thereof in writing.

XVIII.

ROYALTY, OVERRIDING ROYALTIES, PRODUCTION PAYMENTS, ETC.

Section 1. The provisions of this agreement are based on the assumption that the respective leases or operating rights owned by the parties hereto and made subject hereto provide for a royalty of 1/8th of the value of gas and associated liquid hydrocarbons produced, saved and sold. In the event any lease or leases subject hereto provide for a royalty on such products in excess of the current market value at the well of 1/8th of that produced, saved and sold, there shall be charged against the interest of the party owning such lease, leases or operating rights, the amount of such royalties in excess of the said 1/8th. The amount of cost and expense allocable to the leasehold interests hereunder shall not be affected by any such charge or by the existence of any such excess royalty.

Section 2. All overriding royalties, production payments, carried working interests and net profit obligations to which any party's interest in the unit is subject shall be borne and paid by such party in accordance with the provisions of the assignment or other instrument creating or pertaining to such obligation(s).

XIX.

EFFECT OF AGREEMENT

The terms, covenants and conditions of this agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns; and said terms, covenants and conditions shall be covenants running with the land and leasehold estates covered hereby and with each transfer or assignment of said land or leasehold estates.

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XX.

OPERATOR'S LIEN

Operator shall have an express contract lien, which is hereby granted, upon the interest of each Non-operator in said unit, in the oil, gas or other minerals produced from such unit and in the materials and equipment located thereon, to secure the payment by each Non-operator of its proportionate part of the costs and expenses incurred or paid by Operator hereunder, and interest, if any, accrued on such part. Such lien may be enforced and foreclosed as any other contract lien. Moreover, Operator may to the full extent of any indebtedness owed by it to any such Non-operator, offset such debt against sums owing to Operator hereunder by such Non-operator.

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written.

SOUTHERN UNION GAS COMPANY

ATTEST:

Secretary

By

Vice President

OPERATOR

SKELLY OIL COMPANY

ATTEST:

Secretary

By

Vice President

NON-OPERATOR

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STATE OF Texas }
COUNTY OF Dallas } SS

On this 14th day of April, 1953, before me appeared J. C Reid, to me personally known, who, being by me duly sworn did say that he is the Vice President of Southern Union Gas Company and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said J C Reid acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have set my hand and seal of office on this 14th day of April, 1953.

My Commission Expires:
June 1, 1953

Robert L Kerr
Notary Public in and for
Dallas County, Texas

ROBERT L KERR
Notary Public Dallas County, Texas
My Commission expires June 1, 1953

STATE OF Okla. }
COUNTY OF Tulsa } SS

On this 21st day of May, 1953, before me appeared G. L. Cashman, to me personally known, who, being by me duly sworn, did say that he is the Vice President of Skelly Oil Company and that the seal affixed to the foregoing instrument is the corporate seal of said corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and said G. L. Cashman acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have set my hand and seal of office on this 21st day of May, 1953.

My Commission Expires:
HAZEL M. BRADY
Notary Public, Tulsa County, Oklahoma
My Commission Expires January 21, 1957

Hazel M Brady
Notary Public in and for
Tulsa County, Okla.

5-77

801 ROBERT MARTIN CO. TULSA 7, OKLAHOMA

EXHIBIT "A"

Model Form-PASO-1949-1

Attached to and made a part of Operating Agreement, dated April 10, 1953, between Southern Union Gas Company and Skelly Oil Company

ACCOUNTING PROCEDURE

(UNIT AND JOINT LEASE OPERATIONS)

I. GENERAL PROVISIONS

1. **Definitions**
The term "joint property" as herein used shall be construed to mean the subject area covered by the agreement to which this "Accounting Procedure" is attached.
The term "Operator" as herein used shall be construed to mean the party designated to conduct the development and operation of the leased premises for the joint account.
The term "Non-Operator" as herein used shall be construed to mean any one or more of the non-operating parties.

2. **Statements and Billings**
Operator shall bill Non-Operator on or before the last day of each month for its proportionate share of costs and expenditures during the preceding month. Such bills will be accompanied by statements, reflecting the total costs and charges as set forth under Sub-Paragraph A below:
A. Statement in detail of all charges and credits to the joint account.
B. Statement of all charges and credits to the joint account, summarized by appropriate classifications indicative of the nature thereof.
C. Statements, as follows:
(1) Detailed statement of material ordinarily considered controllable by Operators of oil and gas properties;
(2) Statement of all other charges and credits to the joint account summarized by appropriate classifications indicative of the nature thereof; and
(3) Statement of any other receipts and credits.

3. **Payments by Non-Operator**
Each party shall pay its proportion of all such bills within fifteen (15) days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest at the rate of six per cent (6%) per annum until paid.

4. **Audits**
Payment of any such bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof. All statements rendered to Non-Operator by Operator during any calendar year shall be conclusively presumed to be true and correct after eighteen months following the close of any such calendar year, unless within said eighteen months period Non-Operator takes written exception thereto and makes claim on Operator for adjustment. Failure on the part of Non-Operator to make claim on Operator for adjustment within such period shall establish the correctness thereof and preclude the filing of exceptions thereto or the making of claims for adjustment thereon. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the accounting hereunder, within eighteen months next following the close of any calendar year. Non-Operator shall have six months next following the examination of the Operator's records within which to take written exception to and make any and all claims on Operator. The provisions of this paragraph shall not prevent adjustments resulting from the physical inventory of property as provided for in Section VI, Inventories, hereof.

II. DEVELOPMENT AND OPERATING CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the joint account with the following items:

1. **Rentals and Royalties**
Delay or other rentals, when such rentals are paid by Operator for the joint account; royalties, when not paid direct to royalty owners by the purchaser of the oil, gas, casinghead gas, or other products.

2. **Labor, Transportation, and Services**
Labor, transportation, and other services necessary for the development, maintenance, and operation of the joint property. Labor shall include (A) Operator's cost of vacation, sickness and disability benefits of employees, and expenditures or contributions imposed or assessed by governmental authority applicable to such labor, and (B) Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of like nature, applicable to Operator's field payroll; provided that the charges under Part (B) of this paragraph shall not exceed five per cent (5%) of the total of such labor charged to the joint account.

3. **Material**
Material, equipment, and supplies purchased or furnished by Operator, for use of the joint property. So far as it is reasonably practical and consistent with efficient and economical operation, only such material shall be purchased for or transferred to the joint property as required for immediate use, and the accumulation of surplus stocks shall be avoided.

4. **Moving Material to Joint Property**
Moving material to the joint property from Vendor's or from Operator's warehouse in the district or from the other properties of Operator, but in either of the last two events no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where such material is available, except by special agreement with Non-Operator.

5-A

1. **Material Purchased by Operator**
Material purchased by Operator shall be credited to the joint account and included in the monthly statement of operations for the month in which the material is removed from the joint property.

2. **Material Purchased by Non-Operator**
Material purchased by Non-Operator shall be invoiced by Operator and paid for by Non-Operator to Operator immediately following receipt of invoice. The Operator shall pass credit to the joint account and include the same in the monthly statement of operations.

3. **Division in Kind**
Division of material in kind, if made between Operator and Non-Operator, shall be in proportion to their respective interests in such material. Each party will thereupon be charged individually with the value of the material received or receivable by each party and corresponding credits will be made by the Operator to the joint account, and such credits shall appear in the monthly statement of operations.

4. **Sales to Outsiders**
Sales to outsiders of material from the joint property shall be credited by Operator to the joint account at the net amount collected by Operator from Vendee. Any claims by Vendee for defective material or otherwise shall be charged back to the joint account, if and when paid by Operator.

V. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operator or divided in kind, unless otherwise agreed, shall be valued on the following basis:

1. **New Price Defined**
New price as used in the following paragraphs shall have the same meaning and application as that used above in Section III, "Basis of Charges to Joint Account."

2. **New Material**
New material (Condition "A"), being new material procured for the joint account but never used thereon, at 100% of current new price.

3. **Good Used Material**
Good used material (Condition "B"), being used material in sound and serviceable condition, suitable for reuse without reconditioning,
   A. At 75% of current new price if material was charged to joint account as new, or
   B. At 75% of current new price less depreciation consistent with their usage on and service to the joint property, if material was originally charged to the joint property as secondhand at 75% of new price.

4. **Other Used Material**
Used Material (Condition "C"), being used material which
   A. After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or
   B. Is serviceable for original function but substantially not suitable for reconditioning,
at 50% of current new price.

5. **Bad-Order Material**
Used material (Condition "D"), being material which cannot be classified as Condition "B" or Condition "C", shall be priced at a value commensurate with its use.

6. **Junk**
Junk (Condition "E"), being obsolete and scrap material, at prevailing prices.

7. **Temporarily Used Material**
When the use of material is of a temporary nature and its service to the joint account does not justify the reduction in price as provided in Paragraph 3B, above, such material shall be priced on a basis that will leave a net charge to the joint account consistent with the value of the service rendered.

VI. INVENTORIES

1. **Periodic Inventories**
Periodic inventories shall be taken by Operator of the joint account material, which shall include all such material as is ordinarily considered controllable by operators of oil and gas properties.

2. **Notice**
Notice of intention to take inventory shall be given by Operator at least ten days before any inventory is to begin, so that Non-Operator may be represented when any inventory is taken.

3. **Failure to be Represented**
Failure of Non-Operator to be represented at the physical inventory shall bind Non-Operator to accept the inventory taken by Operator, who shall in that event furnish Non-Operator with a copy thereof.

4. **Reconciliation of Inventory**
Reconciliation of inventory with charges to the joint account shall be made by each party at interest, and a list of overages and shortages shall be jointly determined by Operator and Non-Operator.

5. **Adjustment of Inventory**
Inventory adjustments shall be made by Operator with the joint account for overages and shortages, but Operator shall only be held accountable to Non-Operator for shortages due to lack of reasonable diligence.

6. **Special Inventories**
Special inventories may be taken, at the expense of the purchaser, whenever there is any sale or change of interest in the joint property, and it shall be the duty of the party selling to notify all other parties hereto as quickly as possible after the transfer of interest takes place. In such cases both the seller and the purchaser shall be represented and shall be governed by the inventory so taken.

Attached to and made a part of [illegible]

EXHIBIT "A"

Attached to and made a part of Operating Agreement between Supron Energy Corporation and Northwest Pipeline Corporation dated April 10, 1953, covering the E/2 of Section 23, T-31-N, R-9-W, N.M.P.M., San Juan County, New Mexico

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 of Petroleum Accountants Societies of North America.

2. Statement and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of 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

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

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, 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.

5. Audits

A. Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the 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 joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

6. Approval by Non-Operators

Where an approval or other agreement of 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. **Rentals and Royalties**

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

2. **Labor**

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

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

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

   B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

   C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.

   D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

3. **Employee Benefits**

   Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty per cent (20%).

4. **Material**

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

5. **Transportation**

   Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

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

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

   C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of $200 or less excluding accessorial charges.

6. **Services**

   The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraph 1. ii of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the Overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

7. **Equipment and Facilities Furnished by Operator**

   A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

   B.. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

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

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

9. **Legal Expense**

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

10. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

11. Insurance

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

12. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III, and which is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

(X) Fixed Rate Basis, Paragraph 1A, or
( ) Percentage Basis, Paragraph 1B.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 2A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the Overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall ( ) shall not ( ) 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 $ 850.00
Producing Well Rate $ 140.00

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

(a) Drilling Well Rate

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

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

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

(b) Producing Well Rates

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

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

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

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

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

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

2. Overhead - Major Construction

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

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

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

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

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

3. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

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

(2) Line Pipe

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

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

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

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

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

(2) Material moved from the Joint Property

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

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

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

C. Other Used Material (Condition C and D)

(1) Condition C

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

(2) Condition D

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

D. Obsolete Material

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

E. Pricing Conditions

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

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

3. **Premium Prices**

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

4. **Warranty of Material Furnished by Operator**

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. **Periodic Inventories, Notice and Representation**

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

2. **Reconciliation and Adjustment of Inventories**

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

3. **Special Inventories**

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

4. **Expense of Conducting Periodic Inventories**

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