



Gary C. Johnson
Senior Vice President &
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June 1, 1997

Chevron U.S.A. Inc.
Post Office Box 1635
Houston, Texas 77251

Atlantic Richfield Company
P. O. Box 1610
Midland, Texas 79702

E/2 Section 20, Township 21 South, Range 36 East
Lea County, New Mexico

Gentlemen:

When accepted by Chevron U.S.A. Inc. ("Chevron") and Atlantic Richfield Company ("Arco") in the manner hereinafter indicated, this Letter Agreement ("Agreement") shall evidence the agreement between Chevron, Arco and Citation Oil & Gas Corp., as general partner of Citation 1987 Investment Limited Partnership ("COGC") pertaining to: (i) the ownership and operation of the East Half (E/2) of Section 20, Township 21 South, Range 36 East, Lea County, New Mexico, INsofar AND ONLY INsofar as to the oil, gas and other liquid or gaseous hydrocarbons that may be produced from the vertical limits of the Eumont Gas Pool only, as defined in the New Mexico Oil Conservation Commission's Order No. R-520, dated August 12, 1954, and effective as of November 1, 1954 (the "Communitized Acreage"); (ii) the resolution of issues pertaining to certain proceeds of production, operating expenses and capital costs arising out of gas production from three wells located on the Communitized Acreage and known as the Devonian State 2, Devonian State 3, and Janda NCT A 2; and (iii) the disposition of Case No. 11638, a proceeding now pending before the Oil Conservation Division of the State of New Mexico Energy, Minerals and Natural Resources Department, which pertains to the Communitized Acreage.

1. Contemporaneously with their execution of this Agreement, but effective as of 7:00 o'clock a.m. on June 1, 1997 (the "Effective Date"), the parties shall execute and enter into that certain A.A.P.L. Form 610-1989 Model Form Operating Agreement in the form attached hereto as Exhibit A (the "Operating Agreement"), which shall govern the ownership of production from and operation of the Communitized Acreage.

2. As of the Effective Date of the Operating Agreement, all existing wells associated with the Communitized Acreage, whether or not such wells are currently producing or capable of producing oil and/or gas in paying quantities or are temporarily or permanently abandoned (including but not limited to the Devonian State 1, Devonian State 1Y, Devonian State 2, Devonian

State 3, Devonian State 4, Devonian State Com 1, State D1, Janda NCT A 1, Janda NCT A 2, State 2 20 1) and all future wells associated with the Communitized Acreage shall be owned and operated and in all other respects subject to the terms and provisions of the Operating Agreement.

3. The Operating Agreement shall be subject to the terms and provisions of that certain Gas Communitization and Pooling Agreement dated October 8, 1958 (the "Communitization Agreement"), except with respect to any provisions thereof that allocate or purport to allocate the ownership of oil, gas or other minerals from the Communitized Acreage, and with respect to those provisions, the percentages or fractional interests of the parties set forth under Paragraph 3 of Exhibit "A" to the Operating Agreement shall govern and control over any such provisions of the Communitization Agreement.

4. On the Effective Date of the Operating Agreement, that certain Agreement for Use of Well (including the interests assigned therein) dated October 8, 1958 between the predecessors in interest to the parties to this Agreement, pertaining to the sharing of revenues and expenses arising out of production from the Devonian State Com 1, shall terminate and be of no further force and effect.

5. Simultaneous with its execution of this Agreement, COGC shall pay Chevron \$321,663, and COGC shall pay Arco \$339,992, representing the net amount due from COGC to such parties as of 04/30/97, as a result of reconciliation of those certain revenues, expenses and capital costs associated with the Devonian State 2, Devonian State 3, and Janda NCT A 2, as reflected on the schedule attached hereto as Exhibit "B" entitled "*Eumont - Preliminary Adjustment.*" Within sixty days of the date of execution of this Agreement by all parties hereto and using the same methodology as is used in Exhibit "B", the parties shall agree on and pay the net amount due one another with respect to revenues and expenses arising out of operations of the Devonian State 2 and Devonian State 3 for the period of time from 04/30/97 to the Effective Date.

6. Upon receipt and in consideration of the payments provided for in paragraph 5 and the mutual promises made to each other under this Agreement, Chevron and Arco release COGC, Chevron and COGC release Arco, and COGC and Arco release Chevron from any and all claims and/or causes of action arising prior to the Effective Date and pertaining to the costs and/or expenses associated with, or the revenue from gas production from any and all of the wells associated with the Communitized Acreage, including any such claims and/or causes of action covered by that certain Statute of Limitations Tolling Agreement dated effective May 1, 1990.

7. Within ten days of the date of execution of this Agreement by all parties hereto, Chevron shall withdraw its opposition to the relief sought by COGC in Case 11638, insofar as it seeks to:(a) reclassify the Devonian State 2 (Unit B) and the Devonian State 3 (Unit A) from Eumont oil wells to Eumont gas wells; (b) simultaneously dedicate those two wells to the Communitized

Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

No well shall be drilled on the Contract Area until after (1) the title to the Drillsite or Drilling Unit, if appropriate, has been examined as above provided, and (2) the title has been approved by the examining attorney or title has been accepted by all of the Drilling Parties in such well.

B. Loss or Failure of Title:

1. Failure of Title: Should any Oil and Gas Interest or Oil and Gas Lease be lost through failure of title, which results in a reduction of interest from that shown on Exhibit "A," the party credited with contributing the affected Lease or Interest (including, if applicable, a successor in interest to such party) shall have ninety (90) days from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisition will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining Oil and Gas Leases and Interests; and,

(a) The party credited with contributing the Oil and Gas Lease or Interest affected by the title failure (including, if applicable, a successor in interest to such party) shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development or operating costs which it may have previously paid or incurred, but there shall be no additional liability on its part to the other parties hereto by reason of such title failure;

(b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the Lease or Interest which has failed, but the interests of the parties contained on Exhibit "A" shall be revised on an acreage basis, as of the time it is determined finally that title failure has occurred, so that the interest of the party whose Lease or Interest is affected by the title failure will thereafter be reduced in the Contract Area by the amount of the Lease or Interest failed;

(c) If the proportionate interest of the other parties hereto in any producing well previously drilled on the Contract Area is increased by reason of the title failure, the party who bore the costs incurred in connection with such well attributable to the Lease or Interest which has failed shall receive the proceeds attributable to the increase in such interest (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well attributable to such failed Lease or Interest;

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

(e) Any liability to account to a person not a party to this agreement for prior production of Oil and Gas which arises by reason of title failure shall be borne severally by each party (including a predecessor to a current party) who received production for which such accounting is required based on the amount of such production received, and each such party shall severally indemnify, defend and hold harmless all other parties hereto for any such liability to account;

(f) No charge shall be made to the joint account for legal expenses, fees or salaries in connection with the defense of the Lease or Interest claimed to have failed, but if the party contributing such Lease or Interest hereto elects to defend its title it shall bear all expenses in connection therewith; and

(g) If any party is given credit on Exhibit "A" to a Lease or Interest which is limited solely to ownership of an interest in the wellbore of any well or wells and the production therefrom, such party's absence of interest in the remainder of the Contract Area shall be considered a Failure of Title as to such remaining Contract Area unless that absence of interest is reflected on Exhibit "A."

2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well payment, minimum royalty or royalty payment, or other payment necessary to maintain all or a portion of an Oil and Gas Lease or Interest is not paid or is erroneously paid, and as a result a Lease or Interest terminates, there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required payment secures a new Lease or Interest covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, which acquisition will not be subject to Article VIII.B., the interests of the parties reflected on Exhibit "A" shall be revised on an acreage basis, effective as of the date of termination of the Lease or Interest involved, and the party who failed to make proper payment will no longer be credited with an interest in the Contract Area on account of ownership of the Lease or Interest which has terminated. If the party who failed to make the required payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of Oil and Gas attributable to the lost Lease or Interest, calculated on an acreage basis, for the development and operating costs previously paid on account of such Lease or Interest, it shall be reimbursed for unrecovered actual costs previously paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

(a) Proceeds of Oil and Gas produced prior to termination of the Lease or Interest, less operating expenses and lease burdens chargeable hereunder to the person who failed to make payment, previously accrued to the credit of the lost Lease or Interest, on an acreage basis, up to the amount of unrecovered costs;

(b) Proceeds of Oil and Gas, less operating expenses and lease burdens chargeable hereunder to the person who failed to make payment, up to the amount of unrecovered costs attributable to that portion of Oil and Gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which, in the absence of such Lease or Interest termination, would be attributable to the lost Lease or Interest on an acreage basis and which as a result of such Lease or Interest termination is credited to other parties, the proceeds of said portion of the Oil and Gas to be contributed by the other parties in proportion to their respective interests reflected on Exhibit "A"; and,

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

3. Other Losses: All losses of Leases or Interests committed to this agreement, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall be joint losses and shall be borne by all parties in proportion to their interests shown on Exhibit "A." This shall include but not be limited to the loss of any Lease or Interest through failure to develop or because express or implied covenants have not been performed (other than performance which requires only the payment of money), and the loss of any Lease by expiration at the end of its primary term if it is not renewed or extended. There shall be no readjustment of interests in the remaining portion of the Contract Area on account of any joint loss.

4. Curing Title: In the event of a Failure of Title under Article IV.B.1. or a loss of title under Article IV.B.2. above, any Lease or Interest acquired by any party hereto (other than the party whose interest has failed or was lost) during the ninety (90) day period provided by Article IV.B.1. and Article IV.B.2. above covering all or a portion of the interest that has failed or was lost shall be offered at cost to the party whose interest has failed or was lost, and the provisions of Article VIII.B. shall not apply to such acquisition.

ARTICLE V.
OPERATOR

3 A. Designation and Responsibilities of Operator:

4 Citation _____ shall be the Operator of the Contract Area, and shall conduct
5 and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of
6 this agreement. In its performance of services hereunder for the Non-Operators, Operator shall be an independent contractor
7 not subject to the control or direction of the Non-Operators except as to the type of operation to be undertaken in accordance
8 with the election procedures contained in this agreement. Operator shall not be deemed, or hold itself out as, the agent of the
9 Non-Operators with authority to bind them to any obligation or liability assumed or incurred by Operator as to any third
10 party. Operator shall conduct its activities under this agreement as a reasonable prudent operator, in a good and workmanlike
11 manner, with due diligence and dispatch, in accordance with good oilfield practice, and in compliance with applicable law and
12 regulation, but in no event shall it have any liability as Operator to the other parties for losses sustained or liabilities incurred
13 except such as may result from gross negligence or willful misconduct.

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

15 1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators.
16 If Operator terminates its legal existence, no longer owns an interest hereunder in the Contract Area, or is no longer capable of
17 serving as Operator, Operator shall be deemed to have resigned without any action by Non-Operators, except the selection of a
18 successor. Operator may be removed only for good cause by the affirmative vote of Non-Operators owning a majority interest
19 based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of Operator; such vote shall not be
20 deemed effective until a written notice has been delivered to the Operator by a Non-Operator detailing the alleged default and
21 Operator has failed to cure the default within thirty (30) days from its receipt of the notice or, if the default concerns an
22 operation then being conducted, within forty-eight (48) hours of its receipt of the notice. For purposes hereof, "good cause" shall
23 mean not only gross negligence or willful misconduct but also the material breach of or inability to meet the standards of
24 operation contained in Article V.A. or material failure or inability to perform its obligations under this agreement.

25 Subject to Article VII.D.1., such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first
26 day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator
27 or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of
28 Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a
29 Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single
30 subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

31 2. Selection of Successor Operator: Upon the resignation or removal of Operator under any provision of this agreement, a
32 successor Operator shall be selected by the parties. The successor Operator shall be selected from the parties owning an
33 interest in the Contract Area at the time such successor Operator is selected. The successor Operator shall be selected by the
affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A";
provided, however, if an Operator which has been removed or is deemed to have resigned fails to vote or votes only to
36 succeed itself, the successor Operator shall be selected by the affirmative vote of the party or parties owning a majority
37 interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was
38 removed or resigned. The former Operator shall promptly deliver to the successor Operator all records and data relating to
39 the operations conducted by the former Operator to the extent such records and data are not already in the possession of the
40 successor operator. Any cost of obtaining or copying the former Operator's records and data shall be charged to the joint
41 account.

42 3. Effect of Bankruptcy: If Operator becomes insolvent, bankrupt or is placed in receivership, it shall be deemed to have
43 resigned without any action by Non-Operators, except the selection of a successor. If a petition for relief under the federal
44 bankruptcy laws is filed by or against Operator, and the removal of Operator is prevented by the federal bankruptcy court, all
45 Non-Operators and Operator shall comprise an interim operating committee to serve until Operator has elected to reject or
46 assume this agreement pursuant to the Bankruptcy Code, and an election to reject this agreement by Operator as a debtor in
47 possession, or by a trustee in bankruptcy, shall be deemed a resignation as Operator without any action by Non-Operators,
48 except the selection of a successor. During the period of time the operating committee controls operations, all actions shall
49 require the approval of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A." In
50 the event there are only two (2) parties to this agreement, during the period of time the operating committee controls
51 operations, a third party acceptable to Operator, Non-Operator and the federal bankruptcy court shall be selected as a
52 member of the operating committee, and all actions shall require the approval of two (2) members of the operating
53 committee without regard for their interest in the Contract Area based on Exhibit "A."

54 C. Employees and Contractors:

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

58 D. Rights and Duties of Operator:

59 1. Competitive Rates and Use of Affiliates: All wells drilled on the Contract Area shall be drilled on a competitive
60 contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in
61 the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges
62 shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by
63 Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors
64 who are doing work of a similar nature. All work performed or materials supplied by affiliates or related parties of Operator
65 shall be performed or supplied at competitive rates, pursuant to written agreement, and in accordance with customs and
66 standards prevailing in the industry.

67 2. Discharge of Joint Account Obligations: Except as herein otherwise specifically provided, Operator shall promptly pay
68 and discharge expenses incurred in the development and operation of the Contract Area pursuant to this agreement and shall
69 charge each of the parties hereto with their respective proportionate shares upon the expense basis provided in Exhibit "C."
70 Operator shall keep an accurate record of the joint account hereunder, showing expenses incurred and charges and credits
71 made and received.

72 3. Protection from Liens: Operator shall pay, or cause to be paid, as and when they become due and payable, all accounts
73 of contractors and suppliers and wages and salaries for services rendered or performed, and for materials supplied on, to or in
74 respect of the Contract Area or any operations for the joint account thereof, and shall keep the Contract Area free from

liens and encumbrances resulting therefrom except for those resulting from a bona fide dispute as to services rendered or materials supplied.

3 4. Custody of Funds: Operator shall hold for the account of the Non-Operators any funds of the Non-Operators advanced
4 or paid to the Operator, either for the conduct of operations hereunder or as a result of the sale of production from the
5 Contract Area, and such funds shall remain the funds of the Non-Operators on whose account they are advanced or paid until
6 used for their intended purpose or otherwise delivered to the Non-Operators or applied toward the payment of debts as
7 provided in Article VII.B. Nothing in this paragraph shall be construed to establish a fiduciary relationship between Operator
8 and Non-Operators for any purpose other than to account for Non-Operator funds as herein specifically provided. Nothing in
9 this paragraph shall require the maintenance by Operator of separate accounts for the funds of Non-Operators unless the
10 parties otherwise specifically agree.

11 5. Access to Contract Area and Records: Operator shall, except as otherwise provided herein, permit each Non-Operator
12 or its duly authorized representative, at the Non-Operator's sole risk and cost, full and free access at all reasonable times to
13 all operations of every kind and character being conducted for the joint account on the Contract Area and to the records of
14 operations conducted thereon or production therefrom, including Operator's books and records relating thereto. Such access
15 rights shall not be exercised in a manner interfering with Operator's conduct of an operation hereunder and shall not obligate
16 Operator to furnish any geologic or geophysical data of an interpretive nature unless the cost of preparation of such
17 interpretive data was charged to the joint account. Operator will furnish to each Non-Operator upon request copies of any
18 and all reports and information obtained by Operator in connection with production and related items, including, without
19 limitation, meter and chart reports, production purchaser statements, run tickets and monthly gauge reports, but excluding
20 purchase contracts and pricing information to the extent not applicable to the production of the Non-Operator seeking the
21 information. Any audit of Operator's records relating to amounts expended and the appropriateness of such expenditures
22 shall be conducted in accordance with the audit protocol specified in Exhibit "C."

23 6. Filing and Furnishing Governmental Reports: Operator will file, and upon written request promptly furnish copies to
24 each requesting Non-Operator not in default of its payment obligations, all operational notices, reports or applications
25 required to be filed by local, State, Federal or Indian agencies or authorities having jurisdiction over operations hereunder.
26 Each Non-Operator shall provide to Operator on a timely basis all information necessary to Operator to make such filings.

27 7. Drilling and Testing Operations: The following provisions shall apply to each well drilled hereunder, including but not
28 limited to the Initial Well:

29 (a) Operator will promptly advise Non-Operators of the date on which the well is spudded, or the date on which
30 drilling operations are commenced.

31 (b) Operator will send to Non-Operators such reports, test results and notices regarding the progress of operations on the well
32 as the Non-Operators shall reasonably request, including, but not limited to, daily drilling reports, completion reports, and well logs.

33 (c) Operator shall adequately test all Zones encountered which may reasonably be expected to be capable of producing
34 Oil and Gas in paying quantities as a result of examination of the electric log or any other logs or cores or tests conducted
35 hereunder.

36 8. Cost Estimates: Upon request of any Consenting Party, Operator shall furnish estimates of current and cumulative costs
37 incurred for the joint account at reasonable intervals during the conduct of any operation pursuant to this agreement.
38 Operator shall not be held liable for errors in such estimates so long as the estimates are made in good faith.

39 ~~9. Insurance: At all times while operations are conducted hereunder, Operator shall comply with the workers
40 compensation law of the state where the operations are being conducted; provided, however, that Operator may be a self-
41 insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall
42 be as provided in Exhibit "C." Operator shall also carry or provide insurance for the benefit of the joint account of the parties
43 as outlined in Exhibit "D" attached hereto and made a part hereof. Operator shall require all contractors engaged in work on
44 or for the Contract Area to comply with the workers compensation law of the state where the operations are being conducted
45 and to maintain such other insurance as Operator may require.~~

46 ~~In the event automobile liability insurance is specified in said Exhibit "D," or subsequently receives the approval of the
47 parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's own use of
48 equipment. See Article XVI, Page 17 for substitute Paragraph V. D. 9.~~

ARTICLE VI.

DRILLING AND DEVELOPMENT

51 A. Initial Well:

52 ~~On or before the _____ day of _____, 19____, Operator shall commence the drilling of the Initial
53 Well at the following location:~~

54 It is specifically understood and agreed that the Shell Oil Company - Devonian
55 State Well No. 1, located in the Northeast Quarter of Section 20, T21S, R36E,
56 Lea County, New Mexico, shall for all purposes hereunder be considered as the
57 "Initial Well" under that certain Gas Communitization and Pooling Agreement dated
58 October 8, 1958, by and between Shell Oil Company, as Operator, and Gulf Oil
59 Corporation, et al, as Non-Operators, reference to which is hereby made for all
60 ~~and shall thereafter continue the drilling of the well with due diligence to~~
61 purposes, and that such well is hereby designated as the "Initial Well" under this
62 Operating Agreement.
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68 ~~The drilling of the Initial Well and the participation therein by all parties is obligatory, subject to Article VI.C.1 as to participation
in Completion operations and Article VII.E as to termination of operations and Article XI as to occurrence of force majeure.~~

69 B. Subsequent Operations:

70 1. Proposed Operations: If any party hereto should desire to drill any well on the Contract Area other than the Initial Well, or
71 if any party should desire to Rework, Sidetrack, Deepen, Recomplete or Plug Back a dry hole or a well no longer capable of
72 producing in paying quantities in which such party has not otherwise relinquished its interest in the proposed objective Zone under
73 this agreement, the party desiring to drill, Rework, Sidetrack, Deepen, Recomplete or Plug Back such a well shall give written
74 notice of the proposed operation to the parties who have not otherwise relinquished their interest in such objective Zone

under this agreement and to all other parties in the case of a proposal for Sidetracking or Deepening, specifying the work to be performed, the location, proposed depth, objective Zone and the estimated cost of the operation. The parties to whom such a notice is delivered shall have thirty (30) days after receipt of the notice within which to notify the party proposing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of a proposal to Rework, Sidetrack, Recomplete, Plug Back or Deepen may be given by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays. Failure of a party to whom such notice is delivered to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any proposal by a party to conduct an operation conflicting with the operation initially proposed shall be delivered to all parties within the time and in the manner provided in Article VI.B.6.

If all parties to whom such notice is delivered elect to participate in such a proposed operation, the parties shall be contractually committed to participate therein provided such operations are commenced within the time period hereafter set forth, and Operator shall, no later than ninety (90) days after expiration of the notice period of thirty (30) days (or as promptly as practicable after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be), actually commence the proposed operation and thereafter complete it with due diligence at the risk and expense of the parties participating therein; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties, for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary to obtain permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title examination or curative matter required for title approval or acceptance. If the actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein or in the force majeure provisions of Article XI) and if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accordance herewith as if no prior proposal had been made. Those parties that did not participate in the drilling of a well for which a proposal to Deepen or Sidetrack is made hereunder shall, if such parties desire to participate in the proposed Deepening or Sidetracking operation, reimburse the Drilling Parties in accordance with Article VI.B.4. in the event of a Deepening operation and in accordance with Article VI.B.5. in the event of a Sidetracking operation.

2. Operations by Less Than All Parties:

(a) Determination of Participation. If any party to whom such notice is delivered as provided in Article VI.B.1. or VI.C.1. (Option No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, no later than ninety (90) days after the expiration of the notice period of thirty (30) days (or as promptly as practicable after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (i) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (ii) designate one of the Consenting Parties as Operator to perform such work. The rights and duties granted to and imposed upon the Operator under this agreement are granted to and imposed upon the party designated as Operator for an operation in which the original Operator is a Non-Consenting Party. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise all Parties of the total interest of the parties approving such operation and its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after delivery of such notice, shall advise the proposing party of its desire to (i) limit participation to such party's interest as shown on Exhibit "A" or (ii) carry only its proportionate part (determined by dividing such party's interest in the Contract Area by the interests of all Consenting Parties in the Contract Area) of Non-Consenting Parties' interests, or (iii) carry its proportionate part (determined as provided in (ii)) of Non-Consenting Parties' interests together with all or a portion of its proportionate part of any Non-Consenting Parties' interests that any Consenting Party did not elect to take. Any interest of Non-Consenting Parties that is not carried by a Consenting Party shall be deemed to be carried by the party proposing the operation if such party does not withdraw its proposal. Failure to advise the proposing party within the time required shall be deemed an election under (i). In the event a drilling rig is on location, notice may be given by telephone, and the time permitted for such a response shall not exceed a total of forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays). The proposing party, at its election, may withdraw such proposal if there is less than 100% participation and shall notify all parties of such decision within ten (10) days, or within twenty-four (24) hours if a drilling rig is on location, following expiration of the applicable response period. If 100% subscription to the proposed operation is obtained, the proposing party shall promptly notify the Consenting Parties of their proportionate interests in the operation and the party serving as Operator shall commence such operation within the period provided in Article VI.B.1., subject to the same extension right as provided therein.

(b) Relinquishment of Interest for Non-Participation. The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, then subject to Articles VI.B.6. and VI.E.3., the Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk and expense; provided, however, that those Non-Consenting Parties that participated in the drilling, Deepening or Sidetracking of the well shall remain liable for, and shall pay, their proportionate shares of the cost of plugging and abandoning the well and restoring the surface location insofar as those costs were not increased by the subsequent operations of the Consenting Parties. If any well drilled, Reworked, Sidetracked, Deepened, Recompleted or Plugged Back under the provisions of this Article results in a well capable of producing Oil and/or Gas in paying quantities, the Consenting Parties shall Complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator (if the Operator did not conduct the operation) and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, Reworking, Sidetracking, Recompleting, Deepening or Plugging Back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, ~~in proportion to their respective interests~~, all of such Non-Consenting Party's interest in the well and share of production therefrom or, in the case of a Reworking, Sidetracking, * the same proportion in which they bore costs of such operation.

Deepening, Recompleting or Plugging Back, or a Completion pursuant to Article VI.C.1. Option No. 2, all of such Non-Consenting Party's interest in the production obtained from the operation in which the Non-Consenting Party did not elect to participate. Such relinquishment shall be effective until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold (after deducting applicable ad valorem, production, severance, and excise taxes, royalty, overriding royalty and other interests not excepted by Article III.C. payable out of or measured by the production from such well accruing with respect to such interest until it reverts), shall equal the total of the following:

(i) 200 % of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including but not limited to stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to such Non-Consenting Party had it participated in the well from the beginning of the operations; and

(ii) 200 % of (a) that portion of the costs and expenses of drilling, Reworking, Sidetracking, Deepening, Plugging Back, testing, Completing, and Recompleting, after deducting any cash contributions received under Article VIII.C., and of (b) that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

Notwithstanding anything to the contrary in this Article VI.B., if the well does not reach the deepest objective Zone described in the notice proposing the well for reasons other than the encountering of granite or practically impenetrable substance or other condition in the hole rendering further operations impracticable, Operator shall give notice thereof to each Non-Consenting Party who submitted or voted for an alternative proposal under Article VI.B.6. to drill the well to a shallower Zone than the deepest objective Zone proposed in the notice under which the well was drilled, and each such Non-Consenting Party shall have the option to participate in the initial proposed Completion of the well by paying its share of the cost of drilling the well to its actual depth, calculated in the manner provided in Article VI.B.4. (a). If any such Non-Consenting Party does not elect to participate in the first Completion proposed for such well, the relinquishment provisions of this Article VI.B.2. (b) shall apply to such party's interest.

(c) Reworking, Recompleting or Plugging Back. An election not to participate in the drilling, Sidetracking or Deepening of a well shall be deemed an election not to participate in any Reworking or Plugging Back operation proposed in such a well, or portion thereof, to which the initial non-consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment amount. Similarly, an election not to participate in the Completing or Recompleting of a well shall be deemed an election not to participate in any Reworking operation proposed in such a well, or portion thereof, to which the initial non-consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment amount. Any such Reworking, Recompleting or Plugging Back operation conducted during the recoupment period shall be deemed part of the cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties 200 % of that portion of the costs of the Reworking, Recompleting or Plugging Back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If such a Reworking, Recompleting or Plugging Back operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting Parties in said well.

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

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

Within ninety (90) days after the completion of any operation under this Article, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, Sidetracking, Deepening, Plugging Back, testing, Completing, Recompleting, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the party conducting the operations for the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of Oil and Gas produced from it and the amount of proceeds realized from the sale of the well's working interest: production during the preceding month. In determining the quantity of Oil and Gas produced during any month, Consenting Parties shall use industry accepted methods such as but not limited to metering or periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased in determining when the interest of such Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-Consenting Party.

If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it as of 7:00 a.m. on the day following the day on which such recoupment occurs, and, from and after such reversion, such Non-Consenting Party shall own the same interest in such well, the material and equipment in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have been entitled to had it participated in the drilling, Sidetracking, Reworking, Deepening, Recompleting or Plugging Back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this agreement and Exhibit "C" attached hereto.

3. Stand-By Costs: When a well which has been drilled or Deepened has reached its authorized depth and all tests have been completed and the results thereof furnished to the parties, or when operations on the well have been otherwise terminated pursuant to Article VI.F., stand-by costs incurred pending response to a party's notice proposing a Reworking,

Sidetracking, Deepening, Re-completing, Plugging Back or Completing operation in such a well (including the period required under Article VI.B.6 to resolve competing proposals) shall be charged and borne as part of the drilling or Deepening operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted, whichever first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms of the second grammatical paragraph of Article VI.B.2. (a), shall be charged to and borne as part of the proposed operation, but if the proposal is subsequently withdrawn because of insufficient participation, such stand-by costs shall be allocated between the Consenting Parties in the proportion each Consenting Party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all Consenting Parties.

In the event that notice for a Sidetracking operation is given while the drilling rig to be utilized is on location, any party may request and receive up to five (5) additional days after expiration of the forty-eight hour response period specified in Article VI.B.1. within which to respond by paying for all stand-by costs and other costs incurred during such extended response period; Operator may require such party to pay the estimated stand-by time in advance as a condition to extending the response period. If more than one party elects to take such additional time to respond to the notice, standby costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties.

4. Deepening: If less than all the parties elect to participate in a drilling, Sidetracking, or Deepening operation proposed pursuant to Article VI.B.1., the interest relinquished by the Non-Consenting Parties to the Consenting Parties under Article VI.B.2. shall relate only and be limited to the lesser of (i) the total depth actually drilled or (ii) the objective depth or Zone of which the parties were given notice under Article VI.B.1. ("Initial Objective"). Such well shall not be Deepened beyond the Initial Objective without first complying with this Article to afford the Non-Consenting Parties the opportunity to participate in the Deepening operation.

In the event any Consenting Party desires to drill or Deepen a Non-Consent Well to a depth below the Initial Objective, such party shall give notice thereof, complying with the requirements of Article VI.B.1., to all parties (including Non-Consenting Parties). Thereupon, Articles VI.B.1. and 2. shall apply and all parties receiving such notice shall have the right to participate or not participate in the Deepening of such well pursuant to said Articles VI.B.1. and 2. If a Deepening operation is approved pursuant to such provisions, and if any Non-Consenting Party elects to participate in the Deepening operation, such Non-Consenting party shall pay or make reimbursement (as the case may be) of the following costs and expenses:

(a) If the proposal to Deepen is made prior to the Completion of such well as a well capable of producing in paying quantities, such Non-Consenting Party shall pay (or reimburse Consenting Parties for, as the case may be) that share of costs and expenses incurred in connection with the drilling of said well from the surface to the Initial Objective which Non-Consenting Party would have paid had such Non-Consenting Party agreed to participate therein, plus the Non-Consenting Party's share of the cost of Deepening and of participating in any further operations on the well in accordance with the other provisions of this Agreement; provided, however, all costs for testing and Completion or attempted Completion of the well incurred by Consenting Parties prior to the point of actual operations to Deepen beyond the Initial Objective shall be for the sole account of Consenting Parties.

(b) If the proposal is made for a Non-Consent Well that has been previously Completed as a well capable of producing in paying quantities, but is no longer capable of producing in paying quantities, such Non-Consenting Party shall pay (or reimburse Consenting Parties for, as the case may be) its proportionate share of all costs of drilling, Completing, and equipping said well from the surface to the Initial Objective, calculated in the manner provided in paragraph (a) above, less those costs recouped by the Consenting Parties from the sale of production from the well. The Non-Consenting Party shall also pay its proportionate share of all costs of re-entering said well. The Non-Consenting Parties' proportionate part (based on the percentage of such well Non-Consenting Party would have owned had it previously participated in such Non-Consent Well) of the costs of salvable materials and equipment remaining in the hole and salvable surface equipment used in connection with such well shall be determined in accordance with Exhibit "C." If the Consenting Parties have recouped the cost of drilling, Completing, and equipping the well at the time such Deepening operation is conducted, then a Non-Consenting Party may participate in the Deepening of the well with no payment for costs incurred prior to re-entering the well for Deepening.

The foregoing shall not imply a right of any Consenting Party to propose any Deepening for a Non-Consent Well prior to the drilling of such well to its Initial Objective without the consent of the other Consenting Parties as provided in Article VI.F.

5. Sidetracking: Any party having the right to participate in a proposed Sidetracking operation that does not own an interest in the affected wellbore at the time of the notice shall, upon electing to participate, tender to the wellbore owners its proportionate share (equal to its interest in the Sidetracking operation) of the value of that portion of the existing wellbore to be utilized as follows:

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

(b) If the proposal is for Sidetracking a well which has previously produced, reimbursement shall be on the basis of such party's proportionate share of drilling and equipping costs incurred in the initial drilling of the well down to the depth at which the Sidetracking operation is conducted, calculated in the manner described in Article VI.B.4(b) above. Such party's proportionate share of the cost of the well's salvable materials and equipment down to the depth at which the Sidetracking operation is initiated shall be determined in accordance with the provisions of Exhibit "C."

6. Order of Preference of Operations: Except as otherwise specifically provided in this agreement, if any party desires to propose the conduct of an operation that conflicts with a proposal that has been made by a party under this Article VI, such party shall have fifteen (15) days from delivery of the initial proposal, in the case of a proposal to drill a well or to perform an operation on a well where no drilling rig is on location, or twenty-four (24) hours, exclusive of Saturday, Sunday and legal holidays, from delivery of the initial proposal, if a drilling rig is on location for the well on which such operation is to be conducted, to deliver to all parties entitled to participate in the proposed operation such party's alternative proposal, such alternate proposal to contain the same information required to be included in the initial proposal. Each party receiving such proposals shall elect by delivery of notice to Operator within five (5) days after expiration of the proposal period, or within twenty-four (24) hours (exclusive of Saturday, Sunday and legal holidays) if a drilling rig is on location for the well that is the subject of the proposals, to participate in one of the competing proposals. Any party not electing within the time required shall be deemed not to have voted. The proposal receiving the vote of parties owning the largest aggregate percentage interest of the parties voting shall have priority over all other competing proposals; in the case of a tie vote, the

initial proposal shall prevail. Operator shall deliver notice of such result to all parties entitled to participate in the operation within five (5) days after expiration of the election period (or within twenty-four (24) hours, exclusive of Saturday, Sunday and legal holidays, if a drilling rig is on location). Each party shall then have two (2) days (or twenty-four (24) hours if a rig is on location) from receipt of such notice to elect by delivery of notice to Operator to participate in such operation or to relinquish interest in the affected well pursuant to the provisions of Article VI.B.2.; failure by a party to deliver notice within such period shall be deemed an election not to participate in the prevailing proposal.

7. Conformity to Spacing Pattern. Notwithstanding the provisions of this Article VI.B.2., it is agreed that no wells shall be proposed to be drilled to or Completed in or produced from a Zone from which a well located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing well spacing pattern for such Zone.

8. Paying Wells. No party shall conduct any Reworking, Deepening, Plugging Back, Completion, Recompletion, or Sidetracking operation under this agreement with respect to any well then capable of producing in paying quantities except with the consent of all parties that have not relinquished interests in the well at the time of such operation.

C. Completion of Wells; Reworking and Plugging Back:

1. Completion: Without the consent of all parties, no well shall be drilled, Deepened or Sidetracked, except any well drilled, Deepened or Sidetracked pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the drilling, Deepening or Sidetracking shall include:

Option No. 1: All necessary expenditures for the drilling, Deepening or Sidetracking, testing, Completing and equipping of the well, including necessary tankage and/or surface facilities.

Option No. 2: All necessary expenditures for the drilling, Deepening or Sidetracking and testing of the well. When such well has reached its authorized depth, and all logs, cores and other tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice to the Non-Operators having the right to participate in a Completion attempt; whether or not Operator recommends attempting to Complete the well, together with Operator's AFE for Completion costs if not previously provided. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect by delivery of notice to Operator to participate in a recommended Completion attempt or to make a Completion proposal with an accompanying AFE. Operator shall deliver any such Completion proposal, or any Completion proposal conflicting with Operator's proposal, to the other parties entitled to participate in such Completion in accordance with the procedures specified in Article VI.B.6. Election to participate in a Completion attempt shall include consent to all necessary expenditures for the Completing and equipping of such well, including necessary tankage and/or surface facilities but excluding any stimulation operation not contained on the Completion AFE. Failure of any party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the Completion attempt; provided, that Article VI.B.6. shall control in the case of conflicting Completion proposals. If one or more, but less than all of the parties, elect to attempt a Completion, the provisions of Article VI.B.2. hereof (the phrase "Reworking, Sidetracking, Deepening, Recompleting or Plugging Back" as contained in Article VI.B.2. shall be deemed to include "Completing") shall apply to the operations thereafter conducted by less than all parties; provided, however, that Article VI.B.2 shall apply separately to each separate Completion or Recompletion attempt undertaken hereunder, and an election to become a Non-Consenting Party as to one Completion or Recompletion attempt shall not prevent a party from becoming a Consenting Party in subsequent Completion or Recompletion attempts regardless whether the Consenting Parties as to earlier Completions or Recompletions have recouped their costs pursuant to Article VI.B.2.; provided further, that any recoupment of costs by a Consenting Party shall be made solely from the production attributable to the Zone in which the Completion attempt is made. Election by a previous Non-Consenting Party to participate in a subsequent Completion or Recompletion attempt shall require such party to pay its proportionate share of the cost of salvable materials and equipment installed in the well pursuant to the previous Completion or Recompletion attempt, insofar and only insofar as such materials and equipment benefit the Zone in which such party participates in a Completion attempt.

2. Rework, Recomplete or Plug Back: No well shall be Reworked, Recompleted or Plugged Back except a well Reworked, Recompleted, or Plugged Back pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the Reworking, Recompleting or Plugging Back of a well shall include all necessary expenditures in conducting such operations and Completing and equipping of said well, including necessary tankage and/or surface facilities.

D. Other Operations:

Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Twenty-five thousand Dollars (\$ 25,000.00) except in connection with the drilling, Sidetracking, Reworking, Deepening, Completing, Recompleting or Plugging Back of a well that has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares an AFE for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project costing in excess of Twenty-five thousand Dollars (\$ 25,000.00). Any party who has not relinquished its interest in a well shall have the right to propose that Operator perform repair work or undertake the installation of artificial lift equipment or ancillary production facilities such as salt water disposal wells or to conduct additional work with respect to a well drilled hereunder or other similar project (but not including the installation of gathering lines or other transportation or marketing facilities, the installation of which shall be governed by separate agreement between the parties) reasonably estimated to require an expenditure in excess of the amount first set forth above in this Article VI.D. (except in connection with an operation required to be proposed under Articles VI.B.1. or VI.C.1. Option No. 2, which shall be governed exclusively by those Articles). Operator shall deliver such proposal to all parties entitled to participate therein. If within thirty (30) days thereof Operator secures the written consent of any party or parties owning at least 35 % of the interests of the parties entitled to participate in such operation, each party having the right to participate in such project shall be bound by the terms of such proposal and shall be obligated to pay its proportionate share of the costs of the proposed project as if it had consented to such project pursuant to the terms of the proposal.

E. Abandonment of Wells:

1. Abandonment of Dry Holes: Except for any well drilled or Deepened pursuant to Article VI.B.2., any well which has been drilled or Deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be

plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after delivery of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or Deepening such well. Any party who objects to plugging and abandoning such well by notice delivered to Operator within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after delivery of notice of the proposed plugging shall take over the well as of the end of such forty-eight (48) hour notice period and conduct further operations in search of Oil and/or Gas subject to the provisions of Article VI.B.; failure of such party to provide proof reasonably satisfactory to Operator of its financial capability to conduct such operations or to take over the well within such period or thereafter to conduct operations on such well or plug and abandon such well shall entitle Operator to retain or take possession of the well and plug and abandon the well. The party taking over the well shall indemnify Operator (if Operator is an abandoning party) and the other abandoning parties against liability for any further operations conducted on such well except for the costs of plugging and abandoning the well and restoring the surface, for which the abandoning parties shall remain proportionately liable.

2. Abandonment of Wells That Have Produced: Except for any well in which a Non-Consent operation has been conducted hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. Failure of a party to reply within sixty (60) days of delivery of notice of proposed abandonment shall be deemed an election to consent to the proposal. If, within sixty (60) days after delivery of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well, those wishing to continue its operation from the Zone then open to production shall be obligated to take over the well as of the expiration of the applicable notice period and shall indemnify Operator (if Operator is an abandoning party) and the other abandoning parties against liability for any further operations on the well conducted by such parties. Failure of such party or parties to provide proof reasonably satisfactory to Operator of their financial capability to conduct such operations or to take over the well within the required period or thereafter to conduct operations on such well shall entitle Operator to retain or take possession of such well and plug and abandon the well.

Parties taking over a well as provided herein shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C," less the estimated cost of salvaging and the estimated cost of plugging and abandoning and restoring the surface; provided, however, that in the event the estimated plugging and abandoning and surface restoration costs and the estimated cost of salvaging are higher than the value of the well's salvable material and equipment, each of the abandoning parties shall tender to the parties continuing operations their proportionate shares of the estimated excess cost. Each abandoning party shall assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all of its interest in the wellbore of the well and related equipment, together with its interest in the Leasehold insofar and only insofar as such Leasehold covers the right to obtain production from that wellbore in the Zone then open to production. If the interest of the abandoning party is or includes an Oil and Gas Interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the wellbore and the Zone then open to production, for a term of one (1) year and so long thereafter as Oil and/or Gas is produced from the Zone covered thereby, such lease to be on the form attached as Exhibit "B." The assignments or leases so limited shall encompass the Drilling Unit upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the percentages of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interests in the remaining portions of the Contract Area.

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from the well in the Zone then open other than the royalties retained in any lease made under the terms of this Article. Upon request, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well. Upon proposed abandonment of the producing Zone assigned or leased, the assignor or lessor shall then have the option to repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the provisions hereof.

3. Abandonment of Non-Consent Operations: The provisions of Article VI.E.1. or VI.E.2. above shall be applicable as between Consenting Parties in the event of the proposed abandonment of any well excepted from said Articles; provided, however, no well shall be permanently plugged and abandoned unless and until all parties having the right to conduct further operations therein have been notified of the proposed abandonment and afforded the opportunity to elect to take over the well in accordance with the provisions of this Article VI.E.; and provided further, that Non-Consenting Parties who own an interest in a portion of the well shall pay their proportionate shares of abandonment and surface restoration costs for such well as provided in Article VI.B.2.(b).

F. Termination of Operations:

Upon the commencement of an operation for the drilling, Reworking, Sidetracking, Plugging Back, Deepening, testing, Completion or plugging of a well, including but not limited to the Initial Well, such operation shall not be terminated without consent of parties bearing 65 % of the costs of such operation; provided, however, that in the event granite or other practically impenetrable substance or condition in the hole is encountered which renders further operations impractical, Operator may discontinue operations and give notice of such condition in the manner provided in Article VI.B.1, and the provisions of Article VI.B. or VI.E. shall thereafter apply to such operation, as appropriate.

G. Taking Production in Kind:

Option No. 1: Gas Balancing Agreement Attached

Each party shall take in kind or separately dispose of its proportionate share of all Oil and Gas produced from the Contract Area, exclusive of production which may be used in development and producing operations and in preparing and treating Oil and Gas for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party. Any party taking its share of production in kind shall be required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

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

directly from the purchaser thereof for its share of all production.

If any party fails to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the Oil and/or Gas produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such Oil or sell it to others at any time and from time to time, for the account of the non-taking party. Any such purchase or sale by Operator may be terminated by Operator upon at least ten (10) days written notice to the owner of said production and shall be subject always to the right of the owner of the production upon at least ten (10) days written notice to Operator to exercise at any time its right to take in kind, or separately dispose of, its share of all Oil and/or Gas not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of Oil shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year.

Any such sale by Operator shall be in a manner commercially reasonable under the circumstances but Operator shall have no duty to share any existing market or to obtain a price equal to that received under any existing market. The sale or delivery by Operator of a non-taking party's share of Oil under the terms of any existing contract of Operator shall not give the non-taking party any interest in or make the non-taking party a party to said contract. No purchase shall be made by Operator without first giving the non-taking party at least ten (10) days written notice of such intended purchase and the price to be paid or the pricing basis to be used.

All parties shall give timely written notice to Operator of their Gas marketing arrangements for the following month, excluding price, and shall notify Operator immediately in the event of a change in such arrangements. Operator shall maintain records of all marketing arrangements, and of volumes actually sold or transported, which records shall be made available to Non-Operators upon reasonable request.

In the event one or more parties' separate disposition of its share of the Gas causes split-stream deliveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total Gas sales to be allocated to it, the balancing or accounting between the parties shall be in accordance with any Gas balancing agreement between the parties hereto, whether such an agreement is attached as Exhibit "E" or is a separate agreement. Operator shall give notice to all parties of the first sales of Gas from any well under this agreement.

Option No. 2: No Gas Balancing Agreement:

Each party shall take in kind or separately dispose of its proportionate share of all Oil and Gas produced from the Contract Area, exclusive of production which may be used in development and producing operations and in preparing and treating Oil and Gas for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party. Any party taking its share of production in kind shall be required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

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

If any party fails to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the Oil and/or Gas produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such Oil and/or Gas or sell it to others at any time and from time to time, for the account of the non-taking party. Any such purchase or sale by Operator may be terminated by Operator upon at least ten (10) days written notice to the owner of said production and shall be subject always to the right of the owner of the production upon at least ten (10) days written notice to Operator to exercise its right to take in kind, or separately dispose of, its share of all Oil and/or Gas not previously delivered to a purchaser; provided, however, that the effective date of any such revocation may be deferred at Operator's election for a period not to exceed ninety (90) days if Operator has committed such production to a purchase contract having a term extending beyond such ten (10) -day period. Any purchase or sale by Operator of any other party's share of Oil and/or Gas shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year.

Any such sale by Operator shall be in a manner commercially reasonable under the circumstances, but Operator shall have no duty to share any existing market or transportation arrangement or to obtain a price or transportation fee equal to that received under any existing market or transportation arrangement. The sale or delivery by Operator of a non-taking party's share of production under the terms of any existing contract of Operator shall not give the non-taking party any interest in or make the non-taking party a party to said contract. No purchase of Oil and Gas and no sale of Gas shall be made by Operator without first giving the non-taking party ten days written notice of such intended purchase or sale and the price to be paid or the pricing basis to be used. Operator shall give notice to all parties of the first sale of Gas from any well under this Agreement.

All parties shall give timely written notice to Operator of their Gas marketing arrangements for the following month, excluding price, and shall notify Operator immediately in the event of a change in such arrangements. Operator shall maintain records of all marketing arrangements, and of volumes actually sold or transported, which records shall be made available to Non-Operators upon reasonable request.

ARTICLE VII.

EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are given to secure only the debts of each severally, and no party shall have any liability to third parties hereunder to satisfy the default of any other party in the payment of any expense or obligation hereunder. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership, joint venture, agency relationship or association, or to render the parties liable as partners, co-venturers, or principals. In their relations with each other under this agreement, the parties shall not be considered fiduciaries or to have established a confidential relationship but rather shall be free to act on an arm's-length basis in accordance with their own respective self-interest, subject, however, to the obligation of the parties to act in good faith in their dealings with each other with respect to activities hereunder.

1 B. Liens and Security Interests:

2 Each party grants to the other parties hereto a lien upon any interest it now owns or hereafter acquires in Oil and Gas
 3 Leases and Oil and Gas Interests in the Contract Area, and a security interest and/or purchase money security interest in any
 4 interest it now owns or hereafter acquires in the personal property and fixtures on or used or obtained for use in connection
 5 therewith, to secure performance of all of its obligations under this agreement including but not limited to payment of expense,
 6 interest and fees, the proper disbursement of all monies paid hereunder, the assignment or relinquishment of interest in Oil
 7 and Gas Leases as required hereunder, and the proper performance of operations hereunder. Such lien and security interest
 8 granted by each party hereto shall include such party's leasehold interests, working interests, operating rights, and royalty and
 9 overriding royalty interests in the Contract Area now owned or hereafter acquired and in lands pooled or unitized therewith or
 10 otherwise becoming subject to this agreement, the Oil and Gas when extracted therefrom and equipment situated thereon or
 11 used or obtained for use in connection therewith (including, without limitation, all wells, tools, and tubular goods), and accounts
 12 (including, without limitation, accounts arising from gas imbalances or from the sale of Oil and/or Gas at the wellhead),
 13 contract rights, inventory and general intangibles relating thereto or arising therefrom, and all proceeds and products of the
 14 foregoing.

15 To perfect the lien and security agreement provided herein, each party hereto shall execute and acknowledge the recording
 16 supplement and/or any financing statement prepared and submitted by any party hereto in conjunction herewith or at any time
 17 following execution hereof, and Operator is authorized to file this agreement or the recording supplement executed herewith as
 18 a lien or mortgage in the applicable real estate records and as a financing statement with the proper officer under the Uniform
 19 Commercial Code in the state in which the Contract Area is situated and such other states as Operator shall deem appropriate
 20 to perfect the security interest granted hereunder. Any party may file this agreement, the recording supplement executed
 21 herewith, or such other documents as it deems necessary as a lien or mortgage in the applicable real estate records and/or a
 22 financing statement with the proper officer under the Uniform Commercial Code.

23 Each party represents and warrants to the other parties hereto that the lien and security interest granted by such party to
 24 the other parties shall be a first and prior lien, and each party hereby agrees to maintain the priority of said lien and security
 25 interest against all persons acquiring an interest in Oil and Gas Leases and Interests covered by this agreement by, through or
 26 under such party. All parties acquiring an interest in Oil and Gas Leases and Oil and Gas Interests covered by this agreement,
 27 whether by assignment, merger, mortgage, operation of law, or otherwise, shall be deemed to have taken subject
 28 to the lien and security interest granted by this Article VII.B. as to all obligations attributable to such interest hereunder
 29 whether or not such obligations arise before or after such interest is acquired.

30 To the extent that parties have a security interest under the Uniform Commercial Code of the state in which the
 31 Contract Area is situated, they shall be entitled to exercise the rights and remedies of a secured party under the Code.
 32 The bringing of a suit and the obtaining of judgment by a party for the secured indebtedness shall not be deemed an
 33 election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In
 34 addition, upon default by any party in the payment of its share of expenses, interests or fees, or upon the improper use
 35 of funds by the Operator, the other parties shall have the right, without prejudice to other rights or remedies, to collect
 36 from the purchaser the proceeds from the sale of such defaulting party's share of Oil and Gas until the amount owed by
 37 such party, plus interest as provided in "Exhibit C," has been received, and shall have the right to offset the amount
 38 owed against the proceeds from the sale of such defaulting party's share of Oil and Gas. All purchasers of production
 39 may rely on a notification of default from the non-defaulting party or parties stating the amount due as a result of the
 40 default, and all parties waive any recourse available against purchasers for releasing production proceeds as provided in
 41 this paragraph.

42 If any party fails to pay its share of cost within one hundred twenty (120) days after rendition of a statement therefor by
 43 Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the
 44 proportion that the interest of each such party bears to the interest of all such parties. The amount paid by each party so
 45 paying its share of the unpaid amount shall be secured by the liens and security rights described in Article VII.B., and each
 46 paying party may independently pursue any remedy available hereunder or otherwise.

47 If any party does not perform all of its obligations hereunder, and the failure to perform subjects such party to foreclosure
 48 or execution proceedings pursuant to the provisions of this agreement, to the extent allowed by governing law, the defaulting
 49 party waives any available right of redemption from and after the date of judgment, any required valuation or appraisal
 50 of the mortgaged or secured property prior to sale, any available right to stay execution or to require a marshalling of assets
 51 and any required bond in the event a receiver is appointed. In addition, to the extent permitted by applicable law, each party
 52 hereby grants to the other parties a power of sale as to any property that is subject to the lien and security rights granted
 53 hereunder, such power to be exercised in the manner provided by applicable law or otherwise in a commercially reasonable
 54 manner and upon reasonable notice.

55 Each party agrees that the other parties shall be entitled to utilize the provisions of Oil and Gas lien law or other lien
 56 law of any state in which the Contract Area is situated to enforce the obligations of each party hereunder. Without limiting
 57 the generality of the foregoing, to the extent permitted by applicable law, Non-Operators agree that Operator may invoke or
 58 utilize the mechanics' or materialmen's lien law of the state in which the Contract Area is situated in order to secure the
 59 payment to Operator of any sum due hereunder for services performed or materials supplied by Operator.

60 C. Advances:

61 Operator, at its election, shall have the right from time to time to demand and receive from one or more of the other
 62 parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations
 63 hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an
 64 itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice
 65 for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month.
 66 Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and
 67 invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as
 68 provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end
 69 that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

70 D. Defaults and Remedies:

71 If any party fails to discharge any financial obligation under this agreement, including without limitation the failure to
 72 make any advance under the preceding Article VII.C. or any other provision of this agreement, within the period required for
 73 such payment hereunder, then in addition to the remedies provided in Article VII.B. or elsewhere in this agreement, the
 74 remedies specified below shall be applicable. For purposes of this Article VII.D., all notices and elections shall be delivered

only by Operator, except that Operator shall deliver any such notice and election requested by a non-defaulting Non-Operator, and when Operator is the party in default, the applicable notices and elections can be delivered by any Non-Operator.

3 Election of any one or more of the following remedies shall not preclude the subsequent use of any other remedy specified
4 below or otherwise available to a non-defaulting party.

5 1. Suspension of Rights: Any party may deliver to the party in default a Notice of Default, which shall specify the default,
6 specify the action to be taken to cure the default, and specify that failure to take such action will result in the exercise of one
7 or more of the remedies provided in this Article. If the default is not cured within thirty (30) days of the delivery of such
8 Notice of Default, all of the rights of the defaulting party granted by this agreement may upon notice be suspended until the
9 default is cured, without prejudice to the right of the non-defaulting party or parties to continue to enforce the obligations of
10 the defaulting party previously accrued or thereafter accruing under this agreement. If Operator is the party in default, the
11 Non-Operators shall have in addition the right, by vote of Non-Operators owning a majority in interest in the Contract Area
12 after excluding the voting interest of Operator, to appoint a new Operator effective immediately. The rights of a defaulting
13 party that may be suspended hereunder at the election of the non-defaulting parties shall include, without limitation, the right
14 to receive information as to any operation conducted hereunder during the period of such default, the right to elect to
15 participate in an operation proposed under Article VI.B. of this agreement, the right to participate in an operation being
16 conducted under this agreement even if the party has previously elected to participate in such operation, and the right to
17 receive proceeds of production from any well subject to this agreement.

18 2. Suit for Damages: Non-defaulting parties or Operator for the benefit of non-defaulting parties may sue (at joint
19 account expense) to collect the amounts in default, plus interest accruing on the amounts recovered from the date of default
20 until the date of collection at the rate specified in Exhibit "C" attached hereto. Nothing herein shall prevent any party from
21 suing any defaulting party to collect consequential damages accruing to such party as a result of the default.

22 3. Deemed Non-Consent: The non-defaulting party may deliver a written Notice of Non-Consent Election to the
23 defaulting party at any time after the expiration of the thirty-day cure period following delivery of the Notice of Default, in
24 which event if the billing is for the drilling of a new well or the Plugging Back, Sidetracking, Reworking or Deepening of a
25 well which is to be plugged or abandoned, or for the Completion or Recompletion of any well, the defaulting
26 party will be conclusively deemed to have elected not to participate in the operation and to be a Non-Consenting Party with
27 respect thereto under Article VI.B. or VI.C., as the case may be, to the extent of the costs unpaid by such party,
28 notwithstanding any election to participate theretofore made. If election is made to proceed under this provision, then the
29 non-defaulting parties may not elect to sue for the unpaid amount pursuant to Article VII.D.2.

30 Until the delivery of such Notice of Non-Consent Election to the defaulting party, such party shall have the right to cure
31 its default by paying its unpaid share of costs plus interest at the rate set forth in Exhibit "C," provided, however, such
32 payment shall not prejudice the rights of the non-defaulting parties to pursue remedies for damages incurred by the non-
33 defaulting parties as a result of the default. Any interest relinquished pursuant to this Article VII.D.3. shall be offered to the
34 non-defaulting parties in proportion to their interests, and the non-defaulting parties electing to participate in the ownership
35 of such interest shall be required to contribute their shares of the defaulted amount upon their election to participate therein.

36 4. Advance Payment: If a default is not cured within thirty (30) days of the delivery of a Notice of Default, Operator, or
37 Non-Operators if Operator is the defaulting party, may thereafter require advance payment from the defaulting
38 party of such defaulting party's anticipated share of any item of expense for which Operator, or Non-Operators, as the case may
39 be, would be entitled to reimbursement under any provision of this agreement, whether or not such expense was the subject of
40 the previous default. Such right includes, but is not limited to, the right to require advance payment for the estimated costs of
41 drilling a well or Completion of a well as to which an election to participate in drilling or Completion has been made. If the
42 defaulting party fails to pay the required advance payment, the non-defaulting parties may pursue any of the remedies provided
43 in this Article VII.D. or any other default remedy provided elsewhere in this agreement. Any excess of funds advanced remaining
44 when the operation is completed and all costs have been paid shall be promptly returned to the advancing party.

45 5. Costs and Attorneys' Fees. In the event any party is required to bring legal proceedings to enforce any financial
46 obligation of a party hereunder, the prevailing party in such action shall be entitled to recover all court costs, costs of
47 collection, and a reasonable attorney's fee, which the lien provided for herein shall also secure.

48 E. Rentals, Shut-in Well Payments and Minimum Royalties:

49 Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid
50 by the party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties
51 own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to
52 make said payments for and on behalf of all such parties. Any party may request, and shall be entitled to receive, proper
53 evidence of all such payments. In the event of failure to make proper payment of any rental, shut-in well payment or
54 minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which
55 results from such non-payment shall be borne in accordance with the provisions of Article IV.B.2.

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

62 F. Taxes:

63 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all
64 property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed
65 thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as
66 to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on Leases and Oil and
67 Gas Interests contributed by such Non-Operator. If the assessed valuation of any Lease is reduced by reason of its being
68 subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes
69 resulting therefrom shall inure to the benefit of the owner or owners of such Lease, and Operator shall adjust the charge to
70 such owner or owners so as to reflect the benefit of such reduction. If the ad valorem taxes are based in whole or in part
71 upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to
72 the joint account shall be made and paid by the parties hereto in accordance with the tax value generated by each party's
73 working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in the manner
74 provided in Exhibit "C."

1 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner
 2 prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final
 3 determination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes
 4 and any interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for
 5 the joint account, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be
 6 paid by them, as provided in Exhibit "C"

7 Each party shall pay or cause to be paid all production, severance, excise, gathering and other taxes imposed upon or with respect
 8 to the production or handling of such party's share of Oil and Gas produced under the terms of this agreement.

ARTICLE VIII.

ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

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

14 However, should any party desire to surrender its interest in any Lease or in any portion thereof, such party shall give written
 15 notice of the proposed surrender to all parties, and the parties to whom such notice is delivered shall have thirty (30) days after
 16 delivery of the notice within which to notify the party proposing the surrender whether they elect to consent thereto. Failure of a
 17 party to whom such notice is delivered to reply within said 30-day period shall constitute a consent to the surrender of the Leases
 18 described in the notice. If all parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or
 19 implied warranty of title, all of its interest in such Lease, or portion thereof, and any well, material and equipment which may be
 20 located thereon and any rights in production thereafter secured, to the parties not consenting to such surrender. If the interest of the
 21 assigning party is or includes an Oil and Gas Interest, the assigning party shall execute and deliver to the party or parties not
 22 consenting to such surrender an oil and gas lease covering such Oil and Gas Interest for a term of one (1) year and so long
 23 thereafter as Oil and/or Gas is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "D"
 24 Upon such assignment or lease, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore
 25 accrued, with respect to the interest assigned or leased and the operation of any well attributable thereto, and the assigning party
 26 shall have no further interest in the assigned or leased premises and its equipment and production other than the royalties retained
 27 in any lease made under the terms of this Article. The party assignor or lessee shall pay to the party assignor or lessor the
 28 reasonable salvage value of the latter's interest in any well's salvable materials and equipment attributable to the assigned or leased
 29 acreage. The value of all salvable materials and equipment shall be determined in accordance with the provisions of Exhibit "C," less
 30 the estimated cost of salvaging and the estimated cost of plugging and abandoning and restoring the surface. If such value is less
 31 than such costs, then the party assignor or lessor shall pay to the party assignee or lessee the amount of such deficit. If the
 32 assignment or lease is in favor of more than one party, the interest shall be shared by such parties in the proportions that the
 33 interest of each bears to the total interest of all such parties. If the interest of the parties to whom the assignment is to be made
 34 varies according to depth, then the interest assigned shall similarly reflect such variances.

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

B. Renewal or Extension of Leases: Except as set forth below, if

39 ~~Y~~ any party secures a renewal or replacement of an Oil and Gas Lease or Interest subject to this agreement, then all other parties
 40 shall be notified promptly upon such acquisition or, in the case of a replacement Lease taken before expiration of an existing Lease,
 41 promptly upon expiration of the existing Lease. The parties notified shall have the right for a period of thirty (30) days following
 42 delivery of such notice in which to elect to participate in the ownership of the renewal or replacement Lease, insofar as such Lease
 43 affects lands within the Contract Area, by paying to the party who acquired it their proportionate shares of the acquisition cost
 44 allocated to that part of such Lease within the Contract Area, which shall be in proportion to the interests held at that time by the
 45 parties in the Contract Area. Each party who participates in the purchase of a renewal or replacement Lease shall be given an
 46 assignment of its proportionate interest therein by the acquiring party.

47 If some, but less than all, of the parties elect to participate in the purchase of a renewal or replacement Lease, it shall be owned
 48 by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in
 49 the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the
 50 purchase of such renewal or replacement Lease. The acquisition of a renewal or replacement Lease by any or all of the parties hereto
 51 shall not cause a readjustment of the interests of the parties stated in Exhibit "A," but any renewal or replacement Lease in which
 52 less than all parties elect to participate shall not be subject to this agreement but shall be deemed subject to a separate Operating
 53 Agreement in the form of this agreement.

54 If the interests of the parties in the Contract Area vary according to depth, then their right to participate proportionately in
 55 renewal or replacement Leases and their right to receive an assignment of interest shall also reflect such depth variances.

56 The provisions of this Article shall apply to renewal or replacement Leases whether they are for the entire interest covered by
 57 the expiring Lease or cover only a portion of its area or an interest therein. Any renewal or replacement Lease taken before the
 58 expiration of its predecessor lease, or taken or contracted for or becoming effective within six (6) months after the expiration of the
 59 existing Lease, shall be subject to this provision so long as this agreement is in effect at the time of such acquisition or at the time
 60 the renewal or replacement Lease becomes effective; but any Lease taken or contracted for more than six (6) months after the
 61 expiration of an existing Lease shall not be deemed a renewal or replacement Lease and shall not be subject to the provisions of this
 62 agreement. See Article XVI, Page 17A for Continuation. * more than 60 days, but not
 63

64 The provisions in this Article shall also be applicable to extensions of Oil and Gas Leases. more than 6 months

C. Acreage or Cash Contributions:

65 While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other
 66 operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall
 67 be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom
 68 the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the
 69 proportions said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the
 70 extent possible, be governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any
 71 acreage or cash contributions it may obtain in support of any well or any other operation on the Contract Area. The above
 72 provisions shall also be applicable to optional rights to earn acreage outside the Contract Area which are in support of well drilled
 73 inside the Contract Area.
 74

If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such consideration shall not be deemed a contribution as contemplated in this Article VIII C.

D. Assignment; Maintenance of Uniform Interest:

For the purpose of maintaining uniformity of ownership in the Contract Area in the Oil and Gas Leases, Oil and Gas Interests, wells, equipment and production covered by this agreement no party shall sell, encumber, transfer or make other disposition of its interest in the Oil and Gas Leases and Oil and Gas Interests embraced within the Contract Area or in wells, equipment and production unless such disposition covers either:

- 1. the entire interest of the party in all Oil and Gas Leases, Oil and Gas Interests, wells, equipment and production, or
- 2. an equal undivided percent of the party's present interest in all Oil and Gas Leases, Oil and Gas Interests, wells, equipment and production in the Contract Area.

Every sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement and shall be made without prejudice to the right of the other parties, and any transferee of an ownership interest in any Oil and Gas Lease or Interest shall be deemed a party to this agreement as to the interest conveyed from and after the effective date of the transfer of ownership; provided, however, that the other parties shall not be required to recognize any such sale, encumbrance, transfer or other disposition for any purpose hereunder until thirty (30) days after they have received a copy of the instrument of transfer or other satisfactory evidence thereof in writing from the transferor or transferee. No assignment or other disposition of interest by a party shall relieve such party of obligations previously incurred by such party hereunder with respect to the interest transferred, including without limitation the obligation of a party to pay all costs attributable to an operation conducted hereunder in which such party has agreed to participate prior to making such assignment, and the lien and security interest granted by Article VII.B. shall continue to burden the interest transferred to secure payment of any such obligations.

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

E. Waiver of Rights to Partition:

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

F. Preferential Right to Purchase:

(Optional; Check if applicable.)

Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract Area, it shall promptly give written notice to the other parties, with full information concerning its proposed disposition, which shall include the name and address of the prospective transferee (who must be ready, willing and able to purchase), the purchase price, a legal description sufficient to identify the property, and all other terms of the offer. The other parties shall then have an optional prior right, for a period of ~~THIRTY~~ ^{THIRTY (30)} days after the notice is delivered, to purchase for the stated consideration on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to transfer title to its interests to its mortgagee in lieu of or pursuant to foreclosure of a mortgage of its interests, or to dispose of its interests by merger, reorganization, consolidation, or by sale of all or substantially all of its Oil and Gas assets to any party, or by transfer of its interests to a subsidiary or parent company or to a subsidiary of a parent company, or to any company in which such party owns a majority of the stock.

ARTICLE IX.
INTERNAL REVENUE CODE ELECTION

If, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, and if the parties have not otherwise agreed to form a tax partnership pursuant to Exhibit "G" or other agreement between them, each party thereby affected elects to be excluded from the application of all of the provisions of Subchapter "K," Chapter 1, Subtitle "A," of the Internal Revenue Code of 1986, as amended ("Code"), as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Treasury Regulations §1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K," Chapter 1, Subtitle "A," of the Code, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from operations hereunder can be adequately determined without the computation of partnership taxable income.

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed Ten thousand Dollars (\$ 10,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suite shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI.
FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to indemnify or make money payments or furnish security, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The term "force majeure," as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood or other act of nature, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

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

ARTICLE XII.
NOTICES

All notices authorized or required between the parties by any of the provisions of this agreement, unless otherwise specifically provided, shall be in writing and delivered in person or by United States mail, courier service, telegram, telex, telecopy or any other form of facsimile, postage or charges prepaid, and addressed to such parties at the addresses listed on Exhibit "A." All telephone or oral notices permitted by this agreement shall be confirmed immediately thereafter by written notice. The originating notice given under any provision hereof shall be deemed delivered only when received by the party to whom such notice is directed, and the time for such party to deliver any notice in response thereto shall run from the date the originating notice is received. "Receipt" for purposes of this agreement with respect to written notice delivered hereunder shall be actual delivery of the notice to the address of the party to be notified specified in accordance with this agreement, or to the telecopy, facsimile or telex machine of such party. The second or any responsive notice shall be deemed delivered when deposited in the United States mail or at the office of the courier or telegraph service, or upon transmittal by telex, telecopy or facsimile, or when personally delivered to the party to be notified, provided, that when response is required within 24 or 48 hours, such response shall be given orally or by telephone, telex, telecopy or other facsimile within such period. Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other parties. If a party is not available to receive notice orally or by telephone when a party attempts to deliver a notice required to be delivered within 24 or 48 hours, the notice may be delivered in writing by any other method specified herein and shall be deemed delivered in the same manner provided above for any responsive notice.

ARTICLE XIII.
TERM OF AGREEMENT

This agreement shall remain in full force and effect as to the Oil and Gas Leases and/or Oil and Gas Interests subject hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any rights, title or interest in or to any Lease or Oil and Gas Interest contributed by any other party beyond the term of this agreement.

- Option No. 1: So long as any of the Oil and Gas Leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal or otherwise.
- Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in the Completion of a well as a well capable of production of Oil and/or Gas in paying quantities, this agreement shall continue in force so long as any such well is capable of production, and for an additional period of 180 days thereafter; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, Reworking, Deepening, Sidetracking, Plugging Back, testing or attempting to Complete or Re-complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is capable of producing Oil and/or Gas from the Contract Area, this agreement shall terminate unless drilling, Deepening, Sidetracking, Completing, Re-completing, Plugging Back or Reworking operations are commenced within 180 days from the date of abandonment of said well. "Abandonment" for such purposes shall mean either (i) a decision by all parties not to conduct any further operations on the well; or (ii) the elapse of 180 days from the conduct of any operations on the well, whichever first occurs.

The termination of this agreement shall not relieve any party hereto from any expense, liability or other obligation or any remedy thereof which has accrued or attached prior to the date of such termination.

Upon termination of this agreement and the satisfaction of all obligations hereunder, in the event a memorandum of this Operating Agreement has been filed of record, Operator is authorized to file of record in all necessary recording offices a notice of termination, and each party hereto agrees to execute such a notice of termination as to Operator's interest, upon request of Operator, if Operator has satisfied all its financial obligations.

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

C. Regulatory Agencies:

Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any rights, privileges, or obligations which Non-Operators may have under federal or state laws or under rules, regulations or

orders promulgated under such laws in reference to oil, gas and mineral operations, including the location, operation, or production of wells, on tracts offsetting or adjacent to the Contract Area.

With respect to the operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or Federal Energy Regulatory Commission or predecessor or successor agencies to the extent such interpretation or application was made in good faith and does not constitute gross negligence. Each Non-Operator further agrees to reimburse Operator for such Non-Operator's share of production or any refund, fine, levy or other governmental sanction that Operator may be required to pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such incorrect interpretation or application.

ARTICLE XV.
MISCELLANEOUS

A. Execution:

This agreement shall be binding upon each Non-Operator when this agreement or a counterpart thereof has been executed by such Non-Operator and Operator notwithstanding that this agreement is not then or thereafter executed by all of the parties to which it is tendered or which are listed on Exhibit "A" as owning an interest in the Contract Area or which own, in fact, an interest in the Contract Area. Operator may, however, by written notice to all Non-Operators who have become bound by this agreement as aforesaid, given at any time prior to the actual spud date of the Initial Well but in no event later than five days prior to the date specified in Article VI.A. for commencement of the Initial Well, terminate this agreement if Operator in its sole discretion determines that there is insufficient participation to justify commencement of drilling operations. In the event of such a termination by Operator, all further obligations of the parties hereunder shall cease as of such termination. In the event any Non-Operator has advanced or prepaid any share of drilling or other costs hereunder, all sums so advanced shall be returned to such Non-Operator without interest. In the event Operator proceeds with drilling operations for the Initial Well without the execution hereof by all persons listed on Exhibit "A" as having a current working interest in such well, Operator shall indemnify Non-Operators with respect to all costs incurred for the Initial Well which would have been charged to such person under this agreement if such person had executed the same and Operator shall receive all revenues which would have been received by such person under this agreement if such person had executed the same.

B. Successors and Assigns:

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, devisees, legal representatives, successors and assigns, and the terms hereof shall be deemed to run with the Leases or Interests included within the Contract Area.

C. Counterparts:

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

D. Severability:

For the purposes of assuming or rejecting this agreement as an executory contract pursuant to federal bankruptcy laws, this agreement shall not be severable, but rather must be assumed or rejected in its entirety, and the failure of any party to this agreement to comply with all of its financial obligations provided herein shall be a material default.

ARTICLE XVI.
OTHER PROVISIONS

Continuation of Article III. B., Page 2: That portion of such production or the proceeds thereof (at the option of the party or parties entitled to the distribution hereunder) required to pay royalty or other burdens, to the extent provided in the sentence immediately preceding this sentence, shall be distributed to the party or parties hereto obligated to bear and pay or deliver or cause to be paid or delivered such portion of such royalties or burdens.

Substitute Paragraph V. D. 9, Page 5: At all times while operations are conducted hereunder, Operator shall comply with the workers compensation law of the state where the operations are being conducted; and if permitted under state law, Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C". Operator shall also maintain in force at all times with respect to operations hereunder such other insurance, if any, as may be required by law. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workers compensation law of the state where the operations are being conducted and to maintain such other insurance as Operator may require. To the extent permitted by applicable law, Operator shall attempt to require all contractors engaged in work on or for the Contract Area to hold harmless and indemnify all parties to this agreement from any liability arising out of work performed by them for the benefit of the Contract Area. All insurance required of contractors and subcontractors shall contain a waiver of subrogation against Operator and all parties to this Agreement. No other insurance is required and no other insurance shall be charged to the joint account.



ARTICLE XVI. OTHER PROVISIONS (CONTINUED)

A. Continuation of Article VIII. B., Page 14: Each party ("contributing party") contributing a lease or leases ("original lease") to this Agreement shall have the option, but not the obligation, at any time prior to and for sixty (60) days after the expiration of the original lease to renew such lease and to bear the entire renewal thereof. If more than one party owns an interest in the original lease, the option granted herein shall inure to the benefit of such parties jointly and severally. If any party hereto other than the contributing party ("renewing party") renews the lease at any time, the renewing party shall furnish the contributing party an itemized statement of the total cost and expense incurred in acquiring such renewed lease. The contributing party shall have sixty (60) days after receipt of such itemized statement to reimburse the renewing party in full. If the contributing party makes such reimbursement, it shall receive from the renewing party an assignment, subject to this Agreement, of all right, title and interest in and to the renewal lease. If the contributing party either renews such lease at its expense or reimburses the renewing party, the parties' interests hereunder in the Contract Area shall remain unchanged. If the contributing party exercises neither of the options provided above, it shall thereby forfeit its rights under this paragraph as to such renewal lease, and the renewal lease shall thereafter be subject to all the terms and conditions of this Article VIII.B.

B. Continuation of Article X., Page 15: All damage or injury to the Contract Area and to any joint property thereon, not covered by insurance (if any) required herein, shall be shared by the parties herein in proportion to their respective interests in the Contract Area. Any liability in damages arising out of personal injury to, or death of, third parties or injury to or destruction of property of third parties, resulting from operations conducted hereunder for the joint account, not covered by insurance (if any) required herein, shall be shared by the parties in proportion to their respective interests in the Contract Area. Notwithstanding the above, however, if less than all parties participate in such operations, such liability in damages shall be borne proportionately by the parties which participated in the operations from which such damages arose.

Each party to this Agreement agrees to hold the other parties indemnified and harmless from and against any loss, expense, claim or demand for its proportionate share of any damage or injury to joint property or liability in damages arising out of personal injury to, or death of, third parties or injury to or destruction of property of third parties. Any party individually may acquire such additional insurance as it desires to protect itself against any liability not covered by insurance (if any) required herein. All insurance purchased individually by a party to this Agreement shall contain a waiver by the insurance company of all right or subrogation in favor of the parties of this Agreement.

C. This Operating Agreement, upon execution by Citation Oil & Gas Corp., as General Partner for Citation 1987 Investment Limited Partnership, successor in interest to Roxana Petroleum Corporation, and Chevron U.S.A. Inc., as successor in interest to Devonian Oil Company, shall supersede that certain Agreement made and entered into on September 11, 1928, by and between Devonian Oil Company and Roxana Petroleum Corporation, as amended, reference to which is hereby made for all purposes, INsofar AND ONLY INsofar as such Agreement affects the lands, leases, depths and substances covered hereunder.

D. Additionally, this Operating Agreement, upon execution by all parties hereunder, shall supersede that certain Agreement for Use of Well dated October 8, 1958, by and between Shell Oil Corporation, Gulf Oil Corporation, The Atlantic Refining Company and Standard Oil Company of Texas. It is specifically understood and agreed by the parties hereunder that this Operating Agreement shall be applicable as to any existing wells and/or wellbores situated on the lands described herein INsofar AND ONLY INsofar as such wells and/or wellbores affect the depths and formations described herein.

E. No assignment or other disposition of interest by a party shall relieve such party of obligations previously incurred by such party hereunder with respect to the interest transferred. The other parties shall be provided with a fully executed copy of the instrument of transfer within five (5) business days of the closing of such sale, transfer or other disposition of interest.

F. In the event of conflict between the provisions of this Article XVI and provisions contained elsewhere in this agreement, the provisions of this Article XVI shall control.

G. This agreement is subject to that certain Letter Agreement dated June 1, 1997, 1997 between Citation Oil & Gas Corp., as General Partner for Citation 1987 Investment Limited Partnership, Chevron U.S.A. Inc. and Atlantic Richfield Company.

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989

IN WITNESS WHEREOF, this agreement shall be effective as of the 1st day of June,

19 97.

ATTEST OR WITNESS:

~~OPERATOR~~
Citation Oil & Gas Corp., as General Partner
for Citation 1987 Investment Limited Partnership

By [Signature]

Gary C. Johnson
Type or print name

Title Senior Vice-President

Date 06/11/97

Tax ID or S.S. No. 76-0205694

NON-OPERATORS

Chevron U.S.A. Inc.

By _____

Attorney-in-Fact
Type or print name

Title _____

Date _____

Tax ID or S.S. No. _____

Atlantic Richfield Company

By _____

Type or print name

Title _____

Date _____

Tax ID or S.S. No. _____

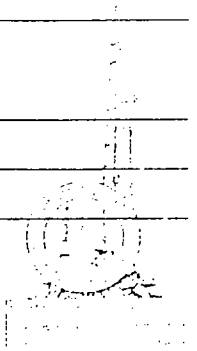
By _____

Type or print name

Title _____

Date _____

Tax ID or S.S. No. _____



1 IN WITNESS WHEREOF, this agreement shall be effective as of the 1st day of June,
2 19 97.

3 ATTEST OR WITNESS:

~~OPERATOR~~
Citation Oil & Gas Corp., as General Partner
for Citation 1987 Investment Limited Partnershi

4 _____
5 By _____
6 Gary C. Johnson
7 Type or print name

8 Title Senior Vice-President

9 Date 06/11/97

10 Tax ID or S.S. No. 76-0205694

11
12 NON-OPERATORS

13
14 Chevron U.S.A. Inc.

15 By D.K. Wright

16 Attorney-in-Fact
17 Type or print name

18 Title _____

19 Date JUNE 12, 1997

20 Tax ID or S.S. No. _____

21
22 Atlantic Richfield Company

23 By _____

24 _____
25 Type or print name

26 Title _____

27 Date _____

28 Tax ID or S.S. No. _____

29
30 By _____

31 _____
32 Type or print name

33 Title _____

34 Date _____

35 Tax ID or S.S. No. _____
36
37

1 IN WITNESS WHEREOF, this agreement shall be effective as of the 1st day of June,
19 97.

3 ATTEST OR WITNESS:

OPERATOR
Citation Oil & Gas Corp., as General Partner
for Citation 1987 Investment Limited Partnershi

5 _____ By _____

6 _____ Gary C. Johnson
7 _____ Type or print name

8 Title Senior Vice-President

9 Date 06/11/97

10 Tax ID or S.S. No. 76-0205694

12 NON-OPERATORS

14 Chevron U.S.A. Inc.

15 _____ By _____

16 _____ Attorney-in-Fact
17 _____ Type or print name

Title _____

19 Date _____

20 Tax ID or S.S. No. _____

22 Atlantic Richfield Company

23 _____ By T.L. Holland *TLH*
24 **T.L. HOLLAND**

25 _____ Type or print name

26 Title Vice-President

27 Date 6/12/97

28 Tax ID or S.S. No. 23-0371610

30 _____ By _____

31 _____
32 _____ Type or print name

33 Title _____

34 Date _____

35 Tax ID or S.S. No. _____

36

37

Exhibit "A"

Attached to and made a part of that certain Operating Agreement dated June 1, 1997, by and between Citation Oil & Gas Corp., as General Partner for Citation 1987 Investment Limited Partnership, as Operator, and Chevron U.S.A. Inc. and Atlantic Richfield Company, as Non-Operators.

1. LANDS SUBJECT TO THIS AGREEMENT:

Township 21 South, Range 36 East, Lea County, New Mexico

Section 20: East Half (E/2) containing 320.0 acres of land, more or less, as outlined on Exhibit "A-1" attached.

2. RESTRICTIONS AS TO DEPTHS, FORMATIONS OR SUBSTANCES:

This Operating Agreement is limited to the oil, gas and other liquid or gaseous hydrocarbons that may be produced from the vertical limits of the Eumont Gas Pool, as defined in the New Mexico Oil Conservation Commission's Order No. R-520, dated August 12, 1954, and effective as of November 1, 1954.

3. INTERESTS OF PARTIES TO THIS AGREEMENT:

Citation 1987 Investment Limited Partnership	31.6849%
Chevron U.S.A. Inc.	60.8241%
Atlantic Richfield Company	<u>7.4910%</u>
Total	100.0000%

4. OIL AND GAS LEASES SUBJECT TO THIS AGREEMENT:

TRACT 1

DATE: November 26, 1928
LESSOR: The State of New Mexico
LESSEE: Devonian Oil Company
LANDS COMMITTED TO OPERATING AGREEMENT: Northeast Quarter (NE/4) of Section 20, T21S, R36E, Lea County, New Mexico
WORKING INTEREST OWNERS:
Citation 1987 Investment Limited Partnership 50.00%
Chevron U.S.A. Inc. 50.00%

TRACT 2

DATE: September 9, 1931
LESSOR: The State of New Mexico
LESSEE: Gypsy Oil Company
LANDS COMMITTED TO OPERATING AGREEMENT: East Half of Southeast Quarter (E/2 of SE/4) of Section 20, T21S, R36E, Lea County, New Mexico
WORKING INTEREST OWNERS:
Chevron U.S.A. Inc. 100.00%

TRACT 3

DATE: November 21, 1931
LESSOR: The State of New Mexico
LESSEE: Atlantic Oil Producing Company
LANDS COMMITTED TO OPERATING AGREEMENT: Northwest Quarter of Southeast Quarter (NW/4 of SE/4) of Section 20, T21S, R36E, Lea County, New Mexico
WORKING INTEREST OWNERS:
Atlantic Richfield Company 100.00%

TRACT 4

DATE: March 31, 1933
LESSOR: The State of New Mexico
LESSEE: The California Company
LANDS COMMITTED TO OPERATING AGREEMENT: Southwest Quarter of Southeast Quarter (SW/4 of SE/4) of Section 20, T21S, R36E, Lea County, New Mexico
WORKING INTEREST OWNERS:
Chevron U.S.A. Inc. 100.00%

5. ADDRESSES OF THE PARTIES:

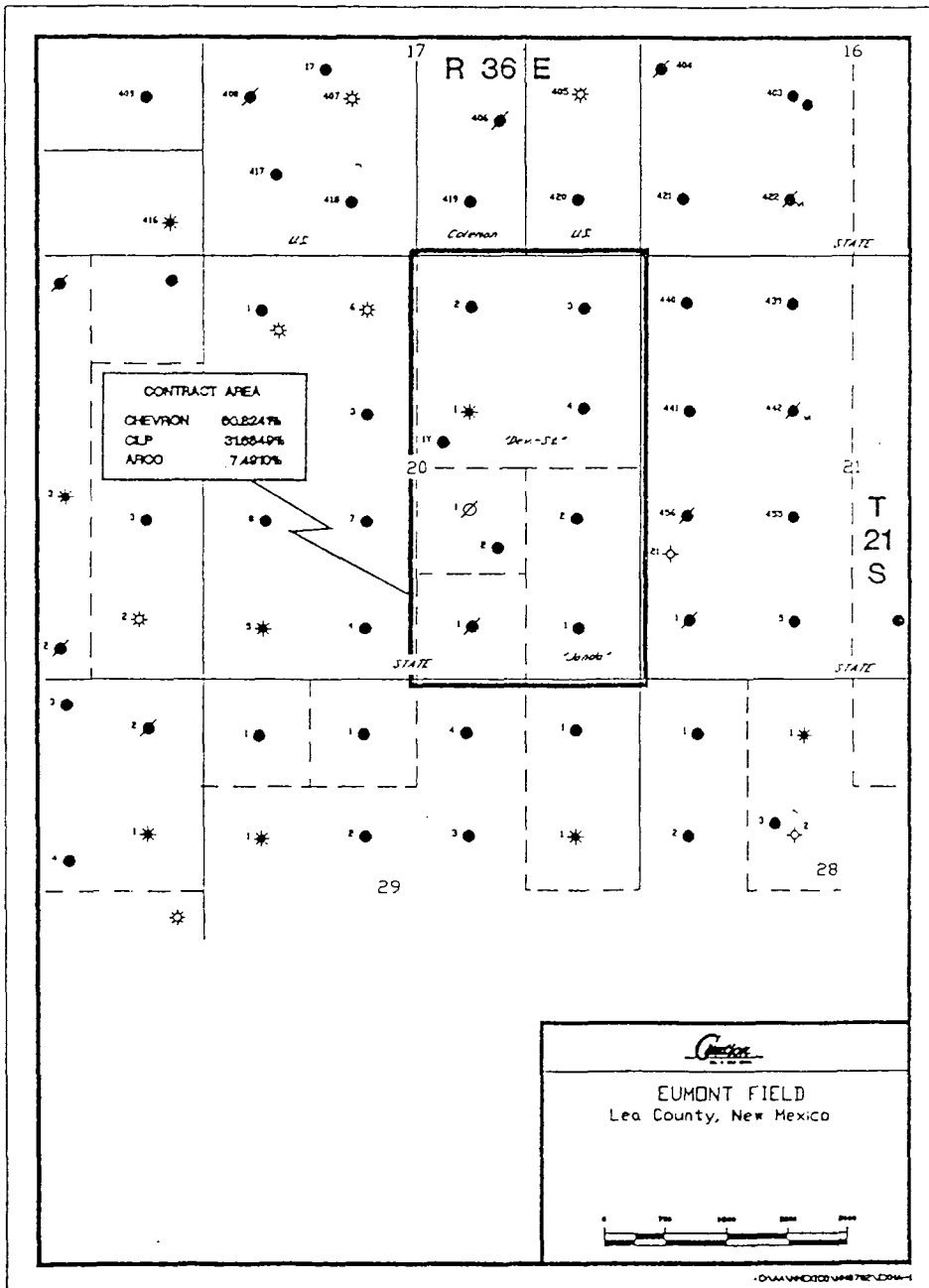
Citation 1987 Investment Limited Partnership
8223 Willow Place South, Suite 250
Houston, Texas 77070-5623
Attention: Mr. Brian Durman
Telephone: (713) 469-9664
Telefax: (713) 469-0043

Chevron U.S.A. Inc.
P. O. Box 1635
Houston, Texas 77251-1635
Attention: NOJV Manager
Telephone: (713) 754-5611
Telefax: (713) 754-5787

Atlantic Richfield Company
P. O. Box 1610
Midland, Texas 79702-1610
Attention: Mr. Lee Scarborough
Telephone: (915) 688-5270
Telefax: (915) 688-5757

EXHIBIT "A-1"

Attached to and made a part of that certain Operating Agreement dated June 1, 1987,
 by and between CITATION OIL & GAS CORP., as General Partner for CITATION 1987
 INVESTMENT LIMITED PARTNERSHIP, as Operator, and CHEVRON U.S.A. INC. and ARCO OIL
 & GAS COMPANY, as Non-Operators.



THERE IS NO EXHIBIT "B" TO THIS OPERATING AGREEMENT.

EXHIBIT " C "

Attached to and made a part of that certain Operating Agreement dated June 1, 1997 by and between Citation Oil & Gas Corp., as General Partner for Citation 1987 Investment Limited Partnership, as Operator, and Chevron U.S.A. Inc. and Atlantic Richfield Company, as Non-Operators.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

- "Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.
- "Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.
- "Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.
- "Operator" shall mean the party designated to conduct the Joint Operations.
- "Non-Operators" shall mean the Parties to this agreement other than the Operator.
- "Parties" shall mean Operator and Non-Operators.
- "First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.
- "Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.
- "Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.
- "Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.
- "Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies.

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

- A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation within ~~thirty (30)~~ ^{thirty (30)} days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.
- B. Each Non-Operator shall pay its proportion of all bills within ~~thirty (30)~~ ^{thirty (30)} days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at The Chase ~~Manhattan Bank, New York~~ on the first day of the month in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

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

1 5. Audits

2
3 A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit
4 Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four
5 (24) month period following the end of such calendar year; provided, however, the making of an audit shall not
6 extend the time for the taking of written exception to and the adjustments of accounts as provided for in
7 Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make
8 every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience
9 to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this
0 paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year
1 without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made
2 at the expense of those Non-Operators approving such audit.

3
4 B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report, unless Operator
5 has been granted a written extension of time from the inquiring Non-Operator, not to exceed

6 6. Approval By Non-Operators ninety (90) days. Any claim(s) not responded to by Operator shall
7 be credited to the Joint Account as requested until such claim(s)
8 are resolved.

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

3
4
5 II. DIRECT CHARGES

6 Operator shall charge the Joint Account with the following items:

7
8 1. Ecological and Environmental

9
0 Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy
1 environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or
2 archaeological nature and pollution control procedures as required by applicable laws and regulations.

3
4 2. Rentals and Royalties

5
6 Lease rentals and royalties paid by Operator for the Joint Operations.

7
8 3. Labor

9
0 A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of
1 Joint Operations.

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

4
5 (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are
6 excluded from the overhead rates.

7
8 (4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly
9 employed in the operation of the Joint Property if such charges are excluded from the overhead rates.

0
1 B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to
2 employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.
3 Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment"
4 on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If
5 percentage assessment is used, the rate shall be based on the Operator's cost experience.

6
7 C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are
8 applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.

9
0 D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under
1 Paragraph 3A of this Section II.

2
3 4. Employee Benefits

4
5 Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement,
6 stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the
7 Joint Account under Paragraphs 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent
8 most recently recommended by the Council of Petroleum Accountants Societies.

1 5. Material

2
3 Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such
4 Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is
5 reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be
6 avoided.

7
8 6. Transportation

9
10 Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

- 11
12 A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be
13 made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like
14 material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.
15
16 B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint
17 Account for a distance greater than the distance to the nearest reliable supply store where like material is normally
18 available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be
19 made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the
20 Parties.
21
22 C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is
23 available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the
24 amount most recently recommended by the Council of Petroleum Accountants Societies.
25

26 7. Services

27
28 The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph
29 10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract
30 services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead
31 rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the
32 Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.
33

34 8. Equipment and Facilities Furnished By Operator

- 35
36 A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate
37 with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating
38 expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to
39 exceed Eight percent (8.0 %) per annum. Such rates shall not exceed average commercial
40 rates currently prevailing in the immediate area of the Joint Property.
41
42 B. In lieu of charges in paragraph 8A above, Operator may elect to use average commercial rates prevailing in the
43 immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates
44 published by the Petroleum Motor Transport Association.
45

46 9. Damages and Losses to Joint Property

47
48 All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or
49 losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross
50 negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as
51 soon as practicable after a report thereof has been received by Operator.
52

53 10. Legal Expense

54
55 Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgements and
56 amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to
57 protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of
58 outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be
59 covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section
60 I, Paragraph 3.
61

62 11. Taxes

63
64 All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof,
65 or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad
66 valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then
67 notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties
68 hereto in accordance with the tax value generated by each party's working interest.
69
70

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1 12. Insurance

2
3 Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the
4 event Joint Operations are conducted in a state in which Operator may act as self-insurer for Worker's Compensation
5 and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-
6 insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

7
8 13. Abandonment and Reclamation

9
10 Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory
11 authority.

12
13 14. Communications

14
15 Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and
16 microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint
17 Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.

18
19 15. Other Expenditures

20
21 Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III and which
22 is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint
23 Operations.

24
25
26 III. OVERHEAD

27
28 1. Overhead - Drilling and Producing Operations

29
30 i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge
31 drilling and producing operations on either:

- 32
33 (X) Fixed Rate Basis, Paragraph 1A, or
34 () Percentage Basis, Paragraph 1B

35
36 Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and
37 salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under
38 Paragraph 2A, Section II. The cost and expense of services from outside sources in connection with matters of
39 taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in
40 the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are
41 agreed to by the Parties as a direct charge to the Joint Account.

42
43 ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant
44 services and contract services of technical personnel directly employed on the Joint Property:

- 45
46 () shall be covered by the overhead rates, or
47 (X) shall not be covered by the overhead rates.

48
49 iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services
50 and contract services of technical personnel either temporarily or permanently assigned to and directly employed in
51 the operation of the Joint Property:

- 52
53 (X) shall be covered by the overhead rates, or
54 () shall not be covered by the overhead rates.

55
56 A. Overhead - Fixed Rate Basis

57
58 (1) Operator shall charge the Joint Account at the following rates per well per month:

59
60 Drilling Well Rate \$ 3,500.00
(Prorated for less than a full month)

61
62 Producing Well Rate \$ 350.00

63
64 (2) Application of Overhead - Fixed Rate Basis shall be as follows:

65
66 (a) Drilling Well Rate

67
68 (1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date
69 the drilling rig, completion rig, or other units used in completion of the well is released, whichever
70

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

- 3
4 (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5)
5 consecutive work days or more shall be made at the drilling well rate. Such charges shall be
6 applied for the period from date workover operations, with rig or other units used in workover,
7 commence through date of rig or other unit release, except that no charge shall be made during
8 suspension of operations for fifteen (15) or more consecutive calendar days.

9
10 (b) Producing Well Rates

- 11 (1) An active well either produced or injected into for any portion of the month shall be considered as
12 a one-well charge for the entire month.
13
14 (2) Each active completion in a multi-completed well in which production is not commingled down
15 hole shall be considered as a one-well charge providing each completion is considered a separate
16 well by the governing regulatory authority.
17
18 (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the
19 production shall be considered as a one-well charge providing the gas well is directly connected to
20 a permanent sales outlet.
21
22 (4) A one-well charge shall be made for the month in which plugging and abandonment operations
23 are completed on any well. This one-well charge shall be made whether or not the well has
24 produced except when drilling well rate applies.
25
26 (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease
27 allowable, transferred allowable, etc.) shall not qualify for an overhead charge.
28
29 (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the
30 agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying
31 the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude
32 Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as
33 shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published
34 by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as
35 published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or
36 minus the computed adjustment.
37
38

39 ~~B. Overhead - Percentage Basis~~

- 40
41 (1) Operator shall charge the Joint Account at the following rates:

42 (a) Development

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

45 (b) Operating

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

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

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

59 2. Overhead - Major Construction

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

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

- 2
3 A. 5 % of first \$100,000 or total cost if less, plus
4
5 B. 3 % of costs in excess of \$100,000 but less than \$1,000,000, plus
6
7 C. 2 % of costs in excess of \$1,000,000.
8

9 Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single
10 project shall not be treated separately and the cost of drilling and workover wells and artificial lift equipment shall be
11 excluded.
12

13 3. Catastrophe Overhead
14

15 To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due
16 to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are
17 necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the
18 expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account
19 for overhead based on the following rates:
20

- 21 A. 5 % of total costs through \$100,000; plus
22
23 B. 3 % of total costs in excess of \$100,000 but less than \$1,000,000; plus
24
25 C. 2 % of total costs in excess of \$1,000,000.
26

27 Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead
28 provisions of this Section III shall apply.
29

30 4. Amendment of Rates
31

32 The overhead rates provided for in this Section III may be amended from time to time only by mutual agreement
33 between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.
34
35

36 IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS
37

38 Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all Material
39 movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at
40 Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or
41 surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to
42 outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition
43 A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.
44

45 1. Purchases
46

47 Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of
48 Material found to be defective or returned to vendor for any other reasons, credit shall be passed to the Joint Account
49 when adjustment has been received by the Operator.
50

51 2. Transfers and Dispositions
52

53 Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator,
54 unless otherwise agreed to by the Parties, shall be priced on the following basis exclusive of cash discounts:
55

56 A. New Material (Condition A)
57

58 (1) Tubular Goods Other than Line Pipe
59

- 60 (a) Tubular goods, sized 2½ inches OD and larger, except line pipe, shall be priced at Eastern mill
61 published carload base prices effective as of date of movement plus transportation cost using the 80,000
62 pound carload weight basis to the railway receiving point nearest the Joint Property for which
63 published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound
64 or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio
65 and casing from Youngstown, Ohio.
66

- 67 (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus
68 transportation cost from that mill to the railway receiving point nearest the Joint Property as provided
69 above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000
70

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

- 2
3 (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston,
4 Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate,
5 to the railway receiving point nearest the Joint Property.
6
7 (d) Macaroni tubing (size less than 2 $\frac{3}{4}$ inch OD) shall be priced at the lowest published out-of-stock prices
8 f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate
9 per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

10
11 (2) Line Pipe

- 12
13 (a) Line pipe movements (except size 24 inch OD and larger with walls $\frac{3}{4}$ inch and over) 30,000 pounds or
14 more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above.
15 Freight charges shall be calculated from Lorain, Ohio.
16
17 (b) Line pipe movements (except size 24 inch OD and larger with walls $\frac{3}{4}$ inch and over) less than 30,000
18 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment,
19 plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular
20 goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain,
21 Ohio.
22
23 (c) Line pipe 24 inch OD and over and $\frac{3}{4}$ inch wall and larger shall be priced f.o.b. the point of
24 manufacture at current new published prices plus transportation cost to the railway receiving point
25 nearest the Joint Property.
26
27 (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall
28 be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at
29 prices agreed to by the Parties.

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

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

39
40 B. Good Used Material (Condition B)

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

42
43
44 (1) Material moved to the Joint Property

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

46
47
48 (2) Material used on and moved from the Joint Property

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

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

53
54
55 (3) Material not used on and moved from the Joint Property

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

57
58 The cost of reconditioning, if any, shall be absorbed by the transferring property.

59
60
61 C. Other Used Material

62
63 (1) Condition C

64
65 Material which is not in sound and serviceable condition and not suitable for its original function until
66 after reconditioning shall be priced at fifty percent (50%) of current new price as determined by
67 Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition
68 C value plus cost of reconditioning does not exceed Condition B value.
69
70

1 (2) Condition D

2 Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose
3 shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material
4 under procedures normally used by Operator without prior approval of Non-Operators.
5

6 (a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe
7 of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be
8 priced at used line pipe prices.
9

10 (b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g.
11 power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe.
12 Upset tubular goods shall be priced on a non upset basis.
13

14 (3) Condition E

15 Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under
16 procedures normally utilized by Operator without prior approval of Non-Operators.
17

18 D. Obsolete Material

19 Material which is serviceable and usable for its original function but condition and/or value of such Material
20 is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by
21 the Parties. Such price should result in the Joint Account being charged with the value of the service
22 rendered by such Material.
23

24 E. Pricing Conditions

25 (1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢)
26 per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs
27 sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year
28 following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in
29 Section III, Paragraph 1.A.(3). Each year, the rate calculated shall be rounded to the nearest cent and
30 shall be the rate in effect until the first day of April next year. Such rate shall be published each year
31 by the Council of Petroleum Accountants Societies.
32

33 (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down
34 price of new Material.
35

36 3. Premium Prices

37 Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other
38 unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required
39 Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it
40 to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing
41 Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within
42 ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use
43 and acceptable to Operator.
44

45 4. Warranty of Material Furnished By Operator

46 Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint
47 Account until adjustment has been received by Operator from the manufacturers or their agents.
48

49 V. INVENTORIES

50 The Operator shall maintain detailed records of Controllable Material.

51 1. Periodic Inventories, Notice and Representation

52 At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice
53 of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that
54 Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an
55 inventory shall bind Non-Operators to accept the inventory taken by Operator.
56

57 2. Reconciliation and Adjustment of Inventories

58 Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six
59 months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for
60

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

2
3 3. Special Inventories

4
5 Special inventories may be taken whenever there is any sale, change of interest, or change of Operator in the Joint
6 Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of
7 interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory. In cases
8 involving a change of Operator, all Parties shall be governed by such inventory.

9
10 4. Expense of Conducting Inventories

- 11
12 A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the
13 Parties.
14
15 B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except
16 inventories required due to change of Operator shall be charged to the Joint Account.
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THERE IS NO EXHIBIT "D" TO THIS OPERATING AGREEMENT.

1 NOTE: Instructions For Use of Gas Balancing
 2 Agreement MUST be reviewed before finalizing this
 3 document.

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16

EXHIBIT "E"
 GAS BALANCING AGREEMENT ("AGREEMENT")
 ATTACHED TO AND MADE PART OF THAT CERTAIN

OPERATING AGREEMENT DATED June 1, 1997

BY AND BETWEEN Citation Oil & Gas Corp., as General Partner for Citation 1987 Investment
Lim Fed Partnership, as Operator
AND Chevron A.P. Inc. and Atlantic Richfield Company ("OPERATING AGREEMENT")
 RELATING TO THE East Half (E/2) of Section 20, T21S, R36E AREA,
Lea COUNTY/~~PARISH~~ STATE OF New Mexico

1. DEFINITIONS

The following definitions shall apply to this Agreement:

- 1.01 "Arm's Length Agreement" shall mean any gas sales agreement with an unaffiliated purchaser or any gas sales agreement with an affiliated purchaser where the sales price and delivery conditions under such agreement are representative of prices and delivery conditions existing under other similar agreements in the area between unaffiliated parties at the same time for natural gas of comparable quality and quantity.
- 1.02 "Balancing Area" shall mean (select one):
 - each well subject to the Operating Agreement that produces Gas or is allocated a share of Gas production. If a single well is completed in two or more producing intervals, each producing interval from which the Gas production is not commingled in the wellbore shall be considered a separate well.
 - all of the acreage and depths subject to the Operating Agreement.
- 1.03 "Full Share of Current Production" shall mean the Percentage Interest of each Party in the Gas actually produced from the Balancing Area during each month.
- 1.04 "Gas" shall mean all hydrocarbons produced or producible from the Balancing Area, whether from a well classified as an oil well or gas well by the regulatory agency having jurisdiction in such matters, which are or may be made available for sale or separate disposition by the Parties, excluding oil, condensate and other liquids recovered by field equipment operated for the joint account. "Gas" does not include gas used in joint operations, such as for fuel, recycling or reinjection, or which is vented or lost prior to its sale or delivery from the Balancing Area.
- 1.05 "Makeup Gas" shall mean any Gas taken by an Underproduced Party from the Balancing Area in excess of its Full Share of Current Production, whether pursuant to Section 3.3 or Section 4.1 hereof.
- 1.06 "Mcf" shall mean one thousand cubic feet. A cubic foot of Gas shall mean the volume of gas contained in one cubic foot of space at a standard pressure base and at a standard temperature base.
- 1.07 "MMBtu" shall mean one million British Thermal Units. A British Thermal Unit shall mean the quantity of heat required to raise one pound avoirdupois of pure water from 58.5 degrees Fahrenheit to 59.5 degrees Fahrenheit at a constant pressure of 14.73 pounds per square inch absolute.
- 1.08 "Operator" shall mean the individual or entity designated under the terms of the Operating Agreement or, in the event this Agreement is not employed in connection with an operating agreement, the individual or entity designated as the operator of the well(s) located in the Balancing Area.
- 1.09 "Overproduced Party" shall mean any Party having taken a greater quantity of Gas from the Balancing Area than the Percentage Interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.
- 1.10 "Overproduction" shall mean the cumulative quantity of Gas taken by a Party in excess of its Percentage Interest in the cumulative quantity of all Gas produced from the Balancing Area.
- 1.11 "Party" shall mean those individuals or entities subject to this Agreement, and their respective heirs, successors, transferees and assigns.
- 1.12 "Percentage Interest" shall mean the percentage or decimal interest of each Party in the Gas produced from the Balancing Area pursuant to the Operating Agreement covering the Balancing Area.
- 1.13 "Royalty" shall mean payments on production of Gas from the Balancing Area to all owners of royalties, overriding royalties, production payments or similar interests.
- 1.14 "Underproduced Party" shall mean any Party having taken a lesser quantity of Gas from the Balancing Area than the Percentage Interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.
- 1.15 "Underproduction" shall mean the deficiency between the cumulative quantity of Gas taken by a Party and its Percentage Interest in the cumulative quantity of all Gas produced from the Balancing Area.
- 1.16 (Optional) "Winter Period" shall mean the month(s) of November and December in one calendar year and the month(s) of January, February and March in the succeeding calendar year.

2. BALANCING AREA

2.1 If this Agreement covers more than one Balancing Area, it shall be applied as if each Balancing Area were covered by separate but identical agreements. All balancing hereunder shall be on the basis of Gas taken from the Balancing Area measured in ~~MMBtus or Bbls~~ (Alternative 2) MMBtus.

2.2 In the event that all or part of the Gas deliverable from a Balancing Area is or becomes subject to one or more maximum lawful prices, any Gas not subject to price controls shall be considered as produced from a single Balancing Area and Gas subject to each maximum lawful price category shall be considered produced from a separate Balancing Area.

3. RIGHT OF PARTIES TO TAKE GAS

3.1 Each Party desiring to take Gas will notify the Operator, or cause the Operator to be notified, which includes nominated, the name of the transporting pipeline and the pipeline contract number (if available) and meter station relating to such delivery, sufficiently in advance for the Operator, acting with reasonable diligence, to meet all nomination and other

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1 requirements. Operator is authorized to deliver the volumes so nominated and confirmed (if confirmation is required) to the
 2 transporting pipeline in accordance with the terms of this Agreement.

3 3.2 Each Party shall make a reasonable, good faith effort to take its Full Share of Current Production each month, to the
 4 extent that such production is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to
 5 preserve correlative rights, or to maintain oil production.

6 3.3 When a Party fails for any reason to take its Full Share of Current Production (as such Share may be reduced by the
 7 right of the other Parties to make up for Underproduction as provided herein), the other Parties shall be entitled to take any
 8 Gas which such Party fails to take. To the extent practicable, such Gas shall be made available initially to each Underproduced
 9 Party in the proportion that its Percentage Interest in the Balancing Area bears to the total Percentage Interests of all
 10 Underproduced Parties desiring to take such Gas. If all such Gas is not taken by the Underproduced Parties, the portion not
 11 taken shall then be made available to the other Parties in the proportion that their respective Percentage Interests in the
 12 Balancing Area bear to the total Percentage Interests of such Parties.

13 3.4 All Gas taken by a Party in accordance with the provisions of this Agreement, regardless of whether such Party is
 14 underproduced or overproduced, shall be regarded as Gas taken for its own account with title thereto being in such taking
 15 Party.

16 3.5 Notwithstanding the provisions of Section 3.3 hereof, no Overproduced Party shall be entitled in any month to take any
 17 Gas in excess of three hundred percent (300%) of its Percentage Interest of the Balancing Area's then-current Maximum
 18 Monthly Availability; provided, however, that this limitation shall not apply to the extent that it would preclude production
 19 that is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative
 20 rights, or to maintain oil production. "Maximum Monthly Availability" shall mean the maximum average monthly rate of
 21 production at which Gas can be delivered from the Balancing Area, as determined by the Operator, considering the maximum
 22 efficient well rate for each well within the Balancing Area, the maximum allowable(s) set by the appropriate regulatory agency,
 23 mode of operation, production facility capabilities and pipeline pressures.

24 3.6 In the event that a Party fails to make arrangements to take its Full Share of Current Production required to be
 25 produced to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or
 26 to maintain oil production, the Operator may sell any part of such Party's Full Share of Current Production that such Party fails
 27 to take for the account of such Party and tender to such Party, on a current basis, the full proceeds of the sale, less any
 28 reasonable marketing, compression, treating, gathering or transportation costs incurred directly in connection with the sale of
 29 such Full Share of Current Production. In making the sale contemplated herein, the Operator shall be obligated only to obtain
 30 such price and conditions for the sale as are reasonable under the circumstances and shall not be obligated to share any of its
 31 markets. Any such sale by Operator under the terms hereof shall be only for such reasonable periods of time as are consistent
 32 with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one
 33 year. Notwithstanding the provisions of Article 3.4 hereof, Gas sold by Operator for a Party under the provisions hereof shall
 be deemed to be Gas taken for the account of such Party.

4. IN-KIND BALANCING

36 4.1 Effective the first day of any calendar month following at least thirty (30) days' prior
 37 written notice to the Operator, any Underproduced Party may begin taking, in addition to its Full Share of Current
 38 Production and any Makeup Gas taken pursuant to Section 3.3 of this Agreement, a share of current production determined
 39 by multiplying twenty-five percent (25 %) of the Full Shares of Current Production of all Overproduced Parties by
 40 a fraction, the numerator of which is the Percentage Interest of such Underproduced Party and the denominator of which
 41 is the total of the Percentage Interests of all Underproduced Parties desiring to take Makeup Gas. In no event will an
 42 Overproduced Party be required to provide more than fifty percent (50 %) of its Full Share of Current
 43 Production for Makeup Gas. The Operator will promptly notify all Overproduced Parties of the election of an Underproduced
 44 Party to begin taking Makeup Gas.

45 4.2 (Optional - Seasonal Limitation on Makeup - Option 1) Notwithstanding the provisions of Section 4.1, the
 46 average monthly amount of Makeup Gas taken by an Underproduced Party during the Winter Period pursuant to Section 4.1
 47 shall not exceed the average monthly amount of Makeup Gas taken by such Underproduced Party during the
 48 three (3) months immediately preceding the Winter Period.

49 ~~4.3 (Optional - Seasonal Limitation on Makeup - Option 2) Notwithstanding the provisions of Section 4.1, an~~
 50 ~~Overproduced Party will be required to provide more than _____ percent (_____ %) of its Full Share~~
 51 ~~of Current Production for Makeup Gas during the Winter Period.~~

52 ~~4.3 (Optional) Notwithstanding any other provision of this Agreement, at such time and for so long as Operator, or~~
 53 ~~(insofar as concerns production by the Operator) any Underproduced Party determines in good faith that an Overproduced~~
 54 ~~Party has produced all of its share of the ultimately recoverable reserves in the Balancing Area, such Overproduced Party may~~
 55 ~~be required to make available for Makeup Gas, upon the demand of the Operator or any Underproduced Party, up to~~
 56 ~~_____ percent (_____ %) of such Overproduced Party's Full Share of Current Production.~~

57 5. STATEMENT OF GAS BALANCES

58 5.1 The Operator will maintain appropriate accounting on a monthly and cumulative basis of the volumes of Gas that each
 59 Party is entitled to receive and the volumes of Gas actually taken or sold for each Party's account. Within forty-five (45) days
 60 after the month of production, the Operator will furnish a statement for such month showing (1) each Party's Full Share of
 61 Current Production, (2) the total volume of Gas actually taken or sold for each Party's account, (3) the difference between
 62 the volume taken by each Party and that Party's Full Share of Current Production, (4) the Overproduction or
 63 Underproduction of each Party, and (5) other data as recommended by the provisions of the Council of Petroleum
 64 Accountants Societies Bulletin No. 24, as amended or supplemented hereafter. Each Party taking Gas will promptly provide to
 65 the Operator any data required by the Operator for preparation of the statements required hereunder.

66 5.2 If any Party fails to provide the data required herein for four (4) consecutive production months, the Operator, or
 67 where the Operator has failed to provide data, another Party, may audit the production and Gas sales and transportation
 68 volumes of the non-reporting Party to provide the required data. Such audit shall be conducted only after reasonable notice and
 69 during normal business hours in the office of the Party whose records are being audited. All costs associated with such audit
 70 will be charged to the account of the Party failing to provide the required data.

71 6. PAYMENTS ON PRODUCTION

72 6.1 Each Party taking Gas shall pay or cause to be paid all production and severance taxes due on all volumes of Gas
 73 actually taken by such Party.

74 6.2 (Alternative 1 - Entitlements) Each Party shall pay or cause to be paid all Royalty due with respect to Royalty

1 owners to whom it is accountable as if such Party were taking its Full Share of Current Production, and only its Full Share of
 2 Current Production.

3 ~~6.2.1 (Optional - For use only with Section 6.2 - Alternative 1 - Entitlement) Upon written request of a Party~~
 4 ~~taking less than its Full Share of Current Production in a given month ("Current Underproducer"), any Party taking more than~~
 5 ~~its Full Share of Current Production in such month ("Current Overproducer") will pay to such Current Underproducer an~~
 6 ~~amount each month equal to the Royalty percentage of the proceeds received by the Current Overproducer for that portion of~~
 7 ~~the Current Underproducer's Full Share of Current Production taken by the Current Overproducer; provided, however, that~~
 8 ~~such payment will not exceed the Royalty percentage that is common to all Royalty burdens in the Balancing Area. Payments~~
 9 ~~made pursuant to this Section 6.2.1 will be deemed payments to the Underproduced Party's Royalty owners for purposes of~~
 10 ~~Section 7.5.~~

11 ~~6.2 (Alternative 2 - Sales) Each Party shall pay or cause to be paid Royalty due with respect to Royalty owners to~~
 12 ~~whom it is accountable based on the volume of Gas actually taken for its account.~~

13 6.3 In the event that any governmental authority requires that Royalty payments be made on any other basis than that
 14 provided for in this Section 6, each Party agrees to make such Royalty payments accordingly, commencing on the effective date
 15 required by such governmental authority, and the method provided for herein shall be thereby superseded.

16 7. CASH SETTLEMENTS

17 7.1 Upon the earlier of the plugging and abandonment of the last producing interval in the Balancing Area, the termination
 18 of the Operating Agreement or any pooling or unit agreement covering the Balancing Area, or at any time no Gas is taken
 19 from the Balancing Area for a period of twelve (12) consecutive months, any Party may give written notice calling for cash
 20 settlement of the Gas production imbalances among the Parties. Such notice shall be given to all Parties in the Balancing Area.

21 7.2 Within sixty (60) days after the notice calling for cash settlement under Section 7.1, the Operator will distribute to each
 22 Party a Final Gas Settlement Statement detailing the quantity of Overproduction owed by each Overproduced Party to each
 23 Underproduced Party and identifying the month to which such Overproduction is attributed, pursuant to the
 24 methodology set out in Section 7.4.

25 7.3 (Alternative 1 - Direct Party-to-Party Settlement) Within sixty (60) days after receipt of the Final Gas Settlement
 26 Statement, each Overproduced Party will pay to each Underproduced Party entitled to settlement the appropriate cash
 27 settlement, accompanied by appropriate accounting detail. At the time of payment, the Overproduced Party will notify the
 28 Operator of the Gas imbalance settled by the Overproduced Party's payment.

29 ~~7.3 (Alternative 2 - Settlement Through Operator) Within sixty (60) days after receipt of the Final Gas Settlement~~
 30 ~~Statement, each Overproduced Party will send its cash settlement, accompanied by appropriate accounting detail, to the~~
 31 ~~Operator. The Operator will distribute the monies so received, along with any settlement owed by the Operator as an~~
 32 ~~Overproduced Party, to each Underproduced Party to whom settlement is due within ninety (90) days after issuance of the~~
 33 ~~Final Gas Settlement Statement. In the event that any Overproduced Party fails to pay any settlement due hereunder, the~~
 34 ~~Operator may turn over responsibility for the collection of such settlement to the Party to whom it is owed, and the Operator~~
 35 ~~will have no further responsibility with regard to such settlement.~~

36 7.3.1 (Optional - For use only with Section 7.3, Alternative 2 - Settlement Through Operator) Any Party shall have
 37 the right at any time upon thirty (30) day prior written notice to all other Parties to demand that any settlements due such
 38 Party for Overproduction be paid directly to such Party by the Overproduced Party, rather than being paid through the
 39 Operator. In the event that an Overproduced Party pays the Operator any sums due to an Underproduced Party at any time
 40 after thirty (30) days following the receipt of the notice provided for herein, the Overproduced Party will continue to be liable
 41 to such Underproduced Party for any sums so paid, until payment is actually received by the Underproduced Party.

42 7.4 (Alternative 1 - Historical Sales Basis) The amount of the cash settlement will be based on the proceeds
 43 received by the Overproduced Party under an Arm's Length Agreement for the Gas taken from time to time by the
 44 Overproduced Party in excess of the Overproduced Party's Full Share of Current Production. Any Makeup Gas taken by the
 45 Underproduced Party prior to monetary settlement hereunder will be applied to offset Overproduction chronologically in the
 46 order of accrual.

47 ~~7.4 (Alternative 2 - Most Recent Sales Basis) The amount of the cash settlement will be based on the proceeds~~
 48 ~~received by the Overproduced Party under an Arm's Length Agreement for the volume of Gas that constituted Overproduction~~
 49 ~~by the Overproduced Party from the Balancing Area. For the purpose of implementing the cash settlement provision of the~~
 50 ~~Section 7, an Overproduced Party will not be considered to have produced any of an Underproduced Party's share of Gas until~~
 51 ~~the Overproduced Party has produced cumulatively all of its Percentage Interest share of the Gas ultimately produced from the~~
 52 ~~Balancing Area.~~

53 7.5 The values used for calculating the cash settlement under Section 7.4 will include all proceeds received for the sale of the
 54 Gas by the Overproduced Party calculated at the Balancing Area, after deducting any production or severance taxes paid and any
 55 Royalty actually paid by the Overproduced Party to an Underproduced Party's Royalty owner(s), to the extent said payments
 56 amounted to a discharge of said Underproduced Party's Royalty obligation, as well as any reasonable marketing, compression,
 57 treating, gathering or transportation costs incurred directly in connection with the sale of the Overproduction.

58 7.5.1 (Optional - For Valuation Under Percentage of Proceeds Contracts) For Overproduction sold under a gas
 59 purchase contract providing for payment based on a percentage of the proceeds obtained by the purchaser upon resale of
 60 residue gas and liquid hydrocarbons extracted at a gas processing plant, the values used for calculating cash settlement will
 61 include proceeds received by the Overproduced Party for both the liquid hydrocarbons and the residue gas attributable to the
 62 Overproduction.

63 ~~7.5.2 (Optional - Valuation for Processed Gas - Option 1) For Overproduction processed for the account of the~~
 64 ~~Overproduced Party at a gas processing plant for the extraction of liquid hydrocarbons, the full quantity of the Overproduction~~
 65 ~~will be valued for purposes of cash settlement at the price received by the Overproduced Party for the sale of the residue gas~~
 66 ~~attributable to the Overproduction without regard to proceeds attributable to liquid hydrocarbons which may have been~~
 67 ~~derived from the Overproduction.~~

68 7.5.2 (Optional - Valuation for Processed Gas - Option 2) For Overproduction processed for the account of the
 69 Overproduced Party at a gas processing plant for the extraction of liquid hydrocarbons, the values used for calculating cash
 70 settlement will include the proceeds received by the Overproduced Party for the sale of the liquid hydrocarbons, extracted from
 71 the Overproduction, less the actual reasonable costs incurred by the Overproduced Party to process the Overproduction and to
 72 transport, fractionate and handle the liquid hydrocarbons extracted therefrom prior to sale.

73 7.6 To the extent the Overproduced Party did not sell all Overproduction under an Arm's Length Agreement, the cash
 74 settlement will be based on the weighted average price received by the Overproduced Party for any gas sold from the

A.A.P.L FORM 610-E - GAS BALANCING AGREEMENT - 1992

1 Balancing Area under Arm's Length Agreements during the months to which such Overproduction is attributed. In the event
2 that no sales under Arm's Length Agreements were made during any such month, the cash settlement for such month will be
3 based on the spot sales prices published for the applicable geographic area during such month in a mutually acceptable pricing
4 bulletin.

5 ~~7.7 Interest compounded at the rate of _____ percent (____%) per annum on the maximum amount of~~
6 ~~rate of interest applicable to the Balancing Area, whichever is less, will accrue for all amounts due under Section 7.1, beginning~~
7 ~~the first day following the date payment is due pursuant to Section 7.3. Such interest shall be borne by the Operator or any~~
8 ~~Overproduced Party in the proportion that their respective delays beyond the deadlines set out in Sections 7.2 and 7.3~~
9 ~~contributed to the accrual of the interest.~~

10 7.8 In lieu of the cash settlement required by Section 7.3, an Overproduced Party may deliver to the Underproduced Party
11 an offer to settle its Overproduction in-kind and at such rates, quantities, times and sources as may be agreed upon by the
12 Underproduced Party. If the Parties are unable to agree upon the manner in which such in-kind settlement gas will be
13 furnished within sixty (60) days after the Overproduced Party's offer to settle in kind, which period may be extended by
14 agreement of said Parties, the Overproduced Party shall make a cash settlement as provided in Section 7.3. The making of an
15 in-kind settlement offer under this Section 7.8 will not delay the accrual of interest on the cash settlement should the Parties
16 fail to reach agreement on an in-kind settlement.

17 7.9 (Optional - For Balancing Areas Subject to Federal Price Regulation) That portion of any monies collected by an
18 Overproduced Party for Overproduction which is subject to refund by orders of the Federal Energy Regulatory Commission or
19 other governmental authority may be withheld by the Overproduced Party until such prices are fully approved by such
20 governmental authority, unless the Underproduced Party furnishes a corporate undertaking, acceptable to the Overproduced
21 Party, agreeing to hold the Overproduced Party harmless from financial loss due to refund orders by such governmental
22 authority.

23 7.10 (Optional - Interim Cash Balancing) At any time during the term of this Agreement, any Overproduced Party
24 may, in its sole discretion, ~~make cash settlement(s) to cover overproduced Gas~~ ^{request} settlement(s) covering all or part of its outstanding Gas
25 imbalance, provided that such settlements must be made with all Underproduced Parties proportionately based on the relative
26 imbalances of the Underproduced Parties, and provided further that such settlements may not be made more often than once
27 every twenty-four (24) months. Such settlements will be calculated in the same manner provided above for final cash
28 settlements. The Overproduced Party will provide Operator a detailed accounting of any such cash settlement within thirty (30)
29 days after the settlement is made. See 7.11 on Page 5, Other Provisions.

30 8. TESTING

31 Notwithstanding any provision of this Agreement to the contrary, any Party shall have the right, from time to time, to
32 produce and take up to one hundred percent (100%) of a well's entire Gas stream to meet the reasonable deliverability test(s)
33 required by such Party's Gas purchaser, and the right to take any Makeup Gas shall be subordinate to the right of any Party to
34 conduct such tests; provided, however, that such tests shall be conducted in accordance with prudent operating practices only
35 after thirty (30) days' prior written notice to the Operator and shall last no longer than
36 forty-eight (48) hours.

37 9. OPERATING COSTS

38 Nothing in this Agreement shall change or affect any Party's obligation to pay its proportionate share of all costs and
39 liabilities incurred in operations on or in connection with the Balancing Area, as its share thereof is set forth in the Operating
40 Agreement, irrespective of whether any Party is at any time selling and using Gas or whether such sales or use are in
41 proportion to its Percentage Interest in the Balancing Area.

42 10. LIQUIDS

43 The Parties shall share proportionately in and own all liquid hydrocarbons recovered with Gas by field equipment operated
44 for the joint account in accordance with their Percentage Interests in the Balancing Area.

45 11. AUDIT RIGHTS

46 Notwithstanding any provision in this Agreement or any other agreement between the Parties hereto, and further
47 notwithstanding any termination or cancellation of this Agreement, for a period of two (2) years from the end of the calendar
48 year in which any information to be furnished under Section 5 or 7 hereof is supplied, any Party shall have the right to audit
49 the records of any other Party regarding quantity, including but not limited to information regarding Btu-content.
50 Any Underproduced Party shall have the right for a period of two (2) years from the end of the calendar year in which any
51 cash settlement is received pursuant to Section 7 to audit the records of any Overproduced Party as to all matters concerning
52 values, including but not limited to information regarding prices and disposition of Gas from the Balancing Area. Any such
53 audit shall be conducted at the expense of the Party or Parties desiring such audit, and shall be conducted, after reasonable
54 notice, during normal business hours in the office of the Party whose records are being audited. Each Party hereto agrees to
55 maintain records as to the volumes and prices of Gas sold each month and the volumes of Gas used in its own operations,
56 along with the Royalty paid on any such Gas used by a Party in its own operations. The audit rights provided for in this
57 Section 11 shall be in addition to those provided for in Section 5.2 of this Agreement.

58 12. MISCELLANEOUS

59 12.1 As between the Parties, in the event of any conflict between the provisions of this Agreement and the provisions of
60 any gas sales contract, or in the event of any conflict between the provisions of this Agreement and the provisions of the
61 Operating Agreement, the provisions of this Agreement shall govern.

62 12.2 Each Party agrees to defend, indemnify and hold harmless all other Parties from and against any and all liability for
63 any claims, which may be asserted by any third party which now or hereafter stands in a contractual relationship with such
64 indemnifying Party and which arise out of the operation of this Agreement or any activities of such indemnifying Party under
65 the provisions of this Agreement, and does further agree to save the other Parties harmless from all judgments or damages
66 sustained and costs incurred in connection therewith.

67 12.3 Except as otherwise provided in this Agreement, Operator is authorized to administer the provisions of this
68 Agreement, but shall have no liability to the other Parties for losses sustained or liability incurred which arise out of, or in
69 connection with the performance of Operator's duties hereunder, except such as may result from Operator's gross negligence or
70 willful misconduct. Operator shall not be liable to any Underproduced Party for the failure of any Overproduced Party (other
71 than Operator) to pay any amounts owed pursuant to the terms hereof.

72 12.4 This Agreement shall remain in full force and effect for as long as the Operating Agreement shall remain in force and
73 effect as to the Balancing Area, and thereafter until the Gas accounts between the Parties are settled in full, and shall inure to
74 the benefit of and be binding upon the Parties hereto, and their respective heirs, successors, legal representatives

1 and assigns, if any. The Parties hereto agree to give notice of the existence of this Agreement to any successor in interest of
 2 any such Party and to provide that any such successor shall be bound by this Agreement, and shall further make any transfer of
 3 any interest subject to the Operating Agreement, or any part thereof, also subject to the terms of this Agreement.

4 12.5 Unless the context clearly indicates otherwise, words used in the singular include the plural, the plural includes the
 5 singular, and the neuter gender includes the masculine and the feminine.

6 12.6 In the event that any "Optional" provision of this Agreement is not adopted by the Parties to this Agreement by a
 7 typed, printed or handwritten indication, such provision shall not form a part of this Agreement, and no inference shall be
 8 made concerning the intent of the Parties in such event. In the event that any "Alternative" provision of this Agreement is not
 9 so adopted by the Parties, Alternative 1 in each such instance shall be deemed to have been adopted by the Parties as a result
 10 of any such omission. In those cases where it is indicated that an Optional provision may be used only if a specific Alternative
 11 is selected: (i) an election to include said Optional provision shall not be effective unless the Alternative in question is selected,
 12 and (ii) the election to include said Optional provision must be expressly indicated hereon, it being understood that the
 13 selection of an Alternative either expressly or by default as provided herein shall not, in and of itself, constitute an election to
 14 include an associated Optional provision.

15 12.7 This Agreement shall bind the Parties in accordance with the provisions hereof, and nothing herein shall be construed
 16 or interpreted as creating any rights in any person or entity not a signatory hereto, or as being a stipulation in favor of any
 17 such person or entity.

18 12.8 If contemporaneously with this Agreement becoming effective, or thereafter, any Party requests that any other Party
 19 execute an appropriate memorandum or notice of this Agreement in order to give third parties notice of record of same and
 20 submits same for execution in recordable form, such memorandum or notice shall be duly executed by the Party to which such
 21 request is made and delivered promptly thereafter to the Party making the request. Upon receipt, the Party making the request
 22 shall cause the memorandum or notice to be duly recorded in the appropriate real property or other records affecting the
 23 Balancing Area.

24 12.9 In the event Internal Revenue Service regulations require a uniform method of computing taxable income by all
 25 Parties, each Party agrees to compute and report income to the Internal Revenue Service (select one) as if such Party were
 26 taking its Full Share of Current Production during each relevant tax period in accordance with such regulations, insofar as same
 27 relate to entitlement method tax computations, ~~or based on the quantity of Gas when for its account in accordance with~~
 28 ~~the regulations in effect on the date of the computations.~~

29 13. ASSIGNMENT AND RIGHTS UPON ASSIGNMENT

30 13.1 Subject to the provisions of Sections 13.2 (if elected) and 13.3 hereof, and notwithstanding anything in this Agreement
 31 or in the Operating Agreement to the contrary, if any Party assigns (including any sale, exchange or other transfer) any of its
 32 working interest in the Balancing Area when such Party is an Underproduced or Overproduced Party, the assignment or other
 33 act of transfer shall, insofar as the Parties hereto are concerned, include all interest of the assigning or transferring Party in the
 34 Gas, all rights to receive or obligations to provide or take Makeup Gas and all rights to receive or obligations to make any
 35 monetary payment which may ultimately be due hereunder, as applicable. Operator and each of the other Parties hereto shall
 36 thereafter treat the assignment accordingly, and the assigning or transferring Party shall look solely to its assignee or other
 37 transferee for any interest in the Gas or monetary payment that such Party may have or to which it may be entitled, and shall
 38 cause its assignee or other transferee to assume its obligations hereunder.

39 13.2 (Optional - Cash Settlement Upon Assignment) Notwithstanding anything in this Agreement (including but not
 40 limited to the provisions of Section 13.1 hereof) or in the Operating Agreement to the contrary, and subject to the provisions
 41 of Section 13.3 hereof, in the event an Overproduced Party intends to sell, assign, exchange or otherwise transfer any of its
 42 interest in a Balancing Area, such Overproduced Party shall notify in writing the other working interest owners who are
 43 Parties hereto in such Balancing Area of such fact at least sixty (60) days prior to closing the
 44 transaction. Thereafter, any Underproduced Party may demand from such Overproduced Party in writing, within
 45 sixty (60) days after receipt of the Overproduced Party's notice, a cash settlement of its
 46 Underproduction from the Balancing Area. The Operator shall be notified of any such demand and of any cash settlement
 47 pursuant to this Section 13, and the Overproduction and Underproduction of each Party shall be adjusted accordingly. Any cash
 48 settlement pursuant to this Section 13 shall be paid by the Overproduced Party on or before the earlier to occur (i) of sixty (60)
 49 days after receipt of the Underproduced Party's demand or (ii) at the closing of the transaction in which the Overproduced
 50 Party sells, assigns, exchanges or otherwise transfers its interest in a Balancing Area on the same basis as otherwise set forth in
 51 Sections 7.3 through 7.6 hereof, ~~and shall be interest at the rate set forth in Section 7.7 hereof, beginning sixty (60) days~~
 52 ~~after the Overproduced Party's sale, assignment, exchange or transfer of its interest in the Balancing Area for any amounts not~~
 53 ~~paid. Provided, however, if any Underproduced Party does not so demand such cash settlement of its Underproduction from the~~
 54 ~~Balancing Area, such Underproduced Party shall look exclusively to the assignee or other successor in interest of the~~
 55 ~~Overproduced Party giving notice hereunder for the satisfaction of such Underproduced Party's Underproduction in accordance~~
 56 ~~with the provisions of Section 13.1 hereof.~~

57 13.3 The provisions of this Section 13 shall not be applicable in the event any Party mortgages its interest or disposes of its
 58 interest by merger, reorganization, consolidation or sale of substantially all of its assets to a subsidiary or parent company, or to
 59 any company in which any parent or subsidiary of such Party owns a majority of the stock of such company.

60 14. OTHER PROVISIONS

61 7.11 INTERIM CASH SETTLEMENT

62
 63 After being underproduced in the Balancing Area for at least two (2) years, an Underproduced Party may, in
 64 its sole discretion, require all Overproduced Parties in the Balancing Area to make cash settlements with all
 65 Underproduced Parties covering each such party's Cumulative Underproduction. An Underproduced Party
 66 desiring to invoke cash settlement shall notify all Overproduced Parties and Operator of such desire in
 67 writing. Within sixty (60) days after Operator's issuance of its next regular statement of imbalances, each
 68 Overproduced Party shall pay each Underproduced Party its pro rata share (based on such Underproduced
 69 Party's percentage of the Cumulative Underproduction of all Underproduced Parties) of the value of such
 70 Overproduced Party's Cumulative Overproduction. Payment shall be calculated in the same manner as the
 71 final cash settlement under other parts of this Section 7. Each Overproduced Party shall notify the Operator
 72 of the payments made, and Operator shall adjust its imbalance accounts accordingly. The terms and
 73 provisions of Section 7.10 may be applied in multiple instances from time to time by any Underproduced
 74 Party; provided, cash settlement shall not be made more often than every two (2) years except in the case
 of final settlement.

15. COUNTERPARTS

This Agreement may be executed in counterparts, each of which when taken with all other counterparts shall constitute a binding agreement between the Parties hereto; provided, however, that if a Party or Parties owning a Percentage Interest in the Balancing Area equal to or greater than a _____ percent (____%) therein fail(s) to execute this Agreement on or before _____, this Agreement shall not be binding upon any Party and shall be of no further force and effect.

IN WITNESS WHEREOF, this Agreement shall be effective as of the 1st day of June, 1997.

ATTEST OR WITNESS:

OPERATOR
Citation Oil & Gas Corp., as General Partner
for Citation 1987 Investment Limited Partnership

BY: _____

Gary C. Johnson

Type or print name

Title Senior Vice President

Date _____

Tax ID or S.S. No. 76-0205694

NON-OPERATORS

Chevron U.S.A. Inc.

BY: _____

Type or print name

Title _____

Date _____

Tax ID or S.S. No. _____

Atlantic Richfield Company

BY: _____

Type or print name

Title _____

Date _____

Tax ID or S.S. No. _____

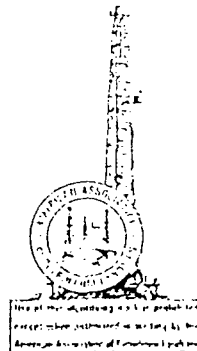


EXHIBIT "F"

Attached to and made a part of that certain Operating Agreement dated June 1, 1997, 1997, by and between Citation Oil & Gas Corp., as General Partner for Citation 1987 Investment Limited Partnership, as Operator, and Chevron U.S.A. Inc. and Atlantic Richfield Company, as Non-Operator.

Operator and any successor, substitute or replacement therefor (whether succeeding, substituting for or replacing such Operator in whole or in part, temporarily or permanently), is considered a "Contractor" of the Federal Government and subject to the terms, provisions, and representations set forth below. By execution or ratification of, or joinder in, this agreement, or by accepting the benefits hereof in any way, each party so situated hereby ratifies, adopts and confirms the following as "Contractor":

1. To the extent applicable to this Agreement, Contractor agrees to incorporate herein by reference and comply with the following clauses contained in the Code of Federal Regulations (including any revision and redesignation thereof), the full text of which will be made available upon request:
 - a. 48 C.F.R. §52.203-6 (Subcontractor Sales to Government); 48 C.F.R. §§52.219-8 and 52.219-9 (Utilization of Small and Disadvantaged Business Concerns); 48 C.F.R. §§22.804-1 and 52.222-26 and 41 C.F.R. §60-1.4 (Equal Opportunity); 48 C.F.R. §§52.222-35 and 52.222-37 and 41 C.F.R. §60-250.4 (Disabled and Vietnam Era Veterans); 48 C.F.R. §52.222-36 and 41 C.F.R. §60-741.4 (Handicapped Workers); 48 C.F.R. §52.223-2 (Clean Air and Water); and 48 C.F.R. §52.223-3 (Hazardous Material Identification and Material Safety Data). Contractor also agrees: (i) to comply with all applicable requirements of the Clean Air Act, the Federal Water Pollution Control Act and the regulations and guidelines issued under each; (ii) that no portion of the work required by this contract will be performed in a facility listed on the Environmental Protection Agency List of Violating Facilities on the date when this contract was executed unless and until the EPA eliminates the name of such facility or facilities from such listing; (iii) to use its best efforts to comply with clean air standards and clean water standards at the facility in which the contract is being performed; and (iv) to insert the substance of the provisions of this Paragraph into any nonexempt subcontract or purchase order as required.
 - b. In addition to those specifically referenced herein, Contractor shall comply with all other Federal, State and local laws, rules and regulations (including but not limited to those related to the environment and waste management, such as RCRA and CERCLA, and to safety and health, such as OSHA) which are now, or in the future may become, applicable to Contractor, its business, equipment and personnel, in relation to the work and to Contractor's performance hereunder.
2. Contractor certifies that it does not and will not maintain or provide for its employees any facilities which are segregated by race, color, religion or national origin, or permit its employees to perform any services at any location, under its control, where segregated facilities are maintained and Contractor will obtain a similar certification for all non-exempt subcontractors, as required by 41 C.F.R. Section 60-1.8.
3. Contractor certifies that none of its employees who perform work pursuant to this contract or who may hereafter do so pursuant to this contract are or will be unauthorized aliens as defined in the Immigration Reform and Control Act of 1986 ("IRCA"). Contractor certifies further that it complies with said statute and the implementing regulations. Contractor further agrees to obtain a certification from its contractors performing work related to this contract that none of their employees are unauthorized aliens as defined by IRCA and that such contractors comply with the statute.

THERE IS NO EXHIBIT "G" TO THIS OPERATING AGREEMENT.

EXHIBIT "H"

ject to that certain Operating Agreement dated June 1, 1997 between Citation Oil & Gas
AAPL — FORM 610RS - 1989 Co., as General Partner for Citation 1987 Investment Limited
Partnership, as Operator and Chevron U.S.A. Inc. and Atlantic
hfield Company, as Non-Operators.

MODEL FORM RECORDING SUPPLEMENT TO
OPERATING AGREEMENT AND FINANCING STATEMENT

THIS AGREEMENT, entered into by and between Citation Oil & Gas Corp.

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

WHEREAS, the parties to this agreement are owners of Oil and Gas Leases and/or Oil and Gas Interests in the land
identified in Exhibit "A" (said land, Leases and Interests being hereinafter called the "Contract Area"), and in any instance in
which the Leases or Interests of a party are not of record, the record owner and the party hereto that owns the interest or
rights therein are reflected on Exhibit "A";

WHEREAS, the parties hereto have executed an Operating Agreement dated June 1, 1997
(herein the "Operating Agreement"), covering the Contract Area for the purpose of exploring and developing such lands,
Leases and Interests for Oil and Gas; and

WHEREAS, the parties hereto have executed this agreement for the purpose of imparting notice to all persons of the
rights and obligations of the parties under the Operating Agreement and for the further purpose of perfecting those rights
capable of perfection.

NOW, THEREFORE, in consideration of the mutual rights and obligations of the parties hereto, it is agreed as follows:

1. This agreement supplements the Operating Agreement, which Agreement in its entirety is incorporated herein by
reference, and all terms used herein shall have the meaning ascribed to them in the Operating Agreement.

2. The parties do hereby agree that:

A. The Oil and Gas Leases and/or Oil and Gas Interests of the parties comprising the Contract Area shall be subject
to and burdened with the terms and provisions of this agreement and the Operating Agreement, and the parties do
hereby commit such Leases and Interests to the performance thereof.

B. The exploration and development of the Contract Area for Oil and Gas shall be governed by the terms and
provisions of the Operating Agreement, as supplemented by this agreement.

C. All costs and liabilities incurred in operations under this agreement and the Operating Agreement shall be borne
and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties
hereto, as provided in the Operating Agreement.

D. Regardless of the record title ownership to the Oil and Gas Leases and/or Oil and Gas Interests identified on
Exhibit "A", all production of Oil and Gas from the Contract Area shall be owned by the parties as provided in the
Operating Agreement; provided nothing contained in this agreement shall be deemed an assignment or cross-assignment
of interests covered hereby.

E. Each party shall pay or deliver, or cause to be paid or delivered, all burdens on its share of the production from the
Contract Area as provided in the Operating Agreement.

F. An overriding royalty, production payment, net profits interest or other burden payable out of production hereafter
created, assignments of production given as security for the payment of money and those overriding royalties, production
payments and other burdens payable out of production heretofore created and defined as Subsequently Created Interests
in the Operating Agreement shall be (i) borne solely by the party whose interest is burdened therewith, (ii) subject to
suspension if a party is required to assign or relinquish to another party an interest which is subject to such burden, and
(iii) subject to the lien and security interest hereinafter provided if the party subject to such burden fails to pay its share
of expenses chargeable hereunder and under the Operating Agreement, all upon the terms and provisions and in the
times and manner provided by the Operating Agreement.

G. The Oil and Gas Leases and/or Oil and Gas Interests which are subject hereto may not be assigned or transferred
except in accordance with those terms, provisions and restrictions in the Operating Agreement regulating such transfers.
This agreement and the Operating Agreement shall be binding upon and shall inure to the benefit of the parties hereto,
and their respective heirs, devisees, legal representatives, and assigns, and the terms hereof shall be deemed to run with
the leases or interests included within the lease Contract Area.

H. The parties shall have the right to acquire an interest in renewal, extension and replacement leases, leases
proposed to be surrendered, wells proposed to be abandoned, and interests to be relinquished as a result of non-
participation in subsequent operations, all in accordance with the terms and provisions of the Operating Agreement.

I. The rights and obligations of the parties and the adjustment of interests among them in the event of a failure or
loss of title, each party's right to propose operations, obligations with respect to participation in operations on the
Contract Area and the consequences of a failure to participate in operations, the rights and obligations of the parties
regarding the marketing of production, and the rights and remedies of the parties for failure to comply with financial
obligations shall be as provided in the Operating Agreement.

J. Each party's interest under this agreement and under the Operating Agreement shall be subject to relinquishment
for its failure to participate in subsequent operations and each party's share of production and costs shall be reallocated
on the basis of such relinquishment, all upon the terms and provisions provided in the Operating Agreement.

K. All other matters with respect to exploration and development of the Contract Area and the ownership and
transfer of the Oil and Gas Leases and/or Oil and Gas Interest therein shall be governed by the terms and provisions of
the Operating Agreement.

3. The parties hereby grant reciprocal liens and security interests as follows:

A. Each party grants to the other parties hereto a lien upon any interest it now owns or hereafter acquires in Oil and
Gas Leases and Oil and Gas Interests in the Contract Area, and a security interest and/or purchase money security
interest in any interest it now owns or hereafter acquires in the personal property and fixtures on or used or obtained
for use in connection therewith, to secure performance of all of its obligations under this agreement and the Operating
Agreement including but not limited to payment of expense, interest and fees, the proper disbursement of all monies
paid under this agreement and the Operating Agreement, the assignment or relinquishment of interest in Oil and Gas
Leases as required under this agreement and the Operating Agreement, and the proper performance of operations under
this agreement and the Operating Agreement. Such lien and security interest granted by each party hereto shall include
such party's leasehold interests, working interests, operating rights, and royalty and overriding royalty interests in the
Contract Area now owned or hereafter acquired and in lands pooled or unitized therewith or otherwise becoming subject
to this agreement and the Operating Agreement, the Oil and Gas when extracted therefrom and equipment situated
thereon or used or obtained for use in connection therewith (including, without limitation, all wells, tools, and tubular
goods), and accounts (including, without limitation, accounts arising from the sale of production at the wellhead),

1 contract rights, inventory and general intangibles relating thereto or arising therefrom, and all proceeds and products of
2 the foregoing.

3 B. Each party represents and warrants to the other parties hereto that the lien and security interest granted by such
4 party to the other parties shall be a first and prior lien, and each party hereby agrees to maintain the priority of said lien
5 and security interest against all persons acquiring an interest in Oil and Gas Leases and Interests covered by this
6 agreement and the Operating Agreement by, through or under such party. All parties acquiring an interest in Oil and
7 Gas Leases and Oil and Gas Interests covered by this agreement and the Operating Agreement, whether by assignment,
8 merger, mortgage, operation of law, or otherwise, shall be deemed to have taken subject to the lien and security interest
9 granted by the Operating Agreement and this instrument as to all obligations attributable to such interest under this
10 agreement and the Operating Agreement whether or not such obligations arise before or after such interest is acquired.

11 C. To the extent that the parties have a security interest under the Uniform Commercial Code of the state in which
12 the Contract Area is situated, they shall be entitled to exercise the rights and remedies of a secured party under the Code.
13 The bringing of a suit and the obtaining of judgment by a party for the secured indebtedness shall not be deemed an
14 election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In
15 addition, upon default by any party in the payment of its share of expenses, interest or fees, or upon the improper use of
16 funds by the Operator, the other parties shall have the right, without prejudice to other rights or remedies, to collect
17 from the purchaser the proceeds from the sale of such defaulting party's share of Oil and Gas until the amount owed by
18 such party, plus interest, has been received, and shall have the right to offset the amount owed against the proceeds from
19 the sale of such defaulting party's share of Oil and Gas. All purchasers of production may rely on a notification of default
20 from the non-defaulting party or parties stating the amount due as a result of the default, and all parties waive any
21 recourse available against purchasers for releasing production proceeds as provided in this paragraph.

22 D. If any party fails to pay its share of expense within one hundred-twenty (120) days after rendition of a statement
23 therefor by Operator the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid
24 amount in the proportion that the interest of each such party bears to the interest of all such parties. The amount paid
25 by each party so paying its share of the unpaid amount shall be secured by the liens and security rights described in this
26 paragraph 3 and in the Operating Agreement, and each paying party may independently pursue any remedy available
27 under the Operating Agreement or otherwise.

28 E. If any party does not perform all of its obligations under this agreement or the Operating Agreement, and the
29 failure to perform subjects such party to foreclosure or execution proceedings pursuant to the provisions of this
30 agreement or the Operating Agreement, to the extent allowed by governing law, the defaulting party waives any
31 available right of redemption from and after the date of judgment, any required valuation or appraisal of the
32 mortgaged or secured property prior to sale, any available right to stay execution or to require a marshalling of assets
33 and any required bond in the event a receiver is appointed. In addition, to the extent permitted by applicable law, each
34 party hereby grants to the other parties a power of sale as to any property that is subject to the lien and security rights
35 granted hereunder or under the Operating Agreement, such power to be exercised in the manner provided by applicable
36 law or otherwise in a commercially reasonable manner and upon reasonable notice.

37 F. The lien and security interest granted by this paragraph 3 supplements identical rights granted under the
38 Operating Agreement.

39 G. To the extent permitted by applicable law, Non-Operators agree that Operator may invoke or utilize the
40 mechanics' or materialmen's lien law of the state in which the Contract Area is situated in order to secure the payment
41 to Operator of any sum due under this agreement and the Operating Agreement for services performed or materials
42 supplied by Operator.

43 H. The above described security will be financed at the wellhead of the well or wells located on the Contract Area and
44 this Recording Supplement may be filed in the land records in the County or Parish in which the Contract Area is
45 located, and as a financing statement in all recording offices required under the Uniform Commercial Code or other
46 applicable state statutes to perfect the above-described security interest, and any party hereto may file a continuation
47 statement as necessary under the Uniform Commercial Code, or other state laws.

48 4. This agreement shall be effective as of the date of the Operating Agreement as above recited. Upon termination of
49 this agreement and the Operating Agreement and the satisfaction of all obligations thereunder, Operator is authorized to file
50 of record in all necessary recording offices a notice of termination, and each party hereto agrees to execute such a notice of
51 termination as to Operator's interest, upon the request of Operator, if Operator has complied with all of its financial
52 obligations.

53 5. This agreement and the Operating Agreement shall be binding upon and shall inure to the benefit of the parties
54 hereto and their respective heirs, devisees, legal representatives, successors and assigns. No sale, encumbrance, transfer or
55 other disposition shall be made by any party of any interest in the Leases or Interests subject hereto except as expressly
56 permitted under the Operating Agreement and, if permitted, shall be made expressly subject to this agreement and the
57 Operating Agreement and without prejudice to the rights of the other parties. If the transfer is permitted, the assignee of an
58 ownership interest in any Oil and Gas Lease shall be deemed a party to this agreement and the Operating Agreement as to
59 the interest assigned from and after the effective date of the transfer of ownership; provided, however, that the other parties
60 shall not be required to recognize any such sale, encumbrance, transfer or other disposition for any purpose hereunder until
61 thirty (30) days after they have received a copy of the instrument of transfer or other satisfactory evidence thereof in writing
62 from the transferor or transferee. No assignment or other disposition of interest by a party shall relieve such party of
63 obligations previously incurred by such party under this agreement or the Operating Agreement with respect to the interest
64 transferred, including without limitation the obligation of a party to pay all costs attributable to an operation conducted under
65 this agreement and the Operating Agreement in which such party has agreed to participate prior to making such assignment,
66 and the lien and security interest granted by Article VII.B. of the Operating Agreement and hereby shall continue to burden
67 the interest transferred to secure payment of any such obligations.

68 6. In the event of a conflict between the terms and provisions of this agreement and the terms and provisions of the
69 Operating Agreement, then, as between the parties, the terms and provisions of the Operating Agreement shall control.

70 7. This agreement shall be binding upon each Non-Operator when this agreement or a counterpart thereof has been
71 executed by such Non-Operator and Operator notwithstanding that this agreement is not then or thereafter executed by all of
72 the parties to which it is tendered or which are listed on Exhibit "A" as owning an interest in the Contract Area or which
73 own, in fact, an interest in the Contract Area. In the event that any provision herein is illegal or unenforceable, the
74 remaining provisions shall not be affected, and shall be enforced as if the illegal or unenforceable provision did not appear herein.