BEFORE THE

OIL CONSERVATION DIVISION

NEW MEXICO DEPARTMENT OF ENERGY AND MINERALS

IN THE MATTER OF THE APPLICATION OF
BURLINGTON RESOURCES OIL & GAS COMPANY
FOR COMPULSORY POOLING AND A NON-STANDARD GAS PRORATION AND SPACING UNIT, SAN JUAN COUNTY, NEW MEXICO — CASE NO. 11808

IN THE MATTER OF THE APPLICATION OF
BURLINGTON RESOURCES OIL & GAS COMPANY
FOR COMPULSORY POOLING, AN UNORTHODOX GAS WELL LOCATION AND A NON-STANDARD PRORATION UNIT, SAN JUAN COUNTY, NEW MEXICO — CASE NO. 11809 Consolidated

TOTAL MINATOME CORPORATION'S MOTION FOR STAY OF DIVISION ORDERS R-10877 AND R-10878

Total Minatome Corporation ("Total") by and through its undersigned counsel and in conformance with Division Memorandum 3-85, moves that the Division enter its order staying Division Orders No.s R-10877 and R-10878 entered on September 12, 1997. Total submits that the Division's compulsory pooling orders should be stayed for two separate but equally compelling reasons:

(1) Until the merits of the effectiveness of Order R-10815 establishing 640-acre spacing for deep Pennsylvania formation wells is resolved by the Eleventh Judicial District Court, the parties and the Division are faced with the potential of multiple and inconsistent liabilities. (2) Burlington has placed inappropriate conditions on the ability of the pooled interests owners to

make an election to participate in the Marcotte No. 2 well and the Scott No. 24 well by imposing unauthorized terms that exceed the scope of Orders R-10877 and R-10878.

I. The effect of the District Court litigation on the Division's compulsory pooling orders.

On June 5, 1997, the New Mexico Oil Conservation Commission entered Order No. R-10815 which established gas spacing units consisting of 640 acres for gas production below the base of the Dakota formation within the surface outcrop of the Pictured Cliffs formation in the San Juan Basin. By its terms, the effective date of Order No. R-10815 was June 30, 1997, the day of its publication in the New Mexico Register.

Prior to the effective date of Order No. R-10815, Burlington filed its application for compulsory pooling in Case No. 11808 on June 11, 1997 and in Case No. 11809 on June 17, 1997. At the time of Burlington's applications, effective spacing for deep gas wells in the area was 160 acres. Burlington originally proposed a 160-acre spacing and proration unit for its Marcotte No. 2 well in Section 8 consisting of the SE/4 of said section. Burlington staked the location for the Marcotte No. 2 on February 16, 1997 and contemporaneously filed its C-102 and Notice of Staking and APD forms with the NMOCD and the BLM, respectively, reflecting a 160-acre spacing and proration unit. Burlington commenced the drilling of the Marcotte No. 2 well on June 25, 1997, eight days following its application in Case No. 11809 and five days before the effective date of Order No. R-10815. Burlington owns 9.31045% of the working interest in the 640-acre unit proposed to be dedicated to the Marcotte No. 2 well.

On May 23, 1997, in response to Burlington's April 22, 1997 well proposal letter, Total provided its consent to participate in the Marcotte No. 2 well under the terms of a pre-existing land contract (the GLA-46 Agreement) between Total's predecessor and Burlington's

predecessor. Burlington subsequently advised that it regarded Total's consent to voluntarily participate in the well under the GLA-46 Agreement as being ineffective and that it would proceed to force pool Total's interests. Burlington simultaneously sought the compulsory pooling of the separate working interests owned by the so-called GLA-66 group. Contemporaneously, the GLA-66 owners sought the Commission's reconsideration of Order R-10815 for, among other reasons, the fact that none of the GLA-66 owners were provided with notice of the Commission's spacing proceeding. The GLA-66 owners' request for reconsideration was not granted and those owners subsequently sought judicial review of the Commission's action in the Eleventh Judicial District Court in Aztec. (Timothy Johnson, Trustee for Ralph A. Bard, Jr., et al., vs. Burlington Resources Oil & Gas Company, a corporation and the New Mexico Oil Conservation Commission, Eleventh Judicial District Case No. CV-97-572-3)

On September 15, 1997, the Eleventh Judicial District Court granted the motion of the GLA-66 owners to stay Order R-10815. However, in the course of its bench ruling, the District Court indicated that the stay of Order R-10815 would apply only to the GLA-66 owners/plaintiffs. Since the September 15, 1997 hearing, counsel for Burlington and the GLA-66 owners have been unable to agree on a form of order for entry by the Court staying Order R-10815. Consequently, it will be necessary to conduct a presentment hearing on the form of orders proposed by the parties. Counsel for the Oil Conservation Commission has approved the form of order proposed by the GLA-66 plaintiffs.

The District Court's bench ruling staying Order R-10815 generates a tremendous amount of uncertainty in the operation of the 640-acre spacing rule and its concomitant effect on the two

compulsory pooling orders. On the one hand, Order No.s R-10877 and R-10878 effectively pool the working interests of both the GLA-66 owners and Total Minatome Corporation over the breadth of the 640-acre spacing and proration unit. However, because of the District Court's ruling, the ostensible effect of the compulsory pooling orders are to pool the GLA-66 working interests on only a 160 acre basis under the previously effective field rules for wildcat gas wells.

The practical consequences created by the conflicting judicial and administrative orders are apparent: Until the underlying issue of the propriety of the 640-acre spacing versus 160-acre spacing is resolved, the respective correlative rights of all the working interest and royalty interests are necessarily affected. Consequently, Burlington's authorization to pool the various working interests and to produce the existing Marcotte No. 2 and the prospective Scott No. 24 wells must be stayed. Until the appropriate basis for spacing formations below the base of Dakota is determined and applied to all working interests on a uniform basis, such matters as the determination of participation factors, the allocation of costs and the entitlements to the production of pooled hydrocarbons cannot be reconciled. Burlington will have no sound basis for the allocation of costs when it issues its joint interest billings or for the allocation of production proceeds when it attempts to issue Division orders. Similarly, the unequal application of spacing rules will necessarily result in disproportionate takes among the affected working interests when Burlington attempts to produce the wells. There are no provisions in the Division's compulsory pooling orders authorizing disproportionate takes or gas balancing among the working interests or royalty interests and there is likewise no statutory authority for the Division to order the same. Pooled production on behalf of those working interests ostensibly participating on a 160-acre basis would necessarily be at the expense of those pooled

on a 640-acre basis. Consequently, the correlative rights of the respective working interests and their royalty interests are demonstrably impaired.

The conflict between the administrative and judicial orders places Burlington and the working interests in an impossible situation: unavoidably, multiple and inconsistent liabilities are created for all working interests and the operator. Consequently, these circumstances require the entry of an order staying the effect of the Division's pooling orders until the spacing rules are determined with finality and are applied on an equal, uniform basis across the resulting proration unit.

II. Burlington is attempting to impose additional terms and conditions on the election to participate.

On September 12, 1997, the Division issued Orders No.s R-10877 and R-10878 effectively pooling the uncommitted interests to the two wells proposed by Burlington. Aside from the dilemma created by the conflicting administrative and judicial orders with respect to the effective spacing for the proration units. The two pooling orders are largely generic in form and deviate little from the substance of compulsory pooling orders issued by the Division in the past and relied on by industry for decades. Decretal paragraph 4 on page 10 of order No. R-10878 for the Marcotte No. 2 requires non-consenting interest owners to elect to participate in the well by paying their share of estimated well costs within 30 days from the date the operator provides its schedule of estimated well costs. By so doing, the non-consenting interest owner is able to avoid the statutory risk penalty charges. Because the Marcotte No. 2 well was commenced well in advance of the issuance of Order R-10878, decretal paragraph 3 of the order required Burlington to furnish its itemized schedule of estimated well costs "after the effective date of this order."

On September 19, 1997, Total received Burlington's September 15, 1997 transmittal advising of the Division's issuance of Order R-10878 and enclosing a copy of Burlington's itemized estimated well and facility costs and AFE. (See Exhibit 1, attached.) In its September 15 transmittal, however, Burlington advised that in order to participate in the well under the terms of the compulsory pooling order, Total should pre-pay its share of the $2,316,973.00 estimated completed well costs, execute the enclosed AFE and also execute Burlington's April 1, 1997 Operating Agreement.[1] (Exhibit 2.)

The Burlington requirements that the pooled working interests execute the April 1, 1997 Operating Agreement and the AFE are new conditions to those interest owners' election to participate in the well and are not authorized under the terms of Order No. R-10878 or any interpretation thereof. It is an improper use of the administrative process to seek to compel an involuntarily pooled interest owner to become bound to the terms of an unacceptable private contract that exceed the scope of the compulsory pooling statutes and orders. Indeed, it was Burlington's insistence on the use of its customized operating agreement with such provisions imposing a 400% non-consent penalty, prohibiting access to the drilling location and to drilling and completion data, confidentiality restrictions and unacceptable gas balancing terms that had much to do with the unwillingness of the uncommitted interests to commit to the well in the first place.

---

[1]Burlington's September 15, 1997 transmittal represents that "Loyal Moore Trust/Tital Minatome Corp. is now working toward voluntary joinder pursuant to the terms of a mutually acceptable Operating Agreement." In fact, Burlington has communicated with neither the Loyal Moore Trust group nor Total Minatome Corporation since the July 10th examiner hearing.

Burlington's new conditions contravene both the terms of the pooling orders and the procedures of the Division. In effect, the operator has eliminated the ability of the previously uncommitted interest to consent to the operation and avoid the risk penalty by tendering its share of estimated well costs. Consequently, the rights of the pooled interest owners under the Orders R-10877 and R-10878 are negated by the new terms and conditions imposed by the operator.

CONCLUSION

For the above reasons, the Division should enter its order immediately staying Orders R-10877 and R-10878 pending further disposition by the Commission and adjudication by the Court. Further, in consideration of the fact that the election period under order R-10878 automatically terminates on October 19, 1997, an expedited ruling on this Motion for Stay is requested.

MILLER, STRATVERT & TORGERSON, P.A.

By _____

J. Scott Hall
Attorneys for Total-Minatome Corporation
Post Office Box 1986
Santa Fe, New Mexico 87504-1986
(505) 989-9614

Certificate of Mailing

I hereby certify that a true and correct copy of the foregoing was mailed to counsel of record on the 3 day of October, 1997, as follows:

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Kellahin & Kellahin
P.O. Box 2265
Santa Fe, New Mexico 87504-2265
Attorneys for Burlington Resources Oil & Gas Company

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Gallegos Law Firm, P.C.
460 St. Michaels Drive #300
Santa Fe, New Mexico 87505-7602

J. Scott Hall

RECEIVED
SEP 19 1997
LAND ADMINISTRATION

BURLINGTON RESOURCES

SAN JUAN DIVISION

September 15, 1997

CERTIFIED-RETURN RECEIPT REQUESTED

Total Minatome Corp.
Attn: Ms. Deborah Gilchrist
2 Houston Center, Suite 2000
909 Fannin
Houston, TX 77210-4326

RE: Compulsory Pooling Order R-10878
Marcotte #2 Well
All of Sec. 8, T31N, R10W
639.78 Acre Unit
San Juan County, New Mexico

Dear Ms. Gilchrist:

Please reference our past correspondence on the captioned well. As you are aware Burlington Resources Oil & Gas Company (Burlington) filed with the New Mexico Oil Conservation Division for compulsory pooling of the drilling unit for said well. After hearing the matter, the Oil Conservation Division has now issued order R-10878 (dated September 12, 1997) a copy of which is enclosed, pooling the acreage and interests necessary for drilling.

Burlington, pursuant to the terms of the enclosed order, is hereby notifying Loyal Moore Trust / Total Minatome Corp. of its right to participate in the well pursuant to this order. For your review, I am enclosing a copy of the itemized estimated well and facility costs, and the Authority for Expenditure.

Burlington does however realize that Loyal Moore Trust / Total Minatome Corp. is now working towards voluntary joinder pursuant to the terms of a mutually acceptable Operating Agreement. Since this is the most desirable method of joinder for all parties involved, we will continue, during the thirty (30) day decision period imposed on you by the order, to work toward that end. If such an agreement is timely reached, we will either make application to vacate the Order or dismiss you from the Order.

If however you elect to participate or Farmout in the well pursuant to the terms of the order you should do the following:

3535 East 30th St.. 87402-8801. P.O. Box 4289. Farmington. New Mexico 87499-4289, Telephone 505-326-9700, Fax 505-326-9833

1. Evidence your election to participate by reviewing the estimated well costs and executing the enclosed Authority for Expenditure.

2. Execute the previously forwarded Operating Agreement dated April 1, 1997, and forward the signature pages to the undersigned.

3. Prepay your 4.6522% share of the $107,791.00 total estimated completed well costs. The prepayment should be in the form of a cashiers check or certified bank check.

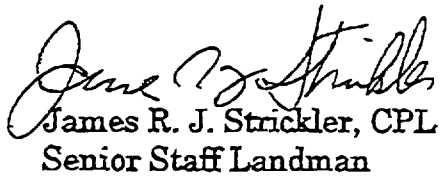
4. Or execute the previously forwarded Farmout Agreement dated June 16, 1997, and forward the signature pages to the undersigned.

The executed authority for Expenditure and the prepayment of well costs must be returned to Burlington at the letterhead address within thirty (30) days of your receipt of this letter.

If you do not voluntarily join the well within the thirty (30) day period or if we do not receive your joinder pursuant to the referenced order within the thirty (30) day period, it will be assumed that you have elected not to participate in the well. Burlington under the terms of the order has the right to drill the well and recover your pro-rata share of reasonable well costs from production. Burlington will also be allowed to recover an additional two hundred percent (200%) of reasonable well costs as a charge for bearing risk of drilling the well.

I look forward to hearing from you on this matter. If you have any questions or require further information, please advise.

Sincerely,



James R. J. Strickler, CPL
Senior Staff Landman
(505) 326-9756

JRS:dg
s:\dawn\james\marhearing.doc

RECEIVED

SEP 19 1997

LAND ADMINISTRATION

BURLINGTON RESOURCES
Farmington Region
Post Office Box 4289
Farmington, New Mexico, 87499
(505) 326-9700

AUTHORITY FOR EXPENDITURE

AFE No.: 3544 Property Number: 012582204 Date: 2/20/97

Lease/Well Name: Marcotte #2 OP Number: 61923

Field Prospect: San Juan Basin Penn Operator: Burlington Resources Region: Farmington

Location: Sec. 8, T31N, R10W County: San Juan State: NM

AFE Type: 1 - New Drill Original: X Supplement: ____ Addendum: ____ API Well Type: ____

Objective Formation: Pennsylvanian Authorized Total Depth (Feet): 14,000

Project Description: Pennsylvanian test in San Juan Basin - Exploratory well - Arch Rock Prospect

Estimated Start Date: 2rd Qtr 1997

Estimated Completion Date: 2rd Qtr 1997

Prepared By: C. E. Lane

GROSS WELL DATA

	Drilling		Workover/	Construction	
	Dry Hole	Suspended	Completion	Facility	Total
Days:	58	2	12	0	72
This AFE:	$1,713,800	$77,100	$407,073	$119,000	$2,316,973
Prior AFE's:	0				$0
TOTAL COSTS:	$1,713,800	$77,100	$407,073	$119,000	$2,316,973

JOINT INTEREST OWNERS

Company:	Working Interest Percent	Dry Hole $	Completed $
Burlington Resources:	9.310450%	$ 109,286	$ 215,721
Trust:	0.00%	0	$0
Others :	90.689550%	$1,064,514	$2,101,252
AFE TOTAL:	100.00%	$1,713,800	$2,316,973

BURLINGTON RESOURCES APPROVAL

Approved: [signature] Title: Eng. Dept. Date: 4/10/97

Approved: Robert L. Kennedy Title: Land Manager Date: 4-14-97

Approved: Danny W. Hill Title: Manager Date: 4/10/97

Approved: [signature] Title: [illegible] Date: 4/10/97

PARTNER APPROVAL

Company Name: _____ Date: _____

Authorized By: _____ Title: _____

BURLINGTON RESOURCES
Farmington Region
Post Office Box 4289
Farmington, New Mexico, 87499
(505) 326-9700

AUTHORITY FOR EXPENDITURE

AFE No.: 3544 Property Number: 012582 04 Date: 2/20/97

Lease/Well Name: Marcotte #2 DP Number: 51923A

Field Prospect: San Juan Basin Penn Operator: Burlington Resources Region: Farmington

Location: Sec. 8, T31N, R10W County: San Juan State: NM

AFE Type: 1 - New Drill Original: X Supplement: ____ Addendum: ____ API Well Type: ____

Objective Formation: Pennsylvanian Authorized Total Depth (Feet): 14,000'

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BURLINGTON RESOURCES APPROVAL

Approved: [signature] Approved: [signature]

Title: Eng. Dept. Mgr. Date: 4/10/97 Title: Land Manager Date: 4-14-97

Approved: [signature] Approved: [signature]

Title: Manager Date: 4/14/97 Title: Vice President Date: 4/16/97

PARTNER APPROVAL

Company Name: _____ Date: _____

Authorized By: _____ Title: _____

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

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

April 1, 19 97,

OPERATOR BURLINGTON RESOURCES OIL & GAS COMPANY

CONTRACT AREA SECTION 8, TOWNSHIP 31 NORTH, RANGE 10 WEST

(Lots 1, 2, 3, 4, 5, N/2, NE/4 SW/4, W/2 SW/4 (ALL)

COUNTY OR PARISH OF SAN JUAN STATE OF NEW MEXICO

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AMERICAN ASSOCIATION OF PETROLEUM
LANDMEN, 2408 CONTINENTAL LIFE BUILDING,
FORT WORTH, TEXAS, 76102. APPROVED FORM.
A.A.P.L. NO. 610 - 1982 REVISED

Marcotte #2

EXHIBIT

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between BURLINGTON RESOURCES OIL & GAS COMPANY hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators".

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

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

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

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

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

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

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

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

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

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

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

ARTICLE II.
EXHIBITS

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

☒ A. Exhibit "A", shall include the following information:
- (1) Identification of lands subject to this agreement,
- (2) Restrictions, if any, as to depths, formations, or substances,
- (3) Percentages or fractional interests of parties to this agreement,
- (4) ~~Oil and gas leases and/or oil and gas interests subject to this agreement,~~
- (5) Addresses of parties for notice purposes.

☐ ~~B. Exhibit "B", Form of Lease.~~

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

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

☒ F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.

☐ ~~G. Exhibit "G", Tax Partnership.~~

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

ARTICLE III.
INTERESTS OF PARTIES

~~A. Oil and Gas Interests:~~

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

B. Interests of Parties in Costs and Production:

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

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

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

C. Excess Royalties, Overriding Royalties and Other Payments:

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

D. Subsequently Created Interests:

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

1. If the burdened party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of said subsequently created interest and the burdened party shall indemnify and save said other party, or parties, harmless from any and all claims and demands for payment asserted by owners of the subsequently created interest; and,

2. If the burdened party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B. shall be enforceable against the subsequently created interest in the same manner as they are enforceable against the working interest of the burdened party.

ARTICLE IV.
TITLES

A. Title Examination:

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

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

ARTICLE IV
continued

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

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

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

B. Loss of Title:

~~1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a~~ reduction of interest from that shown on Exhibit "A", the party contributing the affected lease or interest 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 whose oil and gas lease or interest is affected by the title failure 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 theretofore 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 interest which has been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has 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 interest lost;

(c) If the proportionate interest of the other parties hereto in any producing well theretofore drilled on the Contract Area is increased by reason of the title failure, the party whose title 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;

(d) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has 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 third party for prior production of oil and gas which arises by reason of title failure shall be borne by the party or parties whose title failed in the same proportions in which they shared in such prior production; and,

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

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, is not paid or is erroneously paid, and as a result a lease or interest therein 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 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 shall be revised on an acreage basis, effective as of the date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in the Contract Area on account of ownership of the lease or interest which has terminated. In the event the party who failed to make the 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 interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

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

(b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which, in the absence of such lease termination, would be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said portion of the oil and gas to be contributed by the other parties in proportion to their respective interests; 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 interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.

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

ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

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

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

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

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

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 1st day of January, 19 98, Operator shall commence the drilling of a well for or recompletion oil and gas at the following location:

Section 8, T31N-R10W
San Juan County, New Mexico

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

14,000' or depth sufficient to test the Pennsylvanian formation, whichever is the lesser depth

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

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

ARTICLE VI
continued

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

B. Subsequent Operations:

1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice within which to notify the party wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of a proposal to rework, plug back or drill deeper may be given by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays. Failure of a 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 proposed operation. Any notice or response given by telephone shall be promptly confirmed in writing.

If all parties elect to participate in such a proposed operation, Operator shall, within ninety (90) days after expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be), actually commence the proposed operation and complete it with due diligence at the risk and expense of all parties hereto; 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. Notwithstanding the force majeure provisions of Article XI, if the actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein) and if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accordance with the provisions hereof as if no prior proposal had been made.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VII.D.1. (Option 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, within ninety (90) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is 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: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. 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 the Consenting 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 receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A" or (b) carry its proportionate part of Non-Consenting Parties' interests, and failure to advise the proposing party shall be deemed an election under (a). In the event a drilling rig is on location, the time permitted for such a response shall not exceed a total of forty-eight (48) hours (inclusive of Saturday, Sunday and legal holidays). The proposing party, at its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.

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, the Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk.

ARTICLE VI
continued

and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold, (after deducting production taxes, excise taxes, royalty, overriding royalty and other interests not excepted by Article III.D, payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

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

(b) 400 % of that portion of the costs and expenses of drilling, reworking, deepening, plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C, and 400 % of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

An election not to participate in the drilling or the deepening of a well shall be deemed an election not to participate in any re-working or plugging back operation proposed in such a well, or portion thereof, to which the initial Non-Consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment account. Any such reworking or plugging back operation conducted during the recoupment period shall be deemed part of the previous non-consent operation on said well and shall be added to the sums to be recouped by the Consenting Parties. If such a reworking or plugging back operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting Parties in said well. Similarly, an election not to participate in the completion or plugging back of a well shall be deemed an election not to participate in a reworking operation proposed in such well, or portion thereof, to which the non-consent election applied, that is conducted at any time prior to full recovery by Consenting Parties of the Non-Consenting Party's recoupment amount.

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

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

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

ARTICLE VI
continued

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

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

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

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

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

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

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

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

C. TAKING PRODUCTION IN KIND:

Each party shall take 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

ARTICLE VI
continued

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.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such oil or sell it to others at any time and from time to time, for the account of the non-taking party at the best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil not previously 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.

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 respective accounts of 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.

D. Access to Contract Area and Information:

Each party shall have access to the Contract Area **upon prior notification to the Operator** at all reasonable times, at its sole cost and risk to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator, upon request, shall furnish each of the other parties with copies of all forms or reports filed with governmental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the information. **During drilling, completion, and workover operations, access shall be limited to only those personnel directly involved in performing the actual work.**

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 receipt 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 shall have the right to take over the well and conduct further operations in search of oil and/or gas subject to the provisions of Article VI.B.

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. If, within thirty (30) days after receipt of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well, those wishing to continue its operation from the interval(s) of the formation(s) then open to production shall tender to each of the other 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. Each abandoning party shall assign 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 well and related equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations 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 interval or intervals of the formation or formations then open to production, for a term of one (1) year and so long thereafter as oil and/or gas is produced from the interval or intervals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit~~

ARTICLE VI
continued

"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 relationship 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 portion 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 interval or intervals 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 interval(s) 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.

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. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

B. **Liens and Payment Defaults:**

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

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

C. **Payments and Accounting:**

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

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

D. **Limitation of Expenditures:**

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

ARTICLE VII
continued

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

☒ Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its authorized depth, and all tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion attempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, including necessary tankage and/or surface facilities. 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. If one or more, but less than all of the parties, elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening 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.

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

3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Twenty Five Thousand & no/100 Dollars ($ 25,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which 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 authority for expenditure ("AFE") for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project estimated in excess of _____ Dollars ($_____), but less than the amount first set forth above in this paragraph.~~

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

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

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

F. Taxes:

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

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

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

ARTICLE VII
continued

G. Insurance:

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

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

ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

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

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

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

B. Renewal or Extension of Leases:

If any party secures a renewal of any oil and gas lease subject to this agreement, all other parties shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper proportionate shares of the acquisition cost 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 parties in the Contract Area.

If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

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

The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease and shall not be subject to the provisions of this agreement.

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

C. Acreage or Cash Contributions:

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

ARTICLE VIII
continued

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

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. Maintenance of Uniform Interest:

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

1. the entire interest of the party in all leases and equipment and production; or

2. an equal undivided interest in all leases and equipment and production in the Contract Area.

Every such 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.

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:~~

~~Should any party desire to sell all or any part of its interest 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 sale, which shall include the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase 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 dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent company or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock, or where any party elects to include all or any part of its interests in a trust, property exchange, or conveyance with a retained production payment, or is required to sell/assign its interests pursuant to litigation or a reversion under a prior contract. This Article VIII F. shall not be applicable to any party's interests where such party's interest to be sold is greater than 10%. For purpose of this Article VIII F., a "party's interest" shall be the sum of the interests of all affiliated selling parties.~~

ARTICLE IX.
INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby 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 ~~1954~~ 1986, 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 Federal 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 Internal Revenue Code of ~~1954~~ 1986 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 Twenty Five Thousand & No/100 Dollars $ 25,000.00 and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI.
FORCE MAJEURE

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

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

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

ARTICLE XII.
NOTICES

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

ARTICLE XIII.
TERM OF AGREEMENT

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

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

☒ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of 90 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, reworking, deepening, plugging back, testing or attempting to complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling, deepening, plugging back or reworking operations are commenced within 90 days from the date of abandonment of said well.

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

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

C. Regulatory Agencies:

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

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

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

ARTICLE XV.
OTHER PROVISIONS

A. Failure of any party to execute this agreement shall not render it ineffective as to any party which does execute the same. If counterparts to this agreement are executed, the signatures and acknowledgments of the parties, affixed thereto, may be combined by Operator in, and treated and given effect for all purposes as a single instrument. This agreement also may be ratified by separate instrument referring hereto, each of which shall have the effect of the original agreement and of adopting by reference all of the provisions herein contained.

B. Notwithstanding anything to the contrary in Article VI.B.2. or VII.D.2., the share of production from a well which non-consenting parties shall be deemed to have relinquished to consenting parties in any reworking, deepening, plugging back or completing of a well; (as such terms are defined and used in Article VI.B.2. and Article VII.D.2.) shall be the non-consenting parties' share of production only from the interval or intervals of the formation or formations from which production is obtained or increased as a result of the operations in which the non-consenting parties did not participate. In the event a subsequent operation is proposed for such well by one or more consenting parties prior to recovery of all costs and penalties recoverable from the relinquished interest of non-consenting party in said interval or formation, non-consenting party shall be entitled to participate therein to the extent of its interest prior to relinquishment.

C. Notwithstanding anything contained hereinabove to the contrary, non-operators may elect to be carried as a non-consenting party, in the initial well to be drilled or recompleted hereunder. The non-consenting penalty provisions of Article VI.B.2a. and b. shall be applicable except that for purposes of calculating payout on the initial well, if it is a New Mexico Fruitland Coal well, and only if, the "400.%figure on lines 21 and 22 of Article VI.B.2b. shall be replaced with the figures "256%". All other wells remain at %00% ".

D. Notwithstanding anything to the contrary contained in Article VII.B., 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 alone bear the cost and expense thereof and thereby maintain its right, title and interest in the tract or tracts included in the original lease and the 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 renewal lease. The contributing party shall have sixty (60) days after the 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 fully 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 right under this Article XV.D., as to such renewal lease and the renewal lease shall thereafter be subject to all the terms and conditions of Article VII.B. hereof. This Article XV.D. shall apply in like manner to extensions of lease.

E. This Operating Agreement shall supersede and replace any previous Operating Agreements governing the depths covered in the Contract Area shown on the Exhibit "A".

F. Through mutual consent the parties hereto may elect to 1) convert any well drilled hereunder to a disposal well or any other valuable use, or 2) convey any well drilled hereunder and associated facilities and equipment to another party or group of parties and the parties hereto shall share in the value received and the costs borne due to such conversion or conveyances as the parties' interest is set forth in Exhibit "A"; except in any well drilled hereunder in which a party or parties went non-consent in the drilling of such well and the production from such well has not equaled the percentage of costs related to such well provided in Article VI.B.2., the approval of such conversion or conveyance is required only by the Consenting Parties, and costs borne and the value received due to such conversion or conveyance shall be shared by the Consenting Parties in accordance with their cost bearing share of the drilling of such well.

G. PRIORITY OF OPERATIONS

If at any time there is more than one operation proposed in connection with any well subject to this agreement, then unless all Consenting Parties agree on the sequence of such operation, such proposals shall be considered and disposed of in the following order of priority:

(1) A proposal to do additional logging, coring or testing;

(2) A proposal to deepen the well to "authorized depth" if logging and testing in option (1) above indicate the well has not reach authorized depth and formation.

(3) A proposal to attempt to complete the well at the authorized depth in the manner set forth in the AFE (i.e., in accordance with casing, stimulation and other completion programs set forth in AFE);

(4) A proposal to attempt to complete the well at the authorized depth in a manner different than as set forth in the AFE;

(5) For a horizontal well, a proposal to extend the length of the lateral drain hole for a specified number of feet in the direction it is drilling with priority given to the shortest additional length proposed by any of the Consenting Parties;

(6) For a horizontal well, a proposal to drill a new lateral drain hole in a different direction at the authorized depth;

(7) For a horizontal well, a proposal to drill a new lateral drain hole a different depth, with priority given in ascending order to objectives above the authorized depth, and then in descending order to objectives below the authorized depth;

(8) A proposal to plug back and attempt to complete the well at a depth shallower than the authorized depth, with priority given to objectives in ascending order up the hole;

(9) A proposal to sidetrack the well to a new target objective, with priority given first in ascending order to objectives above the authorized depth, and then in descending order to the objectives below the authorized depth;

(10) A proposal to deepen the well below the authorized depth, with priority given to objectives in descending order.

No party may propose any operation with respect to any well (I) while there is pending a prior proposal for any operation respecting such well until that proposal is withdrawn or until the operation contemplated thereby has been completed or (ii) while there is in progress any operation on such well until such operation has been completed.

If, at the time the parties are considering a proposed operation, the well is in such condition, in the Operator's judgment, that a reasonably prudent operator would not conduct such operation for fear of mechanical difficulties, placing the hole, equipment or personnel in danger of loss or injury, or fear of loss of the well for any reason without being able to attempt a completion at the authorized depth, then the proposal shall be given no priority to any proposed operation except for plugging and abandoning the well.

If a well being drilled hereunder is a horizontal well, then the provisions of this agreement relating to sidetracking of a well shall be of no force and effect.

ARTICLE XV
OTHER PROVISIONS

H. CONFIDENTIALITY

Operator and each Non-Operator hereby agree to keep confidential all information pertaining to the initial well drilled pursuant to Article VI.A of this Agreement, and that, without the prior written consent of all parties hereto, the information will not be disclosed to any person or legal entity not a party to this Agreement for a period of one year following completion of said well as a well capable of producing or plugging and abandonment of the same as a dry hole; except that (i) Operator shall have the right to make such disclosures and filings as may be mandated by applicable laws, rules, regulations or orders of governmental authorities having jurisdiction, provided Operator shall take reasonable steps to maintain the confidentiality of such disclosures and filings to the extent permitted by such laws, rules, regulations or orders, if any, and (ii) each party hereto shall have the right to disclose such information to any of its affiliates, provided such affiliate agrees in writing to be bound by the confidentiality provisions of this Agreement. "Affiliate" means any company or legal entity which directly or indirectly controls the disclosing party, or which is directly or indirectly controlled by the disclosing party, or which is directly or indirectly controlled by a company or entity which directly or indirectly controls the disclosing party. "Control" means the right to exercise more than 50% of the voting rights in the appointment of the directors of the applicable company.

ARTICLE XVI.
MISCELLANEOUS

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

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

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

OPERATOR

Burlington Resources Oil & Gas Company

BY: Robert T. Kennedy
Robert T. Kennedy, Attorney-in-Fact

NON-OPERATORS

Conoco Inc.

BY:_____

Amoco Production Company

BY:_____

Total Minatome Corp.

BY:_____

Cross Timbers Oil Co., LP

BY:_____

Lee Wayne Moore and JoAnn Montgomery Moore, Trustees

BY:_____

BY:_____

NON-OPERATORS CONT.

BY:_____
Robert Warren Umbach

BY:_____
George William Umbach

Sunwest Bank of Albuquerque, N.A.,
as Agent for:
Lowell White Family Trust
Walter A. Steele
Estate of G.W. Hannett
T. G. Cornish
Patricia Hueter
Mary Emily Voller
A. T. Hannett

BY:_____
Catherine Rugen

Section III. Overhead Addendum:

1. iv. The parties agree the overhead rates shall include, but not be limited to, the following functions, regardless of whether performed by Operator, Operator's Affiliates, or by third parties:

Administrative & Accounting

Accounting & Disbursing
Producer gas balancing
Taxes
Office services
Billing & Collection
Data processing (other than computer production control)
Human Resources
Accounting systems and procedures
Auditing

Operations Support Functions

Coordination, planning & follow-up
Design & drafting
Materials procurement
Inventory taking and reconciliation
Gas dispatching and control
Obtaining permits, certificates
Warehousing
Off-site environmental compliance & reporting
Technical Employees and other labor not permitted as a direct charge under Section II.3 or Section III.1 (ii) and (iii).
Field office expenses associated with engineering and administrative/accounting personnel located in the field.

General Management

Supervision or management not permitted as a direct charge in Section II.3
Contract Negotiations (including, but not limited to, negotiations with vendors, contractors, landowners, mineral owners, etc.)

Legal Services not permitted as a direct charge under Section II.10.

"ONSHORE"

EXHIBIT "D-1"

Attached to and made a part of that certain Operating Agreement dated April 1, 1997, by between BURLINGTON RESOURCES OIL & GAS COMPANY, as Operator, and Non-Operators.

INSURANCE

To protect against liability, loss or expense arising from damage to property, injury or death of any person or persons, incurred out of, in connection with, or resulting from the operations provided hereunder, Operator shall maintain in force during the entire period of this agreement the following Schedule A insurance coverage for the benefit of the joint account. Schedule B coverages are the minimum limits and type of insurances required to be maintained by Operator and each Non-Operator as to their respective working interest. All Schedule A and Schedule B insurance shall be obtained from financially sound, Best rate B+ Class VI or above reliable insurance companies authorized to do business in the state in which the operations are to be performed. Each policy shall provide for a waiver of subrogation rights against the other signatory parties.

SCHEDULE A - OPERATOR FOR THE JOINT ACCOUNT

	COVERAGES	LIMITS OF LIABILITY
a.	Workers' Compensation	Statutory
b.	Employers' Liability	Combined Single Limit Per occurrence of $1,000,000

SCHEDULE B - OPERATOR AND EACH NON-OPERATOR AS TO ITS WORKING INTEREST

Each working interest owner's insurance is intended to cover such owner's working interest in the Joint Account and its coverages respond to such owner's pro-rata share of any Joint Account loss.

	COVERAGES	LIMITS OF LIABILITY
a.	Comprehensive General Liability including Personal Injury, Premises/ Operations coverage, Pollution Coverage, Owners and Contractors Protective Liability, Contractual Liability, Products and Completed Operation Liability	
	Bodily Injury Liability/ Property Damage Liability	Combined Single Limit Per occurrence of $1,000,000
b.	Comprehensive Automobile Liability including coverage of Owned and Non-Owned Automobiles and Hired Car coverage	
	Bodily Injury Liability/ Property Damage Liability	Combined Single Limit Per occurrence of $1,000,000

c.	Control of Well including Clean-Up, Containment, Seepage, Pollution, Contamination, and Redrilling Expense (This coverage is maintained for the term of the agreement.)	Per occurrence of each working interest owner's share of $5,000,000, but not less than $1,000,000

EXAMPLE: A Non-Operator owning a 30% working interest in the Joint Account properties is required to carry a minimum of 30% x $5,000,000 or $1,500,000 Control of Well coverage, but a 4% Working Interest Owner is required to carry a minimum of $1,000,000 coverage.

Note: If a Non-Operator elects not to purchase Control of Well coverage direct to protect his working interest, he may elect to participate in Operator's coverage at a premium rate heretofore determined by Operator and available to all Non-Operators upon request.

d.	If Aircraft, including helicopters, are used in operations, include Aircraft Liability, Passenger Liability and Property Damage Liability Insurance, covering Owned, Non-Owned Aircraft and Hired Aircraft	Combined Single Limit Per occurrence of $5,000,000
e.	If Watercraft are used in any inland operations:	
	(a) Protection and Indemnity Insurance on the SP23 form or equivalent, (or, in the alternative, deletion of the watercraft exclusion from the Comprehensive General Liability Policy)	Combined Single Limit Per occurrence of $10,000,000
	(b) Hull and Machinery Insurance to the market value of the vessel or $1,000,000, whichever is greater, on the American Institute Hull Clause (June 2, 1977) form or its equivalent	

f.	Property (excluding Business Interruption)	Blanket limit

Operator may include the Schedule A coverage for the joint account under its self insurance program provided Operator complies with applicable laws, and in such an event Operator shall charge to the Joint Account manual rate premiums.

Operator, as a working interest owner, shall also obtain for his own account the minimum insurances and limits required by Schedule B. These insurances obtained by Operator and Non-Operators will respond to a loss on a pro-rata working interest basis, and not as primary, to any other valid and collectible insurances. Non-Operators will not be additional insurers on Operator's policy unless specifically agreed to by Operator and the appropriate premium charged Non-Operator. Failure of the Operator to maintain its required Schedule A and Schedule B insurance coverages shall be deemed cause for removal of Operator as the operator of the joint properties at the option of a majority in interests of the Non-Operators as provided in the Joint Operating Agreement to which this Exhibit "D" is attached.

Operator shall not be obligated to obtain or carry on behalf of the Joint Account any insurance additional to Schedule A but may, at its discretion, provide additional coverage to a Non-Operator(s) for the operations to be conducted hereunder. Each Non-Operator shall acquire at its own expense the Schedule B coverage and such excess insurance as it deems proper to protect itself against claims, losses, or damages arising out of the joint operations. Such insurance shall include a waiver of subrogation against the other Parties in respect of their interest hereunder. Joint Account deductibles and uninsured losses shall be borne by the Parties in proportion to their respective working interests.

Deductibles and/or limits established by Operator's Schedule A coverages shall apply to all Non-Operators on a working interest share basis and premiums for Schedule A coverage, losses falling within the deductible, or which exceed insurable limits, or which are otherwise not covered by insurance will be expenses of the Joint Account.

Each Non-Operator shall furnish Operator with Certificates of Insurance evidencing satisfactory Schedule B coverages are in force, and Operator shall furnish each Non-Operator, upon request, with Certificates of Insurance evidencing Schedule A coverage and all Schedule B coverages that are in force.

The Certificates of Insurance specifying Schedule B coverage must be provided by each Non-Operator to Operator within 10 working days from execution hereof or commencement of operations hereunder, whichever is earlier. Non-Operators shall supply Operator "Certificate of Insurance" annually, during the term of this agreement. Failure of a Non-Operator to provide Certificates of Insurance within the required time period will authorize Operator to either (i) purchase the required insurance for such Non-Operator and bill the Non-Operator for the cost thereof, (ii) add the Non-Operator as an additional insured to the Operator's policy and automatically allocate, without refund, the first year's insurance premium to the Non-Operator, or (iii) notify the other Non-Operators that the Non-Operator's working interest is uninsured or underinsured.

Operator shall promptly notify Non-Operators in writing of all losses involving damage to a Joint Account property in excess of $250,000.

Operator shall require all contractors engaged in operations under this Agreement to comply with the applicable Worker's Compensation laws and to maintain such other insurance and in such amounts as Operator deems necessary.

EXHIBIT "D-2"

Attached to and made a part of that certain Operating Agreement dated April 1, 1997, by between BURLINGTON RESOURCES OIL & GAS COMPANY, as Operator, and Non-Operators.

1. Operator shall carry insurance as follows for the benefit and protection of the Parties to this Agreement.

   a. Worker's Compensation Insurance in accordance with laws of governmental bodies having jurisdiction including, if applicable, Unites States Longshore and Harbor Workers' Compensation Act with Outer Continental Shelf Extension and Employers' Liability Insurance. Employers' Liability Insurance shall provide coverage of $500,000 per accident.

   b. Operator may include the aforesaid risks under its qualified self-insurance program provided Operator complies with applicable laws, and in such an event Operator shall charge to the Joint Account, its actual cost, not to exceed a premium determined by applying manual insurance rates to the payroll.

2. Operator shall not be obligated or authorized to obtain or carry on behalf of the Joint Account any additional insurance covering the Parties or the operations to be conducted hereunder without the consent and agreement of all Parties. Each Party individually may acquire as its own expense such insurance as it deems proper to protect itself against claims, losses, or damages arising out of the joint operations. All uninsured losses and all damages to jointly owned property shall be borne by the Parties in proportion to their respective interests.

3. Operator shall promptly notify non-operators in writing of all losses involving damage to a jointly owned property in excess of $100,000.

4. Operator shall require all contractors engaged in operations under this Agreement to comply with the applicable Worker's Compensation laws and to maintain such other insurance and in such amounts as Operator deems necessary.

5. In the event that less than all Parties participate in an operation conducted under the terms of this Agreement, then the insurance requirement and costs, as well as all losses, liabilities, and expenses incurred as the result of such operation, shall be the burden of the Party or Parties participating therein.

EXHIBIT "E"

Attached to and made a part of that certain Operating Agreement dated April 1, 1997, by and between BURLINGTON RESOURCES OIL & GAS COMPANY, as Operator, and Non-Operators.

GAS BALANCING AGREEMENT

ARTICLE I
Definitions

1.01 For the purposes of this Agreement, the terms set forth below shall have the meanings herein ascribed to them.

(a) "Balance" is the condition existing when a Party has disposed of a cumulative volume of Gas from a Well which is equal to such Party's Percentage Ownership of the total cumulative volume of Gas disposed of by all Parties from such Well. For purposes of Balancing, references herein to price, value and volume shall be adjusted or calculated on a Btu basis.

(b) "Btu" is one British thermal unit, which is the amount of heat required to raise the temperature of one pound of water one degree Fahrenheit from 58.5° Fahrenheit to 59.5° Fahrenheit, at 14.73 pounds per square inch absolute. The term "MMBtu" refers to one million (1,000,000) Btu's.

(c) "FERC" refers to the Federal Energy Regulatory Commission, or any similar or successor agency, state or federal.

(d) "Gas" includes all hydrocarbons produced or producible from a Well, whether 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 at the Measurement Point for sale or separate disposition by the Parties, excluding oil, condensate and other liquids separated upstream from the Measurement Point. "Gas" does not include gas used for joint operations, or gas which is vented or lost, prior to delivery at the Measurement Point. Reference herein to the right to "dispose of" Gas or Gas "disposed of" includes all methods of disposition of Gas, including taking in kind, delivering in kind to a Lessor, sales to a Party or third party or an affiliate, or gas used by a Party for purposes other than joint operations.

(e) "Imbalance" refers to either the Overproduction of an Overproduced Party or the Underproduction of an Underproduced Party, as applicable.

(f) "Make-up Gas" refers to that incremental volume of Gas, up to but not exceeding forty percent (40%) of the Percentage Ownership of an Overproduced Party in the Gas which can be produced from a Well which an Underproduced Party is entitled to dispose of in accordance with this Agreement in order to make up its Imbalance.

(g) "Mcf" means the quantity of Gas occupying a volume of one thousand (1,000) cubic feet at a temperature of sixty degrees Fahrenheit (60°F) and a pressure of fourteen and seventy-three hundredths pounds per square inch absolute (14.73 psia).

(h) "Measurement Point" refers to the outlet side of the jointly owned production facilities, or such other point mutually agreeable where Gas from a Well is measured after the separation of oil, condensate or other liquids.

(i) "Operator" refers to the Operator under the terms of the Operating Agreement.

(j) "Overproduced" is the condition existing when a Party has disposed of a greater cumulative volume of Gas from a Well than its Percentage Ownership of the total cumulative volume of Gas disposed of by all Parties from such Well.

(k) "Party" means any party subject to the Operating Agreement. "Parties" means all parties subject to the Operating Agreement.

(l) The "Percentage Ownership" of each Party is equal to that Party's percentage or fractional interest in a Well, as determined under the terms of the Operating Agreement.

(m) "Underproduced" is the condition existing when a Party has disposed of a lesser cumulative volume of Gas from a Well than its Percentage Ownership of the total cumulative volume of Gas disposed of by all Parties from such Well.

(n) The terms "Underproduction" and "Overproduction" refer to that lesser or greater incremental volume of Gas which a Party would have disposed of from a Well, on a monthly or cumulative basis, if it had disposed of its Percentage Ownership of Gas from that Well.

(o) "Well" means a well drilled on the Contract Area covered by the Operating Agreement and capable of producing Gas.

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

ARTICLE II
Scope and Term of Agreement

2.01 This Agreement establishes a separate gas balancing agreement for each Well covered by the Operating Agreement to the same extent as if a separate Gas Balancing Agreement had been executed for each such Well.

2.02 The Agreement shall terminate, separately as to each Well, the earlier of (a) when the oil and gas lease(s) covering the Well terminate, or (b) when production from such Well permanently ceases and the Gas accounts for such Well are brought into Balance pursuant to this Agreement.

ARTICLE III
Right to Produce and Ownership of Gas

3.01 Subject to the rights of an Underproduced Party to produce and dispose of Make-up Gas pursuant to this Agreement, each Party shall own and be entitled to produce and dispose of its Percentage Ownership of Gas which can be produced from a Well. During any month when a Party does not dispose of its entire Percentage Ownership of such Gas, the other Parties shall be entitled to produce and dispose of all or any portion of such Gas; provided, that to the extent such Parties desire to dispose of more Gas than is available, they shall share in such Gas in the proportion that each such Party's Percentage Ownership bears to the combined Percentage Ownership of all Parties desiring to dispose of such Gas.

3.02 As between the Parties hereto, each Party shall own and be entitled to the Gas disposed of by such Party for its sole account, and the proceeds thereof, including constituents contained therein that are recovered downstream from the Measurement Point. If at any time, and from time to time, a Party is Underproduced with respect to a Well, its Underproduction shall be deemed to be in storage in the Well, subject to the right of such Party to produce and dispose of such Gas at a later time.

ARTICLE IV
Make-Up Gas

4.01 In order to make up an Imbalance, each Underproduced Party in a Well shall have the right, after twenty (20) days written notice to all parties, to produce and dispose of Make-Up Gas, subject to the following rules:

(a) An Overproduced Party shall not be required to furnish Make-Up Gas unless an Underproduced Party is first taking or disposing of its full Percentage Ownership of Gas from a Well; and

(b) An Overproduced Party shall not be required under any circumstances to reduce its takes to less than its Percentage Ownership of Gas which can be produced from a Well during the months of January, February, and December of a calendar year; and

(c) An Overproduced Party shall not be required under any circumstances to reduce its takes to less than sixty percent (60%) of such Overproduced Party's Percentage Ownership of Gas which can be produced from a Well; and

(d) If there is more than one Overproduced Party, the Make-Up Gas will be taken from the Overproduced Parties in the proportion that each Overproduced Party's Percentage Ownership in a Well bears to the total Percentage Ownership of all Overproduced Parties in that Well; and

(e) If there is more than one Underproduced Party who desires and is able to dispose of Make-Up Gas in a month, each Underproduced Party will share in the Make-Up Gas in the proportion which its Percentage Ownership in a Well bears to the total Percentage Ownership of all Underproduced Parties in that Well disposing of Make-Up Gas that month.

4.02 The provisions of this Article IV shall constitute an Underproduced Party's exclusive rights and an Overproduced Party's exclusive obligations with regard to the right of an Underproduced Party to require an Overproduced Party to furnish Make-Up Gas.

4.03 Nothing herein shall be construed to deny any Party the right from time to time to produce and deliver its full Percentage Ownership of Gas in a Well for the purpose of conducting deliverability tests pursuant to its gas purchase contracts.

ARTICLE V
Balancing of Gas Accounts

5.01 The Operator shall have the right of controlling production and deliveries of Gas and administering the provisions of this Agreement. The Operator shall use its best efforts to cause Gas to be delivered at the Measurement Point in such a manner and at such rates as may be required, from time to time, to give effect to the intent that any Imbalances shall be brought into Balance in accordance with the provisions hereof. The Operator shall only be liable for its failure to make deliveries of Gas in accordance with the terms of this Agreement if such failure is due to its gross negligence or willful misconduct.

5.02 The Operator will maintain a separate Gas account for each Party and Well. The Operator will furnish each party quarterly a report showing the total Mcf of gas produced from each Well, the Mcf used in joint operations, or which was vented or lost, the Mcf of Gas disposed by each Party, each Party's Overproduction or Underproduction for each month during the preceding calendar quarter, and the cumulative Imbalance of all Parties in each Well at the end of each month during such quarter. In the event that production from each Well is not separately measured, then the Operator will allocate production to each Well on the basis of periodic test or such other methods as are commonly used and accepted in the industry. The Imbalance of an Underproduced Party shall be made up on a month-to-month basis and in the order of accrual; i.e., any Gas taken by an Underproduced Party over and above the monthly amount attributable to its Percentage Ownership shall be credited against and offset its first Underproduction from time-to-time.

5.03 Each Party shall retain all data, information and records pertaining to the Gas taken and disposed of by such Party in a Well during periods of Imbalance hereunder, including, but not limited to, records pertaining to the volumes of Gas disposed of, the gross and net proceeds received from the disposition of such Gas, and the information utilized to adjust volumes and prices on a Btu basis, for a period expiring two (2) years after the termination of this Agreement as to such Well.

5.04 During the term of this agreement, each Parth shall have the right to request information from and to audit the records of the Operator and any other Party as to all matters concerning volumes, Btu adjustments, prices and disposition of Gas from a Well. These rights for each Well shall extend until two (2) years after the expiration of this Agreement as to that Well. Any audit shall be conducted at the expense of the Party or Parties desiring such audit, and shall be conducted, after reasonable notice, during normal business hours in the office of the Party whose records are being audited. If more than one Party desires to audit the records of another Party, then all such Parties shall cooperate with each other in order that only one audit shall be conducted in any twelve (12) month period.

ARTICLE VI
Cash Settlement of Imbalance

6.01 "Upon (i) approval of all parties owning a working interest in the well to plug and abandon the well or (ii) when production from a well permanently ceases, the Operator shall render its final account of the cumulative imbalance of all Parties for that well within sixty (60) days after receiving the information requested as hereafter provided." Within thirty (30) days of Operator's request, each Overproduced Party shall provide information to Operator sufficient for the preparation of such statements including, but not limited to the net price received for its Overproduction and each Underproduced Party shall submit to Operator such data and information evidencing its payment of all royalties, overriding royalties, production burdens and taxes on its Underproduction which it was obligated to pay. Each Overproduced Party shall account to and pay each Underproduced Party within sixty (60) days of Operator's final account a sum of money equal to the net price on the Underproduction which an Underproduced Party was entitled to receive from an Overproduced Party. All past due payments due Underproduced Parties shall bear interest at the prime rate of interest in effect from time to time of Chemical Bank, N.Y., from date due until date paid. Net price for cash settlements herein shall be determined in accordance with Paragraph 6.02.

6.02 The net price for cash settlements (without interest) under this Article VI shall be the price actually received by the Overproduced Party for the sale of the Overproduction at the time the Overproduction accrued less production, severance and other similar taxes, fees or levies thereon and less royalties actually paid by an Overproduced Party attributable to the Underproduction of an Underproduced Party.

6.03 If any portion of the price which is to be paid to an Underproduced Party is subject to refund under order, rule or regulation of the FERC, then the Overproduced Party shall withhold the increment of price subject to refund until the price is fully approved, unless the Underproduced Party furnishes a corporate undertaking satisfactory to the Overproduced Party guaranteeing the return of the increment in price attributable to such refund, including interest, if any, which is required to be paid with such refund. In addition, if FERC or any other governmental agency having jurisdiction requires that an Overproduced Party make a refund with respect to any portion of a price used to make payment under this Article VI, then the Underproduced Party(ies) shall reimburse the Overproduced Party(ies) for such refund, including any interest required to be paid with respect thereto. This Paragraph 6.03 shall survive the termination of this Agreement until the period has passed for which a refund may be required.

6.04 In the event an over-produced party sells, assigns, or otherwise transfers any of its interest in the leases to which this agreement applies, it shall promptly notify the other parties and upon written request from Underproduced parties proceed to make a cash settlement with Underproduced parties as provided hereunder, provided that a cash settlement may not be demanded by such Underproduced party solely because an Overproduced party has mortgaged its interests, or disposed of its interest by merger, reorganization, consolidation, or sale of substantially all of its assets to a subsidiary or parent company, or to any company in which any one party owns a majority of the stock.

ARTICLE VII
Costs and Ownership of Liquids

All operating risks, expenses and liabilities shall be borne and paid by the Parties in accordance with the provisions of the Operating Agreement, or other agreement, rule or order if there is not an Operating Agreement, regardless of whether the Gas is being taken or disposed of from a Well at any given time in proportion to the Percentage Ownership of the Parties in the Well. Liquid hydrocarbons of a Well separated from the Gas prior to delivery at the Measurement Point shall be owned by all Parties in accordance with their Percentage Ownership in the Well, and each of the Parties shall be entitled to own and market their liquid hydrocarbons separated prior to the Measurement Point in accordance with the Percentage Ownership in the Well, irrespective of the fact that one or more of the Parties may not be disposing of Gas from the Well.

ARTICLE VIII
Indemnity

Each Party hereby indemnifies and agrees to hold the other Parties harmless from all claims which may be asserted by any third party arising out of the operation of this Agreement and the performance of the indemnifying Party of its obligations hereunder. Such indemnity shall extend to and include all costs of investigation and defense (including reasonable attorneys fees), and all judgments and damages incurred or sustained, as a result of any such claim.

ARTICLE IX
Payment of Lease Burden

Unless otherwise required by provisions of a lease, agreement or statute, rule, regulation or order of any governmental authority having jurisdiction, and regardless of who is actually taking or disposing of Gas from a Well, each Party shall be responsible for and shall pay or cause to be paid any and all royalties, overriding royalties, production payments and similar encumbrances on production due to its full Percentage Ownership of Gas production from a Well and shall hold the other Parties free from any liability therefor. The Party or Parties actually taking and disposing of Gas from a Well shall be responsible for and shall pay all production severance or similar taxes, fees or levies on such production.

ARTICLE X
Notice

Any notices or other communications required or permitted hereunder shall be in writing and shall be deemed given only when received by the Party to whom the same is directed at the addresses and in the manner then provided under the Operating Agreement.

EXHIBIT "F"

Attached to and made a part of that certain Operating Agreement dated April 1, 1997, by and between BURLINGTON RESOURCES OIL & GAS COMPANY, as Operator, and Non-Operators.

I. EQUAL EMPLOYMENT OPPORTUNITY PROVISION

During the performance of this contract, the Operator agrees as follows:

(1) The Operator will not discriminate against any employee or applicant for employment because of race, color, religion, national origin, or sex. The Operator will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, national origin, or sex. Such action shall include, but not be limited to the following: Employment, upgrading, demotion, or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training including apprenticeship. The Operator agrees to post in conspicuous places available to employees and applicants for employment notices to be provided by the contracting officer setting forth the provisions of this nondiscrimination clause.

(2) The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, national origin, or sex.

(3) The Operator will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding a notice to be provided by the agency contracting officer advising the labor union or workers' representative of the Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice on conspicuous places available to employees and applicants for employment.

(4) The Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations and relevant orders of the Secretary of Labor.

(5) The Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to its books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

(6) In the event of the Operator's non-compliance with the nondiscrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be cancelled, terminated or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

(7) The Operator will include the provisions of paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of

the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Operator will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for non-compliance: Provided, however, thatin the event the Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interests of the United States.

Operator acknowledges that it may be required to file Standard Form 100 (EEO-1) promulgated jointly by the Office of Federal Contract Compliance, the Equal Employment Opportunity Commission, and Plans for Progress with Joint Reporting Committee, Federal Depot, Jeffersonville, Indiana, within thirty (30) days of the date of contract award if such report has not been filed for the current year and otherwise comply with or file such other compliance reports as may be required under Executive Order 11246, as amended, and Rules and Regulations adopted hereunder.

Operator further acknowledges that he may be required to develop a written affirmative action compliance program as required by the Rules and Regulations approved by the Secretary of Labor under authority of Executive Order 11246 and supply Non-Operators with a copy of such program if they so request.

II. CERTIFICATION OF NON-SEGREGATED FACILITIES

(1) Operator assures Non-Operators that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not and will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. For this purpose, it is understood that the phrase "segregated facilities" includes facilities which are in fact segregated on a basis of race, color, religion, or national origin because of habit, local custom, or otherwise. It is further understood and agreed that maintaining or providing segregated facilities for its employees or permitting its employees to perform their services at any location under its control where segregated facilities are maintained is a violation of the equal opportunity clause required by Executive Order 11246 of September 24, 1965.

(2) Operator further understands and agrees that a breach of the assurance herein contained subjects it to the provisions of the Order at 41 CFR Chapter 60 of the Secretary of Labor dated May 21, 1968, and the provisions of the equal opportunity clause enumerated in contracts between the United States of America and Non-Operators.

(3) Whoever knowingly and willfully makes any false, fictitious, or fraudulent representation may be liable to criminal prosecution under 18 U.S.C. Sec. 1001.

III. OCCUPATIONAL SAFETY AND HEALTH ACT

Operator will observe and comply with all safety and health standards promulgated by the Secretary of Labor under Section 107 of the Contract Work Hours and Standards Act, published in 29 CFR Part 1518 and adopted by the Secretary of Labor as occupational safety and health standards under the Williams-Steiger Occupational Safety and Health Act of 1970. Such safety and health standards shall apply to all subcontractors and their employees as well as to the prime contractor and its employees.

IV. VETERAN'S PREFERENCE

Operator agrees to comply with the following insofar as contracts it lets for an amount of $10,000 or more or which will generate 400 or more man-days of employment (each man-day consisting of any day in which an employee performs more than one hour of work) and further agrees to include the following provision in contracts with Contractors and Subcontractors:

"CONTRACTOR AND SUBCONTRACTOR LISTING REQUIREMENT

(1) As provided by 41 CFR 50-250, the contractor agrees that all employment openings of the contractor which exist at the time of the execution of this contract and those which occur during the performance of this contract, including those not generated by the contract and including those occurring at an establishment of the contractor other than the one wherein the contract is being performed, but excluding those of independently operated corporate affiliates, shall, to the maximum extent feasible, be offered for listing at an appropriate local office of the State employment service system wherein the opening occurs and to provide such periodic reports to such local office regarding employment openings and hires as may be required: Provided, that this provision shall not apply to openings which the contractor fills from within the contractor's organization or are filled pursuant to a customary and traditional employer-unionhiring arrangement and that the listing of employment openings shall involve only the normal obligations which attach to the placing of job orders.

(2) The contractor agrees to place the above provision in any subcontract directly under this contract."

V. CERTIFICATION OF COMPLIANCE WITH ENVIRONMENTAL LAWS

Operator agrees to comply with the Clean Air Act (42 U.S.C. Sec. 1857) and the Federal Water Pollution Control Act (33 U.S.C. Sec. 1251) when conducting operations involving nonexempt contracts. In all nonexempt contracts with subcontractors, Operator shall require:

(1) No facility is to be utilized by Subcontractor in the performance of this contract with Operator which is listed on the Environmental Protection Agency (EPA) List of Violating Facilities. See Executive Order 11738 of September 12, 1973, and 40 CFR Sec. 15.20.

(2) Prompt written notification shall be given by Subcontractor to Operator of any communication indicating that any such facility is under consideration to be included on the EPA List of Violating Facilities.

(3) Subcontractor shall comply with all requirements of Section 114 of the Clean Air Act (42 U.S.C. Sec. 1857) and Section 308 of the Federal Water Pollution Control Act (33 U.S.C. Sec. 1251), relating to inspection, monitoring, entry, reports, and information, as well as all other requirements specified in these Sections, and all regulations and guidelines issued thereunder.

(4) The foregoing criteria and requirements shall be included in all of Subcontractor's non-exempt subcontracts, and Subcontractor shall take such action as the Government may direct as a means of enforcing such provisions. See 40 CFR Sec. 15.4 & 5.