

**LOGAN DRAW "30" FED. COM #1 HEARING
2/3/00**

1. CORRESPONDENCE HISTORY:

- A. 9/24/98 - NEARBURG REQUESTS TERM ASSIGN. FROM DEVON @ \$200 PER ACRE AND A 75% NRI.**
- B. 9/29/98 - DEVON RESPONDS; NOT INTERESTED IN T/A, ASKS THAT NEARBURG SEND AN AFE.**
- C. 1/22/99 - NEARBURG SENDS AN AFE AT 1980' FNL & 1650' FEL LOCATION; OFFERS TO SEND JOA IF DEVON WANTS TO PARTICIPATE OR TAKE A MUTUALLY ACCEPTABLE F/O IF DEVON DOES NOT WANT TO PARTICIPATE.
AFE COSTS - \$421,000 DHC, \$818,114 COMPLETED**
- D. 3/25/99 - AFTER NO REPLY FROM DEVON, NEARBURG PROPOSES ACQUIRING A F/O ON NE/4 OF SEC. 30, WITH 75% NRI AND PROPORTIONATE 33.333% WI BACKIN AFTER PAYOUT.**
- E. 4/19/99 - NEARBURG SENDS NEW AFE AT SAME LOCATION, AMENDED BECAUSE OF IMPROVED PRODUCTION CASING STRING.
AFE COSTS - \$437,500 DHC, \$867,514 – COMPLETED
NEARBURG ALSO SENDS A JOA FOR N/2 OF SEC. 30 FOR DEVON'S REVIEW; \$5,640 AND \$540 O/H RATES.**
- F. 5/13/99 - DEVON EXECUTES NEARBURG'S FIRST AFE (\$818,114COMPL) DOES NOT EXECUTE JOA; MAKES NO CONDITIONS EXCEPT COMPLIANCE WITH DEVON'S GEOL. WELL REQ. SHEET**
- G. 9/14/99 - NEARBURG WITHDRAWS ITS AFE DUE TO OFFSETTING MURCHISON WELL BEING DRILLED IN THE NW/4 OF SEC. 29; NEARBURG STATES THAT IF IN THE FUTURE A WELL IS MERITED IN THE N/2 OF SEC. 30, THAT IT WILL FURNISH DEVON A NEW AFE AND JOA.**
- H. 11/11/99 – DEVON FAXES AND MAILES NEARBURG AN AFE AND JOA TO DRILL A MORROW WELL AT 1980' FNL & 1650' FEL;
AFE COSTS - \$421,000 – DHC, \$818,114 – COMPLETED;
\$6,000 AND \$600 O/H RATES.**
- I. 11/12/99 - NEARBURG FAXES AND MAILES DEVON AN AFE TO DRILL AT 1650' FNL & 660' FEL; SAYS A JOA IS FORTHCOMING;
AFE COSTS - \$417,508 – DHC, \$721,310 – COMPLETED**

- J. 11/18/99 - NEARBURG MAILS NEW JOA TO DEVON; \$5,640 AND \$540 O/H RATES.**
- K. 12/14/99 – WHEELER CALLS WOOD; WOOD STATES THAT DEVON HAS NO PROBLEM WITH NEARBURG’S LOCATION.**
- L. 1/06/00 - AFTER SEVERAL CALLS FROM DEVON DISCUSSING O/H RATES, WHEELER TELLS WOOD THAT NEARBURG WOULD DROP THE RATES TO THE ERNST & YOUNG PRESCRIBED RATES. WHEELER ALSO STATED THAT DEVON HAD RECENTLY CHARGED MEWBOURNE RATES OF \$6000 AND \$600 FOR A SIMILAR MORROW WELL IN THE AREA. WHEELER TELLS WOOD THAT NEARBURG WOULD ACCEPT DEVON’S LENGTHY GAS BALANCING AGREEMENT TO REPLACE NEARBURG’S SIMPLER GBA.**
- M.1/14/00 - WOOD CALLED AND SAID THAT DEVON WOULD OPERATE FOR \$3000 PER MONTH DRILLING RATE. WHEELER SAID THAT NEARBURG COULD NOT AGREE TO ANYTHING LOWER THAN THE ERNST & YOUNG PRESCRIBED RATES.**
- N. 1/17/00 - WOOD CALLED TO SAY THAT DEVON WOULD OPERATE FOR \$3000 AND \$300 RATES. WHEELER SAID THAT NEARBURG BENDING OVER BACKWARDS AND WOULD REDUCE TO ERNST & YOUNG.**
- O. 1/24/00 - DEVON FORWARDED REVISED PAGES TO ITS 11/11/99 JOA, CHANGING THE O/H RATES TO \$6,000 AND \$300 AND CHANGING THE INITIAL WELL LOCATION TO A LEGAL LOCATION IN THE NE/4 OF SEC. 30**
- O. 1/31/00 - WHEELER AND WOOD TALKED SEVERAL TIMES; NEARBURG OFFERS TO REDUCE TO \$6,000 AND \$300 O/H RATES TO SETTLE THE MATTER; DEVON RESPONDS THAT THEY WANT TO OPERATE THE WELL AND WILL BE AT THE HEARING.**

OTHER STRONG POINTS FOR NEARBURG:

- A. IMMEDIATE GAS CONNECTION AND FAVORABLE GAS CONTRACT**
- B. NEARBURG OPERATES 3 MORROW WELLS IN IMMEDIATE AREA.**
- C. NEARBURG HAS PETERSON RIG #6 READY TO DRILL EARLY APRIL.**
- D. NEARBURG HAS A LEASE INTEREST EXPIRING IN NW/4 MID MAY.**
- E. NEARBURG HAS FMI INFORMATION THAT IT PAID FOR TO JUSTIFY OUR NEW LOCATION.**

Nearburg Exploration Company, L.L.C.

Exploration and Production
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705
915/686-8235
Fax 915/686-7806

September 24, 1998

Mr. Ken Gray
Devon Energy Corporation
20 North Broadway, Suite 1500
Oklahoma City, OK 73102

RE: T-17-S, R-27-E
Section 30: NE/4
Lea County, New Mexico
Logan Draw Prospect

Gentlemen:

According to a recent take-off, it appears that Devon is the owner of 100% of the working interest under the captioned lands. Nearburg Exploration Company, L.L.C. proposes to purchase a two (2) year Term Assignment from Devon of this interest for the cash consideration of \$200.00 per net acre. Devon would deliver a 75% net revenue interest.

If you have any interest in this proposal, please contact me at the letterhead address and phone number. Thank you for considering our offer.

Yours truly,


Michael M. Gray
Senior Landman

MMG/dw

LOGAN DREW

ORPORATION

andman

20 North Broadway, Suite 1500
Oklahoma City, Oklahoma 73102-8260

Telephone: 405/552-4633
Fax: 405/552-8113

September 29, 1998

Nearburg Exploration Company, L.L.C.
3300 North "A" Street
Building 2, Suite 120
Midland, TX 79705

Attn: Michael M. Gray

**Re: NE/4 Section 30-17S-27E
Lea County, New Mexico**

Gentlemen:

We are in receipt of your September 24, 1998 offer to purchase a Term Assignment from Devon Energy Corporation (Nevada) ("Devon") of our interest in the captioned acreage. Please be advised Devon is not interested in entering into a Term Assignment but would appreciate your sending a copy of your AFE in the event you drill a well that includes our lease.

If you have any questions, please contact the undersigned.

Yours very truly,

DEVON ENERGY CORPORATION (NEVADA)



Ken Gray
District Landman

Nearburg Exploration Company, L.L.C.

Exploration and Production
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705
915/686-8235
Fax 915/686-7806

January 22, 1999

Devon Energy Corporation
20 North Broadway, Suite 1500
Oklahoma City, Oklahoma 73102

**CERTIFIED MAIL
RETURN RECEIPT REQUESTED**

Attention: Ms. Carla D. Wood

Re: T-17-S, R-27-E
Section 30: NE/4
Eddy County, New Mexico
Logan Draw Prospect

Gentlemen:

Please refer to our letter of September 24, 1998 and your response of September 29, 1998 regarding the captioned lands. Nearburg Exploration Company, L.L.C. (NEC) proposes the drilling of a 9,400' Morrow test well to be located 1,980' FNL and 1,650' FEL of Section 30, T-17-S, R-27-E, Eddy County, New Mexico. Enclosed is an AFE estimating the costs of our proposed well.

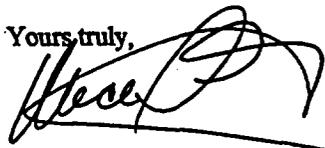
The proration unit for our well is the N/2 of Section 30. This a short section and the N/2 of Section 30 contains 319.51 acres, accounting for Devon's working interest of slightly over 50%. NEC owns leasehold working interest in the NW/4 of Section 30.

If you desire to participate in our proposed well, please let us know as soon as possible and we will furnish an Operating Agreement for your review, designating NEC as operator.

If you do not desire to participate in our proposed test well, we would enter into a mutually acceptable farmout agreement.

If you have any questions, please contact me at the letterhead address and phone number. Thank you for considering our well proposal.

Yours truly,


Michael M. Gray
Senior Landman

MMG:kg

Enclosure

PLEASE TO
ANY SE
and, stick the gum
present the article
(charge).
this receipt postmarked, stic
se, date, detach and retain the
at a return receipt, write the certified
receipt card, Form 3811, and attach it to th
space permits. Otherwise, affix to back of artic
REQUESTED adjacent to the number.
4. If you want delivery restricted to the address
endorse RESTRICTED DELIVERY on the f
...ated in the e

Nearburg Producing Company

Exploration and Production

Dallas, Texas

AUTHORITY FOR EXPENDITURE

LEASE: Logan Draw "30" Federal Com WELL NUMBER: #1 PROPOSED TOTAL DEPTH: 9,400'
 LOCATION: 1,980' FNL & 1,650' FEL, Section 30, T17S, R27E, Eddy County, NM
 FIELD: Wildcat PROSPECT: Morrow EXPLORATORY, DEVELOPMENT, WO: E
 DESCRIPTION OF WORK: Drill and complete as an exploratory Morrow gas producer. Fracture stimulation included in cost estimate.
 DATE PREPARED: 1/99 EST. SPUD DATE: 1999 EST. COMPLETION DATE: 1999
 ACCOUNTING WELL NUMBER:
 COMMUNICATIONS ACCOUNT NUMBER:

INTANGIBLE COSTS:	CODE	TO CSG PT	CODE	COMPLETION	TOTAL WELL
Drilling Footage 9,400 Ft @ 17.00 \$/Ft	1514 100	159,800	NA		159,800
Drilling Daywork D/C\$/day 2 2 5000	1514 105	10,000	1514 105	10,000	20,000
Drilling Turnkey	1514 110		1514 110		0
Rig Mobilization and Demobilization	1514 115		1514 115		0
Road & Location Expense	1514 120	15,000	1514 125	2,000	17,000
Damages	1514 125	5,000	1514 125		5,000
Directional Drilling - Tools and Service	1514 130		1514 130		0
Drilling Fluids	1514 135	30,000	1514 135		30,000
Fuel, Power, and Water	1514 140	15,000	1514 140	2,000	17,000
Supplies - Bits	1514 145		1514 145	500	500
Supplies - Casing Equipment	1514 150	2,500	1514 150	7,000	9,500
Supplies - Liner Equipment	1514 155		1514 155		0
Supplies - Miscellaneous	1514 160		1514 160	500	500
Cement and Cmt. Services - Surface Csg	1514 165		NA		0
Cement and Cmt. Services - Int. Csg	1514 170	10,000	NA		10,000
Cement and Cmt. Services - Prod. Csg	NA		1514 172	25,000	25,000
Cement and Cmt. Services - Other	1514 175		1514 175		0
Rental - Drilling Tools and Equipment	1514 180		1514 180		0
Rental - Miscellaneous	1514 185	15,000	1514 185	3,000	18,000
Testing - Drill Stem / Production	1514 190	4,000	1514 190	2,500	6,500
Open Hole Logging	1514 200	30,000	NA		30,000
Mudlogging Services	1514 210	12,500	NA		12,500
Special Services	1514 215		1514 215		0
Plug and Abandon	1514 218	10,000	1514 218	(10,000)	0
Pulling and/or Swabbing Unit	NA		1514 217	12,000	12,000
Reverse Equipment	NA		1514 216	3,500	3,500
Wireline Services	1514 220		1514 215	5,000	5,000
Stimulation	NA		1514 221	120,000	120,000
Pump / Vacuum Truck Services	1514 225		1514 220	2,500	2,500
Transportation	1514 230		1514 225	4,000	4,000
Tubular Goods - Inspection & Testing	1514 235	1,500	1514 230	8,000	9,500
Unclassified	1514 240		1514 245		0
Telephone and Radio Expense	1514 245	1,000	1514 240	300	1,300
Engineer / Geologist / Landman	1514 250	5,000	1514 250	2,500	7,500
Company Labor - Field Supervision	1514 255	15,000	1514 255	4,500	19,500
Contract Labor / Roustabout	1514 260	4,000	1514 260	6,000	10,000
Legal and Professional Service	1514 265	5,000	1514 265	2,000	7,000
Insurance	1514 270	4,700	1514 270		4,700
Overhead	1514 280	6,000	1514 280	2,000	8,000
SUBTOTAL		361,000		214,800	575,800
Contingencies (10%)		36,100		21,480	57,580
ESTIMATED TOTAL INTANGIBLES		397,100		236,280	633,380

Nearburg Producing Company

Exploration and Production

Dallas, Texas

AUTHORITY FOR EXPENDITURE

LEASE: Logan Draw "30" Federal Com WELL NUMBER: #1 PROPOSED TOTAL DEPTH: 9,400'
 LOCATION: 1,980' FNL & 1,650' FEL, Section 30, T17S, R27E, Eddy County, NM
 FIELD: Wildcat PROSPECT: Morrow EXPLORATORY, DEVELOPMENT, WO: E
 DESCRIPTION OF WORK: Drill and complete as an exploratory Morrow gas producer. Fracture stimulation included in cost estimate.
 DATE PREPARED: 1/99 EST. SPUD DATE: 1999 EST. COMPLETION DATE: 1999
 ACCOUNTING WELL NUMBER:
 COMMUNICATIONS ACCOUNT NUMBER:

TANGIBLE COSTS:			CODE	TO CSG PT	CODE	COMPLETION	TOTAL WELL
Conductor Casing			1522 302		NA		0
Surface Csg	Ft @	\$/Ft	1522 302	0	NA		0
Intermediate Csg	1,600 Ft @	14.00 \$/Ft	1522 302	22,400	NA		22,400
Protection Csg	Ft @	\$/Ft	1522 302	0	NA		0
Production Csg	9,400 Ft @	8.50 \$/Ft	NA		1522 302	79,900	79,900
Protection Liner	Ft @	\$/Ft	1522 302	0	NA		0
Production Liner	Ft @	\$/Ft	NA		1522 302	0	0
Tubing	9,300 Ft @	3.38 \$/Ft	NA		1522 302	31,434	31,434
Rods	Ft @	\$/Ft	NA		1522 302	0	0
Artificial Lift Equipment			NA		1522 302		0
Tank Battery			NA		1522 302	10,000	10,000
Separators/Heater Treater/Gas Units/FWKO			NA		1522 302	12,000	12,000
Well Head Equipment & Christmas Tree			1522 302	1,500	1522 302	10,000	11,500
Subsurface Well Equipment			NA		1522 302	5,000	5,000
Flow Lines			NA		1522 302	2,500	2,500
Saltwater Disposal Pump			NA		1522 302		0
Gas Meter			NA		1522 302		0
Lact Unit			NA		1522 302		0
Vapor Recovery Unit			NA		1522 302		0
Other Well Equipment			NA		1522 302		0
ROW and Damages			NA		1522 302	2,500	2,500
Surface Equipment Installation Costs			NA		1522 302	7,500	7,500
Elect. Installation			NA		1522 302		0
ESTIMATED TOTAL TANGIBLES				23,900		160,834	184,734
ESTIMATED TOTAL WELL COSTS				421,000		397,114	818,114

NPC APPROVAL	DATE
PREPARED BY: <i>H.R. Willis</i>	1/99
APPROVED BY: <i>E. Scott Kimbrough</i>	1/99
APPROVED BY: <i>[Signature]</i>	1/21/99
APPROVED BY:	

WI APPROVAL: COMPANY Devon Energy Corporation 50.00673%
 BY _____
 TITLE _____
 DATE _____

Nearburg Exploration Company, L.L.C.

Exploration and Production
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705
915/686-8235
Fax 915/686-7806

FAXED

March 25, 1999

FAX (405) 552-8113

Ms. Carla D. Wood
Devon Energy Corporation
20 North Broadway, Suite 1500
Oklahoma City, OK 73102

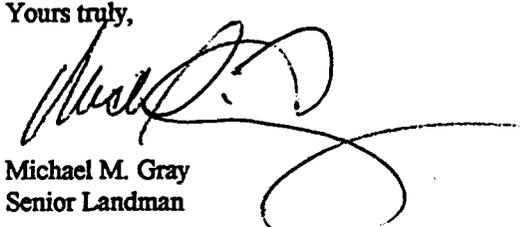
RE: T-17-S, R-27-E, Section 30: NE/4
Eddy County, New Mexico
Logan Draw Prospect

Dear Carla:

Please refer to our letter of January 22, 1999 regarding our well proposal on the captioned lands. Nearburg Exploration Company, L.L.C. proposes to acquire a Farmout from Devon of its interest under the NE/4 of Section 30, T-17-S, R-27-E, Eddy County, New Mexico. Nearburg proposes to earn Devon's rights in the NE/4 of Section 30 for the drilling of a 9,400' Morrow test at a legal location in the NE/4 of the section. Devon would reserve an overriding royalty equal to the difference between burdens and 25% until payout. At payout, Devon would convert its overriding royalty to a 33 1/3rd percent working interest. Nearburg would have 180 days from execution of a mutually agreeable farmout agreement to commence operations for the drilling of its proposed well. The overriding royalty and back-in would be proportionately reduced in the event the lands are pooled or communitized with other lands.

If this proposal meets with your approval or if you wish to discuss the terms of the trade, please contact me as soon as possible at the letterhead address and phone number.

Yours truly,


Michael M. Gray
Senior Landman

MMG/dw

Nearburg Exploration Company, L.L.C.

cc to TRM
cc to Kathie

Exploration and Production
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705
915/686-8235
Fax 915/686-7806

April 19, 1999

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Ms. Carla D. Wood
Devon Energy Corporation
20 North Broadway, Suite 1500
Oklahoma City, OK 73102

RE: T-17-S, R-27-E, Section 30: N/2
Logan Draw "30" Federal Com. #1 Well
1,980' FNL and 1,650' FEL
Eddy County, New Mexico
Logan Draw Prospect

Dear Carla:

Please refer to our AFE submitted with our letter of January 22, 1999 calling for the drilling of a 9,400' Morrow test well at the captioned location. A new AFE is enclosed. The casing program for the well has been changed to reflect the use of 4 1/2" P.110 production casing. This change was made as the result of the success of other Operators' Morrow completions in the area with frac stimulations down production casing.

We are enclosing an Operating Agreement for your review for the drilling of the Logan Draw "30" Federal Com. #1 well. Title to the balance of the acreage in the NW/4 of Section 30 is complicated due to some oddly shaped tracts bordering the Pecos River. Title is further complicated due to ownership and riparian issues related to the river. Once we have negotiated an Operating Agreement with Devon we will proceed with a title examination of the N/2 of Section 30 for the drilling of our proposed well. The drilling date of December 1, 1999 was inserted in the Operating Agreement due to our expectations of running into difficult title questions in the NW/4 of Section 30 and the possibility that a pooling application will have to be filed with the Oil Conservation Division.

We would very much like to proceed with this project and we would appreciate if you could
have any questions, call
and Operating Agreement
look forward to hearing

Yours truly,

Michael M. Gray
Senior Landman

MMG/dw
encl.

your RETURN ADDRESS completed on the reverse side?

Logan Draw 30 Fed. Com. #1

SENDER: <input type="checkbox"/> Complete items 1 and/or 2 for additional services. <input type="checkbox"/> Complete items 3, 4a, and 4b. <input type="checkbox"/> Print your name and address on the reverse of this form so that we can return this card to you. <input type="checkbox"/> Attach this form to the front of the mailpiece, or on the back if space does not permit. <input type="checkbox"/> Write "Return Receipt Requested" on the mailpiece below the article number. <input type="checkbox"/> The Return Receipt will show to whom the article was delivered and the date delivered.		I also wish to receive the following services (for an extra fee): 1. <input type="checkbox"/> Addressee's Address 2. <input type="checkbox"/> Restricted Delivery Consult postmaster for fee.	
3. Article Addressed to: Ms. Carla D. Wood Devon Energy Corporation 20 North Broadway, Suite 1500 Oklahoma City, OK 73102		4a. Article Number <i>P268 415 368</i>	
5. Received By: (Print Name)		4b. Service Type <input type="checkbox"/> Registered <input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise	
6. Signature: (Addressee or Agent) <i>X B Ziemle</i>		<input checked="" type="checkbox"/> Certified <input type="checkbox"/> Insured <input type="checkbox"/> COD	
		7. Date of Delivery <i>4-26</i>	
		8. Addressee's Address (Only if requested and fee is paid)	

Thank you for using Return Receipt Service.

Nearburg Exploration Company, L.L.C.

Exploration and Production
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705
915/686-8235
Fax 915/686-7806

cc to TRM
cc to Kathie

April 19, 1999

CERTIFIED MAIL – RETURN RECEIPT REQUESTED

Ms. Carla D. Wood
Devon Energy Corporation
20 North Broadway, Suite 1500
Oklahoma City, OK 73102

RE: T-17-S, R-27-E, Section 30: N/2
Logan Draw "30" Federal Com. #1 Well
1,980' FNL and 1,650' FEL
Eddy County, New Mexico
Logan Draw Prospect

Dear Carla:

Please refer to our AFE submitted with our letter of January 22, 1999 calling for the drilling of a 9,400' Morrow test well at the captioned location. A new AFE is enclosed. The casing program for the well has been changed to reflect the use of 4 ½" P.110 production casing. This change was made as the result of the success of other Operators' Morrow completions in the area with frac stimulations down production casing.

We are enclosing an Operating Agreement for your review for the drilling of the Logan Draw "30" Federal Com. #1 well. Title to the balance of the acreage in the NW/4 of Section 30 is complicated due to some oddly shaped tracts bordering the Pecos River. Title is further complicated due to ownership and riparian issues related to the river. Once we have negotiated an Operating Agreement with Devon we will proceed with a title examination of the N/2 of Section 30 for the drilling of our proposed well. The drilling date of December 1, 1999 was inserted in the Operating Agreement due to our expectations of running into difficult title questions in the NW/4 of Section 30 and the possibility that a pooling application will have to be filed with the Oil Conservation Division.

We would very much like to proceed with this project and we would appreciate your quick response. If you have any questions, changes or revisions regarding the enclosed agreement, please let me know. If the AFE and Operating Agreement meet with your approval, please execute and return them as soon as possible. We look forward to hearing from you.

Yours truly,


Michael M. Gray
Senior Landman

MMG/dw
encl

Nearburg Producing Company

Exploration and Production

Dallas, Texas

AUTHORITY FOR EXPENDITURE

LEASE: Logan Draw "30" Federal Com WELL NUMBER: #1 PROPOSED TOTAL DEPTH: 9,400'

LOCATION: 1,980' FNL & 1,650' FEL, Section 30, T17S, R27E, Eddy County, NM

FIELD: Wildcat PROSPECT: Morrow EXPLORATORY, DEVELOPMENT, WO: E

DESCRIPTION OF WORK: Drill and complete as an exploratory Morrow gas producer. Fracture stimulation included in cost estimate.

DATE PREPARED: 1/99

EST. SPUD DATE: 1999

EST. COMPLETION DATE: 1999

ACCOUNTING WELL NUMBER:

COMMUNICATIONS ACCOUNT NUMBER:

INTANGIBLE COSTS:	CODE	TO CSG PT	CODE	COMPLETION	TOTAL WELL
Drilling Footage 9,400 Ft @ 17.00 \$/Ft	1514.101	159,800	NA		159,800
Drilling Daywork D/C\$/day 2 2 5000	1514.102	10,000	1515.105	10,000	20,000
Drilling Turnkey	1514.110		1515.110		0
Rig Mobilization and Demobilization	1514.115		1515.115		0
Road & Location Expense	1514.120	15,000	1515.125	2,000	17,000
Damages	1514.125	5,000	1515.125		5,000
Directional Drilling - Tools and Service	1514.130		1515.130		0
Drilling Fluids	1514.135	30,000	1515.132		30,000
Fuel, Power, and Water	1514.140	15,000	1515.140	2,000	17,000
Supplies - Bits	1514.145		1515.145	500	500
Supplies - Casing Equipment	1514.150	2,500	1515.150	7,000	9,500
Supplies - Liner Equipment	1514.155		1515.155		0
Supplies - Miscellaneous	1514.160		1515.160	500	500
Cement and Cmt. Services - Surface Csg	1514.165		NA		0
Cement and Cmt. Services - Int. Csg	1514.170	10,000	NA		10,000
Cement and Cmt. Services - Prod. Csg	NA		1515.172	25,000	25,000
Cement and Cmt. Services - Other	1514.175		1515.175		0
Rental - Drilling Tools and Equipment	1514.180		1515.180		0
Rental - Miscellaneous	1514.185	15,000	1515.185	3,000	18,000
Testing - Drill Stem / Production	1514.190	4,000	1515.190	2,500	6,500
Open Hole Logging	1514.200	30,000	NA		30,000
Mudlogging Services	1514.210	12,500	NA		12,500
Special Services	1514.220		1515.195		0
Plug and Abandon	1514.230	10,000	1515.215	(10,000)	0
Pulling and/or Swabbing Unit	NA		1515.217	12,000	12,000
Reverse Equipment	NA		1515.218	3,500	3,500
Wireline Services	1514.240		1515.205	5,000	5,000
Stimulation	NA		1515.221	120,000	120,000
Pump / Vacuum Truck Services	1514.250		1515.220	2,500	2,500
Transportation	1514.260		1515.225	4,000	4,000
Tubular Goods - Inspection & Testing	1514.270	1,500	1515.230	8,000	9,500
Unclassified	1514.280		1515.245		0
Telephone and Radio Expense	1514.290	1,000	1515.240	300	1,300
Engineer / Geologist / Landman	1514.295	15,000	1515.250	2,500	17,500
Company Labor - Field Supervision	1514.300	15,000	1515.255	4,500	19,500
Contract Labor / Roustabout	1514.305	4,000	1515.260	6,000	10,000
Legal and Professional Service	1514.310	10,000	1515.270	2,000	12,000
Insurance	1514.320	4,700	1515.275		4,700
Overhead	1514.330	6,000	1515.280	2,000	8,000
SUBTOTAL		376,000		214,800	590,800
Contingencies (10%)		37,600		21,480	59,080
ESTIMATED TOTAL INTANGIBLES		413,600		236,280	649,880

Nearburg Producing Company

Exploration and Production
Dallas, Texas

AUTHORITY FOR EXPENDITURE

LEASE: Logan Draw "30" Federal Com WELL NUMBER: #1 PROPOSED TOTAL DEPTH: 9,400'
 LOCATION: 1,980' FNL & 1,650' FEL, Section 30, T17S, R27E, Eddy County, NM
 FIELD: Wildcat PROSPECT: Morrow EXPLORATORY, DEVELOPMENT, WO: E
 DESCRIPTION OF WORK: Drill and complete as an exploratory Morrow gas producer. Fracture stimulation included in cost estimate.
 DATE PREPARED: 1/99 EST. SPUD DATE: 1999 EST. COMPLETION DATE: 1999
 ACCOUNTING WELL NUMBER:
 COMMUNICATIONS ACCOUNT NUMBER:

TANGIBLE COSTS:			CODE	TO CSG PT	CODE	COMPLETION	TOTAL WELL
Conductor Casing			1522 305		NA		0
Surface Csg	Ft @	\$/Ft	1522 305	0	NA		0
Intermediate Csg	1,600 Ft @ 14.00	\$/Ft	1522 305	22,400	NA		22,400
Protection Csg	Ft @	\$/Ft	1522 305	0	NA		0
Prod Csg 4.5 P110	9,400 Ft @ 12.00	\$/Ft	NA		1522 305	112,800	112,800
Protection Liner	Ft @	\$/Ft	1522 305	0	NA		0
Production Liner	Ft @	\$/Ft	NA		1522 305	0	0
Tubing	9,300 Ft @ 3.38	\$/Ft	NA		1522 305	31,434	31,434
Rods	Ft @	\$/Ft	NA		1522 305	0	0
Artificial Lift Equipment			NA		1522 305		0
Tank Battery			NA		1522 305	10,000	10,000
Separators/Heater Treater/Gas Units/FWKO			NA		1522 305	12,000	12,000
Well Head Equipment & Christmas Tree			1522 305	1,500	1522 305	10,000	11,500
Subsurface Well Equipment			NA		1522 305	5,000	5,000
Flow Lines			NA		1522 305	2,500	2,500
Saltwater Disposal Pump			NA		1522 305		0
Gas Meter			NA		1522 305		0
Lact Unit			NA		1522 305		0
Vapor Recovery Unit			NA		1522 305		0
Other Well Equipment			NA		1522 305		0
ROW and Damages			NA		1522 305	2,500	2,500
Surface Equipment Installation Costs			NA		1522 305	7,500	7,500
Elect. Installation			NA		1522 305		0
ESTIMATED TOTAL TANGIBLES				23,900		193,734	217,634
ESTIMATED TOTAL WELL COSTS				437,500		430,014	867,514

NPC APPROVAL	DATE
PREPARED BY: <i>H.R. Willis</i>	4/99
APPROVED BY: <i>T. MacDonald</i>	4/99
APPROVED BY: <i>[Signature]</i>	4/99
APPROVED BY: <i>[Signature]</i>	4/99

WI APPROVAL: COMPANY Devon Energy Corporation 50.00673%
 BY _____
 TITLE _____
 DATE _____

DEVON
ENERGY CORPORATION

Lorre A. Youngblood, Land Tech

20 North Broadway, Suite 1500
Oklahoma City, Oklahoma 73102-8260

Telephone: 405/552-4630
Fax: 405/552-8113

cc to TRM
5-28-99

May 13, 1999

VIA FACSIMILE
VIA CERTIFIED MAIL

Mr. Michael M. Gray
Nearburg Exploration Company, L.L.C.
3300 North "A" Street
Building 2, Suite 120
Midland, TX 79705

Re: NE/4 Section 30-17S-27E
Eddy County, New Mexico
Logan Draw Prospect
DEC's # 042943-010

Dear Mr. Gray:

Devon Energy Corporation (Nevada) hereby elects to go participate in the drilling of the above referenced well as proposed in your January 22, 1999 letter.

Please provide the applicable information concerning this operation in accordance with the enclosed well requirement sheet.

Should you have any questions or need additional information, please advise.

Very truly yours,

DEVON ENERGY CORPORATION (NEVADA)

Lorre A. Youngblood
Lorre A. Youngblood
Land Tech

Enclosure

RECEIVED

MAY 17 1999

Nearburg Producing Company

Exploration and Production

Dallas, Texas

AUTHORITY FOR EXPENDITURE

LEASE: Logan Draw "30" Federal Com WELL NUMBER: #1 PROPOSED TOTAL DEPTH: 9,400'
 LOCATION: 1,980' FNL & 1,650' FEL, Section 30, T17S, R27E, Eddy County, NM
 FIELD: Wildcat PROSPECT: Morrow EXPLORATORY, DEVELOPMENT, WO: E
 DESCRIPTION OF WORK: Drill and complete as an exploratory Morrow gas producer. Fracture stimulation included in cost estimate.
 DATE PREPARED: 1/99 EST. SPUD DATE: 1999 EST. COMPLETION DATE: 1999
 ACCOUNTING WELL NUMBER: COMMUNICATIONS ACCOUNT NUMBER:

<u>INTANGIBLE COSTS:</u>	CODE	TO CSG PT	CODE	COMPLETION	TOTAL WELL
Drilling Footage 9,400 Ft @ 17.00 \$/Ft		159,800			159,800
Drilling Daywork D/C\$/day 2 2 5000		10,000		10,000	20,000
Drilling Turnkey					0
Rig Mobilization and Demobilization					0
Road & Location Expense		15,000		2,000	17,000
Damages		5,000			5,000
Directional Drilling - Tools and Service					0
Drilling Fluids		30,000			30,000
Fuel, Power, and Water		15,000		2,000	17,000
Supplies - Bits				500	500
Supplies - Casing Equipment		2,500		7,000	9,500
Supplies - Liner Equipment					0
Supplies - Miscellaneous				500	500
Cement and Cmt. Services - Surface Csg					0
Cement and Cmt. Services - Int. Csg		10,000			10,000
Cement and Cmt. Services - Prod. Csg				25,000	25,000
Cement and Cmt. Services - Other					0
Rental - Drilling Tools and Equipment					0
Rental - Miscellaneous		15,000		3,000	18,000
Testing - Drill Stem / Production		4,000		2,500	6,500
Open Hole Logging		30,000			30,000
Mudlogging Services		12,500			12,500
Special Services					0
Plug and Abandon		10,000		(10,000)	0
Pulling and/or Swabbing Unit				12,000	12,000
Reverse Equipment				3,500	3,500
Wireline Services				5,000	5,000
Stimulation				120,000	120,000
Pump / Vacuum Truck Services				2,500	2,500
Transportation				4,000	4,000
Tubular Goods - Inspection & Testing		1,500		8,000	9,500
Unclassified					0
Telephone and Radio Expense		1,000		300	1,300
Engineer / Geologist / Landman		5,000		2,500	7,500
Company Labor - Field Supervision		15,000		4,500	19,500
Contract Labor / Roustabout		4,000		6,000	10,000
Legal and Professional Service		5,000		2,000	7,000
Insurance		4,700			4,700
Overhead		6,000		2,000	8,000
SUBTOTAL		361,000		214,800	575,800
Contingencies (10%)		38,100		21,480	57,580
ESTIMATED TOTAL INTANGIBLES		397,100		236,280	633,380

Nearburg Producing Company

Exploration and Production

Dallas, Texas

AUTHORITY FOR EXPENDITURE

LEASE: Logan Draw "30" Federal Com WELL NUMBER: #1 PROPOSED TOTAL DEPTH: 9,400'
 LOCATION: 1,980' FNL & 1,650' FEL, Section 30, T17S, R27E, Eddy County, NM
 FIELD: Wildcat PROSPECT: Morrow EXPLORATORY DEVELOPMENT, W.O: E
 DESCRIPTION OF WORK: Drill and complete as an exploratory Morrow gas producer. Fracture stimulation included in cost estimate.
 DATE PREPARED: 1/99 EST. SPUD DATE: 1999 EST. COMPLETION DATE: 1999
 ACCOUNTING WELL NUMBER:
 COMMUNICATIONS ACCOUNT NUMBER:

TANGIBLE COSTS:			CODE	TO CSG PT	CODE	COMPLETION	TOTAL WELL
Conductor Casing							0
Surface Csg	Ft @	\$/Ft		0			0
Intermediate Csg	1,800 Ft @	14.00 \$/Ft		22,400			22,400
Protection Csg	Ft @	\$/Ft		0			0
Production Csg	9,400 Ft @	8.50 \$/Ft				79,900	79,900
Protection Liner	Ft @	\$/Ft		0			0
Production Liner	Ft @	\$/Ft				0	0
Tubing	9,300 Ft @	3.38 \$/Ft				31,434	31,434
Rods	Ft @	\$/Ft				0	0
Artificial Lift Equipment							0
Tank Battery						10,000	10,000
Separators/Heater Treater/Gas Units/FWKO						12,000	12,000
Well Head Equipment & Christmas Tree				1,500		10,000	11,500
Subsurface Well Equipment						5,000	5,000
Flow Lines						2,500	2,500
Saltwater Disposal Pump							0
Gas Meter							0
Lact Unit							0
Vapor Recovery Unit							0
Other Well Equipment							0
ROW and Damages						2,500	2,500
Surface Equipment Installation Costs						7,500	7,500
Elect. Installation							0
ESTIMATED TOTAL TANGIBLES				23,900		160,834	184,734
ESTIMATED TOTAL WELL COSTS				421,000		397,114	818,114

PREPARED BY:	DATE:
H. R. Willis	1/99
E. Scott Kimbrough	1/99
<i>[Signature]</i>	1/21/99
APPROVED BY:	

WI APPROVAL: COMPANY Devon Energy Corporation 50.00673%
 BY *[Signature]*
 TITLE Reservoir Eng. Mgr.
 DATE 5/13/99

devon
ENERGY CORPORATION

20 North Broadway, Suite 1500
Oklahoma City, Oklahoma 73102-8260

Telephone 405/235-3611
FAX 405/552-4550

February 10, 1999

Nearburg Exploration
3300 North A Street
Building 2, Suite 120
Midland, TX 79705

RE: Devon's Well Requirements
Logan Draw 30 Fed Com #1
1980' FNL & 1650' FEL
Section 30-17S-27E
Eddy Co., NM

Gentlemen:

Please provide the following information on the referenced project as it becomes available.

<u>No. of Copies</u>	<u>Item</u>	<u>Send to the Attention of:</u>
1	Daily Drilling and Completion Reports by fax (405) 552-7617 or email mungerd@dvn.com	Dana Munger
1	Survey location plat	Dana Munger
1	Drill Stem Test Reports and charts with water & gas analysis	Dana Munger
2	Core Analysis and Photos Fax No. (405) 552-4552	Dana Munger
1	State and Federal Forms (Drilling and Completion)	Dana Munger
1	Monthly Production Reports	Dana Munger
1	Gas/Oil Ratio, Open Flow Test, Shut In Test, Bottom Hole Press. Test, Reservoir Fluid or Gas Analysis	Dana Munger
2	Well Logs (Field Print) Fax No. (405) 552-4552	Dana Munger
2	Electric Logs (Final Print) Fax No. (405) 552-4552	Dana Munger
2	Geological Prognosis Fax No. (405) 552-4552	Dana Munger

2 Geologist's Final Report Fax No. (405) 552-4552 Dana Munger
1 Daily Mud Log Report Fax No. (405) 552-4552 Dana Munger
2 Final Mud Log Report Fax No. (405) 552-4552 Dana Munger
1 Copy of Gas Contract (jurisdictional filing forms, interim collection notices, FERC final determinations) Kris Baxter
1 Well Logs on 3 1/2 Disk in Log Aschii Standard Format. Dana Munger

Please contact the following prior to spudding and/or logging.

~~Jason Hamilton~~ District Geologist

GEORGE DAVIS

Office ~~(405) 552-4548~~

(0) 405-552-4798

Sincerely yours,
DEVON ENERGY CORPORATION

Dana Munger
Dana Munger
Engineering Tech

devon

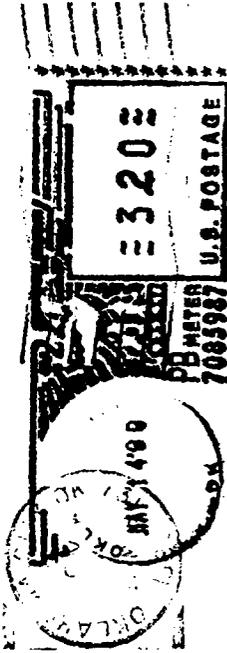
ENERGY CORPORATION

20 North Broadway, Suite 1500
Oklahoma City, Oklahoma 73102-8260

CERTIFIED

Z 508 521 915

MAIL



Mr. Michael M. Gray
Nearburg Exploration Company, L.L.C.
3300 North "A" Street
Building 2, Suite 120
Midland, TX 79705

79705X5417 04

Nearburg Exploration Company, L.L.C.

Exploration and Production
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705
915/686-8235
Fax 915/686-7806

FAXED

September 14, 1999

Ms. Carla Wood
Devon Energy Corporation
20 North Broadway, Suite 1500
Oklahoma City, OK 73102-8260

FAX (405) 552-8113

RE: Logan Draw "30" #1 Well
N/2 of Section 30, T-17-S, R-27-E
Eddy County, New Mexico
Logan Draw Prospect

Dear Carla:

Pursuant to our telephone conversation of this date, please be advised that Nearburg Exploration Company, L.L.C. (NEC) hereby withdraws its proposal for the drilling of the captioned well which was made to you by letter dated January 22, 1999. A well offsetting the N/2 of Section 30 will be drilled by Murchison Oil & Gas in the NW/4 of Section 29. We are withdrawing our well proposal in anticipation of a further geologic review after the drilling of the Murchison well. If in the future NEC believes a well is merited in the N/2 of Section 30, we will furnish Devon a new well proposal and Operating Agreement.

If you have any questions, please feel free to call.

Very truly yours,



Bob Shelton
Land Manager

BS/dw

devon
ENERGY CORPORATION
CARLA D. WOOD, LANDMAN

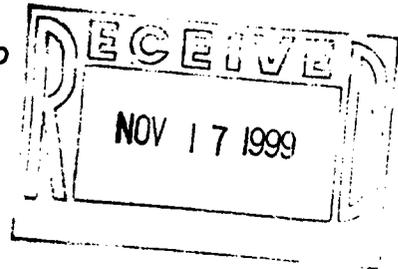
20 North Broadway, Suite 1500
Oklahoma City, Oklahoma 73102-8260

Telephone: 405/552-4615
FAX 405/552-8113
E-Mail: woodc@dvn.com

Logan Draw #30
Sec 30.

**CERTIFIED MAIL
RETURN RECEIPT REQUESTED**

November 11, 1999



Nearburg Exploration Company, L.L.C.
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705

Attn: Bob Shelton
Land Manager

Re: Logan Draw "30" #1 Well
N/2 Section 30-T17S-R27E
Eddy County, New Mexico

Gentlemen:

Devon Energy Corporation (Nevada), as operator, proposes to drill the subject well at a legal location at 1980' FNL & 1650' FEL of Section 30-T17S-R27E, Eddy County, New Mexico. Said well shall be drilled to a depth sufficient to test the Morrow formation, expected to require drilling to a depth of approximately 9,400'.

Enclosed you will find our Authorization for Expenditure which reflects dry hole cost estimated at \$421,000 and an estimated completed well cost of \$397,114 and a Joint Operating Agreement covering the N/2 of Section 30-T17S-R27E.

An election to participate should be accompanied by a fully executed AFE and Joint Operating Agreement. Should you have any questions regarding this proposal, please do not hesitate to call me at the telephone number listed above.

Sincerely,

DEVON ENERGY CORPORATION (NEVADA)

Carla D Wood
Carla D. Wood
Landman

11/17/99
Steve Anderson
APC

OIL _____

DEKORIN ENERGY CORPORATION

TEL 405-235-3611

GAS X _____

20 N. BROADWAY, SUITE 1500, OKLAHOMA CITY, OK 73102

FAX 405-552-4550

DATE _____

11/12/99

**AUTHORIZATION FOR EXPENDITURE
DRILLING/COMPLETION COST ESTIMATE**

DRILLING _____
RECOMPLETION _____

AFE No.:

Lease Name - Well #: Logan Draw 30 "G" Fed. Com. #1

Legal Description: 1980' FNL & 1650' FEL,

Sec. 30, T17S, R27E.

County or Parish, State: Eddy County, NM

Field: Logan Draw (Morrow)

Prepared By: W.M. Frank

AUTHORITY REQUESTED FOR: Monies to drill and complete a 9,400' Morrow well.

Account Number	Intangible Costs Description	Dry Hole Costs	Completion Costs	Total Costs
SITE PREPARATION				
011	LAND AND LEGAL	5,000	2,000	7,000
012	SURFACE DAMAGES / RIGHT OF WAY	5,000	2,500	7,500
013	LOCATION, ROADS, PITS, FENCES	15,000	2,000	17,000
019	OTHER SITE PREPARATION			0
DRILLING CONTRACTOR SERVICES				
041	TURNKEY DRILLING COSTS			0
042	FOOTAGE	159,800		159,800
043	DAYWORK	10,000	10,000	20,000
044	MOBILIZATION / DEMOBILIZATION			0
049	OTHER DRILLING CONTRACTOR SERVICES			0
MATERIALS AND SUPPLIES				
101	DRILL BITS		500	500
102	DRILLING MUD, CHEMICALS, COMPLETION FLUIDS	30,000		30,000
103	RENTAL TOOLS & EQUIPMENT	15,000	3,000	18,000
109	OTHER MATERIALS AND SUPPLIES	2,500	7,500	10,000
GENERAL SERVICES				
201	WELDING & ROUSTABOUT	4,000	6,000	10,000
202	DIRT WORK & HEAVY EQUIPMENT			0
203	TRUCKING & HOTSHOT		4,000	4,000
204	PIPELINE INSTALLATION			0
209	OTHER GENERAL SERVICES		2,500	2,500
SPECIALIZED SERVICES				
251	CEMENT AND CEMENTING SERVICES	10,000	25,000	35,000
253	P&A COSTS	10,000	-10,000	0
255	LOGGING, PERFORATING & WIRELINE	30,000	5,000	35,000
257	OPEN HOLE EVALUATION	12,500		12,500
259	CASING & TUBULAR SERVICES	1,500	8,000	9,500
261	FLUID SERVICES			0
263	SALT WATER DISPOSAL			0
265	STIMULATION & GRAVEL PACK		120,000	120,000
267	OFFSHORE TRANSPORTATION			0
269	CONSULTANTS			0
271	FISHING SERVICES			0
273	TESTING SERVICES	4,000	2,500	6,500
299	OTHER SPECIALIZED SERVICES	1,000	300	1,300
POWER, FUEL, AND WATER				
301	POWER & FUEL			0
302	WATER	15,000	2,000	17,000
COMPLETION AND CLEANUP				
501	PULLING & SWABBING UNIT		19,500	19,500
502	SNUBBING UNIT & COILED TUBING			0
503	BACKFILL PITS / RESTORE LOCATION			0
509	OTHER COMPLETION & CLEANUP		3,500	3,500
ENVIRONMENTAL & SAFETY				
551	ENVIRONMENTAL RESTORATION			0
552	SAFETY EQUIPMENT			0
553	ENVIRONMENTAL & SAFETY TRAINING			0
554	ENVIRONMENTAL & SAFETY FINES			0
559	ENVIRONMENTAL & SAFETY MISCELLANEOUS			0
MISCELLANEOUS				
711	COMPANY SUPERVISION	15000	4500	19,500
721	DRILLING OVERHEAD	5000	2500	7,500
731	CONSTRUCTION OVERHEAD			0
741	WELL CONTROL INSURANCE	4700		4,700
802	GENERAL LABOR			0
831	VEHICLE EXPENSE			0
861	DISTRICT & FIELD OFFICE EXPENSE	6000	2000	8,000
865	COMPANY BENEFITS			0
895	TAXES			0
TOTAL INTANGIBLES		\$361,000	\$224,800	\$585,800

Logan W. M.
30.

devon
ENERGY CORPORATION

20 NORTH BROADWAY, SUITE 1500 Phone: 405/235-3611
OKLAHOMA CITY, OK 73102-8260

=====

FACSIMILE TRANSMISSION
(405) 552-8113

DATE: November 12 1999

TO: Bob Shelton

COMPANY: Nearburg Exploration

FACSIMILE #: 915-686-7806

OFFICE #: _____

FROM: Carla Wood (405-552-4615)

NUMBER OF PAGES FOLLOWING: 3 + cover

MESSAGE:

If you have any problems receiving this fax, please call Marsha Bartlett at (405) 552-4623 as soon as possible.

Original is:

- Being sent by United States Post Office
- Being sent by Overnight Mail
- Not being sent
- Other: _____

devon

ENERGY CORPORATION

CARLA D. WOOD, LANDMAN

20 North Broadway, Suite 1500
Oklahoma City, Oklahoma 73102-8260

Telephone: 405/552-4615
FAX 405/552-8113
E-Mail: woodc@dvn.com

**CERTIFIED MAIL
RETURN RECEIPT REQUESTED**

November 11, 1999

Nearburg Exploration Company, L.L.C.
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705

Attn: Bob Shelton
Land Manager

Re: Logan Draw "30" #1 Well
N/2 Section 30-T17S-R27E
Eddy County, New Mexico

Gentlemen:

Devon Energy Corporation (Nevada), as operator, proposes to drill the subject well at a legal location at 1980' FNL & 1650' FEL of Section 30-T17S-R27E, Eddy County, New Mexico. Said well shall be drilled to a depth sufficient to test the Morrow formation, expected to require drilling to a depth of approximately 9,400'.

Enclosed you will find our Authorization for Expenditure which reflects dry hole cost estimated at \$421,000 and an estimated completed well cost of \$397,114 and a Joint Operating Agreement covering the N/2 of Section 30-T17S-R27E.

An election to participate should be accompanied by a fully executed AFE and Joint Operating Agreement. Should you have any questions regarding this proposal, please do not hesitate to call me at the telephone number listed above.

Sincerely,

DEVON ENERGY CORPORATION (NEVADA)


Carla D. Wood
Landman

OIL _____

DEVCON ENERGY CORPORATION

TEL 405-235-3611

GAS X _____

20 N. BROADWAY, SUITE 1500, OKLAHOMA CITY, OK 73102

FAX 405-552-4550

DATE _____

11/12/99

**AUTHORIZATION FOR EXPENDITURE
DRILLING/COMPLETION COST ESTIMATE**DRILLING

RECOMPLETION _____

AFE No.:

Lease Name - Well #: Logan Draw 30 "G" Fed. Com. #1

Legal Description: 1980' FNL & 1650' FEL,

Sec. 30, T17S, R27E.

County or Parish, State: Eddy County, NM

Field: Logan Draw (Morrow)

Prepared By: W.M. Frank

AUTHORITY REQUESTED FOR: Monies to drill and complete a 9,400' Morrow well.

Account Number	Intangible Costs Description	Dry Hole Costs	Completion Costs	Total Costs
SITE PREPARATION				
011	LAND AND LEGAL	5,000	2,000	7,000
012	SURFACE DAMAGES / RIGHT OF WAY	5,000	2,500	7,500
013	LOCATION, ROADS, PITS, FENCES	15,000	2,000	17,000
019	OTHER SITE PREPARATION			0
DRILLING CONTRACTOR SERVICES				
041	TURNKEY DRILLING COSTS			0
042	FOOTAGE	159,800		159,800
043	DAYWORK	10,000	10,000	20,000
044	MOBILIZATION / DEMOBILIZATION			0
049	OTHER DRILLING CONTRACTOR SERVICES			0
MATERIALS AND SUPPLIES				
101	DRILL BITS		500	500
102	DRILLING MUD, CHEMICALS, COMPLETION FLUIDS	30,000		30,000
103	RENTAL TOOLS & EQUIPMENT	15,000	3,000	18,000
109	OTHER MATERIALS AND SUPPLIES	2,500	7,500	10,000
GENERAL SERVICES				
201	WELDING & ROUSTABOUT	4,000	6,000	10,000
202	DIRT WORK & HEAVY EQUIPMENT			0
203	TRUCKING & HOTSHOT		4,000	4,000
204	PIPELINE INSTALLATION			0
209	OTHER GENERAL SERVICES		2,500	2,500
SPECIALIZED SERVICES				
251	CEMENT AND CEMENTING SERVICES	10,000	25,000	35,000
253	P&A COSTS	10,000	-10,000	0
255	LOGGING, PERFORATING & WIRELINE	30,000	5,000	35,000
257	OPEN HOLE EVALUATION	12,500		12,500
259	CASING & TUBULAR SERVICES	1,500	8,000	9,500
261	FLUID SERVICES			0
263	SALT WATER DISPOSAL			0
265	STIMULATION & GRAVEL PACK		120,000	120,000
267	OFFSHORE TRANSPORTATION			0
269	CONSULTANTS			0
271	FISHING SERVICES			0
273	TESTING SERVICES	4,000	2,500	6,500
299	OTHER SPECIALIZED SERVICES	1,000	300	1,300
POWER, FUEL, AND WATER				
301	POWER & FUEL			0
302	WATER	15,000	2,000	17,000
COMPLETION AND CLEANUP				
501	PULLING & SWABBING UNIT		19,500	19,500
502	SNUBBING UNIT & COILED TUBING			0
503	BACKFILL PITS / RESTORE LOCATION			0
509	OTHER COMPLETION & CLEANUP		3,500	3,500
ENVIRONMENTAL & SAFETY				
551	ENVIRONMENTAL RESTORATION			0
552	SAFETY EQUIPMENT			0
553	ENVIRONMENTAL & SAFETY TRAINING			0
554	ENVIRONMENTAL & SAFETY FINES			0
559	ENVIRONMENTAL & SAFETY MISCELLANEOUS			0
MISCELLANEOUS				
711	COMPANY SUPERVISION	15,000	4,500	19,500
721	DRILLING OVERHEAD	5,000	2,500	7,500
731	CONSTRUCTION OVERHEAD			0
741	WELL CONTROL INSURANCE	4,700		4,700
802	GENERAL LABOR			0
831	VEHICLE EXPENSE			0
861	DISTRICT & FIELD OFFICE EXPENSE	6,000	2,000	8,000
865	COMPANY BENEFITS			0
895	TAXES			0
TOTAL INTANGIBLES		\$361,000	\$224,800	\$585,800

OIL _____

DEVON ENERGY CORPORATION

TEL 405-433-3011

GAS X _____

20 N. BROADWAY, SUITE 1500, OKLAHOMA CITY, OK 73102

FAX 405-552-4550

DATE _____

11/12/99

**AUTHORIZATION FOR EXPENDITURE
DRILLING/COMPLETION COST ESTIMATE**

DRILLING _____

RECOMPLETION _____

AFE No.:
Lease Name - Well #: Logan Draw 30 "G" Fed. Com. #1
Legal Description: 1980' FNL & 1850' FEL,
Sec. 30, T17S, R27E.

County or Parish, State: Eddy County, NM
Field: Logan Draw (Morrow)
Prepared By: W.M. Frank

AUTHORITY REQUESTED FOR: Monies to drill and complete a 9,400' Morrow well.

Account Number	Tangible Costs Description	Dry Hole Costs	Completion Costs	Total Costs
WELL EQUIPMENT				
895	TAXES			0
901	SURFACE CASING			0
902	INTERMEDIATE CASING	22,400		22,400
903	PRODUCTION CASING		79,900	79,900
911	LINER			0
919	TOBING		31,434	31,434
921	SUCKER RODS			0
925	SUBSURFACE EQUIPMENT			0
931	WELLHEAD VALVES & EQUIPMENT	1,500	10,000	11,500
935	ARTIFICIAL LIFT EQUIPMENT			0
941	TANKS		10,000	10,000
945	TREATING VESSELS		12,000	12,000
951	COMPRESSORS			0
955	WATER DISPOSAL PUMPS			0
961	LINE PIPE, METERS & FITTINGS		2,500	2,500
985	OTHER TANGIBLE EQUIPMENT - SUBSURFACE		5,000	5,000
986	OTHER TANGIBLE EQUIPMENT - SURFACE			0
990	MATERIAL TRANSFER - SUBSURFACE			0
991	MATERIAL TRANSFER - SURFACE			0
TOTAL TANGIBLES		\$23,900	\$150,834	\$174,734
Contingencies		\$36,100	\$21,480	57,580
TOTAL ESTIMATED COSTS		\$421,000	\$397,114	\$818,114

Note: Costs and participations are generally estimates. Billings will be based on actual expenditures.

WORKING INTEREST OWNER APPROVAL

Company Name: _____

Signature: _____

Title: _____

Date: _____

OIL _____

DEV ENERGY CORPORATION

TEL 405-235-3611

GAS X _____

20 N. BROADWAY, SUITE 1500, OKLAHOMA CITY, OK 73102

FAX 405-552-4550

DATE _____

11/12/99

**AUTHORIZATION FOR EXPENDITURE
DRILLING/COMPLETION COST ESTIMATE**

DRILLING _____RECOMPLETION _____

AFE No.:

Lease Name - Well #: Logan Draw 30 "G" Fed. Com. #1

Legal Description: 1980' FNL & 1650' FEL,

Sec. 30, T17S, R27E.

County or Parish, State: Eddy County, NM

Field: Logan Draw (Morrow)

Prepared By: W.M. Frank

AUTHORITY REQUESTED FOR: Monies to drill and complete a 9,400' Morrow well.

Account Number	Intangible Costs Description	Dry Hole Costs	Completion Costs	Total Costs
SITE PREPARATION				
011	LAND AND LEGAL	5,000	2,000	7,000
012	SURFACE DAMAGES / RIGHT OF WAY	5,000	2,500	7,500
013	LOCATION, ROADS, PITS, FENCES	15,000	2,000	17,000
019	OTHER SITE PREPARATION			0
DRILLING CONTRACTOR SERVICES				
041	TURNKEY DRILLING COSTS			0
042	FOOTAGE	159,800		159,800
043	DAYWORK	10,000	10,000	20,000
044	MOBILIZATION / DEMOBILIZATION			0
049	OTHER DRILLING CONTRACTOR SERVICES			0
MATERIALS AND SUPPLIES				
101	DRILL BITS		500	500
102	DRILLING MUD, CHEMICALS, COMPLETION FLUIDS	30,000		30,000
103	RENTAL TOOLS & EQUIPMENT	15,000	3,000	18,000
109	OTHER MATERIALS AND SUPPLIES	2,500	7,500	10,000
GENERAL SERVICES				
201	WELDING & ROUSTABOUT	4,000	6,000	10,000
202	DIRT WORK & HEAVY EQUIPMENT			0
203	TRUCKING & HOTSHOT		4,000	4,000
204	PIPELINE INSTALLATION			0
209	OTHER GENERAL SERVICES		2,500	2,500
SPECIALIZED SERVICES				
251	CEMENT AND CEMENTING SERVICES	10,000	25,000	35,000
253	P&A COSTS	10,000	-10,000	0
255	LOGGING, PERFORATING & WIRELINE	30,000	5,000	35,000
257	OPEN HOLE EVALUATION	12,500		12,500
259	CASING & TUBULAR SERVICES	1,500	8,000	9,500
261	FLUID SERVICES			0
263	SALT WATER DISPOSAL			0
265	STIMULATION & GRAVEL PACK		120,000	120,000
267	OFFSHORE TRANSPORTATION			0
269	CONSULTANTS			0
271	FISHING SERVICES			0
273	TESTING SERVICES	4,000	2,500	6,500
299	OTHER SPECIALIZED SERVICES	1,000	300	1,300
POWER, FUEL, AND WATER				
301	POWER & FUEL			0
302	WATER	15,000	2,000	17,000
COMPLETION AND CLEANUP				
501	PULLING & SWABBING UNIT		19,500	19,500
502	SNUBBING UNIT & COILED TUBING			0
503	BACKFILL PITS / RESTORE LOCATION			0
509	OTHER COMPLETION & CLEANUP		3,500	3,500
ENVIRONMENTAL & SAFETY				
551	ENVIRONMENTAL RESTORATION			0
552	SAFETY EQUIPMENT			0
553	ENVIRONMENTAL & SAFETY TRAINING			0
554	ENVIRONMENTAL & SAFETY FINES			0
559	ENVIRONMENTAL & SAFETY MISCELLANEOUS			0
MISCELLANEOUS				
711	COMPANY SUPERVISION	15,000	4,500	19,500
721	DRILLING OVERHEAD	5,000	2,500	7,500
731	CONSTRUCTION OVERHEAD			0
741	WELL CONTROL INSURANCE	4,700		4,700
802	GENERAL LABOR			0
831	VEHICLE EXPENSE			0
861	DISTRICT & FIELD OFFICE EXPENSE	6,000	2,000	8,000
895	TAXES			0
TOTAL INTANGIBLES		\$361,000	\$224,800	\$585,800

OIL _____

DEVON ENERGY CORPORATION

TEL 405-235-3611

GAS X _____
DATE _____

20 N. BROADWAY, SUITE 1500, OKLAHOMA CITY, OK 73102

FAX 405-552-4550

11/12/99

AUTHORIZATION FOR EXPENDITURE DRILLING/COMPLETION COST ESTIMATE

DRILLING X _____
RECOMPLETION _____

AFE No.:

County or Parish, State: Eddy County, NM

Lease Name - Well #: Logan Draw 30 "G" Fed. Com. #1

Field: Logan Draw (Morrow)

Legal Description: 1980' FNL & 1650' FEL,
Sec. 30, T17S, R27E.

Prepared By: W.M. Frank

AUTHORITY REQUESTED FOR: Monies to drill and complete a 9,400' Morrow well.

Account Number	Tangible Costs Description	Dry Hole Costs	Completion Costs	Total Costs
207				
WELL EQUIPMENT				
895	TAXES			0
901	SURFACE CASING			0
902	INTERMEDIATE CASING	22,400		22,400
903	PRODUCTION CASING		79,900	79,900
911	LINER			0
915	TUBING		31,434	31,434
921	SUCKER RODS			0
925	SUBSURFACE EQUIPMENT			0
931	WELLHEAD VALVES & EQUIPMENT	1,500	10,000	11,500
935	ARTIFICIAL LIFT EQUIPMENT			0
941	TANKS		10,000	10,000
945	TREATING VESSELS		12,000	12,000
951	COMPRESSORS			0
955	WATER DISPOSAL PUMPS			0
961	LINE PIPE, METERS & FITTINGS		2,500	2,500
985	OTHER TANGIBLE EQUIPMENT - SUBSURFACE		5,000	5,000
986	OTHER TANGIBLE EQUIPMENT - SURFACE			0
990	MATERIAL TRANSFER - SUBSURFACE			0
991	MATERIAL TRANSFER - SURFACE			0
TOTAL TANGIBLES		\$23,900	\$150,834	\$174,734
Contingencies		\$36,100	\$21,480	57,580

TOTAL ESTIMATED COSTS	\$421,000	\$397,114	\$818,114
------------------------------	------------------	------------------	------------------

Note: Costs and participations are generally estimates. Billings will be based on actual expenditures.

WORKING INTEREST OWNER APPROVAL

Company Name: _____

Signature: _____

Title: _____

Date: _____

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

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

November 11 , 19 99 ,

OPERATOR DEVON ENERGY CORPORATION (NEVADA)

CONTRACT AREA N/2 Section 30-T17S-R27E

COUNTY ~~OR PARISH~~ OF EDDY STATE OF NEW MEXICO

COPYRIGHT 1982 - ALL RIGHTS RESERVED
AMERICAN ASSOCIATION OF PETROLEUM
LANDMEN, 4100 FOSSIL CREEK BLVD., FORT
WORTH, TEXAS, 76137-2791, APPROVED FORM.
A.A.P.L. NO. 610 - 1982 REVISED

TABLE OF CONTENTS

<u>Article</u>	<u>Title</u>	<u>Page</u>
I.	<u>DEFINITIONS</u>	1
II.	<u>EXHIBITS</u>	1
III.	<u>INTERESTS OF PARTIES</u>	2
	A. OIL AND GAS INTERESTS.....	2
	B. INTERESTS OF PARTIES IN COSTS AND PRODUCTION.....	2
	C. EXCESS ROYALTIES, OVERRIDING ROYALTIES AND OTHER PAYMENTS.....	2
	D. SUBSEQUENTLY CREATED INTERESTS.....	2
IV.	<u>TITLES</u>	2
	A. TITLE EXAMINATION.....	2-3
	B. LOSS OF TITLE.....	3
	1. Failure of Title.....	3
	2. Loss by Non-Payment or Erroneous Payment of Amount Due.....	3
	3. Other Losses.....	3
V.	<u>OPERATOR</u>	4
	A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR.....	4
	B. RESIGNATION OR REMOVAL OF OPERATOR AND SELECTION OF SUCCESSOR.....	4
	1. Resignation or Removal of Operator.....	4
	2. Selection of Successor Operator.....	4
	C. EMPLOYEES.....	4
	D. DRILLING CONTRACTS.....	4
VI.	<u>DRILLING AND DEVELOPMENT</u>	4
	A. INITIAL WELL.....	4-5
	B. SUBSEQUENT OPERATIONS.....	5
	1. Proposed Operations.....	5
	2. Operations by Less than All Parties.....	5-6-7
	3. Stand-By Time.....	7
	4. Sidetracking.....	7
	C. TAKING PRODUCTION IN KIND.....	7
	D. ACCESS TO CONTRACT AREA AND INFORMATION.....	8
	E. ABANDONMENT OF WELLS.....	8
	1. Abandonment of Dry Holes.....	8
	2. Abandonment of Wells that have Produced.....	8-9
	3. Abandonment of Non-Consent Operations.....	9
VII.	<u>EXPENDITURES AND LIABILITY OF PARTIES</u>	9
	A. LIABILITY OF PARTIES.....	9
	B. LIENS AND PAYMENT DEFAULTS.....	9
	C. PAYMENTS AND ACCOUNTING.....	9
	D. LIMITATION OF EXPENDITURES.....	9-10
	1. Drill or Deepen.....	9-10
	2. Rework or Plug Back.....	10
	3. Other Operations.....	10
	E. RENTALS, SHUT-IN WELL PAYMENTS AND MINIMUM ROYALTIES.....	10
	F. TAXES.....	10
	G. INSURANCE.....	11
VIII.	<u>ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST</u>	11
	A. SURRENDER OF LEASES.....	11
	B. RENEWAL OR EXTENSION OF LEASES.....	11
	C. ACREAGE OR CASH CONTRIBUTIONS.....	11-12
	D. MAINTENANCE OF UNIFORM INTEREST.....	12
	E. WAIVER OF RIGHTS TO PARTITION.....	12
	F. PREFERENTIAL RIGHT TO PURCHASE.....	12
IX.	<u>INTERNAL REVENUE CODE ELECTION</u>	12
X.	<u>CLAIMS AND LAWSUITS</u>	13
XI.	<u>FORCE MAJEURE</u>	13
XII.	<u>NOTICES</u>	13
XIII.	<u>TERM OF AGREEMENT</u>	13
XIV.	<u>COMPLIANCE WITH LAWS AND REGULATIONS</u>	14
	A. LAWS, REGULATIONS AND ORDERS.....	14
	B. GOVERNING LAW.....	14
	C. REGULATORY AGENCIES.....	14
XV.	<u>OTHER PROVISIONS</u>	14
XVI.	<u>MISCELLANEOUS</u>	15

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

OPERATING AGREEMENT

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61

THIS AGREEMENT, entered into by and between Devon Energy Corporation (Nevada), hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators".

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

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

- A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.
- B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.
- C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.
- D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".
- E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.
- F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.
- G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.
- H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

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

ARTICLE II.
EXHIBITS

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

- A. Exhibit "A", shall include the following information:
 - (1) Identification of lands subject to this agreement,
 - (2) Restrictions, if any, as to depths, formations, or substances,
 - (3) Percentages or fractional interests of parties to this agreement,
 - ~~(4) Oil and gas leases and/or oil and gas interests subject to this agreement,~~
 - (5) Addresses of parties for notice purposes.
 - B. Exhibit "B", Form of Lease.
 - C. Exhibit "C", Accounting Procedure.
 - D. Exhibit "D", Insurance.
 - E. Exhibit "E", Gas Balancing Agreement.
 - F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.
 - G. Exhibit "G", Tax Partnership.
- If any provision of any exhibit, except Exhibits "E" and "G", is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.
- H. Exhibit "H", Memorandum of Operating Agreement (And Mortgage and Financing Statement).

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

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 1/8th 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

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

6
7 Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection
8 with leases or oil and gas interests contributed by such party. Operator shall be responsible for the preparation and recording of pooling
9 designations or declarations as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling orders.
10 This shall not prevent any party from appearing on its own behalf at any such hearing.

11
12 No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above
13 provided, and (2) the title has been approved by the examining attorney or title has been accepted by ~~all of the parties who are to par-~~
14 ~~ticipate in the drilling of the well.~~ Operator.

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

17
18 1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a
19 reduction of interest from that shown on Exhibit "A", the party contributing the affected lease or interest shall have ninety (90) days
20 from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisi-
21 tion will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining oil
22 and gas leases and interests: and,

23 (a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be
24 entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid or incurred,
25 but there shall be no additional liability on its part to the other parties hereto by reason of such title failure;

26 (b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has
27 been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has oc-
28 curred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract
29 Area by the amount of the interest lost;

30 (c) If the proportionate interest of the other parties hereto in any producing well theretofore drilled on the Contract Area is
31 increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such in-
32 terest (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such
33 well;

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

37 (e) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be
38 borne by the party or parties whose title failed in the same proportions in which they shared in such prior production; and,

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

42
43 2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well
44 payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates,
45 there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required
46 payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment,
47 which acquisition will not be subject to Article VIII.B., the interests of the parties shall be revised on an acreage basis, effective as of the
48 date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in
49 the Contract Area on account of ownership of the lease or interest which has terminated. In the event the party who failed to make the
50 required payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to
51 the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it
52 shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled
53 or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

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

56 (b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an acreage basis, of that portion of
57 oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which, in the absence of such lease
58 termination, would be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said
59 portion of the oil and gas to be contributed by the other parties in proportion to their respective interest; and,

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

62
63 3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall be joint losses
64 and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of
65 the Contract Area.

ARTICLE V.
OPERATOR

1
2
3

4 A. Designation and Responsibilities of Operator:

5

6 DEVON ENERGY CORPORATION (NEVADA) shall be the
7 Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and
8 required by, and within the limits of this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall
9 have no liability as Operator to the other parties for losses sustained or liabilities incurred, except such as may result from gross
10 negligence or willful misconduct.

11

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

13

14 1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators.
15 If Operator terminates its legal existence, no longer owns an interest hereunder in the Contract Area, or is no longer capable of serving as
16 Operator, Operator shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. Operator
17 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
18 affirmative vote of two (2) or more Non-Operators owning a majority interest based on ownership as shown on Exhibit "A" remaining
19 after excluding the voting interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the
20 first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action
21 by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier
22 date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a cor-
23 porate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not
24 be the basis for removal of Operator.

25

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

32

33 C. Employees:

34

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

37

38 D. Drilling Contracts:

39

40 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
41 desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing
42 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
43 such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of in-
44 dependent contractors who are doing work of a similar nature.

45

46

47

48

49

ARTICLE VI.
DRILLING AND DEVELOPMENT

50

51
52 A. Initial Well:

53

54 On or before the 1st day of December, 19 99, Operator shall commence the drilling of a well for
55 oil and gas at the following location: 1,980' FNL and 1,650' FEL of Section 30, T-17S, R-27E, Eddy County, New Mexico

56

57

58

59

60 and shall thereafter continue the drilling of the well with due diligence to a depth of 9,400' or sufficient in Operator's opinion to test the
61 Morrow formation

62

63

64

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

67

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

ARTICLE VI
continued

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

3

4

5

6 B. Subsequent Operations:

7

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

18

19

20

21 If all parties elect to participate in such a proposed operation, Operator shall, within ninety (90) days after expiration of the notice
22 period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on loca-
23 tion, as the case may be), actually commence the proposed operation and complete it with due diligence at the risk and expense of all par-
24 ties hereto; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties,
25 for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary to obtain
26 permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title ex-
27 amination or curative matter required for title approval or acceptance. Notwithstanding the force majeure provisions of Article XI, if the
28 actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein) and
29 if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accor-
30 dance with the provisions hereof as if no prior proposal had been made.

31

32

33

34 2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VII.D.1. (Option
35 No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties
36 giving the notice and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of
37 the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is
38 on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all
39 work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is
40 a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed opera-
41 tion for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Con-
42 senting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and con-
43 ditions of this agreement.

44

45

46

47 If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable
48 notice period, shall advise the Consenting Parties of the total interest of the parties approving such operation and its recommendation as
49 to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours
50 (exclusive of Saturday, Sunday and legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit par-
51 ticipation to such party's interest as shown on Exhibit "A" or (b) carry its proportionate part of Non-Consenting Parties' interests, and
52 failure to advise the proposing party shall be deemed an election under (a). In the event a drilling rig is on location, the time permitted for
53 such a response shall not exceed a total of forty-eight (48) hours (inclusive of Saturday, Sunday and legal holidays). The proposing party,
54 at its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.

55

56

57

58 The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have
59 elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such
60 operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties.
61 If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well and restore the surface location at their
62 sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a pro-
63 ducer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk.

ARTICLE VI
continued

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

9

10

11

12 (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

18

19

20

21 (b) 300 % of that portion of the costs and expenses of drilling, reworking, deepening, plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and 300 % of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

25

26

27

28 An election not to participate in the drilling or the deepening of a well shall be deemed an election not to participate in any reworking or plugging back operation proposed in such a well, or portion thereof, to which the initial Non-Consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment account. Any such reworking or plugging back operation conducted during the recoupment period shall be deemed part of the cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties one hundred percent (100%) of that portion of the costs of the reworking or plugging back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If such a reworking or plugging back operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting Parties in said well.

36

37

38

39 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.

43

44

45

46 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.

50

51

52

53 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

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

7
8
9

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

13
14
15

16 The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A.
17 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
18 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 pro-
19 duction, ceases to produce in paying quantities.

20
21
22

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

32
33
34

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

41
42
43

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

46
47
48

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

52
53
54

55 In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period
56 shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays; provided, however, any party may request and
57 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
58 incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, stand
59 by costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing par-
60 ty'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 in-
61 stances the response period to a proposal for sidetracking shall be limited to thirty (30) days.

62
63
64

65 **C. TAKING PRODUCTION IN KIND:**

66
67
68
69
70

Each party shall ^{have the right to} take in kind or separately / ^{market} ~~dispose of~~ its proportionate share of all oil and gas produced from the Contract Area,
exclusive of / ^(a) production which may be used in development and producing operations and in preparing the treating oil and gas for
marketing purposes and / ^(b) production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by any
party of its proportionate share of the production shall be borne by such party. Any party taking its share of production in kind shall be

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

ARTICLE VI

continued

1 required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

2

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

6

7 In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of
8 the oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not
9 the obligation, to purchase such oil or sell it to others at any time and from time to time, for the account of the non-taking party at the
10 best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to the right of the
11 owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil not previously
12 delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil shall be only for such reasonable periods of
13 time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess
14 of one (1) year.

15

16 In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines and/or
17 deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total gas sales to
18 be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with any gas balancing
19 agreement between the parties hereto, whether such an agreement is attached as Exhibit "E", or is a separate agreement.

20

21 D. Access to Contract Area and Information:

22

23 Each party shall have access to the Contract Area at all reasonable times, at its sole cost and risk to inspect or observe operations,
24 and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books
25 and records relating thereto. Operator, upon request, shall furnish each of the other parties with copies of all forms or reports filed with
26 governmental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of
27 each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of
28 gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that re-
29 quests the Information.

30

31 E. Abandonment of Wells:

32

33 1. Abandonment of Dry Holes: Except for any well drilled or deepened pursuant to Article VI.B.2., any well which has been
34 drilled or deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned
35 without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply
36 within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of notice of the proposal to plug and abandon
37 such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in
38 accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or deepening
39 such well. Any party who objects to plugging and abandoning such well shall have the right to take over the well and conduct further
40 operations in search of oil and/or gas subject to the provisions of Article VI.B.

41

42 2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted
43 hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a
44 producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall
45 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within
46 thirty (30) days after receipt of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well,
47 those wishing to continue its operation from the interval(s) of the formation(s) then open to production shall tender to each of the other
48 parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of
49 Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign
50 the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and
51 material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the in-
52 terval or intervals of the formation or formations then open to production. ~~If the interest of the abandoning party is or includes an oil and~~
53 ~~gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or in-~~
54 ~~tervals of the formation or formations then open to production, for a term of one (1) year and so long thereafter as oil and/or gas is pro-~~
55 ~~duced from the interval or intervals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit~~

56

57

ARTICLE VI
continued

1 "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the
2 assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentage of participation in the
3 Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of
4 interests in the remaining portion of the Contract Area.

5
6 Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from
7 the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon re-
8 quest, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges con-
9 templated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned
10 well. Upon proposed abandonment of the producing interval(s) assigned or leased, the assignor or lessor shall then have the option to
11 repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the pro-
12 visions hereof.

13
14 3. Abandonment of Non-Consent Operations: The provisions of Article VI.E.1. or VI.E.2 above shall be applicable as between
15 Consenting Parties in the event of the proposed abandonment of any well excepted from said Articles; provided, however, no well shall be
16 permanently plugged and abandoned unless and until all parties having the right to conduct further operations therein have been notified
17 of the proposed abandonment and afforded the opportunity to elect to take over the well in accordance with the provisions of this Article
18 VI.E.

19
20 ARTICLE VII.
21 EXPENDITURES AND LIABILITY OF PARTIES
22

23 A. Liability of Parties:

24
25 The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and
26 shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted
27 among the parties in Article VII.B. are given to secure only the debts of each severally. It is not the intention of the parties to create, nor
28 shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

29
30 B. Liens and Payment Defaults:

31
32 Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share
33 of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon
34 at the rate provided in Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the
35 state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the ob-
36 taining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien
37 rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share
38 of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from
39 the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest, has been paid. Each
40 purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien
41 and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

42
43 If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by
44 Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that
45 the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain
46 reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

47
48 C. Payments and Accounting:

49
50 Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development
51 and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective propor-
52 tionate shares upon the expense basis provided in Exhibit "C". Operator shall keep an accurate record of the joint account hereunder,
53 showing expenses incurred and charges and credits made and received.

54
55 Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance
56 of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding
57 month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together
58 with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted
59 on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within
60 fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount
61 due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual ex-
62 pense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

63
64 D. Limitation of Expenditures:

65
66 1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened
67 pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the drilling or deepening shall include:

ARTICLE VII
continued

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

3

4 Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its
5 authorized depth, and all tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice
6 to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight
7 (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion at-
8 tempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, in-
9 cluding necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall
10 constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties,
11 elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging
12 back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less
13 than all parties.

14

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

19

20 3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated
21 to require an expenditure in excess of Thirty Thousand and No/100 Dollars (\$ 30,000.00)
22 except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been
23 previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden
24 emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required
25 to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other
26 parties. If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator so requesting
27 an information copy thereof for any single project costing in excess of Twenty Thousand and No/100
28 Dollars (\$ 20,000.00) but less than the amount first set forth above in this paragraph.

29

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

31

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

39

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

45

46 F. Taxes:

47

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

59

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

66

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

69

70

ARTICLE VII
continued

1 G. Insurance:

2

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

9

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

12

13 ARTICLE VIII.

14 ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

15

16 A. Surrender of Leases:

17

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

20

21 However, should any party desire to surrender its interest in any lease or in any portion thereof, and the other parties do not
22 agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in
23 such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production
24 thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an oil and gas in-
25 terest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering
26 such oil and gas interest for a term of one (1) year and so long thereafter as oil and/or gas is produced from the land covered thereby, such
27 lease to be on the form attached hereto as Exhibit "B". Upon such assignment or lease, the assigning party shall be relieved from all
28 obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well
29 attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and pro-
30 duction other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the
31 party assignor or lessor the reasonable salvage value of the latter's interest in any wells and equipment attributable to the assigned or leas-
32 ed acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of
33 salvaging and the estimated cost of plugging and abandoning. If the assignment or lease is in favor of more than one party, the interest
34 shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties.

35

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

40

41 B. Renewal or Extension of Leases:

42

43 If any party secures a renewal of any oil and gas lease subject to this agreement, all other parties shall be notified promptly, and
44 shall have the right for a period of thirty (30) days following receipt of such notice in which to elect to participate in the ownership of the
45 renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper pro-
46 portionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the
47 interests held at that time by the parties in the Contract Area.

48

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

53

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

56

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

62

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

64

65 ~~C. Acreage or Cash Contributions:~~

66

67 ~~While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other~~
68 ~~operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be~~
69 ~~applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the con-~~
70 ~~tribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions~~

ARTICLE VIII
continued

~~1 said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the extent possible, be
2 governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any acreage or cash contributions
3 it may obtain in support of any well or any other operation on the Contract Area. The above provisions shall also be applicable to op-
4 tional rights to earn acreage outside the Contract Area which are in support of a well drilled inside the Contract Area.~~

5

~~6 If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such
7 consideration shall not be deemed a contribution as contemplated in this Article VIII.C.~~

8

9 **D. Maintenance of Uniform Interests:**

10

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

14

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

16

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

18

19 Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement
20 and shall be made without prejudice to the right of the other parties.

21

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

28

29 **E. Waiver of Rights to Partition:**

30

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

34

35 **F. Preferential Right to Purchase:**

36

~~37 Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract
38 Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the
39 name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms
40 of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase
41 on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchas-
42 ing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing par-
43 ties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to
44 dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent com-
45 pany or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

46

47 **ARTICLE IX.**48 **INTERNAL REVENUE CODE ELECTION**

49

50 This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association
51 for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several
52 and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax
53 purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded
54 from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1986, as per-
55 mitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to ex-
56 ecute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the
57 United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements,
58 and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further
59 evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the
60 Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other
61 action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract
62 Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1,
63 Subtitle "A", of the Internal Revenue Code of 1986, under which an election similar to that provided by Section 761 of the Code is per-
64 mitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing elec-
65 tion, each such party states that the income derived by such party from operations hereunder can be adequately determined without the
66 computation of partnership taxable income.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65
66
67
68
69
70

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 Thousand and No/100 Dollars (\$ 20,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI.
FORCE MAJEURE

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

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

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

ARTICLE XII.
NOTICES

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

ARTICLE XIII.
TERM OF AGREEMENT

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

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

Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of ninety (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 ninety (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.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59

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 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

Notwithstanding anything contained herein to the contrary:

A. All costs and expenses incurred by Operator for the benefit of the Drilling Parties in securing approval and authority for pooling or unitization, in obtaining regulatory approvals and orders concerning location and spacing or for certifying new gas, including the costs and expenses incurred in conducting hearings before regulatory or governmental agencies, 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".

B. If a well drilled under the terms of this Agreement is completed in a formation requiring 320 acre spacing, the parties hereto agree that they will each bear their respective percentages of the usual 1/8th royalty interest. If a lease contributed by a party is burdened by more than the usual 1/8th royalty, the additional burden, whether it be royalty, overriding royalty or other type of burden, shall be borne entirely by the party that contributed the burdened lease. If a well drilled under the terms of this Agreement is completed in a formation requiring less than 320 acre spacing, the parties hereto agree that they will each bear their respective percentages of all lease burdens on all leases included within the spacing unit for the well. Any lease burdens created subsequent to the date of this Agreement shall be borne entirely by the party creating the same.

STATE OF OKLAHOMA)
) ss:
COUNTY OF OKLAHOMA)

This instrument was acknowledged before me on _____, 1999, by R. D. Clark, Vice President of **DEVON ENERGY CORPORATION (NEVADA)**, a Nevada corporation, on behalf of said corporation.

My commission expires:

Notary Public

STATE OF)
) ss:
COUNTY OF)

This instrument was acknowledged before me on _____, 1999, by _____, _____ for **NEARBURG PRODUCING COMPANY**, a _____ corporation, on behalf of said corporation.

My commission expires:

Notary Public

EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated November 11, 1999, between Devon Energy Corporation (Nevada), as Operator and Nearburg Producing Company, as Non-Operator.

I. LANDS SUBJECT TO THIS AGREEMENT:

N/2 of Section 30-T17S-R27E, Eddy County, New Mexico,
containing 319.57 acres, more or less

II. RESTRICTIONS AS TO DEPTHS OR FORMATIONS:

This Operating Agreement is limited to the interval between the surface of the earth to 100' below the base of the Morrow formation.

III. PARTIES AND PERCENTAGE INTEREST:

Devon Energy Corporation (Nevada)	50.006728%	
Nearburg Producing Company	<u>49.932744%</u>	
Total	100.000000%	49.932742

IV. ADDRESSES OF PARTIES TO THIS AGREEMENT:

Devon Energy Corporation (Nevada)
20 North Broadway, Suite 1500
Oklahoma City, Oklahoma 73102-8260

Nearburg Producing Company
3300 N. "A" Street, Building 2, Suite 120
Midland, Texas 79705

*** End of Exhibit "A" ***

1 5. Audits

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

13
14 B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

15
16 6. Approval By Non-Operators

17
18 Where an approval or other agreement of the Parties or Non-Operators is expressly required under other sections of this
19 Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no
20 contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the
21 agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

22
23
24 II. DIRECT CHARGES

25
26 Operator shall charge the Joint Account with the following items:

27
28 1. Ecological and Environmental

29
30 Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy
31 environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or
32 archaeological nature and pollution control procedures as required by applicable laws and regulations.

33
34 2. Rentals and Royalties

35
36 Lease rentals and royalties paid by Operator for the Joint Operations.

37
38 3. Labor

39
40 A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of
41 Joint Operations.

42
43 (2) Salaries of First level Supervisors in the field.

44
45 (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are
46 excluded from the overhead rates.

47
48 (4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly
49 employed in the operation or the Joint Property if such charges are excluded from the overhead rates.

50
51 B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to
52 employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.
53 Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment"
54 on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If
55 percentage assessment is used, the rate shall be based on the Operator's cost experience.

56
57 C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are
58 applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.

59
60 D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under
61 Paragraphs 3A and 3B of this Section II.

62
63 4. Employee Benefits

64
65 Operator's current costs or established plans for employees' group life insurance, hospitalization, pension, retirement,
66 stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the
67 Joint Account under Paragraphs 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent
68 most recently recommended by the Council of Petroleum Accountants Societies.

69
70

1 5. **Material**

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

7
8 6. **Transportation**

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

11
12 A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be
13 made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like
14 material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.

15
16 B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint
17 Account for a distance greater than the distance to the nearest reliable supply store where like material is normally
18 available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be
19 made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the
20 Parties.

21
22 C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is
23 available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the
24 amount most recently recommended by the Council of Petroleum Accountants Societies.

25
26 7. **Services**

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

33
34 8. **Equipment and Facilities Furnished By Operator**

35
36 A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate
37 with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating
38 expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to
39 exceed ten percent (10%) per annum. Such rates shall not exceed average commercial
40 rates currently prevailing in the immediate area of the Joint Property.

41
42 B. In lieu of charges in Paragraph 8A above, Operator may elect to use average commercial rates prevailing in the
43 immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates
44 published by the Petroleum Motor Transport Association.

45
46 9. **Damages and Losses to Joint Property**

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

52
53 10. **Legal Expense**

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

61
62 11. **Taxes**

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

1 12. Insurance

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

7
8 13. Abandonment and Reclamation

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

12
13 14. Communications

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

18
19 15. Other Expenditures

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

24
25
26 III. OVERHEAD

27
28 1. Overhead - Drilling and Producing Operations

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

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

35
36 Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and
37 salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under
38 Paragraph 3A, Section II. The cost and expense of services from outside sources in connection with matters of
39 taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in
40 the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are
41 agreed to by the Parties as a direct charge to the Joint Account.

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

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

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

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

55
56 A. Overhead - Fixed Rate Basis

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

59
60 Drilling Well Rate \$ 6,000.00
61 (Prorated for less than a full month)

62
63 Producing Well Rate \$ 600.00

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

66
67 (a) Drilling Well Rate

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

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

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

9
10 (b) Producing Well Rates

11
12 (1) An active well either produced or injected into for any portion of the month shall be considered as
13 a one-well charge for the entire month.

14
15 (2) Each active completion in a multi-completed well in which production is not commingled down
16 hole shall be considered as a one-well charge providing each completion is considered a separate
17 well by the governing regulatory authority.

18
19 (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the
20 production shall be considered as a one-well charge providing the gas well is directly connected to
21 a permanent sales outlet.

22
23 (4) A one-well charge shall be made for the month in which plugging and abandonment operations
24 are completed on any well. This one-well charge shall be made whether or not the well has
25 produced except when drilling well rate applies.

26
27 (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease
28 allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

- 29
30 (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the
31 agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying
32 the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude
33 Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as
34 shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published
35 by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as
36 published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or
37 minus the computed adjustment.

38
39 ~~B. Overhead - Percentage Basis~~

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

42
43 ~~(a) Development~~

44
45 ~~Percent () of the cost of development of the Joint Property exclusive of costs~~
46 ~~provided under Paragraph 10 of Section II and all salvage credits.~~

47
48 ~~(b) Operating~~

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

- 54
55 ~~(2) Application of Overhead - Percentage Basis shall be as follows:~~

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

65
66 2. Overhead - Major Construction

67
68 To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of
69 fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the
70 Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint

1 Account for overhead based on the following rates for any Major Construction project in excess of \$ 25,000.00

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

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

13 **3. Catastrophe Overhead**

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

- 20
21 A. 5 % of total costs through \$100,000; plus
22
23 B. 3 % of total costs in excess of \$100,000 but less than \$1,000,000; plus
24
25 C. 2 % of total costs in excess of \$1,000,000.
26

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

30 **4. Amendment of Rates**

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

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

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

45 **1. Purchases**

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

50
51 **2. Transfers and Dispositions**

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

55
56 **A. New Material (Condition A)**

57
58 **(1) Tubular Goods Other than Line Pipe**

59
60 (a) Tubular goods, sized 2 3/8 inches OD and larger, except line pipe, shall be priced at Eastern mill
61 published carload base prices effective as of date of movement plus transportation cost using the 80,000
62 pound carload weight basis to the railway receiving point nearest the Joint Property for which
63 published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound
64 or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio
65 and casing from Youngstown, Ohio.
66

67 (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus
68 transportation cost from that mill to the railway receiving point nearest the Joint Property as provided
69 above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 80,000
70

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

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

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

10
11 (2) Line Pipe

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

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

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

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

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

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

39
40 B. Good Used Material (Condition B)

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

43
44 (1) Material moved to the Joint Property

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

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

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

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

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

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

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

61
62 C. Other Used Material

63
64 (1) Condition C

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

70

1 (2) Condition D

2
3 Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose
4 shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material
5 under procedures normally used by Operator without prior approval of Non-Operators.
6

7 (a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe
8 of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be
9 priced at used line pipe prices.
10

11 (b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g.
12 power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe.
13 Upset tubular goods shall be priced on a non upset basis.
14

15 (3) Condition E

16
17 Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under
18 procedures normally utilized by Operator without prior approval of Non-Operators.
19

20 D. Obsolete Material

21
22 Material which is serviceable and usable for its original function but condition and/or value of such Material
23 is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by
24 the Parties. Such price should result in the Joint Account being charged with the value of the service
25 rendered by such Material.
26

27 E. Pricing Conditions

28
29 (1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢)
30 per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs
31 sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year
32 following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in
33 Section III, Paragraph 1.A.(3). Each year, the rate calculated shall be rounded to the nearest cent and
34 shall be the rate in effect until the first day of April next year. Such rate shall be published each year
35 by the Council of Petroleum Accountants Societies.
36

37 (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down
38 price of new Material.
39

40 3. Premium Prices

41
42 Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other
43 unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required
44 Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it
45 to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing
46 Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within
47 ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use
48 and acceptable to Operator.
49

50 4. Warranty of Material Furnished By Operator

51
52 Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint
53 Account until adjustment has been received by Operator from the manufacturers or their agents.
54
55

56 V. INVENTORIES

57
58 The Operator shall maintain detailed records of Controllable Material.
59

60 1. Periodic Inventories, Notice and Representation

61
62 At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice
63 of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that
64 Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an
65 inventory shall bind Non-Operators to accept the inventory taken by Operator.
66

67 2. Reconciliation and Adjustment of Inventories

68
69 Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six
70 months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for

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

2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65
66
67
68
69
70

3. **Special Inventories**

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

4. **Expense of Conducting Inventories**

- A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.
- B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

EXHIBIT " C "

1 Attached to and made a part of that certain Joint Operating Agreement dated November 11, 1999, by and between Devon
2 Energy Corporation (Nevada), as Operator and Nearburg Producing Company, as Non-Operator covering the N/2 of
3 Section 30-T17S-R27E, Eddy County, New Mexico

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council or Petroleum Accountants Societies.

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation within fifteen (15) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Bank of Dallas, N.A.

on the first day of the month in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

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

COPYRIGHT © 1985 by the Council of Petroleum Accountants Societies.

EXHIBIT "D"

Attached to and made a part of that certain Joint Operating Agreement dated November 11, 1999, by and between Devon Energy Corporation (Nevada), as Operator, and Nearburg Producing Company, as Non-Operator.

The Operator shall carry insurance for the benefit of the joint account covering Operator's operations upon the Unit Area subject to the Operating Agreement to which this Exhibit "D" is attached as follows:

- a) Workmen's compensation insurance: In compliance with the workmen's compensation laws of the State of Texas, including employer's liability.
- b) Comprehensive general liability insurance, excluding products: A limit of \$1,000,000.00 each occurrence for bodily injuries, \$2,000,000.00 aggregate. Property damage liability limit being \$1,000,000.00 each occurrence, \$2,000,000.00 aggregate.
- c) Automobile public liability and property damage insurance. Limits of bodily injury \$1,000,000.00 each person; \$1,000,000.00 each occurrence; property damage \$1,000,000.00 each occurrence.

The Operator shall require its contracts and subcontractors working or performing services upon the Unit Area subject to the Operating Agreement to which this Exhibit "D" is attached to comply with the workmen's compensation laws of the State of Texas and to carry such other insurance and in such amounts as the Operator shall deem necessary.

During drilling operations, Operator shall also carry Operator's Extra Expense Indemnity insurance during drilling and completion including coverage for well seepage, pollution, cleanup and containment and evacuation expenses. The limit of such insurance is \$10,000,000.00 any one occurrence. Non-Operators shall elect, in writing prior to spudding, to be covered under such policy or shall furnish Operator with evidence that it carries for its own account such insurance with minimum limits corresponding to those provided for in Operator's policy. At all times while operations are being conducted under this agreement, Operator, or the designated Operator for the account of the Non-Operators, shall maintain insurance in accordance with this Exhibit. If a Non-Operator elects to be an additional insured on Operator's policy, it shall bear its proportionate part of the expense of such policy.

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

4
5
6
7
8
9
10
11
12
13
14
15

EXHIBIT "E"
GAS BALANCING AGREEMENT ("AGREEMENT")
ATTACHED TO AND MADE PART OF THAT CERTAIN
OPERATING AGREEMENT DATED November 11, 1999
BY AND BETWEEN Devon Energy Corporation (Nevada), as Operator
AND Nearburg Producing Company, as Non-Operator ("OPERATING AGREEMENT")
RELATING TO THE N/2 Section 30-T17S-R27E AREA,
Eddy COUNTY/~~PARRISH~~, STATE OF New Mexico

1. DEFINITIONS

The following definitions shall apply to this Agreement:

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

2. BALANCING AREA

2.1 If this Agreement covers more than one Balancing Area, it shall be applied as if each Balancing Area were covered by separate but identical agreements. All balancing hereunder shall be on the basis of Gas taken from the Balancing Area measured in (Alternative 1) Mcfs or (Alternative 2) MMBtus.

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

3. RIGHT OF PARTIES TO TAKE GAS

3.1 Each Party desiring to take Gas will notify the Operator, or cause the Operator to be notified, of the volumes nominated, the name of the transporting pipeline and the pipeline or other identifying description, or other identifying description relating to such delivery, sufficiently in advance for the Operator, acting with reasonable diligence, to meet all nomination and other

in accordance with each Parties' interest in the well requirements. Operator is authorized to deliver the volumes so nominated and confirmed if confirmation is required to the transporting pipeline in accordance with the terms of this Agreement, provided, however, the Well is capable of delivering the nominated volume for the applicable Party or Parties to the extent that such production is required to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production.

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

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

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

3.6 In the event that a Party fails to make arrangements to take its Full Share of Current Production required to be produced to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production, the Operator may sell, if it so elects, any part of such Party's Full Share of Current Production that such Party fails to take for the account of such Party and render to such Party, on a current basis, the full proceeds of the sale, less any reasonable marketing, compression, treating, gathering or transportation costs incurred directly in connection with the sale of such Full Share of Current Production. In making the sale contemplated herein, the Operator shall be obligated only to obtain such price and conditions for the sale as are reasonable under the circumstances and shall not be obligated to share any of its markets. Any such sale by Operator under the terms hereof 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 year. Notwithstanding the provisions of Article 3.4 hereof, Gas sold by Operator for a Party under the provisions hereof shall be deemed to be Gas taken for the account of such Party.

4. IN-KIND BALANCING

4.1 Effective the first day of any calendar month following/at least reasonable notice thirty (30) days' prior written notice to the Operator, if required by Operator, any Underproduced Party may begin taking, in addition to its Full Share of Current Production and any Makeup Gas taken pursuant to Section 3.3 of this Agreement, a share of current production determined by multiplying thirty-five percent (35 %) of the Full Shares of Current Production of all Overproduced Parties by a fraction, the numerator of which is the Percentage Interest of such Underproduced Party and the denominator of which is the total of the Percentage Interests of all Underproduced Parties desiring to take Makeup Gas. In no event will an Overproduced Party be required to provide more than thirty-five percent (35 %) of its Full Share of Current Production for Makeup Gas. The Operator will promptly notify all Overproduced Parties of the election of an Underproduced Party to begin taking Makeup Gas.

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

4.2 (Optional - Seasonal Limitation on Makeup - Option 2) Notwithstanding the provisions of Section 4.1, no Overproduced Party will be required to provide more than _____ percent (_____%) of its Full Share of Current Production for Makeup Gas during the Winter Period.

4.3 (Optional) Notwithstanding any other provision of this Agreement, at such time and for so long as Operator, or (insofar as concerns production by the Operator) any Underproduced Party, determines in good faith that an Overproduced Party has produced all of its share of the ultimately recoverable reserves in the Balancing Area, such Overproduced Party may be required to make available for Makeup Gas, upon the demand of the Operator or any Underproduced Party, up to one hundred percent (100 %) of such Overproduced Party's Full Share of Current Production.

5. STATEMENT OF GAS BALANCES

5.1 The Operator will maintain appropriate accounting on a monthly and cumulative basis of the volumes of Gas that each Party is entitled to receive and the volumes of Gas actually taken or sold for each Party's account. Within ~~sixty (60)~~ thirty (30) days after the month of production, the Operator will furnish a statement for such month showing (1) each Party's Full Share of Current Production, (2) the total volume of Gas actually taken or sold for each Party's account, (3) the difference between the volume taken by each Party and that Party's Full Share of Current Production, (4) the Overproduction or Underproduction of each Party, and (5) other data as recommended by the provisions of the Council of Petroleum Accountants Societies Bulletin No. 24, as amended or supplemented hereafter. Each Party taking Gas will promptly provide to the Operator any data required by the Operator for preparation of the statements required hereunder.

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

6. PAYMENTS ON PRODUCTION

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

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

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

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

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

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

16 7. CASH SETTLEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

30 8. TESTING

31 Notwithstanding any provision of this Agreement to the contrary, any Party shall have the right, from time to time, to
32 produce and take up to one hundred percent (100%) of a well's entire Gas stream to meet the reasonable deliverability test(s)
33 required by such Party's Gas purchaser, and the right to take any Makeup Gas shall be subordinate to the right of any Party to
34 conduct such tests; provided, however, that such tests shall be conducted in accordance with prudent operating practices only
35 after thirty (30) days' prior written notice to the Operator and shall last no longer than
36 seven (7) days including prior shut-in time.

37 9. OPERATING COSTS

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

42 10. LIQUIDS

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

45 11. AUDIT RIGHTS

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

58 12. MISCELLANEOUS

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

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

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

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

but failed to timely pay
the Underproduced Party.

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

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

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

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

18 12.8 If contemporaneously with this Agreement becoming effective, or thereafter, any Party requests that any other Party
 19 execute an appropriate memorandum or notice of this Agreement in order to give third parties notice of record of same and
 20 submits same for execution in recordable form, such memorandum or notice shall be duly executed by the Party to which such
 21 request is made and delivered promptly thereafter to the Party making the request. Upon receipt, the Party making the request
 22 shall cause the memorandum or notice to be duly recorded in the appropriate real property or other records affecting the
 23 Balancing Area. See 14. 3

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

29 **13. ASSIGNMENT AND RIGHTS UPON ASSIGNMENT**

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

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

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

60 **14. OTHER PROVISIONS**

61 See attachment.
 62

14. OTHER PROVISIONS

- 14.1 Any Underproduced Party can require cash settlement from the Overproduced Parties in January of each even numbered year by providing written notice to the Operator. Section 7 of this Gas Balancing Agreement shall govern cash settlement under this provision.
- 14.2 In the event any Party feels a Party has produced more than its share of recoverable reserves and wants to prohibit said Party from selling additional gas, the Party shall notify the Operator, including its estimate of remaining recoverable reserves. The Operator shall notify all other Parties. If Parties concur with the recoverable reserve estimate, said Overproduced Party shall be prohibited from selling gas until the Overproduced Party is back in balance. If the Parties cannot agree on the remaining recoverable reserves, the Operator shall retain an independent reservoir engineer, experienced and competent in the geographical areas of the well(s) in question, to compute the reserves. Its decision shall be final. Costs incurred by the independent engineer shall be borne by the Parties hereto.
- 14.3 The Parties to this Agreement agree to abide by Regulation 1.761-2(d)(2) as promulgated by the Internal Revenue Service. Regulation 1.761-2(d)(2) requires that all co-producers of natural gas operating under the same JOA must use the cumulative gas balancing method, as described under this regulation, to report gas balancing for tax purposes. In the event of a conflict between the provisions of this Section and any other provisions of this Agreement, the provisions of this Section shall control.

1 15. COUNTERPARTS

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

7 IN WITNESS WHEREOF, this Agreement shall be effective as of the _____ day of _____,
8 19____.

9
10 ATTEST OR WITNESS:

OPERATOR

11 _____

12 _____ BY: _____

13 _____

14 Type or print name

15 Title _____

16 Date _____

17 Tax ID or S.S. No. _____

18

19 NON-OPERATORS

20 _____

21 _____ BY: _____

22 _____

23 Type or print name

24 Title _____

25 Date _____

26 Tax ID or S.S. No. _____

27

28 _____

29 _____ BY: _____

30 _____

31 Type or print name

32 Title _____

33 Date _____

34 Tax ID or S.S. No. _____

35

36

37

38

39

40

41

42

ACKNOWLEDGMENTS

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31

Note: The following forms of acknowledgment are the short forms approved by the Uniform Law on Notarial Acts. The validity and effect of these forms in any state will depend upon the statutes of that state.

Individual acknowledgment:

State of _____)

) ss.

County of _____)

This instrument was acknowledged before me on _____

_____ by _____

(Seal, if any)

Title (and Rank) _____

My commission expires: _____

Acknowledgment in representative capacity:

State of _____)

) ss.

County of _____)

This instrument was acknowledged before me on _____

_____ by _____ as

_____ of _____

(Seal, if any)

Title (and Rank) _____

My commission expires: _____

EXHIBIT "F"

EQUAL EMPLOYMENT OPPORTUNITY AND NON-DISCRIMINATION SUPPLEMENT

Attached to and made a part of that certain Operating Agreement dated November 11, 1999, by and between Devon Energy Corporation (Nevada), as Operator, and Nearburg Producing Company, as Non-Operator.

The term "Contractor", as used herein shall mean the party designated or acting as contractor, Operator or Seller in the foregoing agreement, of which this supplement is a part.

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

1. The Contractor will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. Contractor will take affirmative action to insure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, sex or national origin. 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 Contractor agrees to post, in conspicuous places available to employees and applications for employment, notices to be provided by the contracting officer, setting forth the provisions of this nondiscrimination clause.
2. The Contractor will, in all solicitations or advertisements for employees placed by or on behalf of the Contractor, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex or national origin.
3. The Contractor will send to each labor union or representative of workers with which he 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 Contractor's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
4. The Contractor 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 Contractor 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 his 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 Contractor's noncompliance with the non-discrimination clauses of this contract or with any of such rules, regulations or orders, this contract may be canceled, terminated or suspended in whole or in part, and the Contractor may be declared ineligible for further Government contracts in accordance with procedures authorized 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 Contractor 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 Contractor will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provision, including sanctions of noncompliance; provided, however, that in the event the Contractor becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Contractor may request the United States to enter into such litigation to protect the interests of the United States.

Contractor 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, 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 thereunder. Contractor further acknowledges that it 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 the other party or parties to the foregoing agreement with a copy of such program if they so request.

Contractor certifies 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. Contractor agrees to obtain similar certification from its subcontractor prior to the award of subcontract which are not exempt from the provisions of the equal opportunity clause.

EXHIBIT "H"

Attached to and made a part of that certain Operating Agreement dated November 11, 1999, by and between Devon Energy Corporation (Nevada), as Operator, and Nearburg Producing Company, as Non-Operator.

MEMORANDUM OF OPERATING AGREEMENT (AND MORTGAGE AND FINANCING STATEMENT)

KNOW ALL MEN BY THESE PRESENTS:

THAT, Devon Energy Corporation (Nevada), whose address is 20 North Broadway, Suite 1500, Oklahoma City, Oklahoma 73102 (or such party who may hereafter be designated and serve as Operator under the terms of the below-mentioned Operating Agreement), hereinafter referred to as "Operator", has entered into an Operating Agreement with the following party/parties, hereinafter referred to as "Non-Operator," whether one or more, to-wit:

Nearburg Producing Company
3300 N. "A" Street, Building 2, Suite 120
Midland, Texas 79705

Such Operating Agreement is dated and effective as of the 11th day of November, 1999, as the same may have thereafter been amended. That such Operating Agreement provides generally for the joint exploration, development and production of oil, gas, and other hydrocarbons lying in and under the following described lands, to-wit:

N/2 Section 30-T17S-R27E, Eddy County, New Mexico

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

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

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

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

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

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

DATED this _____ day of _____, 1999, but effective as of the effective date of the Operating Agreement above mentioned.

DEVON ENERGY CORPORATION (NEVADA)

By: _____
R. D. Clark, Vice President

NEARBURG PRODUCING COMPANY

By: _____

STATE OF OKLAHOMA)
) ss:
COUNTY OF OKLAHOMA)

The foregoing instrument was acknowledged before me this _____ day of _____, 1999, by R. D. Clark, Vice President of Devon Energy Corporation (Nevada), a Nevada corporation, on behalf of the corporation.

My Commission Expires: _____
Notary Public

STATE OF TEXAS)
) ss:
COUNTY OF)

The foregoing instrument was acknowledged before me this _____ day of _____, 1999, by _____ of Nearburg Producing Company, a _____ corporation, on behalf of the corporation.

My Commission Expires: _____
Notary Public

Telephone Log

Date: 1/06/00 **Time:** 9:10 a.m.

Call to/from: Carla Wood

Company: Devon

Subject: Logan Draw 30 #1 well

Call Info:

Left message with Carla's answering machine that we were still waiting on her comments to our JOA, and that we had reviewed their Gas Bal. Agmt. and it was OK. I told her that Nearburg would go with the Ernst & Young rates of \$4168 and \$400. I also said that we were aware that they had recently charged Mewbourne rates of \$6000 and \$600 for a similar well in the area, so that we were bending over backwards to utilize the Ernst & Young rates. I asked Carla to call me back.

Telephone Log

Date: 12/17/99 **Time:** 1:59 p.m.

Call to: Carla Wood

Company: Devon

Subject: Logan Draw "30" #1 Well

Call Info:

Carla said:

They were not going to send us their title opinion and survey unless we agreed to reduce the monthly producing OH rate to \$270/month. They would agree to a \$5,000 monthly drilling OH rate. She said they would also agree to let us operate the well during the drilling phase, but they would operate after the well was completed. She said that if we would not agree to reduce the producing rate to \$270/month, they would fight us over operations with the OCD.

I said:

I would check on our response to cutting just the producing well rate and get back to her.

The call concluded at 2:02 9.m.

**Mark Wheeler
2:05 p.m. 12/17/99**

Telephone Log

Date: 12/15/99 **Time:** 9:52 a.m.

Call to: Carla Wood

Company: Devon

Subject: Logan Draw "30" #1 Well

Call Info:

I said:

I told Carla that Nearburg would be willing to go to \$5,000 and \$500 on the overhead rates, but that cutting the rates in half was not in line with industry standards. I reminded her that their wells in the area were much shallower than the proposed well and that was why their OH rates were lower. I also told her that if she would fax us their proposed gas balancing agreement, we would review it and let them know if it was acceptable. I also reminded her that she was going to try to overnight their title opinion and survey to us today.

She said:

She agreed that their wells were shallower. She said she would fax us the GBA. She also said that she would overnight the title opinion and survey today.

The call concluded at 9:54 a.m.

**Mark Wheeler
10:00 a.m. 12/15/99**

Telephone Log

Date: 12/14/99 **Time:** 2:35 p.m.

Call to/from: Carla Wood (405-552-4615)

Company: Devon

Subject: Logan Draw "30" #1 well

Call Info:

I told Carla:

- 1. We'd like to drill ASAP, we have a rig ready, but we prefer our location and we want to operate.**
- 2. We are still wanting to work out an arrangement with Devon, but we are filing today for a pooling hearing on January 6th.**
- 3. We would like to have copies of their Title Opinion and survey that they did, if they will share them with us.**

She said:

That they had no problem with our location and that if we would cut our overhead rates in half (as they would be willing to) and utilize their gas balancing agmt. as we had recently on another well, that she would recommend that they participate with us as operator and at our location. She said she would try to overnight the info I wanted tomorrow.

The call concluded at 2:40 p.m.

Mark Wheeler

TO: Bob Shelton

COMPANY: Nearburg Exploration

FACSIMILE #: 915-686-7806

OFFICE #: _____

FROM: Carla Wood (405-552-4615)

NUMBER OF PAGES FOLLOWING: 8 + cover

MESSAGE:

OK
DWR
12/29/99

If you have any problems receiving this fax, please call Marsha Bartlett at (405) 552-4623 as soon as possible.

Original is:

 Being sent by United States Post Office
 Being sent by Overnight Mail
 Not being sent
 Other: _____

15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64

1. DEFINITIONS

The following definitions shall apply to this Agreement:

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

2. BALANCING AREA

2.1 If this Agreement covers more than one Balancing Area, it shall be applied as if each Balancing Area were covered by separate but identical agreements. All balancing hereunder shall be on the basis of Gas taken from the Balancing Area measured in (Alternative 1) Mcfs or (Alternative 2) MMBtus.

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

3. RIGHT OF PARTIES TO TAKE GAS

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

Party.

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

3.6 In the event that a Party fails to make arrangements to take its Full Share of Current Production required to be produced to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production, the Operator may sell ~~any part of such Party's Full Share of Current Production~~ ^{if it so elects} that such Party fails to take for the account of such Party and tender to such Party, on a current basis, the full proceeds of the sale, less any reasonable marketing, compression, treating, gathering or transportation costs incurred directly in connection with the sale of such Full Share of Current Production. In making the sale contemplated herein, the Operator shall be obligated only to obtain such price and conditions for the sale as are reasonable under the circumstances and shall not be obligated to share any of its markets. Any such sale by Operator under the terms hereof 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 year. Notwithstanding the provisions of Article 3.4 hereof, Gas sold by Operator for a Party under the provisions hereof shall be deemed to be Gas taken for the account of such Party.

4. IN-KIND BALANCING

reasonable notice

4.1 Effective the first day of any calendar month following/at least thirty (30) days' prior written notice to the Operator, ~~any Underproduced Party may begin taking~~ ^{if required by Operator} in addition to its Full Share of Current Production and any Makeup Gas taken pursuant to Section 3.3 of this Agreement, a share of current production determined by multiplying thirty-five percent (35 %) of the Full Shares of Current Production of all Overproduced Parties by a fraction, the numerator of which is the Percentage Interest of such Underproduced Party and the denominator of which is the total of the Percentage Interests of all Underproduced Parties desiring to take Makeup Gas. In no event will an Overproduced Party be required to provide more than thirty-five percent (35 %) of its Full Share of Current Production for Makeup Gas. The Operator will promptly notify all Overproduced Parties of the election of an Underproduced Party to begin taking Makeup Gas.

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

4.2 (Optional - Seasonal Limitation on Makeup - Option 2) Notwithstanding the provisions of Section 4.1, no Overproduced Party will be required to provide more than _____ percent (_____%) of its Full Share of Current Production for Makeup Gas during the Winter Period.

4.3 (Optional) Notwithstanding any other provision of this Agreement, at such time and for so long as Operator, or (insofar as concerns production by the Operator) any Underproduced Party, determines in good faith that an Overproduced Party has produced all of its share of the ultimately recoverable reserves in the Balancing Area, such Overproduced Party may be required to make available for Makeup Gas, upon the demand of the Operator or any Underproduced Party, up to one hundred percent (100 %) of such Overproduced Party's Full Share of Current Production.

5. STATEMENT OF GAS BALANCES

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

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

6. PAYMENTS ON PRODUCTION

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

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

15 required by such governmental authority, and the method provided for herein shall be thereby superseded.

16 7. CASH SETTLEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

d to timely pay
produced Party.

15 in-kind settlement offer under this Section 7.8 will not delay the accrual of interest on the cash settlement should the Parties
16 fail to reach agreement on an in-kind settlement.

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

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

30 8. TESTING

31 Notwithstanding any provision of this Agreement to the contrary, any Party shall have the right, from time to time, to
32 produce and take up to one hundred percent (100%) of a well's entire Gas stream to meet the reasonable deliverability test(s)
33 required by such Party's Gas purchaser, and the right to take any Makeup Gas shall be subordinate to the right of any Party to
34 conduct such tests; provided, however, that such tests shall be conducted in accordance with prudent operating practices only
35 after thirty (30) days' prior written notice to the Operator and shall last no longer than
36 seven (7) days including prior shut-in time.

37 9. OPERATING COSTS

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

42 10. LIQUIDS

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

45 11. AUDIT RIGHTS

46 Notwithstanding any provision in this Agreement or any other agreement between the Parties hereto, and further
47 notwithstanding any termination or cancellation of this Agreement, for a period of two (2) years from the end of the calendar
48 year in which any information to be furnished under Section 5 or 7 hereof is supplied, any Party shall have the right to audit
49 the records of any other Party regarding quantity, including but not limited to information regarding Btu-content.
50 Any Underproduced Party shall have the right for a period of two (2) years from the end of the calendar year in which any
51 cash settlement is received pursuant to Section 7 to audit the records of any Overproduced Party as to all matters concerning
52 values, including but not limited to information regarding prices and disposition of Gas from the Balancing Area. Any such
53 audit shall be conducted at the expense of the Party or Parties desiring such audit, and shall be conducted, after reasonable
54 notice, during normal business hours in the office of the Party whose records are being audited. Each Party hereto agrees to
55 maintain records as to the volumes and prices of Gas sold each month and the volumes of Gas used in its own operations,
56 along with the Royalty paid on any such Gas used by a Party in its own operations. The audit rights provided for in this
57 Section 11 shall be in addition to those provided for in Section 3.2 of this Agreement.

58 12. MISCELLANEOUS

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

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

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

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

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

18 12.8 If contemporaneously with this Agreement becoming effective, or thereafter, any Party requests that any other Party
19 execute an appropriate memorandum or notice of this Agreement in order to give third parties notice of record of same and
20 submits same for execution in recordable form, such memorandum or notice shall be duly executed by the Party to which such
21 request is made and delivered promptly thereafter to the Party making the request. Upon receipt, the Party making the request
22 shall cause the memorandum or notice to be duly recorded in the appropriate real property or other records affecting the
23 Balancing Area. See 14.3

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

29 13. ASSIGNMENT AND RIGHTS UPON ASSIGNMENT

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

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

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

60 14. OTHER PROVISIONS

61 See attachment.
62
63
64
65
66
67
68
69
70
71
72

... the Operator, including its estimate of remaining recoverable reserves. The Operator shall notify all other Parties. If Parties concur with the recoverable reserve estimate, said Overproduced Party shall be prohibited from selling gas until the Overproduced Party is back in balance. If the Parties cannot agree on the remaining recoverable reserves, the Operator shall retain an independent reservoir engineer, experienced and competent in the geographical areas of the well(s) in question, to compute the reserves. Its decision shall be final. Costs incurred by the independent engineer shall be borne by the Parties hereto.

- 14.3 The Parties to this Agreement agree to abide by Regulation 1.761-2(d)(2) as promulgated by the Internal Revenue Service. Regulation 1.761-2(d)(2) requires that all co-producers of natural gas operating under the same JOA must use the cumulative gas balancing method, as described under this regulation, to report gas balancing for tax purposes. In the event of a conflict between the provisions of this Section and any other provisions of this Agreement, the provisions of this Section shall control.

13 _____

14

Type or print name

15

Title _____

16

Date _____

17

Tax ID or S.S. No. _____

18

19

NON-OPERATORS

20

21

BY: _____

22

23

Type or print name

24

Title _____

25

Date _____

26

Tax ID or S.S. No. _____

27

28

29

BY: _____

30

31

Type or print name

32

Title _____

33

Date _____

34

Tax ID or S.S. No. _____

35

36

37

38

39

40

41

42

8 County of _____)

9 This instrument was acknowledged before me on _____

10 _____ by _____

11

12 (Seal, if any) _____

13 Title (and Rank) _____

14 My commission expires: _____

15

16 Acknowledgment in representative capacity:

17 State of _____)

18 _____) ss.

19 County of _____)

20 This instrument was acknowledged before me on _____

21 _____ by _____ as

22 _____ of _____

23 (Seal, if any) _____

24 Title (and Rank) _____

25 My commission expires: _____

26

27

28

29

30

31



Nearburg Producing Company

cc to TRM

Exploration and Production
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705
915/686-8235
Fax 915/686-7806

November 12, 1999

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Ms. Carla Wood
Devon Energy Corporation
20 North Broadway, Suite 1500
Oklahoma City, OK 73102-8260

FAX (405) 552-8113

RE: Logan Draw "30" Federal Com. #1 Well
1,650' FNL and 660' FEL of Section 30,
T-17-S, R-27-E
Eddy County, New Mexico
Logan Draw Prospect

Dear Carla:

Enclosed herewith please find Nearburg Producing Company's AFE for the drilling of the captioned well. Nearburg Exploration Company, L.L.C. (NEC) hereby proposes a well at the captioned location to be drilled to a depth of approximately 9,500' sufficient to test the Morrow formation.

Devon Energy Corporation owns a working interest in the N/2 of the Section 30 proration unit established for the well and we invite Devon to participate in the well with Nearburg Producing Company as the operator. If you elect to participate, please execute and return one (1) copy of the enclosed AFE. We will be preparing and forwarding for your approval and execution a Joint Operating Agreement covering the N/2 of said Section 30. If you have any questions, please feel free to contact the undersigned. We appreciate your cooperation in this regard.

Very truly yours,

Bob Shelton

Bob Shelton
Land Manager

BS/dw
encl.

P 497 369 796

US Postal Service

Logan Draw 30 F.C. #1

Is your RETURN ADDRESS completed on the reverse side?	SENDER: ■ Complete items 1 and/or 2 for additional services. ■ Complete items 3, 4a, and 4b. ■ Print your name and address on the reverse of this form so that we can return this card to you. ■ Attach this form to the front of the mailpiece, or on the back if space does not permit. ■ Write "Return Receipt Requested" on the mailpiece below the article number. ■ The Return Receipt will show to whom the article was delivered and the date delivered.		I also wish to receive the following services (for an extra fee): 1. <input type="checkbox"/> Addressee's Address 2. <input type="checkbox"/> Restricted Delivery Consult postmaster for fee.
	3. Article Addressed to: Ms. Carla Wood Devon Energy Corporation 20 North Broadway, Suite 1500 Oklahoma City, OK 73102-8260	4a. Article Number <i>P497 369 796</i>	4b. Service Type <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail <input type="checkbox"/> Insured <input type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> COD
5. Received By: (Print Name) <i>Sharon C. [Signature]</i>	7. Date of Delivery <i>11-15</i>		
6. Signature: (Addressee or Agent)	8. Addressee's Address (Only if requested and fee is paid)		

Thank you for using Return Receipt Service.

receipt

*** Journal ***

P.1

[Transmit]

No.	Location	Mode	Start	Time	Page	Result	Note
003	6836348	NORMAL	11/11 10:23	0'35"	1	* O K	
004	NEARBURG DALLAS	NORMAL	11/11 12:20	1'20"	3	* O K	
005	NEARBURG DALLAS	NORMAL	11/11 14:30	0'33"	1	* O K	
006	6831166	NORMAL	11/11 16:10	1'09"	3	* O K	
007	NEARBURG DALLAS	NORMAL	11/11 16:52	2'04"	4	* O K	
001	NEARBURG, MARK	NORMAL	11/12 9:40	2'57"	6	* O K	
002	NEARBURG DALLAS	NORMAL	11/12 11:40	1'05"	1	* O K	
003	NEARBURG DALLAS	NORMAL	11/12 12:18	0'30"	1	* O K	
004	14055528113	NORMAL	11/12 16:23	2'10"	4	* O K	

[Receive]

No.	Location	Mode	Start	Time	Page	Result	Note
002	EnhancedFax	NORMAL	11/11 10:55	0'47"	1	* O K	
003	2149530263	NORMAL	11/11 11:20	1'22"	2	* O K	
004	2147394819	NORMAL	11/11 12:29	1'42"	3	* O K	
005	19185840509	FINE	11/11 12:37	0'50"	1	O K	
006	2147394819	NORMAL	11/11 12:49	0'27"	1	* O K	
007	2147394819	NORMAL	11/11 13:26	0'29"	1	* O K	
008	2147394819	NORMAL	11/11 13:53	9'17"	16	* O K	
009	6705463	NORMAL	11/11 14:40	1'22"	3	* O K	
010	5122666156	NORMAL	11/11 14:44	1'28"	2	O K	
011	2147394819	FINE	11/11 15:29	2'32"	4	* O K	
012	9156831166	NORMAL	11/11 15:48	0'54"	2	* O K	
013	2147404090	NORMAL	11/11 17:09	1'09"	2	* O K	
014	2149530263	NORMAL	11/11 17:46	2'08"	5	* O K	
015	512-453-2329	NORMAL	11/11 17:48	2'24"	1	* O K	
016	9156837120	NORMAL	11/11 18:22	1'06"	3	* O K	
001	9156845026	NORMAL	11/12 10:27	1'14"	2	O K	
002	5056228643	NORMAL	11/12 11:43	0'43"	1	* O K	
003	5058201366	NORMAL	11/12 12:56	3'12"	7	* O K	
004	2147394819	S-FINE	11/12 13:08	0'41"	1	* O K	
005		NORMAL	11/12 14:54	2'43"	5	* O K	
006	3035950153	FINE	11/12 15:35	0'55"	1	* O K	
007	4055528113	NORMAL	11/12 16:06	2'17"	4	* O K	

Nearburg Exploration Company, L.L.C.

Exploration and Production
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705
915/686-8235
Fax 915/686-7806

✓
cc to KC

November 15, 1999

Ms. Carla D. Wood
Devon Energy Corporation
20 North Broadway, Suite 1500
Oklahoma City, OK 73102

RE: Section 30: N/2, T-17-S, R-27-E
1,650' FNL and 660' FEL
Eddy County, New Mexico
Logan Draw Prospect

Dear Ms. Wood:

Enclosed please find a revised Page 4 and revised Exhibit "A" to the Joint Operating Agreement dated April 15, 1999. Please return the executed and notarized pages on behalf of Devon Energy Corporation to the attention of the undersigned at your earliest convenience.

The Authority for Expenditure was sent to you regarding this revised location on November 12, 1999.

Should you have any questions, please do not hesitate to contact Bob Shelton or Chip Barker at the letterhead phone number.

Very truly yours,



DeeDee Walton
Land Secretary

DW/
encl.

Nearburg Exploration Company, L.L.C.

Exploration and Production
 3300 North "A" Street
 Building 2, Suite 120
 Midland, Texas 79705
 915/686-8235
 Fax 915/686-7806

November 18, 1999

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Ms. Carla Wood
 Devon Energy Corporation
 20 North Broadway, Suite 1500
 Oklahoma City, OK 73102-8260

RE: Logan Draw "30" Federal Com. #1 Well
 1,650' FNL and 660' FEL of Section 30,
 T-17-S, R-27-E
Eddy County, New Mexico
 Logan Draw Prospect

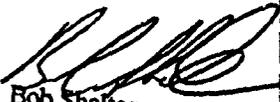
Dear Carla:

Pursuant to my letter of November 12, 1999, enclosed herewith please find Nearburg Producing Company's Operating Agreement covering the spacing unit for the Logan Draw "30" Federal Com. #1 well. Please note that this agreement includes what we believe to be correct participation percentages of Nearburg and Devon., along with Nearburg Exploration Company, L.L.C. as the owner of the leasehold interest of the N/2 of Section 30.

If Devon agrees to participate in the well as proposed in my November 12th letter, please execute and return the AFE enclosed with said letter along with the signature pages to the enclosed Operating Agreement Exhibit "F".

Nearburg has several rigs being utilized at the present time and we believe to December 31, 1999 if we can get an immediate election for participation questions, please feel free to contact the undersigned.

Very truly yours,


 Bob Shelton
 Land Manager

BS/dw
 encl.

P 497 369 798

US Postal Service
 Receipt for Certified Mail

Logan Draw '30' Fed. Com #1

Is your RETURN ADDRESS completed on the reverse side? 3. Article Addressed to:  Ms. Carla Wood Devon Energy Corporation 20 North Broadway, Suite 1500 Oklahoma City, OK 73102-8260	4a. Article Number <u>P497369798</u>
	4b. Service Type <input type="checkbox"/> Registered <input type="checkbox"/> Express Mail <input checked="" type="checkbox"/> Return Receipt for Merchandise
5. Received By: (Print Name) 6. Signature: (Addressee or Agent) 	I also wish to receive the following services (for an extra fee): 1. <input type="checkbox"/> Addressee's Address 2. <input type="checkbox"/> Restricted Delivery Consult postmaster for fee. 7. Date of Delivery <u>11-22</u>
8. Addressee's Address (Only if requested and fee is paid)	

Thank you for using Return Receipt Service.

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



LOGAN DRAW "30" FEDERAL COM. NO. 1 WELL

OPERATING AGREEMENT

DATED

November 12, 1999

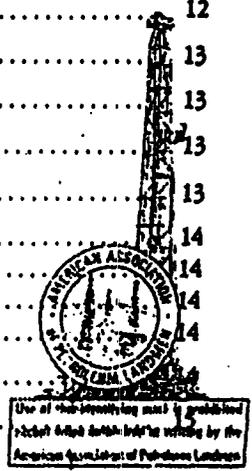
OPERATOR NEARBURG PRODUCING COMPANY

CONTRACT AREA N/2 Section 30, T-17-S, R-27-E

COUNTY ~~OR PARISH~~ OF EDDY STATE OF NEW MEXICO

TABLE OF CONTENTS

<u>Article</u>	<u>Title</u>	<u>Page</u>
I.	<u>DEFINITIONS</u>	1
II.	<u>EXHIBITS</u>	1
III.	<u>INTERESTS OF PARTIES</u>	2
	A. OIL AND GAS INTERESTS	2
	B. INTERESTS OF PARTIES IN COSTS AND PRODUCTION	2
	C. EXCESS ROYALTIES, OVERRIDING ROYALTIES AND OTHER PAYMENTS	2
	D. SUBSEQUENTLY CREATED INTERESTS	2
IV.	<u>TITLES</u>	2
	A. TITLE EXAMINATION	2-3
	B. LOSS OF TITLE	3
	1. Failure of Title	3
	2. Loss by Non-Payment or Erroneous Payment of Amount Due	3
	3. Other Losses	3
V.	<u>OPERATOR</u>	4
	A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR	4
	B. RESIGNATION OR REMOVAL OF OPERATOR AND SELECTION OF SUCCESSOR	4
	1. Resignation or Removal of Operator	4
	2. Selection of Successor Operator	4
	C. EMPLOYEES	4
	D. DRILLING CONTRACTS	4
VI.	<u>DRILLING AND DEVELOPMENT</u>	4
	A. INITIAL WELL	4-5
	B. SUBSEQUENT OPERATIONS	5
	1. Proposed Operations	5
	2. Operations by Less than All Parties	5-6-7
	3. Stand-By Time	7
	4. Sidetracking	7
	C. TAKING PRODUCTION IN KIND	7
	D. ACCESS TO CONTRACT AREA AND INFORMATION	8
	E. ABANDONMENT OF WELLS	8
	1. Abandonment of Dry Holes	8
	2. Abandonment of Wells that have Produced	8-9
	3. Abandonment of Non-Consent Operations	9
VII.	<u>EXPENDITURES AND LIABILITY OF PARTIES</u>	9
	A. LIABILITY OF PARTIES	9
	B. LIENS AND PAYMENT DEFAULTS	9
	C. PAYMENTS AND ACCOUNTING	9
	D. LIMITATION OF EXPENDITURES	9-10
	1. Drill or Deepen	9-10
	2. Rework or Plug Back	10
	3. Other Operations	10
	E. RENTALS, SHUT-IN WELL PAYMENTS AND MINIMUM ROYALTIES	10
	F. TAXES	10
	G. INSURANCE	11
VIII.	<u>ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST</u>	11
	A. SURRENDER OF LEASES	11
	B. RENEWAL OR EXTENSION OF LEASES	11
	C. ACREAGE OR CASH CONTRIBUTIONS	11-12
	D. MAINTENANCE OF UNIFORM INTEREST	12
	E. WAIVER OF RIGHTS TO PARTITION	12
	F. PREFERENTIAL RIGHT TO PURCHASE	12
IX.	<u>INTERNAL REVENUE CODE ELECTION</u>	12
X.	<u>CLAIMS AND LAWSUITS</u>	13
XI.	<u>FORCE MAJEURE</u>	13
XII.	<u>NOTICES</u>	13
XIII.	<u>TERM OF AGREEMENT</u>	13
XIV.	<u>COMPLIANCE WITH LAWS AND REGULATIONS</u>	14
	A. LAWS, REGULATIONS AND ORDERS	14
	B. GOVERNING LAW	14
	C. REGULATORY AGENCIES	14
XV.	<u>OTHER PROVISIONS</u>	14
XVI.	<u>MISCELLANEOUS</u>	14



OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Nearburg Producing Company, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators".

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I. DEFINITIONS

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

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

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

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

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

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

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

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

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

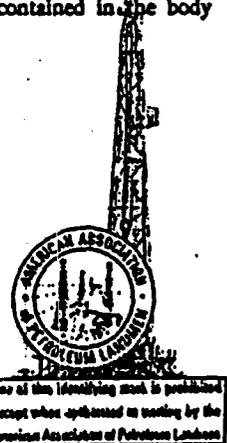
Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

ARTICLE II. EXHIBITS

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

- A. Exhibit "A", shall include the following information:
 - (1) Identification of lands subject to this agreement,
 - (2) Restrictions, if any, as to depths, formations, or substances,
 - (3) Percentages or fractional interests of parties to this agreement,
 - (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
 - (5) Addresses of parties for notice purposes.
- B. Exhibit "B", Form of Lease.
- C. Exhibit "C", Accounting Procedure.
- D. Exhibit "D", Insurance.
- E. Exhibit "E", Gas Balancing Agreement. Notice of Joint Operating Agreement Lien, Security
- F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities, Interests and Financial Statement
- ~~G. Exhibit "G", Tax Partnership.~~ There is no Exhibit "G" to this agreement.

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 on each party's share of production 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:

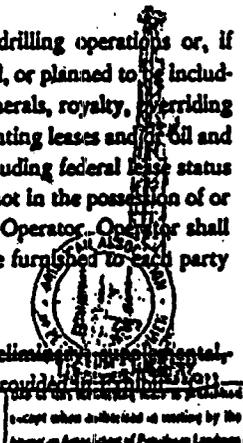
1. If the burdened party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of said subsequently 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 title opinions, shut-in gas royalty opinions and division order title opinions) shall be a part of the administrative overhead as provided in Exhibit "C" and shall not be a direct charge, whether performed by Operator's staff attorneys or by outside attorneys.~~



ARTICLE IV

continued

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

6
 7 Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection
 8 with leases or oil and gas interests contributed by such party. Operator shall be responsible for the preparation and recording of pooling
 9 designations or declarations as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling orders.
 10 This shall not prevent any party from appearing on its own behalf at any such hearing.

11
 12 No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above
 13 provided, and (2) the title has been approved by the examining attorney or title has been accepted by all of the parties who are to par-
 14 ticipate in the drilling of the well.

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

17
 18 1. **Failure of Title:** Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a
 19 reduction of interest from that shown on Exhibit "A", the party contributing the affected lease or interest shall have ninety (90) days
 20 from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisi-
 21 tion will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining oil
 22 and gas leases and interests; and,

23 (a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be
 24 entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid or incurred,
 25 but there shall be no additional liability on its part to the other parties hereto by reason of such title failure;

26 (b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has
 27 been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has oc-
 28 curred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract
 29 Area by the amount of the interest lost;

30 (c) If the proportionate interest of the other parties hereto in any producing well theretofore drilled on the Contract Area is
 31 increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such in-
 32 terest (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such
 33 well;

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

37 (e) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be
 38 borne by the party or parties whose title failed in the same proportions in which they shared in such prior production; and,

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

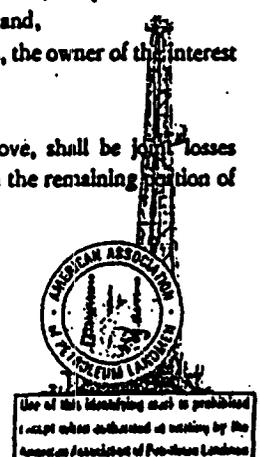
42
 43 2. **Loss by Non-Payment or Erroneous Payment of Amount Due:** If, through mistake or oversight, any rental, shut-in well
 44 payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates,
 45 there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required
 46 payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment,
 47 which acquisition will not be subject to Article VIII.B., the interests of the parties shall be revised on an acreage basis, effective as of the
 48 date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in
 49 the Contract Area on account of ownership of the lease or interest which has terminated. In the event the party who failed to make the
 50 required payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to
 51 the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it
 52 shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled
 53 or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

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

56 (b) Proceeds, less operating expenses, thereafter accrued attributable to the lost interest on an acreage basis, of that portion of
 57 oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which, in the absence of such lease
 58 termination, would be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said
 59 portion of the oil and gas to be contributed by the other parties in proportion to their respective interests; and,

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

62
 63 3. **Other Losses:** All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall be joint losses
 64 and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of
 65 the Contract Area.



ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

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

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

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

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

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

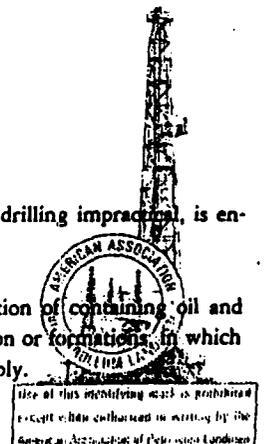
On or before the 1st day of May, 2000, ~~XXXXX~~ ~~XXXXX~~ be authorized to commence the drilling of a well for oil and gas at the following location:

1,650' FNL and 660' FEL of Section 30
T-17-S, R-27-E, Eddy County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to a depth of 9,300' or sufficient in Operator's opinion to test the Morrow formation,

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

1 If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the
2 well as a dry hole, the provisions of Article VI.E.1. shall thereafter apply.
3
4
5

6 **B. Subsequent Operations:**
7

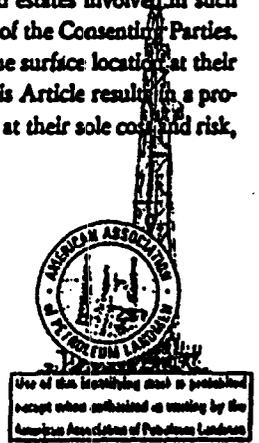
8 **1. Proposed Operations:** Should any party hereto desire to drill any well on the Contract Area other than the well provided
9 for in Article VI.A., or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all
10 the parties and not then producing in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the
11 other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective forma-
12 tion and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice
13 within which to notify the party wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drill-
14 ing rig is on location, notice of a proposal to rework, plug back or drill deeper may be given by telephone and the response period shall be
15 limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays. Failure of a party receiving such notice to reply within
16 the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or
17 response given by telephone shall be promptly confirmed in writing.
18
19
20

21 If all parties elect to participate in such a proposed operation, Operator shall, within ninety (90) days after expiration of the notice
22 period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on loca-
23 tion, as the case may be), actually commence the proposed operation and complete it with due diligence at the risk and expense of all par-
24 ties hereto; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties,
25 for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary to obtain
26 permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title ex-
27 amination or curative matter required for title approval or acceptance. Notwithstanding the force majeure provisions of Article XI, if the
28 actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein) and
29 if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accor-
30 dance with the provisions hereof as if no prior proposal had been made.
31
32
33

34 **2. Operations by Less than All Parties:** If any party receiving such notice as provided in Article VI.B.1. or VII.D.1. (Option
35 No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties
36 giving the notice and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of
37 the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is
38 on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all
39 work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is
40 a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed opera-
41 tion for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Con-
42 senting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and con-
43 ditions of this agreement.
44
45
46

47 If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable
48 notice period, shall advise the Consenting Parties of the total interest of the parties approving such operation and its recommendation as
49 to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours
50 (exclusive of Saturday, Sunday and legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit par-
51 ticipation to such party's interest as shown on Exhibit "A" or (b) carry its proportionate part of Non-Consenting Parties' interests, and
52 failure to advise the proposing party shall be deemed an election under (a). In the event a drilling rig is on location, the time permitted for
53 such a response shall not exceed a total of forty-eight (48) hours (inclusive of Saturday, Sunday and legal holidays). The proposing party,
54 at its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.
55
56
57

58 The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have
59 elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such
60 operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties.
61 If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well and restore the surface location at their
62 sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a pro-
63 ducer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk,
64
65
66
67
68
69
70



ARTICLE VI

continued

1 and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties.
 2 Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties
 3 in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties,
 4 and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting
 5 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
 6 market value thereof if such share is not sold, (after deducting production taxes, ~~excise taxes, royalty, overriding royalty and other in-~~ ^{crude oil taxes}terests not excepted by Article III.D. payable out of or measured by the production from such well accruing with respect to such interest
 7 until it reverts) shall equal the total of the following:
 8

9
 10
 11 200%

12 (a) ~~300%~~ of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead
 13 connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such
 14 Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-
 15 Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-
 16 Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to such Non-Consenting
 17 Party had it participated in the well from the beginning of the operations; and
 18

19
 20
 21 (b) 500% of that portion of the costs and expenses of drilling, reworking, deepening, plugging back, testing and completing,
 22 after deducting any cash contributions received under Article VIII.C., and 500% of that portion of the cost of newly acquired equip-
 23 ment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had
 24 participated therein.
 25

26
 27
 28 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-
 29 working or plugging back operation proposed in such a well, or portion thereof, to which the initial Non-Consent election applied that is
 30 conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment account. Any such
 31 reworking or plugging back operation conducted during the recoupment period shall be deemed part of the cost of operation of said well
 32 and there shall be added to the sums to be recouped by the Consenting Parties one hundred percent (100%) of that portion of the costs of
 33 the reworking or plugging back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If
 34 such a reworking or plugging back operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be ap-
 35 plicable as between said Consenting Parties in said well.
 36

37
 38
 39 During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the
 40 proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, ~~excise, gathering and other~~ ^{crude oil} taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production not excepted by Ar-
 41 ticle III.D.
 42
 43

44
 45
 46 In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall be permitted to use, free
 47 of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; and upon
 48 abandonment of a well after such reworking, plugging back or deeper drilling, the Consenting Parties shall account for all such equip-
 49 ment to the owners thereof, with each party receiving its proportionate part in kind or in value, less cost of salvage.
 50

51
 52
 53 Within sixty (60) days after the completion of any operation under this Article, the party conducting the operations for the
 54 Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an
 55 itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its
 56 option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly bill-
 57 ings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the party conducting the
 58 operations for the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities in-
 59 curred 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
 60 realized from the sale of the well's working interest production during the preceding month. In determining the quantity of oil and gas
 61 produced during any month, Consenting Parties shall use industry accepted methods such as, but not limited to, metering or periodic
 62 well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation
 63 which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unrecovered costs
 64 of the work done and of the equipment purchased in determining when the interest of such Non-Consenting Party shall revert to it as
 65 above provided; and if there is a credit balance, it shall be paid to such Non-Consenting Party.
 66



ARTICLE VI
continued

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

7
8
9
10 Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent of all parties, no wells shall
11 be completed in or produced from a source of supply from which a well located elsewhere on the Contract Area is producing, unless such
12 well conforms to the then-existing well spacing pattern for such source of supply.

13
14
15
16 The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A.
17 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
18 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 pro-
19 duction, ceases to produce in paying quantities.

20
21
22
23 3. Stand-By Time: When a well which has been drilled or deepened has reached its authorized depth and all tests have been
24 completed, and the results thereof furnished to the parties, stand-by costs incurred pending response to a party's notice proposing a
25 reworking, deepening, plugging back or completing operation in such a well shall be charged and borne as part of the drilling or deepen-
26 ing operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted, whichever
27 first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms of the second gram-
28 matical paragraph of Article VI.B.2, shall be charged to and borne as part of the proposed operation, but if the proposal is subsequently
29 withdrawn because of insufficient participation, such stand-by costs shall be allocated between the Consenting Parties in the proportion
30 each Consenting Party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all Consenting Par-
31 ties.

32
33
34
35 4. Sidetracking: Except as hereinafter provided, those provisions of this agreement applicable to a "deepening" operation shall
36 also be applicable to any proposal to directionally control and intentionally deviate a well from vertical so as to change the bottom hole
37 location (herein called "sidetracking"), unless done to straighten the hole or to drill around junk in the hole or because of other
38 mechanical difficulties. Any party having the right to participate in a proposed sidetracking operation that does not own an interest in the
39 affected well bore at the time of the notice shall, upon electing to participate, tender to the well bore owners its proportionate share (equal
40 to its interest in the sidetracking operation) of the value of that portion of the existing well bore to be utilized as follows:

41
42
43
44 (a) If the proposal is for sidetracking an existing dry hole, reimbursement shall be on the basis of the actual costs incurred in
45 the initial drilling of the well down to the depth at which the sidetracking operation is initiated.

46
47
48
49 (b) If the proposal is for sidetracking a well which has previously produced, reimbursement shall be on the basis of the well's
50 salvable materials and equipment down to the depth at which the sidetracking operation is initiated, determined in accordance with the
51 provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning.

52
53
54
55 In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period
56 shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays; provided, however, any party may request and
57 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
58 incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, stand-
59 by costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing par-
60 ty'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 in-
61 stances the response period to a proposal for sidetracking shall be limited to thirty (30) days.

62
63
64
65 C. TAKING PRODUCTION IN KIND:

66 have the right to
67 Each party shall take in kind or separately dispose of its proportionate share of all oil and gas produced from the Contract Area,
68 exclusive of production which may be used in development and producing operations and in preparing and treating oil and gas for
69 marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by any
70 party of its proportionate share of the production shall be borne by such party. Any party taking its share of production in kind shall be

ARTICLE VI

continued

1 required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

2
3 Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in production from
4 the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment directly from the purchaser thereof for
5 its share of all production.

6
7 In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of
8 the oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not
9 the obligation, to purchase such oil or sell it to others at any time and from time to time, for the account of the non-taking party at the
10 best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to the right of the
11 owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil not previously
12 delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil shall be only for such reasonable periods of
13 time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess
14 of one (1) year.

15
16 In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines and/or
17 deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total gas sales to
18 be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with any gas balancing
19 agreement between the parties hereto, whether such an agreement is attached as Exhibit "E", or is a separate agreement.

20
21 D. Access to Contract Area and Information:

22
23 Each party shall have access to the Contract Area at all reasonable times, at its sole cost and risk to inspect or observe operations,
24 and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books
25 and records relating thereto. Operator, upon request, shall furnish each of the other parties with copies of all forms or reports filed with
26 governmental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of
27 each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of
28 gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that re-
29 quests the information.

30
31 E. Abandonment of Wells:

32
33 1. Abandonment of Dry Holes: Except for any well drilled or deepened pursuant to Article VI.B.2., any well which has been
34 drilled or deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned
35 without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply
36 within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of notice of the proposal to plug and abandon
37 such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in
38 accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or deepening
39 such well. Any party who objects to plugging and abandoning such well shall have the right to take over the well and conduct further
40 operations in search of oil and/or gas subject to the provisions of Article VI.B.

41
42 2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted
43 hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a
44 producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall
45 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within
46 thirty (30) days after receipt of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well,
47 those wishing to continue its operation from the interval(s) of the formation(s) then open to production shall tender to each of the other
48 parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of
49 Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign
50 the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and
51 material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the in-
52 terval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and
53 gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or in-
54 tervals of the formation or formations then open to production, for a term of one (1) year and so long thereafter as oil and/or gas is pro-
55 duced from the interval or intervals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit
56
57
58
59
60
61
62
63
64
65
66
67
68
69
70



ARTICLE VI

continued

1 "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the
2 assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentage of participation in the
3 Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of
4 interests in the remaining portion of the Contract Area.

5
6 Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from
7 the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon re-
8 quest, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges con-
9 templated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned
10 well. Upon proposed abandonment of the producing interval(s) assigned or leased, the assignor or lessor shall then have the option to
11 repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the pro-
12 visions hereof.

13
14 3. Abandonment of Non-Consent Operations: The provisions of Article VI.E.1. or VI.E.2. above shall be applicable as between
15 Consenting Parties in the event of the proposed abandonment of any well excepted from said Articles; provided, however, no well shall be
16 permanently plugged and abandoned unless and until all parties having the right to conduct further operations therein have been notified
17 of the proposed abandonment and afforded the opportunity to elect to take over the well in accordance with the provisions of this Article
18 VI.E.

19
20 ARTICLE VII.

21 EXPENDITURES AND LIABILITY OF PARTIES

22
23 A. Liability of Parties:

24
25 The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and
26 shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted
27 among the parties in Article VII.B. are given to secure only the debts of each severally. It is not the intention of the parties to create, nor
28 shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

29
30 B. Liens and Payment Defaults:

31
32 Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share
33 of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon
34 at the rate provided in Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the
35 state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the ob-
36 taining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien
37 rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share
38 of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from
39 the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest, has been paid. Each
40 purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien
41 and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

42
43 If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by
44 Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that
45 the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain
46 reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

47
48 C. Payments and Accounting:

49
50 Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development
51 and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective propor-
52 tionate shares upon the expense basis provided in Exhibit "C". Operator shall keep an accurate record of the joint account hereunder,
53 showing expenses incurred and charges and credits made and received.

54
55 Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance
56 of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding
57 month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together
58 with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted
59 on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within
60 fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount
61 due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual ex-
62 pense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

63
64 D. Limitation of Expenditures:

65
66 1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened
67 pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the drilling or deepening shall include



ARTICLE VII

continued

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

3
4 Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its
5 authorized depth, and all tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice
6 to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight
7 (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion at-
8 tempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, in-
9 cluding necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall
10 constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties,
11 elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging
12 back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less
13 than all parties.

14
15 2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or
16 plugged back pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the reworking or plugging back of a well shall
17 include all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage
18 and/or surface facilities.

19
20 3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated
21 to require an expenditure in excess of Twenty-five Thousand Dollars (\$ 25,000)
22 except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been
23 previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden
24 emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required
25 to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other
26 parties. If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator so requesting
27 an information copy thereof for any single project costing in excess of Fifteen Thousand
28 Dollars (\$ 15,000) but less than the amount first set forth above in this paragraph.

29
30 E. Rentals, Shut-in Well Payments and Minimum Royalties:

31
32 Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the
33 party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have con-
34 tributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on
35 behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of
36 failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such pay-
37 ment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the pro-
38 visions of Article IV.B.2.

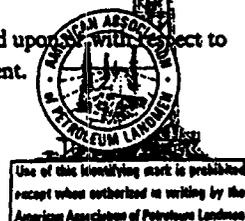
39
40 Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production
41 of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holidays), or at the earliest opportunity permitted by
42 circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator to so notify
43 Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments of any shut-in well payment
44 shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

45
46 F. Taxes:

47
48 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property
49 subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they
50 become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not
51 be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-
52 Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, over-
53 riding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or
54 owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduc-
55 tion. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding
56 anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax
57 value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in
58 the manner provided in Exhibit "C".

59
60 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner
61 prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final deter-
62 mination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any
63 interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for that account
64 together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as
65 provided in Exhibit "C".

66
67 Each party shall pay or cause to be paid all production, severance, excise, gathering and other taxes imposed upon it with respect to
68 the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.



ARTICLE VII
continued

1 G. Insurance:

2
3 At all times while operations are conducted hereunder, Operator shall comply with the workmen's compensation law of
4 the state where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said com-
5 pensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C". Operator shall
6 also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part
7 hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workmen's compensation
8 law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.

9
10 In the event automobile public liability insurance is specified in said Exhibit "D", or subsequently receives the approval of the
11 parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's automotive equipment.

12
13 ARTICLE VIII.
14 ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

15
16 A. Surrender of Leases:

17
18 The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole
19 or in part unless all parties consent thereto.

20
21 However, should any party desire to surrender its interest in any lease or in any portion thereof, and the other parties do not
22 agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in
23 such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production
24 thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an oil and gas in-
25 terest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering
26 such oil and gas interest for a term of one (1) year and so long thereafter as oil and/or gas is produced from the land covered thereby, such
27 lease to be on the form attached hereto as Exhibit "B". Upon such assignment or lease, the assigning party shall be relieved from all
28 obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well
29 attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and pro-
30 duction other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the
31 party assignor or lessor the reasonable salvage value of the latter's interest in any wells and equipment attributable to the assigned or leas-
32 ed acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of
33 salvaging and the estimated cost of plugging and abandoning. If the assignment or lease is in favor of more than one party, the interest
34 shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties.

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

40
41 ~~B. Renewal or Extension of Leases:~~

42
43 ~~If any party secures a renewal of any oil and gas lease subject to this agreement, all other parties shall be notified promptly, and~~
44 ~~shall have the right for a period of thirty (30) days following receipt of such notice in which to elect to participate in the ownership of the~~
45 ~~renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper pro-~~
46 ~~portionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the~~
47 ~~interests held at that time by the parties in the Contract Area.~~

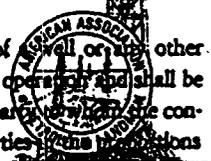
48
49 If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties
50 who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area
51 to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease.
52 Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

53
54 Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein
55 by the acquiring party.

56
57 The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease
58 or cover only a portion of its area or an interest therein. Any renewal lease taken before the expiration of its predecessor lease, or taken or
59 contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or con-
60 tracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease and shall not be subject to
61 the provisions of this agreement.

62
63 The provisions in this Article shall also be applicable to extensions of oil and gas leases.

64
65 C. Acreage or Cash Contributions:

66
67 While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of  or other
68 operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be
69 applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the con-
70 tribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties.

Use of this identifying mark is prohibited
except when authorized in writing by the
American Association of Petroleum Landmen

ARTICLE VIII

continued

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

5
 6 If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such
 7 consideration shall not be deemed a contribution as contemplated in this Article VIII.C. This paragraph shall not be
 8 applicable to the contribution of acreage by the Contributing Parties toward the
 9 Initial, Substitute, or Option Test Well.

D. Maintenance of Uniform Interest:

10
 11 For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, no
 12 party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells,
 13 equipment and production unless such disposition covers either:

- 14 1. the entire interest of the party in all leases and equipment and production; or
- 15 2. an equal undivided interest in all leases and equipment and production in the Contract Area.

16
 17 Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement
 18 and shall be made without prejudice to the right of the other parties.

19
 20 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
 21 require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for
 22 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
 23 party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter
 24 into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract
 25 Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

26
 27 E. Waiver of Rights to Partition:

28
 29 If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an
 30 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
 31 interest therein.

32
 33 F. ~~Preferential Right to Purchase:~~

34
 35 ~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract~~
 36 ~~Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the~~
 37 ~~name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms~~
 38 ~~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~~
 39 ~~on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchas-~~
 40 ~~ing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing par-~~
 41 ~~ties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to~~
 42 ~~dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent com-~~
 43 ~~pany or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

44
 45 ARTICLE IX.

46
 47 INTERNAL REVENUE CODE ELECTION

48
 49 This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association
 50 for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several
 51 and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax
 52 purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded
 53 from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as per-
 54 mitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to ex-
 55 ecute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the
 56 United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements,
 57 and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further
 58 evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the
 59 Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other
 60 action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract
 61 Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1,
 62 Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is per-
 63 mitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing elec-
 64 tion, each such party states that the income derived by such party from operations hereunder can be adequately determined without the
 65 computation of partnership taxable income.



Use of this identifying mark is prohibited except when authorized in writing by the American Association of Petroleum Landmen

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 Fifteen Thousand Dollars (\$ 15,000) 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.

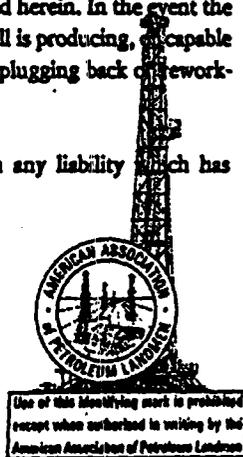
ARTICLE XIII.
TERM OF AGREEMENT

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 180 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, reworking, deepening, plugging back, testing or attempting to complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling, deepening, plugging back or reworking operations are commenced within 120 days from the date of abandonment of said well.

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



ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

C. Regulatory Agencies:

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

ARTICLE XV.
OTHER PROVISIONS

Notwithstanding any provisions herein to the contrary, the parties hereto agree as follows:

A. Notwithstanding any other provisions herein, if during the term of this agreement, a well is required to be drilled, deepened, reworked, plugged back, sidetracked, or recompleted, or any other operation that may be required in order to (1) continue a lease or leases in force and effect, or (2) maintain a unitized area or any portion thereof in and to any oil and/or gas and other interest which may be owned by a third party or which, failing in such operation, may revert to a third party, or (3) comply with an order issued by a regulatory body having jurisdiction in the premises, failing in which certain rights would terminate, the following shall apply. The party desiring to drill, deepen, rework, plug back, sidetrack, recomplete, or to perform any other operation that may be required pursuant to this paragraph A, 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 notice shall have fifteen (15) days after receipt of the notice within which to notify the party wishing to do the work whether they elect to participate in the proposed operation, and any party electing to participate must pay its share of the cost within the fifteen (15) day period after receipt of the notice, failing in which the parties interest who elected to participate but did not timely pay will be subject to the reassignment provision as set forth below. If a drilling rig is on location, notice of a proposal to rework, drill, deepen, plug back, sidetrack, recomplete, or any other operation pursuant to this paragraph A may be given by telephone and the response period shall be limited to forty-eight (48) hours inclusive of Saturdays, Sundays, and legal holidays. Failure of a party receiving such notice to reply or pay its share of the cost within the period above fixed shall make such parties interest subject to the reassignment provision provided for below. Any notice or response given by telephone shall be promptly confirmed in writing.

Promptly following the conclusion of such operation, each non-participating party agrees to execute and deliver an appropriate assignment or lease to the participating parties of the total interest of each non-participating party in and to the lease, leases, agreement, or rights which would have terminated and which otherwise may have been preserved by virtue of such operation and in all the Oil and Gas Leases subject to this agreement excepting, however, any wellbore insofar and only insofar as said wellbore includes the then producing formation in such wellbore theretofore completed and capable of producing in paying quantities. Any such assignment or lease shall be unencumbered as to any burdens not currently effecting said lease or burden provided for in this agreement.

B. Operator shall comply where applicable with the following clauses contained in 41 CFR:

60-1.4(a)	(Equal Employment Opportunity);
1-12.803-10	(Certification of Non-Segregated Facilities);
60-250	(Employment Opportunity for Veterans);
60-741	(Employment Opportunity for Handicapped Individuals);
1-1.710	(Subcontracting With Small Business Concerns);
1-1.805	(Subcontracting With Labor Surplus Area Concerns);
1.1.1310	(Subcontracting With Minority Business Enterprises);
1.1.2302-2	(Environmental Protection).

These clauses are incorporated herein by reference if and to the extent applicable to this contract by law, executive order, or regulation. Operator represents that he is in compliance with the reporting requirements of 41 CFR 60-1.7 and the Affirmative Action Program requirements of 41 CFR 60-1.40 and 60-2.

C. Non-Operators authorize Operator to receive, and direct all product purchasers to pay Operator, all production from or attributable to the Contract Area. As evidence of this authority all products purchasers may rely solely on a copy of this provision, authenticated by Operator, in lieu of the need for any additional consents or transfer orders from the Non-Operators. While Operator is receiving all proceeds or production, Operator obligates itself to make payments of all Working and Royalty Interests Revenues attributable to the Interests covered hereby.

1
2
3 D. Any party creating the necessity for separate measurement facilities shall alone bear all costs of such facilities. Any party using
4 separate production measurement facilities shall keep accurate records of such production in accordance with applicable state and federal
5 regulations, and upon Operator's request, under the terms of this agreement or any agreement executed in conjunction with this agreement,
6 true and complete copies of said records shall be furnished to Operator. Said production records supplied to the Operator shall be treated as
7 confidential information and shall be used by Operator only to the extent necessary to fulfill its duties as Operator.
8

9 E. All costs and expenses incurred by Operator in securing attorneys, geologists, engineers, exhibits and related documentation, for the
10 preparation and filing of material relative to the sale of oil and/or gas shall be borne by all parties in accordance with their respective interest
11 as set forth on Exhibit "A" attached hereto and made a part hereof.
12

13 F. All costs and expenses including fees and expenses of attorneys and consultants incurred by Operator which may arise due to other
14 operators in the area applying for non-standard locations and/or other regulatory hearings shall be borne by all parties in accordance with
15 their respective interests as set forth in Exhibit "A" attached hereto and made a part hereof.
16

17 G. The parties hereto agree to execute a Notice of Joint Operating Agreement Lien in the form of Exhibit "F" to this agreement in order to
18 permit perfection of the hereinabove described security interests by placing said NOTICE of record in the county in which the Contract Area
19 is located and in accordance with the Uniform Commercial Code of the State in which the Contract Area is located.
20

21 H. If a party to this agreement elects not to participate in a proposed operation or, if a consenting party fails to timely pay its share of the
22 costs involved in such operation, and is determined to be a non-participating party, such party shall not have access to or be entitled to
23 receive well information with regard to operations conducted on the Contract Area.
24

25 I. Nearburg Producing Company is the operating company for Nearburg Exploration Company, L.L.C. Nearburg Producing Company
26 shall serve as Operator under this Agreement so long as Nearburg Exploration Company, L.L.C. maintains a working interest hereunder,
27 unless Operator resigns or is removed under Article V.B.1.
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65
66
67
68
69
70
71
72
73
74
75
76
77
78
79
80
81
82
83
84
85

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

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 the 12th day of November, 1999.

OPERATOR

ATTEST OR WITNESS

NEARBURG PRODUCING COMPANY

By: _____

Bob Shelton
Type or Print Name

Title Land Manager

Date _____

Tax ID or SS No. 74-1666262

NON-OPERATORS

ATTEST OR WITNESS

NEARBURG EXPLORATION COMPANY, L.I.C.

By: _____

Robert G. Shelton
Type or Print Name

Title Attorney-in-Fact

Date _____

Tax ID or SS No. 75-2626152

ATTEST OR WITNESS

DEVON ENERGY CORPORATION

By: _____

Type or Print Name

Title _____

Date _____

Tax ID or SS No. _____

ACKNOWLEDGMENTS

STATE OF TEXAS §
 §
COUNTY OF MIDLAND §

The foregoing instrument was acknowledged before me on this _____ day of _____, 1999, by Bob Shelton, as Land Manager of Nearburg Producing Company, a Texas corporation, on behalf of said corporation.

Notary Public, State of Texas

My Commission Expires: _____

STATE OF TEXAS §
 §
COUNTY OF MIDLAND §

The foregoing instrument was acknowledged before me on this ____ day of _____, 1999, by Robert G. Shelton, as Attorney-in-Fact of Nearburg Exploration Company, L. L. C., a Texas limited liability company, on behalf of said company.

Notary Public, State of Texas

My Commission Expires:

STATE OF OKLAHOMA §
 §
COUNTY OF _____ §

The foregoing instrument was acknowledged before me on this ____ day of _____, 1999, by _____, as _____ of Devon Energy Corporation, a _____ corporation, on behalf of said corporation.

Notary Public, State of Oklahoma

My Commission Expires:

EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED THE 12TH DAY OF NOVEMBER, 1999, BETWEEN NEARBURG PRODUCING COMPANY, AS OPERATOR, AND NEARBURG EXPLORATION COMPANY, L.L.C., ET AL, AS NON-OPERATORS

I. Identification of Lands Subject to this Agreement:

N/2 of Section 30, T-17-S, R-27-E, Eddy County, New Mexico, containing 319.57 acres, more or less.

II. Restrictions as to Depths or Formations:

This Operating Agreement is limited to the interval between the surface of the earth to 100' below the base of the Morrow formation.

III. Percentages of Parties to this Agreement:

Nearburg Exploration Company, L.L.C.	49.9327221%
Devon Energy Corporation	<u>50.0672779%</u>
	100.000000%

IV. Oil and Gas Leases Subject to this Agreement:

See Exhibit "A-1" attached hereto.

V. Addresses of Parties to this Agreement:

Nearburg Producing Company
Nearburg Exploration Company, L.L.C.
3300 N. "A" Street, Bldg. 2, Suite 120
Midland, Texas 79705

Devon Energy Corporation
20 North Broadway, Suite 1500
Oklahoma City, Oklahoma 73102

INSOFAR AND ONLY INSOFAR AS SAID LEASES
COVER N/2 SECTION 30-17S-27E, EDDY COUNTY, NEW MEXICO

EXHIBIT "A-1"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED THE 15TH DAY OF APRIL, 1999, BETWEEN NEARBURG PRODUCTIONS COMPANY, AS OPERATOR, AND NEARBURG EXPLORATION COMPANY, L.L.C., ET AL, AS NON-OPERATORS

SYSTEM LEASE & REFERENCE NO.	LESSOR NAME	ORIGINAL LESSEE NAME	LEASE DATE	BOOK	PAGE NO	COURT
2595 443301	MICHAEL C. CURRIER AND FRANCES C. CURRIER, TRUSTEES; CHARLES E AND FRANCES C. CURRIER TRUST	NEARBURG EXPLORATION CO. L.L.C.	5/20/98	321	554	EDDY
2822 443302	J.A. & ELIZABETH FAIRLEY TRUST	NEARBURG EXPLORATION CO. L.L.C.	7/23/99	360	514	EDDY
2778 452201	MARY MARGARET COLLINS	AMOCO PRODUCTION COMPANY	2/13/74	114	891	EDDY
2779 452202	LAVERNE E. CONKLING ET AL	AMOCO PRODUCTION COMPANY	2/19/74	114	889	EDDY
2780 452203	ALICE KATHERYNN FOSTER	AMOCO PRODUCTION COMPANY	2/13/74	114	887	EDDY

LEGAL DESCRIPTION

T17S - R27E SECTION 30; FAIRCHILD FARM TRACT 645 (SW/4 NW/4 NW/4)

LEGAL DESCRIPTION

T17S - R27E SECTION 30; FAIRCHILD FARM TRACT 645 OUT OF LOT 1 (SW/4 NW/4 NW/4)

LEGAL DESCRIPTION

T17S - R27E SECTION 30; NE/4 NW/4 LIMITED TO ALL NON-PRODUCING DEPTHS AND INTERVALS NOT CONVEYED UNDER PRIOR RECORDED CONTRACTUAL AGREEMENT

LEGAL DESCRIPTION

T17S - R27E SECTION 30; NE/4 NW/4 LIMITED TO ALL NON-PRODUCING DEPTHS AND INTERVALS NOT CONVEYED UNDER PRIOR RECORDED CONTRACTUAL AGREEMENT

LEGAL DESCRIPTION

T17S - R27E

SYSTEM LEASE &
REFERENCE NO.

LESSOR NAME

ORIGINAL LESSEE NAME

LEASE DATE BOOK
PAGE
ENTRY N

2781
452204

SECTION 30; NE/4 NW/4
LIMITED TO ALL NON-PRODUCING DEPTHS AND INTERVALS NOT CONVEYED UNDER
PRIOR RECORDED CONTRACTUAL AGREEMENT

PATRICIA ANN LEBLANC

AMOCO PRODUCTION COMPANY

2/13/74 114

885

LEGAL DESCRIPTION

T17S - R27E

SECTION 30; NE/4 NW/4
LIMITED TO ALL NON-PRODUCING DEPTHS AND INTERVALS NOT CONVEYED UNDER
PRIOR RECORDED CONTRACTUAL AGREEMENT

OIL, GAS AND MINERAL LEASE

THIS AGREEMENT made and entered into this _____ day of _____, 19____, by and between _____

hereinafter called "Lessor", whether one or more, and _____ hereinafter called "Lessee".

WITNESSETH: That, for and in consideration of the sum of _____ Dollars (\$_____), receipt of which is hereby acknowledged and of the royalties herein provided and the agreements of Lessee herein contained Lessor does hereby grant, lease and let exclusively unto Lessee, its successors and assigns, all of the land hereinafter described, together with any reversionary rights therein, for the purpose of exploring by geological, geophysical and all other methods, and of drilling, producing and operating wells or mines for the recovery of oil, gas and other hydrocarbons, and all other minerals or substances, whether similar or dissimilar, that may be produced from any well or mine on the leased premises, including primary, secondary, tertiary, cycling, pressure maintenance methods of recovery and all other methods, whether now known or unknown, with all incidental rights thereto, and to establish and utilize facilities for surface and subsurface disposal of salt water, and to construct, maintain and remove roadways, tanks, pipelines, electric power and telephone lines, power stations, machinery and structures thereon, to produce, store, transport, treat and remove all substances described above, and the products therefrom, together with the right of ingress and egress to and from said land. The land hereby leased is situated in the County of _____ State of _____, and is described as follows:

EXHIBIT "B"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED THE 12th DAY OF NOVEMBER, 1999, BETWEEN NEARBURG PRODUCING COMPANY, AS OPERATOR, AND NEARBURG EXPLORATION COMPANY, L.L.C. ET AL, AS NON-OPERATORS

This lease covers all of the land described above, including any interests therein that any signatory hereto has the right or power to lease, and in addition it covers, and there is hereby granted, leased and let, upon the same terms and conditions as herein set forth, all lands now or hereafter owned or claimed by Lessor, adjacent, contiguous, or a part of the tract or tracts described above, whether such additional lands be owned or claimed by deed, limitation, or otherwise, or are fenced or unfenced, and whether such lands are inside or outside of the metes and bounds description set forth above, or are in the named survey, or other survey or surveys. The bonus money paid for this lease is in gross, and not by the acre, and shall be effective to cover all such land irrespective of the number of acres contained therein, but the land included within this lease is estimated to comprise _____ acres, whether actually more or less, and such land is hereinafter referred to as the "leased premises"

TO HAVE AND TO HOLD the leased premises for a term of _____ years from the date hereof, hereinafter called "primary term", and as long thereafter as oil, gas or other hydrocarbons, or other minerals or leased substances, or either or any of them, are produced from the leased premises or from lands with which the leased premises are pooled or unitized.

In consideration of the premises, it is hereby agreed as follows:

1. **Royalty On Oil.** Lessee shall deliver to Lessor, at the well or to the credit of Lessor in the pipeline to which the well may be connected, ^{3/16} $\frac{3}{16}$ of all oil and other liquid hydrocarbons produced and saved from the leased premises, or Lessee, at its option, may buy or sell such ~~oil~~ royalty and pay Lessor the market price for oil or liquid hydrocarbons of like grade and gravity prevailing in the field on the day such oil is run into pipelines or into storage tanks. Lessor's royalty interest in either case shall bear its proportion of any expenses for transporting and treating oil to make it marketable as crude. 3/16

2. **Royalty On Gas.** Lessee shall pay to Lessor as royalty on gas, including casinghead gas or other gaseous substances produced from said land and sold on or off the premises, ^{3/16} $\frac{3}{16}$ of the net proceeds at the well received from the sale thereof, provided that on gas used off the premises or by Lessee in the manufacture of gasoline or other products therefrom, the royalty shall be the market value at the well of ~~the gas so used~~ ^{as to all gas sold by Lessee under a written contract} the price received by Lessee for such gas shall be conclusively presumed to be the net proceeds at the well or the market value at the well for the gas so sold. 3/16

3. **Royalty On Other Substances.** Lessee shall pay to Lessor, as royalty on any substances covered by this lease other than oil and gas and the products thereof which Lessee may elect to produce, save and market from the leased premises, ^{3/16} $\frac{3}{16}$ of the proceeds received by Lessee from the sale thereof after deducting the processing costs.

4. **Shut-In Gas Royalty.** If at any time, or from time to time, either before or after the expiration of the primary term of this lease, there is any gas well on the leased premises or on lands with which the leased premises are pooled or unitized and which is capable of producing in paying quantities, but which is shut in before or after production therefrom, such well shall be considered under all provisions of this lease as a well producing gas in paying quantities and this lease shall remain in force in like manner as though gas therefrom was actually being sold or used. In such event, Lessee covenants and agrees to pay Lessor, as royalty, the sum of _____ Dollars (\$_____) per annum for the period commencing on the date such well is actually shut in, unless this lease is being maintained in force and effect by some other provision hereof, in which event, such period shall commence on the date this lease ceases to be maintained in full force and effect by some other provision hereof. Payment or tender shall be made to Lessor, or deposited to the credit of Lessor in the depository bank named in this lease. The first payment shall be due and payable on or before ninety (90) days after the date such well is shut in, or ninety (90) days from the date this lease ceases to be maintained in force by some other provision hereof. Unless gas from such well is produced and sold or used prior thereto, except temporary sales, or use for lease operations, subsequent payments shall be due annually thereafter on the anniversary date of the period for which such prior payment was made. No additional payments shall be required if there is more than one shut-in gas well on the leased premises or on lands with which the leased premises are pooled or unitized. The term "gas well" shall include wells capable of producing natural gas, condensate, or any gaseous substance, and wells classified as gas wells by any governmental authority having jurisdiction.

5. **Delay Rental.** If operations for drilling or mining on the leased premises, or on lands with which the leased premises are pooled or unitized, are not commenced on or before one (1) year from the date of this lease, as set forth above, this lease shall terminate as to both parties unless on or before one (1) year from the date of this lease, Lessee shall pay or tender to the Lessor a rental of _____ Dollars (\$_____) which shall cover the privilege of deferring commencement of such drilling or mining operation for a period of twelve (12) months from the expiration of said one (1) year period. In like manner and upon like payments or tenders annually, the commencement of such operations may be deferred for successive periods of the same number of months, during the primary term. Payments or tenders may be made to the Lessor or to the Lessor's credit in the _____ Bank at _____ which bank or any successor thereof shall continue to be the agent for the Lessor and the Lessor's successors and assigns. If such bank or any successor thereof shall fail, liquidate, or be succeeded by another bank, or for any reason fail or refuse to accept rental, the rental paying date for any year shall be extended until the expiration of thirty (30) days after Lessor shall have delivered to Lessee a recordable instrument making provision for another method of payment or tender and any depository charge shall be the liability of the Lessor. The payment or tender of rental may be made by check or draft of Lessee, mailed or delivered to said bank or Lessor, or to any Lessor if more than one, on or before the rental paying date. Mailing of rental on or before the rental paying date shall be deemed a timely tender thereof and shall preclude the termination of this lease.

6. **Drilling Operations.** If Lessee should drill and abandon as a dry hole a well on the leased premises, or if after the discovery of oil, gas or other minerals, the production thereof should cease from any cause, and, in either event, there are no other producing wells on the leased premises or on lands with which they are pooled or unitized, or drilling or reworking operations are not being conducted thereon, this lease shall not terminate if Lessee commences reworking or additional drilling operations on the leased premises within sixty (60) days thereafter or, if it be within the primary term, Lessee commences or resumes the payment or tender of rentals or commences operations for drilling or reworking on or before the rental paying date next ensuing after the expiration of ninety (90) days from the date of such abandonment or cessation of production. If such abandonment or cessation of production occurs at any time during the last fifteen (15) months of the primary term, no rental payment or drilling operations are necessary to keep the lease in force during the remainder of the primary term. If, at the expiration of the primary term, oil, gas or other minerals are not being produced from the leased premises or from lands with which the leased premises are pooled or unitized, but Lessee is then engaged in operations for drilling or reworking of any well, this lease shall remain in force so long as such drilling or reworking operations are prosecuted, or reworking operations on any well or additional drilling operations are conducted on the leased premises, or on lands pooled or unitized therewith, with no cessation of more than sixty (60) consecutive days, and if any such operations result in production then as long thereafter as such production continues.

7. **Pooling.** Lessee is hereby granted the right, at any time and from time to time, whether before or after production, to pool this lease for the production of oil, gas or condensate, or any or either of them, as to the land covered hereby, or any zone or portion thereof, or as to any mineral or royalty interest therein, with any other lease covering the above described land, or lands adjacent, contiguous, adjoining, or in the immediate vicinity thereof, or as to any zone or portion of said lease or any mineral or royalty interest therein. Such pooling shall be into a unit or units not exceeding forty (40) acres plus an acreage tolerance of ten percent (10%) thereof for oil, and units not exceeding six hundred forty (640) acres each plus an acreage tolerance of ten percent (10%) thereof for gas, provided that, should governmental authority having jurisdiction prescribe or permit the creation of any drilling, spacing or proration units larger than those specified above, such units may be created or enlarged to conform in size to the drilling or spacing units so prescribed or permitted or to the proration units as may be authorized for obtaining the maximum allowable production from one well. Lessee may pool the acreage or interests above described, or any portion thereof, as above provided, as to oil, or gas in any one or more zones, and units so formed need not conform in size or area with the unit or units into which the lease is pooled, or combined as to any other zone, and oil units need not conform as to area with gas units. Such pooling shall be effected by the filing by Lessee of a written designation, in the county or counties, in which the premises are located, identifying and describing the pooled unit. The production of oil, gas or condensate from any zone or portion of the land so pooled and the development and operation on such land, including the commencement, drilling, completion and operation of a well thereon, or the existence thereon of a shut-in gas well, shall be considered and construed and shall have the same effect, except for the payment of royalty, as production, development and operation, or the existence of a shut-in gas well on the leased premises, regardless of the location of the well on the unit. Production from any unit well producing oil, gas or condensate shall be allocated to the leased premises in the proportion that the acreage of the leased premises included within the unit bears to the total acreage in the unit, and the royalty provided for herein shall be calculated on the portion of the production so allocated. The royalty so payable on allocated production shall be in lieu of any other royalty that would accrue to Lessor from the production of oil, gas or condensate from any zone or portion of the leased premises included within the unit. Shut-in gas royalty, with respect to unit shut-in gas wells, shall be payable in accordance with the provisions and in the amount set forth in this lease. In the event any unit well shall fail to produce oil, gas or condensate in paying quantities, or in the event the production from any such well shall cease, Lessee may terminate the unit by filing in record in the county, or counties where the land is situated, a written declaration of such termination.

8. **Use Of Oil, Gas And Water For Operations.** Lessee shall have the free use of oil, gas and water from the leased premises, except water from Lessor's wells and tanks, for all operations hereunder, and the royalty on oil and gas shall be computed after deducting the amount so used.

9. **Removal Of Equipment.** Lessee shall have the right, at any time during or after the expiration of this lease, to remove all property and fixtures placed on the leased premises by Lessee, including the right to withdraw and remove all casing.

10. **Assignment Or Change Of Ownership.** The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, executors, administrators, successors, and assigns, but no change or division in ownership of the land, rentals or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee. No change or division in the ownership of the land, rentals or royalties, however accomplished, shall be binding upon Lessee for any purpose and shall not impair the effectiveness of any payment theretofore made by Lessee (irrespective of whether Lessee has or certified copies thereof, constituting his chain of title from the original Lessor. In the event of an assignment of this lease as to a segregated portion of the land covered by this lease, the rentals payable hereunder shall be apportioned as between the several leasehold owners, ratably, according to the surface area of each, and a default in rental payment by one Lessee shall not affect the rights of other leasehold owners hereunder who make due payments of rentals. An assignment of this lease, in whole or in part, shall, to the extent of such assignment, relieve and discharge Lessee of all obligations hereunder.

11. **Force Majeure.** Lessee shall not be liable for any delays in its performance of any covenant or condition hereunder, express or implied, or for total or partial nonperformance thereof, due to force majeure. The term "force majeure", as used herein, shall mean any circumstance or any condition beyond the control of Lessee, including but not limited to acts of God and actions of the elements; acts of the public enemy; strikes; lockouts; accidents; laws, acts, rules, regulations and orders of federal, state or municipal governments, or officers or agents thereof; failure of transportation; or the exhaustion, unavailability, or delays in delivery, of any product, labor, service or material. If Lessee is required to cease drilling or reworking or producing operations on the leased premises by force majeure, then until such time as such force majeure is terminated and for a period of ninety (90) days after such termination, each and every provision of this lease that might operate to terminate it shall be suspended and this lease shall continue in full force and effect during such suspension period. If any period of suspension occurs during the primary term, the time thereof shall be added to such term.

EXHIBIT " C "

Attached to and made a part of that certain Operating Agreement by and between Nearburg Producing Company, as Operator, and Nearburg Exploration Company, L.L.C., et al, as Non-Operators, dated November 12, 1999.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies.

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation within fifteen (15) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Bank of America of Dallas, Texas on the first day of the month in which delinquency occurs plus ~~1%~~ or the maximum 2% contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

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

5. Audits

- A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.
- B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

6. Approval By Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Ecological and Environmental

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

2. Rentals and Royalties

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

3. Labor

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

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

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

(4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from the overhead rates, which shall include the salaries and wages of professional employees associated with the sale of gas and/or casinghead gas from any well located in the Contract Area.

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

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

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

4. Employee Benefits

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

5. Material

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

6. Transportation

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

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

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

7. Services

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

8. Equipment and Facilities Furnished By Operator

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

9. Damages and Losses to Joint Property

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

10. Legal Expense

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

11. Taxes

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

12. Insurance

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

13. Abandonment and Reclamation

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

14. Communications

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

15. Other Expenditures

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

*prime rate of interest in effect at NationsBank of Dallas, Texas on the first day of the month in which usage occurs plus two percent (2%).

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

- (x) Fixed Rate Basis, Paragraph 1A, or
 () Percentage Basis, Paragraph 1B

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 3A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

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

- () shall be covered by the overhead rates, or
 (x) shall not be covered by the overhead rates.

- iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property; including the costs and expenses of professional employees associated with and employed for the sale of gas and/or casinghead gas from any well () shall be covered by the overhead rates, or located on the Contract Area.
 (x) shall not be covered by the overhead rates.

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 5640
 (Prorated for less than a full month)

Producing Well Rate \$ 540

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

(a) Drilling Well Rate

- (1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.
- (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig or other units used in workover, commence through date of rig or other unit release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.

(b) Producing Well Rates

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

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

2. Overhead - Major Construction

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

- A. 7.5 % of first \$100,000 or total cost if less, plus
- B. 5.0 % of costs in excess of \$100,000 but less than \$1,000,000, plus
- C. 2.5 % of costs in excess of \$1,000,000.

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

3. Catastrophe Overhead

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

- A. 7.5 % of total costs through \$100,000; plus
- B. 5.0 % of total costs in excess of \$100,000 but less than \$1,000,000; plus
- C. 2.5 % of total costs in excess of \$1,000,000.

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

4. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

- (a) Tubular goods, sized 2½ inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.
- (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate truck rate shall be used.
- (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.
- (d) Macaroni tubing (size less than 2½ inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

(2) Line Pipe

- (a) Line pipe movements (except size 24 inch OD and larger with walls ¼ inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
 - (b) Line pipe movements (except size 24 inch OD and larger with walls ¼ inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
 - (c) Line pipe 24 inch OD and over and ¼ inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.
 - (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.
- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.
- (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2 A (1) and (2).

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

~~At seventy-five percent (75%)~~ **eighty percent (80%)** of current new price, as determined by Paragraph A.

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

- (a) ~~At seventy-five percent (75%)~~ **eighty percent (80%)** of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as new Material or
- (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as used Material.

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

~~At seventy-five percent (75%)~~ **eighty percent (80%)** of current new price as determined by Paragraph A.

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

C. Other Used Material

(1) Condition C

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

(2) Condition D

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

- (a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.
- (b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

(3) Condition E

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

D. Obsolete Material

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

E. Pricing Conditions

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

3. Premium Prices

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

4. Warranty of Material Furnished By Operator.

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made^{*} within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. Special Inventories

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

4. Expense of Conducting Inventories

- A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.
- B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

*at the expense of the party(s) causing such inventory to occur

EXHIBIT "D"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED THE 12th DAY OF NOVEMBER, 1999, BETWEEN NEARBURG PRODUCING COMPANY, AS OPERATOR, AND NEARBURG EXPLORATION COMPANY, L.L.C., ET AL, AS NON-OPERATORS

INSURANCE

Operator shall carry insurance for the benefit of the joint account covering Operator's operations upon the Unit Area subject to the Operating Agreement to which this Exhibit "D" is attached as follows:

- (a) Workmen's compensation insurance in accordance with the requirements of the laws of the State or States where work is conducted and employers liability insurance of Five Hundred Thousand Dollars (\$500,000.00) bodily injury by accident and Five Hundred Thousand Dollars (\$500,000.00) bodily injury by disease per employee, with a policy limit of Five Hundred Thousand Dollars (\$500,000.00) for bodily injury by disease.
- (b) Public liability insurance with limits of One Million Dollars (\$1,000,000) as to any one person, and One Million Dollars (\$1,000,000) as to any one occurrence.
- (c) Automobile public liability insurance with a combined single limit of up to One Million Dollars (\$1,000,000) per accident.
- (d) Umbrella catastrophe liability of Ten Million Dollars (\$10,000,000) each occurrence and Ten Million Dollars (\$10,000,000) aggregate.

Each policy of insurance issued pursuant to the provisions of (a), (b), (c) or (d) of this section shall provide by endorsement or otherwise that the provisions of the policy are extended to cover the interest of the Non-Operator for whom the assured is acting as Operator, agent, or contractor under contract, but only with respect to operations conducted by named assured, and shall charge the premiums for all such insurance to the joint account.

Operator carries Control of Well Insurance covering his proportionate share of expenses involved in controlling a blowout, the expense of redrilling and certain other related costs. Coverage under this insurance is available to non-operating working interest owners. Such insurance is optional, however, and if not rejected by the non-operating working interest owners prior to spud date, they will be billed accordingly. Any working interest owner rejecting above coverage shall be responsible for his proportionate share of such loss, anything in this agreement to the contrary notwithstanding.

Operator shall furnish, upon request, to Non-Operators a certificate covering each policy of insurance issued pursuant to this section.

EXHIBIT "E"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED THE 12th DAY OF NOVEMBER, 1999, BETWEEN NEARBURG PRODUCING COMPANY, AS OPERATOR, AND NEARBURG EXPLORATION COMPANY, L.L.C., ET AL, AS NON-OPERATORS

GAS BALANCING AGREEMENT

During the period or periods when any party hereto has no market for, or such party's purchaser is unable to take, or if any party fails to take its share of gas, the other parties shall be entitled to produce, take and deliver each month one hundred percent of the allowable gas production assigned to the unit area by the appropriate governmental entity having jurisdiction, and each of such parties shall be entitled to take its pro-rata share of such production. All parties hereto shall share in and own the condensate recovered at the surface in accordance with their respective interests, but each party taking such gas shall own all of the gas delivered to its purchaser.

Each party unable to market its full share of the gas produced shall be credited with underproduction equal to its share of the gas produced, less its share of gas taken or sold, used in lease operations, vented or lost. Operator shall maintain a current account of the gas balance between the parties and shall furnish all parties hereto annual statements showing the total quantity of gas produced, taken or sold, used in lease operations, vented or lost, and the total quantity of condensate recovered. After seventy two (72) hours prior notice to Operator, any party may begin taking or delivering its share of the gas produced.

In addition to its share, each underproduced party, until it has recovered its underproduction and balanced its gas account, shall be entitled to take or deliver a volume of gas equal to twenty-five percent (25%) of each overproduced party's share of gas produced. If more than one party is entitled to take additional gas, they shall divide such additional gas in proportion to their unit participation.

It is recognized that the purpose of this Provision is to permit any party not marketing or taking its share of current gas production to defer its production from the reservoir and permit the other party or parties to pass clear title to all gas which is marketed or taken on a current basis. Therefore, in the event production of gas permanently ceases prior to the time that the accounts of the parties have been balanced, the complete balancing shall be made based upon the price actually received by each overproduced party for gas produced and sold in excess of its share, such gas being the last volumes produced from such well or wells.

Each party producing and taking gas shall pay any and all production taxes due on such gas. At all times while gas is produced from the contract area, each party hereto, while producing, taking or delivering any gas to a purchaser, shall pay or cause to be paid, all royalties due on the gas produced, taken or delivered to a purchaser. Such royalty payments shall be paid to all royalty owners in the well spaced unit of the well being produced and shall be for each royalty owner's proportionate share of the royalty due on the production.

If, after one (1) year from the date of first sales and on a quarterly basis thereafter, an out-of-balance condition exists because of any party's inability or failure to take or deliver its share of production, then at the election of either the over-balanced party or the under-balanced party, either may require a cash balancing. The price basis for a cash-balancing pursuant to terms of this paragraph shall be the lower of either the over-balanced party's or parties' average price received during the period for which the cash balancing covers or the under-balanced party's or parties' average gas purchase contract price for such period. In the event an under-balanced party does not have a gas purchase contract, the price basis shall be the average price received by the over-balanced party or parties. This option may be exercised quarterly by either party during the thirty day period immediately following the quarterly anniversary of the date of first sales of gas by the first party selling any gas from the well.

EXHIBIT "F"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OPERATING AGREEMENT DATED THE 12th DAY OF NOVEMBER, 1999, BETWEEN NEARBURG PRODUCING COMPANY, AS OPERATOR, AND NEARBURG EXPLORATION COMPANY, L.L.C., ET AL, AS NON-OPERATORS

NOTICE OF JOINT OPERATING AGREEMENT, LIEN,
SECURITY INTERESTS AND FINANCING STATEMENT

STATE OF NEW MEXICO §
 §
COUNTY OF EDDY §

WHEREAS, A Joint Operating Agreement dated November 12, 1999, has been entered into between Nearburg Producing Company, as Operator, and the undersigned parties, as Non-Operators, with respect to the exploration, development and operation of their Working Interest and Mineral Interest, insofar as said interests pertain to the following described land (hereinafter called "Contract Area") in Eddy County, New Mexico, to wit:

The North Half (N/2) of Section 30, Township 17 South, Range 27 East, Eddy County, New Mexico.

AND, WHEREAS the said Operating Agreement provides in part that the parties hereto have granted certain liens and security interests in the above referenced property, fixtures and production located thereon or produced therefrom, to wit:

"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 a rate provided in Exhibit "C" to the above referenced Operating Agreement. 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 as 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."

WHEREAS, it is the intent of the parties to give third parties notice of this instrument by filing same in the records of Eddy County, New Mexico.

NOW, THEREFORE, the undersigned parties do hereby grant to each other those rights described in said Agreement regarding liens priority and security interests upon the property described above insofar as said parties' property is covered by the terms of the Joint Operating Agreement outlined herein.

Operator and Non-Operator agree that a carbon, photograph or other reproduction of this Notice shall be sufficient as a financing statement.

For the purpose of filing this Notice of Joint Operating Agreement Lien, Security Interests and Financing Statement as a financing statement, the mailing address of secured parties and debtor are set forth on the signature page attached hereto.

ATTENTION OF RECORDING OFFICE: This instrument gives notice of and grants liens and security interests to both Operator and Non-Operators. Operator is both a secured party and a debtor. Non-operators are both a secured party and debtor. This Notice, as a financing statement, should be indexed accordingly.

EXHIBIT "F"
NOTICE OF JOINT OPERATING AGREEMENT LIEN,
SECURITY INTERESTS AND FINANCING STATEMENT
PAGE -2-

The original of the Operating Agreement herein referenced, or a copy thereof, is maintained at Operator's office at P. O Box 823085, Dallas, Texas 75382-3085.

This instrument may be executed in multi-counterparts, no one of which need be executed by all parties hereto and the same shall be binding upon those parties, as well as their successors and assigns, who execute same, whether or not all named parties join in execution hereof. Counterparts thus executed shall together constitute but one and the same instrument. In the interest of facilitating, filing or recording this instrument thus executed in multi-counterparts, each executing party hereby authorizes removal of signature and acknowledgment pages and reassembly of the same into a single document composed of one copy of the substantive portions of this instrument attached to multiple, separately executed signature and acknowledgment pages.

This Agreement shall be effective the 12th day of November, 1999.

OPERATOR

NEARBURG PRODUCING COMPANY

P. O. Box 823085
Dallas, Texas 75382

By: _____

Bob Shelton
Type or Print Name

Title: Land Manager

Date: _____

Tax ID or SS No. 74-1666262

NON-OPERATORS

NEARBURG EXPLORATION COMPANY, L.L.C.

P. O. Box 823085
Dallas, Texas 75382

By: _____

Robert G. Shelton
Type or Print Name

Title: Attorney-in-Fact

Date: _____

Tax ID or SS No. 75-2626152

DEVON ENERGY CORPORATION

20 North Broadway, Suite 1500
Oklahoma City, Oklahoma 73102

By: _____

Type or Print Name

Title _____

Date _____

Tax ID or SS No. _____

Telephone Log

Date: 12/14/99 **Time:** 2:35 p.m.

Call to/from: Carla Wood (405-552-4615)

Company: Devon

Subject: Logan Draw "30" #1 well

Call Info:

I told Carla:

- 1. We'd like to drill ASAP, we have a rig ready, but we prefer our location and we want to operate.**
- 2. We are still wanting to work out an arrangement with Devon, but we are filing today for a pooling hearing on January 6th.**
- 3. We would like to have copies of their Title Opinion and survey that they did, if they will share them with us.**

She said:

That they had no problem with our location and that if we would cut our overhead rates in half (as they would be willing to) and utilize their gas balancing agmt. as we had recently on another well, that she would recommend that they participate with us as operator and at our location. She said she would try to overnight the info I wanted tomorrow.

The call concluded at 2:40 p.m.

Mark Wheeler

Telephone Log

Date: 12/15/99 **Time:** 9:52 a.m.

Call to: Carla Wood

Company: Devon

Subject: Logan Draw "30" #1 Well

Call Info:

I said:

I told Carla that Nearburg would be willing to go to \$5,000 and \$500 on the overhead rates, but that cutting the rates in half was not in line with industry standards. I reminded her that their wells in the area were much shallower than the proposed well and that was why their OH rates were lower. I also told her that if she would fax us their proposed gas balancing agreement, we would review it and let them know if it was acceptable. I also reminded her that she was going to try to overnight their title opinion and survey to us today.

She said:

She agreed that their wells were shallower. She said she would fax us the GBA. She also said that she would overnight the title opinion and survey today.

The call concluded at 9:54 a.m.

**Mark Wheeler
10:00 a.m. 12/15/99**

Telephone Log

Date: 12/17/99 **Time:** 1:59 p.m.

Call to: Carla Wood

Company: Devon

Subject: Logan Draw "30" #1 Well

Call Info:

Carla said:

They were not going to send us their title opinion and survey unless we agreed to reduce the monthly producing OH rate to \$270/month. They would agree to a \$5,000 monthly drilling OH rate. She said they would also agree to let us operate the well during the drilling phase, but they would operate after the well was completed. She said that if we would not agree to reduce the producing rate to \$270/month, they would fight us over operations with the OCD.

I said:

I would check on our response to cutting just the producing well rate and get back to her.

The call concluded at 2:02 p.m.

**Mark Wheeler
2:05 p.m. 12/17/99**

devon
ENERGY CORPORATION

20 NORTH BROADWAY, SUITE 1500 Phone: 405/235-3611
OKLAHOMA CITY, OK 73102-8260

=====

FACSIMILE TRANSMISSION
(405) 552-8113

DATE: December 30, 1999

TO: Bob Shelton

COMPANY: Nearburg Exploration

FACSIMILE #: 915-686-7806

OFFICE #: _____

FROM: Carla Wood (405-552-4615)

NUMBER OF PAGES FOLLOWING: 8 + cover

MESSAGE:

OK
DWB
12/29/99

If you have any problems receiving this fax, please call Marsha Bartlett at (405) 552-4623 as soon as possible.

Original is:

- Being sent by United States Post Office
- Being sent by Overnight Mail
- Not being sent
- Other: _____

1 **NOTE:** Instructions For Use of Gas Balancing
 2 Agreement MUST be reviewed before finalizing this
 3 document.
 4
 5
 6

7 **EXHIBIT "E"**
 8 **GAS BALANCING AGREEMENT ("AGREEMENT")**
 9 **ATTACHED TO AND MADE PART OF THAT CERTAIN**
 10 **OPERATING AGREEMENT DATED _____**
 11 **BY AND BETWEEN _____**
 12 **AND _____ ("OPERATING AGREEMENT")**
 13 **RELATING TO THE _____ AREA,**
 14 **_____ COUNTY/PARISH, STATE OF _____**
 15

16 **1. DEFINITIONS**

17 The following definitions shall apply to this Agreement:

18 1.01 "Arm's Length Agreement" shall mean any gas sales agreement with an unaffiliated purchaser or any gas sales
 19 agreement with an affiliated purchaser where the sales price and delivery conditions under such agreement are
 20 representative of prices and delivery conditions existing under other similar agreements in the area between
 21 unaffiliated parties at the same time for natural gas of comparable quality and quantity.

22 1.02 "Balancing Area" shall mean (select one):

- 23 each well subject to the Operating Agreement that produces Gas or is allocated a share of Gas production. If a
 24 single well is completed in two or more producing intervals, each producing interval from which the Gas
 25 production is not commingled in the wellbore shall be considered a separate well.
- 26 all of the acreage and depths subject to the Operating Agreement.
- 27 _____
- 28 _____
- 29 _____
- 30 _____

31 1.03 "Full Share of Current Production" shall mean the Percentage Interest of each Party in the Gas actually produced
 32 from the Balancing Area during each month.

33 1.04 "Gas" shall mean all hydrocarbons produced or producible from the Balancing Area, whether from a well classified
 34 as an oil well or gas well by the regulatory agency having jurisdiction in such matters, which are or may be made
 35 available for sale or separate disposition by the Parties, excluding oil, condensate and other liquids recovered by
 36 field equipment operated for the joint account. "Gas" does not include gas used in joint operations, such as for fuel,
 37 recycling or reinjection, or which is vented or lost prior to its sale or delivery from the Balancing Area.

38 1.05 "Makeup Gas" shall mean any Gas taken by an Underproduced Party from the Balancing Area in excess of its Full
 39 Share of Current Production, whether pursuant to Section 3.3 or Section 4.1 hereof.

40 1.06 "Mcf" shall mean one thousand cubic feet. A cubic foot of Gas shall mean the volume of gas contained in one cubic
 41 foot of space at a standard pressure base and at a standard temperature base.

42 1.07 "MMBtu" shall mean one million British Thermal Units. A British Thermal Unit shall mean the quantity of heat
 43 required to raise one pound avoirdupois of pure water from 58.5 degrees Fahrenheit to 59.5 degrees Fahrenheit at a
 44 constant pressure of 14.73 pounds per square inch absolute.

45 1.08 "Operator" shall mean the individual or entity designated under the terms of the Operating Agreement or, in the
 46 event this Agreement is not employed in connection with an operating agreement, the individual or entity
 47 designated as the operator of the well(s) located in the Balancing Area.

48 1.09 "Overproduced Party" shall mean any Party having taken a greater quantity of Gas from the Balancing Area than
 49 the Percentage Interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.

50 1.10 "Overproduction" shall mean the cumulative quantity of Gas taken by a Party in excess of its Percentage Interest in
 51 the cumulative quantity of all Gas produced from the Balancing Area.

52 1.11 "Party" shall mean those individuals or entities subject to this Agreement, and their respective heirs, successors,
 53 transferees and assigns.

54 1.12 "Percentage Interest" shall mean the percentage or decimal interest of each Party in the Gas produced from the
 55 Balancing Area pursuant to the Operating Agreement covering the Balancing Area.

56 1.13 "Royalty" shall mean payments on production of Gas from the Balancing Area to all owners of royalties, overriding
 57 royalties, production payments or similar interests.

58 1.14 "Underproduced Party" shall mean any Party having taken a lesser quantity of Gas from the Balancing Area than
 59 the Percentage Interest of such Party in the cumulative quantity of all Gas produced from the Balancing Area.

60 1.15 "Underproduction" shall mean the deficiency between the cumulative quantity of Gas taken by a Party and its
 61 Percentage Interest in the cumulative quantity of all Gas produced from the Balancing Area.

62 1.16 (Optional) "Winter Period" shall mean the month(s) of _____ in one
 63 calendar year and the month(s) of _____ in the succeeding calendar year.

64 **2. BALANCING AREA**

65 2.1 If this Agreement covers more than one Balancing Area, it shall be applied as if each Balancing Area were covered
 66 by separate but identical agreements. All balancing hereunder shall be on the basis of Gas taken from the Balancing Area
 67 measured in (Alternative 1) Mcfs or (Alternative 2) MMBtus.

68 2.2 In the event that all or part of the Gas deliverable from a Balancing Area is or becomes subject to one or more
 69 maximum lawful prices, any Gas not subject to price controls shall be considered as produced from a single Balancing Area
 70 and Gas subject to each maximum lawful price category shall be considered produced from a separate Balancing Area.

71 **3. RIGHT OF PARTIES TO TAKE GAS**

72 3.1 Each Party desiring to take Gas will notify the Operator, or cause the Operator to be notified, of the volumes
 73 nominated, the name of the transporting pipeline and the pipeline contract number (if available) and meter station relating
 74 to such delivery, sufficiently in advance for the Operator, acting with reasonable diligence, to meet all nomination and other

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

in accordance with each Parties' interest in the well

requirements. Operator is authorized to deliver the volumes so nominated and confirmed (if confirmation is required) to the transporting pipeline in accordance with the terms of this Agreement, provided, however, the Well is capable of delivering the nominated volume for the applicable Party or Parties.

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

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

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

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

3.6 In the event that a Party fails to make arrangements to take its Full Share of Current Production required to be produced to maintain leases in effect, to protect the producing capacity of a well or reservoir, to preserve correlative rights, or to maintain oil production, the Operator may sell ^{if it so elects} any part of such Party's Full Share of Current Production that such Party fails to take for the account of such Party and render to such Party, on a current basis, the full proceeds of the sale, less any reasonable marketing, compression, treating, gathering or transportation costs incurred directly in connection with the sale of such Full Share of Current Production. In making the sale contemplated herein, the Operator shall be obligated only to obtain such price and conditions for the sale as are reasonable under the circumstances and shall not be obligated to share any of its markets. Any such sale by Operator under the terms hereof 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 year. Notwithstanding the provisions of Article 3.4 hereof, Gas sold by Operator for a Party under the provisions hereof shall be deemed to be Gas taken for the account of such Party.

4. IN-KIND BALANCING

reasonable notice

4.1 Effective the first day of any calendar month following/at least thirty (30) days' prior written notice to the Operator, ^{if required by Operator} any Underproduced Party may begin taking, in addition to its Full Share of Current Production and any Makeup Gas taken pursuant to Section 3.3 of this Agreement, a share of current production determined by multiplying thirty-five percent (35 %) of the Full Shares of Current Production of all Overproduced Parties by a fraction, the numerator of which is the Percentage Interest of such Underproduced Party and the denominator of which is the total of the Percentage Interests of all Underproduced Parties desiring to take Makeup Gas. In no event will an Overproduced Party be required to provide more than thirty-five percent (35 %) of its Full Share of Current Production for Makeup Gas. The Operator will promptly notify all Overproduced Parties of the election of an Underproduced Party to begin taking Makeup Gas.

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

4.2 (Optional - Seasonal Limitation on Makeup - Option 2) Notwithstanding the provisions of Section 4.1, no Overproduced Party will be required to provide more than _____ percent (_____%) of its Full Share of Current Production for Makeup Gas during the Winter Period.

4.3 (Optional) Notwithstanding any other provision of this Agreement, at such time and for so long as Operator, or (insofar as concerns production by the Operator) any Underproduced Party, determines in good faith that an Overproduced Party has produced all of its share of the ultimately recoverable reserves in the Balancing Area, such Overproduced Party may be required to make available for Makeup Gas, upon the demand of the Operator or any Underproduced Party, up to one hundred percent (100 %) of such Overproduced Party's Full Share of Current Production.

5. STATEMENT OF GAS BALANCES

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

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

6. PAYMENTS ON PRODUCTION

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

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

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

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

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

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

7. CASH SETTLEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7.7 Interest compounded at the rate of _____ percent (____ %) per annum or the maximum lawful rate of interest applicable to the Balancing Area, whichever is less, will accrue for all amounts due under Section 7.1, beginning the first day following the date payment is due pursuant to Section 7.3. Such interest shall be borne by the Operator or any Overproduced Party in the proportion that their respective delays beyond the deadlines set out in Sections 7.2 and 7.3 contributed to the accrual of the interest. ~~The Operator shall also be required to pay such interest if it has received payment from any Overproduced Party~~

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

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

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

8. TESTING

Notwithstanding any provision of this Agreement to the contrary, any Party shall have the right, from time to time, to produce and take up to one hundred percent (100%) of a well's entire Gas stream to meet the reasonable deliverability test(s) required by such Party's Gas purchaser, and the right to take any Makeup Gas shall be subordinate to the right of any Party to conduct such tests; provided, however, that such tests shall be conducted in accordance with prudent operating practices only after thirty (30) days' prior written notice to the Operator and shall last no longer than seven (7) days including prior shut-in time.

9. OPERATING COSTS

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

10. LIQUIDS

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

11. AUDIT RIGHTS

Notwithstanding any provision in this Agreement or any other agreement between the Parties hereto, and further notwithstanding any termination or cancellation of this Agreement, for a period of two (2) years from the end of the calendar year in which any information to be furnished under Section 5 or 7 hereof is supplied, any Party shall have the right to audit the records of any other Party regarding quantity, including but not limited to information regarding Bru-content. Any Underproduced Party shall have the right for a period of two (2) years from the end of the calendar year in which any cash settlement is received pursuant to Section 7 to audit the records of any Overproduced Party as to all matters concerning values, including but not limited to information regarding prices and disposition of Gas from the Balancing Area. Any such 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. Each Party hereto agrees to maintain records as to the volumes and prices of Gas sold each month and the volumes of Gas used in its own operations, along with the Royalty paid on any such Gas used by a Party in its own operations. The audit rights provided for in this Section 11 shall be in addition to those provided for in Section 5.2 of this Agreement.

12. MISCELLANEOUS

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

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

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

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

but failed to timely pay the Underproduced Party.

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

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

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

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

18 12.8 If contemporaneously with this Agreement becoming effective, or thereafter, any Party requests that any other Party
19 execute an appropriate memorandum or notice of this Agreement in order to give third parties notice of record of same and
20 submits same for execution in recordable form, such memorandum or notice shall be duly executed by the Party to which such
21 request is made and delivered promptly thereafter to the Party making the request. Upon receipt, the Party making the request
22 shall cause the memorandum or notice to be duly recorded in the appropriate real property or other records affecting the
23 Balancing Area. See 14.3

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

29 13. ASSIGNMENT AND RIGHTS UPON ASSIGNMENT

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

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

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

60 14. OTHER PROVISIONS

61 See attachment.
62
63
64
65
66
67
68
69
70
71
72
73
74

14. OTHER PROVISIONS

- 14.1 Any Underproduced Party can require cash settlement from the Overproduced Parties in January of each even numbered year by providing written notice to the Operator. Section 7 of this Gas Balancing Agreement shall govern cash settlement under this provision.
- 14.2 In the event any Party feels a Party has produced more than its share of recoverable reserves and wants to prohibit said Party from selling additional gas, the Party shall notify the Operator, including its estimate of remaining recoverable reserves. The Operator shall notify all other Parties. If Parties concur with the recoverable reserve estimate, said Overproduced Party shall be prohibited from selling gas until the Overproduced Party is back in balance. If the Parties cannot agree on the remaining recoverable reserves, the Operator shall retain an independent reservoir engineer, experienced and competent in the geographical areas of the well(s) in question, to compute the reserves. Its decision shall be final. Costs incurred by the independent engineer shall be borne by the Parties hereto.
- 14.3 The Parties to this Agreement agree to abide by Regulation 1.761-2(d)(2) as promulgated by the Internal Revenue Service. Regulation 1.761-2(d)(2) requires that all co-producers of natural gas operating under the same JOA must use the cumulative gas balancing method, as described under this regulation, to report gas balancing for tax purposes. In the event of a conflict between the provisions of this Section and any other provisions of this Agreement, the provisions of this Section shall control.

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

1 15. COUNTERPARTS

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

7 IN WITNESS WHEREOF, this Agreement shall be effective as of the _____ day of _____,
8 19 _____.

9
10 ATTEST OR WITNESS:

OPERATOR

11 _____

12 _____ BY: _____

13 _____

14 Type or print name

15 Title _____

16 Date _____

17 Tax ID or S.S. No. _____

18 _____

19 NON-OPERATORS

20 _____

21 _____ BY: _____

22 _____

23 Type or print name

24 Title _____

25 Date _____

26 Tax ID or S.S. No. _____

27 _____

28 _____

29 _____ BY: _____

30 _____

31 Type or print name

32 Title _____

33 Date _____

34 Tax ID or S.S. No. _____

35 _____

36 _____

37 _____

38 _____

39 _____

40 _____

41 _____

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

ACKNOWLEDGMENTS

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31

Note: The following forms of acknowledgment are the short forms approved by the Uniform Law on Notarial Acts. The validity and effect of these forms in any state will depend upon the statutes of that state.

Individual acknowledgment:

State of _____)

_____) ss.

County of _____)

This instrument was acknowledged before me on _____

_____ by _____

(Seal, if any) _____

Title (and Rank): _____

My commission expires: _____

Acknowledgment in representative capacity:

State of _____)

_____) ss.

County of _____)

This instrument was acknowledged before me on _____

_____ by _____ ss

_____ of _____

(Seal, if any) _____

Title (and Rank) _____

My commission expires: _____



Telephone Log

Date: 1/06/00 **Time:** 9:10 a.m.

Call to/from: Carla Wood

Company: Devon

Subject: Logan Draw 30 #1 well

Call Info:

Left message with Carla's answering machine that we were still waiting on her comments to our JOA, and that we had reviewed their Gas Bal. Agmt. and it was OK. I told her that Nearburg would go with the Ernst & Young rates of \$4168 and \$400. I also said that we were aware that they had recently charged Mewbourne rates of \$6000 and \$600 for a similar well in the area, so that we were bending over backwards to utilize the Ernst & Young rates. I asked Carla to call me back.

Telephone Log

Date: 1/14/00 **Time:** 9:00am

Call from: Carla Wood

Company: Devon

Subject: Logan Draw "30" Fed Com #1 Well

Call Info:

Carla said that they were not willing for us to use the Ernst & Young OH rates and that they could operate the well for \$3000 per month drilling rates. I said I would speak with Bob about this and get back to her, but that we would only agree with the Ernst & Young prescribed rates.

Telephone Log

Date: 1/14/00 **Time:** 10:30am

Call to: Carla Wood

Company: Devon

Subject: Logan Draw "30" Fed Com #1 Well

Call Info:

I got Carla's cell phone answering machine and told her that we would only agree with the Ernst & Young prescribed rates and that we would prepare to be at the hearing on 1/20/00. I asked her to call me before we left Midland on 1/18/00 if they were willing to sign the AFE and send us a conditional letter of acceptance on our JOA with the Ernst & Young rates.

Telephone Log

Date: 1/14/00 **Time:** 2:45pm

Call to: Carla Wood

Company: Devon

Subject: Logan Draw "30" Fed Com #1 well

Call Info:

I got both Carla's cell and office answering machines and told her that we could not understand Devon's questioning of our OH rates, since they had proposed \$6000 and \$600 rates in their November JOA and since they were charging other companies the \$6000 and \$600 rates on another well.

I asked Carla to sign a conditional letter of acceptance agreeing to our proposed Ernst & Young OH rates (\$4168 & \$421) and get it to us by Tuesday or we would proceed with the hearing.

Telephone Log

Date: 1/17/00 **Time:** 8:25 a.m.

Call from: Carla Wood

Company: Devon

Subject: Logan Draw "30" Fed Com #1 well

Call Info:

Carla called and stated that she had run into a "brick wall" about the OH rates due to the long history on this well. She said that they would operate for \$3000 and \$300 and that we should be willing to operate for those rates. I said that their November 1999 JOA had rates of \$6000 and \$600, and that they had charged those rates in the area for a similar well, and that we were bending over backwards to reduce to the Ernst & Young rates. We concluded by discussing whether or not they would be present at the hearing to protest, and Carla said at this point, she did not know.

Logan Draw 30

devon
ENERGY CORPORATION

20 NORTH BROADWAY, SUITE 1500 Phone: 405/235-3611
OKLAHOMA CITY, OK 73102-8260

=====

FACSIMILE TRANSMISSION
(405) 552-8113

FAXED

DATE: 1/24/00

TO: Bob Shelton

COMPANY: Nearburg Exploration

FACSIMILE #: 915-686-7808

OFFICE #: _____

FROM: Carla Wood (405-552-4615)

NUMBER OF PAGES FOLLOWING: 3 + cover

MESSAGE:

If you have any problems receiving this fax, please call Marsha Bartlett at (405) 552-4623 as soon as possible.

Original is:

- Being sent by United States Post Office
- Being sent by Overnight Mail
- Not being sent
- Other: _____

PAUL OWEN,

We recv'd this from Devon on 1/24/00 per Bob Shelton.



20 North Broadway, Suite 1500
Oklahoma City, Oklahoma 73102-8260

Telephone: 405/552-4615
FAX 405/552-8113

January 24, 2000

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Nearburg Exploration Company, L.L.C.
3300 North "A" Street
Building 2, Suite 120
Midland, Texas 79705

Attention: Bob Shelton, Land Manager

Re: Logan Draw 30 G Federal Com. #1
N/2 Section 30-T17S-R27E
Eddy County, New Mexico

Gentlemen:

Enclosed please find revised pages to that certain Joint Operating Agreement dated November 11, 1999, by and between Devon Energy Corporation (Nevada), as Operator and Nearburg Exploration Company, L.L.C., as Non-Operator, covering the captioned well. Please incorporate these pages into your Joint Operating Agreement and return an executed original to the undersigned.

Should you have any questions, please feel free to call me at (405) 552-4615.

Sincerely,

DEVON ENERGY CORPORATION (NEVADA)

A handwritten signature in cursive script, appearing to read "Carla D. Wood".

Carla D. Wood
Landman

cdw:mkb\nearburg.1

enc.

ARTICLE V.
OPERATOR

4 A. Designation and Responsibilities of Operator:

6 DEVON ENERGY CORPORATION (NEVADA) shall be the
7 Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and
8 required by, and within the limits of this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall
9 have no liability as Operator to the other parties for losses sustained or liabilities incurred, except such as may result from gross
10 negligence or willful misconduct.

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

14 1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators.
15 If Operator terminates its legal existence, no longer owns an interest hereunder in the Contract Area, or is no longer capable of serving as
16 Operator, Operator shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. Operator
17 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
18 affirmative vote of two (2) or more Non-Operators owning a majority interest based on ownership as shown on Exhibit "A" remaining
19 after excluding the voting interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the
20 first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action
21 by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier
22 date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a cor-
23 porate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not
24 be the basis for removal of Operator.

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

33 C. Employees:

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

38 D. Drilling Contracts:

40 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
41 desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing
42 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
43 such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of in-
44 dependent contractors who are doing work of a similar nature.

ARTICLE VI.
DRILLING AND DEVELOPMENT

52 A. Initial Well:

54 On or before the 1st day of May, ~~19~~ 2000, Operator shall commence the drilling of a well for
55 oil and gas at the following location: A legal location in the NE/4 of Section 30, T-17S, R-27E, Eddy County, New Mexico

60 and shall thereafter continue the drilling of the well with due diligence to a depth of 9,400' or sufficient in Operator's opinion to test the
61 Morrow formation

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

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

1 12. Insurance

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

7
8 13. Abandonment and Reclamation

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

12
13 14. Communications

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

18
19 15. Other Expenditures

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

24
25
26 III. OVERHEAD

27
28 I. Overhead - Drilling and Producing Operations

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

- 32
33 (X) Fixed Rate Basis, Paragraph IA, or
34 () Percentage Basis, Paragraph IB

35
36 Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and
37 salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under
38 Paragraph 3A, Section II. The cost and expense of services from outside sources in connection with matters of
39 taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in
40 the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are
41 agreed to by the Parties as a direct charge to the Joint Account.

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

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

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

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

55
56 A. Overhead - Fixed Rate Basis

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

59
60 Drilling Well Rate \$ 6,000.00
61 (Prorated for less than a full month)

62
63 Producing Well Rate \$ 300.00

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

66
67 (a) Drilling Well Rate

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

Telephone Log

Date: 1/31/00 **Time:** 8:35 a.m.

Call to: Carla Wood

Company: Devon

Subject: Logan Draw "30" Fed Com #1 well

Call Info:

I told Carla that we wanted to work with them on settling this matter and were prepared to compromise on the monthly producing OH rates somewhere between the Ernst & Young rates and the \$300 per month they had just proposed that we use.

Carla said:

They wanted us to reduce our N/C percentage to 100%-300%, which I said OK to; that they wanted to see our FMI data from the Murchison well; and that she would get with her team to see if they could compromise on the producing OH rate.

Telephone Log

Date: 1/31/00 **Time:** 10:00 a.m.

Call from: Carla Wood

Company: Devon

Subject: Logan Draw "30" Fed Com #1 well

Call Info:

Carla said:

They would not compromise on the producing OH rate of \$300 that they had requested and that without the FMI data, they preferred their location and that they would go ahead with the hearing.

I said:

We would prepare for the hearing.

Mark Wheeler 1/31/00

Telephone Log

Date: 1/31/00 **Time:** 4:45 p.m.

Call from: Carla Wood

Company: Devon

Subject: Logan Draw "30" Fed. Com #1 well

Call Info:

Carla said that Jim Bruce had informed her of our offer to reduce our O/H rates to \$6000 and \$300, as they had last said they would do. Carla said that after running that by her team, they had decided to proceed with the OCD hearing, because they wanted to operate the well.

The call concluded at 4:46 p.m.

Mark Wheeler 1/31/00