

Yates, John A.

John A.

ROBERT L. BAYLESS

P. O. BOX 168
FARMINGTON, NM 87499

FAX NO.
(505) 326-6911

OFFICE NO.
(505) 326-2659

January 25, 2001

CERTIFIED MAIL 7099 3400 0018 4212 8792

John A. Yates
627 San Ysidro
Aztec, NM 87410

RE: Application for Compulsory Pooling
Robert L. Bayless, Operator
Hazel Bolack # 2 Well
SE/4SE/4 Sec. 10-T30N-R11W
San Juan County, NM

Dear Mr. Yates:

We have previously submitted an offer to you to lease your undivided mineral interest in the W/2SW/4 of Section 10, Township 30 North, Range 11 West, San Juan County, New Mexico. Such lease form, in addition to other provisions, provides that the lease is being granted for "pooling purposes only" and that the right to enter upon the premises for any purpose is "prohibited". The planned well to be associated with the pooled proration unit involving the lease submitted to you, will be located in the SE/4SE/4 of said Section 10 or approximately $\frac{3}{4}$ of a mile to the East of your property.

The purpose of this letter is to provide written notice pursuant to the Rules and Regulations of the New Mexico Oil Conservation Division ("NMOCD") that Robert L. Bayless ("Bayless") has filed an application with the NMOCD requesting the issuance of an Order force pooling all mineral interests from the surface of the earth to the base of the Mesa Verde formation underlying the S/2 of Section 10, Township 30 North, Range 11 West, NMPM, San Juan County, New Mexico, forming a 320-acre gas spacing and proration unit for the Blanco Mesa Verde pool to be dedicated to the Hazel Bolack # 2 Well and completed in the Blanco Mesa Verde pool. Bayless also requests that the order designate Bayless as operator of the Well, and that it provide for the recovery by the joining working interest owners of the costs of drilling, completing, equipping and operating the Well, together with a reasonable charge for risk involved in drilling and completing the Well. In addition, Bayless requests that the Order establish a reasonable charge for supervision of the Well during the drilling and production stages.

Bayless has requested the application be placed on the February 22nd, 2001, docket of the NMOCD for hearing. You may appear at the hearing to record any protest or objection you may have with respect to the subject matter of the application. For your information, the Rules and Regulations of the NMOCD require that each participant in an NMOCD hearing file a Pre-Hearing Statement on or before the Friday next preceding the date of the hearing.

Should you have questions, please contact Paul Hall at (505) 564-7806.

Yours truly,

Robert L. Bayless

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

John A. Yates
627 San Ysidro
Aztec, NM 87410

2. Article Number (Copy from service label)

PS Form 3811, July 1999

7099 3400 0018 4212 8792

Hazel Bolack Pooling Hearing Notification

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly) <u>T. Yates</u>	B. Date of Delivery <u>1/27/00</u>
C. Signature <u>[Signature]</u>	<input type="checkbox"/> Agent <input type="checkbox"/> Addressee
D. Is delivery address different from item 1? If YES, enter delivery address below:	
<input type="checkbox"/> Yes <input type="checkbox"/> No	

3. Service Type	<input checked="" type="checkbox"/> Certified Mail	<input type="checkbox"/> Express Mail
	<input type="checkbox"/> Registered	<input checked="" type="checkbox"/> Return Receipt for Merchandise
	<input type="checkbox"/> Insured Mail	<input type="checkbox"/> C.O.D.
4. Restricted Delivery? (Extra Fee)	<input type="checkbox"/> Yes	

U.S. Postal Service CERTIFIED MAIL RECEIPT (Domestic Mail Only; No Insurance Coverage, Provided)

Postage	\$
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	

Total
John A. Yates
627 San Ysidro
Aztec, NM 87410

PS Form 3800, February 2000

See Reverse for Instructions

ROBERT L. BAYLESS, PRODUCER LLC

P. O. BOX 168
FARMINGTON, NM 87499

FAX NO.
(505) 326-6911

OFFICE NO.
(505) 326-2659

November 27, 2000

CERTIFIED MAIL 7000 0600 0025 2409 3028

John A. Yates
627 San Ysidro
Aztec, NM 87410

RE: Oil, Gas and Mineral Lease
Portion of Sec. 10-T30N-R11W
San Juan County, New Mexico

Dear Mr. Yates:

Our records indicate that you are the owner of a divided interest in the oil, gas and other minerals under Section 10, Township 30 North, Range 11 West, San Juan County, New Mexico. Bayless desires to lease your net 0.19 acres.

We have enclosed a paid up Oil, Gas and Mineral Lease for your approval and execution as well as a copy for your records. As bonus consideration for execution of the Lease, Bayless will pay you the sum of \$100.00.

Please sign the Lease in the presence of a notary public and return the acknowledged Lease to my office as soon as possible. Upon receiving the signed and acknowledged lease, we shall immediately submit our check to you for the consideration addressed herein.

Should you have any questions, please contact Paul Hall at (505) 564-7806.

Yours truly,

Price M. Bayless, II
Operational Manager

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

John A. Yates
627 San Ysidro
Aztec, NM 87410

2. Article Number (Copy from service label)

PS Form 3811, July 1999

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly) John A. Yates B. Date of Delivery 12-1-00

C. Signature [Signature] ☒ Agent ☐ Addressee

D. Is delivery address different from item 1? ☐ Yes ☐ No
If YES, enter delivery address below:

3. Service Type
☒ Certified Mail ☐ Express Mail
☐ Registered ☒ Return Receipt for Merchandise
☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee) ☐ Yes

7000 0600 0025 2409 3028
Hazel Bolack Lease

**U.S. Postal Service
CERTIFIED MAIL RECEIPT**
(Domestic Mail Only; No Insurance Coverage Provided)

7000 0600 0025 2409 3028

Postage	\$
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	

Postmark
Here

Total Paid John A. Yates
 Recipient 627 San Ysidro
 Street, Ap Aztec, NM 87410
 City, State

PS Form 3800, February 2000

SEE REVERSE FOR INSTRUCTIONS

OIL, GAS AND MINERAL LEASE

THIS AGREEMENT made this 1st day of November, 2000, between John A. Yates, et ux., Lessor (whether one or more) whose address is: 627 San Ysidro, Aztec, NM 87410 and Robert L. Bayless, Producer LLC, Lessee whose address is: P. O. Box 168, Farmington, NM 87499, WITNESSETH:

1. Lessor in consideration of Twenty-Five Dollars (\$25.00) and other valuable consideration received from Lessee, of the royalties herein provided and of the agreements of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil, gas and all other minerals, conducting exploration, geologic and geophysical surveys by seismograph, core test, gravity and magnetic methods, injecting gas, water and other fluids, and air into subsurface strata, laying pipelines, building roads, tanks, power, telephone, and other communication lines and other structures thereon and on, over and across lands owned or claimed by Lessor adjacent and contiguous thereto, to produce, save, take care of, treat, transport and own said products, the following described land in Section 10, Township 30 North, Range 11 West, San Juan County, New Mexico, to wit:

Lot Thirty-Four (34) of the Denver & Rio Grande Western Rail Road Subdivision to the City of Aztec, San Juan County, New Mexico as Plat thereof appears on file in the office of the County Clerk of San Juan County, New Mexico.

This lease also covers and includes all land owned or claimed by Lessor adjacent or contiguous to the land particularly described above, whether the same be in said survey or surveys or in adjacent surveys, although not included within the boundaries of the land particularly described above. It is expressly agreed and understood that the herein described lands are granted in this lease for the purpose of pooling only. The right to enter upon said lands for any purpose is prohibited.

2. This is a paid up lease and subject to the other provisions herein contained, this lease shall be for a term of three (3) years, from this date (called "primary term") and as long thereafter as oil, gas or other mineral is produced from said land or land with which said land is pooled thereunder.

3. As royalty, Lessee covenants and agrees: (a) To deliver to the credit of Lessor in the pipeline to which the Lessee may connect its wells, the equal one-eighth (1/8th) part of all oil produced and saved by Lessee from said land, or from time to time, at the option of Lessee, to pay Lessor the average posted market price of such one-eighth (1/8th) part of such oil at the wells as of the day it is run to the pipeline or storage tanks, Lessor's interest, in either case, to bear one-eighth (1/8th) of the cost of treating oil to render it marketable pipeline oil; (b) to pay Lessor for gas and casing head gas produced from said land (1) when sold by Lessee, one-eighth (1/8th) of the amount realized by Lessee, computed at the mouth of the well, or (2) when used by Lessee of said land or in the manufacture of gasoline or other products, one-eighth (1/8th) of the amount realized from the sale of gasoline or other products extracted there from and one-eighth (1/8th) of the amount realized from the sale of residue gas after deducting the amount used for plant fuel and or compression; (c) to pay Lessor on all other minerals mined and marketed or utilized by Lessee from said land, one-tenth either in kind or value at the well or mine at Lessee's election, except that on sulphur mined and marketed the royalty shall be One Dollar (\$1.00) per long ton. If, at the expiration of the primary term or at any time or times thereafter there is any well on said land or on lands with which said land or any portion thereof has been pooled, capable of producing oil or gas, and all such wells are shut-in, this lease shall, nevertheless, continue in force as though operations were being conducted on said land for so long as said wells are shut-in, and thereafter this lease may be continued in force as if no shut-in had occurred. Lessee covenants and agrees to use reasonable diligence to produce, utilize, or market the minerals capable of being produced from said wells but in the exercise of such diligence, Lessee shall not be obligated to install or furnish facilities other than well facilities and ordinary lease facilities of flow lines, separator and lease tank, and shall not be required to settle labor trouble or to market gas upon terms unacceptable to Lessee. If, at any time or times after the expiration of the primary term, all such wells are shut-in for a period of ninety consecutive days, and during such time there are no operations on said land, then at or before the expiration of said ninety day period, Lessee shall pay or tender, by check or draft of Lessee, as royalty, a sum equal to One Dollar (\$1.00) for each acre of land then covered hereby. Lessee shall make like payments or tenders at or before the end of each anniversary of the expiration of said ninety day period if upon such anniversary this lease is being continued in force solely by reason of the provisions of this paragraph. Each such payment or tender shall be made to the parties who at the time of payment would be entitled to receive the royalties which would be paid under this lease if the wells were producing and may be deposited in the _____ Bank at _____ or its successors, which shall continue as the depositories, regardless of changes in the ownership of shut-in royalty. If at any time that Lessee pays or tenders shut-in royalty, two or more parties are, or claim to be, entitled to receive same, Lessee may, in lieu of any other method of payment herein provided, pay or tender such shut-in royalty, in the manner above specified, either jointly to such parties or separately to each in accordance with their respective ownership thereof, as Lessee may elect. Any payment hereunder may be made by check or draft of Lessee deposited in the mail or delivered to the party entitled to receive payment or to a depository bank provided for above on or before the last day for payment. Nothing herein shall impair Lessee's right to release as provided in paragraph 5 hereof. In the event of assignment of this lease in whole or in part, liability for payment hereunder shall rest exclusively on the then owners of the lease, severally as to acreage owned by each.

4. Lessee, at its option, is hereby given the right and power to pool or combine the acreage covered by this lease or any portion thereof as to oil and gas, or either of them, with any other land covered by this lease and/or with any other land, lease or leases in the immediate vicinity thereof to the extent hereinafter stipulated, when in Lessee's judgment it is necessary or advisable to do so in order to properly explore, or to develop and operate said leased premises in compliance with the well spacing rules of the State of New Mexico, or other lawful authority, or when to do so would, in the judgment of Lessee promote the conservation of oil and gas in and under and that may be produced from said premises. Units pooled for oil hereunder shall not substantially exceed forty (40) acres each in area, and units pooled for gas hereunder shall not substantially exceed in area six-hundred forty (640) acres each plus a tolerance of ten (10) percent thereof, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, for the drilling or operation of a well at a regular location or for obtaining maximum allowable from any well to be drilled, drilling or already drilled, units thereafter created may conform substantially in size with those prescribed or permitted by governmental regulations. Lessee under the provisions hereof may pool or combine acreage covered by this lease or any portion thereof as above provided as to oil in any one or more strata and as to gas in any one or more strata. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portion thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated and instrument describing and designating the pooled acreage as a pooled unit; and upon such recordation the unit shall be effective as to all parties hereto, their heirs, successors, and assigns, irrespective of whether or not the unit is likewise effective as to all other owners of surface, mineral, royalty, or other rights in land included in such unit. Lessee may at its election exercise its pooling option before or after commencing operations for or completing an oil or gas well on the leased premises, and the pooled unit may include, but it is not required to include land or leases upon which a well capable of producing oil or gas in paying quantities has heretofore been completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. In the event of operations for drilling on or production of oil or gas from any part of a pooled unit which includes all or a portion of the land covered by this lease, regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, such operations shall be considered as operations for drilling on or production of oil or gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease and in such event operations for drilling shall be deemed to have been commenced on said land within the meaning of paragraph 5., of this lease; and the entire acreage constituting such unit or units, as to oil and gas, or either of them, as herein provided, shall be treated for all purposes, except the payments of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them shall be entitled on production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in said unit (or to each separate tract within the unit if this lease covers separate tracts within the unit) a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled unit. Such allocation shall be on an acreage basis - that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit (or to each separate tract within the unit if this lease covers separate tracts within the unit) that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this lease (or in each such separate tract) and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be oil and gas, or either of them, so allocated to the land covered by this lease and included in the unit just as though such production were from such land. The production from an oil well will be considered as production from the lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and production from a gas well will be considered as production from the lease or gas pooled unit from which it is producing and not from an oil pooled unit. The formation of any unit hereunder shall not have the effect of changing the ownership of any shut-in production royalty which may become payable under this lease. If this lease now or hereafter covers separate tracts, no pooling or unitization of royalty interest as between any such separate tracts is intended or shall be implied or result merely from the inclusion of such separate tracts within this lease, but Lessee shall nevertheless have the right to pool as provided above with consequent allocation as above provided. As used in this paragraph 4., the words

"separate tract" mean any tract with royalty ownership differing, now or hereafter, either as to parties or amounts, from that as to any other part of the leased premises.

5. If at the expiration of the primary term, oil, gas, or other mineral is not being produced on said land, or from land pooled therewith, but Lessee is then engaged in drilling or reworking operations thereon, or shall have completed a dry hole thereon within sixty (60) days prior to the end of the primary term, the lease shall remain in force so long as operations on said well or for drilling or reworking of any additional well are prosecuted with no cessation of more than sixty (60) consecutive days, and if they result in the production of oil, gas or other mineral, so long thereafter as oil, gas, or other mineral is produced from said land, or from land pooled therewith. If, after the expiration of the primary term of this lease and after oil, gas, or other mineral is produced from said land, or from land pooled therewith, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within sixty (60) days after the cessation of such production, but shall remain in force and affect so long as such operations are prosecuted with no cessation of more than sixty (60) consecutive days, and if they result in the production of oil, gas, or other mineral, so long thereafter as oil, gas, or other mineral is produced from said land, or from land pooled therewith. Any pooled unit designated by Lessee in accordance with the terms hereof, may be dissolved by Lessee by instrument filed for record in the appropriate records of the county in which the leased premises are situated at any time after the completion of a dry hole or the cessation of production on said unit. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within three-hundred thirty (330) feet of and draining the leased premises, or land pooled therewith, Lessee agrees to drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances. Lessee may at any time execute and deliver to Lessor or place of record a release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered.

6. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all pipelines below all ordinary plow depth, and no well shall be drilled within two-hundred (200) feet of any residence or barn now on said land without Lessor's consent.

7. The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to the heirs, successors, and assigns; but no change or division in ownership of the land, or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee; and no change or division in such ownership shall be binding on Lessee until thirty (30) days after Lessee shall have been furnished by registered U.S. Mail at Lessee's principle place of business with a certified copy of recorded instrument or instruments evidencing same. In the event of assignment hereof in whole or in part, liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof who commits such breach. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.

8. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or reversion of the estate created hereby nor be grounds for cancellation hereof in whole or in part. No obligation reasonably to develop the leased premises shall arise during the primary term. Should oil, gas, or other mineral in paying quantities be discovered on said premises, then after the expiration of the primary term, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator, but in discharging this obligation it shall in no event be required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per six-hundred forty (640) acres plus and acreage tolerance not to exceed ten (10) percent of six-hundred forty (640) acres of the area retained hereunder and capable of producing gas or other mineral in paying quantities. If after the expiration of the primary term, Lessor considers that operations are not at any time being conducted in compliance with this lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereof, and Lessee, if in default, shall have sixty (60) days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument.

9. Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee at its option may discharge any tax, mortgage or other lien upon said land, either in whole or in part, and in event Lessee does so, it shall be subrogated to such lien with right to enforce same and apply royalties accruing hereunder toward satisfying same. Without impairment of Lessee's rights under the warranty in event of failure of title, it is agreed that if this lease covers a less interest in the oil, gas, sulphur, or other minerals in all or any part of said land than the entire and undivided fee simple estate (whether Lessor's interest is herein specified or not), or no interest therein, then the royalties, and other monies accruing from any part as to which this lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease, bears to the whole and undivided fee simple estate therein. All royalty interest covered by this lease (whether or not owned by Lessor) shall be paid out of the royalty herein provided. Should any one or more of the parties named above as Lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

10. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing oil or gas therefrom by reason of scarcity of or inability to obtain or to use equipment or material, or by operation of force majeure, and federal or state law or any order, rule or regulation of governmental authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended, and Lessee shall not be liable in damages for failure to comply therewith; and this lease shall be extended while and so long as Lessee is prevented by any such cause from conducting drilling or reworking operations on or from producing oil or gas from lease premises; and the time while Lessee is so prevented shall not be counted against Lessee, anything in this lease to the contrary notwithstanding.

IN WITNESS WHEREOF, this instrument is executed effective the date first above written.

LESSOR:

John A. Yates
SS # _____
Phone # _____

STATE OF _____ §
COUNTY OF _____ § ss.

This instrument was acknowledged before me this ____ day of _____, 2000, by John A. Yates, for the purposes stated herein above.

Notary Public

STATE OF NEW MEXICO
 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
 OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)
 THE OIL CONSERVATION DIVISION FOR THE)
 PURPOSE OF CONSIDERING:) CASE NO. 12,593
)
 APPLICATION OF ROBERT L. BAYLESS FOR)
 COMPULSORY POOLING, SAN JUAN COUNTY,)
 NEW MEXICO)
)

OFFICIAL EXHIBIT FILE

(1 of 2, Exhibits A through F, Part 1)

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

February 22nd, 2001

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, February 22nd, 2001, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

AFFIDAVIT

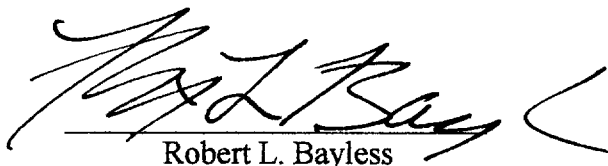
STATE OF NEW MEXICO §
COUNTY OF SAN JUAN §

ROBERT L. BAYLESS, being first sworn, states as follows:

1. The review of our files regarding the Hazel Bolack # 2 Well were completed at my request and under my direct supervision.

2. I was directly responsible and supervised the preparation of all submittals associated with the Compulsory Pooling for the Hazel Bolack # 2 Well which is to be located in the SE/4 of Section 10, Township 30 North, Range 11 West, San Juan County, New Mexico and hereby attest to the best of my knowledge and belief that all information submitted is complete and correct.

Further the Affiant sayeth not.

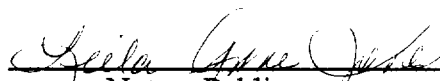

Robert L. Bayless

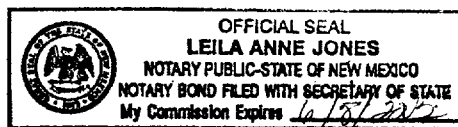
STATE OF NEW MEXICO §
COUNTY OF SAN JUAN §

The foregoing instrument was acknowledged before me this 20th day of February, 2001.

My commission expires:

June 8, 2002


Notary Public



ROBERT L. BAYLESS

P. O. BOX 168
FARMINGTON, NM 87499

FAX NO.
(505) 326-6911

OFFICE NO.
(505) 326-2659

January 24, 2001

CERTIFIED MAIL 7000 1670 0012 7261 7650

Ms. Lori Wrotenbery, Director
**NEW MEXICO OIL
CONSERVATION DIVISION**
2040 S. Pacheco Street
Santa Fe, NM 87505

RE: Application for Compulsory Pooling
Robert L. Bayless, Operator
Hazel Bolack # 2 Well
SE/4 Sec. 10-T30N-R11W
San Juan County, NM

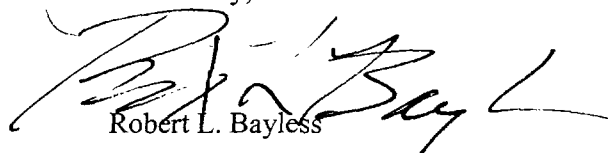
Dear Ms. Wrotenbery:

Please consider this letter the formal application of Robert L. Bayless for an Order by the New Mexico Oil Conservation Division force-pooling all of the mineral interests from the surface of the earth to the base of the Mesa Verde formation underlying the S/2 of Section 10, Township 30 North, Range 11 West, NMPM, San Juan County, New Mexico, forming a 320-acre gas spacing and proration unit for the Basin Dakota pool to be dedicated to the Hazel Bolack # 2 Well and completed in the Blanco Mesa Verde pool. Bayless requests that the order designate Robert L. Bayless as operator of the Well, and that it provide for the recovery by the joining working interest owners of the costs of drilling, completing, equipping and operating the Well, together with a reasonable charge for risk involved in drilling and completing the Well. In addition, Bayless requests that the Order establish a reasonable charge for supervision of the Well during the drilling and production stages.

Please place this application on the February 22nd, 2001, docket of the New Mexico Oil Conservation Division for hearing.

Enclosed are two additional copies of this letter application. Please advise should you require any additional information.

Yours truly,


Robert L. Bayless

cc: Supervisor, District III Office
New Mexico Oil Conservation Division
1000 Rio Brazos Road
Aztec, NM 87410

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Ms. Lori Wrotenbery, Director
NEW MEXICO OIL
CONSERVATION DIVISION
2040 S. Pacheco Street
Santa Fe, NM 87505

2. Article Number (Copy from service label)

PS Form 3811, July 1999

7000 1670 0012 7261 7650

Hearing Request Hazel Bolack

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly) B. Date of Delivery
C. Signature *Lori Wrotenbery* Agent
D. Addressee ☐ Yes ☐ No

Is delivery address different from item 1? ☐ Yes ☐ No
If YES, enter delivery address below:

SANTA FE NM 87502

3. Signature *Lori Wrotenbery* 2001
☒ Certified Mail ☐ Express Mail
☐ Registered ☒ Return Receipt for Merchandise
☐ Insured Mail ☒ C.O.D.

4. Restricted Delivery? (Extra Fee) ☐ Yes ☐ No

**U.S. Postal Service
CERTIFIED MAIL RECEIPT**
(Domestic Mail Only; No Insurance Coverage Provided)

7000 1670 0012 7261 7650

Postage \$
Certified Fee
Return Receipt Fee (Endorsement Required)
Restricted Delivery Fee (Endorsement Required)
Total Postage
Sent To
Street, Apt.
City, State,

Ms. Lori Wrotenbery, Director
NEW MEXICO OIL
CONSERVATION DIVISION
2040 S. Pacheco Street
Santa Fe, NM 87505

Postmark
Here

PS Form 3811

See Reverse for Instructions

P. O. BOX 168, FARMINGTON, NM 87499
PHONE (505) 326-2659 FAX (505) 326-6911

**ROBERT L. BAYLESS,
PRODUCER LLC**

Fax

To:	Ms. Lori Wrotenbery, Director	From:	Paul Hall
Fax:	(505) 476-3462		
Phone:		Date:	1/24/01
Re:	Application for Hearing	Pages:	Two (2) including cover sheet

✓ **FOR YOUR REVIEW**

Hazel Bolack #2 Well

S/2 Section 10-T30N-R11W

San Juan County, New Mexico

P. O. BOX 168, FARMINGTON, NM 87499
PHONE (505) 326-2659 FAX (505) 326-6911

ROBERT L. BAYLESS,
PRODUCER LLC

Fax

To:	Ms. Lori Wrotenbery, Director	From:	Paul Hall
Fax:	(505) 476-3462		
Phone:		Date:	2/15/01
Re:	Pre-Hearing Statement	Pages:	Two (2) including cover sheet

✓ **FOR YOUR REVIEW**

Hazel Bolack #2 Well

S/2 Section 10-T30N-R11W

San Juan County, New Mexico

ROBERT L. BAYLESS, PRODUCER

P. O. BOX 168
FARMINGTON, NM 87499

FAX NO.
(505) 326-6911

OFFICE NO.
(505) 326-2659

February 14, 2001

Ms. Lori Wrotenbery, Director
NEW MEXICO OIL
CONSERVATION DIVISION
1220 S. Saint Francis
Santa Fe, NM 87505

RE: Case No. 12593
Pre-Hearing Statement
for Compulsory Pooling
Robert L. Bayless, Operator
Hazel Bolack # 2 Well
S/2 Sec. 10-T30N-R11W
San Juan County, NM

Dear Ms. Wrotenbery:

Enclosed is a Pre-Hearing Statement for the compulsory pooling under the above described Well.
Please advise should you have any questions.

Yours truly,

Robert L. Bayless

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 12593

APPLICATION OF ROBERT L. BAYLESS FOR
COMPULSORY POOLING, SAN JUAN
COUNTY, NEW MEXICO.

PRE-HEARING STATEMENT

This pre-hearing statement is submitted by Robert L. Bayless as required by the Oil Conservation Division.

APPEARANCES OF PARTIES

APPLICANT

ATTORNEY

Robert L. Bayless – Pro Se

P. O. box 168

Farmington, NM 87499

Phone (505) 326-2659

OPPOSITION OR OTHER PARTY

ATTORNEY

Not known

Not known

STATEMENT OF CASE

APPLICANT

Applicant seeks an order of the Oil Conservation Division force-pooling all mineral interests from the surface of the Earth to the base of the Mesa Verde formation underlying the S/2 of Section 10, Township 30 North, Range 11 West, San Juan County, New Mexico, forming a standard, lay-down 320-acre (more or less) proration unit to be dedicated to the Hazel Bolack No. 2 Well to be drilled at a standard gas well location.

Applicant also seeks to be designated as the operator of the Well and that he and other joining working interest owners be authorized to recover the costs of drilling, completing, equipping, and operating the Well, together with an additional 200 % charge for risk associated with the drilling and completion of the Well.

Applicant further requests that he be allowed a reasonable charge for the supervision of the Well during drilling and production stages.

Efforts to obtain the voluntary joinder of certain owners of leasehold operating rights have been unsuccessful.

OPPOSITION OR OTHER PARTY

We are unaware of any parties opposing this application.

PROPOSED EVIDENCE

APPLICANT

WITNESSES
ROBERT L. BAYLESS

EST. TIME
30 minutes

EXHIBITS
Exhibit "A"
Lease ownership plat
Exhibit "B"
Tabulation of committed and
non-committed owners
Exhibit "C"
Authority for Expenditure
Exhibit "D"
Operating Agreement
Exhibit "E"
Ernst & Young Survey
Exhibit "F"
Correspondence, notification
letters, and proof of delivery

OPPOSITION

We are unaware of any parties opposing this application.

PROCEDURAL MATTERS

None

Robert L. Bayless

Dated: February 14, 2001

EXHIBIT "A"

Plat of Area for Compulsory Pooling covering S/2 of Section 10, Township 30 North,
Range 11 West, San Juan County, New Mexico containing 318.94 acres more or less.

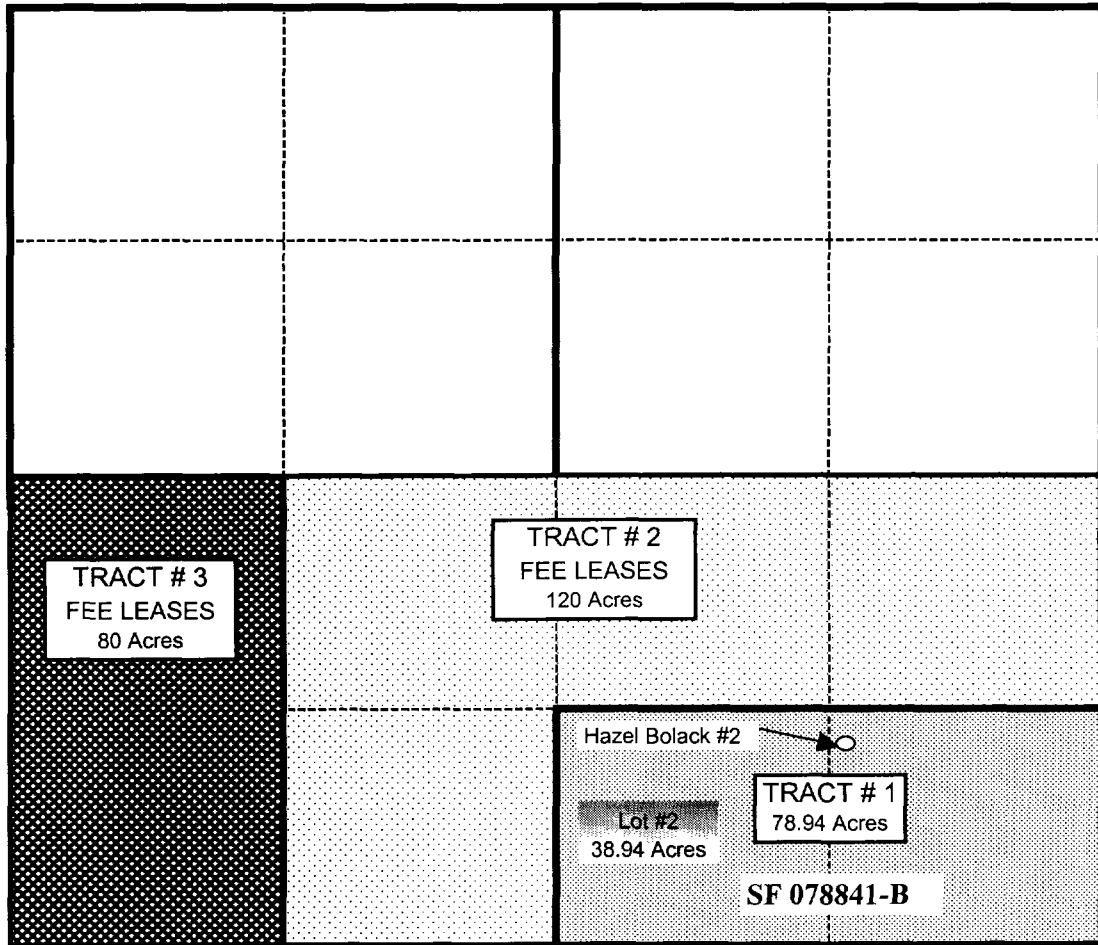


EXHIBIT "B" BELOW

EXHIBIT "B"

All lands and leases are located in San Juan County, New Mexico

TRACT #1

Lessor: U. S. of A. SF-078841-B
Original Lessee: Hazel Bolack
Lessee of Record: Robert L. Bayless
Royalty Rate: 12.5%
Lease date: March 1, 1940
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Lot 2, SE/4SE/4,
containing 78.94 acres, more or less.

TRACT #2

Lessor: Mary Anne Shepherd
Original Lessee: W. P. Carr
Lease date: November 6, 1952
Recorded: Book 203, Page 104
Royalty Rate: 12.5%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: NW/4SE/4, NE/4SW/4
containing 80 acres, more or less, among other
lands not herein included.

Lessor: The Aztec Cemetery Association
Original Lessee: W. P. Carr
Lease date: March 21, 1953
Recorded: Book 208, Page 65
Royalty Rate: 12.5%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Fraction of NE/4SW/4,
containing 5.5682 acres, among other lands not
herein included.

Lessor: Shirley Paulek and Grant Paulek, husband & wife.
Original Lessee: W. P. Carr
Lease date: June, 1978
Recorded: Book 831, Page 6
Royalty Rate: 12.5%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: SE/4SW/4,
containing 40 acres, more or less.

Lessor: Chester Thompson Jr. and Joyce Thompson,
husband & wife
Original Lessee: W. P. Carr
Lease date: May 30, 1978
Recorded: Book 831, Page 74
Royalty Rate: 12.5%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: SE/4SW/4,
containing 40 acres, more or less.

EXHIBIT "B" CONT

Lessor: Chester Thompson Jr. and Joyce Thompson,
husband & wife
Original Lessee: W. P. Carr
Lease date: May 30, 1978
Recorded: Book 831, Page 74
Royalty Rate: 12.5%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: SE/4SW/4,
containing 40 acres, more or less.

Lessor: Ella Taylor Trimble
Original Lessee: Tom Bolack
Lease date: October 13, 1952
Recorded: Book 192, Page 190
Royalty Rate: 16.6667%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: NE/4SE/4,
containing 40 acres, more or less, among other
lands not herein included.

TRACT #3

- (1) Lessor: Jack D. Bixler, et ux.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1315, Page 796
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.15 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (2) Lessor: Leslie D. Conrad and Sharon D. Conrad, husband
and wife
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1315, Page 803
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.47 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (3) Lessor: Varna Coleman
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1315, Page 796
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.18 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as

EXHIBIT "B" CONT

- (4) Lessor: Ronald D. Dial, Et. Al.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1315, Page 794
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 2.25 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (5) Lessor: Artesia Griffith
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1315, Page 798
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 1.45 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (6) Lessor: Teddy T. and Audrey N. Glazebrook Living Trust
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1315, Page 799
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 1.18 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (7) Lessor: Debi J. Hunsicker
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1315, Page 802
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.10 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (8) Lessor: Karen D. Holland
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1315, Page 805
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.10 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.

EXHIBIT "B" CONT

- (9) Lessor: Loal Inc.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1315, Page 797
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.19 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (10) Lessor: Ford Conrad LaRue Trust
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1315, Page 795
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 2.20 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (11) Lessor: Charles Strinaman, et ux.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1315, Page 804
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.47 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (12) Lessor: John Gordon Thomas and Gwendolyn C. Thomas,
husband and wife.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1315, Page 800
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.24 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (13) Lessor: Enriques Villanueva
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1315, Page 801
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.36 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.

EXHIBIT "B" CONT

- (14) Lessor: James D. Crowley and Jana S. Crowley, husband and wife.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1316, Page 445
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.22 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (15) Lessor: Janice Payson
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.36 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (16) Lessor: Barbara Stallings
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.23 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (17) Lessor: Thelma L. Mahan
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 2.13 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (18) Lessor: Allen R. Chapman
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1316, Page 443
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 1.96 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.

EXHIBIT "B" CONT

- (19) Lessor: David Cupps
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book _____, Page _____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.28 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (20) Lessor: Hare Production Co.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1316, Page 446
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 1.50 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (21) Lessor: William Heard, Thomas Heard, and Daniel Heard
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book _____, Page _____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.47 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (22) Lessor: Kelly Maestas and Florence A. Maestas, husband
and wife.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book _____, Page _____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.81 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (23) Lessor: Martin A. LaRue, et ux.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book _____, Page _____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.60 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as

EXHIBIT "B" CONT

- (19) Lessor: David Cupps
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.28 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (20) Lessor: Hare Production Co.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1316, Page 446
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 1.50 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (21) Lessor: William Heard, Thomas Heard, and Daniel Heard
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.47 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (22) Lessor: Kelly Maestas and Florence A. Maestas, husband
and wife.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.81 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (23) Lessor: Martin A. LaRue, et ux.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.60 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded

EXHIBIT "B" CONT

- (24) Lessor: Irene E. LaRue Living Trust
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1316, Page 444
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 1.05 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (25) Lessor: Jeffrey T. Wharton, et ux.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.42 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (26) Lessor: Max Leonard Klohn and Tamera Samantha Klohn,
husband and wife.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.35 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (27) Lessor: Gloria Jean Marshall
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.78 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (28) Lessor: City of Aztec
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 15.57 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as

EXHIBIT "B" CONT

- (29) Lessor: Robert L. Mosley
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.91 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (30) Lessor: William Gilkey and Shirley Gilkey, husband
and wife.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.10 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (31) Lessor: Scott Swearingen
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.24 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (32) Lessor: Elise Bennett and/or Bert Bennett
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.21 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (33) Lessor: Bert F. Bennett and Judith A. Bennett, husband
and wife.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.16 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.

EXHIBIT "B" CONT

- (34) Lessor: Eugene Robert Maxwell
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.30 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (35) Lessor: Stephen D. Rabourn, et ux.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.40 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (36) Lessor: Robert G. Rivas and Ruby M. Rivas, husband and
wife.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.20 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (37) Lessor: J. M. McNallen, et ux.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.52 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.

EXHIBIT "B" CONT.
Tract #3

	LEASED		
	NAME	ACRES	% OF UNIT
1	Jack D. Bixler	0.15	0.048400%
2	Leslie D. Conrad	0.47	0.147400%
3	Varna Coleman	0.18	0.056400%
4	Ronald D. Dial	2.25	0.705500%
5	Artesia Griffith	1.45	0.455700%
6	Teddy T. Glazebrook	1.18	0.370000%
7	Debi Hunsicker	0.10	0.031400%
8	Karen D. Holland	0.10	0.031400%
9	Loal Inc.	0.19	0.058800%
10	Ford Conrad LaRue	2.20	0.689800%
11	Charles Stirnaman	0.47	0.147400%
12	John Gordon Thomas	0.24	0.076800%
13	Enriques Villanueva	0.36	0.112900%
14	James D. Crowley	0.22	0.068900%
15	Janice D. Payson	0.36	0.113400%
16	Barbara Stallings	0.23	0.070900%
17	Thelma Mahan	2.13	0.667800%
18	Allen R. Chapman	1.96	0.614800%
19	David Cupps	0.28	0.086600%
20	Hare Production Co.	1.50	0.470300%
21	William Heard	0.47	0.147400%
22	Kelly Maestas	0.81	0.254000%
23	Martin LaRue	0.60	0.188100%
24	Irene E. LaRue	1.05	0.329200%
25	Jeffrey T. Wharton	0.42	0.131700%
26	Max L. Klohn	0.35	0.108400%
27	Gloria Jean Marshall	0.78	0.244600%
28	City of Aztec	15.57	4.881800%
29	Bob L. Mosley	0.91	0.285300%
30	William Gilkey	0.10	0.031900%
31	Scott A. Swearingen	0.24	0.075200%
32	Elise Bennett	0.21	0.067000%
33	Bert F. Bennett	0.16	0.050200%
34	Eugene Robert Maxwell	0.30	0.094100%
35	Stephen D. Rabourn	0.40	0.124300%
36	Robert G. Rivas	0.20	0.062900%
37	J. M. McNallen	0.52	0.164400%
		39.12	12.265100%

EXHIBIT "B" CONT.

Tract #3

UNLEASED

	NAME	ACRES	% OF UNIT
1	Jessica B. Anderson	0.26	0.082600%
2	Heintze O. Abdelaziz	0.38	0.119000%
3	Jeffrey P. Ambrosier	0.09	0.028100%
4	Heidi L. Anders	0.14	0.043400%
5	Roy A. Armenta	0.28	0.088200%
6	James A. Bacon	0.24	0.076500%
7	Esther F. Bandy	0.42	0.131700%
8	Matthew J. Barney	0.18	0.056400%
9	Carl R. Bickford	0.22	0.069000%
10	Gwendolyn M. Bing	0.31	0.095800%
11	Royce L. Brewer	0.70	0.219800%
12	Jeremy M. Brooks	0.19	0.059100%
13	Roy L. Callison, Jr.	0.81	0.254000%
14	Donald R. Candelaria	0.73	0.228900%
15	Linda S. Casey	0.56	0.174000%
16	Daniel A. Chapman	0.99	0.311700%
17	Vernon Ray Chapman	0.60	0.187200%
18	Claudio Chavez	0.25	0.078400%
19	James R. Choquette	0.16	0.051500%
20	Thomas W. Clements	0.22	0.069000%
21	George L. Coleman	0.47	0.147400%
22	John James Coury	0.46	0.143300%
23	Katherine Davis	1.03	0.323100%
24	Louis Davis	0.78	0.243000%
25	Eva Dean	0.47	0.147400%
26	Pamela A. Drake	0.36	0.113500%
27	Theresa M. Dryer	0.17	0.054000%
28	Delores Dudgeon	0.41	0.128600%
29	Agnes E. Edgar	0.47	0.147400%
30	James D. Fisher	0.47	0.147400%
31	Daniel Garcia	0.50	0.157900%
32	Ernest B. Garcia	0.29	0.090400%
33	Mary J. Gonzales	0.30	0.093500%
34	Dale Greenwood	0.21	0.065300%
35	Maxine K. Hutchens	0.35	0.109700%
36	James E. Ivy	0.15	0.048400%
37	Alvina Jacquez Trust	0.20	0.061700%
38	Josephine A. Jacquez	0.96	0.301000%
39	Edward J. Jameson	0.42	0.131300%
40	Judy M. Johnson	0.23	0.072100%
41	LaVern L. Keating	0.78	0.244600%
42	Josephine Koogler	0.33	0.103500%
43	Ernest A. Landavazo	0.36	0.112900%
44	Kent D. Lang Trust	0.70	0.219500%
45	Gary D. Lanier	0.09	0.028100%
46	Gerald Lobato	0.40	0.124300%
47	Michael W. McCarty	1.49	0.467200%
48	Leonard L. Mahan	0.78	0.244600%
49	Richard M. Mahan	0.56	0.175600%
50	Nancy D. Marks	0.08	0.024200%
51	Minnie Ola Martin	0.61	0.192600%
52	Mike S. Martinez	0.20	0.063000%
53	Nicholas S. Marx	0.44	0.139200%
54	Al Massaro	0.26	0.082300%
55	Jack E. Meador	0.99	0.310400%
56	Ernest L. Medina	0.99	0.311600%
57	Jason K. Middlebrook	0.47	0.147400%
58	Manuelo Montoya	0.22	0.068900%
59	Timothy G. Pool	0.31	0.096400%
60	Roger D. Mueller	0.47	0.147400%

UNLEASED

	NAME	ACRES	% OF UNIT
61	Danny J. Patrick	0.13	0.041400%
62	Kathleen Pettijohn-Price	0.71	0.223200%
63	Bonnie Fay Pfalmer	0.56	0.175600%
64	Rebecca Pike	0.26	0.082600%
65	Archie Plante	0.26	0.080700%
66	Carl I. Price	0.22	0.069500%
67	W. T. Pomeroy	0.02	0.006800%
68	Cecil & John G. Pool	1.00	0.313500%
69	Perry Poulson	0.51	0.159800%
70	Patricia J. Prince	0.40	0.124200%
71	Michaelina Raney	0.28	0.086300%
72	Wilson G. Robinson	0.21	0.065800%
73	Susan Rosenbough	0.83	0.259500%
74	Donald R. Seibel	1.53	0.479700%
75	Winifred R. Shriver	0.47	0.147400%
76	Ida Lu Shyrock	1.14	0.357400%
77	Patricia A. Smith	0.21	0.067000%
78	Robert D. Smith	0.16	0.050200%
79	Jason S. Starr	0.24	0.075200%
80	Stephan R. Sword	0.51	0.159900%
81	Harold Thomas	0.36	0.113500%
82	Patty Townley	0.18	0.055800%
83	Thomas E. Townsend	1.05	0.328700%
84	Irene Lucero	0.54	0.170300%
85	Aaron D. Watts	0.28	0.086600%
86	Charles D. White	0.70	0.219500%
87	Virginia K. Whitney	0.09	0.028200%
88	Gerald Gordon Williams	0.37	0.115500%
89	Denise G. Wolfe	0.35	0.109100%
90	Phyllis A. Wright	0.16	0.050200%
91	John A. Yates	0.19	0.060200%

40.89 12.817700%

EXHIBIT "C"

ROBERT L. BAYLESS
AUTHORITY FOR EXPENDITURE

LEASE NAME	Hazel Bolack	WELL NUMBER:	2	LOCATION:	SE/4 Section 10-T30N-R11W
FIELD:	Blanco Mesa Verde	COUNTY:	San Juan	STATE:	New Mexico
TYPE WELL:	Gas Well	TOTAL DEPTH:	5000	DATE:	February 1, 2001
OPERATOR:	Robert L. Bayless	PREPARED BY:	pmb	FILE:	bolack2.xls

							DRY HOLE	COMPLETED
DRILLING INTANGIBLES:								
3 04	PERMITTING	(STAKING,DAMAGES,ARCHAEOLOGY,PAPERWORK)					3500	3500
3 06	DIRTWORK	(LOCATION,PITS,ROADS)					5000	5000
3 08	DRILLING	FOOTAGE	5000 FEET @	\$13 00	/ FOOT		65000	65000
3 08	DRILLING	DAYWORK	1 DAYS @	\$4,800 00	/ DAY		4800	4800
3 21	CASING CREW	INTERMEDIATE CASING					1500	1500
3 26	CEMENTING	SURFACE					2000	2000
3 26	CEMENTING	INTERMEDIATE					7000	7000
3 65	CEMENTING	PLUGGING					4000	5000
3 60	LOGGING	INTERMEDIATE					5000	5000
3 60	LOGGING	PRODUCTION					8000	8000
3 18	MUD AND MATERIALS						0	0
3 09	DRILL BITS						0	0
3 15	WATER & WATER HAULING						500	500
3 16	AIR COMPRESSOR PACKAGE						11000	11000
	WELL TESTING	(DST,CORING,ETC)					0	0
3 63	WELL TESTING	(MUD LOGGING & WELLSITE GEOLOGIST)					500	500
3 53	SUPERVISION	(ENG,GEO,LEGAL)	7 DAYS @	\$400 00	/ DAY		2800	2800
3 27	TRUCKING						1500	1500
4 11	MISC. LABOR						2500	2500
3 67	MISC. INTANGIBLES						2000	2000
3 59	ADMINISTRATIVE OVERHEAD		7 DAYS @	\$300 00	/ DAY		2100	2100
3 57	CONTINGENCY		5 %				6435	6235
TOTAL DRILLING INTANGIBLES:							135135	130935

COMPLETION INTANGIBLES:

4 21	CASING CREW							2000
4 08	COMPLETION UNIT		7 DAYS @	\$1,800 00	/ DAY			12600
4 26	CEMENTING	PRODUCTION						8000
4 60	WIRELINE	(PERFORATING AND LOGGING)						4000
4 62	STIMULATION	(ACIDIZING AND FRACTURING)						45000
	SUPERVISION	(ENG,GEO)	7 DAYS @	\$400 00	/ DAY			2800
4 15	WATER	(PURCHASE AND HAULING)						2000
5 06	DIRTWORK	(LOCATION CLEANUP)					1000	1000
4 27	TRUCKING							5000
4 16	RENTALS							2000
5 11	MISC. LABOR	(WELL HOOKUP)						10000
	MISC. INTANGIBLES							2000
	ADMINISTRATIVE OVERHEAD		5 DAYS @	\$300 00	/ DAY			1500
	CONTINGENCY		5 %				50	4895
TOTAL COMPLETION INTANGIBLES:							1050	102795
TOTAL INTANGIBLES:							136185	233730

DRILLING AND COMPLETION TANGIBLES:

3 22	SURFACE CASING	120 FEET TYPE:	9 5/8" 36 #/FT	@	\$11 00	/ FOOT	1320	1320
3 23	INTERMEDIATE CASING	2000 FEET TYPE:	7" 23 #/FT	@	\$9 00	/ FOOT	18000	18000
4 22	LONGSTRING CASING	5000 FEET TYPE:	4 1/2" 10 5 #/FT	@	\$5 75	/ FOOT		28750
4 29	TUBING	5000 FEET TYPE:	2 3/8" 4 7 #/FT	@	\$1 70	/ FOOT		8500
5 39	LINEPIPE	200 FEET TYPE:	2 INCH	@	\$1 25	/ FOOT		250
5 40	VALVES, PIPING, AND FITTINGS							2000
4 24	WELLHEAD EQUIPMENT	(WELLHEADS,VALVES,FITTINGS,ETC.)					1375	5500
	PIPELINE	0 FEET TYPE:	4 INCH	@	\$8 00	/ FOOT		0
5 41	METER INSTALLATION FEE							0
5 42	METER RUN							5000
5 33	SEPERATOR							8000
5 34	DEHYDRATOR							10000
5 37	PRODUCTION TANK							7500
5 67	MISC. EQUIPMENT	(FENCES,CULVERTS,ETC.)						2500
5 59	CONTINGENCY			5 %			1035	4866
TOTAL TANGIBLES:							21730	102186
TOTAL WELL COST:							\$157,915	\$335,916

APPROVED	BY	DATE	WORKING INTEREST	OWNER SHARE	
				DRY HOLE	COMPLETED
ROBERT L. BAYLESS, et al			100.0000%	\$157,915	\$335,916
			0.0000%	\$0	\$0
			100.0000%	\$157,915	\$335,916

EXHIBIT "D"

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

MODEL FORM OPERATING AGREEMENT

Hazel Bolack #2

OPERATING AGREEMENT

DATED

February 1 , 2001 ,
year

OPERATOR **Robert L. Bayless**

CONTRACT AREA S/2 Section 10, Township 30 North, Range 11 West, N.M.P.M.

Limited in depth from the surface to the base of the (Blanco) Mesa Verde formation.

COUNTY OR PARISH OF **San Juan** STATE OF **New Mexico**

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Robert L. Bayless

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

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

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

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

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

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

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

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

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

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

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

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

ARTICLE II.
EXHIBITS

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

☒ A. Exhibit "A", shall include the following information:

- (1) Identification of lands subject to this agreement,
- (2) Restrictions, if any, as to depths, formations, or substances,
- (3) Percentages or fractional interests of parties to this agreement,
- (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
- (5) Addresses of parties for notice purposes.

☐ B. Exhibit "B", Form of Lease.

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

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

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

☐ G. Exhibit "G", Tax Partnership.

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

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B. Interests of Parties in Costs and Production:

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

See Article XV.F. for additional provisions.

Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations or, if ~~a majority in interest of 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

Robert L. Bayless 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 ^{resigned or} 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 ^{resigned or} was removed. (*)

3. Vote Required: When there is only (1) Non-Operator, the vote of more than one party shall not be required under Article V.B.1. or V.B.2.

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.

(*) Prior to the effective date of resignation or removal, Operator shall deliver promptly to the successor Operator the possession of everything owned by the joint account of the parties pursuant to this Agreement, including records and data not already in possession of the successor Operator. Any cost of obtaining or copying the former operator's records and data shall be charged to the joint account.

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 1st day of September, (year) 2001, Operator shall commence the drilling of a well for oil and gas at the following location:

Township 30 North, Range 11 West, N.M.P.M.
Section 10: SE/4SE/4,
San Juan County, New Mexico.

and shall thereafter continue the drilling of the well with due diligence to a depth sufficient to test the Mesa Verde 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

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

B. Subsequent Operations:

See Article XV.A., for additional provisions.

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

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

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

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

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a ~~a well~~ ^{a well capable of producing} ~~producer of~~ oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, provided, however, that those Non-Consenting Parties that own a working interest in any portion of the well shall remain liable for and shall pay their proportionate share of the cost of plugging and abandoning the well and restoring the surface location insofar only as those costs were not increased by the subsequent operation of the Consenting Parties.

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~~, ^{used in operations outside the Contract Area} (after deducting production taxes, / severance taxes, ad valorem taxes, excise taxes, royalty, overriding royalty and other interests not excepted by Article III.D. payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

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

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

4 Notwithstanding the foregoing, in the case of reworking, deepening or plugging back operation under Article VI.B.2, or a completion attempt pursuant to Article VII.D.1, Option No.2, the Non-Consenting Party shall be deemed to have relinquished to Consenting Parties only its interest in the portion of the well to which the Non-Consent election applied and the production obtained therefrom.

5 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 / ^{the previous non-consent} 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.

6 (*) Similarly, an election not to participate in the completion or plugging back of a well shall be deemed an election not to participate in a reworking operation proposed in such well, or portion thereof, to which the Non-Consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment amount.

7 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.

8 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.

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

ARTICLE VI
continued

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

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

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

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

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

(a) If the proposal is for sidetracking an existing dry hole, reimbursement shall be on the basis of the actual costs incurred in the initial drilling and equipping of the well down to the depth at which the sidetracking operation is initiated, including surface equipment, to the extent any such equipment benefits the sidetracking operation.

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

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

C. **TAKING PRODUCTION IN KIND:**

See Article XV.B. for additional provisions.

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

ARTICLE VI
continued

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 See Article XV.C. for additional provisions.

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 ^{wellbore and} 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 ^{wellbore and} 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 ^(*) Failure of a party to reply within sixty (60) days after receipt of notice of proposed abandonment shall be deemed as election to consent to
57 the proposal

58 ^(**) by a reasonable appraisal of its current salvage value,

59 ^(***), and restoring the surface. If the abandoning party's share of the aforesaid salvage value is less than such party's share of estimated
60 costs, the abandoning party shall pay the Operator, for the benefit of the non-abandoning parties, a sum equal to the deficiency..

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. and provided further, that Non-Consenting Parties who own a working interest in a portion of the well shall pay their proportionate
19 shares of abandonment and surface restoration costs as provided in Article VI.B.2.

ARTICLE VII.
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 See Articles XV.D. and XV.E.

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 ^{or make any single expenditure} single project / reasonably estimated
21 to require an expenditure in excess of TWENTY-FIVE THOUSAND Dollars (\$25,000.00)
22 except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been
23 previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden
24 emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required
25 to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other
26 parties. If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator so requesting
27 an information copy thereof for any single project costing in excess of TWENTY-FIVE THOUSAND
28 Dollars (\$25,000.00) but less than the amount first set forth above in this paragraph.

29

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

31

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

39

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

45

46 **F. Taxes:**

47

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

59

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

66

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

69

70

ARTICLE VII
continued

1 G. Insurance:

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

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

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

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. Failure to respond to notice of proposed surrender within sixty (60) days after receipt of such
20 notice shall be deemed consent to surrender of the lease(s) described in the notice.

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 by a reasonable appraisal of its current salvage value ~~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 ^(*) and restoring the surface. If the party assignor's or lessor's share of the aforesaid salvage value is less than such party's share of estimated
36 costs, the party assignor or lessor shall pay the Operator, for the benefit of the assignee(s), a sum equal to the deficiency.

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

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.

65 C. Acreage or Cash Contributions:

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

ARTICLE VIII
continued

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

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

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

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

- 15 1. the entire interest of the party in all leases / ^{oil and gas interest, wells,} and equipment and production; or
- 17 2. an equal undivided interest in all leases / ^{oil and gas interests, wells,} and equipment and production in the Contract Area.

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

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

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

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

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

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

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

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

**ARTICLE 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 (\$15,000.00) 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. ^(*) except when such liability results from the gross negligence or willful misconduct of a party or parties in which case such party or parties shall be solely liable.

**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 ^{courier service, delivery in person,} 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.

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, regulations, or orders of the City of Aztec, New Mexico Oil Conservation Division and the Bureau of Land Management and does not constitute negligence or willful misconduct. Each Non-Operator further agrees to reimburse Operator for any amounts applicable to such Non-Operator's share of production / or any refund, fine, levy, or other governmental sanction 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

See pages 14A and 14B attached hereto

ARTICLE XV

A. Completion

Each Party shall have the right to make a separate election as to each proposed completion attempt in each interval in that portion of the well in which it has not otherwise relinquished its interest, and an election to become a Non-Consenting Party as to one completion attempt shall not prevent a Party from becoming a Consenting Party in subsequent completion attempts, regardless of whether the Consenting Parties have recouped the costs of earlier completions pursuant to Article VI.B.2. Any recoupment of costs by a Consenting Party shall be made solely from the production attributable to the interval in which the completion attempt is made. Election by a previous Non-Consenting Party to participate in a subsequent completion attempt shall require such Party to pay (or reimburse Consenting Parties for, as the case may be) its proportionate share of the costs of salvable materials and equipment installed in the well and on the surface in connection with the operation in which it non-consented insofar as such materials and equipment benefit the completion attempt in which such Party is participating. The Non-Consenting Party's proportionate part (based on the percentage of such costs it would have paid had it previously participated in such Non-Consent operation) of the costs of salvable materials and equipment shall be determined in accordance with Exhibit "C". If the Consenting Parties have recouped 100% of the cost of such salvable materials and equipment at the time such completion attempt is conducted, then a Non-Consent completion attempt, however, shall continue to be entitled to recoup out of the proceeds of production from such Non-Consent completion any balance remaining as specified in Article VI.B.2., less the amount paid by a Non-Consenting Party with respect to salvable equipment and materials from the prior completion attempt pursuant to this Article XV.A.

B. Taking Production in Kind:

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

C. Abandonment of Wells:

If Non-Operator(s) elect(s) to take over a well pursuant to the terms of Article VI.E.1., or VI.E.2., such Party or Parties shall be obligated to take over the well as of the expiration of the applicable notice period and shall indemnify, defend, and hold harmless Operator (If Operator is an abandoning Party) and the other abandoning Parties from liability for any further operations on the well conducted by the non-abandoning Parties. Failure of such Party or Parties to provide proof reasonably satisfactory to Operator of their financial capability to conduct such operations or to take over the well within the required period or thereafter to conduct operations on such well shall entitle Operator to retain or take possession of such well and plug and abandon the well.

D. Liens and Security Interests

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

Each Party represents and warrants to the other Parties hereto that the lien and security interest granted by such Party to the other Parties shall be a first and prior lien, and each Party hereby agrees to maintain the priority of said lien and security interest against all persons acquiring an interest in oil and gas leases and interests covered by this agreement by, through or under such Party. All Parties acquiring an interest in oil and gas leases and oil and gas interests covered by this agreement, whether by assignment, merger, mortgage, operation of law, or otherwise, shall be deemed to have taken subject to the lien and security interest granted by this Article XV.D., as to all obligation attributable to such interest hereunder whether or not such obligation arise before or after such interest is acquired.

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

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

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

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

E. Default

If any Party fails to discharge any financial obligation under this Agreement, any non-defaulting Party may give such defaulting Party notice that unless payment is made within thirty (30) days, such party shall be in default. Any Party in default shall have no further access to the Contract Area, maps, records, data, or other information obtained in connection with operations. A defaulting Party shall not be entitled to vote on any matter until such time as said Party has cured the default. The voting interest of each non-defaulting Party shall be in the proportion they previously have elected to bear costs for votes affecting existing operations, or in proportion to their interests as set forth on Exhibit "A" for voting for new proposed operations. As to any drilling, reworking, deepening, or plugging back operation approved during the time a Party is in default, such Party shall be deemed to be a Non-Consenting Party.

Notwithstanding anything in this Agreement to the contrary, if a Party elects to participate in a drilling, reworking, deepening, or plugging back operation pursuant to Article VI.B. or VII.D.1., and such Consenting Party fails or refuses to pay its proportionate share of such operation within thirty (30) days after receipt of a notice of default pertaining to such operation, then at the election of the Operator, (or a majority in interest of the Non-Operators who participated in the operation, if Operator is the defaulting Party) such Party shall be deemed to be a Non-Consenting Party pursuant to Article VI.B.2., to the extent of the costs unpaid by the defaulting Party.

No Party shall be deemed in default if such non-payment is due to a protest, dispute, or question of correctness regarding an invoice for such financial obligation(s). The protesting Party shall, within thirty (30) days of receiving such disputed invoice, submit written notice to the Operator detailing such protest, dispute, or question of correctness. The Parties will make every reasonable effort to resolve the dispute within fifteen (15) days of such notice being received by the Operator.

F. Title Examination

Notwithstanding the terms and provisions of Article IV., hereinabove, the Operator and Non-Operators understand and agree that it shall be each party's responsibility, if they so desire and at their sole cost and expense, to perform a title examination of the Oil and Gas Lease(s) that such party committed to this Operating Agreement and furthermore that the Operator is not responsible for obtaining, nor costs associated with, a title examination of the drill-site proration unit for the well proposed under Article VI., hereinabove.

ARTICLE XVI.
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of 1st day of February, (year) 2001.

Paul Hall, who has prepared and circulated this form for execution, represents and warrants that the form was printed from and with the exception listed below, is identical to the AAPL Form 610-1982 Model Form Operating Agreement, as published in diskette form by Forms On-A-Disk, Inc. No changes, alterations, or modifications, other than those in Articles indicated herein, have been made to the form.

OPERATOR

ROBERT L. BAYLESS

Robert L. Bayless

NON-OPERATORS

BURLINGTON RESOURCES OIL & GAS COMPANY LP

ENERGEN RESOURCES CORP.

By: John F. Zent, Attorney-in-Fact

By: Name: Title:

W. P. Carr

STATE OF NEW MEXICO §
 §
COUNTY OF SAN JUAN §

This instrument was acknowledged before me this _____ day of February, 2001 by Robert L. Bayless.

My Commission Expires: _____
Notary Public

STATE OF _____ §
 §
COUNTY OF _____ §

This instrument was acknowledged before me this _____ day of _____, 2001 by John F. Zent as Attorney-in-Fact for Burlington Resources Oil & Gas Company LP, on behalf of said corporation.

My Commission Expires: _____
Notary Public

STATE OF _____ §
 §
COUNTY OF _____ §

This instrument was acknowledged before me this _____ day of _____, 2001 by _____ as _____ for Energen Resources Corp., on behalf of said corporation.

My Commission Expires: _____
Notary Public

STATE OF _____ §
 §
COUNTY OF _____ §

This instrument was acknowledged before me this _____ day of _____, 2001 by W. P. Carr.

My Commission Expires: _____
Notary Public

EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated, February 1, 2001
between Robert L. Bayless as Operator, and Non-Operators

All lands and leases are located in San Juan County, New Mexico

1. IDENTIFICATION OF LANDS SUBJECT TO THIS AGREEMENT:

Township 30 North, Range 11 West, N. M. P. M.
Section 10: S/2,
containing 318.94 acres, more or less.

2. RESTRICTIONS AS TO DEPTH:

This Operating Agreement shall be limited to the proration units of 320 acres, more or less, as prescribed by the rules and regulations of the New Mexico Oil Conservation Commission for the Basin Fruitland Coal interval, and the (Blanco) Mesa Verde formation.

3. PERCENTAGES OR FRACTIONAL INTERESTS AND ADDRESSES OF PARTIES TO THIS AGREEMENT:

	PARTICIPATION INTEREST
Robert L. Bayless P. O. Box 168 Farmington, NM 87499 Phone (505) 326-2659 FAX (505) 326-6911	62.09920%
Burlington Resources Oil & Gas Company LP 3401 East 30 th Street Farmington, NM 87402 Phone (505) 326-9700 FAX (505) 326-9871	14.42280%
W. P. Carr 8333 Douglas, Suite 950 Dallas, TX 75225 Phone (214) 363-6933 FAX (214) 696-6399	10.66030%
Unleased Mineral Interest W/2SW/4 of Section 10	12.81770%

EXHIBIT "A" CONT.

4. SCHEDULE OF LEASES:

- (a) Lessor: U. S. of A. SF-078841-B
Original Lessee: Hazel Bolack
Lessee of Record: Robert L. Bayless
Royalty Rate: 12.5%
Lease date: March 1, 1940
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Lot 2, SE/4SE/4,
containing 78.94 acres, more or less.
- (b) Lessor: Mary Anne Shepherd
Original Lessee: W. P. Carr
Lease date: November 6, 1952
Recorded: Book 203, Page 104
Royalty Rate: 12.5%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: NW/4SE/4, NE/4SW/4
containing 80 acres, more or less, among other
lands not herein included.
- (c) Lessor: The Aztec Cemetery Association
Original Lessee: W. P. Carr
Lease date: March 21, 1953
Recorded: Book 208, Page 65
Royalty Rate: 12.5%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Fraction of NE/4SW/4,
containing 5.5682 acres, among other lands not
herein included.
- (d) Lessor: Shirley Paulek and Grant Paulek, husband & wife.
Original Lessee: W. P. Carr
Lease date: June, 1978
Recorded: Book 831, Page 6
Royalty Rate: 12.5%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: SE/4SW/4,
containing 40 acres, more or less.
- (e) Lessor: Chester Thompson Jr. and Joyce Thompson,
husband & wife
Original Lessee: W. P. Carr
Lease date: May 30, 1978
Recorded: Book 831, Page 74
Royalty Rate: 12.5%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: SE/4SW/4,
containing 40 acres, more or less.

EXHIBIT "A" CONT.

- (f) Lessor: Ella Taylor Trimble
Original Lessee: Tom Bolack
Lease date: October 13, 1952
Recorded: Book 192, Page 190
Royalty Rate: 16.6667%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: NE/4SE/4,
containing 40 acres, more or less, among other
lands not herein included.
- (g) Lessor: Jack D. Bixler, et ux.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1315, Page 796
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.15 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
.
- (h) Lessor: Leslie D. Conrad and Sharon D. Conrad, husband
and wife
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1315, Page 803
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.47 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (i) Lessor: Varna Coleman
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1315, Page 796
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.18 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (j) Lessor: Ronald D. Dial, Et. Al.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1315, Page 794
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 2.25 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.

EXHIBIT "A" CONT.

- (k) Lessor: Artesia Griffith
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1315, Page 798
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 1.45 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (l) Lessor: Teddy T. and Audrey N. Glazebrook Living Trust
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1315, Page 799
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 1.18 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (m) Lessor: Debi J. Hunsicker
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1315, Page 802
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.10 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (n) Lessor: Karen D. Holland
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1315, Page 805
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.10 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (o) Lessor: Loal Inc.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1315, Page 797
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.19 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.

EXHIBIT "A" CONT.

- (p) Lessor: Ford Conrad LaRue Trust
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1315, Page 795
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 2.20 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (q) Lessor: Charles Strinaman, et ux.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1315, Page 804
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.47 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (r) Lessor: John Gordon Thomas and Gwendolyn C. Thomas,
husband and wife.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1315, Page 800
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.24 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (s) Lessor: Enriques Villanueva
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1315, Page 801
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.36 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (t) Lessor: James D. Crowley and Jana S. Crowley, husband
and wife.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1316, Page 445
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.22 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.

EXHIBIT "A" CONT.

- (u) Lessor: Janice Payson
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.36 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (v) Lessor: Barbara Stallings
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.23 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (w) Lessor: Thelma L. Mahan
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 2.13 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (x) Lessor: Allen R. Chapman
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1316, Page 443
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 1.96 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (y) Lessor: David Cupps
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.28 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.

EXHIBIT "A" CONT.

- (z) Lessor: Hare Production Co.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1316, Page 446
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 1.50 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (aa) Lessor: William Heard, Thomas Heard, and Daniel Heard
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.47 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (ab) Lessor: Kelly Maestas and Florence A. Maestas, husband
and wife.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.81 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (ac) Lessor: Martin A. LaRue, et ux.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.60 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (ad) Lessor: Irene E. LaRue Living Trust
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book 1316, Page 444
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 1.05 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.

EXHIBIT "A" CONT.

- (ae) Lessor: Jeffrey T. Wharton, et ux.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.42 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (af) Lessor: Max Leonard Klohn and Tamera Samantha Klohn,
husband and wife.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.35 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (ag) Lessor: Gloria Jean Marshall
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.78 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (ah) Lessor: City of Aztec
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 15.57 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (ai) Lessor: Robert L. Mosley
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.91 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as

EXHIBIT "A" CONT.

- (aj) Lessor: William Gilkey and Shirley Gilkey, husband and wife.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.10 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (ak) Lessor: Scott Swearingen
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.24 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (al) Lessor: Elise Bennett and/or Bert Bennett
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.21 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (am) Lessor: Bert F. Bennett and Judith A. Bennett, husband and wife.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.16 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (an) Lessor: Eugene Robert Maxwell
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page ____
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.30 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.

EXHIBIT "A" CONT.

- (ao) Lessor: Stephen D. Rabourn, et ux.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page __
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.40 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (ap) Lessor: Robert G. Rivas and Ruby M. Rivas, husband and
wife.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page __
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.20 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.
- (aq) Lessor: J. M. McNallen, et ux.
Original Lessee: Robert L. Bayless, Producer LLC
Lease date: November 1, 2000
Recorded: Book ____, Page __
Royalty Rate: 20.0%
Description of lands: Township 30 North, Range 11 West, NMPM
Section 10: Portion of W/2SW/4,
containing 0.52 acres, more or less, more fully
described in Oil, Gas and Mineral Lease as
recorded.

EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement dated February 1, 2001,
between Robert L. Bayless, as Operator and Non-Operators

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

B. Each Non-Operator shall pay its proportion of all bills within 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 Citibank New York City, New York on the first day of the month in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

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

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5. Audits

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

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

6. Approval By Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Ecological and Environmental

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

2. Rentals and Royalties

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

3. Labor

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

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

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

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

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

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

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

4. Employee Benefits

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

5. **Material**

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

6. **Transportation**

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

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

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

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

7. **Services**

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

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

A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed Prime plus one * percent (%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
* at Texas Commerce Bank, Houston, TX

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

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

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

10. **Legal Expense**

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

11. **Taxes**

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

12. Insurance

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

13. Abandonment and Reclamation

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

14. Communications

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

15. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

- (☒) 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
() 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:

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

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$5530.00

(Prorated for less than a full month)

Producing Well Rate \$553.00

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

(a) Drilling Well Rate

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

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

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

(b) Producing Well Rates

- (1) An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- (2) Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- (4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.
- (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

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

2. Overhead - Major Construction

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

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

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

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

3. Catastrophe Overhead

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

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

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

4. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

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

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

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 2 3/8 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 3/4 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 3/4 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 3/4 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%) 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%) 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%) 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.

EXHIBIT "D"

Attached to and made a part of that certain Operating Agreement dated, February 1, 2001
between Robert L. Bayless as Operator, and Non-Operators.

INSURANCE COVERAGE

During the period of the joint operation hereunder and continuing thereafter during the entire term of the Operating Agreement, Operator shall carry for the Joint Account the following types and amounts of coverage:

- a) Insurance which shall comply with the Workers' Compensation and Employers' Liability laws of the state in which the Contract Area is located.
- b) Comprehensive General Liability Insurance with bodily injury or property damage limits of not less than \$1,000,000 in any one occurrence.
- c) Comprehensive Automobile Liability Insurance with bodily injury or property damage limits of not less than \$1,000,000 in any one accident.

No other types of insurance shall be carried for the Joint Account without the separate approval of all parties subject to this Operating Agreement. All losses arising out of uninsured risks shall be charged to the parties according to their interest under this Operating Agreement. Certificates of Insurance evidencing ten (10) days advance notice of cancellation shall be furnished Non-Operators upon request. Operator shall require all subcontractors to have coverage with limits adjudged by Operator as being sufficient and in compliance with doing practice for this type operation.

EXHIBIT "E"

Attached to and made a part of that certain Operating Agreement dated, February 1, 2001
between Robert L. Bayless as Operator, and Non-Operators.

GAS BALANCING AGREEMENT

ARTICLE I

Definitions

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

- (a) "Balance" is the condition existing when a Party has disposed of a cumulative volume of Gas from a Well which is equal to such Party's Percentage Ownership of the total cumulative volume of Gas disposed of by all Parties from such Well. For purposes of Balancing, references herein to price, value, and volume shall be adjusted or calculated on a Btu basis.
- (b) "Btu" is one British thermal unit, which is the amount of heat required to raise the temperature of one pound of water one degree Fahrenheit from 58.5° Fahrenheit to 59.5° Fahrenheit, at 14.73 pounds per square inch absolute. The term "MMBtu" refers to one million (1,000,000) Btu's.
- (c) "FERC" refers to the Federal Energy Regulatory Commission, or any similar or successor agency, state or federal.
- (d) "Gas" includes all hydrocarbons produced or producible from a Well, whether a Well classified as an oil Well or gas Well by the regulatory agency having jurisdiction in such matters, which are or may be made available at the Measurement Point for sale or separate disposition by the Parties excluding oil, condensate and other liquids separated upstream from the Measurement Point. "Gas" does not include gas used for joint operations, or gas which is vented or lost, prior to delivery at the Measurement Point. Reference herein to the right to "dispose of" Gas or Gas "disposed of" includes, all methods of disposition of Gas, including taking in kind, delivering in kind to a Lessor, sales to a Party or third party or an affiliate, or gas used by a Party for purposes other than joint operations.
- (e) "Imbalance" refers to either the Overproduction of an Overproduced Party or the Underproduction of an Underproduced Party, as applicable.
- (f) "Make-up Gas" refers to that incremental volume of Gas, up to but not exceeding forty (40) percent of the Percentage Ownership of an Overproduced Party in the Gas which can be produced from a Well which an Underproduced Party is entitled to dispose of in accordance with this Agreement in order to make up its Imbalance.
- (g) "Mcf" means the quantity of Gas occupying a volume of one thousand (1,000) cubic feet at a temperature of sixty degrees Fahrenheit (60°F) and a pressure of fourteen and seventy-three hundredths pounds per square inch absolute (14.73 psia).
- (h) "Measurement Point" refers to the outlet side of the jointly owned production facilities, or such other point mutually agreeable where Gas from a Well is measured after the separation of oil, condensate or other liquids.
- (i) "Operator" refers to the Operator under the terms of the Operating Agreement.
- (j) "Overproduced" is the condition existing when a Party has disposed of a greater

cumulative volume of Gas from a Well than its Percentage Ownership of the total cumulative volume of Gas disposed of by all Parties from such Well.

- (k) "Party" means any party subject to the Operating Agreement. "Parties" means all parties subject to the Operating Agreement.
- (l) The "Percentage Ownership" of each Party is equal to that Party's percentage or fractional interest in a Well, as determined under the terms of the Operating Agreement
- (m) "Underproduced" is the condition existing when a Party has disposed of a lesser cumulative volume of Gas from a Well than its Percentage Ownership of the total cumulative volume of Gas disposed of by all Parties from such Well.
- (n) The terms "Underproduction" and "Overproduction" refer to that lesser or greater incremental volume of Gas which a Party would have disposed of from a Well, on a monthly or cumulative basis, if it had disposed of its Percentage Ownership of Gas from that Well.
- (o) "Well" means a well drilled on the Contract Area covered by the Operating Agreement and capable of producing Gas.

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

ARTICLE II

Scope and Term of Agreement

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

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

ARTICLE III

Right to Produce and Ownership of Gas

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

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

ARTICLE IV

Make-Up Gas

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

- (a) An Overproduced Party shall not be required to furnish Make-Up Gas unless an Underproduced Party is first taking or disposing of its full Percentage Ownership of Gas from a Well; and
- (b) An Overproduced Party shall not be required under any circumstances to reduce its takes to less than its Percentage Ownership of Gas which can be produced from a Well during the months of January, February, and December of a calendar year; and
- (c) An Overproduced Party shall not be required under any circumstances to reduce its takes to less than sixty (60) percent of such Overproduced Party's Percentage Ownership of Gas which can be produced from a Well; and
- (d) If there is more than one Overproduced Party, the Make-Up Gas will be taken from the Overproduced Parties in the proportion that each Overproduced Party's Percentage Ownership in a Well bears to the total Percentage Ownership of all Overproduced Parties in that Well; and
- (e) If there is more than one Underproduced Party who desires and is able to dispose of Make-Up Gas in a month, each Underproduced Party will share in the Make-Up Gas in the proportion which its Percentage Ownership in a Well bears to the total Percentage Ownership of all Underproduced Parties in that Well disposing of Make-Up Gas that month.

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

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

ARTICLE V

Balancing of Gas Accounts

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

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

amount attributable to its Percentage Ownership shall be credited against and offset its first Underproduction from time-to-time.

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

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

ARTICLE VI

Cash Settlement of Imbalance

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

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

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

ARTICLE VII
Costs and Ownership of Liquids

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

ARTICLE VIII
Indemnity

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

ARTICLE IX
Payment of Lease Burden

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

ARTICLE X
Notice

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

EXHIBIT "F"

Attached to and made a part of that certain Operating Agreement dated, February 1, 2001
between Robert L. Bayless as Operator and Non-Operator(s).

The word "Contractor" as used herein refers to the Operator in the Operating Agreement to which this Exhibit "F" is attached. Unless exempted by Federal law, regulation or order, the following terms and conditions shall apply during the performance of this contract:

EQUAL OPPORTUNITY CLAUSE

A. During the performance of this Operating Agreement ("Contract"), the 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. The Contractor will take affirmative action to ensure 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 applicants for employment notices to be provided by the contracting officer setting forth the provisions of the 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 the Contractor's noncompliance with the Nondiscrimination clauses of this Contract or with any of such rules, regulations, or orders, this Contract may be cancelled, terminated or suspended in whole or in part and the Contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

- (7) The 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 to 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 provisions including sanctions for 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.

B. If required to do so by Federal law, regulation, or order, Contractor agrees that he shall:

- (1) File with the Office of Federal Contract Compliance or agency designated by it, a complete and accurate report on Standard Form 100 (EEO-1) within 30 days after signing of this Agreement (unless such a report has been filed in the last 12 months), and continue to file such reports annually, on or before March 31st;
- (2) Develop and maintain a written affirmative action compliance program for each of its establishments in accordance with the regulations of the Secretary of Labor promulgated under Executive Order 11246, as amended.

CERTIFICATE OF NONSEGREGATED FACILITIES

Contractor certifies that he does not and will not maintain or provide for his employees any segregated facilities at any of his establishments, and that he does not and will not permit his employees to perform their services at any location, under his control, where segregated facilities are maintained. Contractor understands that the phrase "segregated facilities" includes facilities which are in fact segregated on a basis of race, color, creed, or national origin, because of habit, local custom, or otherwise. Contractor understands and agrees that maintaining or providing segregated facilities for his employees or permitting his employees to perform their services at any locations, under his control, where segregated facilities are maintained is a violation of the Equal Opportunity Clause required by Executive Order No. 11246 of September 24, 1965, and the regulations of the Secretary of Labor set out in 41 CFR Chapter 60. Contractor further agrees that (except where it has obtained identical certifications from proposed subcontractors for specific time periods) it will obtain identical certifications from proposed subcontractors prior to the award of subcontracts exceeding \$10,000 which are not exempt from the provisions of the Equal Opportunity Clause; that it will retain such certifications in its files, and that it will forward the following notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certifications for specific time periods):

NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NONSEGREGATED FACILITIES: A Certification of Nonsegregated Facilities as required by the May 9, 1967, order on Elimination of Segregated Facilities, by the Secretary of Labor (32 F.R. 7439, May 19, 1967), and as required by the regulations of the Secretary of Labor set out in 41 CFR Chapter 60, and as they may be amended, must be submitted prior to the award of a subcontract exceeding \$10,000 which is not exempt from the provisions of the Equal Opportunity Clause. The certification may be submitted either for each subcontract or for all subcontracts during a period (i.e., quarterly, semi-annually or annually).

EXHIBIT "E"

2000 Survey of Fixed-Rate Combined Overhead Charges for Oil & Gas Production

The following are the results of the Ernst & Young 18th annual survey of combined fixed-rate overhead charges.

These results are based on responses to a questionnaire distributed in October 1999; therefore, the information should generally reflect operating agreements in effect at that time. In the past, the questionnaire was structured to obtain information for drilling and producing rates at various well depths in 16 U.S. geographic regions. To encourage a higher level of participation, the structure of the questionnaire has changed to: (a) include all wells reported, including injection wells, as one category; (b) rates were reported by COPAS accounting year, county and state (rather than region), and as of April 1 of the survey year (instead of as of the original contract dates); (c) data was limited to company operated wells only. The rates printed here are by state only and represent the following types/sizes of companies:

* 84% are independents with assets of less than \$50 million.

* 88% are privately owned.

This year, the following three factors are provided for each state:

1. Number of Responses.
2. Number of Wells.
3. Minimum, Quartile 1, Mean, Median, Quartile 3 and Maximum rates for both drilling and producing wells.

Although Ernst & Young has solicited and compiled the information included in this publication, they have not verified the responses and therefore make no representation as to the accuracy of the submitted data.

Source: Ernst & Young, National Office of Energy Services, 1221 McKinney, Suite 2400, One Houston Center, Houston, TX 77010.

ALABAMA

Responses: 8

Wells: 37

Monthly Drilling Well Fixed Overhead Rates

MINIMUM	Q1	MEAN	MEDIAN	Q3	MAXIMUM
\$9,400	\$9,400	\$10,560	\$10,560	\$11,720	\$11,720

Monthly Producing Well Fixed Overhead Rates

MINIMUM	Q1	MEAN	MEDIAN	Q3	MAXIMUM
\$714	\$762	\$838	\$872	\$904	\$918

ALASKA

Responses: 3

Wells: 19

Monthly Drilling Well Fixed Overhead Rates

MINIMUM	Q1	MEAN	MEDIAN	Q3	MAXIMUM
NR	NR	NR	NR	NR	NR

Monthly Producing Well Fixed Overhead Rates

MINIMUM	Q1	MEAN	MEDIAN	Q3	MAXIMUM
\$450	\$450	\$450	\$450	\$450	\$450

ARKANSAS

Responses: 2

Wells: 3

Monthly Drilling Well Fixed Overhead Rates

MINIMUM	Q1	MEAN	MEDIAN	Q3	MAXIMUM
NR	NR	NR	NR	NR	NR

Monthly Producing Well Fixed Overhead Rates

MINIMUM	Q1	MEAN	MEDIAN	Q3	MAXIMUM
\$525	\$525	\$554	\$554	\$583	\$583

NEW MEXICO

Responses: 193

Wells: 3,140

Monthly Drilling Well Fixed Overhead Rates

MINIMUM	Q1	MEAN	MEDIAN	Q3	MAXIMUM
\$1,587	\$2,982	\$4,741	\$5,036	\$5,938	\$9,463

Monthly Producing Well Fixed Overhead Rates

MINIMUM	Q1	MEAN	MEDIAN	Q3	MAXIMUM
\$100	\$543	\$598	\$572	\$650	\$2,227

NEW YORK

Responses: 1

Wells: 3

Monthly Drilling Well Fixed Overhead Rates

MINIMUM	Q1	MEAN	MEDIAN	Q3	MAXIMUM
\$4,708	\$4,708	\$4,708	\$4,708	\$4,708	\$4,708

Monthly Producing Well Fixed Overhead Rates

MINIMUM	Q1	MEAN	MEDIAN	Q3	MAXIMUM
\$646	\$646	\$646	\$646	\$646	\$646

NORTH DAKOTA

Responses: 20

Wells: 99

Monthly Drilling Well Fixed Overhead Rates

MINIMUM	Q1	MEAN	MEDIAN	Q3	MAXIMUM
\$2,500	\$6,469	\$6,966	\$6,779	\$7,718	\$9,702

Monthly Producing Well Fixed Overhead Rates

MINIMUM	Q1	MEAN	MEDIAN	Q3	MAXIMUM
\$620	\$680	\$769	\$743	\$835	\$970

OFFSHORE CONTINENTAL SHELF

Responses: 3

Wells: 10

Monthly Drilling Well Fixed Overhead Rates

MINIMUM	Q1	MEAN	MEDIAN	Q3	MAXIMUM
\$26,021	\$26,021	\$27,219	\$27,166	\$28,470	\$28,470

Monthly Producing Well Fixed Overhead Rates

MINIMUM	Q1	MEAN	MEDIAN	Q3	MAXIMUM
\$2,602	\$2,602	\$2,722	\$2,717	\$2,847	\$2,847

OHIO

Responses: 1

Wells: 20

Monthly Drilling Well Fixed Overhead Rates

MINIMUM	Q1	MEAN	MEDIAN	Q3	MAXIMUM
NR	NR	NR	NR	NR	NR

Monthly Producing Well Fixed Overhead Rates

MINIMUM	Q1	MEAN	MEDIAN	Q3	MAXIMUM
\$200	\$200	\$200	\$200	\$200	\$200

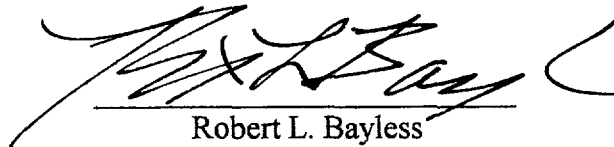
AFFIDAVIT

STATE OF NEW MEXICO §
COUNTY OF SAN JUAN §

ROBERT L. BAYLESS, being first sworn, states as follows:

1. I operate and produce numerous wells in the San Juan Basin of New Mexico.
2. In regards to the Compulsory Pooling Application for the Hazel Bolack # 2 Well to be located in the SE/4 of Section 10, Township 30 North, Range 11 West, San Juan County, New Mexico, to the best of my knowledge and belief a) all notice requirements under NMOCD Rule 1207.A., were adhered to and complied therewith, b) a diligent, good-faith effort was made to identify the correct address of all parties entitled to such notice, and c) that proper notice under the Rule was delivered to each parties' last known address.
3. I have provided for the Records of the NMOCD, copies of notices to all entitled parties regarding the Compulsory Pooling Application for the Hazel Bolack # 2 Well, along with proof of delivery of the same.

Further the Affiant sayeth not.

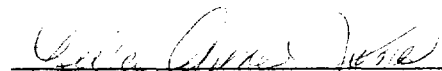

Robert L. Bayless

STATE OF NEW MEXICO §
COUNTY OF SAN JUAN §

The foregoing instrument was acknowledged before me this 20th day of February, 2001.

My commission expires:

Jan 8, 2002


Notary Public

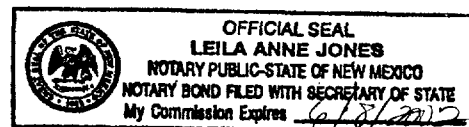


EXHIBIT "F"
CORRESPONDENCE, NOTIFICATION, LETTERS &
PROOF OF DELIVERY

SEE EXPANDABLE FOLDERS PARTS 1 & 2