

# PATTERSON PETROLEUM LP

A LIMITED PARTNERSHIP

410 N. Loraine, Suite B • Midland, Texas 79701

(915) 685-1414 • Fax (915) 685-1133

April 25, 2001

Leasehold Owners of the  
E/2 SE/4 of Section 31,  
T-17-S, R-34-E,  
Lea County, New Mexico  
(See Address List Attached)

BEFORE THE OIL CONSERVATION DIVISION

Santa Fe, New Mexico

Case No. 12668

Exhibit No. 4

Submitted by: Patterson Petroleum, LP

Hearing Date: May 31, 2001

Re: Proposal to drill the Gach "31" State #1 Well,  
to be located 990' FEL & 1650' FEL of Section 31,  
T-17-S, R-34-E, Lea County, New Mexico

Dear Owners:

Patterson is proposing the drilling of the captioned well to a depth of 13,600 feet in order to test the Morrow Formation. Because the well is being proposed to the Morrow Formation it will require a 320 acre unit. The N/2 of Section 31 is already in a Morrow unit. Therefore, the S/2 of Section 31 will be dedicated to this well. We also believe economic production may exist in shallower horizons, including but not limited to the Abo, Wolfcamp, Strawn and Atoka. We will want to have the right to test and possibly complete and produce said zones, if or when the Morrow is not economical to produce. We have a rig scheduled to commence drilling the subject well between August 15, 2001 and September 1, 2001.

Patterson, pursuant to an agreement with Phillips Petroleum Company, owns leasehold rights below the base of the San Andres Formation in Lots 3 & 4, the E/2 SW/4 and the W/2 SE/4 of the subject Section 31. (Section 31 is a short acre Section due to the lots on the West side. Lots 3 contains 35.3 acres and Lot 4 contains 35.39 acres; therefore the S/2 of Section 31 only contains 310.69 acres.) In said agreement with Phillips, Patterson operates all the wells drill pursuant to same through completion; after which, Phillips takes over operations if they have elected to own a working interest in such well(s). Patterson and its partners, including Phillips and others, are subject to an operating agreement which covers all of Section 31 and other acreage.

We invite you to join in the drilling of the proposed well with us. Each party's working interest for a S/2 unit well is indicated on the enclosed name and address list. Also enclosed for your review is a copy of the AFE for the proposed well. Enclosed is a copy of the drilling permit and survey we filed with NMOCD. When I get an approved permit I will forward same to you for your file. As presented on the AFE the total estimated costs to drill and complete the well are, \$1,787,550.00. Also enclosed for your review is the Operating Agreement we propose to utilize. The Operating Agreement is the same form which we are subject to with Phillips and our other partners as to Section 31.

We realize this is a very expensive well and you may not wish to participate in same at this time; therefore we would offer to purchase your leasehold interest. We would purchase your leasehold interest pursuant to a mutually acceptable form of a Term Assignment. Said Term Assignment

would provide for a three (3) year term, delivering a 75% NRI leasehold interest as to all rights below the base of the San Andres. Patterson would pay as consideration for said Term Assignment, \$200.00 per net acre delivered. At the end of the three year term, subject to a 180 day continuous development clause, the leasehold interest not then contained in a pool unit and rights 100 feet below the deepest depth drilled would revert back to you.

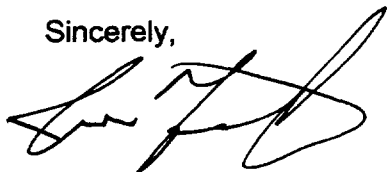
As an alternative to the Term Assignment, Patterson would enter into a mutually acceptable Farmout Agreement covering your interest. Said Farmout Agreement would provide, upon completion of a well capable of commercial production, for the delivery of a 75% NRI leasehold interest of your rights in the pool unit from the base of the San Andres to 100 feet below the total depth drilled. Said Farmout Agreement would also provide for a 25% backin after payout and a 180 day continuous development clause.

As I stated above we have a rig scheduled for the second half of August. As you know rigs are in very short supply right now. My drilling contract representative informed me if we don't utilize the rig when it becomes available in August it would be eight months or more before he could reschedule us. Plus, Patterson drilled a well in the N/2 of Section 31 in December of last year and the AFE costs were \$344,000.00 less than they are for the well we are proposing herein. Our engineer says if we wait for the next time a rig is available the cost could go up another \$300,000.00 or more. Also gas prices are good right now and no one knows how long that will last; we need to get this well drilled now so we can have it producing during the winter months and receive the best commodity price we can for the risk we are taking. Therefore, due to the timing, risk and expenses outlined above, but not to force you into making a trade, we will be filing for a hearing before the NMOCD to compulsory pool the acreage underlying the S/2 of Section 31 for the soonest possible date.

The offer herein to join in the drilling of the proposed well, grant a Term Assignment or Farmout is extended to each individual party named on the attached list. Each party may choose which option is best for them. Due to the time constraints, subject to limitations of licensing agreements and/or confidentiality agreements, I will make available any information which Patterson has in its possession, including well logs and production data. I am available to meet with or discuss this proposal with any party at your convenience. If you need further information or have any questions please do not hesitate to call. My toll free phone number is 1-800-470-4200. Because of the time constraints involved, if you plan to join in this well, I will need your joinder by Friday, May 11, 2001.

Your prompt attention to this matter shall be greatly appreciated. I look forward to working with each of you to the success of all parties.

Sincerely,

A handwritten signature in black ink, appearing to read "Joe Fitzgerald", with a stylized flourish at the end.

Joe Fitzgerald  
Land Manager

**SENDER:**

Complete items 1 and/or 2 for additional services.  
Complete items 3, 4a, and 4b.  
Print your name and address on the reverse of this form so that we can return the card to you.  
Attach this form to the front of the mailpiece, or on the back if space does not permit.  
Write "Return Receipt Requested" on the mailpiece below the article number.  
The Return Receipt will show to whom the article was delivered and the date delivered.

I also wish to receive the following services (for an extra fee):  
1. ☐ Addressee's Address  
2. ☐ Restricted Delivery  
Consult postmaster for fee.

**3. Article Addressed to:**

S. Rhett Gist  
301 N. Colorado, Ste. 217  
Midland, TX 79701

4a. Article Number  
**P245 759 736**

4b. Service Type  
☐ Registered ☐ Certified  
☐ Express Mail ☐ Insured  
☒ Return Receipt for Merchandise ☐ COD

7. Date of Delivery  
**4/30/01**

8. Addressee's Address (Only if requested and fee is paid)

5. Signature: (Addressee or Agent)  
**X [Signature]**

PS Form 3811, December 1994

Domestic Return Receipt

Thank you for using Return Receipt Service.

**SENDER:**

Complete items 1 and/or 2 for additional services.  
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2. ☐ Restricted Delivery  
Consult postmaster for fee.

**Article Addressed to:**

Ben D. Taylor  
401 W. Texas, Ste. 1225  
Midland, TX 79701

4a. Article Number  
**P245 759 737**

4b. Service Type  
☐ Registered ☐ Certified  
☐ Express Mail ☐ Insured  
☒ Return Receipt for Merchandise ☐ COD

7. Date of Delivery  
**4/30/01**

8. Addressee's Address (Only if requested and fee is paid)

Received By: (Print Name)  
**[Signature]**  
Signature: (Addressee or Agent)  
**X**

PS Form 3811, December 1994

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I also wish to receive the following services (for an extra fee):  
1. ☐ Addressee's Address  
2. ☐ Restricted Delivery  
Consult postmaster for fee.

**3. Article Addressed to:**

Chuck Sammons  
401 W. Texas Ste. 1003  
Midland, TX 79701

4a. Article Number  
**P245 759 734**

4b. Service Type  
☒ Registered ☐ Certified  
☐ Express Mail ☐ Insured  
☒ Return Receipt for Merchandise ☐ COD

7. Date of Delivery  
**4/30/01**

8. Addressee's Address (Only if requested and fee is paid)

Received By: (Print Name)  
**[Signature]**  
Signature: (Addressee or Agent)  
**X**

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I also wish to receive the following services (for an extra fee):  
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2. ☐ Restricted Delivery  
Consult postmaster for fee.

**Article Addressed to:**

R. Robert Statton  
401 W. Texas, Ste. 1003  
Midland, TX 79701

4a. Article Number  
**P245 759 735**

4b. Service Type  
☐ Registered ☐ Certified  
☐ Express Mail ☐ Insured  
☒ Return Receipt for Merchandise ☐ COD

7. Date of Delivery  
**4/30/01**

8. Addressee's Address (Only if requested and fee is paid)

Received By: (Print Name)  
**[Signature]**  
Signature: (Addressee or Agent)  
**X**

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Is your RETURN ADDRESS completed on the reverse side?

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I also wish to receive the following services (for an extra fee):  
 1. ☐ Addressee's Address  
 2. ☐ Restricted Delivery  
 Consult postmaster for fee.

**3. Article Addressed to:**

The Ninety-Six Corporation  
 Attn: W.D. Kennedy  
 550 W. Texas, Ste. 1225  
 Midland, TX 79701

**4a. Article Number****4b. Service Type**

☒ Registered ☐ Certified  
☐ Express Mail ☐ Insured  
☒ Return Receipt for Merchandise ☐ COD

**7. Date of Delivery**

4/30/01

**8. Addressee's Address (Only if requested and fee is paid)****5. Signature: (Addressee or Agent)**

X

PS Form 3811, December 1994

Domestic Return Receipt

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I also wish to receive the following services (for an extra fee):  
 1. ☐ Addressee's Address  
 2. ☐ Restricted Delivery  
 Consult postmaster for fee.

**1. Article Addressed to:**

Arden R. Grover  
 505 N. Big Spring  
 Midland, TX 79701

**4a. Article Number****4b. Service Type**

☐ Registered ☐ Certified  
☐ Express Mail ☐ Insured  
☐ Return Receipt for Merchandise ☐ COD

**7. Date of Delivery**

4-30-01

**8. Addressee's Address (Only if requested and fee is paid)****5. Signature: (Addressee or Agent)**

X

PS Form 3811, December 1994

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I also wish to receive the following services (for an extra fee):  
 1. ☐ Addressee's Address  
 2. ☐ Restricted Delivery  
 Consult postmaster for fee.

**3. Article Addressed to:**

Jay Pulte  
 8729 Glencrest Lane  
 Dallas, TX 75209

**4a. Article Number****4b. Service Type**

☒ Registered ☐ Certified  
☐ Express Mail ☐ Insured  
☒ Return Receipt for Merchandise ☐ COD

**7. Date of Delivery**

3/12/01

**8. Addressee's Address (Only if requested and fee is paid)****5. Signature: (Addressee or Agent)**

X

PS Form 3811, December 1994

Domestic Return Receipt

Is your RETURN ADDRESS completed on the reverse side?

**SENDER:**

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 2. ☐ Restricted Delivery  
 Consult postmaster for fee.

**1. Article Addressed to:**

J. Chris Statton  
 401 W. Texas, Ste. 1003  
 Midland, TX 79701

**4a. Article Number****4b. Service Type**

☒ Registered ☐ Certified  
☐ Express Mail ☐ Insured  
☒ Return Receipt for Merchandise ☐ COD

**7. Date of Delivery**

4/30/01

**8. Addressee's Address (Only if requested and fee is paid)****5. Signature: (Addressee or Agent)**

X

PS Form 3811, December 1994

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I also wish to receive the following services (for an extra fee):

1. ☐ Addressee's Address  
2. ☐ Restricted Delivery  
Consult postmaster for fee.

**3. Article Addressed to:**

CNW Oil & Gas, Inc.  
Attn: Ben Taylor  
101 W. Texas, Ste. 1005  
Midland, TX 79701

**4a. Article Number**

P245759739

**4b. Service Type**

- ☐ Registered ☐ Certified  
☐ Express Mail ☐ Insured  
☒ Return Receipt for Merchandise ☐ COD

**7. Date of Delivery**

4/30/01

**8. Addressee's Address (Only if requested and fee is paid)****5. Received By: (Print Name)**

Reece Brown

**5. Signature: (Addressee or Agent)**

Domestic Return Receipt

PS Form 3811, December 1994

**SENDER:**

Complete items 1 and/or 2 for additional services.  
a Complete items 3, 4a, and 4b.  
b Print your name and address on the reverse of this form so that we can return this card to you.  
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I also wish to receive the following services (for an extra fee):

1. ☐ Addressee's Address  
2. ☐ Restricted Delivery  
Consult postmaster for fee.

**3. Article Addressed to:**

RRS Oil, Inc.  
Attn: Robert Statton  
101 W. Texas, Ste. 1003  
Midland, TX 79701

**4a. Article Number**

P245759740

**4b. Service Type**

- ☐ Registered ☐ Certified  
☐ Express Mail ☐ Insured  
☒ Return Receipt for Merchandise ☐ COD

**7. Date of Delivery**

4/30/01

**8. Addressee's Address (Only if requested and fee is paid)****5. Received By: (Print Name)**

Reece Brown

**5. Signature: (Addressee or Agent)**

PS Form 3811, December 1994

Domestic Return Receipt

Thank you for using Return Receipt Service.

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**SENDER:**

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I also wish to receive the following services (for an extra fee):

1. ☐ Addressee's Address  
2. ☐ Restricted Delivery  
Consult postmaster for fee.

**3. Article Addressed to:**

Grover Brothers, Ltd.  
Attn: Arden R. Grover  
505 N. Big Spring  
Midland, TX 79701

**4a. Article Number**

P245759742

**4b. Service Type**

- ☐ Registered ☒ Certified  
☐ Express Mail ☐ Insured  
☒ Return Receipt for Merchandise ☐ COD

**7. Date of Delivery**

4/30/01

**8. Addressee's Address (Only if requested and fee is paid)****5. Received By: (Print Name)**

Reece Brown

Domestic Return Receipt

PS Form 3811, December 1994

**SENDER:**

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a Complete items 3, 4a, and 4b.  
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I also wish to receive the following services (for an extra fee):

1. ☐ Addressee's Address  
2. ☐ Restricted Delivery  
Consult postmaster for fee.

**3. Article Addressed to:**

Arthur R. Wilson & wife  
Deborah Wilson  
2340 Carefree Circle  
Flagstaff, AZ 86004

**4a. Article Number**

P245759741

**4b. Service Type**

- ☐ Registered ☐ Certified  
☐ Express Mail ☐ Insured  
☒ Return Receipt for Merchandise ☐ COD

**7. Date of Delivery**

4/28/01

**8. Addressee's Address (Only if requested and fee is paid)****5. Received By: (Print Name)**

Reece Brown

**5. Signature: (Addressee or Agent)**

PS Form 3811, December 1994

Domestic Return Receipt

Thank you for using Return Receipt Service.

**WORKING INTEREST OWNERS NEEDED TO FROM A UNIT COVERING  
THE S/2 OF SECTION 31, T-17-S, R-34-E, LEA COUNTY, NEW MEXICO**

**OWNERS**

**INTERESTS % IN S/2 UNIT**

The following Owners own the leasehold rights in Lots 3 & 4, the E/2 SW/4, and the W/2 SE/4 of Section 31-17-34, Lea County, New Mexico, containing 230.69 acres, and are subject to an Operating Agreement covering all of said Section 31:

Patterson Petroleum, LP, et al P. O. Drawer 1416 Snyder, Texas 79550	230.69/310.69 =	74.250860%
--	-----------------	------------

The following Owners own the leasehold rights in the E/2 SE/4 of Section 31-17-34, containing 80 acres, and are NOT subject to an Operating Agreement with the leasehold Owners of the balance of the S/2 of said Section 31:

L. Chuck Sammons 401 W. Texas, Ste. 1003 Midland, TX 79701	4.3220692976/310.69 =	1.391120%
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R. Robert Statton 401 W. Texas, Ste. 1003 Midland, TX 79701	4.3220692976/310.69 =	1.391120%
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S. Rhett Gist 301 N. Colorado, Ste. 217 Midland, TX 79701	4.3220692976/310.69 =	1.391120%
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Ben D. Taylor 401 W. Texas, Ste. 1225 Midland, TX 79701	4.3220692976/310.69 =	1.391120%
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Jay Pulte 8729 Glencrest Lane Dallas, TX 75209	1.00/310.69 =	.321864%
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J. Chris Statton 401 W. Texas, Ste. 1003 Midland, TX 79701	4.3220692976/310.69 =	1.391120%
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The Ninety-Six Corporation Attn: W.D. Kennedy 550 W. Texas, Ste. 1225 Midland, TX 79701	19.525861304/310.69 =	6.284676%
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Arden R. Grover 505 N. Big Spring Midland, TX 79701	9.762930736/310.69 =	3.142338%
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Grover Brothers, Ltd. Attn: Arden R. Grover 505 N. Texas Midland, TX 79701	9.762930736/310.69 =	3.142338%
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Arthur R. Wilson wife Deborah Wilson 2340 Carefree Circle Flagstaff, AZ 86004	8.575/310.69 =	2.759986
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KNW Oil & Gas, Inc. Attn: Ben Taylor 401 W. Texas, Ste. 1005 Midland, TX 79701	4.881465368/310.69 =	1.571169
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RRS Oil, Inc. Attn: Robert Statton 401 W. Texas, Ste. 1003 Midland, TX 79701	4.881465368/310.69 =	1.571169
---	----------------------	----------

District I  
PO Box 1980, Hobbs, NM 88241-1980  
District II  
PO Drawer DD, Artesia, NM 88211-0719  
District III  
1000 Rio Brazos Rd., Aztec, NM 87410  
District IV  
PO Box 2088, Santa Fe, NM 87504-2088

State of New Mexico  
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION  
PO Box 2088  
Santa Fe, NM 87504-2088

Form C-101  
Revised February 10, 1994  
Instructions on back  
Submit to Appropriate District Office  
State Lease - 6 Copies  
Fee Lease - 5 Copies

☐ AMENDED REPORT

APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE

Operator Name and Address: Patterson Petroleum LP P.O. Drawer 1416 Snyder, TX 79550		OGRID Number 141928
		APT Number 30 - 0
Property Code	Property Name Gach "31" State	Well No. 1

Surface Location

UL or lot no.	Section	Township	Range	Lot Idg	Feet from the	North/South line	Feet from the	East/West line	County
0	31	17S	34E		990	South	1650	East	Lea

Proposed Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idg	Feet from the	North/South line	Feet from the	East/West line	County
Proposed Pool 1 Vacuum;					Proposed Pool 2 Morrow				

Work Type Code N	Well Type Code G	Cable/Rotary Rotary	Lease Type Code S	Ground Level Elevation
Multiple No	Proposed Depth 13,600'	Formation Morrow	Contractor Patterson Drlg	Spud Date 09/01

Proposed Casing and Cement Program

Hole Size	Casing Size	Casing weight/foot	Setting Depth	Sacks of Cement	Estimated TOC
17-1/2"	13-3/8"	48#	400'	500	Surface
12-1/4"	9-5/8"	40#	4800'	2500	Surface
8-3/4"	7"	26#	12,950'	650	8000'
6-1/8"	5" liner	18#	13,600'	180	12,700'

Describe the proposed program. If this application is to DEEPEN or PLUG BACK give the data on the present productive zone and proposed new productive zone. Describe the blowout prevention program, if any. Use additional sheets if necessary.

Drilling fluid synopsis attached  
BOP: Series 9000# WP - See figure 2.5 attached  
Additional casing & cementing information attached

I hereby certify that the information given above is true and complete to the best of my knowledge and belief.

Signature:



Printed name:

Nolan von Roeder

Title:

Petroleum Engineer

Date:

04/12/01

Phone:

915/573-1938

OIL CONSERVATION DIVISION

Approved by:

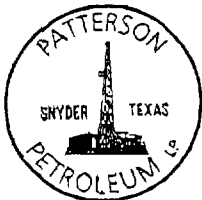
Title:

Approval Date:

Expiration Date:

Conditions of Approval:

Attached ☐



# PATTERSON PETROLEUM LP

A LIMITED PARTNERSHIP

P.O. Drawer 1416 • Snyder, Texas 79550

(915) 573-1938 • Fax (915) 573-1939

## DRILLING FLUID SYNOPSIS

PATTERSON PETROLEUM LP

Gach "31" State No. 1

Section 31

T-17-S

R-34-E

Lea County, New Mexico

### CASING

13-3/8"	at	400'
9-5/8"	at	4,800'
7"	at	12,950'
5"	at	13,600'

DEPTH	MUD WEIGHT	VISCOSITY	FLUID LOSS	DRILL SOLIDS	COMMENTS
0' - 400'	8.6 to 9.5	32 to 45	No control	5%	Spud mud, paper
400' - 4800'	10.0 to 10.1	28 to 29	No control	1%	Brine water, paper, caustic
4800' - 12,500'	8.4 to 9.2	28 to 29	No control	1%	Fresh water caustic, paper (Brine if needed)
12,500' - 13,600'	9.0 to 9.5	36 to 42	10 cc	5%	Xanthan gum, white starch, pac, caustic



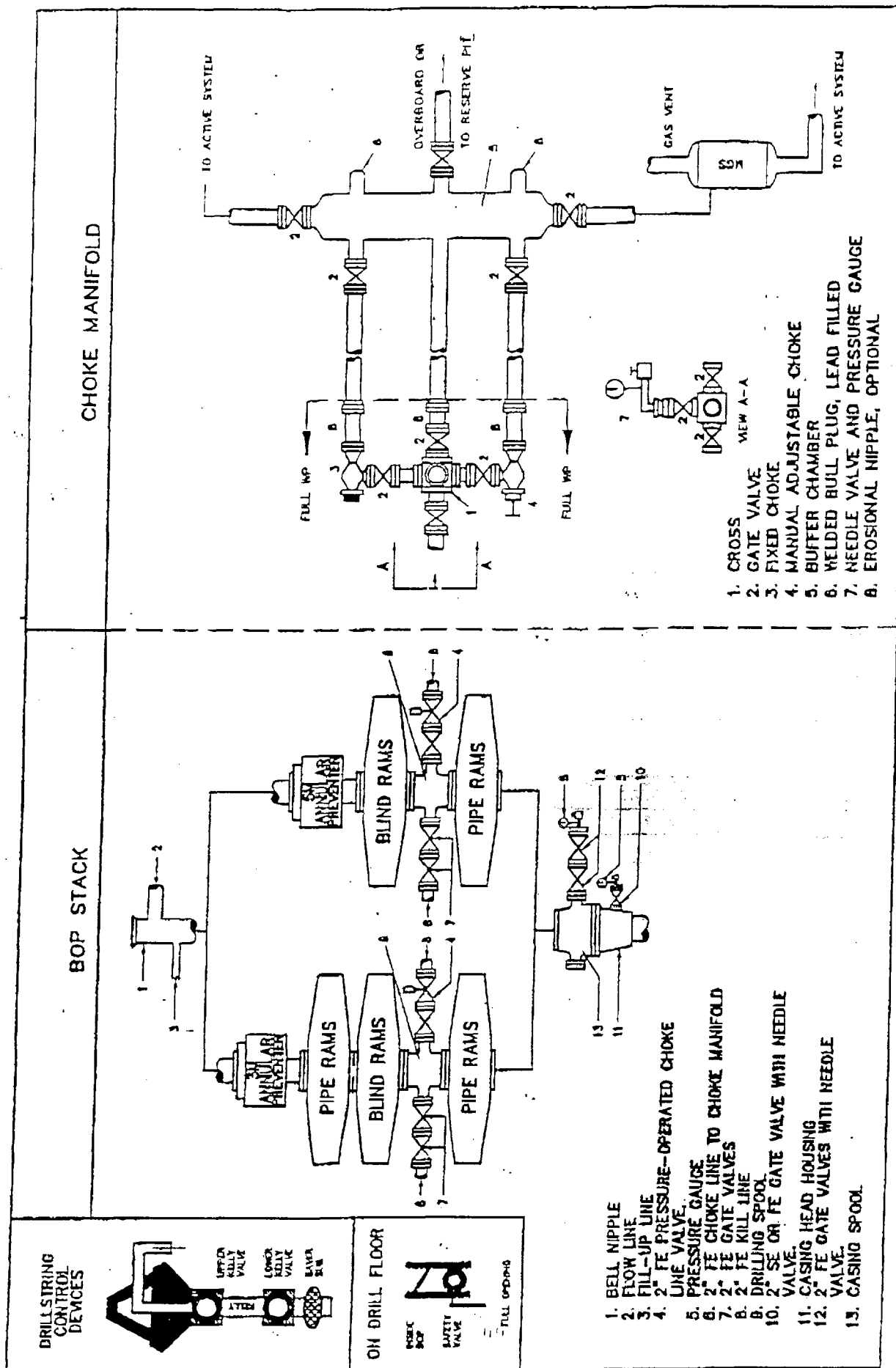


Fig. 2.5. Class 3 BOP and Choke Manifold.

PATTERSON PETROLEUM LP

PROPOSED CASING & CEMENTING PROGRAM

GACH "31" STATE WELL NO. 1

13 3/8", 48 lb/ft, H-40 Surface Casing Set at 400' - in a 17 1/2" Hole

Circulate to surface with 500 sacks of Class "C" + 2% CaCl<sub>2</sub> + 1/4 lb/sk celloflake

Slurry Weight:	14.8 ppg
Slurry Yield:	1.32 cu.ft/sk
Water Requirement:	6.3 gal/sk

9 5/8", 40 lb/ft, J-55 & N-80 Intermediate Casing Set at 4800' - in a 12 1/4" Hole

Lead : 2250 sx of 35:65 Poz Class "C" + 5% salt + 6% gel + 1/4 lb/sk celloflake  
+ 2/10 % antifoamer

Desired TOC = Surface

Slurry Weight:	12.4 ppg
Slurry Yield:	2.15 cu.ft/sk
Water Requirement:	11.99 gal/sk

Tail : 250 sx of Class "C" Neat

Slurry Weight:	14.8 ppg
Slurry Yield:	1.32 cu.ft/sk
Water Requirement:	6.31 gal/sk

7", 26 lb/ft, N-80 & P110 Protection String Casing Set at 12,950' - in an 8 3/4" Hole

Cement w/ 650 sx of Class "H" + 5% salt + 2% gel + 3/10% retarder + 2/10% antifoamer

Desired TOC = 8000'

Slurry Weight:	16.4 ppg
Slurry Yield:	1.09 cu.ft/sk
Water Requirement:	5.49 gal/sk

5", 18 lb/ft, N80 Production Liner Set from 12,600' to 13,600' - in a 6 1/8" Hole

Cement w/ 180 sx of Class "H" + 3/10% retarder + 2/10% antifoamer + 6/10% Gasblock

Slurry Weight:	16.4 ppg
Slurry Yield:	1.09 cu.ft/sk
Water Requirement:	5.49 gal/sk

## DISTRICT I

P.O. Box 1980, Hobbs, NM 88241-1980

## DISTRICT II

P.O. Drawer DD, Artesia, NM 88211-0719

## DISTRICT III

1000 Rio Brazos Rd., Aztec, NM 87410

## DISTRICT IV

P.O. BOX 2088, SANTA FE, N.M. 87504-2088

## State of New Mexico

Energy, Minerals and Natural Resources Department

## OIL CONSERVATION DIVISION

P.O. Box 2088

Santa Fe, New Mexico 87504-2088

Form C-102

Revised February 10, 1994

Submit to Appropriate District Office

State Lease - 4 Copies

Fee Lease - 3 Copies

## WELL LOCATION AND ACREAGE DEDICATION PLAT

☐ AMENDED REPORT

API Number		Pool Code	Pool Name
			N. Vacuum; Atoka - Morrow
Property Code	Property Name		Well Number
	GACH "31" STATE		1
OGRID No.	Operator Name		Elevation
141928	PATTERSON PETROLEUM L.P.		4083'

## Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
0	31	17-S	34-E		990	SOUTH	1650	EAST	LEA

## Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
Dedicated Acres		Joint or Infill		Consolidation Code		Order No.			
310.69									

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED  
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

LOT 1									
35.11 AC LOT 2									
35.20 AC LOT 3									
35.30 AC LOT 4									
35.39 AC									

1650'

990'

**OPERATOR CERTIFICATION**

I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.

*Nolan von Roeder*

Signature

Nolan von Roeder

Printed Name

Engineer

Title

04/18/01

Date

**SURVEYOR CERTIFICATION**

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

APRIL 13, 2001

Date Surveyed

AWB

Signature & Seal of Professional Surveyor

*Ronald J. Edson*

01-11-0448

Certificate No. RONALD J. EDSON 3239

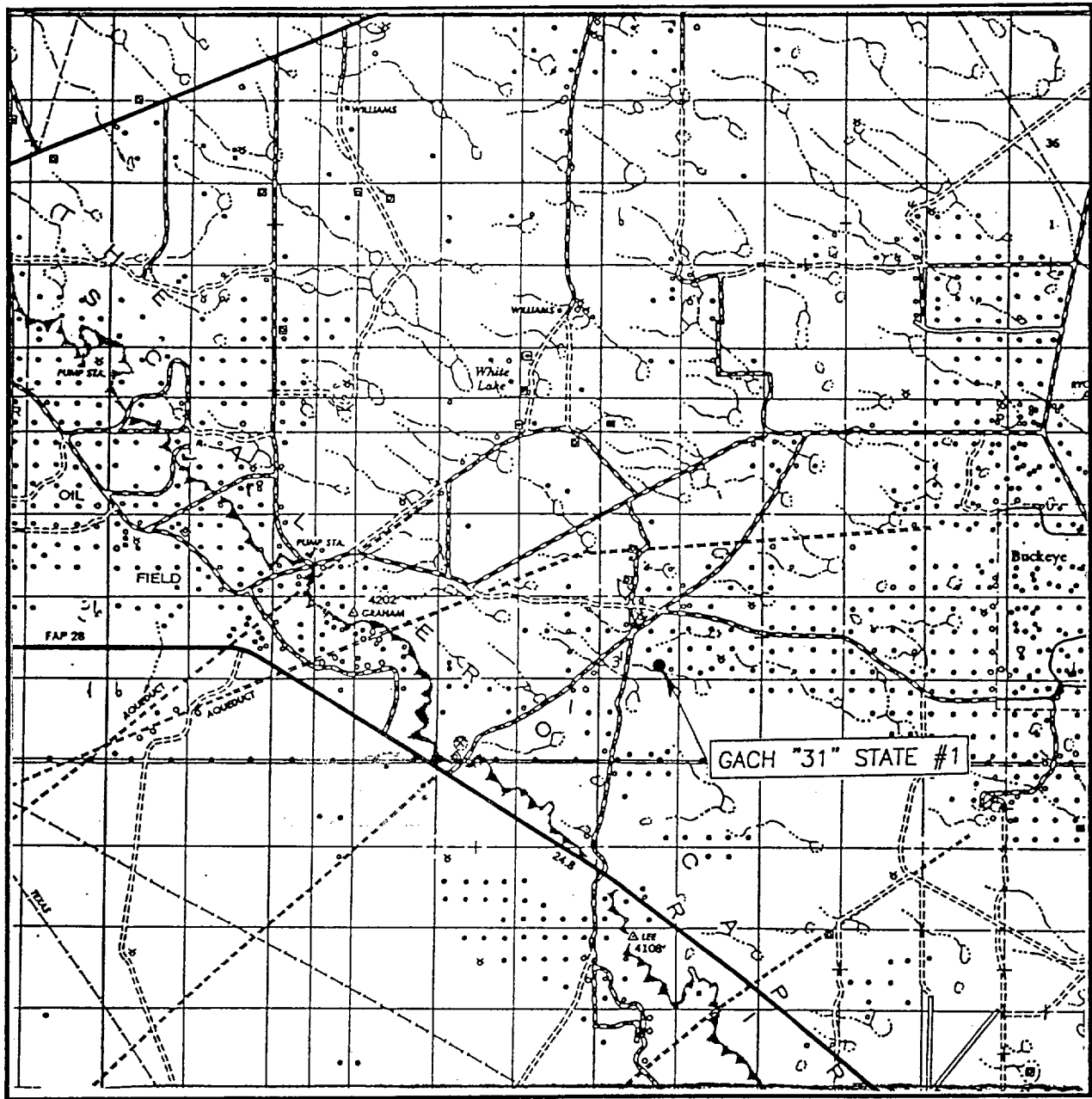
GARY EDSON 12641

**Insert**

**Color Page/Photo**

**Here**

# VICINITY MAP



SCALE: 1" = 2 MILES

SEC. 31 TWP. 17-S RGE. 34-E

SURVEY N.M.P.M.

COUNTY LEA

DESCRIPTION 990'FSL & 1650'FEL

ELEVATION 4083'

OPERATOR PATTERSON PTEROLEUM L.P.

LEASE GACH "31" STATE

**JOHN WEST SURVEYING**  
**HOBBS, NEW MEXICO**  
**(505) 393-3117**

# LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

CONTOUR INTERVAL: 5'

BUCKEYE, N.M.

SEC. 31 TWP. 17-S RGE. 34-E

SURVEY N.M.P.M.

COUNTY LEA

DESCRIPTION 990' FSL & 1650' FEL

ELEVATION 4083'

OPERATOR PATTERSON PTEROLEUM L.P.

LEASE GACH "31" STATE

U.S.G.S. TOPOGRAPHIC MAP

BUCKEYE, N.M.

JOHN WEST SURVEYING  
HOBBS, NEW MEXICO  
(505) 393-3117

**PATTERSON PETROLEUM LP**  
**DRILLING & COMPLETION DETAILED COST ESTIMATE**

Lease Name: Gach "31" State	Well No. 1	Depth: 13,600'
Location: 990' FSL & 1650' FEL of Sec. 31, T-17-S, R-34-E		
Field: N. VACUUM	State: NM	
Objective Formation: MORROW	County: LEA	Contract Type: Daywork

CATEGORY	DRILL & TEST	COMPLETION	TOTAL
1. Acreage Cost.....	\$ -	\$ -	-
2. Abstracts/Legal .....	2,000		2,000
3. Location Costs.....	22,000	2,500	24,500
4. Footage Contract ft. @ \$ /ft.....			-
5. Daywork Contract 58 days @ \$ 13500 /day.....	742,500	40,500	783,000
6. Mobilization.....	50,000		50,000
7. Fixed Overhead.....	5,000		5,000
8. Well Control Insurance.....	6,000		6,000
9. Bits, Reamers & Stabilizers.....	51,000		51,000
10. Directional Services.....			-
11. Equipment Rentals.....	45,000	6,500	51,500
12. Labor/Supervision - Contract.....	16,000	4,500	20,500
13. Labor/Supervision - Company.....	3,000	3,000	6,000
14. Trucking.....	2,000	2,000	4,000
15. Fuel/Power.....	50,000		50,000
16. Water/Well.....	30,000		30,000
17. Chemicals/Mud & Services.....	80,000		80,000
18. Drill Stem Testing.....	6,000		6,000
19. Coring.....	12,000		12,000
20. Logging.....	60,000		60,000
21. Geological, Geophysical.....	27,000		27,000
22. Engineering Services.....	1,000		1,000
23. Cement & Equipment.....	40,000	55,000	95,000
24. Fishing Tools.....			-
25. Completion Unit - 5 days.....		10,000	10,000
26. Cased Hole Wireline.....		16,000	16,000
27. Stimulation.....			-
28. Plugging.....	7,000		7,000
29. Surface Damages.....	2,000		2,000
30. Miscellaneous.....	15,000	10,000	25,000
<b>TOTAL INTANGIBLES</b>	<b>\$ 1,274,500</b>	<b>\$ 150,000</b>	<b>\$ 1,424,500</b>
31. Casing - Surface			
440 ft of 13 3/8"OD 54.5 #/ft @ \$ 18/ft.....	7,920		7,920
32. Casing - Intermediate			-
4800 ft of 9 5/8"OD 36&40#/ft @ \$ 14/ft.....	67,200		67,200
33. Casing - Production			-
13000 ft of 7"OD 26 #/ft @ \$ 12.75/ft.....	165,750		165,750
900 ft of 5"OD 18 #/ft @ \$ 9.20/ft.....		8,280	
34. Production Tubing			-
13600 ft of 2 7/8"OD 6.5 #/ft @ \$ 3.8/ft.....		51,680	51,680
35. Wellhead.....	7,500	33,000	40,500
36. Pumping Unit.....			-
37. Rods.....			-
38. Sub-surface Equipment.....		30,000	30,000
39. Line Pipe & Battery Fittings.....			-
40. Surface Production Facilities.....			-
41. Miscellaneous Equipment.....			-
<b>TOTAL TANGIBLES</b>	<b>\$ 248,370</b>	<b>\$ 122,960</b>	<b>\$ 363,050</b>
<b>TOTAL WELL COST</b>	<b>\$ 1,522,870</b>	<b>\$ 272,960</b>	<b>\$ 1,787,550</b>

Prepared By: Nolan von Roeder

Date: 04/12/01

Approved By: \_\_\_\_\_

Date: \_\_\_\_\_

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

**MODEL FORM OPERATING AGREEMENT**

OPERATING AGREEMENT

DATED

May 1, 20 01,

OPERATOR: PATTERSON PETROLEUM LP

CONTRACT AREA S/2 of Section 31, T-17-S, R-34

COUNTY OR PARISH OF LEA STATE OF NEW MEXICO

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



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

## OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between PATTERSON PETROLEUM LP

, 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 "drill site" 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.

I. The term "formation" shall mean the stratum of earth containing, or thought to contain an accumulation of oil and/or gas.

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~~, Memorandum of Operating Agreement

☒ 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

4 A. Oil and Gas Interests:

6 If any party owns an oil and gas interest in the Contract Area, that interest shall be treated for all purposes of this agreement  
7 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  
8 shall be deemed to own both the royalty interest reserved in such lease and the interest of the lessee thereunder.

10 B. Interests of Parties in Costs and Production:

12 Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and  
13 paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set  
14 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  
15 payment of royalties / to the extent of currently existing leasehold burdens of which shall be borne as hereinafter set forth.  
16 ~~record as of the date hereof~~

17 Regardless of which party has contributed the lease(s) and/or oil and gas interest(s) hereto on which royalty is due and  
18 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  
19 cause to be paid or delivered, to the extent of its interest in such production, the royalty amount stipulated hereinabove and shall hold the  
20 other parties free from any liability therefor. No party shall ever be responsible, however, on a price basis higher than the price received  
21 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  
22 receive settlement on a higher price basis, the party contributing the affected lease shall bear the additional royalty burden attributable to  
23 such higher price.

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

27 C. Excess Royalties, Overriding Royalties and Other Payments:

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

34 D. Subsequently Created Interests:

36 If any party should hereafter create an overriding royalty, production payment or other burden payable out of production  
37 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  
38 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  
39 accepted obligation of all parties (any such interest being hereinafter referred to as "subsequently created interest" irrespective of the  
40 timing of its creation and the party out of whose working interest the subsequently created interest is derived being hereinafter referred  
41 to as "burdened party"), and:

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

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

52 See Article XV.L.

ARTICLE IV.  
TITLES

56 A. Title Examination:

58 Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations or, if  
59 the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or planned to be includ-  
60 ed, in the drilling unit around such well. The opinion will include the ownership of the working interest, minerals, royalty, overriding  
61 royalty and production payments under / the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and  
62 gas interests to the drillsite, or to be included in such drilling unit, shall furnish to Operator all abstracts (including federal lease status  
63 reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or  
64 made available to Operator by the parties, but necessary for the examination of the title, shall be obtained by Operator. Operator shall  
65 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  
66 hereof. The cost incurred by Operator in this title program shall be borne as follows:

68 ☐ ~~Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including preliminary, supplemental,~~  
69 ~~shut-in gas royalty opinions and division order title opinions) shall be a part of the administrative overhead as provided in Exhibit "C",~~  
70 ~~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 acqui-~~  
21 ~~sition will not be subject to Article VIII.D., 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 Annuity 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.D., 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:

PATTERSON PETROLEUM LP 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. See Article XV.T., XV.U.

B. Resignation or Removal of Operator and Selection of Successor: See Article XV.B.

~~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 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 corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.~~

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

C. Employees:

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

D. Drilling Contracts: See Article XV.V.

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

ARTICLE VI.  
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 15th day of September, 2001, Operator shall commence the drilling of a well for oil and gas at the following location:

660 FSL and 1980 FEL, Section 31, T-17S, R34-E, NMPM, Lea County, New Mexico

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

a depth sufficient to adequately test the Morrow formation or to a depth of 13,600', whichever is the lesser depth

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

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

ARTICLE VI  
continued

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

3  
4 See Articles XV.C., XV.E., XV.G., and XV.J.

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6 B. Subsequent Operations:

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

18 \*In the event a party receiving such notice fails to respond within forty-eight (48) hours as a result of the exclusion of Saturday, Sunday or a  
19 legal holiday in the calculation of the response period, such party shall be responsible for the stand-by rig expense over and above the  
20 forty-eight (48) hours.

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

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

44  
45 See Article XV.F.

46  
47 If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable  
48 notice period, shall advise the Consenting Parties of the total interest of the parties approving such operation and its recommendation as  
49 to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours  
50 (exclusive of Saturday, Sunday and legal holidays)\* after receipt of such notice, shall advise the proposing party of its desire to (a) limit par-  
51 ticipation to such party's interest as shown on Exhibit "A" or (b) carry its proportionate part of Non-Consenting Parties' interests, and  
52 failure to advise the proposing party shall be deemed an election under (a). In the event a drilling rig is on location, the time permitted for  
53 such a response shall not exceed a total of forty-eight (48) hours (inclusive of Saturday, Sunday and legal holidays). The proposing party,  
54 at its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.

55 \*In the event a party receiving such notice fails to respond within forty-eight (48) hours as a result of the exclusion of Saturday, Sunday or  
56 a legal holiday in the calculation of the response period, such party shall be responsible for the standby rig expense over and above the  
57 forty-eight (48) hours.

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

64 \*provided however, that those Non-Consenting parties that participated in the drilling, deepening, or sidetracking of the well shall remain  
65 liable for and shall pay their proportionate shares of the cost of plugging and abandoning the well and restoring the surface location, insofar  
66 as those costs were not increased by the subsequent operations 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, (after deducting production taxes, excise taxes, royalty, overriding royalty and other interests not excepted by Article III.D. payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

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

(b) 500 % 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.

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

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

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

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

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

ARTICLE VI  
continued

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

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

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

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

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

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

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

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53  
54  
55 In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period  
56 shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays; provided, however, any party may request and  
57 receive up to eight (8) additional days after expiration of the forty-eight (48) hours within which to respond by paying for all stand-by time  
58 incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, stand-  
59 by costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing par-  
60 ty's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties. In all other in-  
61 stances the response period to a proposal for sidetracking shall be limited to thirty (30) days.

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64  
65 C. **TAKING PRODUCTION IN KIND:** See Article XV.A.

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



## ARTICLE VI

continued

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

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

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

15 \*but in no event less than the price actually received by Operator

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 Subject to Article XV.L.,

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:

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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 salvageable material and equipment, determined in accordance with the provisions of  
49 Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning.\* Each abandoning party shall assign  
50 the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and  
51 material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the in-  
52 terval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and  
53 gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or in-  
54 tervals of the formation or formations then open to production, for a term of one (1) year and so long thereafter as oil and/or gas is pro-  
55 duced from the interval or intervals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit

56  
57 \*See Article XV.K.

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.

ARTICLE VII.  
EXPENDITURES AND LIABILITY OF PARTIES

23 A. Liability of Parties:

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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.

30 B. Liens and Payment Defaults:

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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.

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 See Articles XV.M., XV.S. and XV.W.

64 D. Limitation of Expenditures:

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

ARTICLE VII  
continued

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

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

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

19  
 20 3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated  
 21 to require an expenditure in excess of Fifty-Thousand and no/100----- Dollars (\$ 50,000.00 )  
 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 Fifty-Thousand and no/100-----  
 28 Dollars (\$ 50,000.00 ) 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.~~ IV.B.3.

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 <sup>lawfully</sup> 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 <sup>workers'</sup> ~~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 <sup>workers'</sup> ~~workmen's~~ compensation  
8 law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.

9

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

12

## ARTICLE VIII.

## ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

13

## 14 A. Surrender of Leases:

15

16 The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole  
17 or in part unless all parties consent thereto. However, no consent shall be necessary to release a lease which has expired or otherwise  
18 terminated.

19

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

34 See Article XV.D.

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

39

## 40 B. Renewal or Extension of Leases:

41

42 If any party secures a renewal of any oil and gas lease subject to this agreement, all other parties shall be notified promptly, and  
43 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  
44 renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper pro-  
45 portionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the  
46 interests held at that time by the parties in the Contract Area.

47

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

52

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

55

56 The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease  
57 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  
58 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-  
59 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  
60 the provisions of this agreement.

61

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

63

## 64 C. Acreage or Cash Contributions:

65

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

**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: See Article XV.Q.

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

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

17 ~~2. an equal undivided interest in all leases 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: See Article XV.X.

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 <sup>thirty (30)</sup> ~~ten (10)~~ days after receipt of the notice, to purchase  
41 on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchas-  
42 ing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing par-  
43 ties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to  
44 dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent com-  
45 pany or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.

46 See Article XV.R.

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

ARTICLE XI.  
FORCE MAJEURE

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

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

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

ARTICLE XII.  
NOTICES

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

See Article XV.N.

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

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

ARTICLE XIV.  
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

C. Regulatory Agencies:

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

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

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

ARTICLE XV.  
OTHER PROVISIONS

See next page for the beginning of Article XV.

## ARTICLE XV.

A. This Operating Agreement will be subject to the applicable terms of the Joint Venture Agreement to which this Operating Agreement is attached. Any conflict between the terms of this Operating Agreement and the Joint Venture Agreement shall be resolved in favor of the Joint Venture Agreement.

### B. Resignation, Change 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 only for good cause by the affirmative vote of Non-Operators owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of Operator; such vote shall not be deemed effective until a written notice has been delivered to the Operator by a Non-Operator detailing the alleged default and Operator has failed to cure the default within thirty (30) days from its receipt of the notice or, if the default concerns an operation then being conducted, within forty-eight (48) hours of its receipt of the notice. For purposes hereof, "good cause" shall mean not only gross negligence or willful misconduct but also the material breach of or inability to meet the standards of operation contained in Article V.A. or material failure or inability to perform its obligations under this agreement.

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 under any provision of this Operating Agreement, 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 the party(ies) owning a majority interest based on ownership as shown on Exhibit "A"; provided, however, if an Operator which has been removed or is deemed to have resigned fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of the party or parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was removed or resigned. The former Operator shall promptly deliver to the successor Operator all records and data relating to the operations conducted by the former Operator to the extent such records and data are not already in the 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.

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

If, following the granting of relief under the Bankruptcy Code to any party hereto as debtor thereunder, this Agreement should be held to be an executory contract within the meaning of 11 U.S.C. §365, then the Operator, or (if the Operator is the debtor in bankruptcy) any other party, shall be entitled to a determination by debtor or any trustee for debtor within thirty (30) days from the date an order for relief is entered under the Bankruptcy Code as to the rejection or assumption of this Operating Agreement. In the event of an assumption, Operator or said other party shall be entitled to adequate assurances as to future performance of debtor's obligation hereunder and the protection of the interest of all other parties.

### C. Mandatory Operations:

Notwithstanding the other provisions hereof, and particularly Article VI., if the proposed well is an obligation well, a party not participating in drilling the well shall assign to the participating parties its interest in the leases or portion thereof which would be lost or not earned if the well was not drilled and thereafter shall not be subject to the JVA nor be covered by this Agreement. Such assignment shall be due upon the commencement of operations for such well and shall be free and clear of all mortgages (unless such mortgages are subordinated to this agreement), claims, liens, overriding royalty interests, production payments, net profits interests, and other encumbrances or leasehold burdens placed thereon by or resulting from the Assignor's ownership and operations subsequent to the date of this Operating Agreement, but otherwise without warranty of title, either express or implied. An "obligation well" is defined as a well which must be drilled to maintain a lease or portion thereof which cannot otherwise be maintained. A well proposed



within the last one hundred eighty (180) days of the primary term of a lease or term assignment (whether as a unit well or lease well) shall constitute an "obligation well".

In the event a party should propose to rework or recomplete a well which has ceased to produce and such operation is necessary to perpetuate a lease or leases which would otherwise expire, a party choosing to go non-consent on such operation shall assign to the consenting parties its interest in the lease or leases or portion thereof which would expire if the proposed operation was not conducted. Such assignment shall be made in the manner provided for hereinabove for the drilling of an obligation well. Provided, however, if such a non-consenting party has proposed or indicated a willingness to participate in another operation or well which would perpetuate the lease or leases, such non-consenting party shall be subject to the penalty provisions of Article VI.B.2. hereof, rather than forfeiture.

#### **D. New Contract Area:**

In the event one or more of the parties hereto shall:

- 1) elect not to pay a delay rental;
- 2) elect to abandon a lease; or
- 3) elect not to participate in an obligation well as defined in Article XV.C. (Mandatory Operations); and assigns its interest in a lease, or portion thereof, to two or more of the parties hereto, or if some, but not all, of the parties hereto elect to acquire an interest in a lease or contract affecting a lease pursuant to the Area of Mutual Interest provisions hereof, it is agreed that the leasehold interests covered by the contract rights shall no longer be subject to this Operating Agreement. In such event, the lease or contract rights and the lands covered thereby shall be deemed to be subject to an Operating Agreement identical to this Operating Agreement, changed only to reflect the proper owners and percentages and, if the parties so desire, to designate a new operator if the operator under the Operating Agreement is not a co-owner.

#### **E. Priority of Operations:**

Where a well that has been authorized under the terms of this Agreement by all parties (or by one or more, but less than all parties under Article VI.B.2.) has been drilled to the objective depth and the parties participating in the well cannot agree upon the sequence and timing of further operations regarding such well, the following elections shall control in the order enumerated below:

1. an election to do additional logging, coring or testing;
2. an election to attempt to complete the well at either the objective depth or objective formation;
3. an election to deepen said well;
4. an election to plug back and attempt to complete said well;
5. an election to sidetrack the well;
6. an election to rework said well by generally accepted stimulation techniques whether or not said well had previously produced in commercial quantities or is capable of commercial production, subject to the provisions of Article XV.J. (Reworking of Producing Completion) hereof;
7. an election to temporarily abandon the well;
8. an election to plug and abandon the well.

It is provided, however, that if at any time said participating parties are considering the above elections, the hole is in such a condition that, in the opinion of the party(ies) owning a majority in cost-bearing, possessory interest as set forth on Exhibit "A" hereto, a reasonably prudent operator would not conduct the operations contemplated by the particular election involved for fear of placing the hole in jeopardy or losing the same prior to completing the well in the objective depth or objective formation, such election shall not be given the priority hereinabove set forth. In such event, the operation which, in the opinion of the party(ies) owning a majority in cost-bearing, possessory interest as set forth on Exhibit "A" hereto, is less likely to jeopardize the well, will be conducted. It is further understood that if some, but not all parties, elect to participate in the additional logging, coring, or testing, they may do so and the party or parties not participating in such operations shall not be entitled to the logs, cores or the results of the tests but shall suffer no other penalty.

In the event a party elects to deepen the well under Item 3 immediately above and the other party elects not to participate in such deepening, but such non-participating party has proposed to complete the well at a shallower depth, then the deepening operation shall be conducted at the sole cost, risk and expense of the participating party(s), subject to the potential obligation for a substitute well set forth below. If the well is not completed for production in a horizon or formation deeper than the original depth drilled in such well and, as a result of such deepening operation the well is lost or damaged to the extent that it may not be plugged back and recompleted in the shallower formation that had been proposed by the non-participating party(s) in the deepening operation, then the deepening party(s) shall be obligated to promptly drill for the benefit of the parties, at its sole cost, risk and expense, a substitute well for the damaged or lost well to a depth and to a condition that the well may be completed in the formation originally proposed for completion by the non-participating party in the deepening operation.

#### **F. Operations by Less than All Parties:**

Notwithstanding anything herein to the contrary, Article VI.B.2. shall apply separately to each separate Completion or Recompletion attempt undertaken hereunder, and an election to become a Non-Consenting Party as to one Completion or Recompletion attempt shall not prevent a party from becoming a Consenting Party in subsequent Completion or Recompletion attempts, regardless of whether the Consenting Parties as to earlier Completions or Recompletions have recouped their costs pursuant to Article VI.B.2.; provided, further, that any recoupment of costs by a Consenting Party shall be made solely from the production attributable to the Zone in which the Completion attempt is made. Election by a previous Non-Consenting Party to participate in a subsequent Completion or Recompletion attempt shall require such party to pay its proportionate share of the cost of salvageable materials and equipment installed in the well pursuant to the previous Completion or Recompletion attempt, insofar and only insofar as such materials and equipment benefit the Zone in which such party participated in a Completion attempt.

**G. Disputes as to Depth:**

If during the drilling of any well being drilled hereunder, a bona fide dispute shall exist as to whether the authorized depth has been reached in such well (as for example, whether a well has been drilled to a depth sufficient to test a particular sand or formation or if the well has reached the stratigraphic equivalent of a particular depth), the opinion of two or more parties owning a majority in cost bearing, possessory interest as set forth in Exhibit "A" hereto, shall control and be binding upon all parties.

**H. Paragraph Headings for Convenience:**

The Article and paragraph headings used in this Operating Agreement are inserted for convenience only and shall be disregarded in construing this Operating Agreement.

**I. Assignments:**

Notwithstanding any provision of this Operating Agreement to the contrary where, under the terms of this Operating Agreement, a party hereto is required to assign to one or more of the other parties its interest in one or more leases or portion or part thereof, such assignment shall be made free and clear of all mortgages (unless such mortgages are subordinated to this agreement), claims, liens, overriding royalty interests, production payments, net profits interests, and other encumbrances or leasehold burdens placed thereon by the assigning party or resulting from its ownership and operation of such lease or interest on and after the date of this instrument, as reflected by the records of the appropriate county, other than those provided in Article XVI. of the Agreement but otherwise without warranty of title, either express or implied.

**J. Reworking of Producing Completion:**

It is agreed that without the mutual consent of all parties participating in a well, no reworking or other operations shall be conducted under the provisions of Article VI. hereof so long as any completion is producing in paying quantities in the well with respect to which such proposal is made.

**K. Proposal to Plug and Abandon:**

Notwithstanding anything herein to the contrary, if no written response to a proposal to plug and abandon the well is received within thirty (30) days of the date of the receipt of the proposal, it will be conclusively deemed for all purposes that an affirmative election to plug and abandon the well has been made.

**L. Access to contract Area and Information:**

Notwithstanding anything herein to the contrary, it is agreed and understood that any non-consenting party under Article VI.B or Article VII.D.1. (Option 2) who is not an Operator shall be denied access to the well site until thirty (30) days following the date of the release of the rig used to conduct the operation.

**M. Payment Default:**

Notwithstanding anything herein to the contrary, if any Non-Operator neglects or fails to pay sums due and owing Operator hereunder for a period of forty-five (45) days after receipt of invoice therefor, Operator may, at Operator's option, notify Non-Operator of its election to regard such Non-Operating Party as a Non-Consenting Party hereunder as to said cost, whereupon Operator shall be liable for such amount. If Non-Operator fails to pay any such amount within ten (10) days after receipt of such notice, then Operator's election shall be effective, and Non-Operator will no longer owe said sum to Operator but shall be subject to the Non-Consent penalty from the inception of the operation but only with respect to the sums remaining unpaid by such Non-Operator. It is provided, however, that this provision shall not be applicable to any sums allegedly owed Operator but which Non-Operator contests in good faith. Any interest that Operator acquires under this paragraph shall be subject to the terms of the last two sentences of Article VII.B. herein. Non-Operators shall be accorded reciprocal protection to secure payment of Operator's proportionate share of expenses as set forth in Article VII.

**N. Notice:**

Article XII. is amended to add the following:

Any notice(s) and/or response(s) may be made by telephone in person, but not by recorded message, and must be confirmed in writing consistent with the other provisions hereof.

**O. Public Announcement:**

No public announcement or statement regarding operations hereunder shall be made or released without the approval of the parties unless required by law or regulation or the requirements of an applicable Stock Exchange. Any party making a public announcement as required by law, regulation, order, or applicable Stock Exchange shall immediately furnish the other party with a full transcript of such public announcement or statement. Except as otherwise provided in this paragraph, no public announcement or statements shall be made until all testing in a well is completed. Any proposed public announcement or statement regarding a well drilled under the terms of this Operating Agreement shall contain at a minimum the following information:

- a. Name of well
- b. Location of well by section, township, range, county and state
- c. Tested interval(s), if appropriate
- d. Test results, if appropriate
- e. Development/confirmation plans, if appropriate

- f. Participants and percentages
- g. Acreage controlled, if appropriate

Either party may elect to exclude its name from a proposed public announcement or statement and thus remove itself from the approval process. The operator of an affected well or operation will coordinate the approvals of any proposed public announcement or statement (but shall not be liable for failure or error in exercising such responsibility). The operator of an affected well or operation may make such public announcements as it deems appropriate in the event of an emergency or imminent harm to people, property or environment without prior consultation with the Non-Operator.

**P. Confidentiality of Information:**

All geophysical, geological or engineering data acquired by the parties under this Operating Agreement as a result of joint operations conducted hereunder shall be kept confidential by the parties unless the release of such information to a third party is agreed upon by the parties or is required by law. The term during which information is to be kept secret and confidential shall extend for the term set forth in the Agreement unless the parties agree either to extend or reduce the term of such confidentiality requirement. Any release of information to a third party must have the prior written consent of all parties hereto and said third party must agree in writing to be bound by the provisions of this paragraph.

Subject to the provisions of Article XV.O. (Public Announcements), nothing herein shall prohibit any party from disclosing whatever information in such manner as may be required by statute, rule or regulation, including the rules or regulations of any stock exchange on which any securities of such party or any affiliates are traded; nor shall any party be prohibited by the terms hereof from disclosing information acquired under this Operating Agreement to any financial institution or investors providing or proposing financing to the disclosing party.

**Q. Maintenance of Uniform Interest:**

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interest covered by this Agreement, the JVP shall not sell, encumber, transfer or make other disposition of its interest in the leases located within the Subject Lands and in the wells, equipment and production, unless such disposition covers either:

1. the entire leasehold interest of the JVP in all leases and equipment and production; or
2. a contractual interest.

Every such sale, encumbrance, transfer, or other disposition made by the JVP shall be expressly subject to this Agreement and shall be made without prejudice to the right of the other parties.

For all matters pertaining to this Agreement, Phillips shall deal directly with Patterson and Patterson shall be appointed as the single trustee or agent of JVP with full authority to receive notices, disburse revenue, approve expenditures, receive billings for, approve and pay JVP's share of the joint expenses and to deal generally with, and with the power to bind, the co-owners of JVP's interest within the scope of the operations embraced in this Agreement.

**R. Sales Necessitating Separate Measurements:**

In the event of transfer, sale, encumbrance or other disposition of interest within the Contract Area which necessitates separate measurement of production, the party creating the necessity for such measurement shall alone bear the cost of purchase, installation and operation of such facilities.

**S. Regulatory Expenses:**

Notwithstanding anything to the contrary contained in this Operating Agreement or the Accounting Procedure (Exhibit "C"), the following items pertaining to the Contract Area shall not be considered as administrative Overhead, but Operator shall be entitled to make a direct charge against the joint account for same.

Fees for outside or contract legal services, title costs, costs and expenses incurred by consulting engineers, geologists and other consultants in connection with preparations and presentation of evidence and exhibits at hearing, preparations and handling of application to and hearings before the Bureau of Land Management and the New Mexico Oil Conservation Commission on behalf of the Parties hereto.

**T. Other Party Acting as Operator:**

If any Party other than Operator is authorized pursuant to the terms hereof or the Agreement to perform duties contemplated by this agreement as the duty of Operator, the Party performing such duties shall be accorded all rights and privileges provided to Operator under the terms hereof.

**U. Operator:**

Patterson shall be designated Operator for the purpose of drilling, completing and equipping the wells through the wellhead. Phillips shall have the option, on a well by well basis, to assume Operatorship at either, (i) prior to the setting of production equipment and facilities beyond the wellhead, if Phillips elected to participate in the completion attempt; or (ii) at the point at which the non-consent penalty has "paid-out", if Phillips elected not to participate either in the well or in the completion, whichever may be the case, and operate all subsequent production phases.

**V. Payment of Taxes:**

At and during such time or times as any Non-Operator is exercising the right to take in kind or separately dispose of its proportionate share of the production as set forth in Article VI.C. hereof, such Non-Operator shall pay or arrange for the payment of all production, severance, gathering, sales or similar taxes imposed upon such party's share.

At and during such time or times as Operator is purchasing or selling Non-Operator's proportionate part of the production, as set forth in said Article VI.C. hereof, Operator shall pay or arrange for the payment of all such production, severance, gathering, sales, or similar taxes imposed upon such party's share.

#### **W. Advance Billing for Certain Operations:**

In addition to the rights granted to Operator in Article VII.C., if a proposal is made pursuant hereto for the drilling, sidetracking, deepening or recompletion of any well where the estimated costs exceed \$50,000.00, any party electing to participate in the proposed operation may, at Operator's request, within thirty (30) days after making such election, either advance its portion of the proposed costs or make arrangement for such payment satisfactory to Operator. Failure of any party either to advance its share of the costs or to make such arrangement for such payment within the 30 day period shall constitute a withdrawal of its prior election to participate in the proposed operations and an election by such party to become a Non-Consenting Party to such operations. For the purposes of this paragraph, if the proposal is for the drilling, deepening or sidetracking of a well, the estimated costs of the proposed operations shall be exclusive of completion.

Payment of an advance shall in no event relieve a Non-Operator of its obligation to pay its share of the actual cost of a drilling operation, and when the actual costs have been determined, Operator shall adjust the accounts of the parties by refunding any net amounts due or invoicing the parties for additional sums owing, which additional sums shall be paid in accordance with the Accounting Procedure. Advance payment by a Non-Operator of his share of completed well costs shall in no event prevent such Non-Operator from electing not to participate in completion of a well pursuant to Option No. 2 of Article VII.D.1 and, in the event such a Non-Operator elects not to participate in completion, the sums which such Non-Operator has advanced shall not be charged with any share of the costs of any completion attempted.

In the event Operator prepares a supplemental AFE for its internal use due to anticipated or actual over expenditure of any existing AFE, Operator agrees to furnish copies of such supplemental AFE to the Non-Operators, whether or not Operator requests advance payment for the supplemental amount under the provisions hereof. Such supplemental AFE's will be for informational purposes only and will not require execution or approval by the Non-Operator.

#### **X. Preferential Right to Purchase:**

Phillips preferential right to purchase and its right to approve sales, assignments or transfers as provided herein shall extend to any subsequent sales, assignments or transfers by Assignee or any third party(s).

In addition to the exceptions referenced in Article VIII.F., and notwithstanding anything to the contrary contained herein, there shall be no preferential right to purchase in those cases whereby contractual interests are conveyed by the JVP for the sole purpose of raising drilling capital for purposes herein.

#### **Y. Drilling Contracts:**

All wells drilled on the Subject Lands shall be drilled on a competitive contract basis. If it so desires, Operator may employ its own tools and equipment or the tools and equipment of its affiliates and/or subsidiaries in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and/or any bid(s) received by the Parties. The rate and/or bid for 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 and utilizing similar quality or superior quality equipment.

#### **Z. Other Operations:**

Notwithstanding anything herein, it is expressly agreed and understood that Operator may undertake without Non-Operator's consent any single project, including a rework, to maintain, restore, continue, increase, or improve production from any well or wells drilled and/or operated under this agreement so long as such single project is not reasonably estimated to require an expenditure in excess of \$50,000.00 and may charge and collect the cost of the project as a joint expense, except that if the subject well or wells have been drilled pursuant to the provisions of Article VI.B.2., then expenses shall be apportioned pursuant to the provisions of that Article; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. Operator shall provide Non-Operator with a copy of Operator's Authority for Expenditure or Cost Estimate for said project.

"Necessary Expenditures," as used in Article VII.D.1. of this Operating Agreement, shall not include sidetracking operations unless covered specifically in an Authority for Expenditures approved by the Participating Parties.

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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 May, 2001.

OPERATOR

PATTERSON PETROLEUM LP

Joe Fitzgerald/Attorney-In-Fact

NON-OPERATORS

**EXHIBIT "A"**

Attached to and made a part of Operating Agreement dated May 1, 2001 by and between Patterson Petroleum LP, as Operator, and other Non-Operators.

**1. IDENTIFICATION OF LANDS SUBJECT TO THIS AGREEMENT:**

S/2 of Section 31, T-17-S, R-34-E, Lea County, New Mexico

**2. RESTRICTIONS, IF ANY, AS TO DEPTHS, FORMATIONS OR SUBSTANCES:**

All rights below the base of the San Andres Formation.

**3. ADDRESSES OF THE PARTIES:**

To be completed later.

**4. OIL & GAS LEASES SUBJECT TO THIS AGREEMENT:**

To be completed later.

# MEMORANDUM OF OPERATING AGREEMENT

**STATE OF NEW MEXICO** )  
 ) **KNOW ALL MEN BY THESE PRESENTS:**  
**COUNTY OF LEA** )

The undersigned have entered into an Operating Agreement, dated May 1, 2001, in order to explore for, develop and produce oil and gas from their respective oil and gas leases or interests to the extent described in Exhibit "A" attached hereto and hereinafter referred to as the "Contract Area".

**The term of the Operating Agreement shall be:**

Through the drilling and completion of the initial well under Article VI of the Operating Agreement until one hundred twenty (120) days after all production (which includes shut-in wells) from the Contract Area ceases or a dry hole is drilled and abandoned, if there is no production elsewhere attributable to the Contract Area, unless drilling or reworking operations commence within said one hundred twenty (120) days.

**Termination of the Operating Agreement does not relieve any party of any of its obligations accrued prior to termination.**

Among other provisions, the Operating Agreement appoints Patterson Petroleum Inc., a Texas corporation, as Operator and designates the other parties thereto as Non-Operator(s). The Operating Agreement grants said Operator the authority, with certain limitations, to incur expenses on behalf of the Non-Operator(s) and, at the Operator's election, the right to bill the Non-Operator(s) in advance for the estimated expenditures.

The Operating Agreement provides that the liability of the parties shall be several and not joint or collective, with each being liable only for its proportionate share of the costs and liabilities incurred therewith as set forth in the Operating Agreement and as may change by subsequent assignment of interest. Said Operating Agreement also provides that:

Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in the Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the State, Operator

shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest, has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

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

Further, the Operating Agreement has attached to it various Exhibits, including but not limited to, an Area of Mutual Interest, a Gas Balancing Agreement, which among other provisions, allows one or more parties to take more than their working interest share of gas production if another party or parties cannot or does not take their respective working interest share. It also provides for volumetric balancing on an Mcf basis and for cash balancing on permanent cessation of gas production from a well, cessation of a gas category if different pricing categories are imposed by governmental regulation and if a party sells its interest.

Copies of the Operating Agreement and/or the Gas Balancing Agreement Exhibit can be obtained from any of the undersigned or their successors in interest.

The said Operating Agreement and the Exhibits attached thereto are binding upon the undersigned and their respective heirs, devisees, legal representatives, successors and assigns. This Memorandum of Operating Agreement shall not be deemed an amendment of said Operating Agreement or of said Gas Balancing Agreement Exhibit and shall in no way increase the obligations or decrease the rights of the undersigned thereunder, but is entered into for the sole purpose of providing notice of the existence of said Operating Agreement, the security interest granted thereunder, and the Gas Balancing Agreement attached as an Exhibit thereto.

This Memorandum of Operating Agreement may be executed in any number of duplicate or counterpart copies, including counterpart signature pages, each of which shall be considered an original for all purposes. Photocopies of this Memorandum of Operating Agreement may be filed in the appropriate records as proof of the security interest created hereunder.



Executed as of the date and year indicated in the acknowledgement of each signature, to be effective the date of the Operating Agreement recited above.

**OPERATOR**

**PATTERSON PETROLEUM LP**

**WITNESS OR ATTEST:**

\_\_\_\_\_  
\_\_\_\_\_

BY: \_\_\_\_\_

TITLE: \_\_\_\_\_

**NON-OPERATOR(S)**

ACKNOWLEDGMENTS

STATE OF TEXAS                    }  
COUNTY OF \_\_\_\_\_}

          This instrument was acknowledged before me on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_,  
by \_\_\_\_\_, the \_\_\_\_\_, a \_\_\_\_\_ corporation,  
on behalf of said corporation.

\_\_\_\_\_  
Notary Public, State of Texas

My commission expires:  
\_\_\_\_\_

STATE OF TEXAS                    }  
COUNTY OF \_\_\_\_\_}

          This instrument was acknowledged before me on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_,  
by \_\_\_\_\_.

\_\_\_\_\_  
Notary Public, State of Texas

My commission expires:  
\_\_\_\_\_

## **EXHIBIT "A"**

Attached to and made a part of that certain Memorandum of Operating Agreement dated May 1, 2001, by and between Patterson Petroleum LP, and other Non-Operators.

**1. IDENTIFICATION OF LANDS SUBJECT TO THIS AGREEMENT**

S/2 of Section 31, T-17-S, R-34-E, Lea County, New Mexico

**2. RESTRICTIONS, IF ANY, AS TO DEPTHS, FORMATIONS OR SUBSTANCES**

All Rights below the base of the San Andres formation

**3. ADDRESSES OF THE PARTIES**

To be completed later.

**4. OIL & GAS LEASES SUBJECT TO THIS AGREEMENT**

To be completed later.

EXHIBIT " C "

1 Attached to and made a part of that certain Joint Operating Agreement effective May 1,  
2 2001, by and between Patterson Petroleum LP, Operator, and other Non-Operators

ACCOUNTING PROCEDURE  
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

provided expenditures are expected to exceed \$50,000.00  
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 Chase Manhattan Bank, New York, NY at noon 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.

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.

7. Affiliates (See "Affiliates" page 10 herein.)

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 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 (See "Direct Labor Fixed Rate" on Page 10 herein.)

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

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

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

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

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

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

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

4. Employee Benefits (See "Direct Labor Fixed Rate" on Page 10 herein.)

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

except as defined under "Direct Labor Cost" on Page 10 herein  
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

- For equipment other than drilling equipment
- 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 twelve percent ( 12 %) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

9. Damages and Losses to Joint Property

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

10. Legal Expense

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

11. Taxes

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

12. Insurance

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

13. Abandonment and Reclamation

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

14. Communications

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

15. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

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

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

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

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

( X ) 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 \$ 5,000.00  
(Prorated for less than a full month)

Producing Well Rate \$ 650.00

- (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 operation 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 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 operation 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 cost 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 II 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 an 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 \$ 50,000.00 :

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 (See page 10 for definition of "Competitive Market Prices") competitive market prices

(a) Tubular goods, sized 2½ inches OD and larger, except line pipe, shall be priced at ~~the~~ competitive market prices 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~~ at competitive market prices 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,~~ <sup>competitive market prices</sup> 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 1/4 inch OD) shall be priced at ~~the lowest published out-of-stock price, f.o.b. the supplier~~ <sup>competitive market prices</sup> 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~~ <sup>competitive market prices</sup> 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 ~~at the point of manufacture at current new published prices~~ <sup>at competitive market prices</sup> 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.~~ <sup>at competitive market prices</sup>

- (3) Other Material shall be priced at ~~the current new price~~ <sup>competitive market prices</sup> 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~~ <sup>competitive market prices</sup> 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 I.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 <sup>Operator's actual cost.</sup> ~~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.

## **Affiliates**

**Charges to the Joint Account** for any services or Materials provided by an Affiliate shall not exceed average commercial rates for such services or Materials.

Unless otherwise indicated below, Affiliates performing services or providing Materials for Joint Operations shall provide the Operator with written agreement to make their records relating to the work performed for the Joint Account available for audit upon request by a Non-Operator under this accounting procedure. These records shall include, but not be limited to, invoices, field work tickets, equipment use records, employee time reports, and payroll summaries relating to the work performed for the Joint Account. All audit will be conducted pursuant to Section I, Paragraph 5.

## **Direct Labor Fixed Rate**

Operator shall charge Non-Operators a fixed rate of \$450.00 per month per active well completion for Direct Labor Costs. An active well completion for any portion of the month shall qualify for a one-well charge for the entire month. An active well completion is one that is:

- 1) Produced
- 2) Injected into for recovery or disposal, or
- 3) Used to obtain water supply to support production operations.

Each active completion, in a multi-completed well in which production is not commingled downhole shall qualify for a one-well charge providing each completion is considered a separate well by the governing regulatory authority.

A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well previously completed as a commercial producer.

All wells not meeting the criteria set forth above shall not qualify for the monthly fixed rate charge.

The direct labor fixed rate shall be adjusted each year as of the first day of the production month of April 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 recommended by COPAS each year. The adjusted rates shall be the rates currently in use plus or minus the computed adjustment.

Direct Labor Costs included in the fixed rate fee shall include but not be limited to the following:

- (1) Salaries and wages of Operator's field employees and contract employees directly employed on The Joint Property in the conduct of Joint Operations.
- (2) Salaries of First Level Supervisors in the field.
- (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the overhead rates.
- (4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from the overhead rates.
- (5) Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees and contract employees referenced above.
- (6) Expenditures of contributions made pursuant to assessments imposed by governmental authority.
- (7) Personal Expenses of those employees and contract employees referenced above.
- (8) Operator's current costs of established plans for employees' and contract employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature.
- (9) Transportation costs incurred by the employees and contract employees while traveling to and from the Joint Property.

Excluded from the flat rate monthly fee for Direct Labor Costs shall be all downhole well work below the wellhead and or projects that exceed \$50,000.00.

## **DEFINITION**

**Competitive Market Price:** The value of Material transferred to/from the Joint Property should generally reflect the market value at the date of transfer. Transfers of new Material will be priced based on published prices in effect on the date of movement as adjusted by the appropriate COPAS Historical Price Multiplier (HPM) or prices provided by the COPAS Computerized Equipment Pricing System (CEPS).

## Exhibit "D"

### INSURANCE

At all times while operations are conducted hereunder, Operator shall comply with all federal and state Workers' Compensation Laws where the Operations are being conducted and include Employer's Liability with limit of \$1,000,000; provided, however, that Operator may qualify as a self-insurer for liability under appropriate state workers' compensation laws in which event the only charge that shall be made to the joint account shall be an amount equivalent to the premium which would have been paid had such insurance been obtained. Operator shall, within reason, require all Contractors engaged in work on or for the contract area to comply with all state and federal workers' compensation laws where the operations are being conducted and to maintain such other insurance as Operator may require.

No other insurance shall be purchased, or carried, by the Operator for the benefit of the Parties hereto except as directed by the operating committee or as required by third party contract to the joint account. Any liability, loss, damage, claim or expense resulting from occurrences not covered by or in excess of insurance required under this provision shall be borne by parties hereto in the same proportion as their interests may appear at the time of the loss.

Each party may procure and maintain, at its own cost and expense such public liability, third party property damage, fire and extended coverage and/or other insurance as it shall determine, and any such insurance so procured and/or maintained shall inure solely to the benefit of the party procuring such insurance and such party shall indemnify and hold Operator and other parties to this agreement harmless against any claim of such insurance carrier arising against such other party by subrogation, or otherwise, in connection with operations hereunder.

**Exhibit "E"**  
**GAS BALANCING AGREEMENT**

1. The parties to the Operating Agreement referred to above own working interests in the gas rights underlying the lands and leases covered by such agreement ("Contract Area") in accordance with the percentages of participation ("Working Interest") set forth therein.

2. Each party has the right to take, market, or otherwise dispose of its Working Interest share of gas produced from the Contract Area. Each party's Working Interest share shall be calculated on an MMBtu basis as determined at least semiannually by Operator through testing a sample of each gas stream following primary separation at the lease under standard conditions by means of chromatography or another accepted method used in the industry. All references in this agreement to quantity or volume shall refer to the number of MMBtu's contained in such volume or quantity of gas. In the event any party at any time does not take in kind or market its Working Interest share of gas from a well, or has contracted to sell its Working Interest share of gas to a purchaser which fails to take all of such gas, the other parties shall be entitled, in proportion to their Working Interest, to produce, take and deliver each month up to one hundred percent (100%) of the anticipated allowable gas production to be assigned to such well by the governmental entity having jurisdiction (if applicable). The purpose of this provision is to permit any party not taking or marketing all of its Working Interest share of current gas production to defer its production and permit the other parties to pass clear title to quantities of gas in excess of their Working Interest.

3. Each party which fails to take or market its full Working Interest share of gas from any well at any time shall be credited with gas in an imbalance account for such well equal to that volume of gas taken or marketed by the other parties hereto in excess of their Working Interest share.

4. Each party shall endeavor to take or market its full Working Interest share of gas production from such well. Further, each party shall give Operator reasonable notice and sufficient data either to nominate such party's Working Interest share of gas to the transporting pipeline(s) or, if Operator is not nominating such party's gas, to inform Operator of the manner in which to dispatch such party's gas. Except as and to the extent caused by Operator's gross negligence or willful misconduct, Operator shall not be responsible for any fees and/or penalties associated with imbalances charged by any pipeline to any Non-Operator.

5. To allow for the recovery of gas from an imbalance account and to balance the gas account of the parties, a party which has taken less than its full Working Interest share of gas at any time ("negative balance"), shall be entitled to produce, take and deliver each month upon reasonable notice to the Operator and to the other affected parties, its Working Interest share of the anticipated allowable gas production to be assigned to such well by the governmental entity having jurisdiction (if applicable) plus an amount up to an additional fifty percent (50%) ("Make-up Gas") of the Working Interest share of each party which has taken more than its full share of gas at such time ("positive balance"). However, a party with a negative balance shall never be allowed to take more than its Working Interest share of such allowable gas (if applicable) plus an amount up to an additional twenty-five percent (25%) Make-up Gas of the Working Interest share of each party with a positive balance during the months of November, December, January and February. If more than one party has a negative balance and elects to take Make-up Gas, they shall divide the Make-up Gas to be taken from any party with a positive balance in proportion to the respective working interest participation of each such party with a negative balance in such well.

6. This Agreement shall apply separately to each well, proration unit, conservation unit,

and to each producing formation within such well, proration unit or conservation unit (unless such formations are accounted for all purposes as commingled production), and as to instances where any price controls apply to Make-up Gas, to each regulated price category; all uncontrolled gas is in a single price category for this purpose. The term "well" is used throughout the other paragraphs of this Agreement for convenience only and shall be deemed to include the other delineations herein set forth to the extent relevant. Imbalances in one well, proration unit, conservation unit, producing formation or category shall not be used for balancing any other well, proration unit, conservation unit, producing formation or category, as the case may be.

7. If, at the permanent termination of production of gas from a well, an imbalance exists between the parties, statements or invoices for a monetary settlement of the imbalance between any of the parties relative to such well shall be issued within one hundred eighty (180) days. Operator shall promptly provide all parties with a final cumulative balance for each party upon receipt of all relevant data from all other parties after permanent termination of production from each well. For the purposes hereof, the value per unit in calculating a monetary settlement shall be defined as the weighted average of the actual values received by a party with a positive balance on all of its gas sales under an arms-length contract in excess of its Working Interest share ("Extra Gas"), beginning when such party was last in balance. If such party did not sell all or part of such Extra Gas under an arms-length contract, such Extra Gas not sold will be valued in the same manner used for production and severance taxes when produced. The amount of the monetary settlement due each party with a negative balance for any well shall be determined by: (a) multiplying the value per unit (as defined above) received by each party with a positive balance for each well by the volume of gas (same unit basis) such party has produced; (b) subtracting production and severance taxes (and royalties if paid on a gas taken rather than on a working interest basis) paid on such Extra Gas; (c) totaling the figures computed in (a) and (b) for all parties with a positive balance; and (d) allocating to each party with a negative balance its pro rata share of the total reached in (c) above on the basis of the ratio of each party's negative balance volume to the total negative balance volumes for all parties. Each party with a positive balance shall provide a settlement schedule to each party with a negative balance detailing how its settlement amount was calculated. That portion of the proceeds by each party with a positive balance which is or may be subject to refund or other dispute by order(s) of the FERC, the Minerals Management Service, the courts or other authorities may be withheld by such party until such prices or disputes are fully resolved, unless the relevant parties with a negative balance furnish satisfactory undertakings agreeing to hold the relevant parties with a positive balance harmless from any financial loss due to the orders or disputes. Settlement as provided herein shall also be made by any party with a positive balance prior to any sale, assignment or other disposition of all or any part of its interest in any well in which such party has a positive balance. If the provisions of this Agreement are breached by the transferring party, any party receiving any part of the transferred interest shall be jointly and severally liable for its pro rata share of such positive balance upon the demand of any party with a negative balance.

8. Balancing payments from parties with a positive balance to parties with a negative balance under this Agreement shall be paid not later than sixty (60) days (1) after the amount of the monetary settlement due such party has been determined and a statement or invoice issued, or (2) after the date when the period for calculation of amounts due has passed, whichever is the earlier, pursuant to the provisions of Paragraph 7 above. No interest shall accrue or be due among the parties as to the period prior to this payment date. Interest on late payments (including payments rightfully made on a late basis because amounts are subject to potential refund or other dispute as stated in Paragraph 7 above or which are delayed because computations are not timely completed) shall accrue at the prime rate in effect at Chemical Banking Corp., New York, New York, at noon on the first day of the month in which the payment due date occurs plus two percent (2%) or the maximum contract rate permitted by applicable law, whichever is less. Attorneys' fees, court costs and other reasonable costs of collection of amounts owing due to breach of this Agreement shall also be payable to the affected party(ies).

9. Each party taking gas from a well shall promptly furnish or cause to be furnished to Operator a monthly statement of gas taken. Operator shall regularly furnish to each party a statement of the gas balance among the parties, including the total quantity of gas produced from each well.



the portion thereof used in operations, vented or lost, and the total quantity delivered for each party's account. Each party shall retain records of volumes of gas taken or marketed from each well and revenues or values accruing thereto for the full term of the Operating Agreement and two (2) years thereafter. Any party with either a positive or negative balance shall have the right during the two (2) years following each statement/invoice due date under Paragraph 7 above to audit the records of the other parties with positive or negative balances as to volumes, revenues, values and other relevant information concerning such well. No party will use any of the information obtained pursuant to the provisions of this paragraph for any other purpose than implementing the terms of this Agreement and enforcing rights thereunder.

10. In addition to any rights granted in the Operating Agreement, if any well produces casinghead gas and any party is not selling all of its Working Interest share, Operator shall have the right but not the obligation to sell the non-selling party's share of casinghead gas for the account of such party.

11. Each party hereto shall share in and own the condensate recovered from each well by primary separation at the lease in accordance with its Working Interest in such well as provided in the Operating Agreement.

12. Gas used in lease operations, vented or lost shall not be considered taken by any party for purposes of the balancing hereunder. Nothing herein shall change or affect each party's obligation to pay its Working Interest share of all costs and liabilities incurred in accordance with such party's Working Interest.

13. At all times while gas is produced from the Contract Area, unless otherwise required by any laws, rules or regulations, each party shall make appropriate settlement of all royalties, overriding royalties and other payments out of or in lieu of production for which it is responsible ("royalty payments") as if each party were taking or delivering to a purchaser its Working Interest share and its Working Interest share only, of such gas production. Each party hereto agrees to defend, indemnify and hold each other party hereto harmless from all claims for royalty payments asserted by third parties to whom any party hereto is accountable.

14. Each party taking or marketing gas hereunder shall pay, or cause to be paid, all production and severance taxes due on all volumes of gas actually taken or marketed by such party, unless otherwise required by any laws, rules or regulations.

15. Nothing contained herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser the entire well stream, if necessary, to meet such deliverability tests as may be reasonably required by its gas sales contract.

16. The parties shall communicate, as necessary, the contents of this Agreement to any of their respective gas purchasers or transporters and monitor their respective deliveries so as to ensure to the extent reasonably practicable that such third parties do not take gas in excess of the quantities provided herein.

17. This Agreement shall remain in force and effect as long as the Operating Agreement is in effect and thereafter until the gas balance accounts of the parties are settled in full or the audit period provided in Paragraph 9 has expired, whichever shall be longer. The obligations of the parties shall survive the termination of this Agreement.

## Exhibit "F"

The word "Contractor" as used herein refers to Second Party/Operator in the Agreement to which this Exhibit "2"s attached.

### SECTION 1 EQUAL EMPLOYMENT OPPORTUNITY CLAUSE

The following clause shall be included in all contracts exceeding \$10,000.

(a) 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 this nondiscrimination clause.

(b) 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.

(c) The Contractor will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the 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.

(d) 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.

(e) 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 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.

(f) 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 canceled, terminated or suspended in whole or in part and the Contractor may be declared ineligible for further government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, 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.

(g) The Contractor will include the provisions of Paragraphs (a) through (g) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Contractor will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such 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.

### SECTION 2 EMPLOYMENT OF THE HANDICAPPED

(a) The Contractor will not discriminate against any employee or applicant for employment because of physical or mental handicap in regard to any position for which the employee or applicant for employment is qualified. The Contractor agrees to make affirmative action to employ, advance in employment and otherwise treat qualified handicapped individuals without discrimination based upon their physical or mental handicap in all employment practices such as the following: employment, upgrading, demotion or transfer, recruitment, advertising, layoff or termination, rates of pay or other forms of compensation, and selection for training, including apprenticeship.

(b) The Contractor agrees to comply with the rules, regulations, and relevant orders of the Secretary of Labor issued pursuant to the Act.

(c) In the event of the Contractor's noncompliance with the requirements of this clause, actions for noncompliance may be taken in accordance with the rules, regulations, and relevant orders of the Secretary of Labor issued pursuant to the Act.

(d) The Contractor agrees to post in conspicuous places, available to employees and applicants for employment,

notices in a form to be prescribed by the Director, provided by or through the contracting officer. Such notices shall state the Contractor's obligation under the law to take affirmative action to employ and advance in employment qualified handicapped employees and applicants for employment, and the rights of applicants and employees.

(e) The Contractor will notify each labor union or representative of workers with which it has a collective bargaining agreement or other contract understanding, that the Contractor is bound by the terms of Section 503 of the Rehabilitation Act of 1973, and is committed to take affirmative action to employ and advance in employment physically and mentally handicapped individuals.

(f) The Contractor will include the provisions of this clause in every subcontract or purchase order of \$2,500 or more unless exempted by rules, regulations, or orders of the Secretary issued pursuant to Section 503 of the Act, so that such provisions will be binding upon each subcontractor or vendor. The Contractor will take such action with respect to any subcontract or purchase order as the Director of the Office of Federal Contract Compliance Programs may direct to enforce such provisions, including action for noncompliance.

### SECTION 3

#### CERTIFICATION OF NONSEGREGATED FACILITIES

The following clause shall be included in all contracts and related subcontracts exceeding \$10,000 which are not exempt from the Equal Opportunity Clause.

The Contractor certifies that it does not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. The Contractor certifies further that it will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. The Contractor agrees that a breach of this certification is a violation of the Equal Opportunity Clause in this contract. As used in this certification, the term "Segregated Facilities" means any waiting room, work areas, rest rooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms or other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation, and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, color, religion, or national origin, because of habit, local custom, or otherwise. The Contractor 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, and that it will retain such certifications in its files.

NOTE: The penalty for making false statements in offers is prescribed in 18 U.S.C. 1001.

The failure of a prime Contractor or subcontractor to comply with the terms of its certification of nonsegregated facilities or with the terms of Equal Opportunity Clause shall be a ground for termination or cancellation of contracts or subcontracts as provided in §1-12.805-9.

### SECTION 4

#### WRITTEN AFFIRMATIVE ACTION COMPLIANCE PROGRAM

The Contractor certifies that if it has 50 or more employees and if it anticipates sales to us in connection with government contracts of \$50,000 or more, it will develop a written Affirmative Action Compliance Program for each of its establishments consistent with the rules and regulations published by the Department of Labor in 41 CFR Chapter 60.

### SECTION 5

#### AFFIRMATIVE ACTION PROGRAMS FOR DISABLED VETERANS AND VETERANS OF VIETNAM ERA

The following clauses shall be included in all contracts exceeding \$10,000.

(a) The Contractor will not discriminate against any employee or applicant for employment because he or she is a disabled veteran or veteran of the Vietnam Era in regard to any position for which the employee or applicant for employment is qualified. The Contractor agrees to take affirmative action to employ, advance in employment and otherwise treat qualified disabled veterans and veterans of the Vietnam Era without discrimination based on their disability or veterans status in all employment practices such as the following; employment upgrading, demotion or transfer, recruitment, advertising, lay off or termination, rates of pay or other forms of compensation, and selection for training, including apprenticeship.

(b) The Contractor agrees that all suitable employment openings of the Contractor which exist at the time of the execution of this contract and those which occur during the performance of this contract, including those not generated by this contract and including those occurring at an establishment of the Contractor other than the one wherein the contract is being performed but excluding those of independently operated corporate affiliates, shall be listed at an appropriate local office of the State employment service system wherein the opening occurs. The Contractor further agrees to provide such reports to such local office regarding employment openings and hires as may be required.

State and local government agencies holding Federal contracts of \$10,000 or more shall also list all their suitable openings with the appropriate office of the State employment service, but are not required to provide those reports set forth in paragraphs (b) and (3).

(c) Listing of employment openings with the employment service system pursuant to this clause shall be made at least concurrently with the use of any other recruitment source or effort and shall involve the normal obligations which attach to the placing of a bona fide job order, including the acceptance of referrals of veterans and nonveterans. The listing of employment openings does not require the hiring of any particular job applicant or from any particular group of job applicants, and nothing herein

is intended to relieve the Contractor from any requirements in Executive Orders or regulations regarding nondiscrimination in employment.

(d) The reports required by paragraph (b) of this clause shall include, but not be limited to, periodic reports which shall be filed at least quarterly with the appropriate local office or, where the Contractor has more than one hiring location in a State, with the central office of that State employment service. Such reports shall indicate for each hiring location (1) the number of individuals hired during the reporting period, (2) the number of nondisabled veterans of the Vietnam Era hired, (3) the number of disabled veterans of the Vietnam Era hired, and (4) the total number of disabled veterans hired. The reports should include covered veterans hired for on-the-job training under 38 USC 1787. The Contractor shall submit a report within 30 days after the end of each reporting period wherein any performance is made on the contract identifying data for each hiring location. The Contractor shall maintain at each hiring location copies of the reports submitted until the expiration of one year after final payment under the contract, during which time these reports and related documentation shall be made available, upon request, for examination by any authorized representatives of the contracting officer or of the Secretary of Labor. Documentation would include personnel records respecting job openings, recruitment and placements.

(e) Whenever the Contractor becomes contractually bound to the listing provisions of this clause, it shall advise the employment service system in each State where it has establishments of the name and location of each hiring location in the State. As long as the Contractor is contractually bound to these provisions and has so advised the State system, there is not need to advise the State system of subsequent contracts. The Contractor may advise the State system when it is no longer bound by this contract clause.

(f) This clause does not apply to the listing of employment openings which occur and are filled outside of the 50 states, the District of Columbia, Puerto Rico, Guam, and the Virgin Islands.

(g) The provisions of paragraphs (b), (c), (d) and (e) of this clause do not apply to openings which the Contractor proposes to fill from within its own organization or to fill pursuant to a customary and traditional employer-union hiring arrangement. This exclusion does not apply to a particular opening once an employer decides to consider applicants outside of its own organization or employer-union arrangement for that opening.

(h) As used in this clause:

(1) "All suitable employment openings" includes, but is not limited to, openings which occur in the following job categories: production and nonproduction; plant and office; laborers and mechanics; supervisory and nonsupervisory; technical; and executive, administrative; and professional openings as are compensated on a salary basis of less than \$25,000 per year. This term includes full time employment of more than three (3) days' duration, and part-time employment. It does not include openings which the Contractor proposes to fill from within its own organization or to fill pursuant to a customary and traditional employer-union hiring arrangement nor openings in an education institution which are restricted to students of that institution. Under the most compelling circumstances an employment opening may not be suitable for listing, including such situations where the needs of the Government cannot reasonably be otherwise supplied, where listing would be contrary to national security, or where the requirement of listing would otherwise not be for the best interest of the Government.

(2) "Appropriate office of the State employment service system" means the local office of the Federal-State national system of public employment offices with assigned responsibility for serving the area where the employment opening is to be filled, including the District of Columbia, Guam, Puerto Rico, and the Virgin Islands.

(3) "Openings which the Contractor proposes to fill from within its own organization" means employment openings for which no consideration will be given to persons outside the Contractor's organization (including any affiliates, subsidiaries, and the parent companies) and includes any openings which the Contractor proposes to fill from regularly established "recall" lists.

(4) "Openings which the Contractor proposes to fill pursuant to a customary and traditional employer-union hiring arrangement" means employment openings which the Contractor proposes to fill from union halls, which is part of the customary and traditional hiring relationship which exists between the Contractor and representatives of its employees.

(i) The Contractor agrees to comply with the rules, regulations, and relevant orders of the Secretary of Labor issued pursuant to the Act.

(j) In the event of the Contractor's noncompliance with the requirements of this clause, actions for noncompliance may be taken in accordance with the rules, regulations and relevant orders of the Secretary of Labor issued pursuant to the Act.

(k) The Contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices in a form to be prescribed by the Director, provided by or through the contracting officer. Such notice shall state the Contractor's obligation under the law to take affirmative action to employ and advance in employment qualified disabled veterans and veterans of the Vietnam Era for employment, and the rights of applicants and employees.

(l) The Contractor will notify each labor union or representative of workers with which it has a collective bargaining agreement or other contract understanding, that the Contractor is bound by the terms of the Vietnam Era Veterans Readjustment Assistant Act, and is committed to take affirmative action to employ and advance in employment qualified disabled veterans and veterans of the Vietnam Era.

(m) The Contractor will include the provisions of this clause in every subcontract or purchase order of \$10,000 or more unless exempted by rules, regulations, or orders of the Secretary issued pursuant to the Act, so that such provisions will be binding upon each subcontract or vendor. The Contractor will take such action with respect to any subcontract or purchase order as the Director of the Office of Federal Contract Compliance Programs may direct to enforce such provisions, including action for noncompliance.

**SECTION 6**  
**UTILIZATION OF SMALL BUSINESS CONCERNS**  
**AND SMALL BUSINESS CONCERNS OWNED AND**  
**CONTROLLED BY SOCIALLY AND ECONOMICALLY**  
**DISADVANTAGED INDIVIDUALS**

The following clause shall be included in all contracts over \$10,000 except contracts for services which are personal in nature and contracts which will be performed entirely (including all subcontracts) outside any State, territory, or possession of the United States, the District of Columbia, or the Commonwealth of Puerto Rico.

(a) It is the policy of the United States that small business concerns and small business concerns owned and controlled by socially and economically disadvantaged individuals shall have the maximum practicable opportunity to participate in the performance of contracts let by any Federal agency.

(b) The Contractor hereby agrees to carry out this policy in the awarding of subcontracts to the fullest extent consistent with the efficient performance of this contract. The Contractor further agrees to cooperate in any studies or surveys as may be conducted by the Small Business Administration or the contracting agency which may be necessary to determine the extent of the Contractor's compliance with this clause.

(c) As used in this contract:

(1) The term "small business concern" shall mean a small business as defined pursuant to Section 3 of the Small Business Act and relevant regulations promulgated pursuant thereto.

(2) The term "small business concern owned and controlled by socially and economically disadvantaged individuals" shall mean a small business concern--

(i) which is at least 51 per centum owned by one or more socially and economically disadvantaged individuals; or in the case of any publicly owned business, at least 51 per centum of the stock of which is owned by one or more socially and economically disadvantaged individuals; and

(ii) whose management and daily business operations are controlled by one or more of such individuals.

The Contractor shall presume that socially and economically disadvantaged individuals include Black Americans, Hispanic Americans, Native Americans, Asian-Pacific Americans, and other minorities, or any other individual found to be disadvantaged by the Small Business Administration pursuant to Section 8(a) of the Small Business Act.

(d) Contractors acting in good faith may rely on written representations by their subcontractors regarding their status as a small business concern or a small business concern owned and controlled by socially and economically disadvantaged individuals.

**SECTION 7**  
**UTILIZATION OF WOMEN-OWNED BUSINESS CONCERNS**

The following clause shall be included in all contracts expected to exceed \$10,000 except contracts which, including all subcontracts thereunder, are to be performed entirely outside the United States, its possessions, Puerto Rico and the Trust Territory of the Pacific Islands, and contracts for services which are personal in nature.

(a) It is the policy of the United States Government that women-owned businesses shall have the maximum practicable opportunity to participate in the performance of contracts awarded by any Federal agency.

(b) The Contractor agrees to use its best efforts to carry out this policy in the award of subcontracts to the fullest extent consistent with the efficient performance of this contract. As used in this contract, a "woman-owned business" concern means a business that is at least 51 per centum owned by a woman or women who also control and operate it. "Control" in this context means exercising the power to make policy decisions. "Operate" in this context means being actively involved in the day-to-day management. "Women" means all women business owners.