

## EXHIBIT "A"

Attached to and made a part of that certain agreement between  
PUBCO PETROLEUM CORPORATION ("Pubco") and \_\_\_\_\_  
Spencer and Hutson \_\_\_\_\_, ("Operator")  
dated November 5, 1971.

### 1. Titles

Upon request, Pubco shall deliver to Operator copies of relevant title material and related data in its possession pertaining to the Contract Acreage. Pubco, however, shall not be responsible for the content of such title material and data, and Pubco makes no representations or warranties as to the completeness or accuracy of such title data. Pubco shall not and does not hereby make any covenants or warranties concerning the validity or merchantability of Pubco's title to the Contract Acreage. Operator, at its sole cost, risk and expense may conduct such title examination and secure such curative material as it considers necessary, and, without cost to Pubco, it shall forthwith furnish Pubco with copies of all title opinions and curative documents obtained, whether the same are obtained prior or subsequent to the commencement of drilling operations hereunder.

### 2. Default

In the event Operator should either fail to commence the drilling of any test well within the time and in the manner herein provided; or having commenced the same, should it fail or refuse to drill the same to Contract Depth within the time and in the manner herein specified, or comply with all of the terms and conditions of this agreement set forth herein; then and in any such event, ~~the agreement shall terminate~~ and notwithstanding anything in this agreement to the contrary, this agreement, with the exception of Operator's obligations that may have accrued theretofore, as well as its obligation to release and warrant, shall ipso facto terminate in its entirety and any interest which Operator otherwise may have been entitled to earn in or to the Contract Acreage shall terminate and revert to Pubco. In the event of any such default, Operator agrees that upon demand, it will forthwith release and quitclaim to Pubco any and all interest not then earned in the Contract Acreage and under this agreement, warranting the same to be free and clear of all liens, claims, encumbrances, overriding royalties or other burdens on production caused, suffered or created by, through or under it.

### 3. Operations

In connection with the drilling and all other operations conducted under or pursuant to this agreement affecting the Contract Acreage, Operator shall observe and comply with the following provisions:

a. Conduct all operations strictly in accordance with the terms and conditions of the oil and gas lease covering that portion of the Contract Acreage upon which said well is being drilled.

b. Observe and comply with all applicable laws, rules, regulations and orders of all governmental authorities and agencies, and timely file all reports required by such authorities and agencies. ✓

c. Comply with the non-discrimination provisions of Paragraphs 1 through 7 of Section 202 of Executive Order No. 11246, as amended (30 Fed. Reg. 12319), unless exempted by order of the Secretary of Labor issued pursuant to Section 204 of said Executive Order No. 11246, or any similar order pertaining to the same subject matter which may be in effect

from time to time, at all times herein contemplated and during which the leases and Contract Acreage which are the subject of this agreement are subject to the application and jurisdiction thereof.

d. Conform to established oil field practices during all operations on the Contract Acreage and perform the same with due dispatch and diligence and in a good and workmanlike manner.

e. Complete each Test Well under this agreement through and including installation of adequate lease storage tanks (if an oil well) or a separator (if a gas well); or, if such test results in a dry hole after having drilled it to Contract Depth and tested it as required in this agreement, lawfully plug the well, restore and abandon the premises, and settle or make provision for the settlement of all claims for damages all within ninety (90) days from the date of commencement of actual drilling thereof (unless extended by Pubco) and free of any cost, risk, expense or liability to Pubco.

#### 4. Substitute Wells

A. If Operator timely commences actual drilling of any Test Well on this Contract Acreage, but fails to drill said well to Contract Depth due to encountering adverse mechanical or geological conditions which are beyond its control, and which, in the opinion of a reasonably prudent operator, would make it impossible or impractical to continue operations, it shall have the right to terminate drilling said well at such point and in such event shall promptly and properly plug and abandon said well. Operator shall have no obligation to drill a substitute test well, but if it elects to do so, it shall commence, or cause to be commenced, the actual drilling of a substitute test well at an alternate location in the same 40-acre or spaced drillsite tract of the Contract Acreage, within thirty (30) days following the discontinuance of drilling operations on said Test Well, and thereafter drill said substitute well in the same manner to Contract Depth, as required for the drilling of the Test Well. Otherwise, all rights of Operator which have not then been earned in the Contract Acreage shall terminate and become null and void as to said lease and Contract Acreage which have not then been earned, subject to Operator's obligations to hold Pubco harmless from and against any and all loss, costs, liens, debts or liability incurred or created by Operator or arising out of its operations hereunder.

B. In the event a substitute well is drilled to Contract Depth in full compliance with all of the terms and conditions of this agreement which are applicable to the Test Well, the substitute well shall be considered and treated for all purposes thereafter as the required Test Well.

#### 5. Abandonment of Drilling Operations

A. Upon completion of the drilling and testing of any Test Well on this Contract Acreage, if Operator elects to plug and abandon said well, with or without having run casing therein, it shall immediately furnish Pubco with a copy of the logs which it is required to run pursuant to the terms of this agreement, and shall so notify Pubco of its election to plug and abandon said well by telegraphic notice in the manner required in Paragraph 20 hereof. Pubco shall have twenty-four (24) hours following receipt of such notice or the required logs in Pubco's Albuquerque office, whichever is later, within which to elect to take over said well and to conduct such additional drilling, testing or completion operations thereon as it may deem advisable. If Pubco elects not to take over such well, or fails to advise Operator of its election within said twenty-four (24) hour period, then, in that event, such well shall be forthwith plugged and

abandoned by Operator at its sole cost, risk and expense and the surface of the land surrounding the subject location shall be restored as nearly as practicable to the condition in which it was found upon Operator's entry thereon, as soon as possible.

B. If Pubco elects to take over any Test Well being abandoned by Operator, all of its operations on such well following the take over shall be conducted at Pubco's sole cost, risk and liability and without any cost, risk or liability to Operator, but Pubco shall not in any way be liable for any loss, cost, risk or liability in connection with any operations conducted prior to the date Pubco has made its entrance on the subject location. Upon take over of any Test Well, Operator shall be deemed to have released and relinquished its entire right, title and interest in, to and under the Contract Acreage as to the forty (40) acre drillsite or spacing unit upon which such well is situated (whichever is the larger). Further, Operator agrees to assign forthwith to Pubco all rights and interests it may have in that portion of the leases and acreage covering the drillsite and all casing, materials and equipment in and on such well free and clear of all claims, liens, encumbrances or other burdens caused, suffered or created by, through or under Operator. Upon receipt of such conveyance, Pubco shall pay to Operator the reasonable salvage value of the casing, materials and equipment in and on said well and so conveyed to Pubco on the same basis as provided in the Accounting Procedure in the attached Operating Agreement, and thereafter Pubco shall be the sole and exclusive owner thereof, free and clear of the terms and conditions of this Agreement.

C. In the event Pubco elects to take over any test well as provided for herein, it may either employ the tools in use by Operator or it may use such other tools as it may deem desirable. If Pubco elects to use another set of tools in conducting such additional operations, then Operator shall remove or cause to be removed from the well site the set of tools then in use by it, within five (5) days after receipt of notice that Pubco intends to conduct such additional operations. However, if Pubco elects to employ the tools in use by Operator, Pubco shall assume any contractual obligations in connection with said drilling equipment and machinery and the crew which may operate it. If said equipment and machinery and the crew be those of Operator, Pubco shall pay Operator for the use thereof in accordance with the terms of contracts entered into by independent drilling contractors in the immediate area for the performance of work and services of the character to be undertaken by Pubco pursuant to such election.

#### 6. Well Information and Testing Requirements

Pubco's representatives shall have free access to each Test Well provided for in this agreement and to all wells which may be drilled on the Contract Acreage and all records pertaining to such wells and the production therefrom including, but without limitation, access to the logs thereof at any and all times and Operator shall furnish samples, drilling reports and other information and material regarding said wells as may be requested by Pubco. As to each well to be drilled pursuant to the terms of this agreement, Operator agrees:

a. To notify Pubco at least one week in advance of the commencement of actual drilling, giving the official well name and the location of each well, with the distances and directions thereof from at least two readily identifiable survey lines;

b. Commencing with the date each well is spudded, to furnish daily drilling reports to Pubco's offices in Albuquerque by telephone (before 9:00 A.M.MST), or else by telegram or letter, as Pubco may elect, such reports to include the latest depth and status of said wells;

c. To make drillstem tests of all horizons and formations encountered which, in the opinion of Pubco, indicate the presence or possibility of commercial oil and/or gas production. In any event, as to any option well subsequently drilled under this agreement, operator shall make a drillstem test of any horizon or formation in which production has been established in the Initial Test Well.

d. To furnish Pubco with representative samples of any cores which may be taken, and have core analyses run on any and all potentially productive zones in such cores;

e. To keep the drilling mud in condition to bring representative samples to the surface and to catch, wash and dry samples at such intervals and to such depths as specified in the pre-attached agreement. ~~Operator shall be liable for the cost of such processing and storage of such samples for publication.~~ The cost of such processing and storage shall be borne by Operator;

f. To maintain a reasonable angle of deflection of the hole from the vertical; and comply with the requirements of the state in which the well is being drilled with reference to maximum permissible deviation, if any;

g. To give advance notice to Pubco at its Albuquerque office in sufficient time for it to arrange to have a representative present to witness any and all coring, testing, running of any and all logs and surveys, measuring of depth upon completion and plugging operations, and further, to give advance notice to Pubco of its intention to drill into any known producing horizon in sufficient time for Pubco to arrange to have a representative present to witness such operation, and in the event any significant show of oil and/or gas is encountered in the drilling of a well, Operator shall notify Pubco in order that it may have a representative present when such formation is penetrated and/or tested, if it so desires;

h. To furnish promptly to Pubco's Albuquerque offices, the complete reports of the results of any test conducted on said well together with reports of all surveys of the hole, however made, and to furnish said offices with one copy each of any and all core analyses, drillstem test charts and one copy each of the drilling time logs at intervals of not greater than ten (10) feet ~~from the surface to the total depth drilled,~~ or in lieu of said drilling time logs, one copy each of the geolograph chart;

i. To furnish to each of Pubco's offices one field print copy, one final copy and a sepia of all electrical well surveys and any other surveys conducted on said well including those provided for elsewhere in this agreement, as soon as the same are available.

Pubco shall have the right to receive any and all information secured by Operator in the drilling, testing, completing and producing of the wells drilled hereunder by Operator on the Contract Acreage.

#### 7. Liens and Indemnity

A. Operator agrees that in conducting any operations on the leases subject hereto, it will not do or cause to be done any act of commission or omission which might cause any forfeiture of such leases or create any liability under Pubco's bonds covering operations thereon. In addition, Operator shall pay all bills promptly and shall not permit any liens to accrue against any of the Contract Acreage or leases, or any equipment used in connection therewith, that would in any manner jeopardize Pubco's interest and rights hereunder. Operator further agrees to indemnify and save Pubco harmless of

of and from any and all claims of any nature whatsoever in connection with operations conducted by Operator on the Contract Acreage, including but not by way of limitation, claims based on breach of express or implied covenants, and shall pay all costs and expenses of judgments against Pubco based on such claims. Further, if Pubco is named as a party defendant in any action resulting from operations conducted by Operator under this agreement, Pubco shall immediately notify Operator in order to allow it to join in such suit or action as joint defendant, and Operator shall save Pubco harmless from any cost or expense, including fees of counsel, incurred by Pubco in defending such action.

B. Notwithstanding anything to the contrary contained herein, it is specifically understood and agreed that Operator shall make settlement and pay for all damages occasioned by its operations on the Contract Acreage and shall provide Pubco with an executed copy of the Release of Damages secured from surface owners or others. With respect to any of the wells provided for in this agreement, Operator agrees to provide Pubco with an executed copy of the Release of Damages regarding such well drilled prior to the delivery of the appropriate lease assignment by Pubco.

## 8. Insurance

A. Before the commencement of drilling operations on the first Test Well on this Contract Acreage, Operator shall furnish Pubco with an acceptable certificate showing that it has purchased or provided the following insurance which indemnifies, protects and saves Pubco harmless:

1. Workmen's Compensation Insurance in accordance with the laws of the State in which the Contract Acreage is situated;

2. General Public Liability and Property Damage Insurance covering injuries or death of persons, with limits of not less than \$250,000 as to any one person, \$500,000 as to more than one person, \$100,000 for any property damage, resulting from any one occurrence or accident which shall cover all equipment, whether owned, leased or hired;

3. Automobile Public Liability and Property Damage Insurance covering injuries or death of persons, with limits of not less than \$250,000 per person and \$500,000 per any one accident and automobile property damage insurance with limits of not less than \$100,000 per accident which shall cover all owned and non-owned vehicles.

Operator shall maintain the above insurance protection during all operations on the Contract Acreage.

B. Further, Operator shall require all of its contractors and sub-contractors to maintain Workmen's Compensation, Public Liability, Auto Liability and Property Insurance with monetary limits of not less than those specified in this paragraph during the time any operations are performed on the Contract Acreage.

## -9. Delay Rentals

A. Operator shall be responsible for the payment of all minimum or shut-in royalty payments charged to the Contract Acreage after the date of this agreement, and bear such expense in proportion to its ownership in the Contract Acreage.

B. If any delay rental should become due after the date of this agreement on any lease covering the Contract Acreage, Pubco shall tender such payment under the terms of the appropriate lease. Pubco shall pay the delay rentals becoming due under this agreement until the ~~attached Operating Agreement becomes effective, or also~~ this agreement is terminated. Operator agrees

to reimburse Pubco for all such rentals, regardless of when the tender may have been made. If special provision is made for rental reimbursement in the pre-attached letter, such provisions shall supersede the foregoing conditions, ~~until the Operating Agreement becomes effective~~. Regardless, of the applicable provisions, Operator agrees to reimburse Pubco within sixty (60) days after receiving the rental billing. If not paid by then, Pubco will notify Operator of such default in writing, and unless Operator remedies the default within thirty (30) days after receipt of such notice its interest in the applicable lease and acreage shall terminate automatically, and it shall immediately assign and convey its interest back to Pubco. Pubco shall diligently attempt to make proper payment as a matter of course, and without advance notice to Operator, but shall not be held liable to Operator in damages for the loss of any lease, or interest therein; if, through mistake or oversight, any such payment is not paid, or is erroneously paid. Any loss of any lease, or interest, resulting from a failure to pay, or an erroneous payment thereunder, shall be a joint loss, and there shall be no readjustment of interests in the remaining portion of the Contract Acreage.

C. In the event any party to this agreement desires not to pay any rental, royalty, or other such payment on any lease, or portion of lease, included herein, it shall first notify the other parties, forty-five (45) days prior to the due date given in such lease, or the date by which notice must be given to a third party under any other agreement relating hereto, whichever is the earlier date. The other parties, shall have ten (10) days after receipt of said notice with which to notify the desiring party of its election with respect thereto. Failure to respond in such manner shall constitute an election to concur with the desiring party's recommendation not to pay. In the event one party then elects to pay the rental, or other such payment, and the other does not by virtue of its original notice, then the party electing not to pay shall assign all of its interest in said lease, or portion thereof, to the other party in accordance with Article 10 of this Exhibit ~~on Section 24 of the attached Operating Agreement, if it has become effective~~, and the party electing to pay rental shall be responsible for the payment coming due at the time the initial election was made.

D. Each Party agrees to notify the other in due course if it learns of a change in ownership of any oil and gas lease covering the Contract Acreage.

#### 10. Surrender or Reassignment of Lease

Should Operator desire to surrender its interest in any of the leases covering the Contract Acreage ~~and there is no Operating Agreement in effect at the time~~, it shall notify Pubco in writing, at the address herein designated, of its decision, and Pubco shall have thirty (30) days from receipt of said notice within which to elect to agree to the surrender or to take an assignment of the interest of Operator to be surrendered. If Pubco elects within said period of time to take an assignment of the interest to be surrendered, including all wells, material, and equipment which may be located thereon, as well as all of its rights in production thereafter secured; it will be assigned free and clear of all liens, claims, encumbrances or overriding royalties or other burdens on the leasehold estate and the production therefrom caused or created by, through or under Operator. Upon such assignment, Operator shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and it shall have no further interest in said lease assigned and the equipment and production thereon and therefrom. Pubco shall pay to Operator the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage, less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Failure of Pubco to respond to such notice from Operator within the time specified shall be conclusively deemed an election not to take an assignment of the interest to be surrendered by it. In the event Pubco either expressly or impliedly elects not to take an assignment of the interest to be

surrendered by Operator as aforesaid, then it shall be free to surrender the interest in the lease covering that portion of the Contract Acreage to be surrendered as specified in its original notice to Pubco.

#### ~~11. Joint Operations~~

A. The terms and provisions of the attached Operating Agreement and all exhibits attached thereto as being a part of the Operating Agreement, shall become effective immediately upon the completion or abandonment of the initial Test Well provided for in this agreement in circumstances in which Operator is entitled to retain an interest in the Contract Acreage, and shall be effective as to all lands hereunder, working interests and the production therefrom to which Operator then or thereafter has an undivided interest. Said Operating Agreement is identified as Exhibit "B" attached hereto, and by this reference made a part hereof.

Upon the effective date of the Operating Agreement as provided for above, Operator shall become and be the Operator of all of the leases and lands described in Exhibit "C" which are jointly owned by the parties hereto; such leases and lands being hereinafter sometimes referred to as the "Joint Premises", or Unit Area. Except as may be herein otherwise specifically provided, the cost and expense of retaining, developing and operating said Joint Premises shall be borne by the parties hereto in the proportions that they are the owners of the Joint Premises, as set forth in the attached Operating Agreement.

B. As to any conflict between the terms and provisions of this agreement and those of said Operating Agreement, the terms and provisions of this ~~agreement shall prevail~~

#### 12. Relationship of Parties

Notwithstanding the other terms of this agreement, and the attached Operating Agreement, it is expressly understood and agreed that the relationship of the parties hereto is that of independent contractors, and nothing in this agreement contained, expressed or implied, or any operations conducted hereunder shall create or be deemed to have created a joint venture, mining partnership, association, agency, trusteeship, or other relationship whereby any party hereto may be held liable for any lien against the other party or for the acts, either of omission or commission, of the other party hereto.

#### ~~13. Contributions and Money Contributions~~

All contributions, whether of dry hole and/or bottom hole money or acreage, contributed by any third party with respect to the drilling of any well on the Contract Acreage shall be owned by and become the property of the parties hereto, or their assigns, in the same proportions as they ~~participate in the drilling of the well for which the contribution was made~~

#### 14. Consent to Assignment

~~This agreement is personal and no one holding~~ immediately or remotely under it shall have the right to assign or transfer any right or obligation under this agreement, or any rights, title or interests acquired under the terms of this agreement in and to the leases and lands subject hereto, to any party without Pubco's written consent first had ~~and given~~. Any assignment made by Operator or anyone holding immediately or remotely under it following such consent by Pubco shall not be effective or valid until Pubco has been furnished with an executed copy thereof and Pubco has been furnished with an enforceable agreement whereunder the party to whom such rights are to be assigned assumes, in whole or in part, the obligations of Operator under this agreement and any assignment of rights theretofore made pertaining to the rights to be so assigned. A consent by Pubco with respect to any assignment or transfer shall not operate nor be construed as a waiver with respect to any other such subsequent assignment or transfer. Pubco agrees, however, that such consent will not arbitrarily be withheld by it.

15. Use of Name

Operator hereby covenants and agrees it will not use the name of Pubco, either directly or indirectly, for the purpose of obtaining financial assistance, or the prompting of any association or enterprise with others, as to any operations contemplated by this agreement.

16. Concurrent Rights of Ingress and Egress

A. The parties hereto, their successors and assigns, shall have equal and concurrent rights of ingress and egress on the Contract Acreage for the purpose of exploring for, drilling for, mining, producing and marketing the minerals under the oil and gas leases described in this agreement. Further said parties shall own and hold equally any and all rights granted by said oil and gas leases as incident to and for the purpose of mining, exploring for, drilling for and producing the minerals owned by them in their respective depths (if there be any severance of ownership by depths in this agreement), including the right to lay and maintain pipelines, water lines, dig pits, erect structures and to do and perform any and all other things incident to the rights and interests of the parties hereto as otherwise provided herein. The aforesaid rights shall be exercised in such manner as not to interfere unduly with the similar rights of the other party hereto.

B. Upon notice from Operator as to its intent to commence any well on the Contract Acreage, together with its designation of the proposed location, Pubco agrees to provide Operator with its designation of operator, in such form as deemed necessary or required by law, prior to commencement of said well, so as to permit Operator entry on the appropriate leased lands for the purpose of drilling said well.

17. Drilling Within One Mile

If prior to the commencement of any Test Well provided for in this Agreement, another well is commenced at a location within one (1) mile of the location for any such Test Well, then in that event, Operator agrees to commence actual drilling operations on the well next required to be drilled hereunder within fifteen (15) days from the date such other well was commenced. Upon default of this requirement, the rights and privileges of Operator under the terms and provisions of this Agreement may be terminated and be of no further force and effect, at the option of Pubco.

18. Term

Subject to the other terms of this agreement, the same shall remain in force for the life of the oil and gas leases covering the Joint Premises and any extensions or renewals thereof, whether by production or otherwise, unless sooner terminated by mutual agreement in writing by the parties hereto.

19. Headings for Convenience

The article headings used in this agreement are inserted for convenience only and shall be disregarded in construing this agreement.

20. Notices

All notices that are required or authorized to be given hereunder, except as otherwise specifically provided herein, shall be given in writing by United States mail, Western Union telegram or telex, postage or charges prepaid, and addressed to the party to whom such notice is to be given.

A. Notices to Pubco should be sent to the ~~two~~ following addresses:

~~(1) Robert D. Abbott~~  
Pubco Petroleum Corporation  
910 Denver Center Building  
1776 Lincoln Street  
Denver, Colorado 80203  
Telephone:  
(303) 623-8767 (Office)  
~~(303) 798-5959 (Residence)~~



(2) Jim Johnson  
Pubco Petroleum Corporation  
P. O. Box 869  
Albuquerque, New Mexico 87103

Telephone:

(505) 842-1940 (Office)  
(505) 299-6029 (Residence)

B. Notices to Operator should be sent to the address specified in the pre-attached letter.

The originating notice to be given under any provision hereof shall be deemed given when received by the party to whom such notice is directed, and the time for such party to give any response thereto shall run from the date the originating notice is received. The second or any subsequent responsive notice shall be deemed given when deposited in the United States Post Office or with Western Union Telegraph Company, or upon Telex confirmation of receipt, with postage or charges prepaid.

#### 21. Successors and Assigns

All of the terms and conditions of this agreement and the exhibits attached hereto shall be construed as, and shall constitute, covenants running with the lands and leasehold estates covered hereby and described in Exhibit "B" hereof, and shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, successors and assigns.

#### 22. Consideration and Brokerage

The parties hereto severally covenant and agree that they have not incurred any obligation or liability, contingent or otherwise, for any broker's or finder's fees with respect to the subject matter of this agreement and that the entire consideration therefor is provided for herein.

#### 23. Definitions

Test Well: The terms and conditions of this exhibit shall apply to all wells required to be drilled on the Contract Acreage by the pre-attached agreement. As used herein, the term Test Well shall also mean Optional Well, or Optional Wells, wherever so required to conform with the requirements of such pre-attached agreement.

Party: As used herein, shall mean the party or parties who executed the pre-attached agreement.

Contract Acreage: As used herein, shall mean the leases or the acreage, or both, as described in Exhibit B hereto, as the context of the provision requires.

Completed as being capable of producing oil and/or gas in Paying Quantities: as used herein, shall mean the running of pipe and installation of well head equipment adequate to place the well on production if flow lines were in place; 7/8ths of such production being in amounts estimated by the parties hereto to be of sufficient value so that a profit can be realized after deducting expenses of operation (calculated to conform to the attached accounting procedure), and severance or production taxes.

Pre-Attached Agreement: means the letter to which this exhibit is attached.

EXHIBIT "B"

Schedule of Leases

Attached to and made a part of that certain Agreement dated November 5, 1971, between Pubco Petroleum Corporation, as owner, and Spencer and Hutson, as Operator.

The Agreement to which this schedule is attached pertains to and includes the following described oil and gas leases insofar and only insofar as they concern and cover the tracts and subdivisions of land described thereafter and as applicable to the specified alternative by reason of existing spacing rules, orders or regulations, (also called the Contract Acreage herein), situated in Lea County, New Mexico, to-wit:

A. As to the Test Well:

(415) Lease dated August 27, 1969 from Elbert B. Shipp, et al as lessors, to Pubco Petroleum Corporation as lessee, recorded in Book 266, Page 772 of the records of Lea County

insofar and insofar only as one of the following described tracts situated in T-17S, R-37E, NMPM is concerned:

IF ON 80 ac. Spacing  
Sec. 11: E $\frac{1}{2}$ SW $\frac{1}{4}$

IF ON 160 ac. Spacing  
Sec. 11: SW $\frac{1}{4}$

IF ON 320 ac. Spacing  
Sec. 11: W $\frac{1}{2}$

B. As to the Option Wells:

(415) Lease dated August 27, 1969 from Elbert B. Shipp, et al as lessors, being the same lease No. 415 described above

insofar and insofar only as one of the following described tracts situated in T-17S, R-37E, NMPM is concerned:

IF ON 80 ac. Spacing  
Sec. 11: E $\frac{1}{2}$ SE $\frac{1}{4}$ , W $\frac{1}{2}$ NE $\frac{1}{4}$ ,  
W $\frac{1}{2}$ NW $\frac{1}{4}$   
Sec. 10: W $\frac{1}{2}$ NE $\frac{1}{4}$ , E. 60  
ac. of SE $\frac{1}{4}$ ,

IF ON 160 ac. Spacing  
Sec. 11: NE $\frac{1}{4}$   
Sec. 10: NE $\frac{1}{4}$ , S. 30  
ac. of W $\frac{1}{2}$ SW $\frac{1}{4}$   
Sec. 15: E. 50 ac. of  
N $\frac{1}{2}$ NE $\frac{1}{4}$

IF ON 320 ac. Spacing  
Sec. 10: S. 30 ac. of  
W $\frac{1}{2}$ SW $\frac{1}{4}$   
Sec. 15: E. 50 ac. of  
N $\frac{1}{2}$ NE $\frac{1}{4}$

Sec. 15: W. 10 ac. of  
E. 50 ac. of  
N $\frac{1}{2}$ NE $\frac{1}{4}$

(450) Lease dated January 27, 1971 from Philip Shaw, et al as lessors, to Pubco Petroleum Corporation as lessee, recorded in Book 268, Page 911 of the records of Lea County

insofar and insofar only as one of the following described tracts situated in T-17S, R-37E, NMPM is concerned:

<u>IF ON 80 ac. Spacing</u>	<u>IF ON 160 ac. Spacing</u>	<u>IF ON 320 ac. Spacing</u>
Sec. 14: $W\frac{1}{2}NW\frac{1}{2}$	Sec. 15: W. 30 ac. of	Sec. 15: W. 30 ac. of
Sec. 15: W. 30 ac. of	$N\frac{1}{2}NE\frac{1}{4}, S\frac{1}{2}NE\frac{1}{4}$	$N\frac{1}{2}NE\frac{1}{4}, S\frac{1}{2}NE\frac{1}{4}$
$N\frac{1}{2}NE\frac{1}{4}, SW\frac{1}{4}NE\frac{1}{4}$		

(432-A) Lease dated September 13, 1969 from Marie Jane DeVoss, et al as lessors, to Pubco Petroleum Corporation as lessee, recorded in Book 266, Page 782 of the records of Lea County; and

(432-B) Lease dated September 9, 1969 from H. Dillard Schenct, et ux as lessors, to Pubco Petroleum Corporation as lessee, recorded in Book 266, Page 784 of the records of Lea County; and

(432-C) Lease dated September 13, 1969 from Fern Cone as lessors, to Pubco Petroleum Corporation as lessee, recorded in Book 266, Page 786 of the records of Lea County; and

(432-D) Lease dated October 30, 1969 from Albuquerque National Bank as lessor, to Pubco Petroleum Corporation as lessee, recorded in Book 267, Page 17 of the records of Lea County; and

(432-E) Lease dated October 3, 1969 from Powhatan Carter, Jr., et al as lessors, to Pubco Petroleum Corporation as lessee, recorded in Book 267, Page 497 of the records of Lea County; and

(432-F) Lease dated December 12, 1969 from Minerva L. Waldron as lessor, to Pubco Petroleum Corporation as lessee, recorded in Book 268, Page 273 of the records of Lea County; and

(432-G) Lease dated December 16, 1969 from R. L. Elliott, Trustee as lessor, to Pubco Petroleum Corporation as lessee, recorded in Book 268, Page 411 of the records of Lea County; and

(432-H) Lease dated April 27, 1970 from Virginia Nickson Beers as lessor, to Pubco Petroleum Corporation as lessee, recorded in Book 269, Page 489 of the records of Lea County; and

(432-I) Lease dated April 27, 1970 from Ned Nickson, et ux as lessors, to Pubco Petroleum Corporation as lessee, recorded in Book 269, Page 445 of the records of Lea County; and

(432-J) Lease dated April 27, 1970 from Joseph Richard Nickson, et ux as lessors, to Pubco Petroleum Corporation, as lessee, recorded in Book 269, Page 447 of the records of Lea County; and

(432-K) Lease dated June 29, 1970 from Ashland Oil Corporation, Inc. as lessor, to Pubco Petroleum Corporation as lessee, recorded in Book 270, Page 11 of the records of Lea County

insofar and insofar only as some or all may apply to and concern one of the following described tracts situated in T-17S, R-37E, NMPM:

<u>IF ON 80 ac. Spacing</u>	<u>IF ON 160 ac. Spacing</u>	<u>IF ON 320 ac. Spacing</u>
Sec. 13: $W\frac{1}{2}NW\frac{1}{2}$	Sec. 14: $NE\frac{1}{4}$	Sec. 14: $NE\frac{1}{4}$
Sec. 14: $W\frac{1}{2}NE\frac{1}{4}$		

(403) Lease dated June 17, 1969 from State of New Mexico as lessor, to Pubco Petroleum Corporation as lessee, recorded in Book 264, Page 879 of the records of Lea County

insofar and insofar only as one of the following described tracts situated in T-16S, R-37E, NMPM is concerned:

IF ON 80 ac. Spacing  
Sec. 36:  $W\frac{1}{2}NW\frac{1}{2}$ ,  $W\frac{1}{2}NE\frac{1}{2}$ ,  
 $E\frac{1}{2}SW\frac{1}{2}$

IF ON 160 ac. Spacing  
Sec. 36:  $NE\frac{1}{2}$ ,  $SW\frac{1}{2}$

IF ON 320 ac. Spacing  
Sec. 36:  $W\frac{1}{2}$

(449) Lease dated March 9, 1970 from Dorothy M. Bunders, et vir as lessors, to Pubco Petroleum Corporation as lessee, recorded in Book 268, Page 909 of the records of Lea County

insofar and insofar only as one of the following described tracts situated in T-17S, R-37E, NMPM is concerned:

IF ON 80 ac. Spacing  
Sec. 12:  $W\frac{1}{2}NW\frac{1}{2}$ ,  $W\frac{1}{2}NE\frac{1}{2}$

IF ON 160 ac. Spacing  
Sec. 12:  $NE\frac{1}{2}$

IF ON 320 ac. Spacing  
Sec. 12:  $NW\frac{1}{2}$

(452-A) Lease dated March 19, 1970 from Matty May Price as lessor, to Pubco Petroleum Corp. as lessee, recorded in Book 268, Page 913 of the records of Lea County; and

(452-B) Lease dated March 12, 1970 from Mildred A. Wright as lessor, to Pubco Petroleum Corp. as lessee, recorded in Book 268, Page 915 of the records of Lea County; and

(452-C) Lease dated March 12, 1970 from Laura Kaempf as lessor, to Pubco Petroleum Corp. as lessee, recorded in Book 268, Page 917 of the records of Lea County; and

(452-E) Lease dated March 12, 1970 from Neicia Mounsey as lessor, to Pubco Petroleum Corp. as lessee, recorded in Book 269, Page 15 of the records of Lea County; and

(452-F) Lease dated April 3, 1970 from S. M. Parker, et ux as lessors, to Pubco Petroleum Corp. as lessee, recorded in Book 269, Page 272 of the records of Lea County

(452-G) Lease dated April 8, 1970 from James R. Haynes GDN as lessor, to Pubco Petroleum Corp. as lessee, recorded in Book 269, Page 276 of the records of Lea County; and

(452-H) Lease dated March 12, 1970 from W. S. Posey, et ux as lessors, to Pubco Petroleum Corp. as lessee, recorded in Book 268, Page 920 of the records of Lea County; and

(452-I) Lease dated May 4, 1970 from Thomas L. Sampson, et al as lessors, to Pubco Petroleum Corporation as lessee, recorded in Book 269, Page 180 of the records of Lea County; and

(452-J) Lease dated March 14, 1970 from Earnest L. McAtee, et ux as lessors, to Pubco Petroleum Corp. as lessee, recorded in Book 268, Page 922 of the records of Lea County; and

(452-K) Lease dated March 9, 1970 from Harrison Levy et ux as lessors to Pubco Petroleum Corp. as lessee, recorded in Book 268, Page 924 of the records of Lea County; and

(452-L) Lease dated Mar. 14, 1970 from Elizabeth R. Lamb, et vir as lessors, to Pubco Petroleum Corp. as lessee, recorded in Book 268, Page 926 of the records of Lea County; and

(452-M) Lease dated April 21, 1970 from John F. Stafford, et al as lessors, to Pubco Petroleum Corp. as lessee, recorded in Book 269, Page 471 of the records of Lea County; and

(452-N) Lease dated April 18, 1970 from William B. Stafford, et ux as lessors, to Pubco Petroleum Corp. as lessee, recorded in Book 269, Page 449 of the records of Lea County; and

(452-O) Lease dated April 18, 1970 from Thomas J. Stafford, et ux as lessors, to Pubco Petroleum Corp. as lessee, recorded in Book 269, Page 453 of the records of Lea County; and

(452-P) Lease dated April 18, 1970 from Elizabeth S. Viseur as lessors, to Pubco Petroleum Corp. as lessee, recorded in Book 269, Page 451 of the records of Lea County; and

(452-Q) Lease dated April 18, 1970 from Diana R. Glaspie, et vir as lessors, to Pubco Petroleum Corp. as lessee, recorded in Book 269, Page 483 of the records of Lea County; and

(452-R) Lease dated April 20, 1970 from Cleo H. Duggar, et vir as lessors, to Pubco Petroleum Corp. as lessee, recorded in Book 269, Page 481 of the records of Lea County; and

(452-S) Lease dated April 14, 1970 from Kay H. Liakos, et vir as lessors, to Pubco Petroleum Corp. as lessee, recorded in Book 269, Page 479 of the records of Lea County; and

(452-T) Lease dated April 15, 1970 from Veva K. Nelson as lessor, to Pubco Petroleum Corp. as lessee, recorded in Book 269, Page 477 of the records of Lea County; and

(452-U) Lease dated May 6, 1970 from Pearl B. Hendricks TR as lessors, to Pubco Petroleum Corp. as lessee, recorded in Book 269, Page 475 of the records of Lea County; and

(452-V) Lease dated May 6, 1970 from First National Bank-Midland as lessor, to Pubco Petroleum Corp. as lessee, recorded in Book 269, Page 473 of the records of Lea County; and

(452-W) Lease dated May 28, 1970 from Mildred M. Lindsey as lessor, to Pubco Petroleum Corp. as lessee, recorded in Book 269, Page 469 of the records of Lea County; and

(452-X) Lease dated June 9, 1970 from Royalty Holding Company as lessor, to Pubco Petroleum Corp. as lessee, recorded in Book 269, Page 533 of the records of Lea County; and

(452-Y) Lease dated June 8, 1970 from Daisey D. Blankenship as lessor, to Pubco Petroleum Corp. as lessee, recorded in Book 269, Page 535 of the records of Lea County; and

(452-Z) Lease dated June 9, 1970 from Elmer H. Wahl, et ux as lessors, to Pubco Petroleum Corp. as lessee, recorded in Book 269, Page 537 of the records of Lea County

insofar and insofar only as some or all may apply to  
and concern one of the following described tracts of  
land situated in T-17S, R-37E, NMPM:

IF ON 80 ac. Spacing  
Sec. 1:  $W\frac{1}{2}NW\frac{1}{4}$ ,  $W\frac{1}{2}NE\frac{1}{4}$ ,  
 $E\frac{1}{2}SW\frac{1}{4}$ ,  $E\frac{1}{2}SE\frac{1}{4}$   
Sec. 12:  $E\frac{1}{2}SW\frac{1}{4}$ ,  $E\frac{1}{2}SE\frac{1}{4}$

IF ON 160 ac. Spacing  
Sec. 1:  $NE\frac{1}{4}$ ,  $SW\frac{1}{4}$   
Sec. 12:  $SW\frac{1}{4}$

IF ON 320 ac. Spacing  
Sec. 1:  $E\frac{1}{2}$   
Sec. 12:  $SW\frac{1}{4}$

(452-D) Lease dated March 12, 1970 from Anemone S. Baker, et vir as lessors, to Pubco Petroleum Corporation as lessee, recorded in Book 268, Page 918 of the records of Lea County

insofar and insofar only as one of the following described tracts of land situated in T-17S, R-37E, NMPM is concerned:

<u>IF ON 80 ac. Spacing</u>	<u>IF ON 160 ac. Spacing</u>	<u>IF ON 320 ac. Spacing</u>
Sec. 12: E $\frac{1}{2}$ SW $\frac{1}{4}$ , E $\frac{1}{2}$ SE $\frac{1}{4}$	Sec. 12: SW $\frac{1}{4}$	Sec. 12: SW $\frac{1}{4}$

(433-A) Lease dated September 17, 1969 from Helen Moore Lanyi, et vir as lessors, to Pubco Petroleum Corporation as lessee, recorded in Book 267, Page 19 of the records of Lea County; and

(433-B) Lease dated September 20, 1969 from E. I. Tallal to Pubco Petroleum Corporation as lessee, recorded in Book 267, Page 21 of the records of Lea County; and

(433-C) Lease dated February 14, 1970 from AXG Oil Company as lessors, to Pubco Petroleum Corporation as lessee, recorded in Book 268, Page 408 of the records of Lea County

insofar and insofar only as one of the following described tracts of land situated in T-17S, R-37E, NMPM is concerned:

<u>IF ON 80 ac. Spacing</u>	<u>IF ON 160 or 320 ac. Spacing</u>
- 0 -	Sec. 10: NW $\frac{1}{4}$ SW $\frac{1}{4}$ , N $\frac{1}{2}$ N $\frac{1}{2}$ SW $\frac{1}{4}$ SW $\frac{1}{4}$

-X-

Attached to and made a part of that certain agreement dated November 5, 1971, between Pubco Petroleum Corp. as owner, and Spencer and Hutson, as operator, applicable however, only and insofar only as the pricing of material and equipment, and charges for operations are concerned.

## 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.

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

"Non-Operators" shall mean the nonoperating parties, whether one or more.

"Joint Account" shall mean the account showing the charges and credits accruing because of the Joint Operations and which are to be shared by the Parties.

"Parties" shall mean Operator and Non-Operators.

"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 of North America.

#### 2. Conflict with Agreement

In the event of a conflict between the provisions of this Accounting Procedure and the provisions of the agreement to which this Accounting Procedure is attached, the provisions of the agreement shall control.

#### 3. Collective Action by Non-Operators

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

#### 4. Statements and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of costs and expenses, for the preceding month. Such bills will be accompanied by statements reflecting the total charges and credits as set forth under Subparagraph below:

A. Statement in detail of all charges and credits to the Joint Account.

B. Statement of all charges and credits to the Joint Account, summarized by appropriate classifications indicative of the nature thereof.

C. Statement of all charges and credits to the Joint Account summarized by appropriate classifications indicative of the nature thereof, except that items of Controllable Material and unusual charges and credits shall be detailed.

#### 5. Payment and Advances by Non-Operators

Each Non-Operator shall pay its proportion of all such bills within fifteen (15) days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest at the rate of six per cent (6%) per annum until paid.

#### 6. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operators 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 the Joint Property as provided for in Section VII.

#### 7. Audits

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 accounting hereunder 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 adjustment of accounts as provided for in Paragraph 6 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator.

### II. DIRECT CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the Joint Account with the following items:

#### 1. Rentals and Royalties

Delay or other rentals and royalties when such rentals and royalties are paid by Operator for the Joint Account of the Parties.

#### 2. Labor

A. Salaries and wages of Operator's employees directly engaged on the Joint Property in the conduct of the Joint Operations, and salaries or wages of technical employees who are temporarily assigned to and directly employed on the Joint Property.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to the employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III; except that in the case of those employees only a pro rata portion of whose salaries and wages are chargeable to the Joint Account under Paragraph 1 of Section III, not more than the same pro rata portion of the benefits and allowances herein provided for shall be charged to the Joint Account. Cost under this Paragraph 2B 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 2A of this Section II and Paragraph 1 of Section III. 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 labor cost of salaries and wages chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.

D. Reasonable personal expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and for which expenses the employees are reimbursed under Operator's usual practice.

3. Employee Benefits  
Operator's current cost 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; provided however, the total of such charges shall not exceed ten percent (10%) of Operator's labor costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.
4. Material  
Material purchased or furnished by Operator for use on the Joint Property. So far as it is reasonably practical and consistent with efficient and economical operation, only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use; and the accumulation of surplus stocks shall be avoided.
5. Transportation  
Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:  
A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where like material is available, except by agreement with Non-Operators.  
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 or railway receiving point, except by agreement with Non-Operators. No charge shall be made to Joint Account for moving Material to other properties belonging to Operator, except by agreement with Non-Operators.  
C. In the application of subparagraphs A and B above, there shall be no equalization of actual gross trucking costs of \$100 or less.
6. Services  
A. The cost of contract services and utilities procured from outside sources other than services covered by Paragraph 8 of this Section II and Paragraph 2 of Section III.  
B. Use and service of equipment and facilities furnished by Operator as provided in Paragraph 5 of Section IV.
7. 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 any other cause, except to the extent that the damage or loss could have been avoided through the exercise of reasonable diligence on the part of Operator. Operator shall furnish Non-Operators written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.
8. Legal Expense  
All costs and expenses of handling, investigating and settling litigation or claims arising by reason of the Joint Operations or necessary to protect or recover the Joint Property, including, but not limited to, attorneys' fees, court costs, cost of investigation or procuring evidence and amounts paid in settlement or satisfaction of any such litigation or claims; provided, (a) no charge shall be made for the services of Operator's legal staff or other regularly employed personnel (such services being considered to be Administrative Overhead under Section III), except by agreement with Non-Operators, and (b) no charge shall be made for the fees and expenses of outside attorneys unless the employment of such attorneys is agreed to by Operator and Non-Operators.
9. 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.
10. Insurance Premiums  
Premiums paid for insurance required to be carried on the Joint Property for the protection of the Parties.
11. 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 incurred by the Operator for the necessary and proper conduct of the Joint Operations.

III. INDIRECT CHARGES

Operator may charge the Joint Account for indirect costs either by use of an allocation of district expense items plus a fixed rate for administrative overhead, and plus the warehousing charges, all as provided for in Paragraphs 1, 2, and 3 of this Section III OR by combining all three of said items under the fixed rate provided for in Paragraph 4 of this Section III, as indicated next below:

OPERATOR SHALL CHARGE THE JOINT ACCOUNT UNDER THE TERMS OF:

- ☐ Paragraphs 1, 2 and 3. (Allocation of district expense plus fixed rate for administrative overhead plus warehousing.)
- ☒ Paragraph 4. (Combined fixed rate)

1. District Expense  
Operator shall charge the Joint Account with a pro rata portion of the salaries, wages and expenses of Operator's production superintendent and other employees serving the Joint Property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's \_\_\_\_\_ office located at or near \_\_\_\_\_ (or a comparable office if location changed), and necessary sub-offices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in connection with the operations of the Joint Property and other properties in the same operating area. The expense of, less any revenue from, such facilities may, at the option of Operator, include depreciation of investment or a fair monthly rental in lieu of depreciation. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.
2. Administrative Overhead  
Operator shall charge administrative overhead to the Joint Account at the following rates, which charge shall be in lieu of the cost and expense of all offices of the Operator not covered by Paragraph 1 of this Section III, including salaries, wages and expenses of personnel assigned to such offices. Such charges shall be in addition to the salaries, wages and expenses of employees of Operator authorized to be charged as direct charges as provided in Paragraphs 2 and 8 of Section II.

WELL BASIS (RATE PER WELL PER MONTH)

Well Depth	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten

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 this Paragraph 2 of Section III, unless such cost and expense are agreed upon between Operator and Non-Operators as a direct charge to the Joint Account.



3. Operator's Fully Owned Warehouse Operating and Maintenance Expense  
(Describe fully the agreed procedure to be followed by the Operator.)

4. Combined Fixed Rates

Operator shall charge the Joint Account for the services covered by Paragraph 1, 2 and 3 of this Section III, the following fixed per well rates:

WELL BASIS (RATE PER WELL PER MONTH)

Well Depth	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten
All Depths	\$600.00	\$105.00	\$95.00	\$85.00

Said fixed rate (shall) ~~shall not~~ include salaries and expenses of production foremen.

5. Application of Administrative Overhead or Combined Fixed Rates

The following limitations, instructions and charges shall apply in the application of the per well rates as provided under either Paragraph 2 or Paragraph 4 of this Section III:

- A. Charges for drilling wells shall begin on the date each well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.
- B. The status of wells shall be as follows:
- (1) Producing gas wells, injection wells for recovery operations, water supply wells utilized for water flooding operations and salt water disposal wells shall be considered the same as producing wells.
  - (2) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the well schedule at the time the shutdown is effected. When such a well is plugged a charge shall be made at the producing well rates.
  - (3) Wells being plugged back, drilled deeper, converted to a source or input well, or which are undergoing any type of workover that requires the use of a drilling or workover rig shall be considered the same as drilling wells.
  - (4) Temporarily shut-down wells, which are not produced or worked upon for a period of a full calendar month, shall not be included in the well schedule, provided however, wells shut in by governmental regulatory body shall be included in the well schedule only in the event the allowable production is transferred to some other well or wells on the Joint Property. In the event of a unit allowable, all wells capable of producing will be counted in determining the charge.
  - (5) Gas wells shall be included in the well schedule if directly connected to a permanent sales outlet even though temporarily shut in due to overproduction or failure of purchaser to take the allowed production.
  - (6) Wells completed in multiple horizons, in which the production is not commingled down hole, shall be considered as a producing well for each separately producing horizon.
- C. The well rates shall apply to the total number of wells being drilled or operated under the agreement to which this Accounting Procedure is attached, irrespective of individual leases.
- D. The well rates shall be adjusted on the first day of April of 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 preceding calendar year 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. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

~~For the construction of compressor plants, water stations, secondary recovery systems, salt water disposal facilities, and other such projects, as distinguished from the more usual drilling and producing operations, Operator in addition to the Administrative Overhead or Combined Fixed Rates provided for in Paragraph 2 and 4 of this Section III, shall charge the Joint Account with an additional overhead charge as follows:~~

- ~~A. Total cost less than \$25,000, no charge.~~
- ~~B. Total cost more than \$25,000 but less than \$100,000, \_\_\_\_ % of total cost.~~
- ~~C. Total cost of \$100,000 or more, \_\_\_\_ % of the first \$100,000 plus \_\_\_\_ % of all over \$100,000 of total cost.~~

~~Total cost shall mean the total 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 wells shall be excluded.~~

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

IV. BASIS OF CHARGES TO JOINT ACCOUNT

Subject to the further provisions of this Section IV, Operator will procure all Material and services for the Joint Property. At the Operator's option, Non-Operator may supply Material or services for the Joint Property.

1. Purchases

Material purchased and service procured shall be charged at the price paid by Operator after deduction of all discounts actually received.

2. Material furnished from Operator's Warehouse or Other Properties

A. New Material (Condition "A") the most economical base available to the operating area

- (1) Tubular goods, two inch (2") and over, shall be priced on ~~Eastern Indiana Harbor, Indiana~~ on a minimum carload basis effective at date of movement and f. o. b. railway receiving point nearest the Joint Property, regardless of quantity. In equalized hauling charges, Operator is permitted to include ten cents (10c) per hundred-weight on all tubular goods furnished from his stocks in lieu of loading and unloading costs sustained.

- (2) Other Material shall be priced at the current replacement cost of the same kind of Material, effective at date of movement and f. o. b. the supply store or railway receiving point nearest the Joint Property where Material of the same kind is available.

- (3) The Joint Account shall not be credited with cash discounts applicable to prices provided for in this Paragraph 2 of Section IV.

B. Used Material (Condition "B" and "C")

- (1) Material in sound and serviceable condition and suitable for reuse without reconditioning, shall be classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material.

- (2) Material which cannot be classified as Condition "B" but which,

- (a) After reconditioning will be further serviceable for original function as good secondhand Material (Condition "B"), or

- (b) Is serviceable for original function but substantially not suitable for reconditioning, shall be classified as Condition "C" and priced at fifty per cent (50%) of current new price.

- (3) Obsolete Material or Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use. Material no longer suitable for its original purpose but usable for

some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose.

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

**3. Premium Prices**

Whenever Material is not readily obtainable at prices specified in Paragraphs 1 and 2 of this Section IV 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 procuring such Material, in making it suitable for use, and in moving it to the Joint Property, provided, that 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 10 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.

**5. Equipment and Facilities Furnished by Operator**

A. Operator shall charge the Joint Account for use of equipment and facilities at rates commensurate with cost of ownership and operation. Such rates shall include cost of maintenance, repairs, other operating expense, insurance, taxes, depreciation and interest on investment not to exceed six per cent (6%) per annum, provided such rates shall not exceed those currently prevailing in the immediate area within which the Joint Property is located. Rates for automotive equipment shall generally be in line with the schedule of rates adopted by the Petroleum Motor Transport Association, or some other recognized organization, as recommended uniform charges against Joint Property operations. Rates for laboratory services shall not exceed those currently prevailing if performed by outside service laboratories. Rates for trucks, tractors and well service units may include wages and expenses of operator.

B. Whenever requested, Operator shall inform Non-Operators in advance of the rates it proposes to charge.

C. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

**V. DISPOSAL OF MATERIAL**

The Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus Condition "A" or "B" Material. The disposition of surplus Controllable Material, not purchased by Operator, shall be subject to agreement between Operator and Non-Operators, provided Operator shall dispose of normal accumulations of junk and scrap Material either by transfer or sale from the Joint Property.

**1. Material Purchased by the Operator or Non-Operators**

Material purchased by either the Operator or Non-Operators shall be credited by the Operator to the Joint Account for the month in which the Material is removed by the purchaser.

**2. Division in Kind**

Division of Material in kind, if made between Operator and Non-Operators, shall be in proportion to the respective interests in such Material. The Parties will thereupon be charged individually with the value of the Material received or receivable. Proper credits shall be made by the Operator in the monthly statement of operations.

**3. Sales to Outsiders**

Sales to outsiders of Material from the Joint Property shall be credited by Operator to the Joint Account at the net amount collected by Operator from vendee. Any claim by vendee related to such sale shall be charged back to the Joint Account if and when paid by Operator.

**VI. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT**

Material purchased by either Operator or Non-Operators or divided in kind, unless otherwise agreed to between Operator and Non-Operators shall be priced on the following basis:

**1. New Price Defined**

New price as used in this Section VI shall be the price specified for New Material in Section IV.

**2. New Material**

New Material (Condition "A"), being new Material procured for the Joint Property but never used, at one hundred per cent (100%) of current new price (plus sales tax if any).

**3. Good Used Material**

Good used Material (Condition "B"), being used Material in sound and serviceable condition, suitable for reuse without reconditioning:

A. At seventy-five per cent (75%) of current new price if Material was charged to Joint Account as new, or

B. At sixty-five per cent (65%) of current new price if Material was originally charged to the Joint Account as secondhand at seventy-five percent (75%) of new price.

**4. Other Used Material**

Used Material (Condition "C"), at fifty per cent (50%) of current new price, being used Material which:

A. Is not in sound and serviceable condition but suitable for reuse after reconditioning, or

B. Is serviceable for original function but not suitable for reconditioning.

**5. Bad-Order Material**

Material (Condition "D"), no longer suitable for its original purpose without excessive repair cost but usable for some other purpose at a price comparable with that of items normally used for such other purpose.

**6. Junk Material**

Junk Material (Condition "E"), being obsolete and scrap Material, at prevailing prices.

**7. Temporarily Used Material**

When the use of Material is temporary and its service to the Joint Property does not justify the reduction in price as provided for in Paragraph 3 B of this Section VI, such Material shall be priced on a basis that will leave a net charge to the Joint Account consistent with the value of the service rendered.

**VII. INVENTORIES**

The Operator shall maintain detailed records of Material generally considered controllable by the Industry.

**1. Periodic Inventories, Notice and Representation**

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Material, which shall include all such Material as is ordinarily considered controllable. 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, who shall in that event furnish Non-Operators with a copy thereof.

**2. Reconciliation and Adjustment of Inventories**

Reconciliation of inventory with charges to the Joint Account shall be made, and a list of overages and shortages shall be jointly determined by Operator and Non-Operators. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable to Non-Operator only for shortages due to lack of reasonable diligence.

**3. Special Inventories**

Special inventories may be taken whenever there is any sale or change of interest 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.



Section	Block	Lot	Owner	Acres	Remarks
1	1	1	Lea Co., New Mexico	160	Contract Acreage, if 160
		2	Knowles West Prospect		
		3	Lea Co., New Mexico		
		4	Knowles West Prospect		
		5	Lea Co., New Mexico		
		6	Knowles West Prospect		
		7	Lea Co., New Mexico		
		8	Knowles West Prospect		
		9	Lea Co., New Mexico		
		10	Knowles West Prospect		
2	2	1	Lea Co., New Mexico		
		2	Knowles West Prospect		
		3	Lea Co., New Mexico		
		4	Knowles West Prospect		
		5	Lea Co., New Mexico		
		6	Knowles West Prospect		
		7	Lea Co., New Mexico		
		8	Knowles West Prospect		
		9	Lea Co., New Mexico		
		10	Knowles West Prospect		
3	3	1	Lea Co., New Mexico		
		2	Knowles West Prospect		
		3	Lea Co., New Mexico		
		4	Knowles West Prospect		
		5	Lea Co., New Mexico		
		6	Knowles West Prospect		
		7	Lea Co., New Mexico		
		8	Knowles West Prospect		
		9	Lea Co., New Mexico		
		10	Knowles West Prospect		
4	4	1	Lea Co., New Mexico		
		2	Knowles West Prospect		
		3	Lea Co., New Mexico		
		4	Knowles West Prospect		
		5	Lea Co., New Mexico		
		6	Knowles West Prospect		
		7	Lea Co., New Mexico		
		8	Knowles West Prospect		
		9	Lea Co., New Mexico		
		10	Knowles West Prospect		
5	5	1	Lea Co., New Mexico		
		2	Knowles West Prospect		
		3	Lea Co., New Mexico		
		4	Knowles West Prospect		
		5	Lea Co., New Mexico		
		6	Knowles West Prospect		
		7	Lea Co., New Mexico		
		8	Knowles West Prospect		
		9	Lea Co., New Mexico		
		10	Knowles West Prospect		



Knowles West Prospect  
Lea Co., New Mexico  
Contract Acreage, 16 80  
acre spacing applies

EXHIBIT D-1





