

# HINKLE, COX, EATON, COFFIELD & HENSLEY

ATTORNEYS AT LAW

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ROY C. SNODGRASS, JR. (1914-1987)

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S. BARRY PAISNER  
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SCOTT A. SHUART\*  
DARREN L. BROOKS  
CHRISTINE E. LALE  
PAUL G. NASON  
DARLA M. SILVA

\*NOT LICENSED IN NEW MEXICO

August 5, 1993

Michael E. Stogner  
Oil Conservation Division  
310 Old Santa Fe Trail  
Santa Fe, New Mexico 87503

Re: Application of Santa Fe Energy Operating Partners, L.P.  
for Compulsory Pooling, Lea County, New Mexico,  
Case No. 10,759

Dear Mr. Stogner:

Pursuant to the Division's request, enclosed is an Affidavit by Curtis Smith with attachments attesting to the correspondence between the Applicant and the working interest owners.

If you have any questions, or would like additional information, do not hesitate to call.

Sincerely,

  
John R. Kulseth, Jr.

Enclosures

VIA HAND DELIVERY

JRK5\93D88.c

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF SANTA FE ENERGY  
OPERATING PARTNERS, L.P. FOR  
COMPULSORY POOLING, EDDY COUNTY,  
NEW MEXICO.

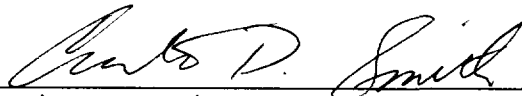
No. 10,759

AFFIDAVIT REGARDING NOTICE

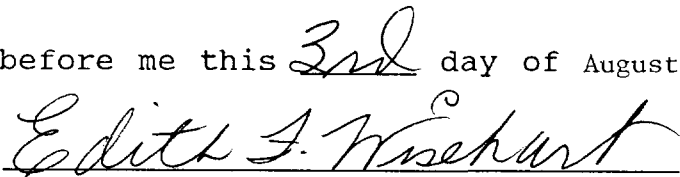
STATE OF NEW MEXICO            )  
  ) ss.  
COUNTY OF SANTA FE            )

Curtis D. Smith, being duly sworn upon his oath, deposes and states:

1. I am over the age of 18 and have personal knowledge of the matters stated herein.
2. I am the landman for Applicant.
3. Applicant has conducted a good faith, diligent effort to find the correct addresses of interest owners herein.
4. Applicant contacted the interest owners herein regarding the pooling of their mineral interests by mailing to them the letters attached hereto.

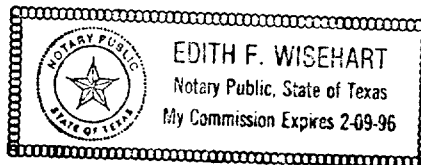
  
Curtis D. Smith

SUBSCRIBED AND SWORN TO before me this 3rd day of August 1993, by Curtis D. Smith.

  
Notary Public

My commission expires:

2/9/96



T. VERNE DWYER

OIL & GAS INVESTMENTS  
300 W. TEXAS SUITE 333  
MIDLAND, TEXAS 79701

OFFICE  
(915) 684-7333

RESIDENCE  
(915) 682-5903

November 11, 1992

James M. Alexander  
P. O. Box 58  
Abilene, Texas 79604

RE: Oil & Gas Lease  
E/2NW/4 Section 9, T-24-S, R-25-E  
Eddy County, New Mexico

Dear Mr. Alexander:

Under cover letter dated September 19, 1991, I sent instruments to you covering your undivided mineral interest in the captioned land. These instruments provided for terms verbally agreed to by you and the other Guitar heirs. Your signed lease was never returned. The other owners signed and returned their leases.

Under cover letter dated August 19, 1992, I, again, sent another set of instruments for you to execute covering your mineral interest. Your signed lease has not been returned as of this date.

Since August 13, 1992, I have made a minimum of 10 attempts to contact you by telephone to discuss the lease and determine your course of action. I was fortunate enough to talk with you personally on two occasions.

There are several options available to you should you decide not to lease as you previously advised. First, you can decide to participate in the drilling of a deep, Morrow test with the 1/16 mineral interest you own, with Martha Jane Rhodes and Jeri Alexander Lott; or, secondly, you can have your mineral interest force pooled at a hearing before the Conservation Commission of the State of New Mexico. If you decide to join the test well, we will furnish you an operating agreement and AFE, for the cost of the well, which is estimated to be \$850,000.00.

In any event, I would appreciate a written response detailing which course of action you intend to pursue.

Sincerely,



Lyle D. Cannon

LDC/ja

T. VERNE DWYER

OIL & GAS INVESTMENTS  
300 W. TEXAS, SUITE 333  
MIDLAND, TEXAS 79701

OFFICE  
(915) 684-7933

FAX  
(915) 684-4032

July 7, 1993

James M. Alexander  
Martha Jane Rhodes  
Jeri Alexander Lott  
P.O. Box 58  
Abilene, Texas 79604

RE: Mosley Canyon "9" St. Com. No. 1  
1980' FEL & 660' FNL  
Section 9, T-24-S, R-25-E  
Eddy County, New Mexico  
10,300' Strawn Test

Ladies and Gentleman:

Enclosed herewith, for your reconsideration and to name Martha Jane Rhodes and Jeri Alexander Lott to evidence their mineral ownership, is Santa Fe Energy Operating Partners, L.P.'s Operating Agreement, dated February 8, 1993, covering the N/2 of Section 9, T-24-S, R-25-E, Eddy County, New Mexico, for the drilling of the captioned well and AFE in the amount of \$416,000.00 dry hole and \$742,000.00 producer.

In equal proportions, you own five (5) acres of unleased minerals in the E/2 NW/4 of Section 9, which is 5/320 or 1.5625% working interest in the unit for the captioned well. If you elect to join in the drilling of the proposed test, your estimated dry hole cost would be \$6,500.00 and your estimated producer cost would be \$11,593.75, such cost to be borne equally by each of you.

If you elect to join in the drilling of this proposed test, please sign and date one copy of the AFE and sign one copy of the signature page of the Operating Agreement and return both the signed AFE and signature page to the undersigned, at the letterhead address, within ten (10) days of receipt of this letter.

James M. Alexander  
Martha Jane Rhodes  
Jeri Alexander Lott  
July 7, 1993  
Page 2

Under letters dated September 19, 1991 and August 19, 1992, we offered to lease your mineral interest for \$151.00 per acre bonus, 1/4 royalty and two year, paid-up term. If you elect to lease, please execute the lease and RDO furnished with letter dated August 19, 1992 and place lease, draft and RDO in your bank for collection within ten (10) days of receipt of this letter.

Santa Fe is ready to commence the proposed test and requests that you join or lease; however, if you elect not to do either, Santa Fe will have to commence forced pooling procedures.

If you have any questions, please call.

Very truly yours,



T. Verne Dwyer for  
Santa Fe Energy Operating Partners,  
L.P.

TVD/ja

Enclosures

T. VERNE DWYER

OIL & GAS INVESTMENTS  
300 W. TEXAS, SUITE 333  
MIDLAND, TEXAS 79701

OFFICE  
(915) 884-7933

RESIDENCE  
(915) 682-5903

August 19, 1992

James M. Alexander  
P. O. Box 58  
Abilene, Texas 79604

RE: Oil & Gas Lease  
E $\frac{1}{4}$ NW $\frac{1}{4}$  Sec. 9, T-24-S, R-25-E  
Eddy County, New Mexico

Dear Mr. Alexander,

Enclosed please find the following:

1. Collection Draft
2. Oil & Gas Lease
3. Ratification and Rental Division Order
4. Copies for your records

These instruments are identical to those sent to you under cover letter dated September 19, 1991, and included terms agreed to you and the other Guitar heirs providing for a bonus consideration of \$151.00 per net mineral acre, paid-up delay rentals, 2 year primary term, and 1/4 royalty.

I called and talked with Kay several times back in 1991 to try to get the lease signed and in, but at that time you had been in the hospital and it just never got done.

Santa Fe Energy Operating Partners, L. P. is planning to drill a well in Section 9 in the near future. The Original Drilling Title Opinion I received last week indicated your interest to be unleased, which was a surprise to me since I thought your lease had been in, paid off and recorded.

Please sign the instruments properly and deposit for collection at your earliest convenience. Your cooperation will be greatly appreciated.

If you have any questions, please don't hesitate to call me.

Sincerely,

*Lyle D. Cannon*  
Lyle D. Cannon

/ldc  
Enclosures

# PROPERTY ACQUISITION BANK DRAFT

Check No. \_\_\_\_\_

COLLECT DIRECTLY THROUGH NationsBank  
P. O. Box 1693, Midland, Texas 79701 8-19-92

CITY STATE DATE

-10- DAYS AFTER SIGHT, AND SUBJECT TO APPROVAL OF TITLE COVERING E½ NW¼ Section 9, T-24-B, R-25-

COUNTY STATE OF

Eddy New Mexico

PAY TO  
 THE ORDER OF James M. Alexander, Indv. and A-I-F \$ 755.00---  
SEVEN HUNDRED FIFTY FIVE & NO/100----- DOLLARS

VALUE RECEIVED AND CHARGE TO ACCOUNT OF \_\_\_\_\_ WITH EXCHANGE \_\_\_\_\_  
 TO T. Verne Dwyer  
300 W. Texas, Suite 333  
Midland, Texas 79701

*T. Verne Dwyer*  
 LANDMAN - BROKER

Lease No. \_\_\_\_\_

Prospect Mulefoot

Fee ☐ Minerals ☐ Lease ☒ Royalty ☐ ORRI ☐  
 Rentals Paid Up ☒ Rentals Non-Paid Up ☐

Lessor/Payee SAME Social Security No. [REDACTED]

Address P. O. Box 58, Abilene, Texas 79604

Lessee Santa Fe Energy Operating Partners, L.P. Assignee P.

Check Number \_\_\_\_\_ Total Bonus \$755.00 Bonus Per Acre \$151.00

Lessor Interest 1/16 Gross Acres 80 Net Acres 5

Lease Date August 19, 1992 Term 2 years Royalty 1/4

Rental Date PAID-UP Rental Per Acre \_\_\_\_\_ Total Rental Amount \_\_\_\_\_

Rentals Payable At \_\_\_\_\_

Remarks \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

T. VERNE DWYER

OFFICE  
(915) 684-7983

RECEIVED

FEB 22 1993

LAND DEPT.  
MIDLAND, TX

OIL & GAS INVESTMENTS  
300 W. TEXAS, SUITE 333  
MIDLAND, TEXAS 79701

FAX  
(915) 684-4032

February 19, 1993

Santa Fe Energy Operating Partners L.P.  
550 W. Texas, Suite 1330  
Midland, Texas 79701

Attention: Mr. Curtis Smith

2	File	Mosley Canyon
2	File	Prospect File

RE: ~~Mosley Canyon Prospect~~  
Eddy County, New Mexico

Dear Curtis,

Attached please find a copy of certified letter sent to James M. Alexander and the signed, return receipt. Also attached is a copy of Santa Fe's AFE to drill the Mosley Canyon "9" State Com. No. 1.

To date, we have had no response to our letter from Mr. Alexander.

Very truly yours,

*T. Verne Dwyer*

T. Verne Dwyer

TVD/ja

Attachments

Put your address in the "RETURN TO" space on the reverse side. Failure to do this will prevent this card from being returned to you. The return mailing fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check boxes for additional service(s) requested.

**3. Article Addressed to:**

**Mr. James M. Alexander  
P. O. Box 58  
Abilene, TX 79604**

#### 4. Article Number

P 963 ~~24~~ 7 205

☐ Registered  
☒ Certified  
☐ Express Mail

☐ Insured  
☐ COD  
☐ Return for Mer

or agent and DATE DELIVERED.

**8. Addressee's Address (ONLY if requested and fee paid)**

5. Signature \_\_\_\_\_ Addressee \_\_\_\_\_  
X

6. Signature - Agent  
X

7. Date of Delivery  
**FEB 11 1993**

**PS Form 3811, Apr. 1989**

**\*U.S.G.P.O. 1000-230-815**

# DOMESTIC RETURN RECEIPT

U.S. G.P.O. 1987-1

6. Save this receipt and present it if you make inquiry

5. Enter fees for the services requested in the appropriate spaces on the front of this receipt. If a service is requested but no fee is charged, enter "00". If a receipt is requested, check the applicable blocks in item 1 of Form 3811.

4 If you want delivery restricted to the addressee, or to an authorized agent of the addressee, **RESTRICTED DELIVERY** on the front of the article

3. If you want a return receipt, write the certified mail number and your name and address on the receipt card, Form 3811, and attach it to the front of the article by means of the gummed ends if you wish. If you do not want a receipt, you may omit the receipt card. **RETURN RECEIPT REQUIRED.** Otherwise, affix to back of article. Endorse front of article **RETURN RECEIPT REQUIRED** adjacent to the number.

2. If you do not want this receipt postmarked, stick the gummed stub to the right of the return, the article, date, detach and retain the receipt, and mail the article

1 If you want this receipt postmarked, stick the gummed stub to the right of the return address the receipt attached and present the article at a post office service window or hand it to your carrier (no extra charge)

**STICK POSTAGE STAMPS TO ARTICLE TO COVER FIRST CLASS POSTAGE, CERTIFIED MAIL FEE, AND CHARGES FOR ANY SELECTED OPTIONAL SERVICES. (\$80**

UNITED STATES POSTAL SERVICE TX

OFFICIAL BUSINESS

## SENDER INSTRUCTIONS

Print your name, address and ZIP Code in the space below.  
Complete items 1, 2, 3, and 4 on the reverse.

Attach to front of article if space permits, otherwise affix to back of article.  
Endorse article "Return Receipt Requested" adjacent to number.

11 FEB 1993

DEC 12 1993



PENALTY FOR PRIVATE USE, \$300

URN

Print Sender's name, address, and ZIP Code in the space below.

T. Verne Dwyer

300 W. Texas, Suite 333

Midland, TX 79701

## RECEIPT FOR CERTIFIED MAIL

NO INSURANCE COVERAGE PROVIDED  
NOT FOR INTERNATIONAL MAIL

(See Reverse)

Sent to <b>James M. Alexander</b>	
Street and No. <b>P. O. Box 58</b>	
P.O. State and ZIP Code <b>Abilene, TX 79604</b>	
Postage	\$2.59
Certified Fee	1.00
Special Delivery Fee	
Restricted Delivery Fee	
Return Receipt showing to whom and Date Delivered	1.00
Return Receipt showing to whom Date, and Address of Delivery	
TOTAL Postage and Fees	\$
Postmark or Date	

PS Form 3800, June 1985

OFFICE  
(915) 534-4993

T. VERNE DWYER

DE S GAS INVESTMENTS  
300 W. TEXAS, SUITE 300  
MIDLAND, TEXAS 79701

FAX  
(915) 534-4752

February 10, 1993

James M. Alexander  
P. O. Box 58  
Abilene, Texas 79604

RE: Mosley Canyon "9" St. Com. No. 1  
1980' FEL & 660' FNL  
Section 9, T-24-S, R-25-E  
Eddy County, New Mexico  
10,300' Strawn Test

Dear Mr. Alexander:

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You own five (5) acres of unleased minerals in the E/2 NW/4 of Section 9, which is 5/320 or 1.5625% working interest in the unit for the captioned well. If you elect to join in the drilling of the proposed test, your estimated dry hole cost would be \$6,500.00 and your estimated producer cost would be \$11,593.75.

If you elect to join in the drilling of this proposed test, please sign and date one copy of the AFE and sign one copy of the signature page of the Operating Agreement and return both the signed AFE and signature page to the undersigned, at the letterhead address, within ten (10) days of receipt of this letter.

Under letters dated September 19, 1991 and August 19, 1992, we offered to lease your mineral interest for \$151.00 per acre bonus, 1/4 royalty and two year, paid-up term. If you elect to lease, please execute the lease and RDO furnished with letter dated August 19, 1992 and place lease, draft and RDO in your bank for collection within ten (10) days of receipt of this letter.

# OIL & GAS LEASE

THIS AGREEMENT made this 18th day of September, 1991, between James M. Alexander, Individually and as Agent and Attorney-in-Fact for Martha Jane Rhodes and Jeri Alexander Lott  
P. O. Box 58, Abilene, Texas 79604 of (Post Office Address)

herein called lessor (whether one or more) and T. Verne Dwyer, 300 W. Texas, Suite 333, Midland, Texas 79701 lessee:  
 1 Lessor, in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is here acknowledged, and of the royalties herein provided and of the agreements of the lessee herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling, and operating for and producing oil and gas, injecting gas, waters, other fluids, and air into subsurface strata, laying pipe lines, storing oil, building tanks, roadways, telephone lines, and other structures and things thereon to produce, save, take care of, treat, process, store and transport said minerals, the following described land in Eddy County, New Mexico, to-wit:

T-24-S, R-25-E, N.M.P.M.  
Section 9: E½ NW¼

Said land is estimated to comprise 80-- acres, whether it actually comprises more or less.

2 Subject to the other provisions herein contained, this lease shall remain in force for a term of two (2) years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or from land with which said land is pooled.

3 The royalties to be paid by lessee are: (a) on oil, and other liquid hydrocarbons saved at the well, 1/4 of that produced and saved from said land, same to be delivered at the well or to the credit of lessor in the pipeline to which the wells may be connected; (b) on gas, including casinghead gas or other gaseous substance produced from said land and used off the premises or used in the manufacture of gasoline or other products, the market value at the well of 1/4 of the gas used,

provided that on gas sold on or off the premises, the royalties shall be 1/4 of the amount realized from such sale, (c) and at any time when this lease is not validated by other provisions hereof and there is a gas and/or condensate well on said land, or land pooled therewith, but gas or condensate is not being so sold or used and such well is shut in, either before or after production therefrom, then on or before 90 days after said well is shut in, and thereafter at annual intervals, lessee may pay or tender an advance shut-in royalty equal to \$1.00 per net acre of lessor's gas acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered, this lease shall not terminate and it shall be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing. The payment or tender of royalties and shut-in royalties may be made by check or draft. Any timely payment or tender of shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if lessee shall correct such error within 30 days after lessee has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable lessee to make proper payment. The amount realized from the sale of gas on or off the premises shall be the price established by the gas sales contract entered into in good faith by lessee and gas purchaser for such term and under such conditions as are customary in the industry. Price shall mean the net amount received by lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. ~~the amount received by lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. The amount received by lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders.~~

4 This is a paid-up lease and lessee shall not be obligated during the primary term hereof to commence or continue any operations of whatsoever character or to make any payments hereunder in order to maintain this lease in force during the primary term; however, this provision is not intended to relieve lessee of the obligation to pay royalties on actual production pursuant to the provisions of Paragraph 3 hereof.

5 Lessee is hereby granted the right and power, from time to time, to pool or combine this lease, the land covered by it or any part or horizon thereof with any other land, leases, mineral estates or parts thereof for the production of oil or gas. Units pooled hereunder shall not exceed the standard proration unit fixed by law or by the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which said land is situated, plus a tolerance of ten percent. Lessee shall file written unit designations in the county in which the premises are located and such units may be designated from time to time and either before or after the completion of wells. Drilling operations on or production from any part of any such unit shall be considered for all purposes, except the payment of royalty, as operations conducted upon or production from the land described in this lease. There shall be allocated to the land covered by this lease included in any such unit that portion of the total production of pooled minerals from wells in the unit after deducting any used in lease or unit operations, which the net oil or gas acreage in the land covered by this lease included in the unit bears to the total number of surface acres in the unit. The production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production of pooled minerals from the portion of said land covered hereby and included in said unit in the same manner as though produced from said land under the terms of this lease. Any pooled unit designated by lessee, as provided herein, may be dissolved by lessee by recording an appropriate instrument in the County where the land is situated at any time after the completion of a dry hole or the cessation of production on said unit.

6 If at the expiration of the primary term there is no well upon said land capable of producing oil or gas, but lessee has commenced operations for drilling or reworking thereon, this lease shall remain in force so long as operations are prosecuted with no cessation of more than 60 consecutive days, whether such operations be on the same well or on a different or additional well or wells, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land. If, after the expiration of the primary term, all wells upon said land should become incapable of producing for any cause, this lease shall not terminate if lessee commences operations for additional drilling or for reworking within 60 days thereafter. If any drilling, additional drilling, or reworking operations hereunder result in production, then this lease shall remain in full force so long thereafter as oil or gas is produced hereunder.

7 Lessee shall have free use of oil, gas and water from said land, except water from lessor's wells and tanks, for all operations hereunder, and the royalty shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by lessee on said land, including the right to draw and remove all casing. When required by lessor, lessee will bury all pipe lines on cultivated lands below ordinary plow depth, and no well shall be drilled within two hundred feet (200 ft.) of any residence or barn now on said land without lessor's consent. Lessor shall have the privilege, at his risk and expense, of using gas from any gas well on said land for stoves and inside lights in the principal dwelling thereon, out of any surplus gas not needed for operations hereunder.

8 The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to their heirs, executors, administrators, successors and assigns, but no change in the ownership of the land or in the ownership of, or rights to receive, royalties or shut-in royalties, however accomplished shall operate to enlarge the obligations or diminish the rights of lessee, and no such change or division shall be binding upon lessee for any purpose until 30 days after lessee has been furnished by certified mail at lessee's principal place of business with acceptable instruments or certified copies thereof constituting the chain of title from the original lessor. If any such change in ownership occurs through the death of the owner, lessee may, at its option, pay or tender any royalties or shut-in royalties in the name of the deceased or to his estate or to his heirs, executor or administrator until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. An assignment of this lease in whole or in part shall, to the extent of such assignment, relieve and discharge lessee of any obligations hereunder and, if lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of royalty or shut-in royalty due from such lessee or assignee or fail to comply with any of the provisions of this lease, such default shall not affect this lease insofar as it covers a part of said lands upon which lessee or any assignee thereof shall properly comply or make such payments.

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

10 Lessor hereby warrants and agrees to defend the title to said land and agrees that lessee at its option may discharge any tax, mortgage or other lien upon said land, and in the event lessee does so it shall be subrogated to such lien with the right to enforce same and to apply royalties and shut-in royalties payable hereunder toward satisfying same. Without impairment of lessee's rights under the warranty, if this lease covers a less interest in the oil or gas in all or any part of said land than the entire and undivided fee simple estate (whether lessor's interest is herein specified or not) then the royalties, shut-in royalty, and other payments, if any, accruing from any part as to which this lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease, bears to the whole and undivided fee simple estate therein. Should any one or more of the parties named above as lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

11 Lessee, its or his successors, heirs and assigns, shall have the right at any time to surrender this lease, in whole or in part, to lessor or his heirs, successors, and assigns by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the county in which said land is situated, thereupon lessee shall be relieved from all obligations, express or implied, of this agreement as to acreage so surrendered, and thereafter the shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

Executed the day and year first above written

## RATIFICATION AND RENTAL DIVISION ORDER

KNOW ALL MEN BY THESE PRESENTS:

That, WHEREAS, that certain oil and gas lease, dated September 18, 1991, from

James M. Alexander, Individ. and as Agent and A-I-F for

Martha Jane Rhodes and Jeri Alexander Lott

P. O. Box 58, Abilene, Texas 79604

as Lessors,

to T. Verne Dwyer, as Lessee, recorded in Book \_\_\_\_\_, Page \_\_\_\_\_.

of the \_\_\_\_\_ Records of Eddy County, New Mexico, is owned by \_\_\_\_\_

T. Verne Dwyer, 300 W. Texas, Suite 333, Midland, Texas 79701

in so far as it covers the following described land in Eddy County, New Mexico,  
to wit:

T-24-S. R-25-E. N.M.P.M.

Section 9: E $\frac{1}{2}$  NW $\frac{1}{4}$ 

NOW, THEREFORE, in consideration of the sum of One Dollar (\$1.00) and other good and valuable considerations, we \_\_\_\_\_

THE UNDERSIGNED

and each of us, do hereby ratify, approve, confirm, and adopt the above described oil and gas lease in so far as it covers the above described land, and

do hereby lease, demise and let said land unto T. Verne Dwyer subject to and under all of the terms and provisions of said lease, and as to said land, do hereby agree and declare that said lease is now in full force and effect, that payment has been duly made of the entire bonus consideration and all of the delay rentals necessary to extend said lease to the next rental paying date; and each of the undersigned agrees that any delay rentals which may be paid under the terms of said lease with respect to the above described land may be divided as follows:

CREDIT TO	Fractional Interest	AMOUNT	DEPOSITORY
James M. Alexander, Indiv. and Agent and A-I-F for Martha Jane Rhodes and Jeri Alexander Lott	1/16	Paid-Up	

and that payment or tender, of the amount set forth opposite his name, directly or to his credit in the depository bank at the times and in the manner specified in said lease will, as to his interest in the said land, extend said lease and continue the same in full force and effect according to its terms, provided, that if no amount is above set forth opposite his name, then payment of the amounts above set forth to the other parties, or their successors in interest, will so extend said lease. This instrument shall be fully binding upon, and effective as to the interest of, each of the above named persons who executes the same, without regard to execution or lack of execution by the others or by any other person whomsoever.

We, and each of us, hereby release and waive all rights of dower and homestead in the above identified land, and the provisions hereof shall be binding upon the heirs, legal representatives, successors, and assigns of each of us.

WITNESS our hands and seals this \_\_\_\_\_ day of \_\_\_\_\_, 19 91.

~~James M. Alexander, Individ. and Agent and A-I-F for Martha Jane Rhodes and Jeri Alexander Lott~~

S.S

State of TEXAS  
County of TAYLOR

**Individual Acknowledgment**

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1991  
by James M. Alexander, Indiv. and as Agent and A-I-F for Martha  
Jane Rhodes and Jeri Alexander Lott

My Commission Expires \_\_\_\_\_ Notary Public  
Notary's Printed Name: \_\_\_\_\_  
• • • • •

State of \_\_\_\_\_  
County of \_\_\_\_\_

**Individual Acknowledgment**

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_\_  
by \_\_\_\_\_

My Commission Expires: \_\_\_\_\_ Notary Public  
Notary's Printed Name: \_\_\_\_\_  
• • • • •

State of \_\_\_\_\_  
County of \_\_\_\_\_

**Individual Acknowledgment**

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_\_  
by \_\_\_\_\_

My Commission Expires: \_\_\_\_\_ Notary Public  
Notary's Printed Name: \_\_\_\_\_  
• • • • •

THE STATE OF TEXAS.

**Single Acknowledgment**

County of \_\_\_\_\_

Before me, the undersigned authority, on this day personally  
appeared \_\_\_\_\_

known to me to be the person \_\_\_\_\_ whose name \_\_\_\_\_ subscribed to the foregoing instrument, and acknowledged to me that \_\_\_\_\_ he  
executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office on this, the \_\_\_\_\_ day of \_\_\_\_\_ A.D., 19\_\_\_\_

My commission expires: \_\_\_\_\_  
(SEAL) Notary Public in and for \_\_\_\_\_ County, Texas  
Notary's Printed Name: \_\_\_\_\_  
• • • • •

THE STATE OF TEXAS.

**Single Acknowledgment**

County of \_\_\_\_\_

Before me, the undersigned authority, on this day personally  
appeared \_\_\_\_\_

known to me to be the person \_\_\_\_\_ whose name \_\_\_\_\_ subscribed to the foregoing instrument, and acknowledged to me that \_\_\_\_\_ he  
executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office on this the \_\_\_\_\_ day of \_\_\_\_\_ A.D., 19\_\_\_\_

My commission expires: \_\_\_\_\_  
(SEAL) Notary Public in and for \_\_\_\_\_ County, Texas  
Notary's Printed Name: \_\_\_\_\_  
• • • • •

THE STATE OF TEXAS.

**Single Acknowledgment**

County of \_\_\_\_\_

Before me, the undersigned authority, on this day personally  
appeared \_\_\_\_\_

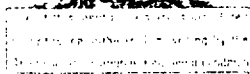
known to me to be the person \_\_\_\_\_ whose name \_\_\_\_\_ subscribed to the foregoing instrument, and acknowledged to me that \_\_\_\_\_ he  
executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office on this the \_\_\_\_\_ day of \_\_\_\_\_ A.D., 19\_\_\_\_

My commission expires: \_\_\_\_\_  
(SEAL) Notary Public in and for \_\_\_\_\_ County, Texas  
Notary's Printed Name: \_\_\_\_\_

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

MODEL FORM OPERATING AGREEMENT



MOSLEY CANYON "9" STATE COM #1

OPERATING AGREEMENT

DATED

February 8th , 19 93 ,

OPERATOR Santa Fe Energy Operating Partners, L.P.

CONTRACT AREA Section 9: N/2, T-24-S, R-25-E

COUNTY ~~OR PARISH~~ OF Eddy STATE OF New Mexico

**GUIDANCE IN THE PREPARATION OF THIS AGREEMENT:**

1. Title Page - Fill in blanks as applicable.
2. Preamble, Page 1 - Enter name of Operator.
3. Article II - Exhibits:
  - (a) Indicate Exhibits to be attached.
  - (b) If it is desired that no reference be made to non-discrimination, the reference to Exhibit "F" should be deleted.
4. Article III.B. - Interests of Parties in Costs and Production - Enter royalty fraction as agreed to by parties.
5. Article IV.A. - Title Examination - Select option as agreed to by the parties.
6. Article IV.B. - Loss of Title - If "Joint Loss" of Title is desired, the following changes should be made:
  - (a) Delete Articles IV.B.1 and IV.B.2.
  - (b) Article IV.B.3 - Delete phrase "other than those set forth in Articles IV.B.1 and IV.B.2 above."
  - (c) Article VII.E. - Change reference at end of the first grammatical paragraph from "Article IV.B.2" to "Article IV.B.3."
  - (d) Article X. - Add as the concluding sentence - "All claims or suits involving title to any interest subject to this agreement shall be treated as a claim or a suit against all parties hereto."
7. Article V - Operator - Enter name of Operator.
8. Article VI.A - Initial Well:
  - (a) Date of commencement of drilling.
  - (b) Location of well.
  - (c) Obligation depth.
9. Article VI.B.2.(b) - Subsequent Operations - Enter penalty percentage as agreed to by parties.
10. Article VI.C. - Taking Production in Kind - If a Gas Balancing Agreement is not in existence nor attached hereto as Exhibit "E", then use Alternate Page 8.
11. Article VII.D.1. - Limitation of Expenditures - Select option as agreed to by parties.
12. Article VII.D.3. - Limitation of Expenditures - Enter limitation of expenditure of Operator for single project and amount above which Operator may furnish information AFE.
13. Article IX. - Internal Revenue Code Election - Delete this article in the event the agreement is a Tax Partnership and Exhibit "G" is attached.
14. Article X. - Claims and Lawsuits - Enter claim limit as agreed to by parties.
15. Article XIII. - Term of Agreement:
  - (a) Select Option as agreed to by parties.
  - (b) If Option No. 2 is selected, enter agreed number of days in two (2) blanks.
16. Article XIV.B - Governing Law - Enter state as agreed to by parties.
17. Signature Page - Enter effective date.

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## OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Santa Fe Energy Operating Partners, L.P., hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators".

## WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.  
DEFINITIONS

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

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

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

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

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

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

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

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

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

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

ARTICLE II.  
EXHIBITS

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

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

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

☒ B. Exhibit "B", Form of Lease.

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

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

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

☐ G. Exhibit "G", Tax Partnership.

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

### ARTICLE III. INTERESTS OF PARTIES

#### A. Oil and Gas Interests:

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

#### B. Interests of Parties in Costs and Production:

Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set forth in Exhibit "A". In the same manner, the parties shall also own all production of oil and gas from the Contract Area subject to the payment of royalties to the extent of one-eighth (1/8th) which shall be borne as hereinafter set forth.

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

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

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

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

#### D. Subsequently Created Interests:

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

1. If the burdened party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of said subsequently created interest and the burdened party shall indemnify and save said other party, or parties, harmless from any and all claims and demands for payment asserted by owners of the subsequently created interest and,
2. If the burdened party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII B. shall be enforceable against the subsequently created interest in the same manner as they are enforceable against the working interest of the burdened party.

### ARTICLE IV. TITLES

#### A. Title Examination:

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

**ARTICLE IV**  
**continued**

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

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

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

**B. Loss of Title:**

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

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

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

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

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

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

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

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

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

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

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

**of title**

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

ARTICLE V.  
OPERATOR

A. Designation and Responsibilities of Operator:

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

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

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

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

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI.  
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before the 1st day of May, 1993, Operator shall commence the drilling of a well for oil and gas at the following location:

1980' FEL & 660' FNL Section 9, T-24-S, R-25-E

and shall thereafter continue the drilling of the well with due diligence to 10,300' or to a depth adequate to test the Strawn Formation, whichever is the lesser.

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 or gas in sufficient quantity to test. This agreement shall be limited in its application to a specific formation or formations in which Operator shall be required to test. Only the formation or formations in which this agreement may apply.

## ARTICLE VI

## continued

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

## B. Subsequent Operations:

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

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

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

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

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

**ARTICLE VI**  
**continued**

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

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

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

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.

## ARTICLE VI

## continued

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

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

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

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

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

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

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

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

## C. TAKING PRODUCTION IN KIND:

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

## ARTICLE VI

## continued

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

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

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

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

#### D. Access to Contract Area and Information:

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

#### E. Abandonment of Wells:

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

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

## ARTICLE VI

## continued

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

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

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

## ARTICLE VII.

## EXPENDITURES AND LIABILITY OF PARTIES

## A. Liability of Parties:

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

## B. Liens and Payment Defaults:

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

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

## C. Payments and Accounting:

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

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next preceding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 25th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

## D. Limitation of Expenditures:

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

ARTICLE VII  
continued

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

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

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

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

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

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

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

## F. Taxes:

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

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

Each party shall pay or cause to be paid all production, severance, excise, earnings and other taxes\* imposed on the production or handling of such parties' share of oil and gas or other products under the terms of this agreement.

\*including excise and crude oil Windfall Profit taxes

## ARTICLE VII

continued

## G. Insurance:

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

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

## ARTICLE VIII.

## ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

## A. Surrender of Leases:

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

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

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

## B. Renewal or Extension of Leases:

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

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

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

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

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

## C. Acreage or Cash Contributions:

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

ARTICLE VIII

continued

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

5  
6 If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such  
7 consideration shall not be deemed a contribution as contemplated in this Article VIII.C.

8  
9 **D. Maintenance of Uniform Interest:**

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

- 14  
15 1. the entire interest of the party in all leases and equipment and production; or  
16  
17 2. an equal undivided interest in all leases and equipment and production in the Contract Area.

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

21  
22 If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may  
23 require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for  
24 and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such  
25 party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter  
26 into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract  
27 Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

28  
29 **E. Waiver of Rights to Partition:**

30  
31 If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an  
32 undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided  
33 interest therein.

34  
35 **F. Preferential Right to Purchase:**

36  
37 Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract  
38 Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the  
39 name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms  
40 of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase  
41 on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchas-  
42 ing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing par-  
43 ties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to  
44 dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent com-  
45 pany or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.

46  
47 **ARTICLE IX.**  
48 **INTERNAL REVENUE CODE ELECTION**  
49

50 This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association  
51 for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several  
52 and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax  
53 purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded  
54 from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954 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 1954, 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 & no/100-----Dollars (\$ 20,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

**ARTICLE XI.  
FORCE MAJEURE**

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

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

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

**ARTICLE XII.  
NOTICES**

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

**ARTICLE XIII.  
TERM OF AGREEMENT**

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

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

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

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

ARTICLE XIV.  
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

C. Regulatory Agencies:

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

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

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

ARTICLE XV.  
OTHER PROVISIONS

See Article XV. attached hereto and made a part hereof.

OFFICE  
(915) 884-7933

T. VERNE DWYER  
OIL & GAS INVESTMENTS  
300 W. TEXAS, SUITE 333  
MIDLAND, TEXAS 79701

RESIDENCE  
(915) 882-5803

September 19, 1991

James M. Alexander  
P. O. Box 58  
Abilene, Texas 79604

RE: Oil & Gas Lease  
E $\frac{1}{2}$  NW $\frac{1}{4}$  Section 9, T24S, R25E  
Eddy County, New Mexico

Dear Mr. Alexander:

Enclosed please find the following:

1. Collection Draft
2. Oil & Gas Lease
3. Ratification and Rental Division Order
4. Copies for your records.

These instruments cover your undivided 1/16 mineral interest in the captioned land and provide for a bonus consideration of \$151.00 per net mineral acre, plus paid-up delay rentals, 2 year primary term and 1/4 royalty.

Please endorse item 1, sign items 2 and 3 on the spaces provided and have your signatures properly notarized, then deposit all items with the collection department of your bank.

Thank you for your cooperation.

Sincerely,

*Lyle D. Cannon*  
Lyle D. Cannon

LDC/ja

Enclosures

# PROPERTY ACQUISITION BANK DRAFT

Check No. \_\_\_\_\_

COLLECT DIRECTLY THROUGH NCNB Texas National Bank

P. O. Box 1693, Midland, Texas 79702 September 18, 1991  
CITY STATE DATE

-15- DAYS AFTER SIGHT, AND SUBJECT TO APPROVAL OF TITLE COVERING E½ NW¼ Section 9, T-24-S, R-25-E

COUNTY Eddy STATE OF New Mexico

PAY TO James M. Alexander, Indv. & A-I-F for Martha  
THE ORDER OF Jane Rhodes and Jeri Alexander Lott \$ 755.00---  
SEVEN HUNDRED FIFTY FIVE & NO/100 DOLLARS

VALUE RECEIVED AND CHARGE TO ACCOUNT OF

WITH EXCHANGE

TO T. Verne Dwyer  
300 W. Texas, Suite 333  
Midland, Texas 79701

T. Verne Dwyer  
LANDMAN - BROKER

Lease No. \_\_\_\_\_

Prospect Mulefoot

Fee ☐ Minerals ☐ Lease ☒ Royalty ☐ ORRI ☐

Rentals Paid Up ☒ Rentals Non-Paid Up ☐ JAL

Lessor/Payee SAME Social Security No. JGW

Address P. O. Box 58, Abilene, TX 79604

Lessee T. Verne Dwyer Assignee \_\_\_\_\_

Check Number \_\_\_\_\_ Total Bonus \$755.00 Bonus Per Acre \$151.00

Lessor Interest 1/16 Gross Acres 80 Net Acres 5

Lease Date September 18, 1991 Term 2 years Royalty 1/4

Rental Date PAID-UP Rental Per Acre \_\_\_\_\_ Total Rental Amount \_\_\_\_\_

Rentals Payable At \_\_\_\_\_

Remarks \_\_\_\_\_

# OIL & GAS LEASE

THIS AGREEMENT made this 18th day of September 1991, between

James M. Alexander, Individually and as Agent and Attorney-in-Fact for  
Martha Jane Rhodes and Jeri Alexander Lott

P. O. Box 58, Abilene, Texas 79604

of \_\_\_\_\_  
(Post Office Address)

herein called lessor (whether one or more) and T. Verne Dwyer, 300 W. Texas, Suite 333, Midland, Texas 79701 lessee:

1. Lessor, in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is here acknowledged, and of the royalties herein provided and of the agreements of the lessee herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling, and operating for and producing oil and gas, injecting gas, waters, other fluids, and air into subsurface strata, laying pipe lines, storing oil, building tanks, roadways, telephone lines, and other structures and things thereon to produce, save,

take care of, treat, process, store and transport said minerals, the following described land in Eddy County, New Mexico, to-wit:

T-24-S, R-25-E, N.M.P.M.

Section 9: E½ NW¼

Said land is estimated to comprise 80-- acres, whether it actually comprises more or less.

2. Subject to the other provisions herein contained, this lease shall remain in force for a term of two (2) years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or from land with which said land is pooled.

3. The royalties to be paid by lessee are: (a) on oil, and other liquid hydrocarbons saved at the well, 1/4 of that produced and saved from said land, same to be delivered at the well or to the credit of lessor in the pipeline to which the well may be connected; (b) on gas, including casinghead gas or other gaseous substance produced

from said land and used off the premises or used in the manufacture of gasoline or other products, the market value at the well of 1/4 of the gas used,

provided that on gas sold on or off the premises, the royalties shall be 1/4 of the amount realized from such sale, (c) and at any time when this lease is not validated by other provisions hereof and there is a gas and/or condensate well on said land, or land pooled therewith, but gas or condensate is not being so sold or used and such well is shut in, either before or after production therefrom, then on or before 90 days after said well is shut in, and thereafter at annual intervals, lessee may pay or tender an advance shut-in royalty equal to \$1.00 per net acre of lessor's gas acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered, this lease shall not terminate and it shall be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing. The payment or tender of royalties and shut-in royalties may be made by check or draft. Any timely payment or tender of shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if lessee shall correct such error within 30 days after lessee has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable lessee to make proper payment. The amount realized from the sale of gas on or off the premises shall be the price established by the gas sales contract entered into in good faith by lessee and gas purchaser for such term and under such conditions as are customary in the industry. Price shall mean the net amount received by lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. ~~the event of a change in the price of gas, the price of gas shall be the price of gas at the well or to the credit of lessor in the pipeline to which the well may be connected, lessor in computing royalty hereunder may deduct from each price a reasonable charge for each of such functions performed.~~

4. This is a paid-up lease and lessee shall not be obligated during the primary term hereof to commence or continue any operations of whatsoever character or to make any payments hereunder in order to maintain this lease in force during the primary term; however, this provision is not intended to relieve lessee of the obligation to pay royalties on actual production pursuant to the provisions of Paragraph 3 hereof.

5. Lessee is hereby granted the right and power, from time to time, to pool or combine this lease, the land covered by it or any part or horizon thereof with any other land, leases, mineral estates or parts thereof for the production of oil or gas. Units pooled hereunder shall not exceed the standard proration unit fixed by law or by the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which said land is situated, plus a tolerance of ten percent. Lessee shall file written unit designations in the county in which the premises are located and such units may be designated from time to time and either before or after the completion of wells. Drilling operations on or production from any part of any such unit shall be considered for all purposes, except the payment of royalty, as operations conducted upon or production from the land described in this lease. There shall be allocated to the land covered by this lease included in any such unit that portion of the total production of pooled minerals from wells in the unit, after deducting any used in lease or unit operations, which the net oil or gas acreage in the land covered by this lease included in the unit bears to the total number of surface acres in the unit. The production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production of pooled minerals from the portion of said land covered hereby and included in said unit in the same manner as though produced from said land under the terms of this lease. Any pooled unit designated by lessee, as provided herein, may be dissolved by lessee by recording an appropriate instrument in the County where the land is situated at any time after the completion of a dry hole or the cessation of production on said unit.

6. If at the expiration of the primary term there is no well upon said land capable of producing oil or gas, but lessee has commenced operations for drilling or reworking thereon, this lease shall remain in force so long as operations are prosecuted with no cessation of more than 60 consecutive days, whether such operations be on the same well or on a different or additional well or wells, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land. If, after the expiration of the primary term, all wells upon said land should become incapable of producing for any cause, this lease shall not terminate if lessee commences operations for additional drilling or for reworking within 60 days thereafter. If any drilling, additional drilling, or reworking operations hereunder result in production, then this lease shall remain in full force so long thereafter as oil or gas is produced hereunder.

7. Lessee shall have free use of oil, gas and water from said land, except water from lessor's wells and tanks, for all operations hereunder, and the royalty shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by lessee on said land, including the right to draw and remove all casing. When required by lessor, lessee will bury all pipe lines on cultivated lands below ordinary plow depth, and no well shall be drilled within two hundred feet (200 ft.) of any residence or barn now on said land without lessor's consent. Lessor shall have the privilege, at his risk and expense, of using gas from any gas well on said land for stoves and inside lights in the principal dwelling thereon, out of any surplus gas not needed for operations hereunder.

8. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to their heirs, executors, administrators, successors and assigns, but no change in the ownership of the land or in the ownership of, or rights to receive, royalties or shut-in royalties, however accomplished shall operate to enlarge the obligations or diminish the rights of lessee, and no such change or division shall be binding upon lessee for any purpose until 30 days after lessee has been furnished by certified mail at lessee's principal place of business with acceptable instruments or certified copies thereof constituting the chain of title from the original lessor. If any such change in ownership occurs through the death of the owner, lessee may, at its option, pay or tender any royalties or shut-in royalties in the name of the deceased or to his estate or to his heirs, executor or administrator until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. An assignment of this lease in whole or in part shall, to the extent of such assignment, relieve and discharge lessee of any obligations hereunder and, if lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of royalty or shut-in royalty due from such lessee or assignee or fail to comply with any of the provisions of this lease, such default shall not affect this lease insofar as it covers a part of said lands upon which lessee or any assignee thereof shall properly comply or make such payments.

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

10. Lessor hereby warrants and agrees to defend the title to said land and agrees that lessee at its option may discharge any tax, mortgage or other lien upon said land, and in the event lessee does so it shall be subrogated to such lien with the right to enforce same and to apply royalties and shut-in royalties payable hereunder toward satisfying same. Without impairment of lessee's rights under the warranty, if this lease covers a less interest in the oil or gas in all or any part of said land than the entire and undivided fee simple estate (whether lessor's interest is herein specified or not) then the royalties, shut-in royalty, and other payments, if any, accruing from any part as to which this lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease, bears to the whole and undivided fee simple estate therein. Should any one or more of the parties named above as lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

11. Lessee, its or his successors, heirs and assigns, shall have the right at any time to surrender this lease, in whole or in part, to lessor or his heirs, successors, and assigns by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the county in which said land is situated; thereupon lessee shall be relieved from all obligations, expressed or implied, of this agreement as to acreage so surrendered, and thereafter the shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

Executed the day and year first above written

RATIFICATION AND RENTAL DIVISION ORDER

KNOW ALL MEN BY THESE PRESENTS:

That, WHEREAS, that certain oil and gas lease, dated September 18, 1991, from James M. Alexander, Indiv. and as Agent and A-I-F for Martha Jane Rhodes and Jeri Alexander Lott P. O. Box 58, Abilene, Texas 79604, as Lessors, to T. Verne Dwyer, as Lessee, recorded in Book \_\_\_\_\_, Page \_\_\_\_\_, of the \_\_\_\_\_ Records of Eddy County, New Mexico, is owned by T. Verne Dwyer, 300 W. Texas, Suite 333, Midland, Texas 79701 in so far as it covers the following described land in Eddy County, New Mexico to wit:

T-24-S. R-25-E. N.M.P.M.  
Section 9: E½ NW¼

NOW, THEREFORE, in consideration of the sum of One Dollar (\$1.00) and other good and valuable considerations, we \_\_\_\_\_  
THE UNDERSIGNED

and each of us, do hereby ratify, approve, confirm, and adopt the above described oil and gas lease in so far as it covers the above described land, and do hereby lease, demise and let said land unto T. Verne Dwyer subject to and under all of the terms and provisions of said lease, and as to said land, do hereby agree and declare that said lease is now in full force and effect; that payment has been duly made of the entire bonus consideration and all of the delay rentals necessary to extend said lease to the next rental paying date; and each of the undersigned agrees that any delay rentals which may be paid under the terms of said lease with respect to the above described land may be divided as follows:

CREDIT TO	Fractional Interest	AMOUNT	DEPOSITORY
James M. Alexander, Indiv. and Agent and A-I-F for Martha Jane Rhodes and Jeri Alexander Lott	1/16	Paid-Up	

and that payment or tender, of the amount set forth opposite his name, directly or to his credit in the depository bank at the times and in the manner specified in said lease will, as to his interest in the said land, extend said lease and continue the same in full force and effect according to its terms, provided, that if no amount is above set forth opposite his name, then payment of the amounts above set forth to the other parties, or their successors in interest, will so extend said lease. This instrument shall be fully binding upon, and effective as to the interest of, each of the above named persons who executes the same, without regard to execution or lack of execution by the others or by any other person whomsoever.

We, and each of us, hereby release and waive all rights of dower and homestead in the above identified land, and the provisions hereof shall be binding upon the heirs, legal representatives, successors, and assigns of each of us.

WITNESS our hands and seals this \_\_\_\_\_ day of \_\_\_\_\_, 19 91.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
James M. Alexander, Indiv. and Agent and A-I-F for Martha Jane Rhodes and Jeri Alexander Lott  
\_\_\_\_\_  
S.S. #449-64-3814  
\_\_\_\_\_

State of TEXAS  
County of TAYLOR

Individual Acknowledgment

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 19 91  
by James M. Alexander, Indiv. and as Agent and A-I-F for Martha  
Jane Rhodes and Jeri Alexander Lott

My Commission Expires \_\_\_\_\_ Notary Public  
Notary's Printed Name: \_\_\_\_\_  
• • • • •

State of \_\_\_\_\_  
County of \_\_\_\_\_

Individual Acknowledgment

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_\_  
by \_\_\_\_\_

My Commission Expires: \_\_\_\_\_ Notary Public  
Notary's Printed Name: \_\_\_\_\_  
• • • • •

State of \_\_\_\_\_  
County of \_\_\_\_\_

Individual Acknowledgment

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_\_  
by \_\_\_\_\_

My Commission Expires: \_\_\_\_\_ Notary Public  
Notary's Printed Name: \_\_\_\_\_  
• • • • •

THE STATE OF TEXAS.

Single Acknowledgment

County of \_\_\_\_\_

Before me, the undersigned authority, on this day personally  
appeared \_\_\_\_\_  
known to me to be the person \_\_\_\_\_ whose name \_\_\_\_\_ subscribed to the foregoing instrument, and acknowledged to me that \_\_\_\_\_he  
executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office on this, the \_\_\_\_\_ day of \_\_\_\_\_ A.D., 19\_\_\_\_\_  
My commission expires: \_\_\_\_\_  
(SEAL) • • • • •

Notary Public in and for \_\_\_\_\_ County, Texas  
Notary's Printed Name: \_\_\_\_\_

THE STATE OF TEXAS.

Single Acknowledgment

County of \_\_\_\_\_

Before me, the undersigned authority, on this day personally  
appeared \_\_\_\_\_  
known to me to be the person \_\_\_\_\_ whose name \_\_\_\_\_ subscribed to the foregoing instrument, and acknowledged to me that \_\_\_\_\_he  
executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office on this the \_\_\_\_\_ day of \_\_\_\_\_ A.D., 19\_\_\_\_\_  
My commission expires: \_\_\_\_\_  
(SEAL) • • • • •

Notary Public in and for \_\_\_\_\_ County, Texas  
Notary's Printed Name: \_\_\_\_\_

THE STATE OF TEXAS.

Single Acknowledgment

County of \_\_\_\_\_

Before me, the undersigned authority, on this day personally  
appeared \_\_\_\_\_  
known to me to be the person \_\_\_\_\_ whose name \_\_\_\_\_ subscribed to the foregoing instrument, and acknowledged to me that \_\_\_\_\_he  
executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office on this the \_\_\_\_\_ day of \_\_\_\_\_ A.D., 19\_\_\_\_\_  
My commission expires: \_\_\_\_\_  
(SEAL) • • • • •

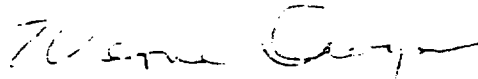
Notary Public in and for \_\_\_\_\_ County, Texas  
Notary's Printed Name: \_\_\_\_\_

Mr. James M. Alexander  
February 10, 1993  
Page 2

Santa Fe is ready to commence the proposed test and requests that you join or lease; however, if you elect not to do either, Santa Fe will have to commence forced pooling procedures.

If you have any questions, please call the writer.

Very truly yours,



T. Verne Dwyer for  
Santa Fe Energy Operating  
Partners, L.P.

TVD/ja

Enclosures

NAME: Milky Canyon "9" SL Com. No.1  
 LOC: 1540 FNL & 660' FNL, Section 9-24S-25E, Eddy County, New Mexico  
 DESC: Drill and complete a 10,300' Surface Gas Well

ACCOUNT	DESCRIPTION OF COSTS	DRY HOLE	PRODUCER
501-000	INTANGIBLE WELL COSTS		
-41	CONTRACTOR CSG	5,000	5,000
-41	SURFACE CSG	13 3/8" 48.0 ppf K-40 @ 400'	9,200
-41	PRODUCTION CSG	8 5/8" 32.0 ppf K-55 @ 2800'	26,600
-41	DRILLING LINER		
-41	PROD CSG	5 1/2" 15.5617 ppf K-55 & K-80 @ 10,300'	72,100
-41	PROD LINER		
-42	TUBING	2-3/8" 4.7 ppf K-80 5-rod EUE	36,050
-43	WELLHEAD	3,000	16,000
-44	PROD UNIT		
-45	PUMP MOVER		
-50	OTHER PROD HOLE EQUIP		8,000
-50	PROS		
-50	SURFACE PMPS		
-55	CSG EQUIP	1,000	2,000
-55	ELECTRICAL		
-55	MISC. TANGIBLES		1,000
-55	PROD EQUIP		
-55	TUBING EQUIP		1,000
	TOTAL TANGIBLE COSTS	44,800	176,950
541-000	LEASE FACILITY COSTS		
-50	FLOW LINES		5,000
-50	LABOR		10,000
-50	OTHER PROD EQUIP	Separator, GPU & Dehydration Unit	30,000
-50	TANK FACILITIES		15,000
	TOTAL LEASE FACILITY COSTS	0	60,000
511-000	INTANGIBLE WELL COSTS		
-21	LOCATION	25,000	25,000
-22	FENCING	1,000	4,000
-26	WTR & FUEL FOR RIG	20,000	20,000
-31	CONTRACTOR MOVING EXP		
-32	CONTRACT FOOTAGE OR TURNKEY	\$16/ft X 10,300'	164,800
-32	CONTRACTOR DAY WORK	2/4 X \$5000/day	10,000
-33	DRLG FLUID & ADDITIVES	30,000	30,000
-34	BITS & REAMERS		
-36	CORING & CORE ANALYSES		
-37	CEMENT	20,000	50,000
-39	INSPECTION & TSTG OF TANG	5,000	16,000
-41	DIRECTIONAL DRLG SURVEYS		
-42	DRILLING EQUIP RENTAL	10,000	10,000
-43	OPEN HOLE LOGGING	25,000	25,000
-44	DRILL STEM TSTG		7,000
-45	MUD LOGGING	\$400/day X 20 days	8,000
-51	TRANSPORTATION	6,000	10,000
-52	COMPLETION UNIT	\$1200/day X 9 days	10,800
-53	COMPLETION TOOL RENTAL		10,000
-54	CASED HOLE LOGS & PERFOR		9,000
-55	STIMULATION		20,000
-56	RIG SITE SUPERVISION	10,000	15,000
-72	ADMINISTRATIVE OVERHEAD	4,000	7,000
-99	FRNG TOOLS & EXPENSES		
-99	TESTING: BHP, GOR, & PT. POT		10,409
	ABANDONMENT COST	8,116	
	OTHER INTANGIBLES		
0	CONTINGENCY (7%)	24,284	33,041
	TOTAL INTANGIBLES	371,200	505,050
	TOTAL COSTS	416,000	742,000

Drilling Dept: Danell RobertsDate: 10/14/92Operations Dept: Michael K. BosterDate: 10/15/92SEER Approval By: Don E. SchulerDate: 10/20/92

SEER Review By: \_\_\_\_\_

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

# HINKLE, COX, EATON, COFFIELD & HENSLEY

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\*NOT LICENSED IN NEW MEXICO

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June 29, 1993

Michael E. Stogner  
Oil Conservation Division  
310 Old Santa Fe Trail  
Santa Fe, New Mexico 87503

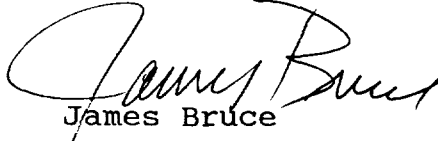
Re: Case No. 10,759 (Santa Fe Energy/Compulsory Pooling)

Dear Mr. Stogner:

Please continue the above case to the July 15, 1993 Examiner hearing. Thank you.

Very truly yours,

HINKLE, COX, EATON, COFFIELD  
& HENSLEY

  
James Bruce

**VIA HAND DELIVERY**



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



BRUCE KING  
GOVERNOR

ANITA LOCKWOOD  
CABINET SECRETARY

POST OFFICE BOX 2088  
STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO 87504  
(505) 827-5800

August 9, 1993

HINKLE, COX, EATON,  
COFFIELD & HENSLEY  
Attorneys at Law  
P. O. Box 2068  
Santa Fe, New Mexico 87501

RE: CASE NO. 10759  
ORDER NO. R-9931

Dear Sir:

Enclosed herewith are two copies of the above-referenced Division order recently entered in the subject case.

Sincerely,

*Sally E. Leichtle*  
Sally E. Leichtle  
Administrative Secretary

cc: BLM - Carlsbad  
Steve Keene