

Enron Exhibits 1 through 12  
Complete Set

PARKER DRILLING COMPANY

EXECUTED

HNG/PDC LTD. AGREEMENT

BEFORE EXAMINER STOGNER	
OIL CONSERVATION DIVISION	
ENRON	REPORT NO 1
CHECK NO	9838

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AGREEMENT

Dated

July 21, 1986

Between

PARKER DRILLING COMPANY, LTD.

and

HNG OIL COMPANY

Regarding Lea and Eddy Counties, New Mexico

THIS AGREEMENT IS SUBJECT TO ARBITRATION UNDER THE TEXAS  
GENERAL ARBITRATION ACT, ARTICLE 224, REVISED CIVIL  
STATUTES OF TEXAS, 1925, AS AMENDED

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## AGREEMENT

### Article 1. Parties.

This Agreement (the "Agreement") is made and entered into between PARKER DRILLING COMPANY, LTD., a Nevada corporation ("Parker"), and HNG Oil Company, a Delaware corporation ("HNG," Parker and HNG being collectively referred to hereinafter as the "Parties"), whereby Parker agrees to drill and complete certain wells on oil and gas leaseholds in Lea and Eddy Counties, New Mexico, as provided herein, and HNG agrees to assign certain leasehold interests and certain undivided interests in oil and gas leases (including operating rights therein) to Parker in return for the drilling and completion of such wells by Parker, using goods and services provided by Parker, and to perform certain obligations at the request and for the benefit of Parker, all under the terms, provisions, and obligations of this Agreement and the exhibits hereto and thereto (hereinafter collectively called "Contract Documents"). Parker and HNG further agree that all exhibits attached to this Agreement and to the exhibits themselves as well as their terms, provisions, and obligations, are incorporated herein by reference and are made a part hereof for all purposes.

### Article 2. Purpose.

This Agreement sets forth the terms, provisions, and conditions of the agreement between Parker and HNG relating to the drilling and completing of wells on certain designated lands and leases owned by HNG as of the effective date of this Agreement in Lea and Eddy Counties, New Mexico or in such other states or counties as may be added hereafter by mutual consent of the Parties (hereinafter referred to as the "Area").

### Article 3. Commitments.

3.1 Parker's Commitment. Subject to the terms, provisions, and conditions of this Agreement, Parker will cause to be drilled and completed (within the meaning of Section 5.3 below) oil and gas wells on the Area in accordance with this Agreement during the term hereof, for the benefit of HNG and Parker on lands and leases designated by HNG in Lea and Eddy Counties, New Mexico, or in such other states or counties as may be added hereafter by mutual consent of the Parties.

3.2 HNG's Commitment. Subject to the terms, provisions, and conditions of this Agreement, HNG will cause to be assigned to Parker the leasehold interests described in Section 5.9 below, and will perform certain services all in the manner and upon the terms set forth in this Agreement.

### Article 4. Term.

4.1 Term. Unless earlier terminated as provided herein, or extended by the written mutual agreement of HNG and Parker, this Agreement shall terminate upon the drilling and completion by Parker under the Agreement of twenty-two (22) wells provided for herein, except that the assignments of leasehold interests and the subordinations of liens described hereinafter shall be for the terms set forth in the instruments creating such interests and subordinations of liens. Notwithstanding the other terms of this Agreement, either party shall have the right to shorten the term of this Agreement to provide for the drilling and completion of eleven (11) wells in lieu of the twenty-two (22) well term provided for above by giving written notice to the other party of such election within ninety (90) days from the date of execution of this Agreement.

## Article 5. Terms.

5.1 Designation of Well Locations and Drilling Sites on the Area. HNG shall use all reasonable efforts in evaluating and designating the well locations and drill sites on the Area to fully utilize the geological, engineering, and economic data available to it, updated to a current basis, in order to locate the prospects available for drilling the oil, gas, and mineral leases owned by HNG in the Area and designated by HNG for drilling under the Agreement.

### 5.2 Procedure for Designation.

(a) Subject to Parker's and HNG's rights of suspension or termination, as provided below in Sections 12.1, 12.5, 13.1, 13.2 and 13.3, HNG shall throughout the term of this Agreement designate in the manner provided above and below, well locations and drill sites on oil, gas, and mineral leases owned or controlled by HNG and its subsidiaries and affiliates in the Area; provided that, HNG's obligation to designate well locations and drill sites shall terminate on the expiration of the term of this Agreement.

(b) HNG shall designate wells for drilling on the Area, under the following procedure:

(1) The initial six (6) well locations and drill sites and the acreage assigned to said locations and sites as a proration unit in accordance with the rules and regulations of the New Mexico Oil Conservation Division or other appropriate governmental agency (hereinafter such units are referred to as "Payout Units"), and the drill sites designated to be drilled and completed, and the tentative order of drilling such six (6) well locations, is described and attached hereto as Exhibit 1.

(2) Thereafter, HNG shall continue to designate well locations and Payout Units throughout the term of this Agreement so as to at all times have designated

at least two (2) undrilled well locations and Payout Units for each drilling rig then in use by Parker besides the well upon which such rig is currently drilling until a total of twenty-two (22) well locations have been designated under the Agreement. Thus, for example, if Parker shall be utilizing two (2) drilling rigs to prosecute its obligations hereunder, HNG will designate four (4) undrilled well locations and Payout Units ahead of such drilling rigs besides the two (2) well locations upon which such rigs are then in the process of drilling.

(3) Each well in the twenty-two (22) well series shall be drilled in the order specified by HNG.

### 5.3 Drilling of the Wells.

(a) Parker shall through HNG as "Operator" drill and complete the wells hereunder in accordance with this Agreement and the Day Work Drilling Contract attached hereto as Exhibit 3, in a good and workmanlike manner, in good faith, exercising due diligence, and in a manner consistent with recognized industry standards and customs. In the drilling and completion of each well hereunder, Parker shall use such rig, equipment, materials, and labor that would be satisfactory to a reasonably prudent operator in the Area employing Parker to drill and complete the same or similar well.

(b) Each well drilled pursuant to this Agreement shall be drilled and completed by Parker through HNG as Operator at the direction and control of Parker in consultation and cooperation with HNG. All decisions concerning the mud program, the casing program, and the completion program, as such terms are employed in the oil and gas drilling industry, and all matters that are considered a part thereof, shall be at the direction of Parker, in consultation and cooperation with HNG; provided, however, that HNG shall retain the right to determine whether a well should be attempted to be completed as a producing well within the depth interval drilled pursuant to this Agreement or plugged and abandoned. If HNG shall elect to plug and abandon a well,

Parker shall have a period of twenty-four (24) hours from receiving notice of such election within which to notify HNG that they elect to participate in the setting of production casing and to engage in attempts to complete the well as a productive well. If Parker shall elect to so complete a well, all charges associated with such attempts to complete the well (except the cost of plugging and abandoning the well) shall be borne solely by Parker and HNG shall relinquish all rights to production and the revenue from such well to Parker. All such costs of completion as to a well which HNG elects not to complete as a productive well (except the cost of plugging and abandoning the well in the event that such completion attempt is unsuccessful) shall not be debited to the Payout Account (as defined herein) and no revenues attributable to production from such well shall be credited to the Payout Account for such well. In the event the well is completed as a producing well, only Parker's actual cost of drilling the well (based upon competitive drilling rates) shall be debited to the Payout Account. As used in this Agreement, the terms "complete" and "completion" shall mean the process (including the furnishing of all services, labor, materials, and equipment) by which a well that has been drilled is plugged or abandoned, or is made ready to produce into the pipeline connected to such well or into storage tanks, as the case may be, regardless of whether such well may be classified as a shut-in well.

(c) Parker shall within sixty (60) days after request by HNG to do so and as promptly as possible, subject to any force majeure provisions contained in any gas purchase contracts applicable to the gas produced from any well drilled hereunder, construct and/or provide all compression facilities, gathering pipelines, connecting pipelines, and equipment necessary to permit the gas produced from the wells completed as producing wells hereunder to be delivered into the gas purchaser's system. However, Parker shall not be required to expend for such facilities and pipelines an amount in excess of five percent (5%) of the total AFE estimated cost of drilling and completing the well to be served by such facilities and pipelines.



(d) Prior to the commencement of drilling on each well to be drilled hereunder, and as a condition to the obligation of Parker to drill such well, HNG as Operator shall submit to Parker an anticipated bit program, mud program, casing program, and completion program, and shall submit to Parker an authority for expenditure ("AFE") setting forth the estimated cost of drilling and completing such well. As the drilling and completion of such well progresses, HNG shall submit timely revisions to such programs.

(e) Anything herein contained to the contrary notwithstanding, once a drilling rig of Parker is on location, such rig shall not be moved from the well location until the well has been drilled to its targeted depth (as designated from time to time by HNG) and drilling operations at such well location have been completed or until Parker and HNG have consented in writing that such drilling rig be moved prior to completion of drilling operations. Subject to a determination in accordance with Section 5.4 below that such location has been condemned, if any well is plugged and abandoned prior to reaching its target depth, Parker shall drill and complete a replacement well at a location designated by HNG on the same Payout Unit as the original well location, in which event all charges for both the original well and the replacement well shall be debited to the Payout Account provided in Section 5.9 below.

5.4 Condemned Locations. The parties further contemplate that geological information developed in the course of the drilling program may condemn some well locations and drill sites prior to the drilling of such designated well locations and drill sites. If, at any time after a well location(s) or drill site(s) is designated under this Agreement, HNG is of the opinion, based on geological, engineering, and economic data discovered subsequent to such designation(s), that such well location(s) and drill site(s) has been condemned, then in such event, additional well locations and drill sites designated in accordance with the provisions provided above shall be submitted by HNG for such condemned well locations and drill sites. Parker shall

immediately reassign to HNG its Interests in said condemned well locations and drill sites, free and clear of all liens and encumbrances created by Parker and HNG shall immediately assign to Parker Interests in such substituted well locations and drill sites in accordance with Section 5.9 of this Agreement. Contemporaneously with each such assignment, HNG shall furnish to Parker the title opinion described in Section 5.8 hereof covering such substituted well locations and drill sites.

5.5 Basis of Parker's Charges. Parker's debits to the Payout Account for the drilling and completing of wells shall be comprised of Day Work Rig Rates, Contractor Furnished Services and Materials, and Other Charges.

(a) Each well to be drilled and completed hereunder by Parker shall be drilled in accordance with terms of the Day Work Drilling Contract attached hereto as Exhibit 3 and at the Day Work Rates set forth therein for the particular rig to be used in drilling each such well. The Drilling Contract for each rig used shall become, when agreed to and executed by the Parties, a part of Exhibit 3 hereto and charges incurred thereunder shall be debited to the Payout Account. As to actual drilling operations contemplated hereunder, in the event of a conflict between the terms of this Agreement and the terms contained in the Day Work Drilling Contract attached hereto as Exhibit 3, the terms of the Day Work Drilling Contract shall prevail.

(b) Charges for Contractor Furnished Services and Supplies shall be debited to the Payout Account in accordance with Exhibit 4.

(c) Other Charges as listed in Exhibit 5 shall be paid by Parker as they become due, so as to prevent any mechanics' and materialmen's liens being filed upon the wells and/or leases drilled and completed hereunder and, except as otherwise provided on Exhibit 5, the actual cost thereof plus an additional twenty percent (20%) of such cost shall be debited to the Payout Account.

(d) Third party services and vendors shall be selected by Parker from the Approved Services Vendor List attached hereto as Exhibit 2. Parker shall exercise its best efforts to obtain such third party services and materials at competitive prices then prevailing in the Area.

(e) If Parker and HNG shall mutually agree upon and determine that additional seismic work is necessary to evaluate potential well locations in the Area, then the cost of such seismic work shall be paid for by Parker and debited at cost plus twenty percent (20%). All such seismic acquired pursuant to this paragraph shall be owned by HNG. It is expressly understood that the cost of such seismic work shall not exceed \$300,000 without the consent of both Parker and HNG.

5.6 Number of Rigs. In performing the drilling hereunder, Parker will endeavor in good faith to concurrently utilize at least two (2) drilling rigs. Upon the mutual consent of all parties, more than two (2) rigs may be placed in operation.

5.7 Maximum Drilling Depth. In performing the drilling program, the parties acknowledge that Parker in no event shall be required to drill any well beyond a total depth of 16,000 feet (with the exception of the West Grama Ridge "35" State #1 Well which may be drilled to a depth not to exceed 16,500 feet).

5.8 Title Opinions. Within thirty (30) days of the execution of this Agreement, and as a condition precedent to Parker's obligations hereunder, HNG shall furnish to Parker drill site title opinion(s) prepared by attorneys acceptable to both HNG and Parker, at HNG's sole cost and expense, which title opinions shall be in form and content acceptable to Parker and shall set forth the ownership of the leasehold estate in the oil, gas, and mineral leases upon which the initial two (2) wells are to be drilled by each of the rigs that will initially be used to prosecute Parker's drilling obligations hereunder. Thereafter, HNG shall, as a condition precedent to Parker's obligations to drill any and all other wells, furnish said title opinions on subsequent wells so as to at all times have delivered to Parker drill site title opinions for two (2) wells for each rig in operation, in addition to the well said

rigs are then in the process of drilling. HNG shall have thirty (30) days from the date it is mutually agreed to employ any rigs in excess of the two (2) initial rigs to deliver the additional title opinions referred to in the preceding sentence, which are necessitated by said additional rigs being placed in operation. Said title opinions shall reflect that the Payout Units are not subject to any lien (except the lien of current ad valorem taxes not in default) or encumbrance that has not been effectively and enforceably subordinated to Parker's Interests to be assigned hereunder, that there are no other or additional liens (except the lien of current ad valorem taxes not in default) or encumbrances of any nature whatsoever against such Interests assigned to Parker, and that HNG's net revenue interest in each lease and its average net revenue interest in all of the leases prior to the assignment of such Interests were as set forth in Section 9.13 herein.

#### 5.9 Assignments.

(a) Parker shall receive as total consideration for the drilling and completing of the wells hereunder the assignments of the Limited Assignments of Oil and Gas Leases provided for herein. Within thirty (30) days of the execution of this Agreement, and as a condition precedent to Parker's obligations hereunder, HNG shall convey and assign to Parker with covenants of special warranty, in a form recordable in the office of the appropriate county clerk, but subject to this Agreement, and in the form attached hereto as Exhibit "6", a Limited Assignment of Oil and Gas Leases (sometimes referred to herein as the "Interests") for the initial well to be drilled by each of the rigs that will initially be used to prosecute Parker's drilling obligations hereunder. Thereafter, HNG shall furnish said Limited Assignments of Oil and Gas Leases for subsequent oil, gas and mineral leases to be drilled hereunder so as to at all times have delivered to Parker said Limited Assignments of Oil and Gas Leases for one (1) well for each rig in operation, in addition to the well said rigs are then in the process of drilling. HNG shall have thirty (30) days to deliver the additional Limited Assignments of Oil and Gas Leases referred to in the preceding

sentence necessitated by additional rigs being placed in operation from the date it is mutually agreed to employ in excess of the two (2) initial rigs. All said Limited Assignments of Oil and Gas Leases shall continue until "payout" as defined hereinafter, and shall be equal to eighty-five percent (85%) of the oil, gas and mineral leasehold estate (or operating rights therein where applicable) and working interest of HNG in and to the well location and lands included within the Payout Units. However, in the event Parker fails to timely commence the drilling of a well contemplated hereunder or if any well drilled pursuant to this Agreement is a dry hole, then unless otherwise agreed by the parties, Parker shall immediately reassign to HNG the Interests attributable to such well(s) previously assigned pursuant to this Section 5.9.

(b) The Parties expressly contemplate that to the extent of labor, materials, and services furnished by Parker in connection with the drilling and completing of oil and/or gas wells on the Area, in accordance with this Agreement during the term hereof, Parker shall be expending the amounts set forth in Section 5.5 hereof. The Parties further agree that the sole consideration received by Parker for all such costs, credits, and contractual amounts shall be the above described Limited Assignments of Oil and Gas Leases to be assigned by HNG to Parker. The procedure for determining payout under the Limited Assignments of Oil and Gas Leases shall be as follows:

(1) Parker shall keep and preserve at its principal office in Oklahoma City, Oklahoma, books and records reflecting all of the costs, expenditures, and contractual rates and charges paid and made by Parker in drilling and completing the wells made the subject hereof, the amounts of interest on such amounts as hereinafter set forth, and the net revenue paid to Parker under the Limited Assignments of Oil and Gas Leases assigned to Parker by HNG (the "Payout Account"). Prior to Payout, Parker shall send to HNG a monthly written statement

setting forth the remaining balance reflected in the Payout Account for such month.

(2) Parker shall make such Payout Account available to HNG for inspection at any time during regular business hours of its operations, and HNG shall have the right to audit all matters relating thereto in accordance with the Accounting Procedure attached hereto as Exhibit 7.

(3) Such account maintained by Parker shall be maintained for the entire twenty-two (22) well series and debited monthly with all of the costs, charges, expenditures, and contract rates and charges paid and made by Parker hereunder. Likewise, all revenues net of royalties, operating expenses, and taxes received by Parker under their Limited Assignments of Oil and Gas Leases shall be credited to said account when received.

(4) The unpaid balance of such account (that is, the difference between the total charges made and paid by Parker for drilling and completing of said wells, less the net revenue paid to Parker under their Limited Assignments of Oil and Gas Leases), as the same shall exist at any time and from time to time until the same is paid in full, shall bear interest as provided hereafter (the "interest rate"); provided, however, that interest will accrue on Parker's direct drilling charges under its day work drilling contracts and on the charges of Parker for services and materials beginning on the first day of the month following the month in which such work was performed or such services and materials were furnished, and provided further that all other charges paid by Parker shall bear interest for the purpose of the Payout Account beginning on the first day of the month following the month in which such other charges were actually paid by Parker. The applicable "interest rate" shall be two percent (2%) per annum over the per annum prime rate of interest in effect, as charged from time to time, by the Allied Bank of Texas (the "prime rate").

(5) Other Charges as described in Exhibit 5 attached hereto, will be paid as due, by Parker and except as otherwise indicated on Exhibit 5, shall be debited to Parker's Payout Account at actual cost plus twenty percent (20%).

(6) Drilling rates and charges of Parker and charges of Parker for services and materials (including any taxes other than income taxes paid by Parker with respect to same) furnished hereunder shall be debited to said account in the amounts and under the terms and conditions set forth in Section 5.5 hereof.

(7) Parker shall not be obligated to pay, directly or indirectly, any lease acquisition, title opinion, land, geological, or geophysical expense relating to the acquisition of the leases, well locations, Payout Units and/or drill sites hereunder, or the general and administrative expenses of HNG's home or district offices, and the same shall be the sole expense of HNG and shall be paid by HNG. Parker shall be responsible for the construction of roads to drill sites, the preparation of such sites for drilling operations and the restoration of such drill sites, the actual cost of which shall be debited plus twenty percent (20%) to the Payout Account as provided herein.

(8) Parker shall have the right to order materials from third parties (excluding materials from Parker's inventories) sufficiently far in advance so as to be able to have the materials on hand at the drill sites when needed. Such orders may be placed for the expected requirements on the next four (4) wells anticipated to be drilled. In the event this Agreement is terminated at any time prior to the normal expiration hereof, other than termination by HNG on account of the failure or refusal of Parker to drill or complete any well hereunder in the manner provided herein, then HNG shall at its option, (i) purchase said materials and pay Parker in cash for Parker's actual cost of such materials, or (ii) direct Parker to sell such materials at a price to be approved by HNG and pay any loss to Parker or receive any profit from such sale.

caused by reason of any laws, rules, regulations, or orders promulgated by any federal, state, or local governmental body or agency or any court of law or by the rules, regulations, or orders of any public body or official purporting to exercise authority or control respecting the activities and operations contemplated hereunder, or due, occasioned, or caused, directly or indirectly, by strikes, action of the elements, weather or water conditions, inability to obtain fuel or other critical materials or supplies, or any other cause beyond the control of the non-performing party. In the event of the occurrence of any of the foregoing, the obligations of the non-performing party shall be suspended during the continuance of any such event or condition, and the term of this Agreement shall be extended for a period of time equal to the period of such suspension; provided, however, that in the event that such extension shall continue for thirty (30) days or longer, any party shall have the option exercisable by two (2) days notice to terminate all future obligations, except those obligations under and regarding assignments of Interests to Parker for performance prior to said termination, which shall remain unaffected.

#### Article 6. Operations.

6.1 Performance. HNG, as Operator, shall pay for all costs of operations during the term of this Agreement, including timely payment of shut-in royalties. HNG shall be reimbursed by Parker for eighty-five percent (85%) of such direct operating expenses after completion of a well since, as provided above, Parker's portion of such expenses shall be subtracted from the revenue attributable to their Limited Assignments of Oil and Gas Leases prior to distribution of such revenue to Parker. HNG agrees to perform or cause to be performed all of its duties and obligations under the Contract Documents, including without limitation operation of wells drilled hereunder while HNG is the Operator in accordance with the terms of this Agreement, in



good faith, in a workmanlike and prudent manner, in conformity with accepted and prudent oil and gas industry standards of operations, in full compliance in all material respects with all federal, state, and local laws, rules, and regulations, and in compliance with all expressed or implied obligations of the lessee under all leases burdened by the interest assigned hereunder, including without limitation the payment of all royalties, rentals, and other amounts due thereunder in a timely manner. In accordance with and subject to the other terms of this Agreement, HNG shall pay punctually, before the same become delinquent, (i) all severance, ad valorem, windfall profit, and other taxes applicable to its interests in the leases burdened by the interests assigned to Parker hereunder, and (ii) all billings or invoices for equipment, supplies, or services, for which HNG is responsible as Operator under this Agreement, used or intended to be used in connection with the exploration, development, or operation of any properties subject to any of the Contract Documents.

6.2 Support. HNG covenants and agrees to use prudent, good faith and reasonable efforts (and to devote sufficient numbers of its employees, including adequate technical support personnel, and adequate amounts of equipment and machinery) to generate well locations and prospects as provided above and to maintain production from each well operated by it as Operator pursuant to the Contract Documents at the maximum efficient level, to the extent that a market exists for such production.

6.3 Other Actions. After each well is completed and placed on stream or shut in, as the case may be, and regardless of whether under the terms of this Agreement HNG then serves as Operator or is subsequently replaced as Operator, HNG shall take all actions that, according to the practices of prudent operators, may be necessary, appropriate, or desirable to maximize the productive capacity of the properties subject to the Interests assigned pursuant to this Agreement, and of the wells drilled thereon, including without limitation the reworking, redrilling, sidetracking, plugging, and recompleting, plugging, and abandoning of wells, and the drilling of

substitute or replacement wells (including the supplying of all necessary related facilities therefor). Should HNG propose a re-working or re-completion operation on a well covered by a Limited Assignment of Oil and Gas Lease hereunder, HNG shall make such proposal to Parker in writing, together with a proposed AFE. Parker shall thereupon have thirty (30) days in which to elect to participate in the re-working operation or not; and if Parker elects to participate, it shall have the right to perform such re-working or re-completion operation and to debit the charges therefor to the Payout Account at the charges specified in Exhibit 4. Should Parker elect not to participate in the re-working or re-completion operation, and should it proceed, Parker shall, and does hereby, relinquish its right to the revenue from such producing horizon that is recompleted or reworked in such well until such time as HNG shall have recouped a penalty of three hundred percent (300%) of the amount of Parker's proportionate share of the cost; after which recoupment, Parker shall again be entitled to receipt of their share of the production revenue from such recompleted or re-worked horizon. During the penalty period, interest on the Payout Account shall continue to accrue, and Parker shall not be obligated for any operating expenses as to such horizon or well during such penalty period.

#### 6.4 Marketing.

(a) HNG shall perform the marketing function for any and all hydrocarbons produced from each well drilled and completed in the twenty-two (22) well series hereunder. HNG shall utilize its best efforts in good faith to market such hydrocarbons at mutually favorable commercial terms and shall be free to sell natural gas produced from such wells in its discretion either on the spot market or by way of long term contract. HNG shall provide Parker with monthly written reports setting forth the prices received and volumes sold from wells drilled and completed pursuant to this Agreement. HNG shall use its best efforts in obtaining mutually favorable commercial terms in the sale and transportation of hydrocarbons.

(b) HNG will use prudent, good faith, reasonable, and diligent efforts to maintain the percentage of the maximum delivery capacity of the wells taken by the purchaser at the highest economic level and at a level that is, at a minimum, comparable to that of other wells operated by HNG in the area, to assure the connection of each well as promptly as possible to the purchaser's pipeline system, and to initiate as promptly as possible any price redetermination procedures that would result in higher prices for gas sold.

6.5 Pricing. HNG will promptly make (or cause to be made) all filings, elections, and applications and will promptly take (or cause to be taken) such other action (including without limitation price redetermination) as may be necessary to establish and obtain the highest maximum pricing category and price legally and contractually available for the production from wells drilled pursuant to this Agreement.

6.6 Shut In Wells. HNG will endeavor not to shut in any producing well for more than thirty (30) days.

6.7 Agreements.

(a) The Interests to be assigned to Parker pursuant to this Agreement shall not be subject to any preferential rights of purchase, restrictions on assignment, joint venture agreements, farmout agreements, acreage contribution agreements, drilling and/or development obligations. In addition, any operating agreements to which such Interests are subject shall be disclosed to Parker at the time of designation of a well location in accordance with Section 5.2.

(b) In the event that HNG sells, transfers, or conveys all, or substantially all of its interests in the leases as to which the interests are assigned and to be assigned to Parker, then, and in that event, the assignee of HNG's interest shall, within thirty (30) days of such sale, transfer, or conveyance, assume the obligations of HNG hereunder.

6.8 Defense of Interests. HNG will cause all necessary and proper steps to be taken, at HNG's expense, diligently to protect and defend the interests assigned to Parker pursuant to this Agreement and the proceeds of production attributable thereto against any adverse claim or demand, including without limitation the employment or use of counsel for the prosecution or defense of litigation and the contest, settlement, release, or discharge of any such claim or demand. Parker shall have the separate right from time to time and at their sole cost and expense to assume or participate in the defense or prosecution of any claim to the extent of their interests involved therein by giving notice of such assumption or participation to HNG.

6.9 Notice of Proceedings. HNG shall cause notice to be given to Parker of every material adverse claim or demand made or threatened to be made by any person (including any government or governmental agency) affecting the wells drilled pursuant to this Agreement or the proceeds of production therefrom in any manner whatsoever, and of any proceeding instituted with respect thereto.

6.10 Metering. Gas produced from each well drilled hereunder shall be separately metered before the gas is commingled with gas produced from any other well.

6.11 Acquisitions Within a Payout Unit. Subject to the provisions of Section 6.16, if after the date of any assignment of an Interest hereunder, but before payout has been reached, HNG or any affiliate of HNG (an "Acquiring Party") should acquire an additional working interest or other type of operating interest (whether or not carried to any extent) covering or relating to lands within a Payout Unit to which an Interest assigned to Parker relates, the Acquiring Party shall assign to Parker, with a covenant of special warranty, a Limited Assignment of Oil and Gas Lease equal to eighty-five percent (85%) of the oil, gas, and other mineral leasehold estate with respect to such subsequently acquired working interest, subject to the same terms and conditions that apply to the Limited Assignment of Oil and Gas Lease described in Section 5.9 above. This Section 6.11 shall not apply, however, to any joint interest

owner who elects to consent under an operating agreement and who pays cash on a current basis for his share of the costs of drilling and completing such well.

6.12 Insurance.

(a) Until each well drilled hereunder is placed on stream or shut in, as the case may be, Parker shall purchase or provide insurance providing coverages and limits mutually agreed to by HNG and Parker. The expense of maintaining such insurance shall be debited to the Payout Account maintained pursuant to Section 5.9 above except where such insurance has already been included as part of the day rate under the applicable Daywork Drilling Contracts.

(b) After each well drilled hereunder is placed on stream or shut in, as the case may be, HNG shall carry and maintain in force and effect through the term of this Agreement, on behalf of HNG and Parker, insurance providing coverages and limits not less than those described on Exhibit 8 attached hereto. HNG may change insurance carriers from time to time, with consent of Parker, which consent shall not be unreasonably withheld, but the coverages of the policies and their limits shall not be diminished from the coverages and limits of the policies shown on Exhibit 8 attached hereto. Parker acknowledges that it is not covered under well control insurance maintained by HNG. The cost of such insurance for operations conducted pursuant to this Agreement shall be charged to the joint account under the Operating Agreement. Parker shall at all times be named insureds or loss payees, as applicable, under such insurance policies, to the extent of their interests in the wells and leases subject hereto. Insurance proceeds as a result of casualty damage to wells, structures, equipment, machinery, lines, pipelines, facilities, and similar items to the extent of the cost of replacing and repairing such property shall be paid to the parties who elect to repair or replace such property in the proportions that such parties bear and pay the cost of repairing and replacing such property. Such insurance proceeds (excluding proceeds relating to equipment owned by Parker or a company affiliated with

Parker), to the extent they exceed the costs incurred to repair or replace the damaged or destroyed property (or if the damaged or destroyed property is not repaired or replaced), shall be paid to the parties who paid for such damaged or destroyed property in the proportions that each paid for such property, and any such amounts paid to Parker shall be credited to the account maintained pursuant to Section 5.9 above.

(c) HNG agrees to have included in all insurance maintained by HNG hereunder, a provision requiring the issuer of such insurance policy to give Parker sixty (60) days' prior written notice of any change, alteration, cancellation, or termination of any such policy. Nothing in this Agreement shall be construed to prohibit HNG or Parker from obtaining additional insurance coverage for their respective interests hereunder.

6.13 Allowables. HNG, as Operator, shall take all reasonable steps to maintain the allowables of all wells drilled pursuant to this Agreement, and the total allowables of each field in which any such well is located, as high as possible.

6.14 Repairs and Maintenance. HNG will maintain in good operating condition all buildings and all equipment of any kind necessary or useful in the operation of wells drilled and completed pursuant to this Agreement and will promptly make all necessary repairs, renewals, replacements, additions, and improvements thereto.

6.15 Salvage. All salvageable equipment recovered prior to payout from any well drilled hereunder shall belong to Parker, and any amounts realized by Parker upon sale of any such equipment (excluding equipment owned by Parker or a company affiliated with Parker), net of all costs of recovery and sale, shall be credited to the account maintained pursuant to Section 5.9 above. After payout, all such salvageable equipment shall belong to HNG.

6.16 Joint Interest Owners. This provision applies to well locations and drill sites hereunder on leases where HNG owns less than one hundred percent (100%) of the working interest, hereinafter "Joint Interest Leases."

(a) Concurrently with the execution of this Agreement, and within forty-five (45) days of the execution hereof, Parker and HNG may offer certain of HNG's Joint Interest Lease owners the opportunity to participate in the drilling program described in this Agreement. In the event one or more of HNG's Joint Interest Lease owners accepts an offer to participate in this Agreement, then Parker and HNG agree to execute such documents as may be necessary to make such Joint Interest Lease owners parties to this Agreement (hereinafter "Agreement Parties") upon the terms and conditions contained in this Agreement. The offer to so participate shall, unless accepted prior thereto, terminate automatically within thirty (30) days of submission of the offer to the interest owner. For each well then drilled pursuant to this Agreement, the rights, obligations, and payments of HNG and the Agreement Parties shall be governed by the following provisions:

(1) HNG as Operator shall in all cases perform the duties of operator as provided for in this Agreement and in the applicable operating agreements.

(2) The Joint Interest Lease owners of HNG not so executing an agreement with Parker shall be provided for in paragraph (b) below.

(b) In the event a Joint Interest Lease owner does not participate upon the terms and conditions set forth in this Agreement (hereinafter referred to as "Non-Agreement Parties"), then HNG shall propose to them an AFE based upon competitive rates taking into account the rates and charges of similar drilling and completion services, labor materials, and equipment charged by other independent contractors in Lea and Eddy Counties, New Mexico at such time as the well is to be drilled.

(1) In the event a Non-Agreement Party desires to participate in the drilling of a well on a Joint Interest Lease in accordance with the terms of the proposed AFE, HNG shall give notice of same to Parker, together with a copy of said election. Parker shall debit the Payout Account for the charges, rates, and expenses incurred in connection with the drilling and completing of such well at

contract rates in accordance with the terms of this Agreement only to the extent of the percentage of the working interest owned by the Agreement Parties, the "non-consenting" Non-Agreement Parties and the interest of any party obtained by HNG as a result of a farm-in agreement. Parker shall invoice HNG for the account of such participating Non-Agreement Parties for the participating Non-Agreement Parties' pro rata portion of the cost of drilling, completion, and all other third party charges and expenses at rates designated in such competitive AFE or agreed to by Parker and HNG and HNG shall in turn so charge and bill the participating Non-Agreement Parties. HNG shall pay to Parker, in cash, within thirty (30) days of invoice, the pro rata portion of such cost of drilling, completion, and third party charges attributable to the Non-Agreement Parties so participating. The rates and charges applicable to the competitive AFE's shall be adjusted at such intervals as agreed to by Parker and HNG. However, in the event that the rates and charges for drilling a well as set forth in such competitive AFEs and as billed to such participating Non-Agreement Parties are less than Parker's actual out of pocket cash costs incurred in drilling such well, HNG shall either (i) pay directly to Parker the difference between the competitive AFE costs for drilling such well and Parker's actual out of pocket costs for drilling such well attributable to the participating Non-Agreement Parties' interest in such well, (ii) direct Parker to debit the Payout Account in an amount equal to the difference between the competitive AFE costs for drilling such well and the cost of drilling the well under the applicable Day Work Drilling Contract attached hereto as Exhibit 3 attributable to the Non-Agreement Parties' interest in such well or, (iii) withdraw such well location and drill site from the terms of this Agreement and designate an additional well location and drill site in accordance with the terms of this Agreement in place of such withdrawn location.



(2) In the event HNG proposes a competitive AFE to a Non-Agreement Party and such Non-Agreement Party elects to be governed by the "non-consent" provisions of the applicable operating agreement, or if HNG shall secure a farm-in of such party's interest on terms acceptable to HNG, then Parker shall provide invoices to HNG and keep an account of the charges, rates, and expenses of drilling and completion of each well based upon competitive rates as set forth above. HNG shall assign to Parker and hereby agrees to execute any and all documents to effect assignment of its right to receive eighty-five percent (85%) of the production revenue less the royalties, overriding royalties, and taxes from such well as are attributable to such "non-consenting" Non-Agreement Parties' interests (or eighty-five percent (85%) of the interest obtained by HNG as a result of a farm-in as provided above as the same may be proportionately reduced as a result of payout under such farm-in provided above) until such time as the penalty amount shall have been recouped as provided for in the applicable operating agreement (or until HNG's interest under any farm-in shall have terminated, if applicable). The production revenues and interests so assigned shall be paid to Parker and applied as a credit to the Payout Account as provided in this Agreement until such time as the said penalty amount (or HNG's interest under a farm-in arrangement) based upon such competitive AFE shall have been recouped and Parker agrees that the revenues shall then be returned to the "non-consenting" Non-Agreement Parties, or in the event payout is reached (as defined in this Agreement) before such penalty (or HNG's interest under a farm-in arrangement) has been recouped, such interest shall be returned to HNG. Notwithstanding the separate account based upon competitive rates described in this subparagraph (2), Parker shall have the right to debit to the Payout Account the charges, rates, and expenses, together with interest thereon, attributable to the Agreement Parties' and "non-consenting" Non-Agreement Parties' proportionate

share of the working interest (and any interest of a party obtained by HNG as a result of a farm-in as provided above), as set forth in paragraphs 5.5 and 5.9, which shall be paid from the above-specified portions of the revenues attributable to the interests of such "non-consenting" Non-Agreement Parties (and farmed-in interests), as well as from the Limited Assignment of Oil and Gas Leases set forth in this Agreement.

6.17 Cash Payment of Payout Account. HNG shall retain the right to pay to Parker in cash the balance of the Payout Account, including interest, maintained for the twenty-two (22) well series of locations, in which event, notwithstanding the fact that "payout" as defined in Section 5.9(9) has not occurred, Parker shall reassign to HNG the Assignments of Interests for the well locations in such series.

#### Article 7. Conditions Precedent to Closing.

Neither Parker nor HNG shall be obligated to close this transaction or execute this Agreement unless all Contract Documents have been signed and delivered to the Parties in form and substance satisfactory to the Parties and their counsel.

#### Article 8. Conditions Precedent to Obligations of Parker.

8.1 Conditions Precedent to Parker. The performance by Parker of their obligations under this Agreement is subject to the satisfaction of all of the following conditions:

(a) HNG shall have fulfilled all of its agreements, covenants, and obligations under the Contract Documents, and all representations and warranties of HNG contained herein or in any of the Contract Documents shall be true in all respects.

(b) All conditions to the obligations of Parker expressed elsewhere in this Agreement shall have been satisfied.

8.2 Conditions Precedent to HNG. The performance by HNG of its obligations under this Agreement is subject to the satisfaction of all of the following conditions:

(a) Parker shall have fulfilled all of their agreements, covenants, and obligations under the Contract Documents, and all representations and warranties of Parker contained herein or in any of the Contract Documents shall be true in all respects.

(b) All conditions to the obligations HNG expressed elsewhere in this Agreement shall have been satisfied.

Article 9. Representations, Warranties, and Covenants of HNG.

HNG represents and warrants to and covenants with Parker that upon the effective date hereof and at the time of drilling and completing of each well nereunder, each of the following representations and warranties is and will be true and correct in all respects:

9.1 No Default. No default by HNG under this Agreement has occurred.

9.2 Corporate Existence and Authority. HNG (i) is a corporation duly organized, validly existing, and in good standing under the laws of the State of Delaware, (ii) is duly qualified to transact business in each jurisdiction where the nature and extent of its business and properties require the same in order for it to perform its obligations under this Agreement, and (iii) possesses all requisite authority, power, licenses, permits, and franchises to conduct its business and execute, deliver, and comply with the terms of the Contract Documents, all of which have been duly authorized and approved by all necessary corporate action and for which no further approval or consent is required that has not been obtained.

9.3 Compliance with Laws and Documents. HNG is not, nor will the execution, delivery, and performance of and compliance with the terms of the Contract Documents

cause HNG to be, in violation of its Articles of Incorporation or Bylaws, as the case may be, or any applicable laws or regulations or any order of any court or governmental agency.

9.4 No Collateral Default. The execution, delivery, and performance of and compliance with the terms of the Contract Documents will not cause HNG to be in default under any agreement, contract, or obligation that would affect the rights of Parker under this Agreement or the performance of HNG under this Agreement.

9.5 Maintenance of Corporate Existence. HNG will at all times maintain its corporate existence and its authority to transact business and its good standing in Texas and all other jurisdictions where required by the nature and extent of its business and properties.

9.6 Properties; Liens. HNG will through the assignments to Parker referenced herein convey without warranties of title, either express or implied, except for the limited warranty set forth in the form of Limited Assignment of Oil and Gas Leases set forth in Exhibit 6, such title to all of the oil, gas, and other mineral leases upon which wells are to be drilled by Parker hereunder at the time of the assignments of Interests hereunder as HNG originally received from its respective grantor except as otherwise disclosed to Parker in a title opinion pursuant to Section 5.8 or otherwise in writing at the time of designation of a well location as provided in Section 5.2; and, except for liens which shall have been unconditionally subordinated to Parker's rights hereunder at such time, there will be no liens (except the lien of current ad valorem taxes not in default) on the oil, gas, and mineral leases from which the Interests are created at such time.

9.7 Notice of Litigation or Changes in Fact. HNG shall promptly notify Parker of (i) the existence and status of any claim, lawsuit, or investigation, pending or threatened, that could, in the event of an unfavorable outcome, materially and adversely affect the oil, gas, and mineral leases owned by HNG relating to a Payout

Unit; (ii) any material change in any representation or warranty made hereunder; and (iii) any default by HNG under any agreement to which it is a party or by which its properties are affected, specifying the nature thereof and what action HNG has taken, is taking, and/or proposes to take with respect thereto.

9.8 Future Ad Valorem Taxes. HNG will not permit an ad valorem tax lien to be foreclosed on any of the oil, gas, and mineral leases to be drilled hereunder. Parker shall have the right, but not the obligation, to pay such taxes and debit the same to the Payout Account plus twenty percent (20%) herein described.

9.9 Disclosure of Information. HNG has disclosed (with respect to the initial series of six (6) wells to be drilled hereunder) and will disclose (contemporaneously with the designation of locations for all other wells to be drilled hereunder) to Parker all pertinent geological, geophysical, and engineering data or information available to HNG relating to any of the properties to be included within the Payout Unit for any well. HNG will permit Parker or its authorized representatives full access at all reasonable times to all oil and gas leasehold interests of HNG in the Area which have been designated for drilling pursuant to this Agreement, and to all records, files, and documents (including without limitation all geological, geophysical, and engineering information and all data related to gas pricing and compliance with Federal Energy Regulatory Commission regulation thereof) of HNG or available to HNG relating to such leasehold interests as required to analyze all designated locations. The geological, geophysical, engineering, or production data and information that may be acquired by Parker from HNG under the terms of this Agreement will not be disclosed except to the Parties, shall remain the property of HNG, and its use by Parker shall be limited to evaluating the properties that are the subject of this Agreement. Parker agrees that any such information acquired shall not be disclosed to third parties and shall not be used by Parker, Parker's affiliated companies, or any other entity which Parker controls or any entity which controls

Parker, to acquire any interest in any lease within two (2) miles of any lease covered by this Agreement for a period of two (2) years after the drilling of the last well pursuant to this Agreement.

9.10 Permits. HNG will, prior to the date scheduled by Parker for commencement of drilling of each well hereunder, obtain all permits, licenses, qualifications, approvals, and similar matters, and make all filings required by any federal, state, local, or other governmental authority to accomplish the drilling, testing, fracturing, completing, equipping, and operation of each such well and the sale of the production therefrom.

9.11 Gas Purchases. HNG knows of no impediment that would reasonably be anticipated to prevent the purchaser of production from any well to be drilled hereunder from promptly connecting to such well and commencing to take and pay for production therefrom as soon as equipping of the well is completed.

9.12 Litigation. There is no litigation, proceeding, or investigation pending or in process in any court or before any governmental authority or arbitration board or tribunal having appropriate jurisdiction or, to the knowledge of HNG, threatened against or affecting HNG or the oil and gas leasehold interests of HNG in the Area (including production therefrom or the proceeds of such production), that, if adversely determined, may materially and adversely affect the ability of HNG to perform its obligations under this Agreement.

9.13 HNG Interests. At the time of each assignment of an interest to Parker hereunder, the leases and Payout Units that are the subject of the Limited Assignment of Oil and Gas Leases (except for interests obtained by HNG through a farm-in arrangement as provided in Section 6.16) shall be subject to royalties, overriding royalties, and other burdens on production which, in the aggregate, shall not at any time during the term of this Agreement average more than twenty-five percent (25%) of the production from the lands covered thereby so that the average net revenue interest

of HNG in the leases and Payout Units which are the subject of the Limited Assignments (except for interests obtained by HNG through a farm-in arrangement as provided in Section 6.16) are not at any time during the term of this Agreement less than seventy-five percent (75%).

Article 10. Representations, Warranties, and Covenants of Parker.

Parker represents and warrants to HNG that upon the effective date hereof and at the time of drilling and completing of each well hereunder, each of the following representations and warranties is and will be true and correct in all respects:

10.1 No Default. No default by Parker under this Agreement has occurred.

10.2 Corporate Existence and Authority. Parker (i) is a corporation duly organized, validly existing, and in good standing under the laws of the state of Nevada, (ii) is duly qualified to transact business in each jurisdiction where the nature and extent of its business and properties require the same in order for it to perform its obligations under this Agreement, and (iii) possesses all requisite authority, power, licenses, permits, and franchises to conduct its business and execute, deliver, and comply with the terms of the Contract Documents, all of which have been duly authorized and approved by all necessary corporate action and for which no further approval or consent is required that has not been obtained.

10.3 Compliance with Laws and Documents. Parker is not, nor will the execution, delivery, and the performance of and compliance with the terms of the Contract Documents cause Parker to be, in violation of any laws or its Articles of Incorporation or Bylaws, as the case may be, or any order of any court or governmental agency.

10.4 No Collateral Default. The execution, delivery, and performance of and compliance with the terms of the Contract Documents will not cause Parker to be in default under any agreement, contract, or obligation.

10.5 Maintenance of Corporate Existence. Parker will at all times maintain its corporate and its authority to transact business and its good standing in New Mexico and all other jurisdictions where required by the nature and extent of their business.

10.6 Payment of Debts. Parker shall promptly pay all debts and obligations incurred by it as the same become due so that no subcontractors' liens, materialmen's liens, mechanics' liens, or other liens will be filed against any of the wells to be drilled and completed hereunder because of nonpayment of any such debts or obligations or Parker shall provide to HNG compensation in an amount that assures that said liens do not delay or diminish the revenue that HNG would have received in the absence of said liens.

10.7 Drilling of Wells. Parker shall through HNG as Operator drill and complete all wells hereunder in accordance with and in the manner specified in Section 5.3 hereof, and shall maintain the capacity to do so during the full term of this Agreement.

10.8 Notice of Litigation or Changes in Fact. Parker shall promptly notify HNG of (i) the existence and status of any claim, lawsuit, or investigation, pending or threatened, that could, in the event of an unfavorable outcome, materially and adversely affect their ability to perform their obligations hereunder; and (ii) any material change in any representation or warranty made hereunder.

#### Article 11. Default.

The term "default" as used herein means the occurrence of any one or more of the following events:

11.1 Failure to Assign or Deliver. The failure or refusal of HNG to deliver to Parker the well designations, the subordination agreements, the assignments of interests, and the attorneys' title opinions, within the time and in the manner as



provided above, which failure continues for a period of thirty (30) days after written notice thereof from Parker to HNG.

11.2 Failure to Properly Drill and Complete. The failure or refusal of Parker to drill or complete any well hereunder in the manner provided herein, which failure is not remedied within thirty (30) days after written notice thereof from HNG to Parker.

11.3 Representations and Warranties. Any representation or warranty herein of HNG or Parker, as the case may be, shall be untrue in any material respect, or HNG or Parker, as the case may be, shall fail or refuse to punctually and properly perform, observe, and comply with any covenant, representation, warranty, agreement, or condition contained in this Agreement or the Contract Documents, except those enumerated in Section 11.1 above, which failure or refusal continues for a period of twenty (20) days after HNG, or Parker, as the case may be, have written notice thereof.

11.4 Voluntary Debtor Relief. HNG or Parker shall (i) become insolvent within the meaning of the Bankruptcy Reform Act of 1978 (the "Bankruptcy Act"), as amended, or (ii) execute an assignment for the benefit of creditors or make a proposal to its creditors under any debtor relief laws, including, but not limited to the Bankruptcy Act, or (iii) admit in writing its inability to pay its debts generally as they become due, or (iv) voluntarily seek, consent to, or acquiesce in the benefit or benefits of any debtor relief law, or (v) become a party to any proceeding provided for by any debtor relief law that could suspend or otherwise affect any of the rights of any of the other parties hereto under any of the Contract Documents, or (vi) consent to the appointment of a receiver, trustee, liquidator, conservator, or similar person for it or all or substantially all of its assets.

11.5 Involuntary Proceedings. HNG or Parker shall involuntarily (i) have an order, judgment, or decree entered against it pursuant to any debtor relief law that could suspend or otherwise materially affect any of the rights granted to any of the

other parties hereto under any Contract Document, and any such order, judgment, or decree is not permanently stayed or reversed within fifteen (15) days after the entry thereof, or (ii) have a petition filed against it seeking the benefit or benefits provided for by any debtor relief law that would suspend or otherwise affect any of the rights granted to any of the other parties hereto under any Contract Document, and such petition is not discharged within fifteen (15) days after the filing thereof.

11.6 Attachment. The failure to have discharged within a period of sixty (60) days after the commencement thereof any attachment, sequestration, or similar proceeding against any of the leasehold interests of HNG or Interests of Parker subject to this Agreement.

11.7 Failure to Pay Judgments. HNG or Parker fail to pay any money judgment against it at least thirty (30) days prior to the date on which any of the leasehold interests of HNG or Interests of Parker subject to this Agreement may be lawfully sold to satisfy such judgment.

11.8 Satisfaction of Conditions. Any condition precedent set forth herein to the commencement of the drilling of a well hereunder is not satisfied within the time period provided herein.

11.9 Improper Denial. Any action or inaction by HNG after Parker commences the drilling and completing of the series of wells hereunder that improperly and materially impairs or denies to Parker the right to complete the drilling and completing of all the wells within such series, or improperly and materially impairs or denies to Parker the right to receive (either before or after the termination of this Agreement) their revenues from their Interests.

11.10 Failure of Title. There shall be any material defect in the title to any of the leases included in the Payout Unit for any finally designated well location and drill site that constitutes a breach of the special warranty contained in the related assignment of Interests, or constitutes a breach of the representation contained in

Section 9.13 above, or renders inaccurate the related title opinion received pursuant to Section 5.8 above.

Article 12. Rights of Parker and HNG.

12.1 Remedies upon Default by HNG. Except for a default under Section 11.10 of this Agreement, should a default by HNG under the Contract Documents occur, Parker may, at its election, do any one or more of the following:

- (a) Terminate its commitment to drill and its obligations hereunder; and/or
- (b) Continue to drill and complete any or all of the well locations and drill sites in which the Limited Assignments described herein have theretofore been assigned to it after designating to HNG in writing within sixty (60) days those additional well locations and drill sites theretofore designated by HNG that it elects to drill; and/or
- (c) Assume the duties of operating those wells that Parker has drilled and completed and remain the Operator of those additional wells that it has designated it shall drill, all until payout, subject to the provisions of any existing operating agreements on said wells; and/or
- (d) Obtain an injunction or other equitable relief enjoining HNG from denying Parker its right to drill and complete all well locations and drill sites theretofore designated by HNG or any other rights of Parker under the Contract Documents; and/or
- (e) Seek monetary damages for its losses incurred by reason of such default.

12.2 Default under Section 11.10. In the event of a default under Section 11.10 of this Agreement, HNG shall, at the election of Parker, do one of the following within sixty (60) days after the discovery of the title defect:

- (a) Cure such defect to the satisfaction of Parker and reimburse Parker for any loss of revenues resulting from such defect (and any such reimbursement shall constitute a credit to the Payout Account); or

(b) Designate an alternate well location and drill site and satisfy, with respect to such alternate location, all conditions to Parker's obligation to commence drilling that are provided elsewhere herein, and, if Parker has commenced drilling before the discovery of such title defect, promptly reimburse Parker in cash for the full amount debited to the Payout Account (which shall then be credited to the Payout Account) maintained pursuant to Section 5.9 above with respect to the well to which the title defect relates in which case Parker shall reassign, if applicable, Parker's interest in the Payout Unit to which the title defect relates to HNG; or

(c) Promptly pay to Parker in cash the cost (as shown on the accounts being maintained pursuant to Section 5.9 above, including interest as provided therein) of drilling and completing any well drilled and completed on a well location and drill site to which title is defective and remains so for sixty (60) days after discovery of such material defect. Parker shall promptly thereafter credit the Payout Account for such amount and reassign its interest in the Payout Unit to HNG.

Parker shall be entitled to all remedies provided by law to collect any amounts due from HNG pursuant to this Section 12.2.

12.3 Performance by Parker. If HNG should fail to pay or perform any covenant, agreement, or obligation required of HNG by this Agreement or any of the Contract Documents, and if such failure shall continue unremedied after any notice and opportunity to cure that may be expressly provided for such failure elsewhere in this Agreement, Parker may, but shall have no obligation to, in addition to recovery of its damages and all other remedies available under the Contract Documents, at law or in equity, pay or perform or attempt to pay or perform such covenant, agreement, or obligation, and invoice HNG for the amounts so expended, which HNG shall pay in cash to Parker within thirty (30) days of invoice. No such payment or performance or attempted payment or performance by Parker shall constitute a waiver of any such default by HNG. In addition to the remedies provided herein, Parker shall be

subrogated to all rights, liens, and security interests securing the payment of any debt, claim, tax, or assessment for the payment of which Parker may make an advance.

12.4 Failure of HNG to Pay Cash. Wherever this Agreement requires HNG to pay or reimburse Parker in cash for any amount due in accordance with the terms of this Agreement, including without limitation damages due to Parker, and HNG fails to pay such amount to Parker for any reason, in addition to its other rights and remedies under this Agreement, Parker shall have the right, at the sole option of Parker, to debit such amount to the Payout Account.

12.5 Remedies upon Default by Parker. Should a default by Parker under the Contract Documents occur and be continuing twenty (20) days after Parker's receipt of written notice of such default from HNG, HNG, at its election, may terminate this Agreement and Parker shall relinquish its rights and interests in any well locations and drill sites yet to be drilled upon by Parker. If such default is caused by Parker's improper failure or refusal to continue drilling and completing wells, then HNG's damages shall be limited to HNG's actual out of pocket costs relating to the default and the difference between the cost of drilling wells as provided herein and the cost of obtaining such services from a third party under similar terms and conditions. Parker shall not in any event be liable to HNG for loss of leases or the value of any reserves, which leases, or reserves are lost, claimed to be lost, or not obtained by HNG as a result of such failure or refusal of Parker to continue drilling and completing wells hereunder. In addition to the damage remedy provided above, if Parker improperly fails or refuses to continue to drill and complete wells under the terms and conditions of this Agreement, then HNG shall have the right to seek and obtain specific performance (including appropriate injunctive relief) of the terms and conditions of this Agreement in a court of law in order to secure drilling and completion by Parker as contemplated hereunder of all wells contemplated to be drilled by Parker during the term of the Agreement. Defective materials shall be replaced by

Parker at the well site, and Parker shall pass on to HNG all manufacturer's and supplier's warranties as to defective materials and services. The remedies provided herein for defective materials shall be the sole remedies of HNG for such defective materials.

12.6 Waivers. The acceptance by Parker or HNG from the other at any time and from time to time of part performance hereunder or under any other Contract Document shall not be deemed to be a waiver of any default then existing. No waiver by Parker or HNG of any default shall be deemed to be a waiver of any other then-existing or subsequent default. No delay or omission by Parker or HNG in exercising any right shall impair such right or be construed as a waiver thereof or any acquiescence therein, nor shall any single or partial exercise of any such right preclude other or further exercise thereof, or the exercise of any other right under any written instrument or otherwise.

### Article 13. Option to Terminate.

13.1 Suspension of Sales and Drilling. At any time that the average price received for natural gas produced from the wells drilled hereunder declines below \$1.40 per MMBTU, HNG shall, either acting on its own or if Parker so requests, cease marketing such gas to the extent contractual commitments permit until the average price that can be obtained for such gas rises above such figure or the parties otherwise agree. During such period of suspended sales, Parker shall not be required to drill or complete any additional wells under the Agreement.

13.2 Value of Reserves. If at any time the value, as determined by DeGolyer and MacNaughton, or other petroleum engineering firm mutually agreed upon, of the proved reserves attributable to the Limited Assignments in wells previously drilled and completed by Parker, using a twelve percent (12%) discount rate, does not equal or exceed one hundred fifty percent (150%) of the total remaining amount debited to the

Payout Account (with the exception of charges for wells then in the process of being drilled but including the anticipated charges incident to completing for production any behind-the-pipe reserves), including accrued interest, provided herein, either Parker or HNG shall have the right to terminate this Agreement. If either Parker or HNG so terminates this Agreement, Parker shall complete the drilling of the wells in progress at the time of such termination. A determination of reserves for purposes of this section 13.2 may be made at any time selected by either Parker or HNG, and shall be at the expense of the party requesting such a determination.

13.3 Sales of Natural Gas. If the average takes of natural gas by HNG's and Parker's purchasers from wells drilled and completed pursuant to this Agreement for any consecutive two (2) month period are less than fifty percent (50%) of HNG's and Parker's pro rata share of the delivery capacity of such wells, Parker shall have the right, upon thirty (30) days notice, to terminate this Agreement. If either Parker or HNG so terminates this Agreement, Parker shall complete the drilling of the wells in progress at the time of termination.

#### Article 14. Indemnification.

14.1 Indemnification of Parker. Unless restricted by law, HNG shall indemnify Parker and hold Parker and its agents and employees harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs, expenses, and disbursements of any kind or nature whatsoever that may be imposed on, incurred by, or asserted against Parker, in any way relating to or arising out of any of the Contract Documents related to this transaction, directly or indirectly, or any of the transactions contemplated therein, to the extent that any such indemnified liabilities result, directly or indirectly, from the breach or failure of or failure to perform any representation, warranty, covenant, or agreement of HNG under any of the Contract Documents.

14.2 Indemnification of HNG. Unless restricted by law, Parker shall indemnify HNG and hold HNG and its agents and employees harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs, expenses, and disbursements of any kind or nature whatsoever that may be imposed on, incurred by, or asserted against HNG, in any way relating to or arising out of any of the Contract Documents related to this transaction, directly or indirectly, or any of the transactions contemplated therein, to the extent that any such indemnified liabilities result, directly or indirectly, from the breach or failure of or failure to perform any representation, warranty, covenant, or agreement of Parker under any of the Contract Documents.

#### Article 15. Miscellaneous.

15.1 Headings. The headings, captions, and arrangements used in the Contract Documents are, unless specified otherwise, for convenience only and shall not be deemed to limit, amplify, or modify the terms of the documents, nor affect the meaning thereof.

15.2 Notices. Whenever any document requires or permits any consent, approval, notice, request, or demand from one party to another, the consent, approval, notice, request, or demand must be in writing to be effective and, if given other than by mail, shall be deemed to have been given on the date actually delivered or, if mailed, on the seventh (7th) business day after it is enclosed in an envelope, addressed to the party to be notified at the address stated on the signature page hereof (or to such other address as may have been designated by written notice), properly stamped, sealed, and deposited in the United States mail.

15.3 Survival. All covenants, agreements, undertakings, representations, and warranties made in this Agreement or any Contract Document shall survive all closings



under this Agreement, shall not be affected by any investigation made by any party, except as otherwise expressly indicated, and shall continue in full force and effect for the benefit of the interests assigned pursuant hereto and the holders thereof.

15.4 Governing Law. This Agreement and all Contract Documents contemplated hereunder and for which provision is made are being executed and delivered, and are intended to be performed, in the State of Texas, and the laws of such state or such other state where operations are performed by mutual agreement of the parties and of the United States of America shall govern the rights and duties of the parties hereto and the validity, construction, enforcement, and interpretation of the instruments, except to the extent otherwise specified in any of the instruments.

15.5 Maximum Interest Rate. Regardless of any provision herein contained, Parker shall never be entitled to receive, collect, or apply, as interest on any amounts due to Parker from HNG hereunder, any amount in excess of the highest lawful rate of interest provided by law ("Highest Lawful Rate"), and, in the event Parker ever receives, collects, or applies as interest, any such excess, such amount that would be excessive interest shall be deemed a partial prepayment of the principal debit balance of the account and treated hereunder as such; and, if the account is paid in full, any remaining excess shall forthwith be paid to HNG. In determining whether the interest paid or payable, under any specific contingency, exceeds the Highest Lawful Rate, HNG and Parker shall, to the maximum extent permitted under applicable law, (i) characterize any nonprincipal payment as an expense, fee, or premium rather than as interest and will be credited to principal, and (ii) amortize, prorate, allocate, and spread, in equal parts, the total amount of interest throughout the entire contemplated term of any outstanding debit balance of the account so that the interest rate is uniform throughout the entire existence of the account provided that, if the account is paid and performed in full, and if the interest received for the actual period of existence thereof exceeds the Highest Lawful Rate, Parker shall

refund to HNG the amount of such excess, and, in such event, Parker shall not be subject to any penalties provided by any laws or regulation for contracting for, charging, taking, reserving, or receiving interest in excess of the Highest Lawful Rate.

15.6 Severability. If any provision of any Contract Document contemplated or provided for herein or of this Agreement is held to be illegal, invalid, or unenforceable under present or future laws effective during the term thereof, such provision shall be fully severable; the appropriate instrument shall be construed and enforced as if such illegal, invalid, or unenforceable provision had never comprised a part thereof; and the remaining provisions thereof shall remain in full force and effect and shall not be affected by the illegal, invalid, or unenforceable provision or by its severance therefrom. Furthermore, in lieu of such illegal, invalid, or unenforceable provisions, there shall be added automatically as a part of such instrument a provision as similar in terms to such illegal, invalid, or unenforceable provision as may be possible and be legal, valid, and enforceable.

15.7 Entirety and Amendments. This Agreement embodies the entire agreement between the parties, supersedes all prior agreements and understanding, if any, relating to the subject matter hereof, and may be amended only by an instrument in writing executed jointly by an authorized officer of HNG and of Parker, and supplemented only by documents delivered or to be delivered in accordance with the express terms hereof. In the event of any conflicts between the provisions of this Agreement and provisions in any of the other Contract Documents, the provisions of this Agreement shall control.

15.8 Money. Unless stipulated, otherwise, all references in any of the Contract Documents to "dollars," "money," "payments," or other similar financial or monetary terms, are references to currency of the United States of America.

15.9 Exhibits. If any exhibit that is to be executed and delivered, contains blanks, the same shall be completed correctly and in accordance with the terms and provisions contained and as contemplated herein prior to, at the time of, or after the execution and delivery thereof.

15.10 Number and Gender of Words. Whenever in any Contract Documents the singular number is used, the same shall include the plural where appropriate, and vice versa; and words of any gender in any of the documents shall include each other gender where appropriate.

15.11 Nature of Relationship. None of the representations, warranties, covenants, or other provisions contained in any Contract Document shall, or shall be deemed to classify Parker other than as independent contractor having no agency, partnership, mining partnership, subchapter K partnership, joint venture, or affiliated relationship with HNG. If, for Federal income tax purposes, this Agreement and the operations hereunder are regarded as a partnership each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K," Chapter 11, Subtitle A of the Internal Revenue Code of 1954.

## Article 16. Arbitration.

16.1 Commitment to Arbitrate. Except where injunctive relief or specific performance is specifically provided for herein, Parker and HNG agree that any and all disputes arising under the terms of this Agreement and/or relating to the subject of this Agreement or the Parties' performance hereof shall be arbitrated under the provisions of Article 224, Texas Revised Civil Statutes, as amended, the rules of the American Arbitration Association and the following provisions. To the extent of any conflict between the rules of the American Arbitration Association and the following provisions, the provisions herein shall govern.


16.2 Determination of Disputes Between Parties. If at any time during the existence of this Agreement any dispute should arise between the Parties, such dispute shall be determined by arbitration as follows:

Within ten (10) days after the Party complaining notifies the Party to whom the complaint is directed in writing that each Party shall select an arbitrator, who must be an officer of an independent drilling contractor or independent producer with at least fifteen (15) years experience in the drilling or exploration business. After both Parties have submitted in writing to both arbitrators their respective statements fully disclosing the facts pertaining to the dispute, such arbitrators shall select a third and additional arbitrator for the purpose of conducting a hearing and determining whether such a default has occurred. If such arbitrators are unable to select such an arbitrator, such arbitrator shall be appointed by the Chief Judge of the United States District Court for the Southern District of Texas at the request of either Party. As soon as possible after such appointment, all arbitrators shall meet and determine the dispute. A majority decision shall be final and binding on all Parties. Each Party to this Agreement shall bear the expense of its arbitrator, and the expense relating to the selection and services of the additional arbitrator shall be borne one-half by each of the Parties involved.

16.3 Failure to Appoint Arbitrator. If either Party should fail to appoint an arbitrator as provided above, the arbitrator appointed by the other party shall make the pertinent decision and his decision shall be final and binding on all Parties.

IN WITNESS WHEREOF, HNG and Parker have executed this Agreement, effective July 21, 1986.

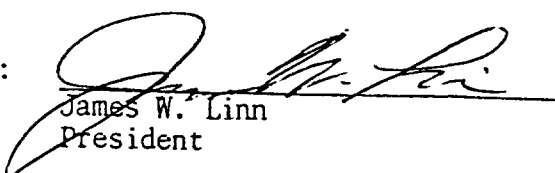
ATTEST:

  
Assistant Secretary

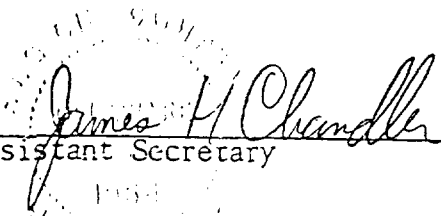
Address:  
Eight East Third Street  
Tulsa, Oklahoma 74102

PARKER DRILLING COMPANY, LTD.

By:

  
James W. Linn  
President

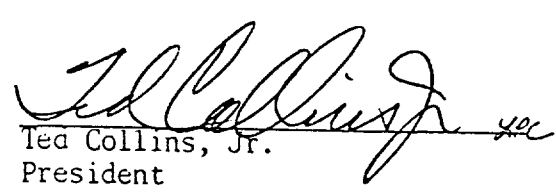
ATTEST

  
Assistant Secretary

Address:  
508 West Wall Street  
Post Office Box 2267  
Midland, Texas 79702

HNG OIL COMPANY

By:

  
Ted Collins, Jr.  
President

THE STATE OF Oklahoma §  
COUNTY OF  Tulsa  §

BEFORE ME, the undersigned authority, on this day personally appeared James W. Linn, the President of PARKER DRILLING COMPANY, LTD., known to me to be the person whose name is subscribed to the foregoing instrument, and swore to me that he executed the same for the purposes and consideration therein expressed, in the capacity therein stated, and as the act and deed of said PARKER DRILLING COMPANY, LTD.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, this 1<sup>st</sup> day of August, 1986.

Marguerite J. Landrum  
Notary Public in and for the  
State of Oklahoma

My commission expires: 10-9-89

THE STATE OF TEXAS §  
COUNTY OF Midland §

BEFORE ME, the undersigned authority, on this day personally appeared Ted Collins, Jr., the President of HNG OIL COMPANY, known to me to be the person whose name is subscribed to the foregoing instrument, and swore to me that he executed the same for the purposes and consideration therein expressed, in the capacity therein stated, and as the act and deed of said HNG OIL COMPANY.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, this 22nd day of July, 1986.

Joyce O'Bannon  
Notary Public in and for the  
State of Texas Joyce O'Bannon

My commission expires: 6-30-89

EXHIBIT "1"  
PREFERRED DRILLING SEQUENCE

<u>Well Name</u>	<u>Field</u>	<u>County</u>	<u>Proposed T.D.</u>	<u>Location</u>
1. Gulf "5" Federal #1	Wildcat	Eddy	12,200'	2310' FNL & 660' FEL Section 5, T-25-S, R-29-E.
2. Owen Mesa <sup>2-6</sup> "25" Fed. Com #1	Owen Mesa (Atoka)	Eddy	14,300'	1980' FSL & 760' FWL Section 25, T-24-S, R-29-E.
3. Diamond "5" Fed. #3	Pitchfork Ranch (Atoka)	Lea	14,100'	660' FNL & 2230' FWL Section 5, T-25-S, R-34-E.
4. Jewel "2" State #1	Pitchfork Ranch (Morrow)	Lea	15,500'	1980' FSL & 660' FWL Section 2, T-25-S, R-34-E.
5. Gobbler's Knob "30" Fed Com #1	Happy Valley (Morrow)	Eddy	12,000'	2180' FSL & 1980' FWL Section 30, T-22-S, R-26-E.
6. Fort "7" Com #1	Malaga (Atoka)	Eddy	12,300'	660' FSL & 2310' FEL Section 7, T-24-S, R-29-E.
Madera "32" State 3	Pitchfork	Lea	14,100'	1000' FSL; 1980' FEL Sec 32 T24S R34E
Madera "33" Fed Com #3	Pitchfork	Lea	14,100'	660' FNL; 1980'

EXHIBIT "2"

APPROVED SERVICES VENDOR LIST

- I. Completion Rig
  - A. Carr Well Service, Inc.
  - B. Monument Well Servicing
  - C. Pool Well Servicing Company
  - D. X-Pert Well Service, Inc.
- II. Mud, Chemicals and Services
  - A. IMCO Services
  - B. Dresser Magcobar Group
  - C. N L Baroid
  - D. Milpark
  - E. Maverick Mud Service, Inc.
- III. Acidizing, Fracturing, Cement and Services, Float Equipment
  - A. Halliburton Services
  - B. The Western Company of North America
  - C. Dowell Division of Schlumberger
- IV. Wireline Services
  - A. Dresser Industries, Incorporated
  - B. Welex
  - C. Schlumberger Companies
  - D. -Zone Perforators, Inc.
  - E. -R&M Wireline Service
  - F. The Dia-Log Company



- V. Drillstem and Wireline Test
  - A. Halliburton Services
  - B. Johnston Testers
  - C. Duke Services
  - D. Kuydendall Wireline Service Co., Inc.
- VI. Packers
  - A. Otis Engineering Corporation
  - B. Baker Oil Tools, Inc.
  - C. Guiberson Division
- VII. Equipment and Pipe rental
  - A. Land & Marine Rental Company
  - B. OD Rentals
  - C. Trio Equipment, Inc.
  - D. Petco Fishing & Rental Tools
  - E. Donham Oil Tool Co., Inc.
- VIII. Casing Crews
  - A. Earnest Power Tong Service
  - B. Sherman Power Tongs, Inc.
  - C. Bob's Casing Crews, Inc.
- IX. Fishing Tools
  - A. Petco Fishing & Rental Tools
  - B. Dotco Fishing Tools
- X. Tubular Inspection
  - A. Curley's Inspection Service, Inc.
  - B. AMF Tuboscope, Inc.
  - C. Midessa Inspection Service, Inc.
  - D. ICO, Universal Tubular

XI. Liner Equipment

A. Lindsey Completion Systems (M.W.L.)

B. TIW

XII. Wellhead Equipment

A. WKM (Valves only)

B. Gray Tool Co.

C. Cameron Iron Works

D. Axelson (Safety Valves)



INTERNATIONAL ASSOCIATION OF DRILLING CONTRACTORS  
DRILLING BID PROPOSAL  
AND  
DAYWORK DRILLING CONTRACT — U.S.

Revised January, 1982

TO: Parker Drilling Company, Ltd.  
P. O. Box 6950  
Odessa, TX 79767

Please submit bid on this drilling contract form for performing the work outlined below, upon the terms and for the consideration set forth, with the understanding that if the bid is accepted by \_\_\_\_\_

this instrument will constitute a contract between us. Your bid should be mailed or delivered not later than \_\_\_\_\_ P.M. on \_\_\_\_\_ 19 \_\_\_\_\_ to the following address.

THIS AGREEMENT, made and entered into on the date hereinafter set forth by and between the parties herein designated as "Operator" and "Contractor",

OPERATOR: HNG Oil Company  
Address: P. O. Box 2267  
Midland, TX 79702

CONTRACTOR: Parker Drilling Company  
Address: P. O. Box 6950  
Odessa, TX 79767

IN CONSIDERATION of the mutual promises, conditions and agreements herein contained and the specifications and special provisions set forth in Exhibit "A" and Exhibit "B" attached hereto and made a part hereof, Operator engages Contractor as an independent Contractor to drill the hereinafter designated well or wells in search of oil or gas on a daywork basis.

For purposes hereof the term "daywork basis" means Contractor shall furnish equipment, labor, and perform services as herein provided, for a specified sum per day under the direction, supervision and control of Operator (which term is deemed to include any employee, agent, consultant or subcontractor engaged by Operator to direct drilling operations). When operating on a daywork basis, Contractor shall be fully paid at the applicable rates of payment and assumes only the obligations and liabilities stated herein. Except for such obligations and liabilities specifically assumed by Contractor, Operator shall be solely responsible and assumes liability for all consequences of operations by both parties while on a daywork basis, including results and all other risks or liabilities incurred in or incident to such operations.

1. LOCATION OF WELL:

Well Name  
and Number: As designated by HNG Oil Company under its 22 well agreement with Parker Drilling Company, Ltd. (the Agreement)  
Parish: \_\_\_\_\_ Field: \_\_\_\_\_  
County: Lea & Eddy State: New Mexico  
Well location and land description: As designated per the Agreement

1.1 Additional Well Locations or Areas: As designated per the Agreement

Locations described above are for well and contract identification only and Contractor assumes no liability whatsoever for a proper survey or location stake on Operator's lease.

2. COMMENCEMENT DATE:

Contractor agrees to use best efforts to commence operations for the drilling of well by the per the Agreement day of \_\_\_\_\_ 19 \_\_\_\_\_ or \_\_\_\_\_

3. DEPTH:

3.1 Well Depth: The well(s) shall be drilled to depth of approximately \_\_\_\_\_ feet, or to the \_\_\_\_\_ formation, whichever is deeper, but the Contractor shall not be required hereunder to drill said well(s) below a maximum depth of 16,000 feet, unless Contractor and Operator mutually agree to drill to a greater depth.

4. DAYWORK RATES:

Contractor shall be paid at the following rates for the work performed hereunder.

4.1 Mobilization: Operator shall pay Contractor a mobilization fee of \$ Actual Cost and 4,930.00 per day. This sum shall be due and payable in full at the time the rig is rigged up or positioned at the well site ready to spud. Mobilization shall include Trucking, Transportation and Crane Service to Move In and Rig Up

4.2 Demobilization: Operator shall pay Contractor a demobilization fee of \$ Actual Cost and 4,930.00 per day, provided however that no demobilization fee shall be payable if the contract is terminated due to the total loss or destruction of the rig. Demobilization shall include: Trucking, Transportation and Crane Service to Rig Down and Set Out

4.3 Moving Rate: During the time the rig is in transit to or from a drill site or between drill sites, commencing on \_\_\_\_\_, Operator shall pay Contractor a sum of \$ 4,930.00 per twenty-four (24) hour day

4.4 Operating Day Rate: For work performed per twenty-four (24) hour day with five (5) man crew the operating day rate shall be

Depth Intervals		Without Drill Pipe	With Drill Pipe
From	To		
<u>0</u>	<u>TD</u>	\$ <u>5,800.00</u> per day	\$ <u>5,800.00</u> per day
		\$ _____ per day	\$ _____ per day
		\$ _____ per day	\$ _____ per day

Using Operator's drill pipe \$ N/A per day

If under the above column "With Drill Pipe" no day rates are specified, the daywork rate per twenty-four hour day when drill pipe is in use shall be the applicable daywork rate specified in the column "Without Drill Pipe" plus compensation for any drill pipe actually used at the rates specified below, computed on the basis of the maximum drill pipe in use at any time during each twenty-four day.

#### DRILL PIPE RATES PER 24-HOUR DAY

Straight Hole			Directional or Uncontrollable Deviated Hole		
Size	Grade		Size	Grade	
\$ _____ per ft.	_____	_____	\$ _____ per ft.	_____	_____
\$ _____ per ft.	_____	_____	\$ _____ per ft.	_____	_____
\$ _____ per ft.	_____	_____	\$ _____ per ft.	_____	_____

Drill pipe shall be considered in use not only when in actual use but also while it is being picked up or laid down. When drill pipe is standing in the derrick, it shall not be considered in use, provided, however, that if Contractor furnishes special strings of drill pipe, drill collar, and handling tools as provided for in Exhibit "A", the same shall be considered in use at all times when on location or until released by Operator. In no event shall fractions of an hour be considered in computing the amount of time drill pipe is in use but such time shall be computed to the nearest hour, with thirty minutes or more being considered a full hour and less than thirty minutes not to be counted.

Operating rate will begin when the drilling unit is rigged up at the drilling location, or positioned over the location during marine work, and ready to commence operations, and will cease when the rig is ready to be moved off the location.

4.5 Repair Rate: In the event it is necessary to shut down Contractor's rig for repairs, excluding routine rig servicing, while Contractor is performing daywork hereunder, Contractor shall be allowed compensation at the applicable daywork rate for each period of shutdown time up to a maximum of 8 hours for any one repair job and a total of 24 hours for each thirty (30) day period. Thereafter, Contractor shall be compensated at a rate of \$ \_\_\_\_\_ per twenty-four (24) hour day. Normal servicing of rig and cutting of drill line shall not be included in computing the number of hours of shutdown time.

4.6 Standby Time Rate with Crews: \$ 4,930.00 per twenty-four (24) hour day. Standby time shall be defined to include time when the rig is shut down although in readiness to begin or resume operations but Contractor is waiting on orders of Operator or on materials, services or other items to be furnished by Operator.

4.7 Force Majeure Rate: \$ 4,930.00 per twenty-four (24) hour day for any continuous period that normal operations are suspended or cannot be carried on due to conditions of force majeure as defined in Paragraph 16 hereof. It is, however, understood that Operator can release the rig in accordance with Operator's right to direct stoppage of the work, effective when conditions will permit the rig to be moved from the location.

4.8 Reimbursable Costs: Operator shall reimburse Contractor for the costs of material, equipment, work or services which are to be furnished by Operator as provided for herein but which for convenience are actually furnished by Contractor at Operator's request, plus 20 percent for such cost of handling.

4.9 Revision in Rates: The rates and/or payments herein set forth due to Contractor from Operator shall be revised to reflect the change in costs if the costs of any of the items hereinafter listed shall vary by more than N.A. percent from the costs thereof on the date of this Contract or by the same percent after the date of any revision pursuant to this paragraph:

- Labor costs, including all benefits, of Contractor's personnel;
- Contractor's cost of insurance premiums;
- Contractor's cost of fuel, the cost per gallon/MCF being \$ N.A.;
- Contractor's cost of catering, when applicable;
- If Operator requires Contractor to increase or decrease the number of Contractor's personnel;
- Contractor's cost of spare parts and supplies with the understanding that such spare parts and supplies constitute \_\_\_\_\_ percent of the Operating Rate and that the parties shall use the U.S. Bureau of Labor Statistics Oilfield Drilling Machinery and Equipment Wholesale Price Index (Code No. 1191-02) to determine to what extent a price variance has occurred in said spare parts and supplies;
- If there is any change in legislation or regulations in the area in which Contractor is working or other unforeseen, unusual event that alters Contractor's financial burden.

#### 5. TIME OF PAYMENT: As per the Agreement

~~Subject to Operator's right to require Contractor to furnish him with satisfactory evidence that Contractor has paid all labor and material charges chargeable to Contractor, payment becomes due by Operator to Contractor as follows:~~

5.1 Payment for mobilization, drilling and other work performed at applicable day rates, and all other applicable charges shall be due upon presentation of invoice therefor upon completion of mobilization, completion of the well, or at the end of the month in which such work was performed or other charges are incurred, whichever shall first occur. ~~Any invoices may be mailed to Operator at address hereinabove shown, unless Operator does hereby designate that such invoices shall be mailed as follows:~~

5.2 Any sum or sums not paid within \_\_\_\_\_ days after the date of invoice shall bear interest at the rate of \_\_\_\_\_ percent per \_\_\_\_\_ or the maximum legal rate, whichever is less, from such date until paid.

5.3 Attorney's Fees: If this Contract is placed in the hands of an attorney for collection of any sums due hereunder, or suits brought on same, or sums due hereunder are collected through bankruptcy or probate proceedings, then Operator agrees that there shall be added to the amount due reasonable attorney's fees and costs.

#### 6. TERM: As per the Agreement

~~6.1 Duration of Contract: This Contract shall remain in full force and effect until drilling operations are completed on the well or wells specified in Paragraph 1 above, or for a term of \_\_\_\_\_, commencing on the date specified in Paragraph 2 above.~~

6.2 Extension of Term: Operator may extend the term of this Contract for \_\_\_\_\_ well(s) or for a period of \_\_\_\_\_ by giving notice to Contractor at least \_\_\_\_\_ days prior to completion of the well then being drilled or by \_\_\_\_\_

#### 6.3 Early Termination:

(a) By Either Party: Upon giving of written notice, either party may terminate this Contract when conditions of force majeure, total loss or destruction of the rig, or a major breakdown with indefinite repair time necessitate stopping operations hereunder.

(b) By Operator: Notwithstanding the provisions of Paragraph 3 with respect to the depth to be drilled, Operator shall have the right to direct the stoppage of the work to be performed by Contractor hereunder at any time prior to reaching the specified depth, and even though Contractor has made no default hereunder. In such event Operator shall reimburse Contractor as set forth in sub-paragraph 6.4 hereof.

(c) By Contractor: Notwithstanding the provision of Paragraph 3 with respect to the depth to be drilled, in the event Operator shall become insolvent, or be adjudicated a bankrupt, or file, by way of petition or answer, a debtor's petition or other pleading seeking adjustment of Operator's debts, under any bankruptcy or debtor's relief laws now or hereafter prevailing, or if any such be filed against Operator, or in case a receiver be appointed of Operator or Operator's property, or any part thereof, or Operator's affairs be placed in the hands of a Creditor's Committee, Contractor may, at his option, elect to terminate further performance of any work under this Contract and Contractor's right to compensation shall be as set forth in sub-paragraph 6.4 hereof. In addition to Contractor's right to terminate performance hereunder, Operator hereby expressly agrees to protect, indemnify and save Contractor harmless from any claims, demands and causes of action, including all costs of defense, in favor of Operator, Operator's joint venturers, or other parties arising out of any drilling commitments or obligations contained in any lease, farmout agreement or other agreement, which may be affected by such termination of performance hereunder.

#### 6.4 Early Termination Compensation:

(a) Prior to Commencement: In the event Operator terminates this Contract prior to commencement of operations hereunder, Operator shall pay Contractor as liquidated damages and not as a penalty a sum equal to the Standby Rate with Crews (Article 4.6) for a period of \_\_\_\_\_ days or a lump sum of \$ \_\_\_\_\_

(b) Prior to Spudding: If such termination occurs after commencement of operations but prior to the spudding of the well, Operator shall pay to Contractor the sum of the following: (1) all expenses reasonably and necessarily incurred and to be incurred by Contractor by reason of the Contract and by reason of the premature termination of the work, including the expense of drilling or other crew members and supervision directly assigned to the rig; (2) Ten percent (10%) of the amount of such reimbursable expenses; and (3) a sum calculated at the standby rate for all time from the date upon which Contractor commences any operations hereunder down to such date subsequent to the date of termination as will afford Contractor reasonable time to dismantle his rig and equipment provided however, if this Contract is for a term of more than one well or for a period of time, Operator shall pay Contractor, in addition to the above, the force majeure rate less any unnecessary labor from that date subsequent to termination upon which Contractor completes dismantling his rig and equipment until the end of the term or \_\_\_\_\_

(c) If such termination occurs after the spudding of the well, Operator shall pay Contractor (1) the amount for all applicable daywork rates and all other charges and reimbursements due to Contractor; but in no event shall such sum, exclusive of reimbursements due, be less than would have been earned for \_\_\_\_\_ days at the applicable day rate "Without Drill Pipe" and the actual amount due for drill pipe used in accordance with the above rates, or at the election of Contractor and in lieu of the foregoing, Operator shall pay Contractor for all expenses reasonably and necessarily incurred and to be incurred by reason of this Contract and by reason of such premature termination plus a lump sum of \$\_\_\_\_\_ provided, however, if this Contract is for a term of more than one well or for a period of time, Operator shall pay Contractor, in addition to the above, the force majeure rate less any unnecessary labor from the date of termination until the end of the term of \_\_\_\_\_.

#### 7. CASING PROGRAM:

Contractor shall drill a well sufficient in size to set, at the approximate depths indicated, the size casing specified in the casing program provisions of Exhibit "A". Operator shall have the right to designate the points at which casing will be set and the manner of setting, cementing and testing. Operator may modify the casing program, however, any such modification which materially increases Contractor's hazards or costs can only be made by mutual consent of Operator and Contractor and upon agreement as to the additional compensation to be paid Contractor as a result thereof.

#### 8. DRILLING METHODS AND PRACTICES:

8.1 Contractor shall maintain well control equipment in good condition at all times and shall use all reasonable means to control and prevent fires and blow-outs and to protect the hole.

8.2 Subject to the terms hereof, and at Operator's cost, at all times during the drilling of the well, Operator shall have the right to control the mud program, and the drilling fluid must be of a type and have characteristics and be maintained by Contractor in accordance with the specifications shown in Exhibit "B".

8.3 Contractor will conduct operations to comply with all laws, rules, orders, and regulations, Federal, State, and Local, which are applicable to Contractor. Contractor's business, equipment, and personnel engaged in operations covered by this Contract, including but not limited to those set forth in Exhibit "B".

8.4 Contractor shall keep and furnish to Operator an accurate record of the work performed and formations drilled on the IADC-API Daily Drilling Report Form or other form acceptable to Operator. A legible copy of said form signed by Contractor's representative shall be furnished by Contractor to Operator.

8.5 If requested by Operator, Contractor shall furnish Operator with copy of delivery tickets covering any material or supplies provided by Operator and received by Contractor.

#### 9. INGRESS, EGRESS, AND LOCATION:

Operator hereby assigns to Contractor all necessary rights of ingress and egress with respect to the tract on which the well is to be located for the performance by Contractor of all work contemplated by this Contract. Should Contractor be denied free access to the location for any reason not reasonably within Contractor's control, any time lost by Contractor as a result of such denial shall be paid for at the applicable rate.

#### 10. SOUND LOCATION:

Operator shall prepare a sound location adequate in size and capable of properly supporting the drilling rig, and shall be responsible for a conductor pipe program adequate to prevent soil and sub-soil wash out. It is recognized that Operator has superior knowledge of the location and access routes to the location, and must advise Contractor of any sub-surface conditions, or obstructions which Contractor might encounter while en route to the location or during operations hereunder. In the event sub-surface conditions cause a cratering or shifting of the location surface, or if seabed conditions prove unsatisfactory to properly support the rig during marine operations hereunder, and loss or damage to the rig or its associated equipment results therefrom, Operator shall, without regard to other provisions of this Contract, including Paragraph 14.1 hereof, reimburse Contractor to the extent not covered by Contractor's insurance, for all such loss or damage including payment of force majeure rate during repair and/or demobilization if applicable.

#### 11. EQUIPMENT CAPACITY:

If applicable hereunder, operations shall not be attempted where canal or water depths are in excess of \_\_\_\_\_ N/A \_\_\_\_\_ feet, or under any other conditions which exceed the capacity of the equipment specified to be used hereunder. Contractor shall make final decision as to when an operation or attempted operation would exceed the capacity of specified equipment.

#### 12. TERMINATION OF LOCATION LIABILITY:

When Contractor has complied with all obligations of the Contract regarding restoration of Operator's location, Operator shall thereafter be liable for damage to property, personal injury or death of any person which occurs as result of conditions of the location and Contractor shall be relieved of such liability; provided, however, if Contractor shall subsequently reenter upon the location for any reason, including removal of the rig, any term of the Contract relating to such reentry activity shall become applicable during such period.

#### 13. INSURANCE:

During the life of this Contract, Contractor shall at Contractor's expense maintain with an insurance company or companies authorized to do business in the state where the work is to be performed or through a self-insurance program, insurance coverages of the kind and in the amounts set forth in Exhibit "A". Contractor shall, if requested to do so by Operator, procure from the company or companies writing said insurance a certificate or certificates that said insurance is in full force and effect and that the same shall not be cancelled or materially changed without ten (10) days prior written notice to Operator. For liabilities assumed hereunder by Contractor, its insurance shall be endorsed to provide that the underwriters waive their right of subrogation against Operator. Operator will, as well, cause its insurer to waive subrogation against Contractor for liability it assumes.

#### 14. RESPONSIBILITY FOR LOSS OR DAMAGE:

14.1 Contractor's Surface Equipment: Contractor shall assume liability at all times, for damage to or destruction of Contractor's surface equipment, including but not limited to all drilling tools, machinery, and appliances for use above the surface, regardless of when or how such damage or destruction occurs, and Operator shall be under no liability to reimburse Contractor for any such loss except loss or damage under the provisions of Paragraphs 10 or 14.3.

14.2 Contractor's In-Hole Equipment: Operator shall assume liability at all times for damage to or destruction of Contractor's in-hole equipment, including but not limited to, drill pipe, drill collars, and tool joints, and Operator shall reimburse Contractor for the value of any such loss or damage, the value to be determined by agreement between Contractor and Operator as current repair cost or 100% percent of current new replacement cost of such equipment delivered to the well site.

14.3 Contractor's Equipment — Environmental Loss or Damage: Notwithstanding the provisions of Paragraph 14.1 above, Operator shall assume liability at all times for damage to or destruction of Contractor's equipment caused by exposure to highly corrosive or otherwise destructive elements, including those introduced into the drilling fluid.

14.4 Operator's Equipment: Operator shall assume liability at all times for damage to or destruction of Operator's equipment, including but not limited to casing, tubing, well head equipment, and platform if applicable, and Contractor shall be under no liability to reimburse Operator for any such loss or damage.

14.5 The Hole: In the event the hole should be lost or damaged, Operator shall be solely responsible for such damage to or loss of the hole, including the casing therein.

14.6 Underground Damage: Operator agrees to defend and indemnify Contractor for any and all claims against Contractor resulting from operations under this Contract on account of injury to, destruction of, or loss or impairment of any property right in or to oil, gas, or other mineral substance or water, if at the time of the act or omission causing such injury, destruction, loss or impairment, said substance had not been reduced to physical possession above the surface of the earth, and for any loss or damage to any formation, strata, or reservoir beneath the surface of the earth.

14.7 Inspection of Materials Furnished by Operator: Contractor agrees to visually inspect all materials furnished by Operator before using same and to notify Operator of any apparent defects therein. Contractor shall not be liable for any loss or damage resulting from the use of materials furnished by Operator.

14.8 Contractor's Indemnification of Operator: Contractor agrees to protect, defend, indemnify, and save Operator, its officers, directors, employees and joint owners harmless from and against all claims, demands, and causes of action of every kind and character, without limit and without regard to the cause or causes thereof or the negligence of any party or parties, arising in connection herewith in favor of Contractor's employees or Contractor's subcontractors or their employees, or Contractor's invitees, on account of bodily injury, death or damage to property. It is judicially determined that the monetary limits of insurance required hereunder or of the indemnities voluntarily and mutually assumed under paragraph 14.8 which Contractor and Operator hereby agree will be supported either by available liability insurance, under which the insurer has no right of subrogation against the indemnitees, or voluntarily self-insured, in part or whole, exceed the maximum limits permitted under applicable law. It is agreed that said insurance requirements or indemnities shall automatically be amended to conform to the maximum monetary limits permitted under such law.

14.9 Operator's Indemnification of Contractor: Operator agrees to protect, defend, indemnify, and save Contractor, its officers, directors, employees and joint owners harmless from and against all claims, demands, and causes of action of every kind and character, without limit and without regard to the cause or causes thereof or the negligence of any party or parties, arising in connection herewith in favor of Operator's employees or Operator's subcontractors or their employees, or Operator's invitees, other than those parties identified in paragraph 14.8 on account of bodily injury, death or damage to property. It is judicially determined that the monetary limits of insurance required hereunder or of the indemnities voluntarily and mutually assumed under paragraph 14.9 which Contractor and Operator hereby agree will be supported either by available liability insurance, under which the insurer has no right of subrogation against the indemnitee, or voluntarily self-insured, in part or whole, exceed the maximum limits permitted under applicable law. It is agreed that said insurance requirements or indemnities shall automatically be amended to conform to the maximum monetary limits permitted under such law.

14.10. **Liability for Wild Well:** Operator shall be liable for the cost of regaining control of any wild well, as well as for cost of removal of any debris, and shall indemnify Contractor in this regard.

14.11. **Pollution and Contamination:** Notwithstanding anything to the contrary contained herein, except the provisions of Paragraphs 10 and 12, it is understood and agreed by and between Contractor and Operator that the responsibility for pollution and contamination shall be as follows:

(a) Unless otherwise provided herein, Contractor shall assume all responsibility for, including control and removal of, and protect, defend and save harmless Operator from and against all claims, demands and causes of action of every kind and character arising from pollution or contamination, which originates above the surface of the land or water from spills of fuels, lubricants, motor oils, normal water base drilling fluid, pipe dope, paints, solvents, ballast, bilge and garbage, except unavoidable pollution from reserve pits, wholly in Contractor's possession and control and directly associated with Contractor's equipment and facilities.

(b) Operator shall assume all responsibility for, including control and removal of, and protect, defend, indemnify and save Contractor harmless from and against all claims, demands, and causes of action of every kind and character arising directly or indirectly from all other pollution or contamination which may occur during the conduct of operations hereunder, including but not limited to, that which may result from fire, blowout, cratering, seepage or any other uncontrolled flow of oil, gas, water or other substance, as well as, the use or disposition of oil emulsion, oil base or chemically treated drilling fluids, contaminated cuttings or cavings, lost circulation and fish recovery materials and fluids.

(c) In the event a third party commits an act or omission which results in pollution or contamination for which either Contractor or Operator, for whom such party is performing work, is held to be legally liable, the responsibility therefor shall be considered, as between Contractor and Operator, to be the same as if the party for whom the work was performed had performed the same and all of the obligations respecting defense, indemnity, holding harmless and limitation of responsibility and liability, as set forth in (a) and (b) above, shall be specifically applied.

14.12. **Consequential Damages:** Neither party shall be liable to the other for special, indirect or consequential damages resulting from or arising out of this Contract, including, without limitation, loss of profit or business interruptions, however same may be caused.

14.13. **Indemnity Obligation:** Except as otherwise expressly limited herein, it is the intent of parties hereto that all indemnity obligations and/or liabilities assumed by such parties under terms of this Contract, including, without limitation, paragraphs 14.1 through 14.12 hereof, be without limit and without regard to the cause or causes thereof (including pre-existing conditions), the unseaworthiness of any vessel or vessels, strict liability, or the negligence of any party or parties, whether such negligence be sole, joint or concurrent, active or passive. The terms and provisions of paragraphs 14.1 through 14.12 shall have no application to claims or causes of action asserted against Operator or Contractor by reason of any agreement of indemnity with a person or entity not a party hereto.

#### 15. NO WAIVER EXCEPT IN WRITING:

It is fully understood and agreed that none of the requirements of this Contract shall be considered as waived by either party unless the same is done in writing, and then only by the persons executing this Contract, or other duly authorized agent or representative of the party.

#### 16. FORCE MAJEURE:

Neither Operator nor Contractor shall be liable to the other for any delays or damage or any failure to act due, occasioned or caused by reason of any laws, rules, regulations or orders promulgated by any Federal, State, or Local governmental body or the rules, regulations, or orders of any public body or official purporting to exercise authority or control respecting the operations covered hereby, including the procurement or use of tools and equipment, or due, occasioned or caused by strikes, action of the elements, water conditions, inability to obtain fuel or other critical materials, or other causes beyond the control of the party affected thereby. In the event that either party hereto is rendered unable, wholly or in part, by any of these causes to carry out its obligation under this Contract, it is agreed that such party shall give notice and details of Force Majeure in writing to the other party as promptly as possible after its occurrence. In such cases, the obligations of the party giving the notice shall be suspended during the continuance of any inability so caused except that Operator shall be obligated to pay to Contractor the Force Majeure Rate provided for in Paragraph 4.7 above.

#### 17. INFORMATION CONFIDENTIAL:

Upon written request by Operator, information obtained by Contractor in the conduct of drilling operations on this well, including, but not limited to, depth, formations penetrated, the results of coring, testing, and surveying, shall be considered confidential and shall not be divulged by Contractor or his employees, to any person, firm, or corporation other than Operator's designated representatives.

#### 18. SUBCONTRACTS BY OPERATOR:

Operator may employ other contractors to perform any of the operations or services to be provided or performed by it according to Exhibit "A".

#### 19. ASSIGNMENT:

Neither party may assign this Contract without the prior written consent of the other, and prompt notice of any such intent to assign shall be given to the other party. In the event of such assignment, the assigning party shall remain liable to the other party as a guarantor of the performance by the assignee of the terms of this Contract. If any assignment is made that materially alters Contractor's financial burden, Contractor's compensation shall be adjusted to give effect to any increase or decrease in Contractor's operating costs.

#### 20. NOTICES AND PLACE OF PAYMENT:

All notices to be given with respect to this Contract unless otherwise provided for shall be given to the Contractor and to the Operator respectively at the addresses hereinabove shown. All sums payable hereunder to Contractor shall be payable at his address hereinabove shown unless otherwise specified herein.

#### 21. SPECIAL PROVISIONS: Refer to the Agreement for any items left blank.

SEE ATTACHED PROVISION SHEET

#### 22. ACCEPTANCE OF CONTRACT:

The foregoing Contract is agreed to and accepted by Operator this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

OPERATOR: HNG OIL COMPANY

By \_\_\_\_\_

Title \_\_\_\_\_

The foregoing Contract is accepted by the undersigned as Contractor this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, which is effective date of this agreement, subject to its terms and provisions, with the understanding that unless said Contract is thus executed by Operator within \_\_\_\_\_ days of the above date, Contractor shall be in no manner bound by its signature thereon.

CONTRACTOR: PARKER DRILLING COMPANY, LTD.

By \_\_\_\_\_

Title \_\_\_\_\_

### SPECIAL PROVISIONS

1. Rig supervisory personnel namely (1) toolpusher and (2) drillers shall not be changed without consent of the Operator. In the event of any emergency or illness of its driller which prevents the driller from performing his duties, the toolpusher will be on the rig floor with the relief driller until such a time as the relief driller has been properly trained in blowout control and other specified techniques.
2. All drill pipe to be inspected by Tuboscope with Sonoscope standard inspection for Tuboscope #2 drill pipe plus special pin end area inspection immediately prior to use in this well.
3. Daywork rates include two full time toolpushers for 24 hour well supervision.
4. In the event high angle (above 7°) or hot hole deviation survey tools (Totco) are required, Operator will pay an additional charge over and above the Contractor's normal expense for conventional instruments.
5. Total compensated time to nipple up and test blowout preventers not to exceed 18 hours starting from the time casing is cut off or slips are set.
6. Blowout preventers (with the exception of Hydril) will be tested to the working pressure of top flange on wellhead or spool.
7. In the event of a general insurance and/or wage increase in the drilling industry, Operator shall reimburse Contractor for the actual cost of the increase.
8. When oil base drilling fluids are utilized, Operator agrees to pay Parker Drilling a sum of \$150.00 per day.
9. HNG agrees to reimburse Parker Drilling for New Mexico Gross Receipts tax.

Initialed by the

Parties as correct: For Owner \_\_\_\_\_ For Contractor \_\_\_\_\_

## SPECIFICATIONS AND SPECIAL PROVISIONS

**Size**

## 2. MUD CONTROL PROGRAM (See Par. 8.2)

3. INSURANCE (See Par. 13) Per the Agreement

- 4. EQUIPMENT, MATERIALS AND SERVICES TO BE FURNISHED BY CONTRACTOR:**

#### 4.1 Drifting Rig:

Engines: Make, Model, and H.P.

No. on Rig

Pumps: No. 1 Make, Size, and Power

No. 2 Make, Size, and Power

Mud Mixing Pump Make, Size, and Power

Boilers: Number, Make H P and W.P.

Derrick or Mast: Make, Size, and Capacity

### Substructure Size and Capacity

Rotary Drive Type

Drill Pipe. Size \_\_\_\_\_ in. \_\_\_\_\_ ft. Size \_\_\_\_\_ in. \_\_\_\_\_ ft.

Drill Collars: Number and Size

## Blowout Preventers

Size

Series or Test Pr.

### Make & Model

Number

B O P Closing Unit:

B O P Accumulator



- 4.2 Derrick timbers.  
 4.3 Normal strings of drill pipe and drill collars specified above.  
 4.4 Conventional drift indicator  
 4.5 Circulating mud pits  
 4.6 Necessary pipe racks and rigging up material.  
 4.7 Normal storage for mud and chemicals.  
 4.8 ~~Shovel loader~~  
 4.9 (2) Toolpushers for 24 hour supervision.  
 4.10 Toolpushers trailer  
 4.11 \_\_\_\_\_  
 4.12 \_\_\_\_\_  
 4.13 \_\_\_\_\_  
 4.14 \_\_\_\_\_  
 4.15 \_\_\_\_\_  
 4.16 \_\_\_\_\_  
 4.17 \_\_\_\_\_

# 5. EQUIPMENT, MATERIALS AND SERVICES TO BE FURNISHED BY OPERATOR:

The machinery, equipment, tools, materials, supplies, instruments, services and labor hereinafter listed, including any transportation required for such items, shall be provided at the location at the expense of Operator unless otherwise noted hereon.

- 5.1 Furnish and maintain adequate roadway and/or canal to location, right-of-way, including rights-of-way for fuel and water lines, river crossings, highway crossings, gates and cattle guards.  
 5.2 Stake location, clear and grade location, and provide turnaround, including surfacing when necessary.  
 5.3 Test tanks with pipe and fittings  
 5.4 Mud storage tanks with pipe and fittings.  
 5.5 Separator with pipe and fittings  
 5.6 Labor to connect and disconnect mud tank, test tank, and separator.  
 5.7 Labor to disconnect and clean test tanks and separator.  
 5.8 Drilling mud, chemicals, lost circulation materials and other additives.  
 5.9 Pipe and connections for oil circulating lines.  
 5.10 Labor to lay, bury and recover oil circulating lines.  
 5.11 Drilling bits, reamers, reamer cutters, stabilizers and special tools  
 5.12 Contract fishing tool services and tool rental.  
 5.13 Wire line core bits or heads and wire line core catchers if required.  
 5.14 Conventional core bits and core catchers.  
 5.15 Diamond core barrel with head  
 5.16 Cement and cementing service.  
 5.17 Electrical and Gamma-Neutron and Micro logging services.  
 5.18 Directional, caliper, or other special services  
 5.19 Gun or jet perforating services  
 5.20 Explosives and shooting devices.  
 5.21 Formation testing, hydraulic fracturing, acidizing and other related services  
 5.22 Equipment for drill stem testing  
 5.23 Mud logging services.  
 5.24 Sidewall coring service  
 5.25 Welding service for welding bottom joints of casing, guide shoe, float shoe, float collar and in connection with installing of well head equipment if required  
 5.26 Casing, tubing, lines, screen, float collars, guide and float shoes and associated equipment.  
 5.27 Casing scratchers and centralizers  
 5.28 Well head connections and all equipment to be installed in or on well or on the premises for use in connection with testing, completion and operation of well  
 5.29 Special or added storage for mud and chemicals.  
 5.30 Casinghead, API series, to conform to that shown for the blowout preventers specified in Paragraph 4.1 above  
 5.31 Blowout preventer testing packoff  
 5.32 Casing Thread Protectors and Casing Lubricants  
 5.33 Cement pad for rig substructure  
 5.34 All drill string inspections, this includes drill string inspections  
 5.35 at the termination of the well.  
 5.36 Rotating head & rubbers.  
 5.37 Corrosion control inhibitors.  
 5.38 Degasser, desander, desilter.  
 5.39 24 hour communication.  
 5.40 \_\_\_\_\_  
 5.41 \_\_\_\_\_

# 6. EQUIPMENT, MATERIALS AND SERVICES TO BE FURNISHED BY DESIGNATED PARTY:

The machinery, equipment, tools, materials, supplies, instruments, services, and labor listed as the following numbered items including any transportation required for such items unless otherwise specified, shall be provided at the location and at the expense of the party hereto as designated by an X mark in the appropriate column.

Item	To Be Provided By and At The Expense Of	
	Operator	Contractor
6.1 Cellar and runways	X	
6.2 Fuel (located at _____)	X	
6.3 Fuel Lines (length _____)	X	
6.4 Water at source, including required permits	X	
6.5 Water well, including required permits	X	
6.6 Water lines, including required permits	X	
6.7 Water storage tanks _____ capacity		X
6.8 Labor to operate water well or water pump		X
6.9 Maintenance of water well, if required	X	
6.10 Mals for engines and boilers, or motors and mud pumps		X
6.11 Transportation of Contractor's property		
Move in _____ Actual Cost	X	
Move out _____ Actual Cost	X	
6.12 Materials for boxing in rig and derrick		X
6.13 Special strings of drill pipe and drill collars as follows		
<u>Drill pipe larger than 5" and smaller</u>	X	
<u>than 3 1/2", including appropriate collars</u>		
<u>and handling tools.</u>		

Item (Continued)	To Be Provided By And At The Expense Of	
	Operator	Contractor
6.14 Kelly joints, subs, elevators and slips for use with special drill pipe	X	
6.15 Drill pipe protectors for Kelly joint and each joint of drill pipe running inside of Surface Casing as required, for use with normal strings of drill pipe	X	
6.16 Drill pipe protectors for Kelly joint and drill pipe running inside of Protection Casing	X	
6.17 Coring reel with wire line of sufficient length for coring at maximum depth specified in Contract	X	
6.18 Wire line core barrel	X	
6.19 Conventional core barrel	X	
6.20 Rate of penetration recording device 4 Pen		X
6.21 Extra labor for running and cementing casing	X	
6.22 Casing tools	X	
6.23 Power casing tongs	X	
6.24 Tubing tools	X	
6.25 Power tubing tong	X	
6.26 Swabbing unit with swabbing line	X	
6.27 Swab	X	
6.28 Swab lubricator	X	
6.29 Swab rubbers	X	
6.30 Crew Boats, Number	X	
6.31 Service Barge	X	
6.32 Service Tug Boat	X	
6.33 Helicopter service	X	
6.34 Rat Hole	X	
6.35 Mouse Hole	X	
6.36 Reserve Pits	X	
6.37 Erect and Dismantle Derrick	X	
6.38 Upper Kelly Cock		X
6.39 Drilling hole for or driving for conductor pipe	X	
6.40 Charges, cost of bonds for public roads	X	
6.41 20" Hydril	X	
6.42 Safety valve to fit all drill pipe having ID equal to or larger than drill pipe.		X
6.44 Misc. transportation expenses above initial move.	X	
7. OTHER PROVISIONS:		

Signed by the  
Parties as correct:

For Contractor \_\_\_\_\_

For Operator \_\_\_\_\_

### 1. EQUAL EMPLOYMENT OPPORTUNITY

A. Operator is an Equal Opportunity Employer. It is agreed as a condition of this Contract that unless any or all work performed hereunder is exempt under Executive Order 11246 (30 Fed. Reg. 12319) as amended, or under the rules and regulations issued thereunder, during the performance of this Contract, the Contractor agrees as follows:

1. The Contractor will not discriminate against any employee or applicant for employment because of race, religion, color, sex or national origin. The Contractor will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, religion, color, sex or national origin. Such action shall include, but not be limited to the following: Employment, upgrading, demotion, or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of this nondiscrimination clause.

2. The Contractor will, in all solicitations or advertisements for employees placed by or on behalf of the Contractor, state that all qualified applicants will receive consideration for employment without regard to race, religion, color, sex or national origin.

3. The Contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers representative of the Contractor's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

4. The Contractor will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.

5. The Contractor will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

6. In the event of the Contractor's noncompliance with the nondiscrimination clauses of this Contract or with any of such rules, regulations, or orders, this Contract may be cancelled, terminated, or suspended in whole or in part and the Contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

7. The Contractor will include the provisions of Paragraphs 1 through 7 in every subcontract or purchase order unless exempted by rules, regulations, or orders of Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Contractor will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for noncompliance. Provided, however, that in the event the Contractor becomes involved in, or is threatened with litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Contractor may request the United States to enter into such litigation to protect the interests of the United States.

### B. Filing Standard Form 100 (EEO-1) and Development of Affirmative Action Program.

1. Contractor acknowledges that he may be required to file Standard Form 100 (EEO-1) promulgated jointly by the Office of Federal Contract Compliance, the Equal Employment Opportunity Commission and Plans for Progress within thirty (30) days of contract award, if such report has not been filed for the current year and otherwise comply with or file such other compliance reports as may be required under Executive Order 11246, as amended and Rules and Regulations adopted thereunder.

2. Contractor further acknowledges that he may be required to develop a written affirmative action compliance program as required by the Rules and Regulations approved by the Secretary of Labor under authority of Executive Order 11246 and supply Operator with a copy of such program if Operator so requests.

### C. Nonsegregated Facilities.

Contractor certifies that he does not maintain or provide for his employees any segregated facilities at any of his establishments, and that he does not permit his employees to perform their services at any location, under his control, where segregated facilities are maintained. He certifies further that he will not maintain or provide for his employees any segregated facilities at any of his establishments, and that he will not permit his employees to perform their services at any location, under his control, where segregated facilities are maintained. Contractor agrees that a breach of his certification is a violation of the Equal Opportunity Clause in this Contract. As used in this certification, the term "segregated facilities" means any waiting rooms, work areas, rest rooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, color, religion, sex, age or national origin, because of habit, local custom or otherwise. Contractor's policies and practices must assure appropriate physical facilities to both sexes. He further agrees that (except where he has obtained identical certifications from proposed subcontractors for specific time periods) he will obtain identical certifications from proposed subcontractors prior to the award of subcontracts exceeding \$10,000 which are not exempt from the provisions of Equal Opportunity Clause; that he will retain such certifications in his files, and that he will forward the following notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certifications for specific time periods): "NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NONSEGREGATED FACILITIES: A Certification of Nonsegregated Facilities as required by the May 21, 1968, order on Elimination of Segregated Facilities, by the Secretary of Labor (33 Fed. Reg. 7804, May 28, 1968), must be submitted prior to the award of a subcontract exceeding \$10,000 which is not exempt from the provisions of the Equal Opportunity Clause. The certification may be submitted either for each subcontract or for all subcontracts during a period (i.e., quarterly, semiannually, or annually)."

### D. Penalties

Contractor further understands and agrees that a breach of the assurance contained in Paragraphs A through C above subjects it to the provisions of the Order at 41 CFR Chapter 60 of the Secretary of Labor dated May 21, 1968. In the event of Contractor's noncompliance with the nondiscrimination clauses of this Contract or with any of such rules, regulations, or orders, such noncompliance shall constitute sufficient grounds, and the parties hereto agree to immediate cancellation of this Contract on the basis of such noncompliance with no further obligation whatsoever on the part of the Operator.

### 2. LISTING OF EMPLOYMENT OPENINGS

The undersigned Contractor further agrees, if the value of any contract or purchase order is \$2,500 or more, that it will be bound by the following provisions contained in 41 CFR 50-250 promulgated pursuant to Executive Order No. 11701:

A. The Contractor, to provide special emphasis to the employment of qualified disabled veterans and veterans of the Vietnam era, agrees that all suitable employment openings of the Contractor which exist at the time of the execution of this Contract and those which occur during the performance of this Contract, including those not generated by this Contract and including those occurring at an establishment of the Contractor other than the one wherein the Contract is being performed but excluding those of independently operated corporate affiliates, shall be offered for listing at an appropriate local office of the State employment service system wherein the opening occurs and to provide such reports to such local office regarding employment openings and hires as may be required. Provided, That this provision shall not apply to openings which the Contractor fills from within the Contractor's organization or are filled pursuant to a customary and traditional employer-union hiring arrangement.

B. Listing of employment openings with the employment service system pursuant to this clause shall be made at least concurrently with the use of any other recruitment service or effort and shall involve the normal obligations which attach to the placing of a bona fide job order, including the acceptance of referrals of veterans and nonveterans. The listing of employment openings does not require the hiring of any particular job applicant or from any particular group of job applicants, and nothing herein is intended to relieve the Contractor from any requirements in any Executive Orders or regulations regarding nondiscrimination in employment.

PARKER DRILLING COMPANY

RIG 7

DRAWWORKS

Ingersoll-Rand 1500 SCR electric trailer-mounted unit with a 1,500 HP single drum and 1-1/4 in. drilling line.

DRIVE GROUP

Ross Hill SCR unit with two (2) Cat D-398 engines running two (2) Kato 800 KW generators.

MAST AND SUBSTRUCTURE

127 ft. telescoping mast with a hook load capacity of 715,000 lbs. with ten (10) lines on a 22 ft. floor height substructure.

TRAVELING AND ROTARY EQUIPMENT

1. McKissick 350 ton block/hook combination;
2. Gardner-Denver 400 ton swivel;
3. Gardner-Denver 27-1/2 in. rotary table.

MUD SYSTEM

1. One (1) Ellis Williams 9W1000 1,000 HP triplex mud pump unitized with a General Electric 752 single electric motor;
2. Demco single tandem shale shaker;
3. Demco desander with two (2) 12 in. cones;
4. Demco desilter with eight (8) 4 in. cones;
5. Mud house (20 ft. x 10 ft.);
6. Two (2) mud tanks with 640 bbls. total capacity which includes shale tank, mixing tank, two (2) agitators in the suction pit and one (1) agitator in the shale tank.

WELL CONTROL EQUIPMENT

1. N.L. Shaffer 13-5/8 in. x 5,000 lbs. spherical BOP with 10,000 lb. bottom flange;
2. N.L. Shaffer 13-5/8 in. x 10,000 lbs. single BOP;

WELL CONTROL EQUIPMENT (Cont'd)

3. N.L. Shaffer 13-5/8 in. x 10,000 lbs. double BOP;
4. N.L. Shaffer 160 gal. accumulator with remote control unit;
5. N.L. Shaffer 4 x 2 x 10,000 lbs. choke system on adjustable stand;
6. Gasbuster (30 in. diameter x 11 ft. high).

INSTRUMENTATION

1. Automatic driller;
2. Mud gauge assembly;
3. Tong torque gauge;
4. Rotary table rpm tachometer;
5. Rotary torque gauge;
6. SPM tachometer;
7. Weight indicator.

DRILL STRING

1. 12,500 ft. of 4-1/2 in. 16.60 lbs. grade E drill pipe;
2. 8 in. and 6-1/4 in. drill collars;
3. Related handling equipment.

OTHER EQUIPMENT

1. Air hoist;
2. 300 bbls. fuel tank;
3. 500 bbls. water tank;
4. Crown-O-Matic;
5. Wire line unit;
6. Winterization.

PARKER DRILLING COMPANY  
EQUIPMENT INVENTORY  
RIG #38

<u>ITEM</u>	<u>DESCRIPTION</u>
DRAWWORKS	National 100M
COMPOUND	National 3 Engine
ENGINES	3 Waukesha LRZ (412 H.P.)
MAST	L.C. Moore 136' 960,000# GNC
SUBSTRUCTURE	L.C. Moore 20'
MUD PUMPS	Oilwell 1000P (Primary) EMSCO D-700 (Standby)
MUD PITS	3 - 8' x 8' x 40'
TRAVELING EQUIPMENT	350 Ton
ROTARY TABLE	EMSCO 27½
WATER TANKS	4 - 500 BBL.
BOP'S	5,000# and 10,000#
DRILL PIPE	3-1/2", 4-1/2", 5"
DRILL COLLARS	4-3/4" - 9"
MISCELLANEOUS	Automatic Driller Drilling Recorder Trailer House Crownomatic Wire Line Unit

PARKER DRILLING COMPANY  
EQUIPMENT INVENTORY  
RIG #7

Drawworks: Ingersoll Rand 1500E SCR electric trailer mounted unit with single drum 1500 h.p. & 1½" drilling line.

Drive Group: Ross-Hill SCR unit with 2 Cat D-398 running 2 Kato 800KW generators.

Mast & Substructure: 127' telescoping mast with a hookland capacity of 715,000 lbs. on 10 lines and a 22' floor height sub. 18' vertical clearance.

Traveling and Rotary Equipment: McKissick 350 ton block/hook combination, Gardner Denver 400 ton swivel, and Gardner Denver 27" rotary table.

Mud Systems:

1. Main Pump: One (1) Ellis-Williams 9W1000, 1,000 H.P. Triplex mud pump utilized with GE 752 single electric motor.
2. Auxillary Pump: Gardner-Denver PZ-7 - 750 H.P.
3. Demco single tandum Shale Shaker.
4. Demco Desander with 2-12" cones.
5. Demco Desilter with 8-4" cones.
6. Mud House (20' x 10')
7. Two (2) mud tank system: 640 total bbls. capacity which includes 440 bbls. working mud; 100 bbls. Shale tank; 100 bbls. mixing tank; Two (2) mud agitators in the suction pit and one (1) mud agitator in the Shale tank.

Well Control Equipment:

1. 13-5/8 x 5,000 lb. W.P. Shaffer Spherical BOP with a 10,000 bottom flange.
2. 13-5/8 x 10,000 lb. W.P. Shaffer single BOP.
3. 13-5/8 x 10,000 lb. W.P. Shaffer double BOP.
4. N.L. Shaffer 160 Gallon Accumulator unit with remote control unit.
5. N.L. Shaffer 4 x 2 x 10,000 choke system on an adjustable stand.
6. Gasbuster 30" OD x 11' high.

Instrumentation:

1. Automatic Driller
2. Mud Gauge Assemble
3. Tong-Torque Gauge
4. Rotary Table RPM Tachometer
5. Rotary Torque Gauge
6. SPM Tachometer
7. Weight Indicator

Drill String:

1. 10,100' 3½" 15.50# grade E
2. 5,500' 3½" 15.50# grade X-95
3. Twenty Two (22) 4-3/4" drill collars
4. Related handling equipment

Other Equipment:

- |                        |                  |
|------------------------|------------------|
| 1. Air Hoist           | 5. Wireline Unit |
| 2. 500 bbl. water tank | 6. Winterization |
| 3. 300 bbl. fuel tank  |                  |
| 4. Crown-O-Matic       |                  |

PARKER DRILLING COMPANY  
EQUIPMENT INVENTORY  
Rig #38

ITEM	DESCRIPTION
DRAWWORKS	National 100M
COMPOUND	National 3 Engine
ENGINES	3 Waukesha LRZ (412 H.P.)
MAST	L. C. Moore 136' 960,000# GNC
SUBSTRUCTURE	L. C. Moore 20'
MUD PUMPS	Oilwell 1000P (Primary) EMSCO D-700 (Standby)
MUD PITS	3 - 8' X 8' X 40'
TRAVELING EQUIPMENT	360 Ton
ROTARY TABLE	EMSCO 27½
WATER TANKS	4 - 500 BBL.
BOP'S	5,000# and 10,000#
DRILL PIPE	3½", 4½", 5"
DRILL COLLARS	4-3/4" - 9"
MISCELLANEOUS	Automatic Driller Drilling Recorder Trailer House Crownomatic Wire Line Unit



## EXHIBIT "4"

CONTRACTOR FURNISHED SERVICES AND MATERIALS

<u>Services and Materials</u>	<u>Price</u>
Completion Rig	Day Rate/***
Mud, chemicals and services	*
Cement and services	*
Drillstem and wireline test	*
Logging	*
Perforating	*
Acidizing and fracturing	*
All packers	*
Reamers and stabilizers	*
Contractor program management, technical and administrative services, field supervision and personnel, and associated overhead to the extent not already included as part of the Day Rate for Drilling and Completion of Wells or as part of the service being provided.	**
Equipment rental	*
Pipe rental (drillpipe and collars)	*
Casing crews	*
Fishing tools	*
Wellhead equipment	*
Tubulars and inspection	*
Production equipment	*

\* These items shall be debited to the Payout Account at Parker's actual out of pocket costs (at current competitive market prices) plus twenty percent (20%).

\*\* These items will be debited to the Payout Account on the basis of actual out-of-pocket expenses incurred.

\*\*\* Day Rate plus twenty percent (20%) where third party rig is utilized.

/5234S/

EXHIBIT "4"

EXHIBIT "5"

OTHER CHARGES

Roads and locations

Reserve pits

Contract labor (roustabout, welding, etc.)

Transportation and hauling

Rathole and mousehole

Piledriving

Fuel, water and power

Rig move

Bits

Coring and analysis

Swabbing

Miscellaneous supplies

Insurance and bonds

/5266S/

EXHIBIT "5"

EXHIBIT "6"

LIMITED ASSIGNMENT OF OIL, GAS & MINERAL LEASES

THE STATE OF NEW MEXICO       §  
                                     §  
COUNTY OF \_\_\_\_\_ §

HNG Oil Company, a Delaware corporation (herein called "Assignor"), for a valuable consideration to Assignor paid by Parker Drilling Company ("Parker") (referred to herein as "Assignee"), the receipt and sufficiency of which is hereby acknowledged, does hereby GRANT, BARGAIN, SELL, CONVEY, ASSIGN, TRANSFER, SET OVER and DELIVER unto Assignee a mineral interest (sometimes referred to as the "Leasehold Estate") in and to the leasehold estate and working interest created by, found in and covered by the oil, gas and mineral leases described in Exhibits \_\_\_\_\_ through \_\_\_\_\_ attached hereto and made a part hereof for all purposes (the "Leases"), insofar as the Leases cover and extend to the depth interval specified below in the \_\_\_\_\_ tracts described in said Exhibits \_\_\_\_\_ through \_\_\_\_\_ (the "Lands"), amounting the eighty-five percent (85%) of Assignor's right, title and interest in and to (i) the Leases insofar as the Leases cover the Lands, (ii) all of the oil, gas and other minerals in and under that may be produced and saved from the Leases, being one hundred percent (100%) of the gross production attributable to Assignor's interest from the Leases and Lands, (iii) all amounts paid or payable as the gross proceeds from the sale of such oil, gas and other minerals sold as such, (iv) all amounts paid or payable under any processing agreement or by virtue of any processing operations or from any other source as the net wellhead value of the liquefiable hydrocarbons contained in such gas, and (v) all amounts paid or payable under any processing agreement or from any other source on account of the utilization of such gas for plant fuel and shrinkage, until "payout" as

provided for in the Agreement dated \_\_\_\_\_, by and between Assignor and Assignee (the "Agreement"), at which time this Limited Assignment shall terminate.

A proportionate interest in and title to any equipment, facilities or other personal property that may now be upon the Lands, or that may hereafter be placed upon the Lands, is included within the Leasehold Estate conveyed by Assignor.

The Leasehold Estate assigned herein is limited to the depth interval from the surface of the ground to the total depth drilled in the \_\_\_\_\_ Well.

TO HAVE AND TO HOLD the Leasehold Estate unto Assignee, its successors and assigns, which interest shall continue and remain in full force and effect for the term provided herein.

This Limited Assignment of Oil, Gas and Mineral Leases is made subject in all respects to the terms and conditions of the Agreement and the Contract Documents (as such term is defined in the Agreement). Upon the termination of the Leasehold Estate in accordance with the terms hereof and of the Agreement as provided above, Assignee shall execute, upon request, such instruments as may be necessary or appropriate to evidence such fact of record.

No pipeline company or other person purchasing or taking or processing oil, gas or other minerals produced from any of the Leases or Lands shall be required to take notice of or keep informed as to the termination of the Leasehold Estate until the actual receipt by it of written notice from Assignee advising it of such termination or change.

While the Leasehold Estate granted herein remains in force and effect, Assignor will, at its own expense, at reasonable periods, upon request of Assignee, furnish to Assignee reports concerning the productivity and longevity of all or any wells in which Assignee has an interest hereunder, or any unitization or pooling agreement to which any of such wells may hereafter become subject, and the quantity of oil, gas and

other minerals recoverable therefrom and the projected income and expense attributable to such wells and the expediency of any change in methods of treatment and operation of any such wells; of proposed new drilling or development on any of the Lands; of any proposed abandonment of a well; of any proposed plugging of any well and reopening the same at a different level; of any proposed method of repressuring; or of any other proposed action, the decision as to which may increase or reduce the volume of oil, gas or other minerals ultimately recoverable from the Leases and Lands, or the rate of production therefrom, or which may shorten or prolong the period of time required for the liquidation of the Leasehold Estate.

Assignor will cause to be afforded to any one or more representatives of Assignee the opportunity at any reasonable time to make such inspection as such representatives shall deem proper of the Lands and the wells located thereon, and will furnish to Assignee, if and whenever requested, such detailed information as Assignee may request concerning such wells, the operation thereof, and the production and processing of oil and gas therefrom. Further, Assignee will furnish a monthly report to Assignee, in such number of counterparts as Assignee may request, showing the quantities of oil, gas and other minerals produced from the Leases and Lands, the gross proceeds derived therefrom, the taxes paid with respect thereto, the amounts paid as a consequence of the Leasehold Estate, the number of wells operated, drilled and abandoned and such other information as Assignee may reasonably request. -

All the covenants and agreements of Assignor herein contained shall be deemed to be covenants running with the land and shall be binding upon all successors in interest to Assignor and shall inure to the benefit of all successors in interest to Assignee.

The provisions hereof shall inure to the benefit of and be binding upon the respective successors and assigns of the parties hereto. All references herein to any of the parties hereto shall include their respective successors and assigns.

Assignor covenants to specially warrant and forever defend all the interests hereby assigned and conveyed unto Assignee, its successors and assigns, against every person whomsoever lawfully claiming the same or to claim the same or any part thereof, by, through, or under Assignor, but not otherwise.

This instrument is made with full substitution and subrogation of Assignee in and to all covenants of warranty by others heretofore given or made with respect to the Leases or Lands or any part thereof or interest therein.

Assignor and Assignee agree to execute such other and additional instruments as may be necessary in order that Assignor and Assignee may fully enjoy all of the respective rights herein granted.

EXECUTED this the \_\_\_\_ day of April, 1986, effective from and after the \_\_\_\_ day of April, 1986.

Address:

HNG OIL COMPANY

508 West Wall Street  
Post Office Box 2267  
Midland, Texas 79702

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

THE STATE OF TEXAS           §  
                                     §  
COUNTY OF \_\_\_\_\_ §

BEFORE ME, the undersigned authority, on this day personally appeared \_\_\_\_\_, the \_\_\_\_\_ of HNG Oil Company, known to me to be the person whose name is subscribed to the foregoing instrument, and swore to me that he executed the same for the purposes and consideration therein expressed, in the capacity therein stated, and as the act and deed of said HNG Oil Company.

GIVEN UNDER MY HAND AND SEAL OF OFFICE on April \_\_\_\_, 1986.

\_\_\_\_\_  
Notary Public in and for the  
State of Texas

My Commission Expires: \_\_\_\_\_

/5242S/

EXHIBIT " 7 "

Attached to and made a part of \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

## ACCOUNTING PROCEDURE JOINT OPERATIONS

### I. GENERAL PROVISIONS

#### 1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

#### 2. Statement and Billings

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

#### 3. Advances and Payments by Non-Operators

Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

#### 4. Adjustments

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

#### 5. Audits

A. Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year, provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph, unless agreed to by the Operator.

#### 6. Approval by Non-Operators

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

## II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

### 1. Rentals and Royalties

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

### 2. Labor

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

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

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

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

### 3. Employee Benefits

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty per cent (20%), or the maximum rate most recently recommended by the Council of Petroleum Accountants Societies of North America.

### 4. Material

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

### 5. Transportation

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

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

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

C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of \$400 or less excluding accessorial charges.

### 6. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraph 1.11 of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the Overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

### 7. Equipment and Facilities Furnished by Operator

A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

B. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

### 8. Damages and Losses to Joint Property

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

### 9. Legal Expense

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



#### 10. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

#### 11. Insurance

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

#### 12. Other Expenditures

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

### III. OVERHEAD

#### 1. Overhead - Drilling and Producing Operations

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

- ( ☒ ) Fixed Rate Basis, Paragraph 1A, or  
( ☐ ) Percentage Basis, Paragraph 1B.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 2A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the Overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

ii. The salaries, wages and Personal Expenses of Technical Employees and or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall ( ☐ ) shall not ( ☒ ) be covered by the Overhead rates.

#### A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 5,627.00

Producing Well Rate \$ 563.00

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

##### (a) Drilling Well Rate

- [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

##### (b) Producing Well Rates

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

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

#### B. Overhead - Percentage Basis

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

(a) Development

\_\_\_\_\_ Percent ( %) of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 9 of Section II and all salvage credits.

(b) Operating

\_\_\_\_\_ Percent ( %) of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

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

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

#### 2. Overhead - Major Construction \* TO BE NEGOTIATED

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

- A. \_\_\_\_\_ % of total costs if such costs are more than \$ \_\_\_\_\_ but less than \$ \_\_\_\_\_; plus  
B. \_\_\_\_\_ % of total costs in excess of \$ \_\_\_\_\_ but less than \$1,000,000; plus  
C. \_\_\_\_\_ % of total costs in excess of \$1,000,000.

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

#### 3. Amendment of Rates

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

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

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

##### 1. Purchases

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

##### 2. Transfers and Dispositions

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

###### A. New Material (Condition A)

- (1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.
- (2) Line Pipe
  - (a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.
  - (b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.
- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

###### B. Good Used Material (Condition B)

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

- (1) Material moved to the Joint Property
  - (a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.
- (2) Material moved from the Joint Property
  - (a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as new Material, or

- (b) at sixty-five percent (65%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as good used Material at seventy-five percent (75%) of current new price.

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

**C. Other Used Material (Condition C and D)**

**(1) Condition C**

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph 2A of this Section IV. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

**(2) Condition D**

All other Material, including junk, shall be priced at a value commensurate with its use or at prevailing prices. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose. Operator may dispose of Condition D Material under procedures normally utilized by the Operator without prior approval of Non-Operators.

**D. Obsolete Material**

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

**E. Pricing Conditions**

- (1) Loading and unloading costs may be charged to the Joint Account at the rate of ~~twenty-five cents~~ <sup>twenty-five cents</sup> per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.
- (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

**3. Premium Prices**

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

**4. Warranty of Material Furnished by Operator**

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

**V. INVENTORIES**

The Operator shall maintain detailed records of Controllable Material.

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

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

**2. Reconciliation and Adjustment of Inventories**

Reconciliation of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six months following the taking of the inventory. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable only for shortages due to lack of reasonable diligence.

**3. Special Inventories**

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

**4. Expense of Conducting Periodic Inventories**

The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.

EXHIBIT "8"

INSURANCE

The parties agree that the following insurance shall be purchased and maintained during the course of the Agreement.

1. Each participant (Parker and HNG) shall maintain its own Workman's Compensation and Automobile Liability insurance.

2. Parker shall procure and maintain General Liability and Excess Liability Insurance with coverage limits up to \$25,000,000. This insurance shall name the participants as additional insureds as their interests appear herein and the premium shall be charged to the Payout Account. It is understood that a lower limit of coverage may be agreed upon by the parties if the premium is unreasonably high or the limit is not available.

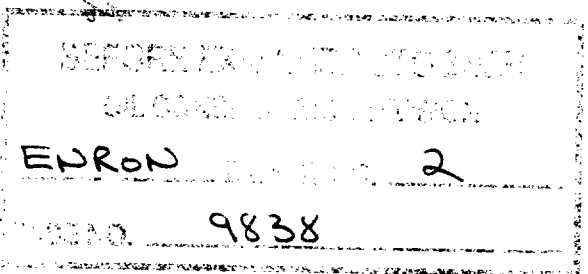
3. HNG shall procure and maintain Operator's Extra Expense Insurance (including Well Control Coverage) for its own account to cover its assumed liabilities under the agreements pertaining to this project. It is understood that Parker reserves the option to purchase a separate policy for well control coverage. The premium for such separate policy shall be charged to the Payout Account.

4. With respect to the insurance coverage required to be carried by HNG on behalf of HNG and Parker, as referenced in Section 6.12(b) of the Agreement, HNG shall carry insurance with coverages and limits required by the terms of any applicable joint operating agreement and reasonably acceptable to Parker.



EOG/PARKER AGREEMENT WELLS

WELL	COUNTY/STATE	LOCATION	FIELD/FORMATION	DATE: SPUD TD COMPLETION FIRST SALES
Owen Mesa "25" Fed. Com. No. 1 13,090' TD	Eddy/NM	1,980' FSL & 760' FWL Sec. 25-24S-29E	Owen Mesa/Atoka	03/23/86 05/21/86 05/29/86 11/07/86
Gulf "5" Fed. No. 1 12,650' TD	Eddy/NM	2,310' FNL & 660' FEL Sec. 5-25S-29E	Rustler Bluff/Atoka	06/25/86 05/12/86 05/19/86 12/18/86
Diamond "5" Fed. No. 3 14,100' TD	Lea/NM	660' FNL & 2,230' FWL Sec. 5-25S-34E	Pitchfork Ranch/Atoka	08/07/86 09/16/86 09/23/86 10/07/86
Gobblers Knob "30" No. 1 11,550' TD	Eddy/NM	2,180' FSL & 1,980' FWL Sec. 30-22S-26E	Happy Valley/Morrow	09/17/86 10/10/86 P&A 10/14/86
Jewel "2" State No. 1 15,470' TD	Lea/NM	1,980' FSL & 660' FWL Sec. 2-25S-34E	Pitchfork Ranch/Morrow	09/26/86 11/17/86 11/28/86 P&A 04/14/87
White City "14" Fed. No. 2 12,225' TD	Eddy/NM	1,650' FSL & 1,650' FEL Sec. 14-25S-26E	White City/Morrow	12/03/86 01/09/87 06/11/87
Madera "32" State No. 3 14,100' TD	Lea/NM	1,650' FSL & 2,310' FWL Sec. 32-24S-34E	Pitchfork Ranch/Atoka	12/06/86 01/13/87 01/20/87 01/30/87



EOG/PARKER AGREEMENT WELLS

<u>WELL</u>	<u>COUNTY/STATE</u>	<u>LOCATION</u>	<u>FIELD/FORMATION</u>	<u>DATE:</u> SPUD TD COMPLETION FIRST SALES
Fort "7" Fed. Com. No. 1 12,311' TD	Eddy/NM	660' FSL & 2,310' FEL Sec. 7-24S-29E	Malaga/Atoka	10/22/86 11/21/86 12/03/86 03/20/87
Owen Mesa "26" Fed. Com. No. 1 12,860' TD	Eddy/NM	1,350' FNL & 1,880' FEL Sec. 26-24S-29E	Wildcat/Bone Spring	12/31/86 03/12/87 06/18/87
Madera "33" Fed. Com. No. 3 13,960' TD	Lea/NM	1,980' FSL & 660' FWL Sec. 33-24S-34E	Pitchfork Ranch/Atoka	01/23/87 02/27/87 03/07/87 04/09/87
Madera "28" Fed. Com. No. 2 13,945' TD	Lea/NM	660' FSL & 2,200' FWL Sec. 28-24S-34E	Pitchfork Ranch/Atoka	03/10/87 04/23/87 05/12/87 05/30/87
Page "3" Com. No. 2 14,110' TD	Lea/NM	660' FNL & 2,080' FWL Sec. 3-25S-34E	Pitchfork Ranch/Atoka	05/17/87 07/06/87 07/16/87 07/31/87
Madera "33" Fed. Com. No. 4 14,000' TD	Lea/NM	2,308' FSL & 1,980' FEL Sec. 33-24S-34E	Pitchfork Ranch/Atoka	07/19/87 08/26/87 09/15/87 11/20/87



10000 OLD KATY ROAD, HOUSTON, TEXAS 77055 (713) 932-4700

July 21, 1986

Parker Drilling Company, Ltd.  
Eight East Third Street  
Tulsa, Oklahoma 74102

Attn: Mr. James W. Linn  
President

Re: Agreement between  
HNG Oil Company and  
Parker Drilling Company, Ltd.  
dated July 21, 1986

Gentlemen:

HNG Oil Company ("HNG") and Parker Drilling Company, Ltd. ("Parker") are, concurrent with the execution of this letter agreement, entering into an Agreement dated July 21, 1986 which provides for the drilling and completing of certain wells in Lea and Eddy Counties, New Mexico (the "Agreement"). HNG and Parker hereby agree that the two wells described on Exhibit "A" hereto (the "Subject Wells") shall be covered by and subject to the terms of the Agreement and HNG shall promptly after execution of the Agreement provide Parker with title opinions and assignments of interests therefor as provided in the Agreement. With reference to costs incurred in the drilling and completing of the Subject Wells, Parker shall reimburse HNG for the actual costs incurred by HNG in drilling and completing said wells by payment to HNG in the following manner:

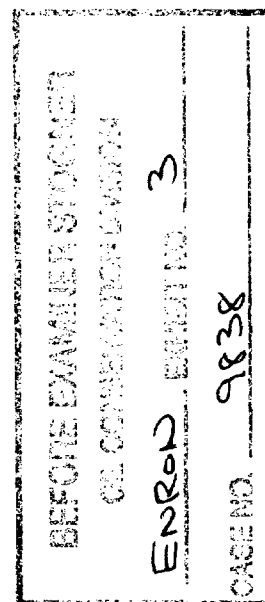
1. Payment of ten percent (10%) of such costs within thirty (30) days from the date of this letter agreement.
2. Payment of the balance of such costs on or before January 1, 1988.

Commencing with the date of this letter agreement, the unpaid balance owed to HNG hereunder shall accrue interest at the interest rate set forth in Section 5.9(b)(4) of the Agreement.

With reference to charges and costs associated with the drilling and completing of the Subject Wells, Parker shall have the right to debit the Payout Account provided for under the Agreement, effective as of the date of this letter agreement, as follows:

1. Charges relating to the utilization of Parker rigs for the drilling and completing of the Subject Wells shall be calculated in accordance with the Daywork Drilling Contract attached as Exhibit "3" to the Agreement.

Exhibit "A"



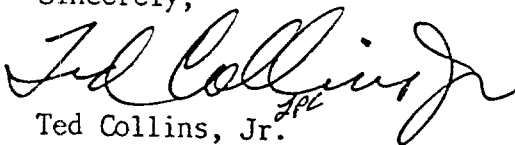


Parker Drilling Company, Ltd.  
July 21, 1986  
Page 2

2. All other charges relating to the drilling and completing of the Subject Wells shall be debited to the Payout Account based upon the actual costs incurred by HNG in the drilling and completing of the Subject Wells.

If you are in agreement with the above, please indicate your agreement in the manner provided below.

Sincerely,

  
Ted Collins, Jr.  
President

AGREED AND ACCEPTED THIS  
22<sup>nd</sup> day of July, 1986.

PARKER DRILLING COMPANY, LTD.

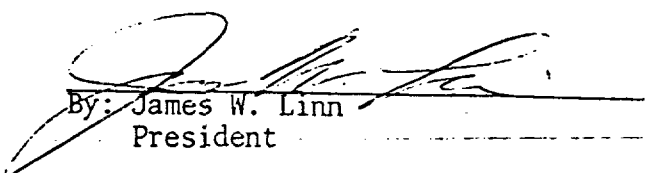
  
By: James W. Linn  
President

EXHIBIT "A"

Gulf "5" Federal #1, 2310' FNL & 660' FEL Sec. 5, T-25-S, R-29-E, Eddy County, New Mexico. Takeover date 2/5/86.

Owen Mesa "25" Fed. Com #1 - 1980' FSL & 760' FWL Sec. 25, T-24-S, R-29-E, Eddy County, New Mexico. Spud date 3/23/86.

# ENRON

## Oil & Gas Company

P.O. Box 1188 Houston, Texas 77251-1188 (713) 853-6161

September 9, 1987

Parker Drilling Company, Ltd.  
Eight East Third Street  
Tulsa, Oklahoma 74102

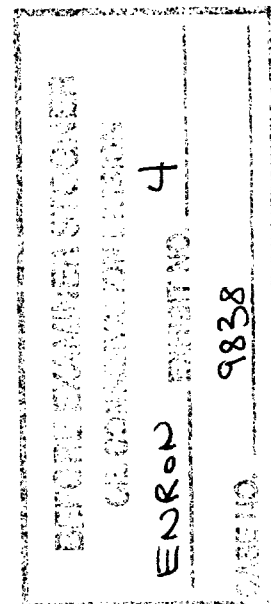
Attn: Mr. James W. Linn  
President

Re: Agreement between  
HNG Oil Company and  
Parker Drilling Company, Ltd.  
dated July 21, 1986

Gentlemen:

Reference is made to that certain letter agreement between Enron Oil & Gas Company (successor in interest through merger to HNG Oil Company) ("Enron") and Parker Drilling Company, Ltd. ("Parker") dated July 21, 1986 (the "Letter Agreement"), a copy of which is attached hereto as Exhibit "A", under which the two (2) wells described on Exhibit "A" to the Letter Agreement (the "Subject Wells") were placed under the terms of the captioned agreement between Enron and Parker dated July 21, 1986 (the "Drilling Agreement"). Enron and Parker hereby agree to rescind the Letter Agreement effective as of July 21, 1986. In order to give effect to such rescission, Enron and Parker hereby agree as follows:

1. Enron shall repay to Parker all amounts previously paid to Enron by Parker in accordance with paragraphs 1 and 2 of the first paragraph of the Letter Agreement.
2. With the exception of tubular materials which have been debited to the Payout Account provided for under the Drilling Agreement in accordance with paragraph 2 of the Amendment To Farmout Agreement Dated July 21, 1986, Regarding Lea and Eddy Counties, New Mexico by and between Parker, Enron and Terry Oilfield Services, Inc., Parker shall remove from the Payout Account provided for under the Drilling Agreement all amounts previously debited to the Payout Account by Parker in accordance with the second paragraph of the Letter Agreement together with associated interest charges.
3. Parker shall pay to Enron the net proceeds received by Parker from the sale of production from the Subject Wells which are attributable to Parker's interests in the Subject Wells.



Parker Drilling Company, Ltd.  
September 9, 1987  
Page 2

4. Parker shall assign to Enron all of Parker's right, title and interest in the Subject Wells. The interests in the Subject Wells to be assigned by Parker to Enron shall be equal to the interests previously assigned by Enron to Parker in the Subject Wells less the interests previously assigned by Parker to Terry Oilfield Services, Inc.
5. Enron shall reimburse Parker for all actual costs incurred by Parker subsequent to the completion of the Subject Wells as such costs are currently reflected in the Payout Account under the Drilling Agreement. All such post completion charges reflected in the Payout Account which are attributable to the Subject Wells, together with associated interest charges, shall be removed from the Payout Account by Parker.

If you are in agreement with the above, please indicate your agreement in the manner provided below.

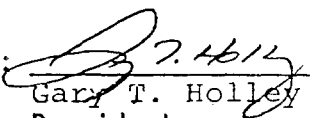
Sincerely,



Charles W. Wiesepape  
Senior Vice President, Finance

AGREED AND ACCEPTED THIS  
9<sup>th</sup> day of September, 1987.

PARKER DRILLING COMPANY, LTD.

By:   
Gary T. Holley  
President

BIRCHDALE OIL COMPANY	
CONVEYANCE DIVISION	
ENRON	INSTRUMENT NO. 5
CASE NO.	9838

# ASSIGNMENT OF OPERATING RIGHTS AND WORKING INTEREST

THE STATE OF OKLAHOMA        )  
   ) ss.  
 COUNTY OF TULSA                )

Parker Drilling Company, Ltd., an Oklahoma corporation (herein called "Assignor"), for a valuable consideration to Assignor paid by Enron Oil & Gas Company ("Enron") (referred to herein as "Assignee"), the receipt and sufficiency of which is hereby acknowledged, does hereby GRANT, BARGAIN, SELL, CONVEY, ASSIGN, TRANSFER, SET OVER and DELIVER unto Assignee its interest (sometimes referred to as the "Interest") in and to the operating rights and working interest created by, found in and covered by the oil, gas and mineral leases described in Exhibit "A" attached hereto and made a part hereof for all purposes (the "Leases"), insofar as the Leases cover and extend to the depth interval specified below in the one tract described in said Exhibit "A" (the "Lands"), amounting to one hundred percent (100%) of Assignor's right, title and interest in and to (i) the operating rights and working interest created by, found in and covered by the Leases insofar as the Leases cover the Lands, (ii) all of the oil, gas and other minerals in and under that may be produced and saved from the Leases, being one hundred percent (100%) of the gross production attributable to Assignor's interest from the Leases and lands, (iii) all amounts paid or payable as the gross proceeds from the sale of such oil, gas and other minerals sold as such, (iv) all amounts paid or payable under any processing agreement or by virtue of any processing operations or from any other source as the net wellhead value of the liquifiable hydrocarbons contained in such gas, and (v) all amounts paid or payable under any processing agreement or from any other source on account of the utilization of such gas for plant fuel and shrinkage.

A proportionate interest in and title to any equipment, facilities or other personal property that may now be upon the

Lands, or that may hereafter be placed upon the Lands, is included within the Interest conveyed by Assignor.

The Interest assigned herein is limited to the depth interval from the surface of the ground to the total depth drilled in the Gulf "5" Federal #1 Well.

TO HAVE AND TO HOLD the Interest unto Assignee, its successors and assigns, which interest shall continue and remain in full force and effect.

All the covenants and agreements of Assignor herein contained shall be deemed to be covenants running with the land and shall be binding upon all successors in interest to Assignor and shall inure to the benefit of all successors in interest to Assignee.

The provisions hereof shall inure to the benefit of and be binding upon the respective successors and assigns of the parties hereto. All references herein to any of the parties hereto shall include their respective successors and assigns.

Assignor covenants to specially warrant and forever defend all the interests hereby assigned and conveyed unto Assignee, its successors and assigns, against every person whomsoever lawfully claiming the same or to claim the same or any part thereof, by, through, or under Assignor, but not otherwise.

This instrument is made with full substitution and subrogation of Assignee in and to all covenants of warranty by others heretofore given or made with respect to the Leases or Lands or any part thereof or interest therein.

Assignor and Assignee agree to execute such other and additional instruments as may be necessary in order that Assignor and Assignee may fully enjoy all of the respective rights herein granted.

EXECUTED this the 9<sup>th</sup> day of September, 1987, effective from and after the 9<sup>th</sup> day of September, 1987.

ATTEST:

By: William W. White

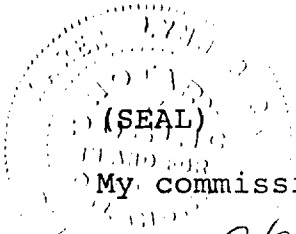
PARKER DRILLING COMPANY, LTD.

By: Gary T. Holley  
President

STATE OF OKLAHOMA     )  
                                      ) ss.  
COUNTY OF TULSA        )

Before me, the undersigned, a Notary Public, in and for said County and State, on this 9th day of September, 1987, personally appeared Gary T. Holley, President of Parker Drilling Company, Ltd., known to me to be the person who executed the within and foregoing instrument, and acknowledged to me that he executed the same as his free and voluntary act and deed for the uses and purposes therein set forth.

Given under my hand and seal of office the day and year last above written.



Laren Lynn Buck  
Notary Public

My commission expires:

8/9/91

EXHIBIT "A"

Attached to and made a part of Limited Assignment of Operating Rights and Working Interest dated September 9th., 1987, by and between Parker Drilling Company, Ltd., Assignor and Enron Oil & Gas Company, Assignee.

Enron Lease No.:	0055699-000
Federal Serial No.:	NM-15302
Date of Lease:	January 1, 1973
Lessor:	United States of America
Lessee of Record:	Chevron U.S.A. Inc.
Description of Acreage:	<u>T-25-S, R-29-E</u> Section 5: E/2

Limited in depth from the surface to the base of the Atoka formation or 13,000', whichever is the lesser depth.



ASSIGNMENT OF OPERATING RIGHTS AND WORKING INTEREST

THE STATE OF OKLAHOMA       )  
                                  ) ss.  
COUNTY OF TULSA            )

Parker Drilling Company, Ltd., an Oklahoma corporation (herein called "Assignor"), for a valuable consideration to Assignor paid by Enron Oil & Gas Company ("Enron") (referred to herein as "Assignee"), the receipt and sufficiency of which is hereby acknowledged, does hereby GRANT, BARGAIN, SELL, CONVEY, ASSIGN, TRANSFER, SET OVER and DELIVER unto Assignee its interest (sometimes referred to as the "Interest") in and to the operating rights and working interest created by, found in and covered by the oil, gas and mineral leases described in Exhibit "A" attached hereto and made a part hereof for all purposes (the "Leases"), insofar as the Leases cover and extend to the depth interval specified below in the one tract described in said Exhibit "A" (the "Lands"), amounting to one hundred percent (100%) of Assignor's right, title and interest in and to (i) the operating rights and working interest created by, found in and covered by the Leases insofar as the Leases cover the Lands, (ii) all of the oil, gas and other minerals in and under that may be produced and saved from the Leases, being one hundred percent (100%) of the gross production attributable to Assignor's interest from the Leases and lands, (iii) all amounts paid or payable as the gross proceeds from the sale of such oil, gas and other minerals sold as such, (iv) all amounts paid or payable under any processing agreement or by virtue of any processing operations or from any other source as the net wellhead value of the liquifiable hydrocarbons contained in such gas, and (v) all amounts paid or payable under any processing agreement or from any other source on account of the utilization of such gas for plant fuel and shrinkage.

A proportionate interest in and title to any equipment, facilities or other personal property that may now be upon the

Lands, or that may hereafter be placed upon the Lands, is included within the Interest conveyed by Assignor.

The Interest assigned herein is limited to the depth interval from the surface of the ground to the total depth drilled in the Owen Mesa "25" Fed Com #1 Well.

TO HAVE AND TO HOLD the Interest unto Assignee, its successors and assigns, which interest shall continue and remain in full force and effect.

All the covenants and agreements of Assignor herein contained shall be deemed to be covenants running with the land and shall be binding upon all successors in interest to Assignor and shall inure to the benefit of all successors in interest to Assignee.

The provisions hereof shall inure to the benefit of and be binding upon the respective successors and assigns of the parties hereto. All references herein to any of the parties hereto shall include their respective successors and assigns.

Assignor covenants to specially warrant and forever defend all the interests hereby assigned and conveyed unto Assignee, its successors and assigns, against every person whomsoever lawfully claiming the same or to claim the same or any part thereof, by, through, or under Assignor, but not otherwise.

This instrument is made with full substitution and subrogation of Assignee in and to all covenants of warranty by others heretofore given or made with respect to the Leases or Lands or any part thereof or interest therein.

Assignor and Assignee agree to execute such other and additional instruments as may be necessary in order that Assignor and Assignee may fully enjoy all of the respective rights herein granted.

EXECUTED this the 9<sup>th</sup> day of Sept-66, 1987, effective from and after the 9<sup>th</sup> day of Sept-66, 1987.

ATTEST:

By: William W. White

PARKER DRILLING COMPANY, LTD.

By: Gary T. Holley  
President

STATE OF OKLAHOMA     )  
                                  ) ss.  
COUNTY OF TULSA        )

Before me, the undersigned, a Notary Public, in and for said County and State, on this 9th day of September, 1987, personally appeared Gary T. Holley, President of Parker Drilling Company, Ltd., known to me to be the person who executed the within and foregoing instrument, and acknowledged to me that he executed the same as his free and voluntary act and deed for the uses and purposes therein set forth.

Given under my hand and seal of office the day and year last above written.

Karen Lynn Buck  
Notary Public

(SEAL)

My commission expires:

8/9/91

EXHIBIT "A"

Attached to and made a part of Limited Assignment of Operating Rights and Working Interest dated September 9th, 1987, by and between Parker Drilling Company, Ltd., Assignor and Enron Oil & Gas Company, Assignee.

HNG Lease No.:	0004183-000 (107-03)
Federal Serial No.:	NM-59386
Date of Lease:	November 1, 1984
Lessor:	United States of America
Lessee of Record:	HNG Oil Company
Description of Acreage:	SW/4 NW4, NW/4 SW/4, S/2 S/2 Section 25, T-24-S, R-29-E, Eddy County, New Mexico
Number of Acres:	240.00
Mineral Interest Covered:	Full

HNG Lease No.:	0004186-000 (107-07)
Federal Serial No.:	NM-65408
Date of Lease:	April 1, 1986
Lessor:	United States of America
Lessee of Record:	HNG Oil Company - 50% Santa Fe Energy Co. - 50%
Description of Acreage:	NE/4, N/2 NW/4, SE/4 NW/4, NE/4 SE/4 N/2 SE/4 Section 25, T-24-S, R-29-E, Eddy County, New Mexico
Number of Acres:	400.00
Mineral Interest Covered:	Full

Insofar and only insofar as the above described leases cover that interval from the surface of the ground to the total depth drilled in the Owen Mesa "25" Federal Com #1; and insofar and only insofar as the above described leases cover one tract of land described as the W/2 of Section 25, T-24-S, R-29-E, NMPM, Eddy County, New Mexico.