





BEFORE THE OIL CONSERVATION DIVISION  
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION :  
OF YATES PETROLEUM CORPORATION :  
FOR COMPULSORY POOLING, EDDY :  
COUNTY, NEW MEXICO :  
\_\_\_\_\_ :

CASE NO. 9860

AFFIDAVIT OF MAILING

STATE OF NEW MEXICO )  
                              : ss.  
COUNTY OF EDDY )

PATTI WIER, being first duly sworn, upon oath, states that the notice provisions of Rule 1207 of the New Mexico Oil Conservation Division have been complied with, that Applicant has caused to be conducted a good-faith diligent effort to find the correct addresses of all interested persons entitled to receive notice, and that pursuant to Rule 1207, notice has been given at the correct addresses as provided by such rule.

In support hereof, affiant states that true copies of the Application of Yates Petroleum Corporation for Compulsory Pooling, Eddy County, New Mexico, were mailed in accordance with Rule 1207, to each known individual owning an uncommitted leasehold interest, an unleased and uncommitted mineral interest, or royalty interest not subject to a pooling or unitization clause in the lands affected by such application, which interest must be committed and has not been voluntarily committed to the area proposed to be pooled or unitized, in securely sealed, certified

YATES PETROLEUM CORPORATION  
Case No. 9860  
02/07/90 Examiner Hearing  
Exhibit No. 2

mail, return receipt requested, postage prepaid envelopes,  
addressed to the following named parties:

Kenneth G. Cone  
P. O. Box 11310  
Midland, Texas 79702

Tom R. Cone  
P. O. Box 778  
Jay, Oklahoma 74346

Oxy USA Inc.  
P.O. Box 26100  
Oklahoma City, Oklahoma 73126

Marathon Oil Company  
P. O. Box 552  
Midland, Texas 79702  
Attn: Joint Interest Representative

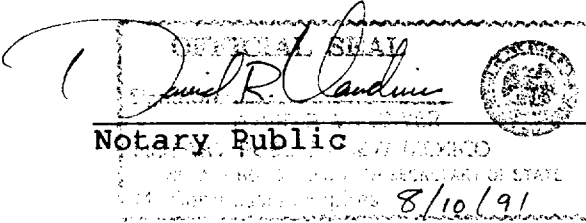
on the 3rd day of January, 1990, as reflected by the copies of  
the letters transmitting such copies of the Application and the  
return receipts executed on behalf of the addressees, attached  
hereto.

  
\_\_\_\_\_  
Patti Wier

SUBSCRIBED AND SWORN TO before me this 3rd day of Janu-  
ary, 1990, by PATTI WIER.

My commission expires:

8/10/91

  
Notary Public

# FIK & VANDIVER

ATTORNEYS AT LAW

SEVENTH & MAHONE / SUITE E  
ARTESIA, NEW MEXICO 88210

(505) 746-9841

JOHN FISK  
DAVID R. VANDIVER

FAX  
(505) 746-4208

January 3, 1990

CERTIFIED MAIL  
RETURN RECEIPT REQUESTED

Mr. Kenneth G. Cone  
P. O. Box 11310  
Midland, Texas 79702

Re: Dagger "ZW" No. 2 Well  
Township 19 South, Range 24 East, NMPM  
Section 25: SE/4  
Eddy County, New Mexico

Dear Mr. Cone:

Enclosed, please find a copy of the Application of Yates Petroleum Corporation for Compulsory Pooling, Eddy County, New Mexico.

Hearing is scheduled before the New Mexico Oil Conservation Division, in Santa Fe, New Mexico, on February 7, 1990.

Please contact the undersigned if you have any questions regarding this application.

Very truly yours,

FIK & VANDIVER



David R. Vandiver

DRV:pvw  
Enclosure

cc: Yates Petroleum Corporation

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Jay, Oklahoma 74346

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David R. Vandiver

DRV:pvw  
Enclosure

cc: Yates Petroleum Corporation

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January 3, 1990

CERTIFIED MAIL  
RETURN RECEIPT REQUESTED

Oxy USA Inc.  
P. O. Box 26100  
Oklahoma City, Oklahoma 73126

Re: Dagger "ZW" No. 2 Well  
Township 19 South, Range 24 East, NMPM  
Section 25: SE/4  
Eddy County, New Mexico

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FISK & VANDIVER



David R. Vandiver

DRV:pvw  
Enclosure

cc: Yates Petroleum Corporation

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ARTESIA, NEW MEXICO 88210

(505) 746-9841

JOHN FISK  
DAVID R. VANDIVER

FAX  
(505) 746-4208

January 3, 1990

CERTIFIED MAIL  
RETURN RECEIPT REQUESTED

Marathon Oil Company  
P. O. Box 552  
Midland, Texas 79702

Attention: Joint Interest Representative

Re: Dagger "ZW" No. 2 Well  
Township 19 South, Range 24 East, NMPM  
Section 25: SE/4  
Eddy County, New Mexico

Gentlemen:

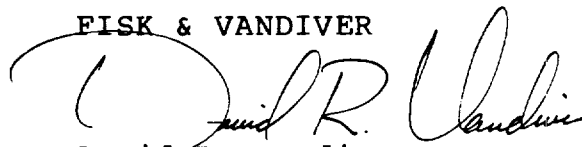
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Very truly yours,

FI SK & VANDIVER



David R. Vandiver

DRV:pvw  
Enclosure

cc: Yates Petroleum Corporation

P 132 555 026

Kenneth G. Cone  
P. O. Box 11310  
Midland, TX 79702

PS Form 3800

P 132 555 027

Tom R. Cone  
P. O. Box 778  
Jay, OK 74346

PS Form 3800

P 132 555 028

Oxy USA Inc.  
P. O. Box 26100  
Oklahoma City, OK 73126

PS Form 3800

P 132 555 029

Marathon Oil Company  
P. O. Box 552  
Midland, TX 79702  
Attn: Joint Interest Rep

PS Form 3800



● **SENDER:** Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.  
Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check boxes (for additional services) requested.  
1. ☐ Show to whom delivered, date, and addressee's address. 2. ☐ Restricted Delivery (Extra charge)

3. Article Addressed to:  
Kenneth G. Cone  
P. O. Box 11310  
Midland, TX 79702

4. Article Number  
P 132 555 026

Type of Service:  
☒ Registered ☐ Insured  
☒ Certified ☐ COD  
☐ Express Mail ☐ Return Receipt for Merchandise

8. Addressee's Address (ONLY if requested and fee paid)  
Always obtain signature of addressee or agent and DATE DELIVERED.

5. Signature - Address  
Kenneth G. Cone

6. Signature - Agent

7. Date of Delivery  
1-14-88

PS Form 3811, Mar. 1988 \* U.S.G.P.O. 1988-212-865 DOMESTIC RETURN RECEIPT

● **SENDER:** Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.  
Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check boxes (for additional services) requested.  
1. ☐ Show to whom delivered, date, and addressee's address. 2. ☐ Restricted Delivery (Extra charge)

3. Article Addressed to:  
Oxy USA Inc.  
P. O. Box 26100  
Oklahoma City, OK 73126

4. Article Number  
P 132 555 028

Type of Service:  
☐ Registered ☐ Insured  
☒ Certified ☐ COD  
☐ Express Mail ☐ Return Receipt for Merchandise

8. Addressee's Address (ONLY if requested and fee paid)  
Always obtain signature of addressee or agent and DATE DELIVERED.

5. Signature - Address

6. Signature - Agent

7. Date of Delivery

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3. Article Addressed to:  
Tom R. Cone  
P. O. Box 778  
Jay, OK 74346

4. Article Number  
P 132 555 027

Type of Service:  
☐ Registered ☐ Insured  
☒ Certified ☐ COD  
☐ Express Mail ☐ Return Receipt for Merchandise

8. Addressee's Address (ONLY if requested and fee paid)  
Always obtain signature of addressee or agent and DATE DELIVERED.

5. Signature - Address  
Tom R. Cone

6. Signature - Agent

7. Date of Delivery  
1-14-88

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3. Article Addressed to:  
Marathon Oil Company  
P. O. Box 552  
Midland, TX 79702  
Attn: Joint Interest Rep.

4. Article Number  
P 132 555 029

Type of Service:  
☐ Registered ☐ Insured  
☒ Certified ☐ COD  
☐ Express Mail ☐ Return Receipt for Merchandise

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JAN 5 1988

PS Form 3811, Mar. 1988 \* U.S.G.P.O. 1988-212-865 DOMESTIC RETURN RECEIPT

MARTIN YATES, III  
1912 - 1985  
FRANK W. YATES  
1936 - 1986



105 SOUTH FOURTH STREET  
ARTESIA, NEW MEXICO 88210  
TELEPHONE (505) 748-1471

S. P. YATES  
CHAIRMAN OF THE BOARD  
JOHN A. YATES  
PRESIDENT  
PEYTON YATES  
EXECUTIVE VICE PRESIDENT  
RANDY G. PATTERSON  
SECRETARY  
DENNIS G. KINSEY  
TREASURER

January 19, 1990

Kenneth G. Cone  
P. O. Box 11310  
Midland, Texas 79702

RE: Dagger ZW #2  
Township 19 South, Range 24 East, NMPM  
Section 25: SE/4  
Eddy County, New Mexico

Dear Ken:

You are the only party that has not responded to our formal proposal dated July 31, 1989 to drill the captioned well. Our receipts show you did receive the Operating Agreement and Authority For Expenditure as well as the subsequent correspondence. Please let us hear from you as you know the Force Pooling Hearing is set for less than two weeks away. If you don't wish to participate with your .6%, please let me know if you would consider any other option.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Kathy H. Porter  
Landman

KHP:cp

YATES PETROLEUM CORPORATION  
Case No. 9860  
02/07/90 Examiner Hearing  
Exhibit No. 3

MARTIN YATES, III  
1912 - 1985  
FRANK W. YATES  
1936 - 1986



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SECRETARY  
DENNIS G. KINSEY  
TREASURER

January 19, 1990

Marathon Oil Company  
P. O. Box 552  
Midland, Texas 79702

Attention: Curtis D. Smith

RE: Dagger ZW #2  
Township 19 South, Range 24 East, NMPM  
Section 25: SE/4  
Eddy County, New Mexico

Gentlemen:

As per our telephone conversation enclosed is a complete copy of the Operating Agreement covering the captioned well. Also enclosed is another copy of Authority For Expenditure for your review.

Please let us know should you have any questions.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

*Kathy H. Porter*  
Kathy H. Porter  
Landman

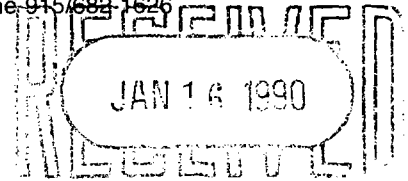
KHP:cp

Enclosures



**Marathon  
Oil Company**

P.O. Box 552  
Midland, Texas 79702  
Telephone 915/682-1626



January 15, 1990

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, New Mexico 88210

CERTIFIED MAIL & RETURN  
RECEIPT REQUESTED

Attention: Ms. Kathy H. Colbert

Re: Proposed JOA dated 7/31/89 with Yates Petroleum Corporation  
Our Lease NM-4013 - S. P. Johnson, III  
NMMI-189 - Husky-Depco ORRI  
Dagger "ZW" No. 2 well  
SE/4 Section 25, T-19-S, R-24-E  
Our Dagger Draw Area  
Eddy County, New Mexico

---

Ladies and Gentlemen:

We are in receipt of your letter dated December 8, 1989, concerning the changes made to the captioned JOA. Marathon has received these changes and requests that the following changes also be made:

EXHIBIT "C" ACCOUNTING PROCEDURE

1. Article III. 1. ii and iii - Please check "shall not" for both of these paragraphs.

GAS BALANCING AGREEMENT

1. Replace Paragraph 1. with the following:

During the period or periods when any party hereto fails to market or otherwise take its share of gas produced from any well within the Contract Area, the other parties shall have the right and option, but not the obligation to collectively produce each month in addition to their own respective shares of production, that portion of such other party's share which that party fails to market or otherwise take and shall be entitled to take and deliver to their respec-

tive purchasers their respective pro rata share of such gas production. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by conventional lease separation equipment in accordance with their respective interests and subject to the Operating Agreement to which this Agreement is attached, but each party taking such gas shall own all of the gas delivered to its purchaser.

2. Delete the following phrase from the first sentence of Paragraph 3.:

"just as if each party were taking or delivering to a purchaser its share, and its share only."

3. Replace Paragraph 4. with the following:

To allow for makeup of underproduced gas and to balance the gas account between the parties in accordance with their respective interests, any underproduced party shall, by giving written notice to the Operator fifteen (15) days prior to the beginning of a calendar month, be entitled to take, in addition to its proportional share of gas, an additional fifty percent (50%) of the "offpeak" monthly volume or twenty percent (20%) of the "peak" monthly volume of gas attributable to the working interest of the overproduced party or parties, until it has brought its gas account into balance. During peak months an overproduced party, at its sole option, may make available to under produced party or parties, gas in excess of such twenty percent (20%). For the purposes of this Agreement, "peak" months are January, February, July, August, November and December; "offpeak" months are March, April, May, June, September and October. The recovery of makeup gas by an underproduced party shall be in the order of accrual in storage (i.e., first-in, first-out basis). In the event that there is more than one underproduced party, each underproduced party's share of makeup gas shall be in the ratio that the under production of such underproduced party bears to the total underproduction of all such taking underproduced parties, unless otherwise mutually agreed.

4. Delete Paragraph 7. in its entirety.
5. The copy you provided to Marathon is illegible in some places, please send a copy of "original type" quality with an "original" signature page for our execution and file.

Please make the recommended changes and provide Marathon with a new legible Operating Agreement with original signature page for our execution.

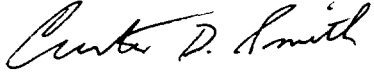
Also, we are in receipt of the letter dated January 3, 1990 from Fisk & Vandiver concerning the Compulsory Pooling for the captioned well. Is Marathon included in this force pooling, and if we are, why? Didn't Marathon sign and return an AFE for this well? If we haven't, please advise and I will find out why we have not.

January 15, 1990

Please call me with your comments at 1-800-351-1417, extension 326.

Yours very truly,

MARATHON OIL COMPANY

A handwritten signature in cursive script, reading "Curtis D. Smith".

Curtis D. Smith  
Landman

CDS;mmc'

xc: Mr. J. W. Nichols



MARTIN YATES, III  
1912 - 1985  
FRANK W. YATES  
1936 - 1986



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PEYTON YATES  
EXECUTIVE VICE PRESIDENT  
RANDY G. PATTERSON  
SECRETARY  
DENNIS G. KINSEY  
TREASURER

January 4, 1990

TO: WORKING INTEREST OWNERS  
Addressee List Attached

RE: Dagger ZW #2  
Township 19 South, Range 24 East, NMPM  
Township 25: SE/4  
Eddy County, New Mexico

Ladies and Gentlemen:

Enclosed for your files is a revised Exhibit "A" to the Operating Agreement. There was a typo on the Exhibit reflecting SW/4 leases. This has now been amended to correctly show SE/4.

Only 4 parties have not agreed to drill this well. Please let us hear from you should you have any questions. We feel we must file force pooling in order to proceed with the well.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

*Kathy H. Porter*  
Kathy H. Porter  
Landman

KHP:cp

Enclosure

DAGGER "ZW" #2  
WORKING INTEREST OWNERS

Oxy USA Inc.  
P.O. Box 50250  
Midland, Texas 79710  
Attn: Tim Keys

Kathleen Cone  
P. O. Drawer 1509  
Lovington, NM 88260

Tom R. Cone  
P. O. Box 778  
Jay, OK 74346

Cathie Cone Auvenshine  
P.O. Box 33280-296  
Austin, TX 78737

Marathon Oil Company  
P. O. Box 552  
Midland, Texas 79702  
ATTN Joint Interest  
Representative

Spiral, Inc.  
P. O. Box 1933  
Roswell, NM 88201  
ATTN Rosemary Avery

Douglas L. Cone  
P. O. Box 64244  
Lubbock, Tx. 79464

Clifford Cone  
P. O. Box 1509  
Lovington, NM 88260

Kenneth G. Cone  
P. O. Box 11310  
Midland, TX 79702

Dekalb Energy Company  
1000 Petroleum Bldg.  
Denver, Colorado 80202  
ATTN K. G. Ranum

Yates Petroleum Corporation  
S. P. Yates  
105 South Fourth Street  
Artesia, NM 88210  
ATTN Kathy H. Colbert

Conoco Inc.  
P. O. Box 460  
Hobbs, New Mexico 88240  
ATTN Mr. Van Peters

MARTIN YATES, III  
1912 - 1985  
FRANK W. YATES  
1936 - 1986



105 SOUTH FOURTH STREET  
ARTESIA, NEW MEXICO 88210  
TELEPHONE (505) 748-1471

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RANDY G. PATTERSON  
SECRETARY  
DENNIS G. KINSEY  
TREASURER

December 8, 1989

TO: WORKING INTEREST OWNERS  
Addressee List Attached

RE: Dagger ZW #2  
Township 19 South, Range 24 East, NMPM  
Section 25: SE/4  
Eddy County, New Mexico

Gentlemen:

At the request of some of the working interest owners, we have revised certain pages to the Operating Agreement as follows:

1. Page 1: Exhibit "B" is marked to show it is included to cover the Marathon oil mineral interest.
2. Page 4: Article VI, A. - commence drilling date is set on or before February 15, 1990.
3. Page 9: Article VII, D. - Option No. 2 is now plainly marked as the chosen option.
4. Page 10: Article VII, G. - Add the following sentence prior to the last sentence of the 1st paragraph: "If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax value generated by each party's working interest".
5. Page 14: Article XV, E. - Add the words "other than Marathon Oil Company" between "party, and owns".
6. Exhibit "B" has been included.
7. Exhibit "D" has been revised to reflect Conoco and Marathon are self insured.

Working Interest Owners  
Dagger ZW #2  
December 8, 1989  
Page 2

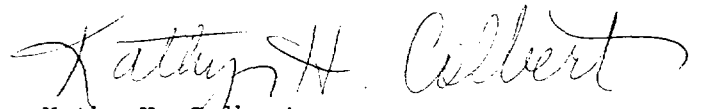
Please substitute all these revised pages into your copy of the Operating Agreement. If you have already executed the Operating Agreement, please indicate your acceptance of the revisions by signing below and returning 1 copy of this letter to our office.

For those parties who have not executed the Authority For Expenditure and/or the Operating Agreement, we again respectfully request you to do so and join with us in the drilling of this well.

Thank you for your time.

Very truly yours,

YATES PETROLEUM CORPORATION

  
Kathy H. Colbert  
Landman

KHC:cp

Enclosures

ACCEPTED AND AGREED TO this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

\_\_\_\_\_

\_\_\_\_\_

Title: \_\_\_\_\_

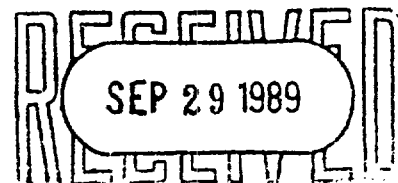


**Marathon  
Oil Company**

P.O. Box 552  
Midland, Texas 79702  
Telephone 915/682-1626

September 27, 1989

Yates Petroleum Corporation  
105 South Fourth Street  
Artesia, New Mexico 88210  
Attn: Kathy H. Colbert



Re: Proposed JOA dated July 31, 1989 - Yates Petroleum Corporation  
Our Lease NM-4013 - S. P. Johnson, III  
NMMI-189 - Husky-Depco ORRI  
SE/4 of Section 25, T-19-S, R-24-E  
Our Dagger Draw Area  
Eddy County, New Mexico

Gentlemen:

Reference is made to your July 31, 1989, letter concerning your proposal to drill the Dagger "ZW" #2 well at a location of 1,980' FSL and 660' FEL of Section 25, T-19-S, R-24-E, Eddy County, New Mexico.

Marathon has reviewed Yates Petroleum's proposed Joint Operating Agreement dated July 31, 1989 and hereby requests that the following modifications be made to said Agreement:

Operating Agreement

1. Article II. Exhibits

Form of Lease Exhibits "B" should be included in the Joint Operating Agreement.

2. Article VII.D. Limitation of Expenditures

Although Yates obviously intended to choose Option 2, an "x" should be marked in the appropriate place to verify the selection of "Option 2."

3. Article VII.G. Taxes

In paragraph one of this section, the following sentence from Form 610-1982 should be inserted prior to the last sentence of the paragraph:

If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax value generated by each party's working interest.

Also, the second paragraph of this section should be modified by deleting the word "all" in the following phrase:

"...final determination, unless all parties agree to abandon..."

4. Article VII.H. Insurance

We recommend that Operator indemnify Non-Operators against losses which Operator is required to carry insurance against, and against losses due to Operator's gross negligence or willful misconduct.

5. Article VIII.G. Preferential Right to Purchase

We recommend that the preferential right to purchase option be reinstated.

6. Article X. Claims and Lawsuits

The \$15,000 limit for settling claims and lawsuits exceeds the Marathon recommended limit of \$10,000 and should be lowered.

7. Article XV. Other Provisions

We recommend deleting paragraph D. in its entirety.

EXHIBIT "C" ACCOUNTING PROCEDURES <sup>10-17-89</sup> To Tom K

8. Article I. 3. Advances and Payments by Non-Operators

The proposed rate of 12% should be changed to the prime rate plus 1%.



9. Article I. 5. Audits

The following sentence, which is a standard provision in the COPAS-1984 Accounting Procedure, should be added as paragraph B:

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

10. Article II.3. Employee Benefits

The reference to twenty percent (20%) should be removed so the provision reads "...Operator's actual cost not to exceed the percentage most recently recommended by COPAS."

11. Article II. 5. C. Transportation

COPAS-1984 increased the amount for the equalization of gross trucking charges from \$200 to \$400. The lower rate is acceptable.

12. Article II. 13. (An Addition) Ecological and Environmental

This is a standard provision in the COPAS-1984 Onshore Accounting Procedure and should be added to this Agreement. It allows for direct charging of costs incurred for the benefit of the joint property as a result of governmental or regulatory requirements to satisfy environmental consideration applicable to the joint operations. Such costs may include surveys of an ecological or archaeological nature and pollution control procedures as required by applicable laws and regulations.

13. Article III. 4. (An Addition) Catastrophe Overhead

COPAS-1984 has a provision to supply a rate prior to charging the joint account for overhead in the event of catastrophe. This provision should be added to the Agreement with the same rates recommended for Overhead Major Construction.

*de* 14. EXHIBIT "D" INSURANCE

Marathon agrees that Worker's Compensation be carried for the benefit of the joint account. In addition, it is recommended that the Operator carry Employer's Liability Insurance for the benefit of the joint account as well. However, since Marathon is self-insured, the proposed coverage for Comprehensive General Liability, Umbrella Excess Liability and Cost of Well Control Insurance represents duplication of coverage and Marathon specifically requests that we be excluded from this coverage.

112 15. EXHIBIT "E" GAS BALANCING AGREEMENT

The Gas Balancing Agreement (GBA) is very awkwardly worded and also leaves out several important provisions normally included in GBA's. As such, we recommend replacing the proposed GBA with the one attached, which we feel would remedy our concerns with the proposed document.

Please make the above changes to the subject Joint Operating Agreement and return the same to this office for further review and execution.

Marathon appreciates your consideration in this matter and please advise should you have questions concerning this matter.

Very truly yours,

MARATHON OIL COMPANY



Steve Daniels  
Landman

SMD:hrm

xc: Mr. L. D. Garcia  
Mr. J. W. Nichols  
Ms. L. L. Lomas

MARTIN YATES, III  
1912 - 1985  
FRANK W. YATES  
1936 - 1986



105 SOUTH FOURTH STREET  
ARTESIA, NEW MEXICO 88210  
TELEPHONE (505) 748-1471

S. P. YATES  
CHAIRMAN OF THE BOARD  
JOHN A. YATES  
PRESIDENT  
PEYTON YATES  
EXECUTIVE VICE PRESIDENT  
RANDY G. PATTERSON  
SECRETARY  
DENNIS G. KINSEY  
TREASURER

November 1, 1989

TO: WORKING INTEREST OWNERS  
Addressee List Attached

RE: Dagger ZW #2  
Township 19 South, Range 24 East, NMPM  
Section 25: SE/4  
Eddy County, New Mexico

Ladies and Gentlemen:

The Parties marked on the attached list have not made any response to our proposal to drill the captioned well. We respectfully request those parties consider our proposal and contact us for discussion.

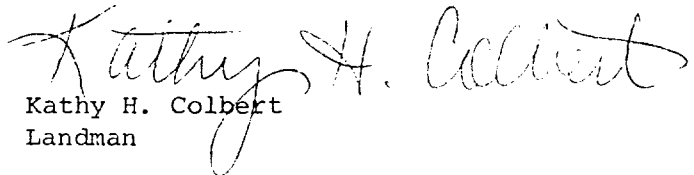
We have received responses from the other Parties and one Party has requested changes to the Operating Agreement. We will be circulating the requested changes after our review and will then ask you to approve or disapprove.

In view of the slow response, we hope to spud the well in January rather than late 1989. Please let us hear from you.

Thank you for your time.

Very truly yours,

YATES PETROLEUM CORPORATION

  
Kathy H. Colbert  
Landman

KHC/cp

DAGGER "ZW" #2  
WORKING INTEREST OWNERS

Oxy USA Inc. X  
P.O. Box 26100  
Oklahoma City, Ok. 73126

Kathleen Cone  
P. O. Drawer 1509  
Lovington, NM 88260

Tom R. Cone X  
P. O. Box 778  
Jay, OK 74346

Cathie Cone Auvenshine  
P.O. Box 33280-296 X  
Austin, TX 78737

Marathon Oil Company  
P. O. Box 552  
Midland, Texas 79702  
ATTN Joint Interest  
Representative

Spiral, Inc.  
P. O. Box 1933  
Roswell, NM 88201  
ATTN Rosemary Avery

Douglas L. Cone  
P. O. Box 64244  
Lubbock, Tx. 79464

Clifford Cone  
P. O. Box 1509  
Lovington, NM 88260

Kenneth G. Cone X  
P. O. Box 11310  
Midland, TX 79702

Dekalb Energy Company  
1000 Petroleum Bldg.  
Denver, Colorado 80202  
ATTN K. G. Ranum

Yates Petroleum Corporation  
S. P. Yates  
105 South Fourth Street  
Artesia, NM 88210  
ATTN Kathy H. Colbert

Conoco Inc.  
P. O. Box 460  
Hobbs, New Mexico 88240  
ATTN Mr. Van Peters

MARTIN YATES, III  
1912 - 1985  
FRANK W. YATES  
1936 - 1986



105 SOUTH FOURTH STREET  
ARTESIA, NEW MEXICO 88210  
TELEPHONE (505) 748-1471

S. P. YATES  
CHAIRMAN OF THE BOARD  
JOHN A. YATES  
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PEYTON YATES  
EXECUTIVE VICE PRESIDENT  
RANDY G. PATTERSON  
SECRETARY  
DENNIS G. KINSEY  
TREASURER

August 4, 1989

TO: WORKING INTEREST OWNERS  
ADDRESSEE LIST ATTACHED

Re: Dagger "ZW" #2  
Township 19 South, Range 24 East  
Section 25  
Eddy County, New Mexico

Ladies and Gentlemen:

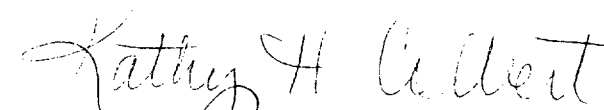
It has come to our attention the Copas Form attached as Exhibit "C" to the Operating Agreement covering the captioned well, is in error. Please throw away the current Exhibit "C" which mistakenly combines two different forms and replace with the attached Exhibit "C", which is the 1974 form only.

I am sorry if this has caused you any inconvenience.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

  
Kathy H. Colbert  
Landman

KHC:blf

Enclosures

DAGGER "ZW" #2  
WORKING INTEREST OWNERS

Oxy USA Inc.  
P.O. Box 26100  
Oklahoma City, Ok. 73126

Kathleen Cone  
P. O. Drawer 1509  
Lovington, NM 88260

Tom R. Cone  
P. O. Box 778  
Jay, OK 74346

Cathie Cone Auvenshine  
P.O. Box 33280-296  
Austin, TX 78737

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Midland, Texas 79702  
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P. O. Box 11310  
Midland, TX 79702

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1000 Petroleum Bldg.  
Denver, Colorado 80202  
ATTN K. G. Ranum

Yates Petroleum Corporation  
S. P. Yates  
105 South Fourth Street  
Artesia, NM 88210  
ATTN Kathy H. Colbert

Conoco Inc.  
P. O. Box 460  
Hobbs, New Mexico 88240  
ATTN Mr. Van Peters



PS Form 3811, July 1983 447-845

**SENDER: Complete items 1, 2, 3 and 4.**

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

1. ☒ Show to whom, date and address of delivery.
2. ☐ Restricted Delivery.

**3. Article Addressed to:**

Kenneth G. Cone  
P.O. Box 11310  
Midland, Tx. 79702

**4. Type of Service:**

- |   |                                  |
|---|----------------------------------|
| <input type="checkbox"/> Registered           | <input type="checkbox"/> Insured |
| <input checked="" type="checkbox"/> Certified | <input type="checkbox"/> COD     |
| <input type="checkbox"/> Express Mail         |                                  |

**Article Number**

P-246-724-830

Always obtain signature of addressee or agent and **DATE DELIVERED.**

**5. Signature - Addressee**

X

**6. Signature - Agent**

X

**7. Date of Delivery**

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

DOMESTIC RETURN RECEIPT

PS Form 3811, July 1983 447-845

<b>SENDER: Complete items 1, 2, 3 and 4.</b> Put your address in the "RETURN TO" space on the reverse side. Failure to do this will prevent this card from being returned to you. <u>The return receipt fee will provide you the name of the person delivered to and the date of delivery.</u> For additional fees the following services are available. Consult postmaster for fees and check box(es) for service(s) requested.	
1. <input checked="" type="checkbox"/> Show to whom, date and address of delivery.	
2. <input type="checkbox"/> Restricted Delivery.	
3. Article Addressed to:  Marathon Oil Company P.O. Box 552 Midland, Tx. 79702 ATTN: Joint Interest Representative	
4. Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail	Article Number  P-246-724-831
Always obtain signature of addressee or agent and <b>DATE DELIVERED.</b>	
5. Signature - Addressee X	
6. Signature - Agent <i>Sammy Edwards</i>	
7. Date of Delivery 8-2-89	
8. Addressee's Address (ONLY if requested and fee paid)  SAME	

DOMESTIC RETURN RECEIPT

MARTIN YATES, III  
1912 - 1985  
FRANK W. YATES  
1936 - 1986



105 SOUTH FOURTH STREET  
ARTESIA, NEW MEXICO 88210

TELEPHONE (505) 748-1471

E 10-60-08-053-3B-AWI

S. P. YATES  
CHAIRMAN OF THE BOARD  
JOHN A. YATES  
PRESIDENT  
PEYTON YATES  
EXECUTIVE VICE PRESIDENT  
RANDY G. PATTERSON  
SECRETARY  
DENNIS G. KINSEY  
TREASURER

July 31, 1989

CERTIFIED MAIL  
RETURN RECEIPT REQUESTED

TO: WORKING INTEREST OWNERS  
ADDRESSEE LIST ATTACHED

Re: Dagger "ZW" #2  
Township 19 South, Range 24 East  
Section 25: SE $\frac{1}{4}$   
Eddy County, New Mexico

Gentlemen:

Yates Petroleum Corporation proposes the drilling of the captioned well at a location of 1980' FSL and 660' FEL for an 8000' Cisco Canyon test. Approximate AFE costs are \$241,000.00 dry hole and \$539,000.00 completed. We invite you to join and drill with us.

Enclosed are two copies of AFE and one (1) copy of the Operating Agreement with extra signature page attached. If this meets with your approval, please execute and return one (1) copy of the AFE and the extra signature page to the Operating Agreement.

Please do not hesitate to contact us should you have any questions.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Kathy H. Colbert  
Landman

KHC:blf

Enclosures

E10-60-08-053-3B-AWI

DAGGER "ZW" #2  
WORKING INTEREST OWNERS

Oxy USA Inc.  
P.O. Box 50250  
Midland, Texas 79710  
Attn: Tim Keys

Kathleen Cone  
P. O. Drawer 1509  
Lovington, NM 88260

Tom R. Cone  
P. O. Box 778  
Jay, OK 74346

Cathie Cone Auvenshine  
P.O. Box 658  
Dripping Springs, TX 78620-0658

Marathon Oil Company  
P. O. Box 552  
Midland, Texas 79702  
ATTN Joint Interest  
Representative

Spiral, Inc.  
P. O. Box 1933  
Roswell, NM 88201  
ATTN Rosemary Avery

Douglas L. Cone  
P. O. Box 64244  
Lubbock, Tx. 79464

Clifford Cone  
P. O. Box 1509  
Lovington, NM 88260

Kenneth G. Cone  
P. O. Box 11310  
Midland, TX 79702

DeKalb Energy Company  
1625 Broadway  
Denver, Colorado 80202  
ATTN K. G. Ranum

Yates Petroleum Corporation  
S. P. Yates  
105 South Fourth Street  
Artesia, NM 88210  
ATTN Kathy H. Porter

Conoco Inc.  
P. O. Box 460  
Hobbs, New Mexico 88240  
ATTN Mr. Van Peters

A.A.P.L. FORM 610 - 1977

MODEL FORM OPERATING AGREEMENT

DAGGER "ZW" #2  
OPERATING AGREEMENT

DATED

July 31, 19 89,

OPERATOR YATES PETROLEUM CORPORATION

CONTRACT AREA Township 19 South, Range 24 East

Section 25: SE

Containing 160.00 acres, more or less

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

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AMERICAN ASSOCIATION OF PETROLEUM LANDMEN  
APPROVED FORM. A.A.P.L. NO. 610 - 1977 REVISED  
MAY BE ORDERED DIRECTLY FROM THE PUBLISHER  
KRAFTBILT PRODUCTS, BOX 800, TULSA 74101

YATES PETROLEUM CORPORATION  
Case No. 9860  
02/07/90 Examiner Hearing  
Exhibit No. 4

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# OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between YATES PETROLEUM CORPORATION, a  
New Mexico corporation, 105 S. 4th Street, Artesia, NM, hereinafter designated and  
referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter  
referred to individually herein as "Non-Operator", and collectively as "Non-Operators",

## WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

## ARTICLE I. DEFINITIONS

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

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

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

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

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

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

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

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

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

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

## ARTICLE II. EXHIBITS

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

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

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

☒ B. Exhibit "B", Form of Lease, covering Marathon Oil Company's interest.

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

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

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

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

**ARTICLE III.  
INTERESTS OF PARTIES**

**A. Oil and Gas Interests:**

If any party owns an unleased oil and gas interest in the Contract Area, that interest shall be treated for the purpose of this agreement and during the term hereof as if it were a leased interest under the form of oil and gas lease attached as Exhibit "B". As to such interest, the owner shall receive royalty on production as prescribed in the form of oil and gas lease attached hereto as Exhibit "B". Such party shall, however, be subject to all of the provisions of this agreement relating to lessees, to the extent that it owns the lessee interest.

**B. Interest of Parties in Costs and Production:**

Exhibit "A" lists all of the parties and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and material acquired in operations on the Contract Area shall be owned by the parties as their interests are shown in Exhibit "A". All production of oil and gas from the Contract Area, subject to the payment of lessor's royalties ~~which will be borne by the Joint Account~~, shall also be owned by the parties in the same manner during the term hereof; provided, however, this shall not be deemed an assignment or cross-assignment of interests covered hereby.

**ARTICLE IV.  
TITLES**

**A. Title Examination:**

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

~~Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be a part of the administrative overhead as provided in Exhibit "C," and shall not be a direct charge, whether performed by Operator's staff attorneys or by outside attorneys.~~

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

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

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

**B. Loss of Title:**

1. **Failure of Title:** Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a reduction of interest from that shown on Exhibit "A", this agreement, nevertheless, shall continue in force as to all remaining oil and gas leases and interests, and

(a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development

1 or operating costs which it may have theretofore paid, but there shall be no monetary liability on its  
2 part to the other parties hereto for drilling, development, operating or other similar costs by reason  
3 such title failure; and

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

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

14 (d) Should any person not a party to this agreement, who is determined to be the owner of any in-  
15 terest in the title which has failed, pay in any manner any part of the cost of operation, development,  
16 or equipment, such amount shall be paid to the party or parties who bore the costs which are so refund-  
17 ed; and

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

21 (f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection  
22 with the defense of the interest claimed by any party hereto, it being the intention of the parties  
23 hereto that each shall defend title to its interest and bear all expenses in connection therewith.  
24

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

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

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

48 (c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or  
49 becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or be-  
50 coming a party to this agreement.  
51

52 3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2.  
53 above, shall not be considered failure of title but shall be joint losses and shall be borne by all parties  
54 in proportion to their interests. There shall be no readjustment of interests in the remaining portion of  
55 the Contract Area.  
56

## 57 ARTICLE V. 58 OPERATOR

### 59 A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

60 YATES PETROLEUM CORPORATION, 105 South 4th Street, Artesia, NM 88210 shall be the  
61 Operator of the Contract Area, and shall conduct and direct and have full control of all operations on  
62 the Contract Area as permitted and required by, and within the limits of, this agreement. It shall con-  
63 duct all such operations in a good and workmanlike manner, but it shall have no liability as Operator  
64 to the other parties for losses sustained or liabilities incurred, except such as may result from gross  
65 negligence or willful misconduct.  
66  
67  
68  
69  
70

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

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

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the Parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. If the Operator that is removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of the Operator that was removed.

**C. Employees:**

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

**D. Drilling Contracts:**

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

**ARTICLE VI.  
DRILLING AND DEVELOPMENT**

**A. Initial Well:**

On or before the 15th day of February, 1990, Operator shall commence the drilling of a well for oil and gas at the following location:

Township 19 South, Range 24 East  
Section 25: SE $\frac{1}{4}$

and shall thereafter continue the drilling of the well with due diligence to adequately test the Cisco Canyon formation at approximately 8000'.

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

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

If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the well as a dry hole, it shall first secure the consent of all parties and shall plug and abandon same as provided in Article VI.E.1. hereof.

## B. Subsequent Operations:

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

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VI.E.1. elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within sixty (60) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest of the parties approving such operation, and (b) its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of Saturday, Sunday or legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A", or (b) carry its proportionate part of Non-Consenting Parties' interest. The proposing party, at its election, may withdraw such proposal if there is insufficient participation, and shall promptly notify all parties of such decision.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold (after deducting production taxes, crude oil excise taxes, royalty, overriding royalty and other interests existing on the effective date hereof, payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

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

(b) 300% of that portion of the costs and expenses of drilling reworking, deepening, or plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and

300% of that portion of the cost of newly acquired equipment in the well (to and including the well-head connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

Gas production attributable to any Non-Consenting Party's relinquished interest upon such Party's election, shall be sold to its purchaser, if available, under the terms of its existing gas sales contract. Such Non-Consenting Party shall direct its purchaser to remit the proceeds receivable from such sale direct to the Consenting Parties until the amounts provided for in this Article are recovered from the Non-Consenting Party's relinquished interest. If such Non-Consenting Party has not contracted for sale of its gas at the time such gas is available for delivery, or has not made the election as provided above, the Consenting Parties shall own and be entitled to receive and sell such Non-Consenting Party's share of gas as hereinabove provided during the recoupment period.

During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, crude oil excise taxes, severance, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production.

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

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

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

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

The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A. except (a) when Option 2, Article VII.D.1., has been selected, or (b) to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article VI.A.

#### C. Right to Take Production in Kind:

Each party electing to take in kind or separately dispose of its proportionate share of the production from the Contract Area shall keep accurate records of the volume, selling price, royalty and taxes relative to its share of production. Non-Operators shall, upon request, furnish Operator with true and complete copies of the records required to be kept hereunder whenever, under the terms of this agreement or any agreement executed in connection herewith, it is necessary for Operator to obtain said information. Any information furnished to Operator hereunder shall be used by Operator only to the extent necessary to carry out its duties as Operator and shall otherwise be kept confidential.

Each party shall have the right to take in kind or separately dispose of its proportionate share of all oil and gas produced from the Contract Area, exclusive of production which may be used in development and producing operations and in preparing and

1 treating oil for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate  
2 disposition by any party of its proportionate share of the production shall be borne by such party. Any party taking its share of  
3 production in kind shall be required to pay for only its proportionate share of such part of Operator's surface facilities which it  
4 uses.

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

8 In the event any party shall fail to make the arrangements necessary to take in kind or separately  
9 dispose of its proportionate share of the oil and gas produced from the Contract Area, Operator shall have  
10 the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such  
11 oil and gas or sell it to others at any time and from time to time, for the account of the non-taking  
12 party at the best price obtainable in the area for such production. Any such purchase or sale by Op-  
13 erator shall be subject always to the right of the owner of the production to exercise at any time its  
14 right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a  
15 purchaser. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for  
16 such reasonable periods of time as are consistent with the minimum needs of the industry under the  
17 particular circumstances, but in no event for a period in excess of one (1) year. Notwithstanding the  
18 foregoing, Operator shall not make a sale, including one into interstate commerce, of any other party's  
19 share of gas production without first giving such other party thirty (30) days notice of such intended  
20 sale.

21 In the event any party hereto is not at any time taking or marketing its share of gas  
22 production and Operator is either (i) unwilling to purchase or sell or (ii) unable to  
23 obtain the prior written consent to purchase or sell such party's share of gas production,  
24 or in the event any party has contracted to sell its share of gas produced from the Contract  
25 Area to a purchaser which does not at any time while this agreement is in effect take the  
26 full share of gas attributable to the interest of such party, then in any such event the  
27 terms and conditions of the Gas Balancing Agreement attached hereto as Exhibit "E" and  
28 incorporated herein shall automatically become effective.

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

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

#### 41 E. Abandonment of Wells:

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

54 2. Abandonment of Wells that have Produced: Except for any well which has been drilled or re-  
55 worked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reim-  
56 bursed as therein provided, any well which has been completed as a producer shall not be plugged and  
57 abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall  
58 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense  
59 of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment  
60 of such well, all parties do not agree to the abandonment of any well, those wishing to continue its op-  
61 eration shall tender to each of the other parties its proportionate share of the value of the well's salvable  
62 material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated  
63 cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall  
64 assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity,  
65 quality, or fitness for use of the equipment and material, all of its interest in the well and related equip-  
66 ment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the  
67 formation or formations then open to production. If the interest of the abandoning party is or includes  
68 an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an  
69 oil and gas lease, limited to the interval or intervals of the formation or formations then open to produc-  
70 tion, for a term of one year and so long thereafter as oil and or gas is produced from the interval or inter-

vals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Contract Area.

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon request, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well.

## ARTICLE VII. EXPENDITURES AND LIABILITY OF PARTIES

### A. Liability of Parties:

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

### B. Liens and Payment Defaults:

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

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

### C. Payments and Accounting:

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

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.



**D. Limitation of Expenditures:**

1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened pursuant to the provisions of Article VI.B.2. of this Agreement, it being understood that the consent to the drilling or deepening shall include:

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

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

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

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of TWENTY FIVE THOUSAND----- Dollars (\$ 25,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of FIFTEEN THOUSAND----- Dollars (\$ 15,000.00).

**E. Royalties, Overriding Royalties and Other Payments:**

Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of 1/8 of 8/8ths due on its share of production and shall hold the other parties free from any liability therefor. If the interest of any party in any oil and gas lease covered by this agreement is subject to any royalty, overriding royalty, production payment, or other charge over and above the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account for or cause to be accounted for, such interest to the owners thereof.

No party shall ever be responsible, on any price basis higher than the price received by such party, to any other party's lessor or royalty owner; and if any such other party's lessor or royalty owner should demand and receive settlements on a higher price basis, the party contributing such lease shall bear the royalty burden insofar as such higher price is concerned.

It is recognized by the parties hereto that in addition to each party's share of working interest production as shown in Exhibit "A", such party shall have the right, subject to existing contracts, to market the royalty gas attributable to each lease which it contributes to the Contract Area and to receive payments due for such royalty gas produced from or allocated to such lease or leases. It is agreed that, regardless of whether each party markets or contracts for its share of gas, including the royalty gas under the leases which it contributed to the Contract Area, such party agrees to pay or cause to be paid to the royalty owners under its lease or leases the proceeds attributable to their respective royalty interest and to hold all other parties hereto harmless for its failure to do so.

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

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

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

of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

#### G. Taxes:

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

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

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

#### H. Insurance:

At all times while operations are conducted hereunder, Operator shall comply with the Workmen's Compensation Law of the State where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be an amount equivalent to the premium which would have been paid had such insurance been obtained. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the Workmen's Compensation Law of the State where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event Automobile Public Liability Insurance is specified in said Exhibit "D", or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's fully owned automotive equipment.

### ARTICLE VIII. ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

#### A. Surrender of Leases:

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

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

1 be shared by the parties assignee in the proportions that the interest of each bears to the interest of all  
2 parties assignee.

3  
4 Any assignment or surrender made under this provision shall not reduce or change the assignor's or  
5 surrendering parties' interest, as it was immediately before the assignment, in the balance of the Contract  
6 Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter  
7 be subject to the terms and provisions of this agreement.

8  
9 **B. Renewal or Extension of Leases:**

10  
11 If any party secures a renewal of any oil and gas lease subject to this Agreement, all other parties  
12 shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt  
13 of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such  
14 lease affects lands within the Contract Area, by paying to the party who acquired it their several proper  
15 proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area,  
16 which shall be in proportion to the interests held at that time by the parties in the Contract Area.

17  
18 If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it  
19 shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of  
20 their respective percentage of participation in the Contract Area to the aggregate of the percentages  
21 of participation in the Contract Area of all parties participating in the purchase of such renewal lease.  
22 Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

23 without warranty  
24 Each party who participates in the purchase of a renewal lease shall be given an assignment/of its  
25 proportionate interest therein by the acquiring party.

26  
27 The provisions of this Article shall apply to renewal leases whether they are for the entire interest  
28 covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease  
29 taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after  
30 the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted  
31 for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal  
32 lease and shall not be subject to the provisions of this agreement.

33  
34 The provisions in this Article shall apply also and in like manner to extensions of oil and gas  
35 leases. The provisions of this Article VIII-B shall only apply to leases, or portions  
36 of leases, located within the Unit Area.

37 **C. Acreage or Cash Contributions:**

38  
39 While this agreement is in force, if any party contracts for a contribution of cash toward the drilling  
40 of a well or any other operation on the Contract Area, such contribution shall be paid to the party who  
41 conducted the drilling or other operation and shall be applied by it against the cost of such drilling or  
42 other operation. If the contribution be in the form of acreage, the party to whom the contribution is  
43 made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling  
44 Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto  
45 are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and  
46 be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and  
47 accept such tender, such acreage shall not become a part of the Contract Area. Each party shall prompt-  
48 ly notify all other parties of all acreage or money contributions it may obtain in support of any well or  
49 any other operation on the Contract Area.

50  
51 If any party contracts for any consideration relating to disposition of such party's share of substances  
52 produced hereunder, such consideration shall not be deemed a contribution as contemplated in this  
53 Article VIII.C. This paragraph shall not be applicable to the contribution of acreage  
54 by the Contributing Parties toward the Initial, Substitute, or Option Test Well.

55 **D. Subsequently Created Interest:**

56  
57 Notwithstanding the provisions of Article VIII.E. and VIII.G., if any party hereto shall, subsequent  
58 to execution of this agreement, create an overriding royalty, production payment, or net proceeds inter-  
59 est, which such interests are hereinafter referred to as "subsequently created interest", such subsequently  
60 created interest shall be specifically made subject to all of the terms and provisions of this agreement, as  
61 follows:

62  
63 1. If non-consent operations are conducted pursuant to any provision of this agreement, and the  
64 party conducting such operations becomes entitled to receive the production attributable to the interest  
65 out of which the subsequently created interest is derived, such party shall receive same free and clear  
66 of such subsequently created interest. The party creating same shall bear and pay all such subsequently  
67 created interests and shall indemnify and hold the other parties hereto free and harmless from any and  
68 all liability resulting therefrom.

2. If the owner of the interest from which the subsequently created interest is derived (1) fails to pay, when due, its share of expenses chargeable hereunder, or (2) elects to abandon a well under provisions of Article VI.E. hereof, or (3) elects to surrender a lease under provisions of Article VIII.A. hereof, the subsequently created interest shall be chargeable with the pro rata portion of all expenses hereunder in the same manner as if such interest were a working interest. For purposes of collecting such chargeable expenses, the party or parties who receive assignments as a result of (2) or (3) above shall have the right to enforce all provisions of Article VII.B. hereof against such subsequently created interest.

**E. Maintenance of Uniform Interest:**

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

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

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

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

**F. Waiver of Right to Partition:**

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

~~**G. Preferential Right to Purchase:**~~

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

**ARTICLE IX.  
INTERNAL REVENUE CODE ELECTION**

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provisions herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, 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 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No

such party shall give any notices or take any other action inconsistent with the election made hereunder. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "C", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from Operations hereunder can be adequately determined without the computation of partnership taxable income.

#### ARTICLE X. CLAIMS AND LAWSUITS

Operator may settle any single damage claim or suit arising from operations hereunder if the expenditure does not exceed FIFTEEN THOUSAND----- Dollars (\$ 15,000.00 ) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, the party shall immediately notify Operator, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

#### ARTICLE XI. FORCE MAJEURE

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

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

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

#### ARTICLE XII. NOTICES

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

#### ARTICLE XIII. TERM OF AGREEMENT

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

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

☒ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of 180 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling or reworking a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling or reworking operations are commenced within 120 days from the date of abandonment of said well.

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

#### ARTICLE XIV. COMPLIANCE WITH LAWS AND REGULATIONS

##### A. Laws, Regulations and Orders:

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

##### B. Governing Law:

The essential validity of this agreement and all matters pertaining thereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state where most of the land in the Contract Area is located shall govern.

#### ARTICLE XV. OTHER PROVISIONS

A. Not included.

B. Not included.

C. Not included.

D. No production, whether oil or gas, may be sold from the lease acreage, or lands pooled therewith, to any party's subsidiaries, affiliates, or associates, without each party's prior written consent. All production sold from the lease acreage, or lands pooled therewith, will be an arm's length trade with a third party purchaser. It is expressly agreed if prior written consent is given to a party selling to themselves, its subsidiaries, affiliates, or associates, the other parties to this agreement will have the option to also sell to said purchaser, at the same or better price. In the event any party hereto, makes an arm's length trade with a third party purchaser, the remaining parties will have the option to also sell at the same or higher price.

##### E. UNLEASED OIL AND GAS INTERESTS

If any party, other than Marathon Oil Company, owns an unleased oil and gas interest in the Contract Area, that interest shall be treated for the purpose of this agreement and during the term hereof as if it were a 100% Working Interest, reserving no royalty interest and bearing no royalty, overriding royalty or any other burdens.

ARTICLE XVI.  
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of 31st day of July,  
1989.

OPERATOR

YATES PETROLEUM CORPORATION

By: John A. Yates

Attorney-in-Fact (RC)

NON-OPERATORS

S.P. Yates  
S.P. YATES

STATE OF NEW MEXICO )  
:ss  
COUNTY OF EDDY )

The foregoing instrument was acknowledged before me this 31st day  
of July, 1989 by John A. Yates, Attorney-in-Fact for YATES  
PETROLEUM CORPORATION, a New Mexico corporation, on behalf of said corporation.

My commission expires:

March 1, 1990

William S. Krolow

Notary Public

STATE OF NEW MEXICO )  
:ss  
COUNTY OF EDDY )

The foregoing instrument was acknowledged before me this 7th day  
of August, 1989 by S.P. YATES.

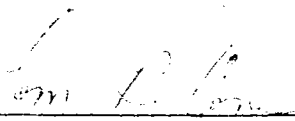
My commission expires:

March 1, 1990

William S. Krolow

Notary Public

SIGNATURE PAGE ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT DATED JULY 31, 1989, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND CONOCO, INC., ET AL, "NON-OPERATORS" COVERING LANDS IN EDDY COUNTY, NEW MEXICO.

  
TOM R. CONE

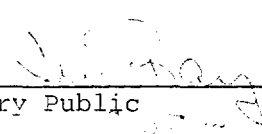
\_\_\_\_\_  
DOUGLAS L. CONE

\_\_\_\_\_  
CLIFFORD CONE

STATE OF NEW MEXICO )  
COUNTY OF McDONALD ) : ss.

The foregoing instrument was acknowledged before me this 15<sup>th</sup> day of June, <sup>1990</sup>1989, by TOM R. CONE.

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

  
Notary Public

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) : ss.

McDonalda County  
My Commission Expires 5-10-92

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1989, by DOUGLAS L. CONE.

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

\_\_\_\_\_  
Notary Public

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) : ss.

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1989, by CLIFFORD CONE.

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

\_\_\_\_\_  
Notary Public





ATTEST:

OXY USA INC.

By \_\_\_\_\_

By \_\_\_\_\_

ATTEST:

SPIRAL, INC.

By \_\_\_\_\_

By \_\_\_\_\_

CORPORATE ACKNOWLEDGMENT

STATE OF \_\_\_\_\_ )  
: ss.  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1989, by \_\_\_\_\_, \_\_\_\_\_ for OXY USA INC., a \_\_\_\_\_ corporation, on behalf of said corporation.

My commission expires: \_\_\_\_\_  
Notary Public

STATE OF \_\_\_\_\_ )  
: ss.  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1989, by \_\_\_\_\_, \_\_\_\_\_ for SPIRAL, INC., a \_\_\_\_\_ corporation, on behalf of said corporation.

My commission expires: \_\_\_\_\_  
Notary Public

DEKALB ENERGY COMPANY

By \_\_\_\_\_

MARATHON OIL COMPANY

By \_\_\_\_\_

## CORPORATE ACKNOWLEDGMENT

STATE OF \_\_\_\_\_ )  
 :  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1989, by \_\_\_\_\_, \_\_\_\_\_ of DEKALB ENERGY COMPANY, a \_\_\_\_\_ company, on behalf of said company. My commission expires: \_\_\_\_\_

\_\_\_\_\_  
Notary Public

STATE OF \_\_\_\_\_ )  
 : ss.  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1989, by \_\_\_\_\_, \_\_\_\_\_ of MARATHON OIL COMPANY, a \_\_\_\_\_ company, on behalf of said company. My commission expires: \_\_\_\_\_

\_\_\_\_\_  
Notary Public

CONOCO, INC.

By \_\_\_\_\_

## CORPORATE ACKNOWLEDGMENT

STATE OF \_\_\_\_\_ )  
 :  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1989, by \_\_\_\_\_, \_\_\_\_\_ of CONOCO, INC., a \_\_\_\_\_ corporation, on behalf of said corporation.

My commission expires: \_\_\_\_\_  
Notary Public

E10-60-08-053-3B-AWI  
Yates Petroleum Corporation  
Dagger "ZW" Com. #2  
T19S-R24E: Sec. 25: SE/4  
Eddy County, New Mexico

Kathleen Cone  
KATHLEEN CONE

9.  
KENNETH L. CONE

CATHIE CONE AUVENSHINE

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF New Mexico )  
 : ss.  
COUNTY OF Lea )

The foregoing instrument was acknowledged before me this 29th day of  
September, 1989 by KATHLEEN CONE.

My commission expires:  
December 18, 1992 Colleen Kimbrell  
Notary Public

STATE OF \_\_\_\_\_ )  
 : ss.  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of  
\_\_\_\_\_, 1989 KENNETH CONE.

My commission expires: \_\_\_\_\_  
Notary Public

STATE OF \_\_\_\_\_ )  
 : ss.  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of  
\_\_\_\_\_, 1989 CATHIE CONE AUVENSHINE.

My commission expires: \_\_\_\_\_  
Notary Public

STATE OF \_\_\_\_\_ )  
 : ss.  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of  
\_\_\_\_\_, 1989, by KENNETH L. CONE.

My commission expires: \_\_\_\_\_  
Notary Public

KATHLEEN CONE

KENNETH L. CONE

Cathie Cone Auvenshine  
CATHIE CONE AUVENSHINE

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) : ss.

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1989 by KATHLEEN CONE.

My commission expires:

\_\_\_\_\_  
Notary Public

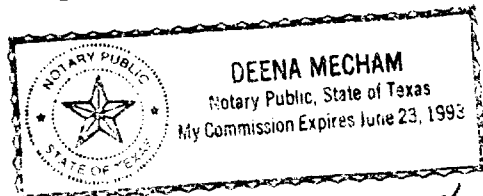
STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) : ss.

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1989 KENNETH CONE.

My commission expires:

\_\_\_\_\_  
Notary Public

STATE OF Texas )  
COUNTY OF Travis ) : ss.



The foregoing instrument was acknowledged before me this 26<sup>th</sup> day of January, 1989<sup>90</sup> CATHIE CONE AUVENSHINE.

My commission expires:

Deena Mecham  
Notary Public

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) : ss.

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1989, by KENNETH L. CONE.

My commission expires:

\_\_\_\_\_  
Notary Public

Notary Public

ATTEST:

CITIES SERVICE OIL & GAS CORP.

By \_\_\_\_\_

By \_\_\_\_\_

ATTEST:

SPIRAL, INC.

By Carlyn M. Jarm  
Carlyn M. Jarm-Asst. Secretary

By George M. Yates  
George M. Yates-Vice President

CORPORATE ACKNOWLEDGMENT

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) : ss.

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1989, by \_\_\_\_\_, \_\_\_\_\_ for CITIES SERVICE OIL & GAS CORP., a \_\_\_\_\_ corporation, on behalf of said corporation.

My commission expires: \_\_\_\_\_  
Notary Public

STATE OF New Mexico )  
COUNTY OF Chaves ) : ss.

The foregoing instrument was acknowledged before me this 15<sup>th</sup> day of September, 1989, by George M. Yates, Vice President for SPIRAL, INC., a New Mexico corporation, on behalf of said corporation.

My commission expires: April 12, 1993  
Jamie Brown  
Notary Public



ATTEST:

DEKALB ENERGY COMPANY

By Michael D. Shepard By C. D. Crump  
Michael D. Shepard, Assistant Secretary C. D. Crump, Vice President, Production-U.S.Div.

ATTEST:

MARATHON OIL COMPANY

By \_\_\_\_\_ By \_\_\_\_\_

CORPORATE ACKNOWLEDGMENT

STATE OF COLORADO )  
 ) : ss.  
COUNTY OF DENVER )

The foregoing instrument was acknowledged before me this 12th day of  
OCTOBER, 1989, by C. D. CRUMP Vice President, Production-U.S.Div.  
of DEKALB ENERGY COMPANY, a Delaware corporation, on behalf of said company.

My commission expires:  
September 16, 1992.

Rosalyn I. Condos  
Notary Public - Rosalyn I. Condos  
1625 Broadway, #1300  
Denver, Colorado 80202

STATE OF \_\_\_\_\_ )  
 ) : ss.  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of  
\_\_\_\_\_, 1989, by \_\_\_\_\_,  
of MARATHON OIL COMPANY, a \_\_\_\_\_ company, on behalf of said company.

My commission expires:

\_\_\_\_\_  
Notary Public

COUNTERPART SIGNATURE PAGE TO THAT CERTAIN OPERATING AGREEMENT DATED JULY 31, 1989  
BETWEEN YATES PETROLEUM CORPORATION AND DEKALB Energy Company et al COVERING THOSE  
CERTAIN LANDS IN THE SE $\frac{1}{4}$  OF SECTION 25, TOWNSHIP 19 SOUTH, RANGE 24 EAST, N.M.P.M.,  
EDDY COUNTY, NEW MEXICO.

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT DATED JULY 31, 1989, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR" AND CONOCO, INC., ET AL, "NON-OPERATORS" COVERING LANDS IN EDDY COUNTY, NEW MEXICO.

EXHIBIT "A"

- I. 1. Lands Subject to Agreement:  
Township 19 South, Range 24 East, NMPM  
Section 25: SE¼  
Containing 160.00 acres, more or less  
Eddy County, New Mexico
2. Depth Restriction:  
None
3. Drilling Unit for First Well:  
Proration Unit as Established by the New Mexico OCD

II. Percent Interest of Parties Under the Agreement:

NAME	ACRES	% of UNIT	INT.TEST WELL BPO	INT.TEST WELL & SUBSEQUENT WELLS APO
Yates Petroleum Corporation	67.41	42.13125%	53.38125%	49.631625%
S. P. Yates	1.21	.75625	.75625	.756250
Conoco, Inc.	44.03	27.51875	27.51875	27.518750
Oxy USA Inc.	18.00	11.25000	F/O	3.749625
Marathon Oil Company	9.54	5.96250	5.96250	5.962500
Dekalb Energy Company	9.00	5.62500	5.62500	5.625000
Kathleen Cone	4.80	3.00000	3.00000	3.000000
Spiral, Inc.	1.21	.75625	.75625	.756250
Cathie Cone Auvenshine	.96	.60000	.60000	.600000
Clifford Cone	.96	.60000	.60000	.600000
Douglas L. Cone	.96	.60000	.60000	.600000
Kenneth G. Cone	.96	.60000	.60000	.600000
Tom R. Cone	.96	.60000	.60000	.600000
	160.00	100.00000%	100.00000%	100.000000%

III. Leasehold Interest Contributed by the parties:

TRACT 1

1. Lessor:	S. P. Johnson, et al	
Present Lessee:	Yates Petroleum Corporation	32.62833690%
	S. P. Yates	1.43938310
	Spiral, Inc.	1.43938310
	Kathleen Cone	5.71112115
	Douglas L. Cone	1.14222423
	Tom R. Cone	1.14222423
	Kenneth G. Cone	1.14222423
	Clifford Cone	1.14222423
	Cathie Cone Auvenshine	1.14222423
	Marathon Oil Company	.64808320
	Estate of Lacy Armour	13.10564285
	Conoco, Inc.	39.31692855
Lease Serial No:	Fee	
Date of Lease:	Held by Production	
Description:	Township 19 South, Range 24 East Section 25: SE¼ Eddy County, New Mexico	
Net Acres:	84.00 acres	
Gross Acres:	160.00 acres	

UNLEASED MINERALS

Mineral Owners:	Yates Petroleum Corporation	40.00 net acres
	Oxy USA Inc.	18.00 net acres
	Dekalb Energy Company	9.00 net acres
	Marathon Oil Company	9.00 net acres
Description:	<u>Township 19 South, Range 24 East</u> Section 25: <u>W<math>\frac{1}{2}</math>SE<math>\frac{1}{4}</math></u> Eddy County, New Mexico	
Net Acres:	76.00 acres	
Gross Acres:	80.00 acres	

IV. Addresses Where Notices May be Sent to Parties:

Conoco, Inc.  
P. O. Box 460  
Hobbs, NM 88240  
Attn: Mr. Van Peters

Spiral, Inc.  
P. O. Box 1933  
Roswell, NM 88201  
Attn: Carlyn Jarm

Kathleen Cone  
P. O. Drawer 1509  
Lovington, NM 88260

Douglas L. Cone  
P. O. Box 64244  
Lubbock, Tx. 79464

Tom R. Cone  
P. O. Box 778  
Jay, OK 74346

Clifford Cone  
P. O. Box 1509  
Lovington, NM 88260

Cathie Cone Auvenshine  
P.O. Box 658  
Dripping Springs, Texas 78620-0658

Kenneth G. Cone  
P. O. Box 11310  
Midland, Tx. 79702

Marathon Oil Company  
P. O. Box 552  
Midland, TX 79702  
Attn: Joint Interest  
Representative

Dekalb Energy Company  
1625 Broadway  
Denver, CO 80202  
Attn: K.G. Ranum

Oxy USA Inc.  
P.O. Box 50250  
Midland, Texas 79710  
Attn: Charles E. Dickenson

Yates Petroleum Corporation  
S. P. Yates  
105 South Fourth Street  
Artesia, New Mexico 88210  
Attn: Kathy H. Porter

## EXHIBIT B

Producers 89 Rev. (6 Year Lease) 10-57

(FIVE YEAR PAID UP LEASE)

Form 345

Hall-Poorbaugh Press  
Roswell, New Mexico

## OIL AND GAS LEASE

THIS AGREEMENT made this \_\_\_\_\_ day of \_\_\_\_\_, 19 \_\_\_\_\_.

Lessee, WITNESSETH:

1. Lessor in consideration of \_\_\_\_\_ Dollars (\$ \_\_\_\_\_) in hand paid, of the royalties herein provided and of the agreements of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil and gas, laying pipe lines, building roads, tanks, power stations, telephone lines and other structures thereon and on, over and across lands owned or claimed by Lessor adjacent and contiguous thereto, to produce, save, take care of, treat, transport, and own said products, and housing its employees, the following described land in \_\_\_\_\_

County, \_\_\_\_\_, to-wit:

2. Without reference to the commencement, prosecution or cessation at any time of drilling or other development operations and/or to the discovery, development or cessation at any time of production of oil or gas and without further payments than the royalties herein provided, and notwithstanding anything else herein contained to the contrary, this lease shall be for a term of five years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or land with which said land is pooled hereunder.

3. The royalties to be paid by Lessee are: (a) on oil,  $\frac{1}{8}$  of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefor prevailing for the field where produced on the date of purchase; (b) on gas, including casinghead gas or other gaseous substance, produced from said land, and sold, or used off the premises or for the extraction of gasoline or other product therefrom, the market value at the well of  $\frac{1}{8}$

of the gas so sold or used, provided that on gas sold at the wells the royalty shall be  $\frac{1}{8}$  of the amount realized from such sale; while there is a gas well on this lease or on acreage pooled therewith but gas is not being sold or used, Lessee may pay or tender as royalty, on or before ninety (90) days after the date on which said well is shut in and thereafter at annual intervals the sum of \$1.00 per acre, and if such payment is made or tendered, this lease shall not terminate and it will be considered that gas is being produced from this lease in paying quantities. Payment or tender of said shut-in gas royalty may be made by check or draft of Lessee mailed or delivered to the parties entitled thereto on or before the date said payment is due. Lessee shall have free use of oil, gas, coal and water from said land, except water from Lessor's wells, for all operations hereunder, and the royalty on oil and gas shall be computed after deducting any so used.

4. Lessee, at its option, is hereby given the right and power to pool or combine the acreage covered by this lease, or any portion thereof as to oil and gas, or either of them, with other land, lease or leases in the immediate vicinity thereof to the extent, hereinafter stipulated, when in Lessee's judgment it is necessary or advisable to do so in order properly to explore, or to develop and operate said leased premises in compliance with the spacing rules of the New Mexico Oil Conservation Commission, or other lawful authority or when to do so would, in the judgment of Lessee, promote the conservation of oil and gas in and under and that may be produced from said premises. Units pooled for oil hereunder shall not substantially exceed 40 acres each in area, and units pooled for gas hereunder shall not substantially exceed in area 640 acres each plus a tolerance of 10% thereof, provided that should governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units thereafter created may conform substantially in size with those prescribed by governmental regulations. Lessee under the provisions hereof may pool or combine acreage covered by this lease, or any portion thereof as above provided as to oil in any one or more strata and as to gas in any one or more strata. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated an instrument describing and designating the pooled acreage as a pooled unit. Lessee may at its election exercise its pooling option after commencing operations for or completing an oil or gas well on the leased premises, and the pooled unit may include, but it is not required to include, land or leases upon which a well capable of producing oil or gas in paying quantities has theretofore been completed or upon which operations for the drilling of a well for oil or gas have theretofore been commenced. Operations for drilling on or production of oil or gas from any part of the pooled unit which includes all or a portion of the land covered by this lease regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of this instrument or the instrument designating the pooled unit, shall be considered as operations for drilling on or production of oil or gas from land covered by this lease whether or not the well or wells be located on the premises covered by this lease, and the entire acreage constituting such unit or units, as to oil and gas, or either of them, as herein provided, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if the same were included in this lease. For the purpose of computing the royalties to which owners of royalties and payments out of production and each of them, shall be entitled on production of oil and gas, or either of them, from the pooled unit, there shall be allocated to the land covered by this lease and included in said unit a pro rata portion of the oil and gas, or either of them, produced from the pooled unit after deducting that used for operations on the pooled units. Such allocation shall be on an acreage basis—that is to say, there shall be allocated to the acreage covered by this lease and included in the pooled unit that pro rata portion of the oil and gas, or either of them, produced from the pooled unit which the number of surface acres covered by this lease and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties hereunder shall be computed on the portion of such production, whether it be oil and gas, or either of them, so allocated to the land covered by this lease and included in the unit just as though such production were from such land. The production from an oil well will be considered production from the lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and production from a gas well will be considered as production from the lease or gas pooled unit from which it is producing and not from an oil pooled unit. In addition to the foregoing, Lessee at its option is hereby given the right and power from time to time to commit said land or any part or formation or mineral substance covered hereby to any cooperative or unit agreement or plan of development and operation, and to any modifications thereof, which have been approved by the New Mexico Oil Conservation Commission or other lawful governmental authority. In such event, the royalty payable to Lessor hereunder shall be computed and paid on the basis of the oil or gas allocated to such land under the terms of any such agreement or plan of operation, which basis shall be the same by which the royalty due the United States or the State of New Mexico is computed and paid. This lease shall not expire during the life of such agreement or plan and shall be subject to the terms thereof and said agreement or plan of operation shall be filed with the New Mexico Oil Conservation Commission, or other lawful authority, and Lessee shall record in the County in which the leased premises are situated, an instrument describing such agreement or plan of operation and reflecting the commitment thereto, and the same may be recorded either before or after the completion of wells.

5. If at the expiration of the primary term oil or gas is not being produced on said land, or from land pooled therewith, but Lessee is then engaged in drilling or reworking operations thereon, or shall have completed a dry hole thereon within 60 days prior to the end of the primary term, the lease shall remain in force so long as operations on said well or for drilling or reworking of any additional well are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil or gas so long thereafter as oil or gas is produced from said land, or from land pooled therewith. If, after the expiration of the primary term of this lease and after oil or gas is produced from said land, or from land pooled therewith, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within 60 days after the cessation of such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 60 consecutive days, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land, or from land pooled therewith. Any pooled unit designated by Lessee in accordance with the terms hereof, may be dissolved by Lessee by instrument filed for record in the appropriate records of the county in which the leased premises are situated at any time after the completion of a dry hole or the cessation of production on said unit. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within 660 feet of and draining the lease premises, or land pooled therewith, Lessee agrees to drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances. Lessee may at any time execute and deliver to Lessor or place of record a release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered.

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

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

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

9. Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee at its option may discharge any tax, mortgage or other lien upon said land either in whole or in part, and in event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply royalties accruing hereunder toward satisfying same. Without impairment of Lessee's right under the warranty in event of failure of title, it is agreed that if Lessor owns an interest in the oil or gas on, in or under said land less than the entire fee simple estate, then the royalties to be paid Lessor shall be reduced proportionately. Should any one or more of the parties named as Lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

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

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

Lessor

Lessee

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

Oil and Gas  
Lease

FROM

TO

Dated \_\_\_\_\_, 19\_\_\_\_

No. Acres \_\_\_\_\_

County, N. M.

Term \_\_\_\_\_

This instrument was filed for record on the

\_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_,

at \_\_\_\_\_ o'clock \_\_\_\_\_ M., and duly

recorded in Book \_\_\_\_\_, Page \_\_\_\_\_

of the \_\_\_\_\_ records of this office.

County Clerk

By \_\_\_\_\_, Deputy

When recorded return to

My commission expires \_\_\_\_\_, 19\_\_\_\_

Notary Public

19\_\_\_\_ by \_\_\_\_\_

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

STATE OF \_\_\_\_\_  
County of \_\_\_\_\_ ss.

INDIVIDUAL ACKNOWLEDGMENT

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

Notary Public

of \_\_\_\_\_ on behalf of said corporation.

by \_\_\_\_\_ President  
\_\_\_\_\_ a \_\_\_\_\_ corporation

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

STATE OF NEW MEXICO  
County of \_\_\_\_\_ ss.

CORPORATION ACKNOWLEDGMENT

My commission expires \_\_\_\_\_, 19\_\_\_\_

Notary Public

19\_\_\_\_ by \_\_\_\_\_

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

STATE OF NEW MEXICO,  
County of \_\_\_\_\_ ss.

INDIVIDUAL ACKNOWLEDGMENT

## EXHIBIT " C "

Attached to and made a part of Operating Agreement dated July 31, 1989 between Yates Petroleum Corporation, "OPERATOR", and CONOCO, INC., et al, "NON-OPERATORS", covering lands in Eddy County, New Mexico

# ACCOUNTING PROCEDURE JOINT OPERATIONS

## I. GENERAL PROVISIONS

### 1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

### 2. Statement and Billings

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

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

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

B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Citibank New York, New York on the first day of the month in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

### 4. Adjustments

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

Revised 12-08-89

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## 5. Audits

- A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.
- B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

## 6. Approval By Non-Operators

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

## II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

### 1. Ecological and Environmental

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

### 2. Rentals and Royalties

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

### 3. Labor

- A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
- (2) Salaries of First Level Supervisors in the field.
- (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the overhead rates.
- (4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from the overhead rates.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II. Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.

### 4. 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 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies.

### 5. Material

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

### 6. Transportation

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

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

- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store where like material is normally available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

## 7. Services

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

## 8. Equipment and Facilities Furnished By Operator

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed eight percent (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 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

## 9. Damages and Losses to Joint Property

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

## 10. Legal Expense

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

## 11. Taxes

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

## 12. Insurance

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

## 13. Abandonment and Reclamation

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

## 14. Communications

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

## 15. Other Expenditures

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



### III. OVERHEAD

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

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

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

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

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

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

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

( ) shall be covered by the overhead rates, or  
~~(X)~~ 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 \$ 3,500.00  
 (Prorated for less than a full month)

Producing Well Rate \$ 3,50.00

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

##### (a) Drilling Well Rate

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

##### (b) Producing Well Rates

- (1) An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
  - (2) Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
  - (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
  - (4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.
  - (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.
- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

#### B. Overhead - Percentage Basis

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

## (a) Development

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

## (b) Operating

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

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

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

**2. Overhead - Major Construction**

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for overhead based on the following rates for any Major Construction project in excess of \$ 25,000.00 :

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

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

**3. Catastrophe Overhead**

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

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

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

**4. Amendment of Rates**

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

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

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

**1. Purchases**

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

**2. Transfers and Dispositions**

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

## A. New Material (Condition A)

### (1) Tubular Goods Other than Line Pipe

- (a) Tubular goods, sized 2 $\frac{3}{8}$  inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.
- (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate truck rate shall be used.
- (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.
- (d) Macaroni tubing (size less than 2 $\frac{3}{8}$  inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

### (2) Line Pipe

- (a) Line pipe movements (except size 24 inch OD and larger with walls  $\frac{3}{4}$  inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
  - (b) Line pipe movements (except size 24 inch OD and larger with walls  $\frac{3}{4}$  inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
  - (c) Line pipe 24 inch OD and over and  $\frac{3}{4}$  inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.
  - (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.
- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.
  - (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2 A (1) and (2).

## B. Good Used Material (Condition B)

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

### (1) Material moved to the Joint Property

At seventy-five percent (75%) of current new price, as determined by Paragraph A.

### (2) Material used on and moved from the Joint Property

- (a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as new Material or
- (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as used Material.

### (3) Material not used on and moved from the Joint Property

At seventy-five percent (75%) of current new price as determined by Paragraph A.

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

## C. Other Used Material

### (1) Condition C

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

## (2) Condition D

Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material under procedures normally used by Operator without prior approval of Non-Operators.

- (a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.
- (b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

## (3) Condition E

Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally utilized by Operator without prior approval of Non-Operators.

## D. Obsolete Material

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

## E. Pricing Conditions

- (1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph 1.A(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.
- (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

## 3. Premium Prices

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

## 4. Warranty of Material Furnished By Operator

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

## V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

## 1. Periodic Inventories, Notice and Representation

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

## 2. Reconciliation and Adjustment of Inventories

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

## 3. Special Inventories

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

## 4. Expense of Conducting Inventories

- A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.
- B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

EXHIBIT "D"

ATTACHED TO AND MADE A PART OF  
OPERATING AGREEMENT

ADDITIONAL INSURANCE PROVISIONS

Operator, during the term of this agreement, shall carry insurance for the benefit and at the expense of the parties hereto, as follows:

- (A) Workmen's Compensation Insurance as contemplated by the state in which operations will be conducted, and Employer's Liability Insurance with limits of not less than \$100,000.00 per employee.
- (B) Public Liability Insurance:  
Bodily Injury - \$500,000.00 each occurrence.
- (C) Automobile Public Liability Insurance:  
Bodily Injury - \$250,000.00 each person.  
\$500,000.00 each occurrence.  
  
Property Damage - \$100,000.00 each occurrence.

Except as authorized by this Exhibit "D", Operator shall not make any charge to the joint account for insurance premiums. Losses not covered by Operator's insurance (or by insurance required by this agreement to be carried for the benefit and at the expense of the parties hereto) shall be charged to the joint account.

It is agreed that Conoco, Inc., and Marathon Oil Company are self insured and will limit their participation in insurance charges to the joint account to fees for Workmens Compensation only.

ATTACHED TO AND MADE A PART OF OPERATING AGREEMENT DATED JULY 31, 1989, BETWEEN YATES PETROLEUM CORPORATION, "OPERATOR", AND CONOCO, INC., ET AL, "NON-OPERATORS", COVERING LANDS IN EDDY COUNTY, NEW MEXICO.

## EXHIBIT "E"

### GAS BALANCING AGREEMENT

The parties to the Operating Agreement to which this agreement is attached own the working interest in the gas rights underlying the lands covered by such agreement (the "Contract Area") in accordance with the percentages of participation as set forth in Exhibit "A" to the Operating Agreement (the "participation percentage").

In accordance with the terms of the Operating Agreement, each party thereto has the right to take its share of gas produced from the Contract Area and market the same. In the event any of the parties hereto collectively owning participation percentages of less than 50% are not at any time taking or marketing their share of gas or have contracted to sell their share of gas produced from the Contract Area to a purchaser which does not at any time while this agreement is in effect take the full share of gas attributable to the interest of such parties, this agreement shall automatically become effective upon the terms hereinafter set forth.

1. During the period or periods when any parties hereto collectively owning participation percentages of less than 50% have no market for their share of gas produced from any proration unit within the Contract Area, or their purchaser does not take its full share of gas produced from such proration unit, other parties collectively owning participation percentages of more than 50% shall be entitled to produce each month 100% of the lesser of a) allowable gas production assigned to such proration unit by applicable state regulatory authority or b) the delivery capacity of gas from such proration unit; provided, however, no party who does not have gas in place shall be entitled to take or deliver to a purchaser gas production in excess of 200% of the lesser of c) its share of the volumes of gas capable of being delivered on a daily basis or d) its share of allowable gas production. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser.

2. On a cumulative basis, each party not taking or marketing its full share of the gas produced shall be credited with gas in place equal to its full share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost, and less that portion such party took or delivered to its purchaser. The Operator will maintain a current account of gas balance between the parties and will furnish all parties hereto monthly statements showing the total quantity of gas produced, the amount used in lease operations, vented or lost, the total quantity of liquid hydrocarbons recovered therefrom, and the monthly and cumulative over and under account of each party.

3. At all times while gas is produced from the Contract Area, each party hereto will make settlement with the respective royalty owners to whom they are each accountable, just as if each party were taking or delivering to a purchaser its share, and its share only. Each party hereto agrees to hold each other party harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable. The term "royalty owner" shall include owners of royalty, overriding royalties, production payments and other similar interests.

Each party producing and taking or delivering gas to its purchaser shall pay any and all production taxes due on such gas.

4. After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its full share of the gas produced from a proration unit under which it has gas in place less such party's share of gas used in operations, vented or lost. In addition to such share, each party, including the Operator, until it has recovered its gas in place and balanced the gas account as to its interest, shall be entitled to take or deliver to its purchaser a share of gas determined by multiplying 50% of the interest in the current gas production of the party or parties without gas in place by a fraction, the numerator of which is the interest in the proration unit of such party with gas in

place and the denominator of which is the total percentage interest in such proration unit of all parties with gas in place currently taking or delivering to a purchaser.

5. Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser its full share of the allowable gas production to meet the deliverability tests required by its purchaser, provided that said test should be reasonable in length, normally not to exceed 72 hours.

6. If a proration unit ceases to produce gas and/or liquid hydrocarbons in paying quantities before the gas account is balanced, settlement will be made between the underproduced and overproduced parties. In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced party or parties attributable to the overproduction which said overproduced party received, less applicable taxes theretofore paid, at the applicable price defined below for the delivery of a volume of gas equal to that for which settlement is made. For gas, the price of which is not regulated by federal, state or other governmental agencies, the price basis shall be the price received for the sale of the gas. For gas, the price of which is subject to regulation by federal, state or other governmental authorities, the price basis shall be the rate collected, from time to time, which is not subject to possible refund, as provided by the Federal Energy Regulatory Commission or any other governmental authority, pursuant to final order or settlement applicable to the gas sold from such well, plus any additional collected amount which is not ultimately required to be refunded by such authority, such additional collected amount to be accounted for at such time as final determination is made with respect hereto.

7. Notwithstanding the provisions of ¶6, it is expressly agreed that any underproduced party shall have the optional right, with respect to each proration unit, to receive a cash settlement bringing such underproduced party's gas account into balance at any time and from time to time prior to the final settlement, by first giving each overproduced party 90 days' written notice of demand for cash settlement. If such option is so exercised, settlement shall be made (as of 7:00 o'clock A.M. on the first day of the calendar month following the date of such written demands) within 90 days following the actual receipt of such written demands by the overproduced parties, in the same manner provided for in ¶6. The option provided for in this paragraph may be exercised, from time to time, but only one time in each calendar year.

8. Nothing herein shall change or affect each party's obligation to pay its proportionate share of all costs and liabilities incurred, as its share thereof is set forth in the Operating Agreement.

9. This agreement shall constitute a separate agreement as to each proration unit approved by the applicable regulatory authority for a pool within the Contract Area, but such proration unit shall not include any producing horizon which is not within the vertical limits of said pool. This agreement shall remain in force and effect so long as the Operating Agreement to which it is attached remains in effect, and shall inure to the benefit of and be binding upon the parties hereto, their heirs, successors, legal representatives and assigns.

EXHIBIT "F"

EQUAL EMPLOYMENT OPPORTUNITY PROVISION

During the performance of this contract, the Operator agrees as follows:

- (1) The Operator will not discriminate against any employee or applicant for employment because of race, color, religion, national origin or sex. The Operator will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, national origin or sex. 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 Operator agrees to post in conspicuous places, available to employees and applicants for employment notices to be provided for the contracting officer setting forth the provisions of this non-discrimination clause.
- (2) The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, national origin or sex.
- (3) The Operator will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Operator'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 Operator 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 Operator 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 its 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 Operator's non-compliance with the non-discrimination 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 Operator 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 Operator will include the provisions of Paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Operator 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 non-compliance: Provided, however, that in the event the Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interests of the United States.

Operator acknowledges that it 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 with Joint Reporting Committee, Federal Depot, Jeffersonville, Indiana, within thirty (30) days of the date 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.

Operator 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 Non-Operators with a copy of such program if they so request.

#### CERTIFICATION OF NON-SEGREGATED FACILITIES

Operator assures Non-Operators that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not and will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. For this purpose, it is understood that the phrase "segregated facilities" includes facilities which are in fact segregated on a basis of race, color, religion, or national origin, because of habit; local custom or otherwise. It is further understood and agreed that maintaining or providing segregated facilities for its employees or permitting its employees to perform their services at any location under its control where segregated facilities are maintained is a violation of the equal opportunity clause required by Executive Order 11246 of September 24, 1965.

Operator further understands and agrees that a breach of the assurance herein contained subjects it to the provisions of the Order at 41 CFR Chapter 60 of the Secretary of Labor dated May 21, 1968, and the provisions of the equal opportunity clause enumerated in contracts between the United States of America and Non-Operators.

Whoever knowingly and willfully makes any false, fictitious or fraudulent representation may be liable to criminal prosecution under 18 U.S.C. § 1001.

Exhibit "F"  
Page 2



AUTHORITY FOR EXPENDITURE

Revised 02-05-90

AFE # 89-124-0

REVISION #

DATE 7-26-89

207 SOUTH FOURTH STREET  
ARTESIA, NEW MEXICO 88210LEASE NAME Dagger ZW Com #2COUNTY Eddy STATE New MexicoHORIZON Canyon EST. T. D. 8100'

EST. COMPLETION DATE

LOCATION 1980/S 660/E, Sec. 25-19S-24E

FIELD

EST. SPUD DATE

DRILLING CONTRACTOR

PRIMARY OBJECTIVE: ☒ OILPURPOSE : ☒ DRILLING-NEWTYPE WELL : ☒ DEVELOPMENT☐ GAS☐ RECOMPLETION☐ EXPLORATION☐ OIL AND/OR GAS☐ OTHER (SUPPLEMENTAL AFE, ETC.)

## INTANGIBLE COSTS:

		DRY HOLE	COMPLETION
9210	STAKING PERMIT & LEGAL FEES	\$ 500	\$ 500
9211	LOCATION, RIGHT-OF-WAY	10800	10800
9212	DRILLING, FOOTAGE 8100' @ \$14.50/ft	117500	117500
9213	DRILLING, DAYWORK 5 days @ \$4000/day	20000	20000
9214	DRILLING WATER	12000	12000
9215	DRILLING MUD & ADDITIVES	10000	10000
9216	MUD LOGGING UNIT	5900	5900
9217	SURFACE & INT. CEMENT, CSG., TOOLS & SERVICES	12500	12500
9218	DRILL STEM TESTING	-	-
9219	ELECTRIC LOGS - OPEN HOLE	11000	11000
9220	TOOL & EQUIP. RENTAL, TRUCKING, WELDING	6300	6300
9221	SUPERVISION & OVERHEAD	7500	7500
9223	CORING, TOOLS & SERVICES	-	-
9224	BITS, TOOLS & SUPPLIES	300	300
9235	PRODUCTION CEMENT, CASING, TOOLS & SERVICES	-	8000
9222	CONTINGENCY	10000	10000
9241	COMPLETION UNIT	-	7800
9242	WATER FOR COMPLETION	-	1100
9243	MUD ADDITIVES FOR COMPLETION	-	600
9244	CEMENT, TOOLS, SERVICES & TEMP. SURV. FOR COMP.	-	-
9245	ELECTRIC LOGS, PERFORATION TEST FOR COMPLETION	-	4000
9246	TOOLS, TRUCK, WELD. & EQUIP. RENTAL FOR COMP.	-	8000
9247	STIMULATION - COMPLETION	-	10000
9248	SUPERVISION & OVERHEAD - COMPLETION	-	5400
9249	ADDT'L LOCATION, ROAD WORK & SURFACE DAMAGES	-	3300
9251	BITS, TOOLS, ETC. PURCHASED FOR COMPLETION	-	2300
9250	CONTINGENCY - COMPLETION	-	4500
TOTAL INTANGIBLES		224300	279300

## EQUIPMENT COSTS:

9301	CHRISTMAS TREE AND WELL HEAD	2200	15700
9302	CASING	-	-
9302	9-5/8" 36# K-55 @1150'	14000	14000
9302	7" 26# K-55+23# S-95 @8100'	-	78400
9303	TUBING 2-7/8" 6.4# J-55 @7850'	-	19800
9304	PACKER & SPECIAL EQUIPMENT	-	1500
9350	CONTINGENCY	500	1400
WELL EQUIPMENT		16700	130700

## LEASE &amp; BATTERY EQUIPMENT COSTS:

9401	PUMPING EQUIPMENT	-	75000
9402	STORAGE 2-500b. welded tnk/w-210b. fbrgl tnks	-	13500
9403	SEPARATION EQUIP., FLOWLINES, VALVES, FITTINGS	-	21000
9404	TRUCKING & CONSTRUCTION COSTS	-	19500
TOTAL LEASE & BATTERY EQUIP.		-	129000

## TOTALS

\$241000 \$539000

APPROVAL OF THIS AFE CONSTITUTES APPROVAL OF THE OPERATOR'S OPTION TO CHARGE THE JOINT ACCOUNT WITH TUBULAR GOODS FROM OPERATOR'S WAREHOUSE STOCK AT THE RATES STATED ABOVE.

YATES PETROLEUM CORPORATION

DATE

SHARE

BY

BY

S.P. YATES

BY

CONOCO, INC.

BY

BY

YATES PETROLEUM CORPORATION

Case No. 9860

02/07/90 Examiner Hearing

Exhibit No. 5

53.38125%

.75625%

27.51875%

AFE # 89-124-0

Date 7-26-89

Location 1980/S 660/E, Sec. 25-19S-24E

Eddy County, New Mexico

DAGGER ZW Com. #2

Page 2.

MARATHON OIL COMPANY

By: \_\_\_\_\_ Date \_\_\_\_\_ 5.96250%

DEKALB ENERGY COMPANY

By: \_\_\_\_\_ Date \_\_\_\_\_ 5.62500%

KATHLEEN CONE

By: \_\_\_\_\_ Date \_\_\_\_\_ 3.00000%

SPIRAL, INC.

By: \_\_\_\_\_ Date \_\_\_\_\_ .75625%

CATHIE CONE AUVENSHINE

By: \_\_\_\_\_ Date \_\_\_\_\_ .60000%

CLIFFORD CONE

By: \_\_\_\_\_ Date \_\_\_\_\_ .60000%

DOUGLAS L. CONE

By: \_\_\_\_\_ Date \_\_\_\_\_ .60000%

KENNETH G. CONE

By: \_\_\_\_\_ Date \_\_\_\_\_ .60000%

TOM R. CONE

By: \_\_\_\_\_ Date \_\_\_\_\_ .60000%