

CASE NUMBER 9901
W/2 OF SECTION 21, T-21-S, R-26-E, EDDY COUNTY, NEW MEXICO

ELECTION OF OWNERS

<u>OWNER NAME AND ADDRESS</u>	<u>WI-LEASE</u>	<u>WI-UNIT</u>	<u>OWNER ELECTION</u>
<u>TRACT I</u>			
<u>NW/4 (0-12,250') 160 ACRES, MORE OR LESS</u>			
USA Lease Number NM-540294-A			
J. M. HUBER CORPORATION 2000 West Loop South Houston, TX 77027 ATTN: Ms. Barbara Oldham	.25000000	.12500000	Farmout (Agreement not executed)
AMERICAN NATIONAL PETROLEUM COMPANY, ETAL (FORMERLY COQUINA 74-A, LTD.)			
*AJM PARTNERSHIP, A.J. & M. PARTNERSHIP AND E. D. ARBOW, M.D., Deceased c/o Robert Manley Attorney at Law 509 West Third Avenue Anchorage, AK 99518	.00014653	.00007327	Participate, by American National (JOA not executed)
*JAMES A. ALLEGA 3111 Seaboard Midland, TX 79701	.00011722	.00005861	Participate, by American National (JOA not executed)
*ERNIE BELLO 3325 Ala Akulikuli Honolulu, HI 96818	.00029306	.00014653	Participate, Individually & by American National (JOA not executed)
*ROBERT B. BUNN 2493 Makiki Heights Drive Honolulu, HI 96822	.00058611	.00029305	Participate, Individually & by American National (JOA not executed)
COQUINA OIL CORPORATION c/o American National Petroleum Co. 1717 St. James Place, Suite 200 Houston, TX 77227 ATTN: Mr. Mike Englert	.02777800	.01388900	Participate (JOA not executed)

*Denotes that party is subject to that certain 11-15-85 JOA,
American National Petroleum Company, Operator.

Examiner _____

Case No. 9901

EXHIBIT NO. 1

<u>OWNER NAME AND ADDRESS</u>	<u>WI-LEASE</u>	<u>WI-UNIT</u>	<u>OWNER ELECTION</u>
*DAVID GOODNOW 230 Ridgfield Road Wilton, CT 06897	.00029306	.00014653	Farmout, Individually, & Participate by American National (JOA not executed)
*MELBA DAVIS GREENLEE WHATLEY Post Office Box 5623 Austin, TX 78763	.00073264	.00036632	Participate, by American National (JOA not executed)
*RICHARD L. GRIFFITH Post Office Box 939 Honolulu, HI 96808	.00029306	.00014653	Participate, by American National (JOA not executed)
JACK C. HALE 780 NE 10th East Wenatchee, WA 98801	.00029306	.00014653	No Election
EDWARD C. HALLOCK 15 Friar Tuck Circle Summit, NJ 07901	.00029306 <u>or</u> -0-	.00014653 <u>or</u> -0-	No Election
*JOSEPH R. HODGE Post Office Box 570324 Houston, TX 77257-0324	.00004884	.00002442	Participate, by American National (JOA not executed)
*SANFORD J. HODGE, III 2012 Shell Midland, TX 79705	.00004884	.00002442	Wants to Sell interest for \$75.00, and Participate, by American National (JOA not executed)
*CHARLES C. JOHNSTON c/o Ins. System 161 Forbes Road Braintree, MA 02184	.00146528	.00073264	Participate, Individually & by American National (JOA not executed)
*RUBY F. KAWASAKI 734 Kalaipuer Street Honolulu, HI 96825	.0002936	.00014653	Participate, by American National (JOA not executed)

*Denotes that party is subject to that certain 11-15-85 JOA,
American National Petroleum Company, Operator.

<u>OWNER NAME AND ADDRESS</u>	<u>WI-LEASE</u>	<u>WI-UNIT</u>	<u>OWNER ELECTION</u>
*E. T. KURASHIGE TRUST AND E. F. KURASHIGE TRUST Irwin Mitsugi Kurashige, Trustee 2934 Oahu Avenue Honolulu, HI 96822	.00029306	.00014653	Participate, by American National (JOA not executed)
*DENNIS I. MAEHARA TRUST AND DENNIS I. MAEHARA AND E. T. KURASHIGE TRUST, Tenants in Common 1010 South King Street #701 Honolulu, HI 96814	.00029306	.00014653	Participate, by American National (JOA not executed)
*JOHN MCISAAC 1085 Morse Boulevard Singer Island, FL 33404	.00058611	.00029305	Participate, by American National (JOA not executed)
CHARLES CLINE MOORE 138 Harvard Avenue Mill Valley, CA 94941	.00073264	.00036632	No Election
VERNON MUNROE Apartment 8 South 139 East 66th Street New York, NY 10021	.00029306	.00014653	No Election
*LESTER G. NAITO 98-1370 Kaonohi Street Aiea, HI 96701	.00029306	.00014653	Participate, by American National (JOA not executed)
*ESTATE OF WM. B. OLIVER c/o NCNB Texas Trust Oil & Gas Department Post Office Box 830308 Dallas, TX 75283-0308	.00073264	.00036632	Participate, by American National (JOA not executed)
*ALPHONSO RAGLAND 8235 Douglas Avenue Suite 500, LB 48 Dallas, TX 75225	.00043958	.00021979	Participate, Individually & by American National (JOA not executed)

*Denotes that party is subject to that certain 11-15-85 JOA,
American National Petroleum Company, Operator.

<u>OWNER NAME AND ADDRESS</u>	<u>WI-LEASE</u>	<u>WI-UNIT</u>	<u>OWNER ELECTION</u>
*H. S. ROSS AND HENRY S. ROSS, TRUSTEE 124 Monarch Bay South Laguna, CA 92677	.00043958	.00021979	Farmout, Individually & Participate by American National (JOA not executed)
*ADOLPH P. SCHUMAN AND MARITAL TRUST U/W/O ADOLPH P. SCHUMAN c/o James F. Crafts, Jr. Orrick, Herrington & Sutcliffe 600 Montgomery Street San Francisco, CA 94111	.00043958	.00021979	Participate, by American National (JOA not executed)
SPACE BUILDING CORPORATION 250 Cape Highway Route 44 East Taunton, MA 02718	.00293055	.00146528	No Election
*ELIZABETH M. WEBSTER c/o G. R. Webster Post Office Box 31 Blawenburg, NJ 08504	.00073264	.00036632	Participate, by American National (JOA not executed)
*J. FREDERICK VAN VRANKEN Sanford C. Bernstein & Co., Inc. 767 Fifth Avenue New York, NY 10153	.00043958	.00021979	Participate, by American National (JOA not executed)
*AMERICAN NATIONAL PETROLEUM CO. 1717 St. James Place Suite 200 Houston, TX 77227 ATTN: Mr. Mike Englert	.45867304 <u>or</u> .45896610	.22933652 <u>or</u> .22948305	Participate (JOA not executed)
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SUBTOTAL	1.00000000%	.5000000%	

*Denotes that party is subject to that certain 11-15-85 JOA,
American National Petroleum Company, Operator.

<u>OWNER NAME AND ADDRESS</u>	<u>WI-LEASE</u>	<u>WI-UNIT</u>	<u>OWNER ELECTION</u>
TRACT II <u>W/2SW/4 (all depths), 80 acres, more or less</u> USA Lease Number NM-39135 (NW/4SW/4) USA Lease Number NM-43534 (SW/4SW/4)			
ENRON OIL & GAS COMPANY Post Office Box 2267 Midland, TX 79702 ATTN: Mr. Robert McCommon	1.00000000	.25000000	No Election
TRACT III <u>NE/4SW/4 (all depths), 40 acres, more or less</u> USA Lease Number NM-81097			
SANTA FE ENERGY OPERATING PARTNERS LP 500 West Illinois, Suite 500 Midland, TX 79701 ATTN: Mr. Pat Tower	1.00000000	.12500000	Participate (JOA not executed)
TRACT IV <u>SE/4SW/4 (all depths), 40 acres, more or less</u> USA Lease Number NM-76972			
EXXON CORPORATION Post Office Box 1600 Midland, TX 79702 ATTN: Mr. W. T. Duncan	1.00000000	.12500000	No Election
TOTAL UNIT WORKING INTEREST		1.00000000	

PACIFIC ENTERPRISES OIL COMPANY (USA)**ORIGINAL****AUTHORITY FOR EXPENDITURE**

SOUTHWEST REGION
200 N. Loraine, #400
P.O. Box 3083
Midland TX 79702-3083
(915) 684-3861
(915) 684-6426 (Fax)

DIVISION: Permian Basin Exploration Team**DATE:** 2-23-90**DEPARTMENT:** Exploration and Development

Midland, Texas

PROSPECT: Dark Canyon**WELL NAME:** Federal Com 21-1**LOCATION:** 1980' FNL and 660' FWL of Section 21, T-23-S, R-26-E
Eddy County, New Mexico

Drill and Test Cost
Completion

\$454,000.00
298,000.00

TOTAL

\$752,000.00

JUSTIFICATION:

Proposed 12,000' well to test the Morrow Formation.
See attached detailed Drilling and Completion Cost Estimate.

PARTICIPANTS **WORKING INTEREST** **COST** **GROSS AFE AMOUNT** \$752,000.00

APPROVED ____ **DISAPPROVED** _________
COMPANY REPRESENTATIVE_____
COMPANY_____
DATE

PACIFIC ENTERPRISES OIL CO. (USA)
DRILLING & COMPLETION DETAILED COST ESTIMATE

Prospect: Dark Canyon Field Carlsbad, South

Well Location N/2 Sec 21 Legal Description T-23-S, R-26-E

County Eddy State NM Proposed Depth 12,000'

Objective Formation Morrow/Strawn AFE No. _____ Terra H.I. _____

CATEGORY	NO.	DRILL & TEST	NO.	COMPLETION	TOTAL
Survey - Stake Location	1	1,000	xxx	0	1,000
Permits & Hearings	2	700	83	0	700
Building Road, bridges, canals	3	5,500	84	0	5,500
Building Location & Pits	4	11,400	85	1,000	12,400
Insurance (for Terra only)	5	3,700	86	0	3,700
Move in - Rig up - Rig down - Move out	6	0	87	0	0
Rat Hole	7	0	xxx	0	0
Footage Contract <u>12,000'</u> @ <u>\$18/ft</u>	8	216,000	xxx	0	216,000
Day work contract <u>4/3 days</u> @ <u>\$4,000/day</u>	9	17,000	88	10,000	27,000
Turnkey Agreement	10	0	90	0	0
Rig for Completion <u>\$1400/day</u> x 10 days	xxx	0	101	14,000	14,000
Drill Bits	12	0	102	500	500
Rental Equipment	13	9,000	103	3,000	12,000
Fishing Tools & Service	14	0	104	0	0
Company Labor	15	0	107	2,000	2,000
Auto & Travel	16	0	108	400	400
Contract Labor	17	13,500	113	5,000	18,500
Trucking, Hauling, Service Equipment	18	3,000	114	3,000	6,000
Power & Fuel	19	0	115	0	0
Water	20	18,000	116	4,000	22,000
Mud & Chemicals	21	20,000	117	0	20,000
Drill Pipe, Casing, Rod Inspection	22	1,500	125	3,600	5,100
Formation Testing (incl 2 DST)	23	10,000	xxx	0	10,000
Coring _____ ft of core @ \$_____/ft	24	0	xxx	0	0
Mud Logging	25	9,600	xxx	0	9,600
Logs	26	16,000	126	4,000	20,000
Temperature Survey	27	0	148	0	0
Bottom Hole Pressure Test	28	0	149	3,500	3,500
Directional Services	29	0	152	0	0
Engineering, Geological, Geophysical	30	0	153	0	0
Cmtg, Conductor or Surf Csg (incl Float equip)	31	7,000	xxx	0	7,000
Cmtg, Inter-m or Prod Csg (incl Float equip)	32	14,000	154	8,000	22,000
Squeeze Jobs	33	0	155	0	0
Perf or Shooting	34	0	156	8,000	8,000
Frac	xxx	0	157	20,000	20,000
Swabbing	36	0	158	0	0
Plugging, if dry	37	10,000	159	0	10,000
Damage Claims	38	2,500	165	1,500	4,000
Cleaning Location	39	0	166	2,000	2,000
District Expense	40	8,800	172	2,500	11,300
Communications	41	200	177	200	400
Environmental & Safety Equipment	42	500	178	500	1,000
Misc Material & Service (Contingency)	43	10,100	179	5,300	15,400
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TOTAL INTANGIBLES		409,000		102,000	511,000

/January/1990

PACIFIC ENTERPRISES OIL CO. (USA)
DRILLING & COMPLETION DETAILED COST ESTIMATE

CATEGORY	NO.	DRILL & TEST	NO.	COMPLETION
TOTAL				
Surface Casing				
600' of 13-3/8" OD H-40 48#/ft., 8rd, ST&C @ 18.50/ft.	50	11,100	xxx	0
Intermediate Casing				
2000' of 8-5/8" OD, 24#/ft., 8rd ST&C @ 69.00/ft.				
800' of 8-5/8" OD, 32#/ft., 8rd ST&C @ 12.50/ft.	51	28,000	xxx	0
Production Casing				
800' of 5-1/2" OD, 17#/ft, N-80 @ 8.80/ft.				
10,100' of 5-1/2" OD, 17#/ft, N-80 @ 8.25/ft.				
2000' of 5-1/2" OD, 17#/ft, S-95 @ 12.00/ft.	xxx	0	52	114,400
Liner				
___ft of ___" OD, ___#/ft @ \$___/ft	xxx	0	53	0
Tubing				
11,600' of 2-3/8" OD, N-80, 4.7#/ft, 8rd, EUE @ 3.15/ft	xxx	0	54	36,600
Xmas Tree & Tubing Head Components	55	4,000	182	9,000
Pumping Unit or Prime Mover	xxx	0	56	0
Production Platform - Mat. & Labor	xxx	0	58	0
Rods	xxx	0	59	0
Subsurface Pump	xxx	0	60	0
Tanks	xxx	0	61	3,000
Circulating Pump	xxx	0	63	0
Dehydrator	xxx	0	64	0
Heater Treater or Gunbarrel	xxx	0	65	0
Separator/FMKO	xxx	0	66	8,000
Flowline & Connection 500' ft of 2" OD FG Linepipe @ 2/ft	xxx	0	68	1,500
Meter, Meter Run & Connections	xxx	0	70	5,000
Buildings	xxx	0	71	0
Packer	xxx	0	72	5,000
Miscellaneous Equipment (fittings, etc.)	73	1,900	185	3,500
TOTAL TANGIBLES		45,000		186,000
Installation of Tubing	xxx	0	54	0
Installation of Pumping Unit & Prime Mover	xxx	0	56	0
Installation of Tanks	xxx	0	61	1,000
Installation of Dehydrator	xxx	0	64	0
Installation of Heater Treater or Gun Barrel	xxx	0	65	0
Installation of Separator/FMKO	xxx	0	66	2,000
Installation of Flowline	xxx	0	68	5,000
Installation of Miscellaneous Equipment	73	0	185	2,000
TOTAL INTANGIBLE INSTALLATION COSTS		0		10,000
Est. 5280' gas sales line \$48,000+		409,000		102,000
		45,000		186,000
		0		10,000
TOTAL WELL COST COMPLETED		454,000		298,000

Prepared by:

C. Robert W. [Signature]

Date

1/11/90

Approved by:

C. B. [Signature]

Date

1/13/90

16

1

1-A

20

21

320

28

29

1-B



MIDLAND, TEXAS

EDDY COUNTY, NEW MEXICO

LAND DATA MAP

UPDATED	INITIAL
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CONTOUR INT. _____ INTERP. BY: _____ DATE: _____

SCALE: _____ WELLS POSTED TO: _____ DRWN. BY: _____

BEFORE EXAMINER CATANACH

OIL CONSERVATION DIVISION

EXHIBIT NO. 1

CASE NO. 9901

JM HUBER CORPORATION

Examiner	_____
Case No.	<u>9901</u>
EXHIBIT NO.	<u>2</u>

J. M. HUBER CORPORATION

OIL AND GAS DIVISION GENERAL OFFICE
2000 WEST LOOP SOUTH HOUSTON, TEXAS 77027

(713) 871-4400

March 21, 1990

RECEIVED

MAR 22 1990

EXPL. & DEVEL.

Pacific Enterprises Oil Company (USA)
Southwest Region
200 N. Loraine, #400
P. O. Box 3083
Midland, Texas 79702-3083

Attention: Mr. Terry Gant,
Landman

Re: Federal Comm #21-1 Well
W/2 Section 21-T23S-R26E
Eddy County, New Mexico
14-N-125-AE

Gentlemen:

With reference to our recent conversation and your letters dated January 26, 1990, and February 27, 1990, enclosed are three (3) original Farmout Letter Agreements dated March 16, 1990, covering the captioned. If the Agreements meet with your approval, please have same executed on behalf of Pacific Enterprises, and return two (2) originals to the undersigned. In addition, Paragraph 10. Insurance, requires that Huber be provided applicable certificates of insurance.

Please dismiss J. M. Huber Corporation from the Compulsary Pooling scheduled for April 4, 1990. If you have any questions, let me know.

Very truly yours,

J. M. HUBER CORPORATION

Barbara Oldham

Barbara Oldham
District Landman

BEO/ich
Enclosures

cc: Mr. William LeMay
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87504

W. Thomas Kellahin
Attorney at Law
Kellahin, Kellahin and Aubrey
P. O. Box 2265
Santa Fe, New Mexico 87504-2265

J. M. HUBER CORPORATION

OIL AND GAS DIVISION GENERAL OFFICE

2000 WEST LOOPSOUTH

HOUSTON, TEXAS 77027

(713) 871-4400

March 16, 1990

Pacific Enterprises Oil Company (USA)
200 North Loraine, Suite 400
P. O. Box 3083
Midland, Texas 79702-3083

Re: Farmout Letter Agreement
South Carlsbad Prospect
Eddy County, New Mexico
14-N-125-AE

Gentlemen:

This letter will evidence the agreement between PACIFIC ENTERPRISES OIL COMPANY (USA), hereinafter referred to as "Operator", and J. M. HUBER CORPORATION, hereinafter referred to as "Huber", relative to the acquisition by Operator of an interest in Huber's oil and gas leasehold estates covering the following described land in Eddy County, New Mexico, to wit:

Township 23 South, Range 26 East
Section 21: NW/4

(said land and the lease thereon being hereinafter sometimes referred to as "lease acreage").

The terms, covenants and conditions of this agreement are as follows:

1. Test Well

On or before July 1, 1990, Operator shall commence or cause to be commenced, the actual drilling of a test well for oil and/or gas at a legal location in the W/2, Section 21, Township 23 South, Range 26 East, Lea County, New Mexico (such well being hereinafter called the "test well"), and shall thereafter drill said well without unnecessary delay and in a workmanlike manner to a depth sufficient to test adequately the Morrow formation, expected to require the drilling of the test well to a depth of twelve thousand feet (12,000') below the surface. Operator shall complete the test well within sixty (60) days from commencement of the actual drilling thereof.

2. Continuous Drilling

In the event the test well is completed either as a dry hole or a producer of oil and/or gas, Operator shall conduct a continuous drilling program on the remaining lease acreage by not allowing more than one hundred twenty (120) days to elapse between the date of the completion of one well (the first of which shall be the completion date of the actual drilling of the test well) as a producer or a dry hole and the date of the commencement of the actual drilling of another well until such time as Operator has fully developed the lease acreage (such well or wells being hereinafter called "development well(s)"). The lease acreage shall be considered fully developed when all of the lease acreage has been included in a drilling, spacing or proration unit or when Operator has earned all of the lease acreage permissible under this agreement. Each development well shall be drilled in a workmanlike manner to the same depth as required in the test well and shall be completed on or before sixty (60) days from commencement of the actual drilling of each development well.

If Operator fails to drill the test well or any development well on the lease acreage in accordance with the time requirements and depth limits herein set out, this agreement shall automatically terminate as to all unearned lease acreage.

3. Substitute Well

If, in the drilling of any well provided for herein, mechanical difficulties arise or practically impenetrable substances are encountered which render further drilling impossible or impracticable, Operator may abandon the well and within thirty (30) days commence a substitute well therefor at a mutually agreeable location. Any substitute well so commenced shall be drilled to the same depth and in the same manner as is required for such well provided for hereinabove, and the drilling and completion thereof shall have the same effect hereunder as would the drilling and completing of such well.

4. Drilling and Cost of Well

The entire cost, risk and expense of drilling, testing, completing and/or plugging, if dry, any well drilled hereunder shall be borne exclusively by Operator.

Such well shall be drilled and/or plugged and abandoned in compliance with all valid rules, orders, regulations and laws of state, local or federal authorities and in accordance with approved drilling practices. Operator agrees to save and hold harmless Huber from any and all claims, liens, loss, cost and expense, including the cost of investigation and litigation, arising out of or as a result of Operator's operations on the lease acreage.

Operator shall test all formations which would appear promising of being productive of oil or gas to a reasonably prudent operator. Huber shall at all times have full and complete access to the derrick floor and to all information obtained in the drilling and testing of any well drilled hereunder.

Operator shall:

- (a) Notify Huber when any well is staked;
- (b) Notify Huber when the actual drilling is commenced;
- (c) Notify Huber when any well has been drilled to contract depth so that Huber shall have the opportunity, if it so desires, to measure the depth of the well;
- (d) Furnish Huber a copy of the geologist's report and a certified copy of all forms filed with proper state authorities;
- (e) Fully comply with all the terms and requirements set out in Exhibit "A", attached hereto and made a part hereof.

A well shall be drilled into all known or expected producing horizons only after Huber has been given sufficient time to have a representative present to witness such drilling; and in the event of an unexpected encountering of a prospective producing horizon, Operator shall notify Huber by telephone, telegram or TWX, fully prepaid, in sufficient time for Huber to have a representative present to witness the testing of such formation thus encountered prior to drilling ahead.

5. Titles

Huber does not warrant title to the lease acreage in any manner nor does it make any representation with regard to any presence or lack of federal jurisdiction and/or regulation of the lease acreage or the oil, gas and minerals sold therefrom, except Huber acknowledges that its leasehold interest is derived from a lease from the U.S. of A.; but it will, upon request, furnish Operator with a copy of such title papers and other relevant papers as it has in its files. There shall be no obligation on the part of Huber to furnish any new or supplemental abstracts of title nor to do any curative work in connection with title to said acreage or in connection with any previous contracts affecting the lease acreage not reflected in Huber's files. Operator shall furnish Huber a copy of any title opinion covering the lease acreage obtained by Operator.

Operator shall have thirty (30) days after date Operator accepts this agreement within which to accept or reject title, and title shall be deemed to be accepted unless rejected in writing within such time. In the event that Operator rejects title, this agreement shall terminate forthwith and each party shall be released therefrom.

6. Assignments

A. Proration Unit

Upon completion of any well drilled hereunder, as a well capable of producing oil and/or gas in paying quantities, upon full compliance with the terms of this agreement, and upon written request, Huber shall execute and deliver for acceptance by Operator, an assignment of all Huber's operating rights in and to the oil and gas lease covering the lease acreage within the proration unit for the test well.

B. General Provisions

The term "proration unit" as used herein shall mean that portion of the lease acreage allocated to the drilling, spacing or proration unit to be established for the test well by the appropriate governmental authority having jurisdiction for the allocation of production from such well.

The term "paying quantities" as used herein shall mean the production of oil and/or gas from a well in sufficient quantities to pay a profit over operating and marketing expenses after payment of the Lessor's royalty, but excluding drilling, completing, testing and equipping costs of the well.

Any assignment made hereunder shall be limited to and only assign such lease acreage from the surface to one hundred feet (100') below the total depth drilled in the earning well. All of the above assignments shall be made without warranty of title, either express or implied, and without representation with regard to any presence or lack of federal jurisdiction and/or regulation of the lease acreage or the oil, gas and minerals sold therefrom, except that Huber acknowledges that its interest is derived from an oil and gas lease from the U.S. of A., Lessor. Said assignments shall be made subject to all royalties, overriding royalties, production payments or other burdens against the lease acreage assigned. Said assignments shall further provide that if Operator desires to surrender, let expire, abandon or release all or any part of Operator's rights in the lease acreage, Operator shall notify Huber not less than sixty (60) days in advance of such surrender, expiration, abandonment or release and if requested to do so by Huber, Operator shall immediately reassign such rights in the lease acreage to Huber.

7. Reservations

Huber shall except and reserve in any assignment due Operator hereunder all leasehold rights below the depth so assigned. Huber shall further except and reserve in any assignment of the lease acreage an overriding royalty of twenty-five percent of eight-eighths (25% of 8/8) of all oil, gas, condensate, distillate and other gaseous and vaporous hydrocarbon substances produced, saved and sold from or attributable to the lease acreage assigned pursuant to the provisions of the leases thereon. Said overriding royalty shall bear, absorb and be reduced by all royalties, overriding royalties or other similar outstanding burdens against the lease acreage of record as of the date hereof. Said overriding royalty shall be free and clear of all costs of development, production, operations, gathering and marketing but shall bear its proportionate part of all severance, production, gathering, windfall profits and any other like taxes measured by production. Said overriding royalty shall provide for proportionate reduction in the event the lease covering the lease acreage or Huber's interest therein covers less than the full oil and gas leasehold interest or in the event the lease acreage is pooled with other lands.

8. Conversion Option

Upon payout of each well drilled hereunder, Operator shall immediately notify Huber in writing, and at Huber's option and request, Operator shall promptly assign to Huber, effective as of the date of said payout of such well, an undivided twenty-five percent (25%) of the right, title and interest acquired from Huber hereunder in and to the lease acreage, together with a like interest in such well and equipment thereon, at which time Huber will relinquish its overriding royalty interest reserved hereinabove. The term "payout" as used herein shall occur at such time as Operator shall have recovered from the total production from any well drilled hereunder a sum equal to the total cost of drilling, testing, completing, equipping and operating such well while said costs are being recovered (after deducting from said production all royalties, overriding royalties, windfall profit taxes and production taxes). Such assignment shall be made subject to any outstanding burdens on the lease acreage created prior to the date hereof, but said assignment shall be made free and clear of any burdens, liens or encumbrances placed upon the lease acreage, well or well equipment subsequent to the date hereof. Huber's option shall apply independently to each well when payout of such well occurs. Operator shall furnish Huber with quarterly reports of all production from each well drilled hereunder and proceeds derived from the sale thereof, together with a statement of the above mentioned costs relative to each well.

9. Operating Agreement

All operations by the parties hereto necessary and proper for the development, operation, production and maintenance of the lease acreage or any part thereof, shall be conducted in accordance with the terms and

conditions of the Operating Agreement attached as Exhibit "B" hereto and made a part hereof. Said Operating Agreement shall be effective as to the Contract Area described therein when Huber has elected to convert its overriding royalty to a working interest as provided for herein.

However, for the purpose only of computing the wage index adjustment provided for in Paragraph III 1.A(3) of the COPAS Accounting Procedure attached as Exhibit "C" to said Operating Agreement, the effective date of said Operating Agreement shall be the date hereof.

If any provision of said Operating Agreement should be inconsistent with any provision contained in the body of this agreement, the provisions in this agreement shall prevail.

10. Insurance

Operator, its contractors and subcontractors, shall carry insurance hereinafter described with companies satisfactory to Huber to cover the drilling, testing and completing of any well drilled hereunder and all operations in connection therewith; and Operator shall furnish Huber with certificates of insurance showing the following insurance coverage:

- (a) Workman's Compensation and Occupational Disease Insurance as required by the laws of the state or states in which operations will be conducted and Employer's Liability Insurance with a limit of at least \$100,000.
- (b) Comprehensive General Public Liability Insurance, excluding products liability insurance, covering bodily injury and property damage with a combined single limit of at least \$500,000.
- (c) Automobile Public Liability Insurance covering bodily injury and property damage with a combined single limit of at least \$500,000 for all automotive equipment used in the performance of work under this agreement.

11. Rentals and Royalties

All delay rentals falling due subsequent to the date of this letter agreement and prior to the date of any assignment hereunder, or until this agreement terminates, shall be paid by Huber, and Operator agrees to reimburse Huber for one hundred percent (100%) of the total amount of such rentals paid by Huber within fifteen (15) days after receiving Huber's billing therefor. All delay rentals or minimum royalties falling due subsequent to the date any assignment is earned hereunder shall be paid by Huber, and Operator agrees to reimburse Huber for one hundred

percent (100%) of the total amount of such rentals or royalties paid by Huber within fifteen (15) days after receiving Huber's billing therefor. Huber shall diligently attempt to make proper payment of all delay rentals or minimum royalties but shall not be held liable in damages or otherwise for failure to make such payments provided Huber acts in good faith.

12. Nondiscrimination

Operator agrees to comply with the provisions of Paragraphs (1) through (7) of Section 202 of Executive Order No. 11246 (30 Fed. Reg. 12319) as amended, which are incorporated herein by reference.

13. Assignability and Effect of Agreement

This agreement shall not be assigned in whole or in part without the written consent thereto of Huber obtained prior to such assignment. Any such assignment shall make specific reference to this agreement, and the assignee shall agree in writing to be bound by the provisions of this agreement. This agreement shall not create, nor shall it be construed as creating a partnership or joint venture. The terms, covenants and conditions hereof shall be binding upon and inure to the benefit of the parties hereto, their respective heirs, personal representatives, successors and assigns.

14. Notices

All notices, reports, samples, logs or other information required hereunder shall be given, postage and charges fully prepaid, as set forth in Exhibit "A", attached hereto and made a part hereof.

15. Time is of the Essence

Time is of the essence hereof, and if the operations specified are not commenced by the commencement date and completed by the completion date to the depth and in the manner herein provided, or if Operator has not timely complied with each and all of the terms and provisions of this agreement, Huber shall be relieved of any and all obligations to make any assignment of the acreage herein specified or any part thereof, and this agreement shall terminate. The completion date of a well drilled hereunder shall be the date the same is permanently plugged and abandoned in accordance with applicable laws, rules and regulations, if a dry hole, or the date the drilling rig is officially released, if a producer.


If the above and foregoing is acceptable to you, please indicate your acceptance in the space provided below and return two (2) executed copies

Pacific Enterprises Oil Company (USA)
March 16, 1990
Page 8

to J. M. Huber Corporation, 2000 West Loop South, Houston, Texas 77027, to
the attention of Ms. Barbara Oldham.

Yours very truly,

J. M. HUBER CORPORATION
Oil and Gas Division


D. B. Martin
President

M/g

AGREED TO AND ACCEPTED this
_____ day of _____, 1990.

PACIFIC ENTERPRISES OIL COMPANY (USA)

By: _____

EXHIBIT "A"

Well Requirements

1. Allow representative of J. M. Huber Corporation full and free access to the derrick floor, and access to all information including the right to examine samples, cores and observe all tests and producing operations of said well.
2. Furnish daily progress reports of the well by mail to J. M. Huber Corporation, 2000 West Loop South, Houston, Texas 77027, Attention: Barbara Oldham, District Landman.
3. Notify Huber by telephone so that a representative may be present to witness spudding of well, coring, drill-stem tests, running of any electric logs and plugging.
4. Furnish one (1) copy of the mud log to be mailed daily, plus one (1) final print of the mud log, if a mud logging unit is used. To be sent to J. M. Huber Corporation, 2000 West Loop South, Houston, Texas 77027, Attention: Mr. Dale Hauck, Vice President, Geology & Geophysics.
5. Furnish two (2) copies of Core Analysis reports and Drill-Stem test charts.
6. Furnish two (2) field prints and two (2) final prints of all electrical or other surveys run on said well. Adequate down hole surveys must be run so that porosity and water saturations of all potential pay horizons can be made for formation evaluation.
7. Furnish two (2) copies of all fluid analysis secured from formation tests including water samples whether obtained on a drill-stem test or by swabbing or other production tests.
8. Furnish one copy of all bottom hole pressure and temperature surveys.
9. Furnish one copy of all government permits and forms filed with appropriate state commission.
10. Furnish a weekly recap of daily production information, oil, gas and water for four (4) weeks after completion of the well as producer, thereafter, copies of monthly production reports filed with the State.
11. Secure Huber's approval to plug and abandon said well. Clearance to plug and abandon will not be granted until the objective depth or formation has been reached, unless otherwise authorized.
12. Authorization to plug will be obtained from Mr. Dale Hauck, or his designated representative.

Exhibit "A"
Well Requirements
Page 2

13. In complying with an item listed above, by telephone call Mr. Dale Hauck, Houston, Texas 713/871-4538. After hours or on Saturday or Sunday, or holidays, notify Mr. Dale Hauck, Houston, Texas 713/973-7963.

Sample Cut: Send to the attention of Mr. Dale Hauck

Logs: Send to the attention of Mr. Dale Hauck

Testing Notices: Send to the attention of Mr. Dale Hauck

14. Furnish (1) copy of the L.I.S.- 9 track magnetic tapes of all open hole logs and cased hole formation evaluation logs.

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

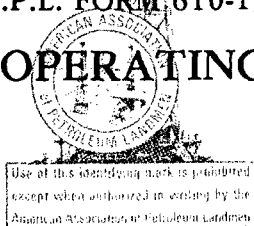


EXHIBIT "B"

Attached to and made a part of that certain
Farmout Letter Agreement dated March 16, 1990,
between PACIFIC ENTERPRISES OIL COMPANY (USA)
and J. M. HUBER CORPORATION

OPERATING AGREEMENT

DATED

March 16 , 19 90 ,

OPERATOR PACIFIC ENTERPRISES OIL COMPANY (USA)

CONTRACT AREA Township 23 South, Range 26 East

Section 21: NW/4

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

14-N-125-AE
South Carlsbad Prospect

COPYRIGHT 1982 — ALL RIGHTS RESERVED
AMERICAN ASSOCIATION OF PETROLEUM
LANDMEN, 2408 CONTINENTAL LIFE BUILDING,
FORT WORTH, TEXAS, 76102, APPROVED FORM.
A.A.P.L. NO. 610 - 1982 REVISED

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between PACIFIC ENTERPRISES OIL COMPANY (USA), hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators".

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

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

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

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

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

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

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

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

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

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

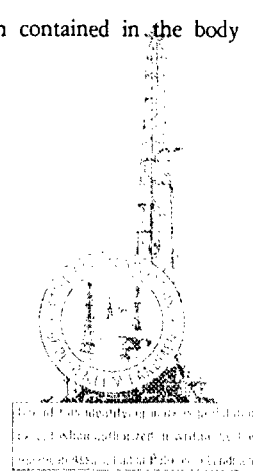
Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

ARTICLE II.
EXHIBITS

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

- ☒ A. Exhibit "A", shall include the following information:
- (1) Identification of lands subject to this agreement,
 - (2) Restrictions, if any, as to depths, formations, or substances,
 - (3) Percentages or fractional interests of parties to this agreement,
 - (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
 - (5) Addresses of parties for notice purposes.
- ☐ ~~B. Exhibit "B", Form of Lease.~~
- ☒ C. Exhibit "C", Accounting Procedure.
- ☒ D. Exhibit "D", Insurance.
- ☒ E. Exhibit "E", Gas Balancing Agreement.
- ☐ ~~F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.~~
- ☐ ~~G. Exhibit "G", Tax Partnership.~~

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



ARTICLE III. INTERESTS OF PARTIES

~~A. Oil and Gas Interests:~~

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

B. Interests of Parties in Costs and Production:

Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set forth in Exhibit "A". In the same manner, the parties shall also own all production of oil and gas from the Contract Area subject to the payment of royalties to the extent of 17.5 which shall be borne as hereinafter set forth.

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

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

C. Excess Royalties, Overriding Royalties and Other Payments:

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

D. Subsequently Created Interests:

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

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

ARTICLE IV. TITLES

A. Title Examination:

Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations 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 the 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.

ARTICLE IV
continued

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

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

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

B. Loss of Title:

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

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

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

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

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

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

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

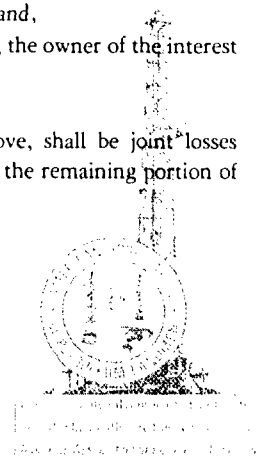
2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against the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

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

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

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

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



ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

PACIFIC ENTERPRISES OIL COMPANY (USA) shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.

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

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

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

C. Employees:

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

D. Drilling Contracts:

All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature. No drilling operations shall begin until the drilling contractor has been agreed upon by the parties hereto.

ARTICLE VI.
DRILLING AND DEVELOPMENT

~~A. Initial Well:~~

~~On or before the _____ day of _____, 19____, Operator shall commence the drilling of a well for oil and gas at the following location:~~

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

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 ~~case Operator shall be required to test only the formation or formations to which this agreement may apply.~~

ARTICLE VI

continued

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

B. Subsequent Operations:

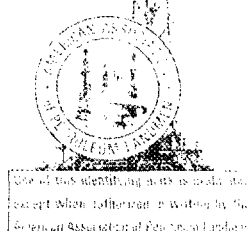
1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in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

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

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

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

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



ARTICLE VI

continued

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

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

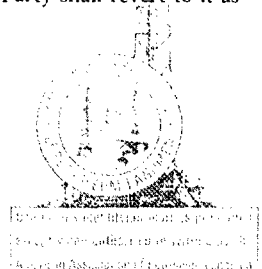
(b) 300 % of that portion of the costs and expenses of drilling, reworking, deepening, plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and 300 % of that portion of the cost of newly acquired equipment in the well (to and including the wellhead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

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

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

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

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



ARTICLE VI
continued

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

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

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

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

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

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

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

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

C. TAKING PRODUCTION IN KIND:

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

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ARTICLE VI
continued

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

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

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

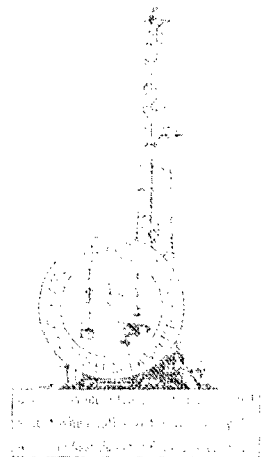
D. Access to Contract Area and Information:

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

E. Abandonment of Wells:

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

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



ARTICLE VI

continued

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

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

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

ARTICLE VII.

EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

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

B. Liens and Payment Defaults:

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

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

C. Payments and Accounting:

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

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next 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. Consent to the drilling or deepening shall include:

ARTICLE VII
continued

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

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

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

3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Fifteen Thousand and No/100----- Dollars (\$ 15,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project costing in excess of Ten Thousand and No/100----- Dollars (\$ 10,000.00) but less than the amount first set forth above in this paragraph.

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

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

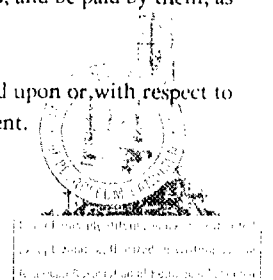
Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holidays), or at the earliest opportunity permitted by circumstances, prior to taking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

F. Taxes:

Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the 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 the other parties for their proportionate shares of all tax payments in the manner provided in Exhibit "C".

If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and 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, excise, 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.



ARTICLE VII
continued

G. Insurance:

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

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

ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

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

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

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

B. Renewal or Extension of Leases:

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

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

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

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

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

C. Acreage or Cash Contributions:

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

ARTICLE VIII
continued

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

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

D. Maintenance of Uniform Interest:

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, 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 interest 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 thereof.

E. Waiver of Rights to Partition:

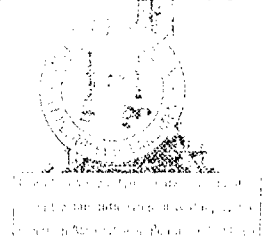
If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided interest therein.

~~**F. 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 provision 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 hereby. 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 "K", 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 uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed Fifteen Thousand and No/100-----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 expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI.
FORCE MAJEURE

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

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

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

ARTICLE XII.
NOTICES

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

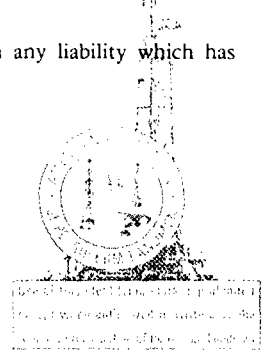
ARTICLE XIII.
TERM OF AGREEMENT

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

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

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

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



ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

C. Regulatory Agencies:

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

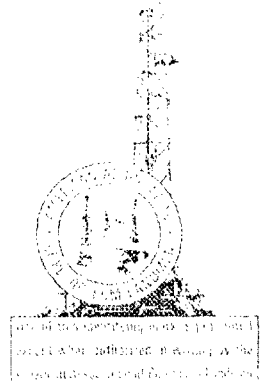
With respect to operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders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

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

ARTICLE XV.
OTHER PROVISIONS

A. If at any time after Operator has been Operator for one year or more from the date this Operating Agreement becomes effective, a Non-Operator considers the cost of operating the Contract Area to be excessive and is willing to operate the same for one year at a cost at least ten percent (10%) less than Operator's cost of operating for the previous year, Non-Operator shall deliver to Operator a written statement setting forth in detail the items of expense contributing to the alleged excessive costs, together with a proposal under which Non-Operator agrees to take over operations of the Contract Area for one year. The proposal shall set forth expressly the specific economies which Non-Operator agrees to effect during the period of operation. Operator shall within ten (10) days after receiving such statement and proposal either (a) elect to let said Non-Operator operate the Contract Area for one year on the terms contained in its proposal, in which case Non-Operator shall become Operator for a minimum period of one year, or (b) agree to operate said Contract Area for one year at a cost consistent with the economies agreed to be effected by Non-Operator. Likewise, any Non-Operator may make similar proposals at the end of successive one-year periods, and the provisions hereinabove set forth shall apply to such proposals.

B. Operator agrees to comply with the provisions of Paragraphs (1) through (7) of Section 202 of Executive Order No. 11246, as amended (30 Fed. Reg. 12319), unless exempted by order of the Secretary of Labor issued pursuant to Section 204 of said Executive Order.



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 _____ day of _____, 19____

OPERATOR

PACIFIC ENTERPRISES OIL COMPANY (USA)

NON-OPERATORS

J. M. HUBER CORPORATION

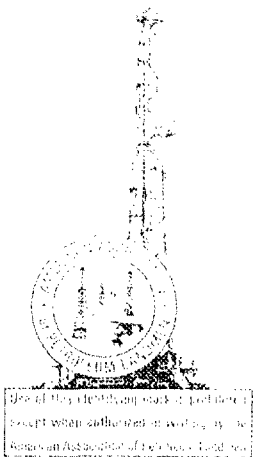


EXHIBIT "A"

Attached to and made a part of that certain
Operating Agreement dated March 16, 1990,
between PACIFIC ENTERPRISES OIL COMPANY
(USA), as Operator, and J. M. HUBER
CORPORATION, as Non-Operator

I. CONTRACT AREA

Township 23 South, Range 26 East
Section 21: NW/4

from the surface down to one hundred feet (100') below total depth
drilled in the earning well.

II. PERCENTAGES OF PARTICIPATION

	Percentage Interest Until Payout -----	Percentage Interest After Payout* -----
J. M. Huber Corporation	-0-%	25%
Pacific Enterprises Oil Company (USA)	100%	75%

* These interests are based on the assumption that Huber converts
the overriding royalty reserved by it to a working interest according
to the terms of the Farmout Letter Agreement to which this is made a
part thereof.

III. ADDRESSES OF THE PARTIES

J. M. Huber Corporation
2000 West Loop South
Houston, Texas 77027

Pacific Enterprises Oil Company (USA)
200 North Loraine, Suite 400
P. O. Box 3083
Midland, Texas 79702-3083

IV. LEASE COVERING CONTRACT AREA

Huber Lease No. 14-718

EXHIBIT " C "

Attached to and made a part of that certain Operating Agreement dated March 16, 1990, between
PACIFIC ENTERPRISES OIL COMPANY (USA), as Operator, and J. M. HUBER CORPORATION, as
Non-Operator.

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 Chase
Manhattan Bank - NY on the first day of the month in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

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

5. Audits

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

6. Approval By Non-Operators

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

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, effective as of the first day of the month following the month of any such recommendation.

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:

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

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

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

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

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

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

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 5,000.00
(Prorated for less than a full month)

Producing Well Rate \$ 450.00

- (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 2½ 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 2½ 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 ¾ 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 ¾ 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 ¾ 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 that certain Operating Agreement dated March 16, 1990 between PACIFIC ENTERPRISES OIL COMPANY (USA) as Operator, and J. M. HUBER CORPORATION, as Non-Operator.

INSURANCE

Operator shall, at all times during the term of this Agreement, carry insurance to protect the parties hereto as follows, and shall require all contractors performing work under this Agreement to carry the following insurance:

1. Workmen's Compensation and Occupational Disease Insurance as required by the laws of the state or states in which operations will be conducted and Employer's Liability Insurance with a limit of at least \$100,000.
2. Comprehensive General Public Liability Insurance, excluding products liability insurance, covering bodily injury and property damage with a combined single limit of at least \$500,000.
3. Automobile Public Liability Insurance covering bodily injury and property damage with a combined single limit of at least \$500,000 for all automotive equipment used in the performance of work under this Agreement.

If automotive equipment is owned exclusively by Operator, no charge will be made to the joint account for premiums for this coverage except as provided in Section II, Paragraph 7 of the Accounting Procedure.

4. Operator shall also carry the following insurance when indicated below:
 - ☒ A. Blowout and control of well insurance coverage and pollution insurance in connection therewith, in the amount of \$3,000,000.
 - ☒ B. Pollution insurance with a minimum limit of \$3,000,000, but not in excess of \$5,000,000, if such insurance is available at reasonable cost in the insurance industry.

Operator shall furnish Non-Operators with certificates of insurance, if requested, evidencing the various coverages indicated above for the joint account and showing all parties hereto as additional named insureds.

EXHIBIT "E"

Attached to and made a part of that certain Operating Agreement dated March 16, 1990 between PACIFIC ENTERPRISES OIL COMPANY (USA) as Operator, and J. M. HUBER CORPORATION, as Non-Operator.

GAS BALANCING AGREEMENT

The parties to the Operating Agreement to which this Gas Balancing Agreement is attached own the working interest in the gas rights underlying the joint property covered by such agreement and are entitled to share in the percentages as stated in the Operating Agreement.

In accordance with the terms of the Operating Agreement, each party has the right to take and market its share of gas produced from the joint property. In the event any party does not market its full share of gas produced or has contracted to sell its share of gas produced from the joint property to a purchaser which, at any time while this agreement is in effect, fails to take the full share of gas attributable to the interest of such party, the terms of this Gas Balancing Agreement shall automatically become effective.

1.

During any period or periods when a party is not taking or marketing its full share of the gas produced from the joint property, or its purchaser is not taking such party's current full share of gas produced from the joint property, the other party or parties shall be entitled to produce from said joint property (and take or deliver to a purchaser), each month, all or part of the allowable gas production assigned to such joint property by the regulatory body having jurisdiction. However, no party shall be entitled to take or deliver to a purchaser gas production in excess of three hundred percent (300%) of its share of the allowable gas production assigned by such regulatory body unless that party has gas in storage. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by primary separation equipment in accordance with their respective interests and subject to the terms of the above described Operating Agreement.

2.

On a cumulative basis, each party not taking or marketing its share of the gas produced shall be credited with gas in storage equal to the gas which would have been credited to its account had the party been taking or marketing its gas, less any gas used in joint property operations, vented or lost. Each party taking gas shall furnish, or cause to be furnished, to its purchaser a monthly statement of gas taken or delivered of the gas balance between the parties hereto and will furnish each party monthly statements showing the total quantity of gas, the amount thereof used in joint property operations, vented or lost, and the total quantity of gas taken or marketed during such month. Measurement of gas sales meters, and lease measurements shall be in accordance with the AGA requirements.

3.

After written notice to the operator, any party may at any time begin taking or delivering to its purchaser its full

share of the gas produced from said joint property (less any used in joint operations, vented or lost). To allow for the recovery of gas in storage and to balance the gas account of the parties in accordance with their respective interests, a party with gas in storage shall be entitled to take or deliver to a purchaser its full share of gas produced from said joint property (less any used in joint operations, vented or lost) plus an amount not exceeding gas in storage determined by multiplying seventy-five percent (75%) of the interest in the current gas production of the party or parties who are overproduced by a fraction, the numerator of which is the interest in the joint property of such party with gas in storage and the denominator of which is the total percentage interest in the joint property of all parties with gas in storage, such additional gas being herein referred to as "make-up gas".

4.

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 test required by its purchaser. Each party shall at all times use its best efforts to regulate its takes and deliveries from said joint property so that said joint property will not be shut-in for overproducing the allowable assigned thereto by the regulatory body having jurisdiction.

5.

Recovery from storage by an underproduced party from an overproduced party shall be on a first-in, first-out basis and the underproduced party shall pay the overproduced party a storage fee for storing its gas. The storage fee shall be due and payable by such underproduced party to such overproduced party during any monthly accounting period such underproduced party removes gas from storage. The fee to be paid for storing gas in accordance with the provisions of this agreement shall be an amount equal to the increment, if any, in the price the overproduced party is receiving for the gas at the time the underproduction is taken by the underproduced party above the price the overproduced party received for the gas at the time the underproduction was incurred, multiplied by the volume of make-up gas which qualifies for the storage fee charges, less royalty and taxes payable thereon.

Each party shall furnish the Operator upon his request the gas prices necessary to make the gas storage fee computation hereby provided, and the underproduced party or parties shall remit to Operator monthly the amounts so determined to be due for storage fees. Operator shall in turn make monthly distribution of the storage fees received from the underproduced parties to the parties entitled to be paid the storage fees.

6.

When gas sales permanently cease, Operator shall make a final determination of the volumes of the last accrued over and under production, if any, as of the date of such cessation of sales and the identity of the party or parties who are over or underproduced. A cash balancing adjustment shall be made by the overproduced party or parties to the underproduced party or parties for the overproduced volumes which have been taken and sold; the price to be paid for such adjustment shall be the price defined below for the last accrued overproduction by the overproduced party, or parties, less appropriate deductions for taxes paid on such production by the overproduced party.

The price basis shall be the price received for sale of the gas or if such gas is subject to price regulation by the Federal Energy Regulatory Commission or any other regulatory body having jurisdiction, then the price collected from time to time which is not subject to possible refund, plus any additional collected amount which is not ultimately required to be refunded by such regulatory body having jurisdiction, such additional collected amount to be accounted for at such time as final determination is made with respect thereto.

7.

This agreement shall remain in force and effect as long as the aforementioned Operating Agreement, and shall inure to the benefit of and be binding upon the parties hereto, their successors, legal representatives and assigns.

8.

Nothing herein shall change or affect each party's obligations to pay its proportionate share of all costs and liabilities incurred in joint operations, as its share thereof is set forth in the above described Operating Agreement. Each party producing and taking or delivering gas to its purchaser shall pay, or cause to be paid, all taxes due on such gas.

9.

Each party hereto selling gas shall pay, or cause to be paid, all royalty interest owners entitled to receive royalty payments for gas produced from the joint property.

10.

The provisions of this agreement shall be applied to each well and/or each formation separately as if each well and/or formation were a separate well and covered by separate but identical agreements.

PACIFIC ENTERPRISES OIL COMPANY (USA)

February 27, 1990

SOUTHWEST REGION
200 N. Loraine, #400
P.O. Box 3083
Midland TX 79702-3083
(915) 684-3861
(915) 684-6426 (Fax)

J. M. Huber Corporation
2000 West Loop South
Houston, Texas 77027

Attention: Ms. Barbara Oldham

RE: Dark Canyon Prospect #5661
Eddy County, New Mexico

W/2 Section 21, T-23-S, R-26-E
Federal Comm #21-1 Well

Gentlemen:

Reference is made to our January 26, 1990 letter and attached Authority For Expenditure thereto regarding our proposal to drill a 12,000' Morrow test well 1980' FNL and 660' FWL of Section 21, T-23-E, R-26-E, Eddy County, New Mexico, with estimated drilling and completion costs being \$454,000.00 and \$298,000.00 respectively, with said test well's drilling unit (Strawn/Atoka/Morrow) being a federal communitized unit covering the W/2 of said Section 21.

Please be advised that due to a leasehold owner within the SW/4 of said Section 21, Pacific will be required to apply for Compulsory Force Pooling of the W/2 of said Section 21 for the drilling of said test well.

Therefore, we respectfully request that you advise of your election within thirty (30) days from the date of this letter.

If you have any questions, please contact the undersigned.

Very truly yours,

PACIFIC ENTERPRISES
OIL COMPANY (USA)



Terry Gant
Landman

Enclosure

cc: J. M. Huber Corporation
7120 I-40 West, Suite 232
Amarillo, TX 79160
ATTN: Mr. Alfred L. Larsen

PACIFIC ENTERPRISES OIL COMPANY (USA)

January 25, 1990

SOUTHWEST REGION

200 N. Loraine, #400
P.O. Box 3083
Midland TX 79702-3083
(915) 684-3861
(915) 684-6426 (Fax)

J. M. Huber Corporation
7120 I-40 West
Suite 232
Amarillo, Texas 79106,
"Bud"

Attention: Mr. Alfred L. Larsen

(806) 353-9137

RE: Dark Canyon Prospect #5661
Eddy County, New Mexico

NW/4 Section 21, T-23-S, R-26-E
USA Lease #NM-540294-A
PEOC Lease #30-5661-73015-00
Proposed Federal Comm. #21-1 Well

Gentlemen:

Pacific Enterprises Oil Company (USA) hereby proposes to drill a 12,000' Morrow test well 1980' FNL and 660' FWL of Section 21, T-23-S, R-26-E, Eddy County, New Mexico in the near future, with estimated drilling and completion well costs being \$454,000.00 and \$298,000.00 respectively (see attached AFE), with said test well's drilling unit (Strawn/Atoka/Morrow) being a Federal Communitized Unit covering the W/2 of said Section 21.

Pacific is the owner of an undivided 25% leasehold interest under the NW/4 of said Section 21 and according to our information, you are the owner of an undivided 25% (20.625% NRI) leasehold interest under same.

Therefore, we respectfully request your advisement as to your election to either (1) participate in this proposed operation through the formation of a Working Interest Unit covering the W/2 of said Section 21, subject to a mutually acceptable Joint Operating Agreement, or (2) farmout your interest in the NW/4 of said Section 21 to Pacific on the following terms:

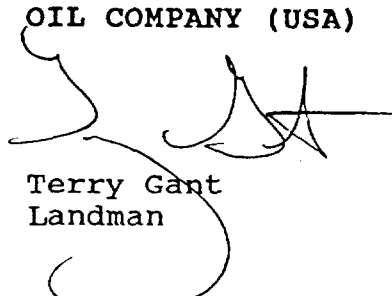
1. 120 day term (actual drilling).
2. Required depth and location - 12,000' or to a depth sufficient to penetrate and test the Morrow Formation, whichever, is the lesser, at the legal location stated above.
3. Produce to earn - 100% of Farmor's rights in and to said test well's drilling unit, limited to rights from the surface down to 100' below total depth, at a 80% net revenue interest, proportionately reduced.

4. Conversion Option - At payout of said test well, Farmor shall have the option to convert its overriding royalty interest to a 25% working interest, proportionately reduced.
5. Unit Basis - Farmor agrees to allow Farmee the right to pool and unitize its interest into a 320 acre drilling unit consisting of the W/2 of said Section 21 for Strawn/Atoka/Morrow production, with Farmor's overriding royalty interest and conversion working interest being proportionately reduced to such unit.
6. Additional Development - If said test well does not earn the NW/4 of said Section 21, then Farmee shall have the option to drill additional wells pursuant to a 180 day continuous drilling program, earning in the same manner and fashion as said test well, with the required depth for such additional wells being the same as said test well or to the deepest productive horizon encountered in any preceeding well, whichever is lesser.

If you have any questions or need any additional information, please contact the undersigned; your prompt attention is appreciated.

Very truly yours,

PACIFIC ENTERPRISES
OIL COMPANY (USA)



Terry Gant
Landman

TG/dsr

Enclosure

[illegible]

ORIGINAL

AUTHORITY FOR EXPENDITURE

DIVISION: Permian Basin Exploration Team

DATE: 1-26-90

DEPARTMENT: Exploration and Development

Midland, Texas

PROSPECT: Dark Canyon

LOCATION: 1980' FNL and 660' FWL of Section 21, T-23-S, R-26-E
Eddy County, New Mexico

Drill and Test Cost
Completion

\$454,000.00
298,000.00

TOTAL

\$752,000.00

JUSTIFICATION:

Proposed 12,000' well to test the Morrow Formation.
See attached detailed Drilling and Completion Cost Estimate.

PARTICIPANTS	WORKING INTEREST	COST	GROSS AFE AMOUNT	\$752,000.00
Pacific Enterprises Oil Company (USA), etal	87.5%	\$650,000	APPROVED _____ DISAPPROVED _____	
J.M. Huber Corporation	12.5%	\$ 94,000		
	TOTAL	\$752,000		

COMPANY REPRESENTATIVE
J.M. HUBER CORPORATION
COMPANY

DATE _____

PACIFIC ENTERPRISES OIL CO. (USA)
DRILLING & COMPLETION DETAILED COST ESTIMATE

Prospect: Dark CanyonField Carlsbad, South

Well Location

N/2 Sec 21 Legal Description T-23-S, R-26-ECounty EddyState NMProposed Depth 12,000'Objective Formation Morrow/Strom

AFE No. _____

Terra H.I. _____

CATEGORY	NO.	DRILL & TEST	NO.	COMPLETION	TOTAL
Survey - Stake Location	1	1,000	xxx	0	1,000
Permits & Hearings	2	700	83	0	700
Building Road, bridges, canals	3	5,500	84	0	5,500
Building Location & Pits	4	11,400	85	1,000	12,400
Insurance (for Terra only)	5	3,700	86	0	3,700
Move in - Rig up - Rig down - Move out	6	0	87	0	0
Rat Hole	7	0	xxx	0	0
Footage Contract <u>12,000'</u> @ <u>\$18/ft</u>	8	216,000	xxx	0	216,000
Day work contract <u>4/3</u> days @ <u>\$4,000/day</u>	9	17,000	88	10,000	27,000
Turnkey Agreement	10	0	90	0	0
Rig for Completion <u>\$1400/day</u> x 10 days	xxx	0	101	14,000	14,000
Drill Bits	12	0	102	500	500
Rental Equipment	13	9,000	103	3,000	12,000
Fishing Tools & Service	14	0	104	0	0
Company Labor	15	0	107	2,000	2,000
Auto & Travel	16	0	108	400	400
Contract Labor	17	13,500	113	5,000	18,500
Trucking, Hauling, Service Equipment	18	3,000	114	3,000	6,000
Power & Fuel	19	0	115	0	0
Water	20	18,000	116	4,000	22,000
Mud & Chemicals	21	20,000	117	0	20,000
Drill Pipe, Casing, Rod Inspection	22	1,500	125	3,600	5,100
Formation Testing (incl 2 DST)	23	10,000	xxx	0	10,000
Coring _____ ft of core @ \$_____/ft	24	0	xxx	0	0
Mud Logging	25	9,600	xxx	0	9,600
Logs	26	16,000	126	4,000	20,000
Temperature Survey	27	0	148	0	0
Bottom Hole Pressure Test	28	0	149	3,500	3,500
Directional Services	29	0	152	0	0
Engineering, Geological, Geophysical	30	0	153	0	0
Catg, Conductor or Surf Csg (incl Float equip)	31	7,000	xxx	0	7,000
Catg, Intern or Prod Csg (incl Float equip)	32	14,000	154	8,000	22,000
Squeeze Jobs	33	0	155	0	0
Perf or Shooting	34	0	156	8,000	8,000
Frac	xxx	0	157	20,000	20,000
Swabbing	36	0	158	0	0
Plugging, if dry	37	10,000	159	0	10,000
Damage Claims	38	2,500	165	1,500	4,000
Cleaning Location	39	0	166	2,000	2,000
District Expense	40	8,800	172	2,500	11,300
Communications	41	200	177	200	400
Environmental & Safety Equipment	42	500	178	500	1,000
Misc Material & Service (Contingency)	43	10,100	179	5,300	15,400

TOTAL INTANGIBLES		409,000		102,000	511,000

/January/1990

PACIFIC ENTERPRISES OIL CO. (USA)
DRILLING & COMPLETION DETAILED COST ESTIMATE

CATEGORY	NO.	DRILL & TEST	NO.	COMPLETION	
TOTAL					
Surface Casing					
600' of 13-3/8" OD H-40 468/ft., 8rd, ST&C @ 18.50/ft.	50	11,100	xxx	0	11,100
Intermediate Casing					
2000' of 8-5/8" OD, 248/ft., 8rd ST&C @ \$9.00/ft.					
800' of 8-5/8" OD, 328/ft., 8rd ST&C @ \$12.50/ft.	51	28,000	xxx	0	28,000
Production Casing					
800' of 5-1/2" OD, 178/ft, N-80 @ \$8.80/ft.					
10,100' of 5-1/2" OD, 178/ft, N-80 @ 8.25/ft.					
2000' of 5-1/2" OD, 178/ft, S-95 @ \$12.00/ft.	xxx	0	52	114,400	114,400
Liner					
___ ft of ___" OD, ___\$/ft @ \$___/ft	xxx	0	53	0	0
Tubing					
11,600' of 2-3/8" OD, N-80, 4.78/ft, 8rd, EUE @ \$3.15/ft	xxx	0	54	36,600	36,600
Xmas Tree & Tubing Head Components	55	4,000	182	9,000	13,000
Pumping Unit or Prime Mover	xxx	0	56	0	0
Production Platform - Mat. & Labor	xxx	0	58	0	0
Rods	xxx	0	59	0	0
Subsurface Pump	xxx	0	60	0	0
Tanks	xxx	0	61	3,000	3,000
Circulating Pump	xxx	0	63	0	0
Dehydrator	xxx	0	64	0	0
Heater Treater or Gunbarrel	xxx	0	65	0	0
Separator/FHKO	xxx	0	66	8,000	8,000
Flowline & Connection 500' ft of 2" OD FG Linepipe @ \$2/ft	xxx	0	68	1,500	1,500
Meter, Meter Run & Connections	xxx	0	70	5,000	5,000
Buildings	xxx	0	71	0	0
Packer	xxx	0	72	5,000	5,000
Miscellaneous Equipment (fittings, etc.)	73	1,900	185	3,500	5,400
TOTAL TANGIBLES		45,000		186,000	231,000
Installation of Tubing	xxx	0	54	0	0
Installation of Pumping Unit & Prime Mover	xxx	0	56	0	0
Installation of Tanks	xxx	0	61	1,000	1,000
Installation of Dehydrator	xxx	0	64	0	0
Installation of Heater Treater or Gun Barrel	xxx	0	65	0	0
Installation of Separator/FHKO	xxx	0	66	2,000	2,000
Installation of Flowline	xxx	0	68	5,000	5,000
Installation of Miscellaneous Equipment	73	0	185	2,000	2,000
TOTAL INTANGIBLE INSTALLATION COSTS		0		10,000	10,000
Est. 5280' gas sales line \$48,000+		409,000		102,000	511,000
		45,000		186,000	231,000
		0		10,000	10,000
TOTAL WELL COST COMPLETED		454,000		298,000	752,000

Prepared by:

C. Robert Winkler III

Date

1/11/90

Approved by:

A.B.B.

Date

1/13/90

REPORT EXAMINER'S ANALYSIS

CALCULATED FROM

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