

AMERICAN NATIONAL PETROLEUM COMPANY, ETAL

Examiner	_____
Case No.	<u>9901</u>
EXHIBIT NO.	<u>3</u>

**American  
National  
Petroleum  
Company**

1717 St. James Place, Ste. 200  
Houston, Texas 77056-3099  
P.O. Box 27725 (77227-7725)  
(713) 961-1770  
Fax 961-7220, 961-7216

TO: *Former Limited Partners  
Coquina 74-A Exploration Program  
See Attached List*

DATE: *March 8, 1990*

RE: *Dark Canyon Prospect #5661  
Eddy County, New Mexico  
NW/4 Section 21, T23S, R26E  
USA Lease #NM540294-A  
PEOC Lease #30-5661-73015-00  
Proposed Federal Comm. #21-1 Well*

**RECEIVED**

**MAR 14 1990**

**EXPL. & DEVEL**

*American National Petroleum Company has elected to join with Pacific Enterprises Oil Company (USA) in the drilling of the subject well as to its interest and the interest of its former limited partners under the Coquina 74-A Exploration Program.*

*Each of you have been sent a separate proposal from Pacific Enterprises and some of you have responded. American National encourages all parties to respond to Pacific Enterprises with a copy of your response to the undersigned.*

*Those of you that have signed an agency agreement in the form of the Operating Agreement dated November 15, 1985 will be handled in the normal operating procedure. Special force pooling arrangements will be enacted for those of you who did not sign the agency agreement and elect not to respond or not to participate.*

*Very truly yours,*

*S. Bobo McKenzie*  
S. Bobo McKenzie  
Landman

*SBM/MWE/kms*

xc: *Terry Gant  
Pacific Enterprises*

*FORMER LIMITED PARTNERS  
COQUINA 74-A EXPLORATION PROGRAM*

*E. D. Arbow, M.D., Deceased  
(Owner #390342)  
c/o Robert Manley, Attorney at Law  
509 West 3rd Ave.  
Anchorage, AK 99518*

*James A. Allega (Owner #390138)  
3111 Seaboard  
Midland, TX 79701*

*Ernie Bello (Owner #390768)  
3325 Ala Akulikuli  
Honolulu, HI 96818*

*Robert B. Bunn (Owner #391428)  
2493 Makiki Heights Dr.  
Honolulu, HI 96822*

*David Goodnow (Owner #394302)  
230 Ridgefield Rd.  
Wilton, CT 06897*

*Melba Davis Whatley (Owner #402183)  
P. O. Box 5623  
Austin, TX 78763*

*Richard L. Griffith (Owner #394500)  
P. O. Box 939  
Honolulu, HI 96808*

*Jack C. Hale (Owner #394701)  
780 NE 10th  
East Wenatchee, WA 98801*

*Joseph R. Hodge (Owner #395235)  
P. O. Box 570324  
Houston, TX 77257-0324*

*Sanford J. Hodge, III (Owner  
#395229)  
2012 Shell  
Midland, TX 79705*

*Charles C. Johnston (Owner #395916)  
c/o Ins. System 161 Forbes Rd.  
Braintree, MA 02184*

*Ruby F. Kawasaki (Owner #396090)  
734 Kalaipuer St.  
Honolulu, HI 96825*

*E. T. Kurashige Trust (Owner  
#396528)  
Irwin M. Kurashige, Trustee  
2934 Oahu Ave.  
Honolulu, HI 96822*

*Dennis I. Maehara & (Owner  
#397143)  
Irwin M. Kurashige, Tennants in  
Common  
1010 S. King St. #701  
Honolulu, HI 96814*

*John McIsaac (Owner #397584)  
1085 Morse Blvd.  
Singer Island, FL 33404*

*Charles Cline Moore (Owner #398004)  
138 Harvard Ave.  
Mill Valley, CA 94941*

*Vernon Munroe (Owner #398151)  
Apt. 8 South  
139 E. 66th St.  
New York, NY 10021*

*Lester G. Naito (Owner #398217)  
98-1370 Kaonohi St.  
Aiea, HI 96701*

*Est of Wm. B. Oliver (Owner  
#398586)  
c/o NCNB Texas  
Trust Oil & Gas Dept.  
P. O. Box 830308  
Dallas, TX 75283-0308*

*Former Limited Partners  
Coquina 74-A Exploration Program  
Page 2*

*Alphonso Ragland (Owner #399348)  
8235 Douglas Ave.  
Suite 500, LB 48  
Dallas, TX 75225*

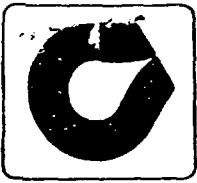
*Henry S. Ross, Trustee (Owner  
#399867)  
124 Monarch Bay  
S. Laguna, CA 92677*

*Adolph P. Schuman Marital Trust  
(Owner #400254)  
c/o James F. Crafts, Jr.  
Orrick, Herrington & Sutcliffe  
600 Montgomery Street  
San Francisco, CA 94111*

*Space Building Corporation (Owner  
#400812)  
250 Cape Hwy. Rt. 44  
East Taunton, MA 02718*

*Elizabeth M. Webster (Owner #402036)  
c/o G. R. Webster  
P. O. Box 31  
Blawenburg, NJ 08504*

*J. Frederick Van Vranken, Jr. (Owner  
#401790)  
Sanford C. Bernstein & Co., Inc.  
767 Fifth Avenue  
New York, NY 10153*



COQUINA OIL CORPORATION

1717 ST. JAMES PLACE • SUITE 200 (77056-3099) • P.O. BOX 27725 • HOUSTON, TEXAS 77227-7725  
(713) 961-1770 • FAX 961-7220, 961-7216

March 6, 1990

*Pacific Enterprises Oil Company (USA)  
P. O. Box 3083  
Midland, TX 79702-3083*

*Attention: Mr. Terry Gant*

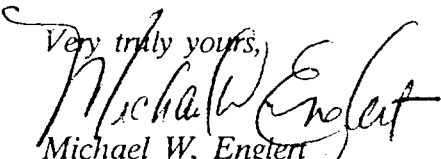
*Re: Dark Canyon Prospect #5661  
Eddy County, New Mexico  
NW/4 Section 21, T23S, R26E  
USA Lease #NM540294-A  
PEOC Lease #30-5661-73015-00  
Proposed Federal Comm. #21-1 Well*

*Gentlemen:*

*Enclosed is one (1) executed copy of Pacific Enterprises Oil Company's (USA) AFE for the drilling of the subject well.*

*Coquina Oil Corporation and American National Petroleum Company individually, and as Agent for all but four parties totalling .424% of its former limited partners under its Coquina 74-A Exploration Program are committing to participate for the full undivided twenty-five percent (25%) interest. Therefore, we do not believe it necessary to force pool any of the interests set forth on the enclosed AFE so long as spacing is established.*

*In accordance with our numerous telephone conversations, American National will be bringing in a third party joint venture partner to participate in this well. We will advise you of the particulars in the near future for preparation of the Operating Agreement.*

*Very truly yours,*  
  
Michael W. Englert  
Vice President/Land & Marketing

*MWE/kms  
enclosure  
xc: S. Clark/Coquina*

*c:\land\englert\corres\pacific.003*

**RECEIVED**

**MAR 27 1990**

**EXPL. & DEVEL**

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

Drill and Test Cost	\$454,000.00
Completion	<u>298,000.00</u>
<b>TOTAL</b>	<b>\$752,000.00</b>

**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	.75000000	\$564,000.00	APPROVED <input checked="" type="checkbox"/> DISAPPROVED <input type="checkbox"/>	
			<i>[Signature]</i>	
			COMPANY REPRESENTATIVE	
AJM PARTNERSHIP, A.J. & M PARTNERSHIP AND E.D. ARBOW, M.D., Dec'd	.00007327	55.00		
JAMES A. ALLEGA	.00005861	44.00		
ERNIE BELLO	.00014653	110.00		
ROBERT B. BUNN	.00029305	221.00		
COQUINA OIL CORP.	.01388900	10,445.00		
DAVID GOODNOW	.00014653	110.00		
MELBA DAVIS				
GREENLEE WHATLEY	.00036632	276.00		

*Coquina / ANPC ET AL*  
COMPANY  
3/19/90  
DATE

RICHARD L. GRIFFITH	.00014653	110.00
JACK C. HALE	.00014653	110.00
EDWARD C. HALLOCK	.00014653	110.00
	<u>or</u>	<u>or</u>
	-0-	-0-
JOSEPH R. HODGE	.00002442	18.00
SANFORD J. HODGE, III	.00002442	18.00
CHARLES C. JOHNSTON	.00073264	551.00
RUBY F. KAWASAKI	.00014653	110.00
E. F. KURASHIGE TRUST		
E.T. KURASHIGE TRUST	.00014653	110.00
DENNIS I. MAEHARA TRUST		
& DENNIS I. MAEHARA &		
E. T. KURASHIGE TRUST,	.00014653	110.00
Tennants in Common		
JOHN MCISAAC	.00029305	221.00
CHARLES CLINE MOORE	.00036632	276.00
VERNON MUNROE	.00014653	110.00
LESTER G. NAITO	.00014653	110.00
ESTATE OF WM. B. OLIVER	.00036632	276.00
ALPHONSO RAGLAND	.00021979	165.00
H. S. ROSS AND HENRY		
S. ROSS, TRUSTEE	.00021979	165.00
ADOLPH P. SCHUMAN AND		
MARITAL TRUST U/W/O		
ADOLPH P. SCHUMAN	.00021979	165.00
SPACE BUILDING CORP.	.00146528	1,102.00
ELIZABETH M. WEBSTER	.00036632	276.00
J. FREDERICK		
VAN VRANKEN	.00021979	165.00
AMERICAN NATIONAL		
PETROLEUM CO.	.22933652	172,461.00
	<u>or</u>	<u>or</u>
	.22948305	172,571.00
	-----	-----
TOTAL	100.00000000%	\$752,000.00

**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

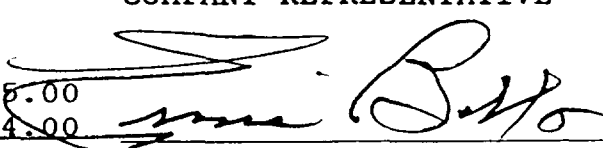
Midland, Texas

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

Drill and Test Cost	\$454,000.00
Completion	<u>298,000.00</u>
<b>TOTAL</b>	<b>\$752,000.00</b>

**JUSTIFICATION:**

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

<b>PARTICIPANTS</b>	<b>WORKING INTEREST</b>	<b>COST</b>	<b>GROSS AFE AMOUNT</b>	<b>\$752,000.00</b>
Pacific Enterprises Oil Company (USA), etal	.75000000	\$564,000.00	APPROVED <input checked="" type="checkbox"/> DISAPPROVED <input type="checkbox"/>	
<b>COMPANY REPRESENTATIVE</b>				
AJM PARTNERSHIP, A.J. & M PARTNERSHIP AND E.D. ARBOW, M.D., Dec'd	.00007327	58.00		<b>COMPANY</b>
JAMES A. ALLEGA	.00005861	44.00		
ERNE BELLO ✓	.00014653	110.00	<u>3-3-90</u>	<b>DATE</b>
ROBERT B. BUNN	.00029305	221.00		
COQUINA OIL CORP.	.01388900	10,445.00		
DAVID GOODNOW	.00014653	110.00		
MELBA DAVIS GREENLEE WHATLEY	.00036632	276.00		



RICHARD L. GRIFFITH	.00014653	110.00
JACK C. HALE	.00014653	110.00
EDWARD C. HALLOCK	.00014653	110.00
	<u>or</u>	<u>or</u>
	-0-	-0-
JOSEPH R. HODGE	.00002442	18.00
SANFORD J. HODGE, III	.00002442	18.00
CHARLES C. JOHNSTON	.00073264	551.00
RUBY F. KAWASAKI	.00014653	110.00
E. F. KURASHIGE TRUST		
E. T. KURASHIGE TRUST	.00014653	110.00
DENNIS I. MAEHARA TRUST		
& DENNIS I. MAEHARA &		
E. T. KURASHIGE TRUST,	.00014653	110.00
Tennants in Common		
JOHN MCISAAC	.00029305	221.00
CHARLES CLINE MOORE	.00036632	276.00
VERNON MUNROE	.00014653	110.00
LESTER G. NAITO	.00014653	110.00
ESTATE OF WM. B. OLIVER	.00036632	276.00
ALPHONSO RAGLAND	.00021979	165.00
H. S. ROSS AND HENRY		
S. ROSS, TRUSTEE	.00021979	165.00
ADOLPH P. SCHUMAN AND		
MARITAL TRUST U/W/O		
ADOLPH P. SCHUMAN	.00021979	165.00
SPACE BUILDING CORP.	.00146528	1,102.00
ELIZABETH M. WEBSTER	.00036632	276.00
J. FREDERICK		
VAN VRANKEN	.00021979	165.00
AMERICAN NATIONAL		
PETROLEUM CO.	.22933652	172,461.00
	<u>or</u>	<u>or</u>
	.22948305	172,571.00
	-----	-----
TOTAL	100.00000000%	\$752,000.00

**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

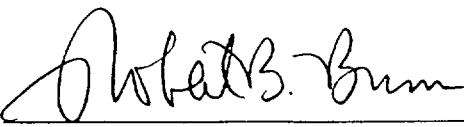
Midland, Texas

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

Drill and Test Cost	\$454,000.00
Completion	<u>298,000.00</u>
<b>TOTAL</b>	<b>\$752,000.00</b>

**JUSTIFICATION:**

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

<b>PARTICIPANTS</b>	<b>WORKING INTEREST</b>	<b>COST</b>	<b>GROSS AFE AMOUNT</b>	<b>\$752,000.00</b>
Pacific Enterprises Oil Company (USA), etal	.75000000	\$564,000.00	APPROVED <u>X</u> DISAPPROVED <u>  </u>	
			<b>COMPANY REPRESENTATIVE</b>	
AJM PARTNERSHIP, A.J. & M PARTNERSHIP AND E.D. ARBOW, M.D., Dec'd	.00007327	55.00		
JAMES A. ALLEGA	.00005861	44.00	<b>COMPANY</b>	
ERNIE BELLO	.00014653	110.00	<u>March 3, 1990</u>	
ROBERT B. BUNN	.00029305	221.00	<b>DATE</b>	
COQUINA OIL CORP.	.01388900	10,445.00		
DAVID GOODNOW	.00014653	110.00		
MELBA DAVIS				
GREENLEE WHATLEY	.00036632	276.00		

RICHARD L. GRIFFITH	.00014653	110.00
JACK C. HALE	.00014653	110.00
EDWARD C. HALLOCK	.00014653	110.00
	<u>or</u>	<u>or</u>
	-0-	-0-
JOSEPH R. HODGE	.00002442	18.00
SANFORD J. HODGE, III	.00002442	18.00
CHARLES C. JOHNSTON	.00073264	551.00
RUBY F. KAWASAKI	.00014653	110.00
E. F. KURASHIGE TRUST		
E.T. KURASHIGE TRUST	.00014653	110.00
DENNIS I. MAEHARA TRUST		
& DENNIS I. MAEHARA &		
E. T. KURASHIGE TRUST,	.00014653	110.00
Tennants in Common		
JOHN MCISAAC	.00029305	221.00
CHARLES CLINE MOORE	.00036632	276.00
VERNON MUNROE	.00014653	110.00
LESTER G. NAITO	.00014653	110.00
ESTATE OF WM. B. OLIVER	.00036632	276.00
ALPHONSO RAGLAND	.00021979	165.00
H. S. ROSS AND HENRY		
S. ROSS, TRUSTEE	.00021979	165.00
ADOLPH P. SCHUMAN AND		
MARITAL TRUST U/W/O		
ADOLPH P. SCHUMAN	.00021979	165.00
SPACE BUILDING CORP.	.00146528	1,102.00
ELIZABETH M. WEBSTER	.00036632	276.00
J. FREDERICK		
VAN VRANKEN	.00021979	165.00
AMERICAN NATIONAL		
PETROLEUM CO.	.22933652	172,461.00
	<u>or</u>	<u>or</u>
	.22948305	172,571.00
	-----	-----
TOTAL	100.00000000%	\$752,000.00

DAVID GOODNOW  
230 RIDGEFIELD RD.  
WILTON, CONN. 06897

March 3, 1990.

**RECEIVED**

Re. Feb. 27, 1990 letter

MAR 06 1990

Gentlemen,

PACIFIC ENTERPRISES

I wish to farmout my <sup>Midland, Texas</sup> interest in  
the NW/4 of Section 21.

Sincerely yours,

*David Goodnow*

# PACIFIC ENTERPRISES OIL COMPANY (USA)

RECEIVED

ORIGINAL

AUTHORITY FOR EXPENDITURE

MAR 06 1990

PACIFIC ENTERPRISES  
Midland, Texas

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

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

SEE NEXT PAGE

## 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	.75000000	\$564,000.00	APPROVED <input type="checkbox"/> DISAPPROVED <input type="checkbox"/>	
AJM PARTNERSHIP, A.J. & M PARTNERSHIP AND E.D. ARBOW, M.D., Dec'd	.00007327	55.00		
JAMES A. ALLEGA	.00005861	44.00		
ERNIE BELLO	.00014653	110.00		
ROBERT B. BUNN	.00029305	221.00		
COQUINA OIL CORP.	.01388900	10,445.00		
DAVID GOODNOW	.00014653	110.00		
MELBA DAVIS				
GREENLEE WHATLEY	.00036632	276.00		

COMPANY REPRESENTATIVE

SEE  
NEXT  
PAGE

DATE

RICHARD L. GRIFFITH	.00014653	110.00
JACK C. HALE	.00014653	110.00
EDWARD C. HALLOCK	.00014653	110.00
	<u>or</u>	<u>or</u>
	-0-	-0-
JOSEPH R. HODGE	.00002442	18.00
SANFORD J. HODGE, III	.00002442	18.00
CHARLES C. JOHNSTON	.00073264	551.00
RUBY F. KAWASAKI	.00014653	110.00
E. F. KURASHIGE TRUST		
E.T. KURASHIGE TRUST	.00014653	110.00
DENNIS I. MAEHARA TRUST		
& DENNIS I. MAEHARA &		
E. T. KURASHIGE TRUST,	.00014653	110.00
Tennants in Common		
JOHN MCISAAC	.00029305	221.00
CHARLES CLINE MOORE	.00036632	276.00
VERNON MUNROE	.00014653	110.00
LESTER G. NAITO	.00014653	110.00
ESTATE OF WM. B. OLIVER	.00036632	276.00
ALPHONSO RAGLAND	.00021979	165.00
H. S. ROSS AND HENRY		
S. ROSS, TRUSTEE	.00021979	165.00
ADOLPH P. SCHUMAN AND		
MARITAL TRUST U/W/O		
ADOLPH P. SCHUMAN	.00021979	165.00
SPACE BUILDING CORP.	.00146528	1,102.00
ELIZABETH M. WEBSTER	.00036632	276.00
J. FREDERICK		
VAN VRANKEN	.00021979	165.00
AMERICAN NATIONAL		
PETROLEUM CO.	.22933652	172,461.00
	<u>or</u>	<u>or</u>
	.22948305	172,571.00
	-----	-----
TOTAL	100.00000000%	\$752,000.00

- Mr Grant

Due to the small size of my interest in this property, I suspect it is more costly to administer my interest than vis-a-vis any benefits to this property my participation would provide. Accordingly, I would be willing to sell my interest in this property to Pacific Enterprises for \$75. Please respond.

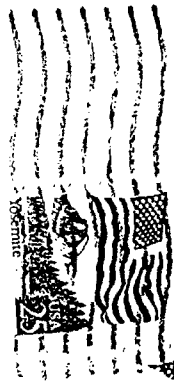
Page 2 of 4

John White

2052 Shell Ave  
Midland, TX  
79705

Sanford S. Hodge III

Pacific Enterprises  
200 N. Lavigne #420  
P.O. Box 3083  
Midland, TX 79702



**Charles C. Johnston**  
161 Forbes Road, Braintree, Massachusetts 02184  
617-848-4620

**RECEIVED**

MAR 9 1990

EXPL. & DEVEL

March 5, 1990

Mr. Terry Gant  
Landman  
Pacific Enterprises Oil Company  
200 N. Loraine, #400  
P.O. Box 3083  
Midland, Texas 79702-3083

Dear Mr. Gant:

Per your letter dated February 27, 1990, I have enclosed my election page as it relates to Dark Canyon Prospect #5661 in Eddy County, New Mexico.

Very truly yours,



Charles C. Johnston

nb  
encl.



**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

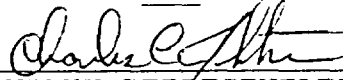
Midland, Texas

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

Drill and Test Cost	\$454,000.00
Completion	<u>298,000.00</u>
<b>TOTAL</b>	<b>\$752,000.00</b>

**JUSTIFICATION:**

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

<b>PARTICIPANTS</b>	<b>WORKING INTEREST</b>	<b>COST</b>	<b>GROSS AFE AMOUNT</b>	<b>\$752,000.00</b>
Pacific Enterprises Oil Company (USA), etal	.75000000	\$564,000.00	APPROVED <input checked="" type="checkbox"/> DISAPPROVED <input type="checkbox"/>	
				
			<b>COMPANY REPRESENTATIVE</b>	
AJM PARTNERSHIP, A.J. & M PARTNERSHIP AND E.D. ARBOW, M.D., Dec'd	.00007327	55.00		
JAMES A. ALLEGA	.00005861	44.00		
ERNIE BELLO	.00014653	110.00	<b>COMPANY</b>	
ROBERT B. BUNN	.00029305	221.00		
COQUINA OIL CORP.	.01388900	10,445.00		
DAVID GOODNOW	.00014653	110.00		
MELBA DAVIS			<b>DATE</b>	
GREENLEE WHATLEY	.00036632	276.00		

RICHARD L. GRIFFITH	.00014653	110.00
JACK C. HALE	.00014653	110.00
EDWARD C. HALLOCK	.00014653	110.00
	<u>or</u>	<u>or</u>
	-0-	-0-
JOSEPH R. HODGE	.00002442	18.00
SANFORD J. HODGE, III	.00002442	18.00
CHARLES C. JOHNSTON	.00073264	551.00
RUBY F. KAWASAKI	.00014653	110.00
E. F. KURASHIGE TRUST		
E. T. KURASHIGE TRUST	.00014653	110.00
DENNIS I. MAEHARA TRUST		
& DENNIS I. MAEHARA &		
E. T. KURASHIGE TRUST,	.00014653	110.00
Tennants in Common		
JOHN MCISAAC	.00029305	221.00
CHARLES CLINE MOORE	.00036632	276.00
VERNON MUNROE	.00014653	110.00
LESTER G. NAITO	.00014653	110.00
ESTATE OF WM. B. OLIVER	.00036632	276.00
ALPHONSO RAGLAND	.00021979	165.00
H. S. ROSS AND HENRY		
S. ROSS, TRUSTEE	.00021979	165.00
ADOLPH P. SCHUMAN AND		
MARITAL TRUST U/W/O		
ADOLPH P. SCHUMAN	.00021979	165.00
SPACE BUILDING CORP.	.00146528	1,102.00
ELIZABETH M. WEBSTER	.00036632	276.00
J. FREDERICK		
VAN VRANKEN	.00021979	165.00
AMERICAN NATIONAL		
PETROLEUM CO.	.22933652	172,461.00
	<u>or</u>	<u>or</u>
	.22948305	172,571.00
	-----	-----
TOTAL	100.00000000%	\$752,000.00

NCNB Texas  
901 Main Street  
P.O. Box 830308  
Dallas, Texas 75283-0308

Trust Oil and Gas  
(214) 508-2310

**NCNB**  
Texas

**RECEIVED**

MAR 22 1990

EXPL. & DEVEL

March 20, 1990

Ms. S. Bobo McKenzie  
American National Petroleum Corporation  
P.O. Box 27725  
Houston, TX 77227-7725

RE: William B. Oliver Estate  
Dark Canyon Prospect #5661 - Eddy County, New Mexico

Dear Ms. McKenzie:

Enclosed is a signature page to the Operating Agreement dated November 15, 1985 signed by NCNB Texas for the William B. Oliver Estate.

Please remove the Estate from the force pooling arrangements.

Your help is appreciated.

Best regards,

Jean P. Jipp, Jr.  
Vice President  
(214) 508-2352

JPJ/sm

Enclosure

✓ cc: Terry Gant  
Pacific Enterprises Oil Company (USA)  
P.O. Box 3083  
Midland, TX 79702-3083

**RECEIVED**

**MAR 06 1990**

**PACIFIC ENTERPRISES**  
Midland, Texas

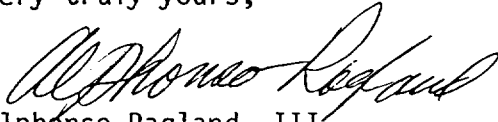
March 2, 1990

Pacific Enterprises Oil Company  
200 North Loraine  
Post Office Box 3083  
Midland, Texas 79702-3083

Gentlemen:

I am enclosing my signed AFE indicating my desire to participate with you to the extent of my interest in your Dark Canyon Prospect #5661 Eddy County, New Mexico.

Very truly yours,

  
Alphonso Ragland, III

C/C: American National Petroleum Company  
1717 St. James Place, Suite 200  
Houston, Texas 77227

ATTENTION: Mike Englert

AR/pkr

Enclosure

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

Drill and Test Cost	\$454,000.00
Completion	<u>298,000.00</u>
<b>TOTAL</b>	<b>\$752,000.00</b>

**JUSTIFICATION:**

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

<b>PARTICIPANTS</b>	<b>WORKING INTEREST</b>	<b>COST</b>	<b>GROSS AFE AMOUNT</b>	<b>\$752,000.00</b>
Pacific Enterprises Oil Company (USA), etal	.75000000	\$564,000.00	APPROVED _____ <i>Stephen R. England</i> _____ COMPANY REPRESENTATIVE	DISAPPROVED _____
AJM PARTNERSHIP, A.J. & M PARTNERSHIP AND E.D.				
ARBOW, M.D., Dec'd	.00007327	55.00		
JAMES A. ALLEGA	.00005861	44.00		
ERNIE BELLO	.00014653	110.00	COMPANY	
ROBERT B. BUNN	.00029305	221.00		
COQUINA OIL CORP.	.01388900	10,445.00		
DAVID GOODNOW	.00014653	110.00	<i>Mar 2, 1990</i> _____ DATE	
MELBA DAVIS				
GREENLEE WHATLEY	.00036632	276.00		

RICHARD L. GRIFFITH	.00014653	110.00
JACK C. HALE	.00014653	110.00
EDWARD C. HALLOCK	.00014653	110.00
	<u>or</u>	<u>or</u>
	-0-	-0-
JOSEPH R. HODGE	.00002442	18.00
SANFORD J. HODGE, III	.00002442	18.00
CHARLES C. JOHNSTON	.00073264	551.00
RUBY F. KAWASAKI	.00014653	110.00
E. F. KURASHIGE TRUST		
E. T. KURASHIGE TRUST	.00014653	110.00
DENNIS I. MAEHARA TRUST		
& DENNIS I. MAEHARA &		
E. T. KURASHIGE TRUST,	.00014653	110.00
Tennants in Common		
JOHN MCISAAC	.00029305	221.00
CHARLES CLINE MOORE	.00036632	276.00
VERNON MUNROE	.00014653	110.00
LESTER G. NAITO	.00014653	110.00
ESTATE OF WM. B. OLIVER	.00036632	276.00
ALPHONSO RAGLAND	.00021979	165.00
H. S. ROSS AND HENRY		
S. ROSS, TRUSTEE	.00021979	165.00
ADOLPH P. SCHUMAN AND		
MARITAL TRUST U/W/O		
ADOLPH P. SCHUMAN	.00021979	165.00
SPACE BUILDING CORP.	.00146528	1,102.00
ELIZABETH M. WEBSTER	.00036632	276.00
J. FREDERICK		
VAN VRANKEN	.00021979	165.00
AMERICAN NATIONAL		
PETROLEUM CO.	.22933652	172,461.00
	<u>or</u>	<u>or</u>
	.22948305	172,571.00
	-----	-----
TOTAL	100.00000000%	\$752,000.00

# PACIFIC ENTERPRISES OIL COMPANY (USA)

ORIGINAL

RECEIVED

## AUTHORITY FOR EXPENDITURE

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

MAR 14 1990  
PACIFIC ENTERPRISES  
Midland, Texas

DIVISION: Permian Basin Exploration Team

DATE: 2-23-90

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	\$454,000.00
Completion	<u>298,000.00</u>
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	.75000000	\$564,000.00	APPROVED <input type="checkbox"/> DISAPPROVED <input type="checkbox"/>	
AJM PARTNERSHIP, A.J. & M PARTNERSHIP AND E.D. ARBOW, M.D., Dec'd	.00007327	55.00	<i>Wish to Farm Out</i> COMPANY REPRESENTATIVE	
JAMES A. ALLEGA	.00005861	44.00	<i>Henry Ross</i> HENRY ROSS	
ERNIE BELLO	.00014653	110.00	COMPANY	
ROBERT B. BUNN	.00029305	221.00		
COQUINA OIL CORP.	.01388900	10,445.00		
DAVID GOODNOW	.00014653	110.00	<i>3-13-90</i> DATE	
MELBA DAVIS				
GREENLEE WHATLEY	.00036632	276.00		

## PACIFIC ENTERPRISES OIL COMPANY (USA)

February 27, 1990

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

To: See Attached List

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 the undivided leasehold interest under same as set out next to your name on the attachment hereto.

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 preceding well, whichever is lesser.


Please be advised that due to a leasehold interest owner in the SW/4 of said Section 21, Pacific will be applying for a 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 Pacific of your election within thirty (30) days from the date of this letter.

If you have any questions or need any additional information, please contact the undersigned.

Very truly yours,

PACIFIC ENTERPRISES  
OIL COMPANY (USA)



Terry Gant  
Landman

TG/dsr

Enclosure

<u>OWNER NAME AND ADDRESS</u>	<u>WI - LEASE</u>	<u>WI- UNIT</u>
1. 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
2. JAMES A. ALLEGA 3111 Seaboard Midland, TX 79701	.00011722	.00005861
3. ERNIE BELLO 3325 Ala Akulikuli Honolulu, HI 96818	.00029306	.00014653
4. ROBERT B. BUNN 2493 Makiki Heights Drive Honolulu, HI 96822	.00058611	.00029305
5. COQUINA OIL CORPORATION c/o American National Petroleum Co. 1717 St. James Place, Suite 200 Houston, TX 77227	.02777800	.01388900
6. DAVID GOODNOW 230 Ridgfield Road Wilton, CT 06897	.00029306	.00014653
7. MELBA DAVIS GREENLEE WHATLEY Post Office Box 5623 Austin, TX 78763	.00073264	.00036632
8. RICHARD L. GRIFFITH Post Office Box 939 Honolulu, HI 96808	.00029306	.00014653
9. JACK C. HALE 780 NE 10th East Wenatchee, WA 98801	.00029306	.00014653
10. EDWARD C. HALLOCK 15 Friar Tuck Circle Summit, NJ 07901	.00029306 <u>or</u> -0-	.00014653 <u>or</u> -0-
11. JOSEPH R. HODGE Post Office Box 570324 Houston, TX 77257-0324	.00004884	.00002442
12. SANFORD J. HODGE, III 2012 Shell Midland, TX 79705	.00004884	.00002442

	<u>OWNER NAME AND ADDRESS</u>	<u>WI - LEASE</u>	<u>WI- UNIT</u>
13.	CHARLES C. JOHNSTON c/o Ins. System 161 Forbes Road Braintree, MA 02184	.00146528	.00073264
14.	RUBY F. KAWASAKI 734 Kalaipuer Street Honolulu, HI 96825	.0002936	.00014653
15.	E. T. KURASHIGE TRUST AND E. F. KURASHIGE TRUST Irwin Mitsugi Kurashige, Trustee 2934 Oahu Avenue Honolulu, HI 96822	.00029306	.00014653
16.	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
17.	JOHN MCISAAC 1085 Morse Boulevard Singer Island, FL 33404	.00058611	.00029305
18.	CHARLES CLINE MOORE 138 Harvard Avenue Mill Valley, CA 94941	.00073264	.00036632
19.	VERNON MUNROE Apartment 8 South 139 East 66th Street New York, NY 10021	.00029306	.00014653
20.	LESTER G. NAITO 98-1370 Kaonohi Street Aiea, HI 96701	.00029306	.00014653
21.	ESTATE OF WM. B. OLIVER c/o NCNB Texas Trust Oil & Gas Department Post Office Box 830308 Dallas, TX 75283-0308	.00073264	.00036632
22.	ALPHONSO RAGLAND 8235 Douglas Avenue Suite 500, LB 48 Dallas, TX 75225	.00043958	.00021979
23.	H. S. ROSS AND HENRY S. ROSS, TRUSTEE 124 Monarch Bay South Laguna, CA 92677	.00043958	.00021979

	<u>OWNER NAME AND ADDRESS</u>	<u>WI - LEASE</u>	<u>WI- UNIT</u>
24.	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
25.	SPACE BUILDING CORPORATION 250 Cape Highway Route 44 East Taunton, MA 02718	.00293055	.00146528
26.	ELIZABETH M. WEBSTER c/o G. R. Webster Post Office Box 31 Blawenburg, NJ 08504	.00073264	.00036632
27.	J. FREDERICK VAN VRANKEN Sanford C. Bernstein & Co., Inc. 767 Fifth Avenue New York, NY 10153	.00043958	.00021979
28.	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
		-----	-----
	TOTAL	50.00000000%	25.00000000%

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

Drill and Test Cost	\$454,000.00
Completion	<u>298,000.00</u>
<b>TOTAL</b>	<b>\$752,000.00</b>

**JUSTIFICATION:**

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

<b>PARTICIPANTS</b>	<b>WORKING INTEREST</b>	<b>COST</b>	<b>GROSS AFE AMOUNT</b>	<b>\$752,000.00</b>
Pacific Enterprises Oil Company (USA), etal	.75000000	\$564,000.00	APPROVED ____	DISAPPROVED ____
			<b>COMPANY REPRESENTATIVE</b>	
AJM PARTNERSHIP, A.J. & M PARTNERSHIP AND E.D. ARBOW, M.D., Dec'd	.00007327	55.00		
JAMES A. ALLEGA	.00005861	44.00		
ERNIE BELLO	.00014653	110.00	<b>COMPANY</b>	
ROBERT B. BUNN	.00029305	221.00		
COQUINA OIL CORP.	.01388900	10,445.00		
DAVID GOODNOW	.00014653	110.00		
MELBA DAVIS			<b>DATE</b>	
GREENLEE WHATLEY	.00036632	276.00		

RICHARD L. GRIFFITH	.00014653	110.00
JACK C. HALE	.00014653	110.00
EDWARD C. HALLOCK	.00014653	110.00
	<u>or</u>	<u>or</u>
	-0-	-0-
JOSEPH R. HODGE	.00002442	18.00
SANFORD J. HODGE, III	.00002442	18.00
CHARLES C. JOHNSTON	.00073264	551.00
RUBY F. KAWASAKI	.00014653	110.00
E. F. KURASHIGE TRUST		
E.T. KURASHIGE TRUST	.00014653	110.00
DENNIS I. MAEHARA TRUST		
& DENNIS I. MAEHARA &		
E. T. KURASHIGE TRUST,	.00014653	110.00
Tennants in Common		
JOHN MCISAAC	.00029305	221.00
CHARLES CLINE MOORE	.00036632	276.00
VERNON MUNROE	.00014653	110.00
LESTER G. NAITO	.00014653	110.00
ESTATE OF WM. B. OLIVER	.00036632	276.00
ALPHONSO RAGLAND	.00021979	165.00
H. S. ROSS AND HENRY		
S. ROSS, TRUSTEE	.00021979	165.00
ADOLPH P. SCHUMAN AND		
MARITAL TRUST U/W/O		
ADOLPH P. SCHUMAN	.00021979	165.00
SPACE BUILDING CORP.	.00146528	1,102.00
ELIZABETH M. WEBSTER	.00036632	276.00
J. FREDERICK		
VAN VRANKEN	.00021979	165.00
AMERICAN NATIONAL		
PETROLEUM CO.	.22933652	172,461.00
	<u>or</u>	<u>or</u>
	.22948305	172,571.00
	-----	-----
TOTAL	100.00000000%	\$752,000.00

**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/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
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

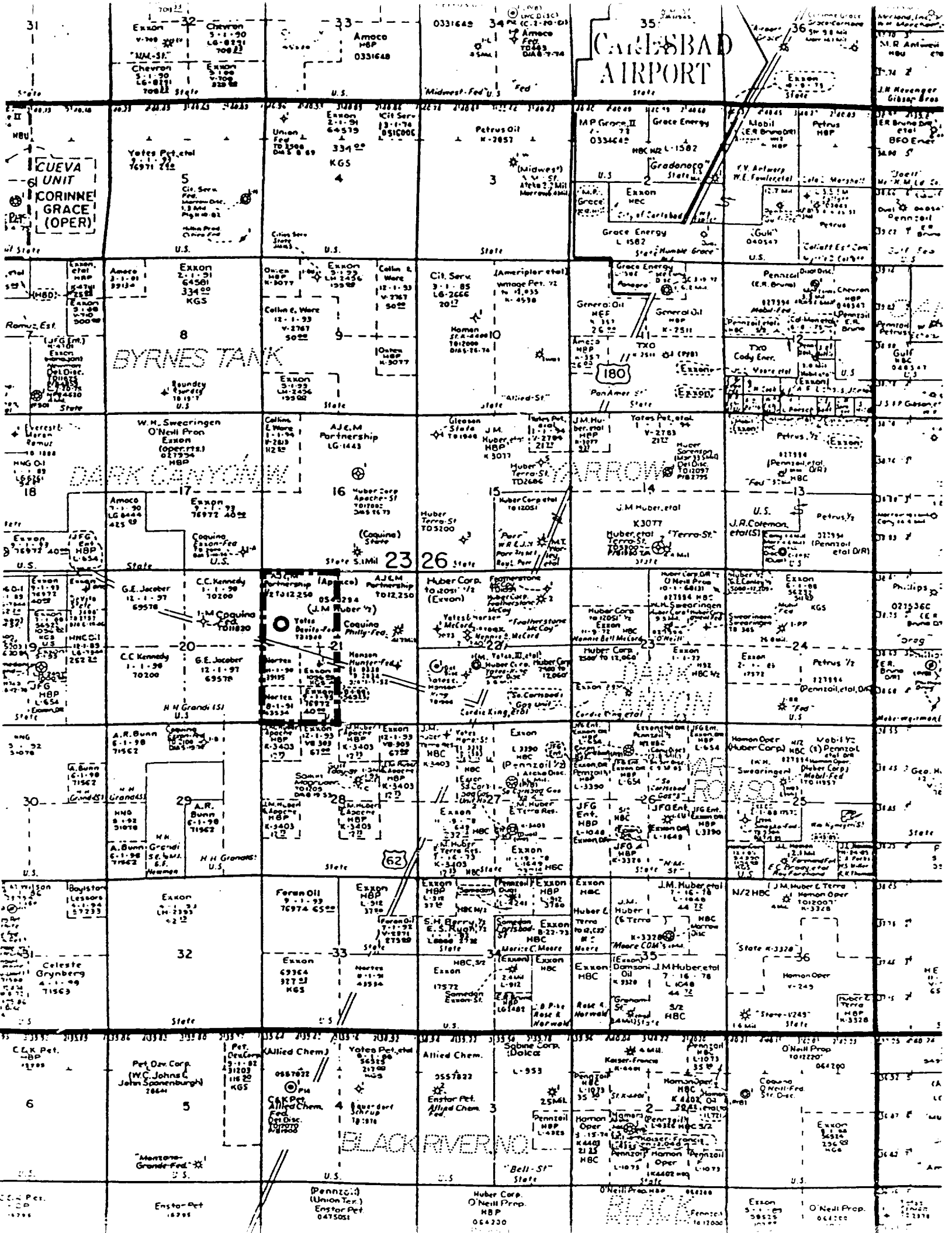
January 1990

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

CATEGORY	NO.	DRILL & TEST	NO.	COMPLETION
<u>TOTAL</u>				
Surface Casing				
600' of 13-3/8" OD H-40 408/ft., 8rd, ST&C @ 18.50/ft.	50	11,100	xxx	0
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
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
Liner				
___ ft of ___" OD, ___ 8/ft @ \$ ___/ft	xxx	0	53	0
Tubing				
11,600' of 2-3/8" OD, N-80, 4.78/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/FHKO	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
<u>TOTAL TANGIBLES</u>		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/FHKO	xxx	0	66	2,000
Installation of Flowline	xxx	0	68	5,000
Installation of Miscellaneous Equipment	73	0	185	2,000
<u>TOTAL INTANGIBLE INSTALLATION COSTS</u>		0		10,000
Est. 5280' gas sales line \$48,000+		409,000		102,000
		45,000		511,000
		0		186,000
				231,000
				10,000
<u>TOTAL WELL COST COMPLETED</u>		454,000		298,000
				752,000

Prepared by: C. Robert McPherson IIIDate 1/11/90Approved by: A.B.B.Date 1/13/90





American  
National  
Petroleum  
Company

1717 St. James Place, Ste. 200  
Houston, Texas 77056-3099  
P.O. Box 27725 (77227-7725)  
(713) 961-1770  
Fax 961-7220, 961-7216

February 22, 1990

**RECEIVED**

FEB 26 1990

EXPL. & DEVEL

Pacific Enterprises Oil Company (USA)  
Mr. Terry Gant  
Landman  
P. O. Box 3083  
Midland, TX 79702-3083

RE: Your Dark Canyon Prospect #5661  
Eddy County, New Mexico  
Our NM 510

Dear Mr. Gant:

Pursuant to our conversation, enclosed is the following:

1. Edward C. Hallock, Blanket Assignment and Conveyance dated April 16, 1987, effective January 1, 1987, unrecorded.
2. Victor D. Alhadeff, Blanket Assignment and Conveyance dated April 15, 1987, effective January 1, 1987, recorded in Book 3, Page 817, Eddy County Records, Eddy County, New Mexico.
3. Nautilus Venture III, Assignment dated November 16, 1978, effective June 1, 1978, recorded in Book 165, Page 755, Miscellaneous Records, Eddy County, New Mexico.
4. Operating Agreement, between American National Petroleum Company as Operator and Victor D. Alhadeff, Non-operator, dated November 15, 1985. Signed by all the former limited partners of Coquina 74-A Exploration Program **SAVE AND EXCEPT** Jack C. Hale, Charles Cline Moore, Vernon Munroe and Space Building Corp.

5.) I checked our records and did not find an abstract covering this section.

If you have any questions, please advise.

Sincerely,

*S. Bobo McKenzie*  
S. Bobo McKenzie  
Landman

SBM

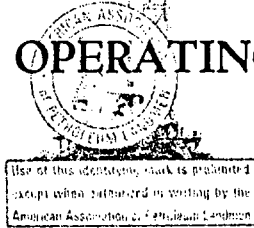
Encls.

Copy of Partnership  
Dissolution - ASM  
Partnership

AND Wm. D. Chiles, Jr.  
JCA signature not to be  
checked in. Rec'd  
Signed file

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

# MODEL FORM OPERATING AGREEMENT



## OPERATING AGREEMENT

DATED

November 15, 1985,

OPERATOR AMERICAN NATIONAL PETROLEUM COMPANY

CONTRACT AREA State of New Mexico, State of Oklahoma

State of Texas

COUNTY OR PARISH OF \_\_\_\_\_ STATE OF \_\_\_\_\_

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

TABLE OF CONTENTS

<u>Article</u>	<u>Title</u>	<u>Page</u>
I.	DEFINITIONS	1
II.	EXHIBITS	1
III.	INTERESTS OF PARTIES	2
	A. OIL AND GAS INTERESTS	2
	B. INTEREST OF PARTIES IN COSTS AND PRODUCTION	2
IV.	TITLES	2
	A. TITLE EXAMINATION	2
	B. LOSS OF TITLE	2
	1. Failure of Title	2-3
	2. Loss by Non-Payment or Erroneous Payment of Amount Due	3
	3. Other Losses	3
V.	OPERATOR	3
	A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR	3
	B. RESIGNATION OR REMOVAL OF OPERATOR AND SELECTION OF SUCCESSOR	4
	1. Resignation or Removal of Operator	4
	2. Selection of Successor Operator	4
	C. EMPLOYEES	4
	D. DRILLING CONTRACTS	4
VI.	DRILLING AND DEVELOPMENT	4
	A. INITIAL WELL	4
	B. SUBSEQUENT OPERATIONS	5
	1. Proposed Operations	5
	2. Operations by Less than All Parties	5-6
	C. RIGHT TO TAKE PRODUCTION IN KIND	6-7
	D. ACCESS TO CONTRACT AREA AND INFORMATION	7
	E. ABANDONMENT OF WELLS	7
	1. Abandonment of Dry Holes	7
	2. Abandonment of Wells that have Produced	7-8
VII.	EXPENDITURES AND LIABILITY OF PARTIES	8
	A. LIABILITY OF PARTIES	8
	B. LIENS AND PAYMENT DEFAULTS	8
	C. PAYMENTS AND ACCOUNTING	8
	D. LIMITATION OF EXPENDITURES	9
	1. Drill or Deepen	9
	2. Rework or Plug Back	9
	3. Other Operations	9
	E. ROYALTIES, OVERRIDING ROYALTIES AND OTHER PAYMENTS	9
	F. RENTALS, SHUT-IN WELL PAYMENTS AND MINIMUM ROYALTIES	9-10
	G. TAXES	10
	H. INSURANCE	10
VIII.	ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST	10
	A. SURRENDER OF LEASES	10-11
	B. RENEWAL OR EXTENSION OF LEASES	11
	C. ACREAGE OR CASH CONTRIBUTION	11
	D. SUBSEQUENTLY CREATED INTEREST	11-12
	E. MAINTENANCE OF UNIFORM INTEREST	12
	F. WAIVER OF RIGHT TO PARTITION	12
	G. PREFERENTIAL RIGHT TO PURCHASE	12
IX.	INTERNAL REVENUE CODE ELECTION	12-13
X.	CLAIMS AND LAWSUITS	13
XI.	FORCE MAJEURE	13
XII.	NOTICES	13
XIII.	TERM OF AGREEMENT	13-14
XIV.	COMPLIANCE WITH LAWS AND REGULATIONS	14
	A. LAWS, REGULATIONS AND ORDERS	14
	B. GOVERNING LAW	14
XV.	OTHER PROVISIONS	14
XVI.	MISCELLANEOUS	14

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between American National Petroleum Company, 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 agreement,
- (2) Restrictions, if any, as to depths or formations,
- (3) Percentages or fractional interests of parties to this agreement,
- (4) Oil and gas leases and/or oil and gas interests subject to this agreement,
- (5) Addresses of parties for notice purposes.

☐ B. Exhibit "B", Form of Lease.

☒ C. Exhibit "C", Accounting Procedure.

☐ D. Exhibit "D", Insurance.

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

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

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

ARTICLE III.  
INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B. Interest of Parties in Costs and Production:

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

ARTICLE IV.  
TITLES

A. Title Examination:

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

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

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

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

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

B. Loss of Title:

~~Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a reduction of interest from that shown on Exhibit "A", this agreement, nevertheless, shall continue in force as to all remaining oil and gas leases and interests and:~~  
(a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development

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

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

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

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

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

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

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

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

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

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

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

## 57 ARTICLE V. 58 OPERATOR

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

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

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

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

17  
18 2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Op-  
19 erator shall be selected by the Parties. The successor Operator shall be selected from the parties owning  
20 an interest in the Contract Area at the time such successor Operator is selected. If the Operator that  
21 is removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the  
22 affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown  
23 on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of the  
24 Operator that was removed.

25  
26 C. Employees:

27  
28 The number of employees used by Operator in conducting operations hereunder, their selection,  
29 and the hours of labor and the compensation for services performed, shall be determined by Operator,  
30 and all such employees shall be the employees of Operator.

31  
32 D. Drilling Contracts:

33  
34 All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual  
35 rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the  
36 drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate  
37 of such charges shall be agreed upon by the parties in writing before drilling operations are com-  
38 menced, and such work shall be performed by Operator under the same terms and conditions as are  
39 customary and usual in the area in contracts of independent contractors who are doing work of a sim-  
40 ilar nature.

41  
42 ARTICLE VI.  
43 DRILLING AND DEVELOPMENT

44  
45 A. Initial Well:

46  
47 ~~On or before the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, Operator shall commence the drill-~~  
48 ~~ing of a well for oil and gas at the following location:~~

49  
50  
51  
52  
53 and shall thereafter continue the drilling of the well with due diligence to

54  
55  
56  
57  
58 unless granite or other practically impenetrable substance or condition in the hole, which renders  
59 further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or  
60 abandon the well at a lesser depth.

61  
62 Operator shall make reasonable tests of all formations encountered during drilling which give in-  
63 dication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited  
64 in its application to a specific formation or formations, in which event Operator shall be required to  
65 test only the formation or formations to which this agreement may apply.

66  
67 If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes  
68 to plug and abandon the well as a dry hole, it shall first secure the consent of all parties and shall  
69 plug and abandon same as provided in Article VI.E.1. hereof.



B. Subsequent Operations:

1. Proposed Operations: Should ~~any party desire to~~ <sup>operator propose</sup> 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)~~ <sup>fifteen (15)</sup> days after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of proposal to rework, plug back or drill deeper may be given by telephone and the response period shall be limited to ~~forty-eight (48)~~ <sup>twenty-four (24)</sup> hours, exclusive of Saturday, Sunday or legal holidays. Failure of a party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or response given by telephone shall be promptly confirmed in writing.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VI.E.1. elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within sixty (60) days after the expiration of the notice period of ~~thirty (30)~~ <sup>fifteen (15)</sup> days (or as promptly as possible after the expiration of the ~~forty-eight (48)~~ <sup>twenty-four (24)</sup> hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall ~~either (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work.~~ Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

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

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

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

(b) 400% of that portion of the costs and expenses of drilling reworking, deepening, or plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and

1 400% of that portion of the cost of newly acquired equipment in the well (to and including the well-  
2 head connections), which would have been chargeable to such Non-Consenting Party if it had partici-  
3 pated therein.

4  
5 ~~Gas production attributable to any Non-Consenting Party's relinquished interest upon such Party's~~  
6 ~~election, shall be sold to its purchaser, if available, under the terms of its existing gas sales con-~~  
7 ~~tract. Such Non-Consenting Party shall direct its purchaser to remit the proceeds receivable from~~  
8 ~~such sale direct to the Consenting Parties until the amounts provided for in this Article are recov-~~  
9 ~~ered from the Non-Consenting Party's relinquished interest. If such Non-Consenting Party has not~~  
10 ~~contracted for sale of its gas at the time such gas is available for delivery, or has not made the elec-~~  
11 ~~tion as provided above, the Consenting Parties shall own and be entitled to receive and sell such Non-~~  
12 ~~Consenting Party's share of gas as hereinabove provided during the recoupment period.~~

13  
14 During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share  
15 of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of  
16 all production, severance, gathering and other taxes, and all royalty, overriding royalty and other  
17 burdens applicable to Non-Consenting Party's share of production.

18  
19 In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall  
20 be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of  
21 all such equipment shall remain unchanged; and upon abandonment of a well after such reworking,  
22 plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the  
23 owners thereof, with each party receiving its proportionate part in kind or in value, less cost of  
24 salvage.

25  
26 Within sixty (60) days after the completion of any operation under this Article, the party con-  
27 ducting the operations for the Consenting Parties <sup>upon request</sup> shall furnish each Non-Consenting Party with an in-  
28 ventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling,  
29 deepening, plugging back, testing, completing, and equipping the well for production; or, at its option,  
30 the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed  
31 statement of monthly billings. <sup>Quarterly</sup> ~~Each month~~ thereafter, during the time the Consenting Parties are being  
32 reimbursed as provided above, the Party conducting the operations for the Consenting Parties shall furn-  
33 ish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the  
34 operation of the well, together with a statement of the quantity of oil and gas produced from it and the  
35 amount of proceeds realized from the sale of the well's working interest production during the preceding  
36 month. In determining the quantity of oil and gas produced during any month, Consenting Parties  
37 shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any  
38 amount realized from the sale or other disposition of equipment newly acquired in connection with any  
39 such operation which would have been owned by a Non-Consenting Party had it participated therein  
40 shall be credited against the total unreturned costs of the work done and of the equipment purchased,  
41 in determining when the interest of such Non-Consenting Party shall revert to it as above provided;  
42 and if there is a credit balance, it shall be paid to such Non-Consenting party.

43  
44 If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest  
45 the amounts provided for above, the relinquished interests of such Non-Consenting Party shall auto-  
46 matically revert to it, and, from and after such reversion, such Non-Consenting Party shall own the same  
47 interest in such well, the material and equipment in or pertaining thereto, and the production there-  
48 from as such Non-Consenting Party would have been entitled to had it participated in the drilling,  
49 reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be  
50 charged with and shall pay its proportionate part of the further costs of the operation of said well in  
51 accordance with the terms of this agreement and the Accounting Procedure, attached hereto.

52  
53 Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent  
54 of all parties, no wells shall be completed in or produced from a source of supply from which a well  
55 located elsewhere on the Contract Area is producing, unless such well conforms to the ~~then-existing~~  
56 well spacing pattern for such source of supply.

57  
58 ~~The provisions of this Article shall have no application whatsoever to the drilling of the initial~~  
59 ~~well described in Article VI.A. except (a) when Option 2, Article VII.D.1., has been selected, or (b)~~  
60 ~~to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall~~  
61 ~~prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article~~  
62 ~~VI.A.~~

#### 63 64 C. Right to Take Production in Kind:

65  
66 ~~Each party shall have the right to take in kind or separately dispose of its proportionate share of~~  
67 ~~all oil and gas produced from the Contract Area, exclusive of production which may be used in de-~~  
68 ~~velopment and producing operations and in preparing and treating oil for marketing purposes, and~~  
69 ~~production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate dispo-~~  
70 ~~sition 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 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 direct 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.

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

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

Each party shall have access to the Contract Area at all reasonable times, at its sole 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 to the contract area. 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 pursuant to Article VI.B.3., any well which has been drilled 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 or 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 of such well. Any party who objects to the 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 which has been drilled or re-worked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reimbursed as therein 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 <sup>fifteen (15)</sup> ~~thirty (30)~~ days after receipt of notice of the proposed abandonment of such well, all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvageable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, 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 year and so long thereafter as oil and or gas is produced from the interval or inter-

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

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

## ARTICLE VII. EXPENDITURES AND LIABILITY OF PARTIES

### A. Liability of Parties:

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

### B. Liens and Payment Defaults:

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

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

### C. Payments and Accounting:

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the expense basis provided in the Accounting Procedure attached hereto as Exhibit "C". Operator shall receive proceeds from production attributable to each party's share of production and shall be responsible for the payment of all production, severance, gathering, and other taxes, and all royalty, overriding royalty and other burdens applicable to each party's share of production. Operator shall keep an accurate record of the joint account hereunder showing expenses incurred and charges and credits made and received. Operator will apply proceeds received to expense incurred and will disburse any proceeds due the parties on a quarterly basis. 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 provisions of Article V B will apply. ~~Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.~~

D. Limitation of Expenditures:

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

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

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

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

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Fifty Thousand Dollars (\$ 50,000.00 ) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of Fifty Thousand Dollars (\$ 50,000.00 ).

E. Royalties, Overriding Royalties and Other Payments:

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

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

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

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

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

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

**G. Taxes:**

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

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

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

**H. Insurance:**

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

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

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

**A. Surrender of Leases:**

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

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

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

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

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

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

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

23  
24 Each party who participates in the purchase of a renewal lease shall be given an assignment of its  
25 proportionate interest therein by the acquiring party.

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

33  
34 The provisions in this Article shall apply also and in like manner to extensions of oil and gas  
35 leases.

36  
37 **C. Acreage or Cash Contributions:**

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

50  
51 If any party contracts for any consideration relating to disposition of such party's share of substances  
52 produced hereunder, such consideration shall not be deemed a contribution as contemplated in this  
53 Article VIII.C.

54  
55 **D. Subsequently Created Interest:**

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

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



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

**E. Maintenance of Uniform Interest:**

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

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

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

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

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

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

**G. Preferential Right to Purchase:**

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

**ARTICLE IX.  
INTERNAL REVENUE CODE ELECTION**

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



~~such party shall give any notices or take any other action inconsistent with the election made 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 damage claim or suit arising from operations hereunder if the ex-  
 penditure does not exceed Fifty Thousand Dollars  
 (\$ 50,000.00 ) 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 ex-  
 pense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense  
 of the parties. If a claim is made against any party or if any party is sued on account of any matter  
 arising from operations hereunder over which such individual has no control because of the rights given  
 Operator by this agreement, the party shall immediately notify Operator, and the claim or suit shall  
 be treated as any other claim or suit involving operations hereunder.

#### ARTICLE XI. FORCE MAJEURE

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

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

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

#### ARTICLE XII. NOTICES

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

#### ARTICLE XIII. TERM OF AGREEMENT

This agreement shall remain in full force and effect as to the oil and gas leases and or oil and gas in-  
 terests subjected hereto for the period of time selected below; provided, however, no party hereto shall  
 ever be construed as having any right, title or interest in or to any lease, or oil and gas interest con-  
 tributed 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 con-  
 tinued in force as to any part of the Contract Area, whether by production, extension, renewal or other-  
 wise, and/or so long as oil and/or gas production continues from any lease or oil and gas interest.

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

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

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

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

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

##### B. Governing Law:

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

#### ARTICLE XV. OTHER PROVISIONS

##### A. Other Operating Agreements:

The aggregate interests of all parties to this agreement in the Contract Area are subject to those certain operating agreements listed in Exhibit A. As Operator under this agreement, American National Petroleum Company ("ANPC") shall have full authority with power to bind, to receive notices, approve expenditures, receive billings for, and approve and pay each party's share of joint expenses, and to generally deal with all of the parties' interests in the Contract Area under the terms and within the scope of the other operating agreements. The relations between ANPC and the other parties to this agreement shall be solely controlled by this agreement without reference to the other operating agreements. In all other respects, all of the parties to this agreement shall be subject to existing contracts, encumbrances, charges, and claims.

Operations proposed by parties to the other operating agreements who are not parties to this agreement shall be deemed to be operations proposed by Operator for purposes of Article VI.B.1. of this agreement.

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.

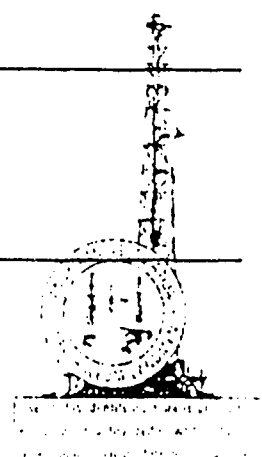
IN WITNESS WHEREOF, this agreement shall be effective as of 15th day of November, 1985.

OPERATOR

<p><u>Lynne C. Little</u></p>	<p><u>Kenneth J. Lee</u> AMERICAN NATIONAL PETROLEUM COMPANY</p>
-------------------------------	--

NON-OPERATORS

<p>_____</p>	<p><u>E. D. Arbow Sept. 9, 1986</u> E. D. Arbow, M.D.</p>
<p>_____</p>	<p>_____</p>
<p>_____</p>	<p>F. L. Jones, M.D.</p>
<p>_____</p>	<p>_____</p>
<p>_____</p>	<p>M. L. McCumber, M.D.</p>
<p>_____</p>	<p>_____</p>
<p>_____</p>	<p>Victor D. Alhadeff</p>
<p>_____</p>	<p>_____</p>
<p>_____</p>	<p>James A. Allega</p>
<p>_____</p>	<p>_____</p>
<p>_____</p>	<p>Ernie Bello</p>
<p>_____</p>	<p>_____</p>
<p>_____</p>	<p>Robert B. Bunn</p>
<p>_____</p>	<p>_____</p>
<p>_____</p>	<p>Clayton Chang</p>



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 15th day of November, 1985.

OPERATOR

Lynne G. Little

Lynn D. Ly  
AMERICAN NATIONAL PETROLEUM COMPANY

NON-OPERATORS

\_\_\_\_\_

E. D. Arrow, M.D.

\_\_\_\_\_

F. L. Jones, M.D.

\_\_\_\_\_

M. L. McCumber, M.D.

\_\_\_\_\_

Victor D. Alhadeff

\_\_\_\_\_

James A. Allega

\_\_\_\_\_

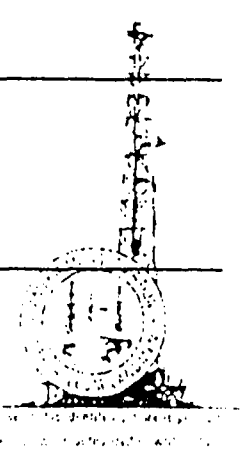
Ernie Bello

\_\_\_\_\_

Robert B. Bunn

\_\_\_\_\_

Clayton Chang



OCT 23 1986

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 15th day of November, 1985.

OPERATOR

Lynne G. Little

[Signature]  
AMERICAN NATIONAL PETROLEUM COMPANY

NON-OPERATORS

\_\_\_\_\_

\_\_\_\_\_  
E. D. Arbow, M.D.

\_\_\_\_\_

\_\_\_\_\_  
F. L. Jones, M.D.

Kim M. Johnston

[Signature]  
M. L. McCumber, M.D.

\_\_\_\_\_

\_\_\_\_\_  
Victor D. Alhadeff

\_\_\_\_\_

\_\_\_\_\_  
James A. Allega

\_\_\_\_\_

\_\_\_\_\_  
Ernie Bello

\_\_\_\_\_

\_\_\_\_\_  
Robert B. Bunn

\_\_\_\_\_

\_\_\_\_\_  
Clayton Chang

AUG 15 1986

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 15th day of November, 1985.

OPERATOR

Jane A. Colwell Murray J. Key  
AMERICAN NATIONAL PETROLEUM COMPANY

NON-OPERATORS

\_\_\_\_\_ A. J. & M. Partnership

\_\_\_\_\_ Victor D. Alhadeff

\_\_\_\_\_ James A. Allega

\_\_\_\_\_ Ernie Bello

\_\_\_\_\_ Robert B. Bunn

\_\_\_\_\_ Clayton Chang

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 15th day of November, 1985.

OPERATOR

Jane A. Colwell

Kenneth J. Key  
AMERICAN NATIONAL PETROLEUM COMPANY

NON-OPERATORS

\_\_\_\_\_

A. J. & M. Partnership

\_\_\_\_\_

Victor D. Alhadeff

\_\_\_\_\_

James A. Allega

James A. Allega

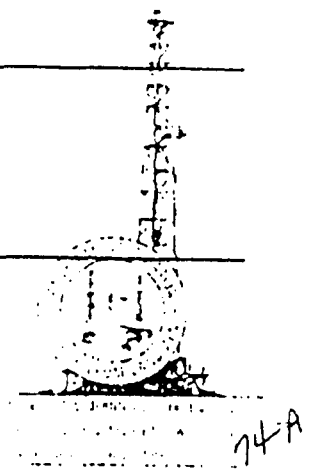
Ernie Bello  
Ernie Bello

\_\_\_\_\_

Robert B. Bunn

\_\_\_\_\_

Clayton Chang



ARTICLE XVI.  
MISCELLANEOUS

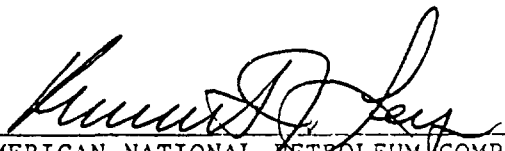
This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

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 15th day of November, 1985.

OPERATOR

Jane A. Colwell

  
AMERICAN NATIONAL PETROLEUM COMPANY

NON-OPERATORS

\_\_\_\_\_

A. J. & M. Partnership

\_\_\_\_\_

Victor D. Alhadeff

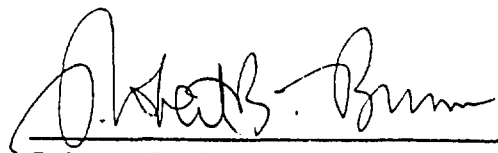
\_\_\_\_\_

James A. Allega

\_\_\_\_\_

Ernie Bello

\_\_\_\_\_

  
Robert B. Bunn

\_\_\_\_\_

Clayton Chang



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 15th day of November, 1985.

OPERATOR

Jane A. Colwell

Robert D. Bunn  
AMERICAN NATIONAL PETROLEUM COMPANY

NON-OPERATORS

A. J. & M. Partnership

Victor D. Alhadeff

James A. Allega

Ernie Bello

Robert B. Bunn

Clayton Chang  
Clayton Chang

NON - OPERATORS (Continued)

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70

X R. Watanabe  
R. Watanabe

X Arthur T. Ogata  
Arthur T. Ogata

David Goodnow  
David Goodnow

Melba Davis Greenlee  
Melba Davis Greenlee

Richard L. Griffith  
Richard L. Griffith

Edward C. Hallock  
Edward C. Hallock

Jack C. Hale  
Jack C. Hale

Sanford J. Hodge, III  
Sanford J. Hodge, III

Joseph R. Hodge  
Joseph R. Hodge

Charles C. Johnston  
Charles C. Johnston

Ruby F. Kawasaki  
Ruby F. Kawasaki

AUG 25 1986

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1977

NON - OPERATORS (Continued)

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70

R. Watanabe

Arthur T. Ogata

*David Goodnow*  
David Goodnow

Melba Davis Greenlee

Richard L. Griffith

Edward C. Hallock

Jack C. Hale

Sanford J. Hodge, III

Joseph R. Hodge

Charles C. Johnston

Ruby F. Kawasaki

## NON-OPERATORS (Continued)

1		
2		
3		
4		R. Watanabe
5		
6		
7		
8		
9		
10		Arthur T. Ogata
11		
12		
13		
14		
15		
16		David Goodnow
17		
18		
19		
20		
21		<i>Melba Davis Greenlee</i>
22		Melba Davis Greenlee
23		<i>Whatley</i>
24		
25		
26		
27		
28		Richard L. Griffith
29		
30		
31		
32		
33		Edward C. Hallock
34		
35		
36		
37		
38		
39		Jack C. Hale
40		
41		
42		
43		
44		
45		Sanford J. Hodge, III
46		
47		
48		
49		
50		
51		Joseph R. Hodge
52		
53		
54		
55		
56		
57		Charles C. Johnston
58		
59		
60		
61		
62		
63		Ruby F. Kawasaki
64		
65		
66		
67		
68		
69		
70		

AUG 18 1986 (

24. A

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1977

NON - OPERATORS (Continued)

1		
2		
3		
4	_____	R. Watanabe
5		
6		
7		
8		
9	_____	
10		Arthur T. Ogata
11		
12		
13		
14		
15	_____	
16		David Goodnow
17		
18		
19		
20		
21	_____	
22		Melba Davis Greenlee
23		
24		
25		
26		<i>Richard L. Griffith</i>
27	_____	Richard L. Griffith
28		
29		
30		
31		
32		
33	_____	
34		Edward C. Hallock
35		
36		
37		
38		
39	_____	
40		Jack C. Hale
41		
42		
43		
44	_____	
45		Sanford J. Hodge, III
46		
47		
48		
49		
50	_____	
51		Joseph R. Hodge
52		
53		
54		
55		
56	_____	
57		Charles C. Johnston
58		
59		
60		
61		
62	_____	
63		Ruby F. Kawasaki
64		
65		
66		
67		
68		
69		
70		

## A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1977

## NON - OPERATORS (Continued)

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70

R. Watanabe

Arthur T. Ogata

David Goodnow

Melba Davis Greenlee

Richard L. Griffith

Edward C. Hallock

Jack C. Hale

*Sanford J. Hodge, III*  
Sanford J. Hodge, III

Joseph R. Hodge

Charles C. Johnston

Ruby F. Kawasaki

AUG 25 1986  
AUG 1986

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1977

NON-OPERATORS (Continued)

1		
2		
3		
4		R. Watanabe
5		
6		
7		
8		
9		
10		Arthur T. Ogata
11		
12		
13		
14		
15		
16		David Goodnow
17		
18		
19		
20		
21		Melba Davis Greenlee
22		
23		
24		
25		
26		
27		
28		Richard L. Griffith
29		
30		
31		
32		
33		Edward C. Hallock
34		
35		
36		
37		
38		
39		Jack C. Hale
40		
41		
42		
43		
44		
45		Sanford J. Hodge, III
46		
47		
48		
49		
50		
51		Joseph R. Hodge
52		
53		
54		
55		
56		
57		Charles C. Johnston
58		
59		
60		
61		
62		Ruby F. Kawasaki
63		
64		
65		
66		
67		
68		
69		
70		

AUG 21 1986

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1977

NON-OPERATORS (Continued)

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70

R. Watanabe

Arthur T. Ogata

David Goodnow

Melba Davis Greenlee

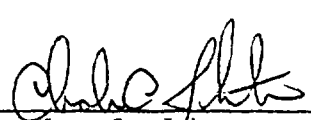
Richard L. Griffith

Edward C. Hallock

Jack C. Hale

Sanford J. Hodge, III

Joseph R. Hodge

  
Charles C. Johnston

Ruby F. Kawasaki



DEC 15 1986

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1977

NON - OPERATORS (Continued)

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70

R. Watanabe

Arthur T. Ogata

David Goodnow

Melba Davis Greenlee

Richard L. Griffith

Edward C. Hallock

Jack C. Hale

Sanford J. Hodge, III

Joseph R. Hodge

Charles C. Johnston

Ruby F. Kawasaki

*Penney M. M. Silva*

74-A

AUG 21 1986

nd-A

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1977

NON-OPERATORS (Continued)

ACCOUNT MISPELLED

Irwin Mitengi Kurashige, Trustee

E.T. Kurashige Trust

WRONG REGISTRATION  
OF ACCOUNT

Dennis I. Maehara Trust AND  
E.T. KURASHIGE TRUST, TENANTS IN COMMON, 50% EACH  
Irwin Mitengi Kurashige, Trustee  
E.T. KURASHIGE TRUST

John McIsaac

Estate of Ben Miller

Charles Cline Moore

Vernon Munroe

Lester G. Naito

Estate of Wm. B. Oliver

Alphonso Ragland

Henry S. Ross, Trustee

E. Scheckman Trust

AUG 21 1986

7L-A

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1977

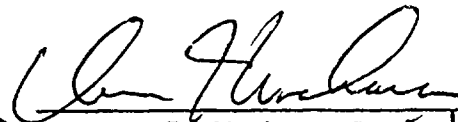
NON-OPERATORS (Continued)

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70

ACCOUNT REGISTRATION  
IN ERROR. PLEASE CORRECT  
AS NOTED.

SMK 8/18/86

E. F. Kurashige Trust

  
Dennis I. Maehara Trust SMK  
and E.T. KURASHIGE, TRUST, TENNANTS IN COMMON,  
50% EACH TENNANT  
Irwin Mitsugi Kurashige, Trustee  
IRWIN MITSUGI KURASHIGE, TRUSTEE  
E.T. KURASHIGE TRUST  
John McIsaac

Estate of Ben Miller

Charles Cline Moore

Vernon Munroe

Lester G. Naito

Estate of Wm. B. Oliver

Alphonso Ragland

Henry S. Ross, Trustee

E. Scheckman Trust

AUG 20 1988

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1977

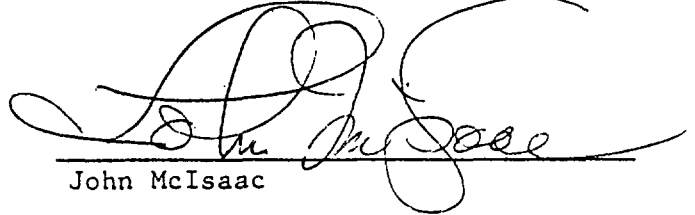
76-11

NON - OPERATORS (Continued)

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70

E. F. Kurashige Trust

Dennis I. Maehara Trust

  
John McIsaac

Estate of Ben Miller

Charles Cline Moore

Vernon Munroe

Lester G. Naito

Estate of Wm. B. Oliver

Alphonso Ragland

Henry S. Ross, Trustee

E. Scheckman Trust

OCT 23 1986

NON - OPERATORS (Continued)

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23
- 24
- 25
- 26
- 27
- 28
- 29
- 30
- 31
- 32
- 33
- 34
- 35
- 36
- 37
- 38
- 39
- 40
- 41
- 42
- 43
- 44
- 45
- 46
- 47
- 48
- 49
- 50
- 51
- 52
- 53
- 54
- 55
- 56
- 57
- 58
- 59
- 60
- 61
- 62
- 63
- 64
- 65
- 66
- 67
- 68
- 69
- 70

E. F. Kurashige Trust

Dennis I. Maehara Trust

John McIsaac

*Ben Miller*  
Estate of Ben Miller

Charles Cline Moore

Vernon Munroe

Lester G. Naito

Estate of Wm. B. Oliver

Alphonso Ragland

Henry S. Ross, Trustee

E. Scheckman Trust

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1977

NON - OPERATORS (Continued)

1		
2		
3		
4		E. F. Kurashige Trust
5		
6		
7		
8		
9		
10		Dennis I. Maehara Trust
11		
12		
13		
14		
15		
16		John McIsaac
17		
18		
19		
20		
21		
22		Estate of Ben Miller
23		
24		
25		
26		
27		
28		Charles Cline Moore
29		
30		
31		
32		
33		Vernon Munroe
34		
35		
36		
37		
38		<i>Lester G. Naito</i>
39		Lester G. Naito
40		
41		
42		
43		
44		
45		Estate of Wm. B. Oliver
46		
47		
48		
49		
50		
51		Alphonso Ragland
52		
53		
54		
55		
56		
57		Henry S. Ross, Trustee
58		
59		
60		
61		
62		
63		E. Scheckman Trust
64		
65		
66		
67		
68		
69		
70		

## NON - OPERATORS (Continued)

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70

E. F. Kurashige Trust

Dennis I. Maehara Trust

John McIsaac

Estate of Ben Miller

Charles Cline Moore

Vernon Munroe

Lester G. Naito

NCNB TEXAS NATIONAL BANK, EXECUTOR

BY: *James Pippa* Vice President  
Estate of Wm. B. Oliver

Alphonso Ragland

Henry S. Ross, Trustee

E. Scheckman Trust

OPERATING AGREEMENT DATED NOVEMBER 15, 1985

AUG 18 1986

74-A

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1977

NON - OPERATORS (Continued)

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23
- 24
- 25
- 26
- 27
- 28
- 29
- 30
- 31
- 32
- 33
- 34
- 35
- 36
- 37
- 38
- 39
- 40
- 41
- 42
- 43
- 44
- 45
- 46
- 47
- 48
- 49
- 50
- 51
- 52
- 53
- 54
- 55
- 56
- 57
- 58
- 59
- 60
- 61
- 62
- 63
- 64
- 65
- 66
- 67
- 68
- 69
- 70

E. F. Kurashige Trust

Dennis I. Maehara Trust

John McIsaac

Estate of Ben Miller

Charles Cline Moore

Vernon Munroe

Lester G. Naito

Estate of Wm. B. Oliver

*Alphonso Ragland*  
Alphonso Ragland

Henry S. Ross, Trustee

E. Scheckman Trust



NON-OPERATORS (Continued)

1		
2		
3		
4		
5		E. F. Kurashige Trust
6		
7		
8		
9		
10		Dennis I. Maehara Trust
11		
12		
13		
14		
15		
16		John McIsaac
17		
18		
19		
20		
21		Estate of Ben Miller
22		
23		
24		
25		
26		
27		
28		Charles Cline Moore
29		
30		
31		
32		
33		Vernon Munroe
34		
35		
36		
37		
38		
39		Lester G. Naito
40		
41		
42		
43		
44		
45		Estate of Wm. B. Oliver
46		
47		
48		
49		
50		
51		Alphonso Ragland
52		
53		
54		
55		
56		<i>Henry S. Ross</i>
57		Henry S. Ross, Trustee
58		
59		
60		
61		
62		
63		E. Scheckman Trust
64		
65		
66		
67		
68		
69		
70		

NON - OPERATORS (Continued)

1		
2		
3		
4		E. F. Kurashige Trust
5		
6		
7		
8		
9		
10		Dennis I. Maehara Trust
11		
12		
13		
14		
15		
16		John McIsaac
17		
18		
19		
20		
21		
22		Estate of Ben Miller
23		
24		
25		
26		
27		
28		Charles Cline Moore
29		
30		
31		
32		
33		Vernon Munroe
34		
35		
36		
37		
38		
39		Lester G. Naito
40		
41		
42		
43		
44		
45		Estate of Wm. B. Oliver
46		
47		
48		
49		
50		
51		Alphonso Ragland
52		
53		
54		
55		
56		
57		Henry S. Ross, Trustee
58		
59		
60		
61		
62		<i>E. Scheckman</i>
63		E. Scheckman Trust
64		
65		
66		
67		
68		
69		
70		

74-A

1/22/87

NON-OPERATORS (Continued)

Marital Trust U/W Adolph P. Schuman

BY [Signature]  
CO-TRUSTEE

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23
- 24
- 25
- 26
- 27
- 28
- 29
- 30
- 31
- 32
- 33
- 34
- 35
- 36
- 37
- 38
- 39
- 40
- 41
- 42
- 43
- 44
- 45
- 46
- 47
- 48
- 49
- 50
- 51
- 52
- 53
- 54
- 55
- 56
- 57
- 58
- 59
- 60
- 61
- 62
- 63
- 64
- 65
- 66
- 67
- 68
- 69
- 70

Space Building Corp.

Beatrice C. Tom

J. Frederick Van Vranken

Elizabeth M. Webster

Gordon T. Williams, Jr.

74-A

AUG 25 1986

74-A

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1977

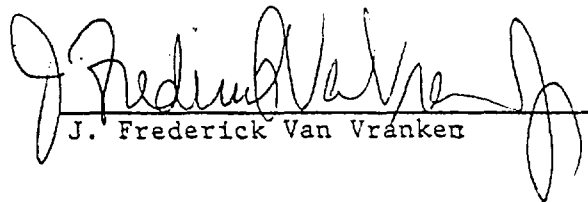
NON-OPERATORS (Continued)

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23
- 24
- 25
- 26
- 27
- 28
- 29
- 30
- 31
- 32
- 33
- 34
- 35
- 36
- 37
- 38
- 39
- 40
- 41
- 42
- 43
- 44
- 45
- 46
- 47
- 48
- 49
- 50
- 51
- 52
- 53
- 54
- 55
- 56
- 57
- 58
- 59
- 60
- 61
- 62
- 63
- 64
- 65
- 66
- 67
- 68
- 69
- 70

Adolph P. Schuman

Space Building Corp.

Beatrice C. Tom

  
J. Frederick Van Vranken

Elizabeth M. Webster

Gordon T. Williams, Jr.

NOV 25 1936

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1977

NON - OPERATORS (Continued)

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70

Adolph P. Schuman

Space Building Corp.

Beatrice C. Tom

J. Frederick Van Vranken

*George P. Webster*

*Elizabeth M. Webster*  
Elizabeth M. Webster

Gordon T. Williams, Jr.

74-A

NON-OPERATORS (Continued)

AUG 14 1986

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70

Adolph P. Schuman

Space Building Corp.

Beatrice C. Tom

J. Frederick Van Vranken

Elizabeth M. Webster

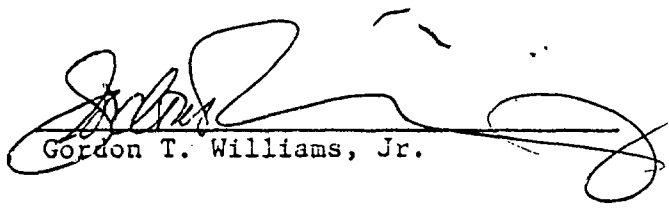
  
Gordon T. Williams, Jr.

Exhibit A to that certain Operating Agreement dated November 15, 1985, by and between American National Petroleum Company, as operator and James A. Allega, etal as non-operators

This Exhibit A consists of two parts, being "A-I" and "A-II", respectively as follows:

Part "A-I": Contract Area, Without limiting any of the hereinafter contained descriptions of the contract area listed in "Part A-I", it is intended to include the entire right, title and interest of COQUINA 74-A EXPLORATION PROGRAM in such contract area, whether properly described or not.

Part "A-II": This part consists of a list of the names, addresses and interests of the parties to this agreement. The aggregate interests of all parties listed in this Part "A-II" of Exhibit "A" in the contract area previously owned or standing in the name of COQUINA 74-A EXPLORATION PROGRAM is 100%. The individual interest of each party is as shown in Part "A-II" opposite the respective name of each party. The aggregate interests to COQUINA 74-A EXPLORATION PROGRAM in any one prospect may be less than 100% of the entire interest in such prospect. Consequently the percentage interest of the parties expressed as a percentage of 100% of all production from a given prospect, will be less than that shown part "A-II".

EXHIBIT "A-I"

Attached hereto and made a part of that certain  
Operating Agreement dated November 15, 1985  
between American National Petroleum Company, as  
Operator, and James A. Allega, etal, as non-operators

I. CONTRACT AREA:

PROSPECT  
=====

BERTHOUD: Sections 16, 17 & 21, T4N-R69W, Larimer  
County, Colorado.

Subject to Farmout Agreement, dated December  
1, 1979, between Coral Gulf Exploration and  
Coquina Oil Corporation.

WEST HUNTER CREEK: Sections 8, 17, 18, 19, 20, 29, 30-3S-97W AND  
Sections 24 & 25-3S-98W

Subject to Operating Agreement(s)  
dated September 14, 1971 between  
Rio Blanco Natural Gas Company, as operator  
and Coquina Oil Corporation, as non-operator

CARLSBAD AIRPORT: Sections 16 and 21-23S-26E  
Eddy County, New Mexico

Subject to Operating Agreement(s) dated April  
3, 1974, between Coquina Oil Corporation, as  
operator and J.M. Huber, as non-operator. AND  
Subject to Farmout Agreement dated December 1,  
1977 between Coquina Oil Corporation, and J.M.  
Huber

CROW FLAT: Section 4-16S-28E  
Eddy County, New Mexico

Subject to Farmout Agreement dated January 1,  
1981 between Coquina Oil Corporation and  
DEPCO.

ACME: Sections 4 & 16-8S-27E  
Chaves County, New Mexico

MCKITTRICK: Sections 14 & 23-22S-25E  
Eddy County, New Mexico

Subject to Operating Agreement(s) dated June  
1, 1974, between Coquina Oil Corporation, as  
operator, and Franklin, Aston & Fair, as non-  
operators.

TRADERS CREEK: Section 32-25N-19W  
Woodward County, Oklahoma

Subject to Farmout Agreement dated March 29,  
1974, between Coquina Oil Corporation and  
David Murphy.

COALGATE: Section 5, 9 & 19-1N-10E  
Coal County, Oklahoma

Subject to Operating Agreement(s) dated July  
23, 1974, between Stephens Production Company,  
as operator and Coquina Oil Corporation, as  
non-operators, AND Farmout Agreement dated  
April 26, 1977, between Coquina Oil  
Corporation and Global Gas Corporation. AND  
Letter Agreement dated December 7, 1977  
between Coquina Oil Corporation and Global Gas  
Corporation.



STIDHAM:

Sections 25, 28, 35 & 36-11N-15E; Section 30-11N-16E

McIntosh County, Oklahoma

Subject to Operating Agreement(s) dated August 30, 1974, between Coquina Oil Corporation, as operator and Energy Reserves Group, etal as non-operators. AND Letter Agreement dated December 21, 1973 between Coquina Oil Corporation and Global Gas Corporation.

HITCHITA:

Section 24-12N-14E AND Sections 15, 20 & 22-12N-15E

McIntosh County, Oklahoma

Subject to Letter Agreement dated December 21, 1973, between Coquina Oil Corporation and Global Gas Corporation.

CUSTER CITY:

Section 8, 16 & 17-14N-16W

Custer County, Oklahoma

Subject to Operating Agreement dated December 9, 1975, between Mich-Wisc Pipeline Company, as operator and Coquina Oil Corporation, as non-operator.

WATTS:

Section 34-5N-18E

Latimer County, Oklahoma

Subject to Operating Agreement(s) dated March 18, 1974, between Coquina Oil Corporation, as operator and Calvert Exploration Company, as non-operator.

GAME:

Section 32, Block 35, T1N, T&P Ry. Co. Survey  
Martin County, Texas

TEX-HAMON:

Section 25, Block 36, T4N, T&P Ry. Co. Survey  
Dawson County, Texas

EXHIBIT A-II PERCENTAGE INTEREST OF THE PARTIES

PARTY	BERNHOLD	W. HUNTER CREEK	CARLSBAD AIRPORT	CROW FLAT	ACME	MOULTON CANYON	TRADERS CREEK	COALGATE	STADIUM	HITCHITA	CUSTER CITY	WATTS	GAME	TEX HAWK
A.J. & M PARTNERSHIP 2211 E. Northern Lights Blvd. Anchorage, AK 99504	.101135	.128788	.093088	.174706	.174706	.121429	.118412	.107453	.085359	.074382	.121518	.128418	.078865	.074541
VICTOR D. ALIADDEF 110-110th Ave. NE c/o Mesaros C-21611 Bellevue, WA 98009	.067424	.085859	.062059	.116471	.116471	.080953	.078941	.071635	.056906	.049588	.081012	.085612	.052576	.049694
VICTOR D. ALIADDEF 110-110th Ave. NE c/o Mesaros C-21611 Bellevue, WA 98009	.067424	.085859	.062059	.116471	.116471	.080953	.078941	.071635	.056906	.049588	.081012	.085612	.052576	.049694
JAMES A. ALBERA 3111 Seaboard Midland, TX 79701	.026969	.034344	.024824	.046588	.046588	.032381	.031576	.028654	.022762	.019835	.032405	.034245	.021031	.019878
ERNIE BELLO 3325 Ala Akulikuli St. Honolulu, HI 96818	.067424	.085859	.062059	.116471	.116471	.080953	.078941	.071635	.056906	.049588	.081012	.085612	.052576	.049694
ROBERT B. BANN 2493 Makiki Heights Dr. Honolulu, HI 96822	.134847	.171718	.124118	.232941	.232941	.161906	.157882	.143271	.113812	.099176	.162024	.171224	.105153	.099388
C. CHANG, R. WATANABE & A.T. OGATA 98-1948 Hoala Street Aiea, HI 96701	.067424	.085859	.062059	.116471	.116471	.080953	.078941	.071635	.056906	.049588	.081012	.085612	.052576	.049694
DAVID COONON 230 Ridgefield Rd. Wilton, CT 06897	.067424	.085859	.062059	.116471	.116471	.080953	.078941	.071635	.056906	.049588	.081012	.085612	.052576	.049694
MELBA DAVIS GREENLEE P.O. Box 50156 Midland, TX 79701	.168559	.214647	.155147	.291176	.291176	.202382	.197353	.179088	.142265	.123971	.202529	.214029	.131441	.124235

PARTY	BERNHODD	W. HUNTER CREEK	CARLSBAD AIRPORT	CROW FLAT	ACME	MCKITTRICK CANYON	TRADERS CREEK	COALGATE	STIDHAM	HITCHITA	CLISTER CTTY	WATTS	CAME	TEX HANN
RICHARD L. GRIFFITH P.O. Box 939 Honolulu, HI 96808	.067424	.085859	.062059	.116471	.116471	.080953	.078941	.071635	.056906	.049588	.081012	.085612	.052576	.049694
JACK C. HALE 780 NE 10th East Wenatchee, WA 98801	.067424	.085859	.062059	.116471	.116471	.080953	.078941	.071635	.056906	.049588	.081012	.085612	.052576	.049694
EDWARD C. HALLOCK 18 Friar Tuck Circle Summit, NJ 07901	.067424	.085859	.062059	.116471	.116471	.080953	.078941	.071635	.056906	.049588	.081012	.085612	.052576	.049694
JOSEPH R. HODGE c/o V.H. Zoller One 1st City Center, 910 Midland, TX 79701	.011237	.014310	.010343	.019412	.019412	.013492	.013157	.011939	.009484	.008265	.013502	.014269	.008763	.008282
SAMFORD J. HODGE, III c/o V.H. Zoller One 1st City Center, 910 Midland, TX 79701	.011237	.014310	.010343	.019412	.019412	.013492	.013157	.011939	.009484	.008265	.013502	.014269	.008763	.008282
CHARLES C. JOHNSON c/o Ins. System 161 Forber Rd. Braintree, MA 02184	.337118	.429294	.310294	.582353	.582353	.404765	.394706	.358176	.284529	.247941	.405059	.428059	.262882	.248471
RUBY F. KAWASAKI 734 Kalanipuer St. Honolulu, HI 96825	.067424	.085859	.062059	.116471	.116471	.080953	.078941	.071635	.056906	.049588	.081012	.085612	.052576	.049694
E.F. KURASHIGE TRUST Irwin M. Kurashige, Trustee 2934 Oahu Ave. Honolulu, HI 96822	.067424	.085859	.062059	.116471	.116471	.080953	.078941	.071635	.056906	.049588	.081012	.085612	.052576	.049694
DENNIS I. MAEHARA TRUST Irwin M. Kurashige, Trustee 1010 S. King St. #701 Honolulu, HI 96814	.067424	.085859	.062059	.116471	.116471	.080953	.078941	.071635	.056906	.049588	.081012	.085612	.052576	.049694

PARTY	BERTHOUD	W. HUNTER CREEK	CARLSBAD AIRPORT	CROW FLAT	MOE	MCKITTRICK CANYON	TRADERS CREEK	COALGATE	STILLMAN	HITCHITA	CLUSTER CITY	WATTS	CANE	TEX HAMON
JOHN NEISAC 3000 N. Ocean Dr. #38F Singer Island, FL 33404	.134847	.171718	.124118	.232941	.232941	.161906	.157882	.143271	.113812	.099176	.162024	.171224	.105153	.099388
ESTATE OF BEN MILLER P.O. Box 64273 Lubbock, TX 79464	.067424	.085859	.062059	.116471	.116471	.080953	.078941	.071635	.056906	.049588	.081012	.085612	.052576	.049694
CHARLES CLINE MDRE 138 Harvard Ave. Mill Valley, CA 94941	.168559	.214647	.155147	.291176	.291176	.202382	.197353	.179088	.142265	.123971	.202529	.214029	.131441	.124235
VERNON MUNROE c/o White & Case 14 Wall Street New York City, NY 10005	.067424	.085859	.062059	.116471	.116471	.080953	.078941	.071635	.056906	.049588	.081012	.085612	.052576	.049694
LESTER G. NALTO 98-1370 Kaonohi St. Aiea, HI 96701	.067424	.085859	.062059	.116471	.116471	.080953	.078941	.071635	.056906	.049588	.081012	.085612	.052576	.049694
EST. of W.L. B. OLIVER c/o Pat Fisher P.O. Box 241 Dallas, TX 75221	.168559	.214647	.155147	.291176	.291176	.202382	.197353	.179088	.142265	.123971	.202529	.214029	.131441	.124235
ALPHONSO RAGLAND 8235 Douglas Ave., Suite 500, LB 48 Dallas, TX 75225	.101135	.128788	.093088	.174706	.174706	.121429	.118412	.107453	.085359	.074382	.121518	.128418	.078865	.074541
H.S. ROSS U/A 3-27-72 H.S. Ross Trustee P.O. Box 8220 Rolling Meadows, IL 60008	.101135	.128788	.093088	.174706	.174706	.121429	.118412	.107453	.085359	.074382	.121518	.128418	.078865	.074541
E. SIECKMAN TRUST U/A 7-2-73 c/o R.E. Stringer, Trustee 70 Pine Street New York, NY 10270	.067424	.085859	.062059	.116471	.116471	.080953	.078941	.071635	.056906	.049588	.081012	.085612	.052576	.049694

PARTY	BEKHOLD	W. HUNTER CREEK	CARLSBAD AIRPORT	CROW FLAT	ACME	NCKITRICK CANYON	TRADERS CREEK	COALGATE	STADIAM	HITCHITA	OSTIER CITY	WATTS	CANE	TEX HAMON
ADOLPH P. SGLMAN 2701 16th St. San Francisco, CA 94104	.101135	.128788	.093088	.174706	.174706	.121429	.118412	.107453	.085359	.074382	.121518	.128418	.078865	.074541
SPACE BUILDING CORP. 250 Cape Hwy. Rt 44 East Taunton, MA 02718	.674235	.858588	.620588	1.164706	1.164706	.809529	.789412	.716353	.569059	.495882	.810118	.856118	.525765	.496941
BEATRICE C. TOM P.O. Box 1407 Wahiawa, HI 96786	.067424	.085859	.062059	.116471	.116471	.080953	.078941	.071635	.056906	.049588	.081012	.085612	.052576	.049694
ELIZABETH M. WEBSTER Rd #5, Mountain View Rd. Princeton, NJ 08540	.168559	.214647	.155147	.291176	.291176	.202382	.197353	.179088	.142265	.123971	.202529	.214029	.131441	.124235
GORDON T. WILLIAMS, JR. 452-A Bromley Place Wyckoff, NJ 07841	.134847	.171718	.124118	.232941	.232941	.161906	.157882	.143271	.113812	.099176	.162024	.171224	.105153	.099388
J. FREDERICK VAN VRANKEN 767 Fifth Avenue New York, NY 10153	.101135	.128788	.093088	.174706	.174706	.121429	.118412	.107453	.085359	.074382	.121518	.128418	.078865	.074541
AMERICAN NATIONAL PETROLEUM COMPANY P.O. BOX 42175 HOUSTON, TEXAS 77242-2175	96.275968	95.257728	96.572282	93.566936	93.566936	95.528702	95.639818	96.043349	96.856895	97.261082	95.525444	95.271370	97.096032	97.255233
TOTAL:	100.000000	100.000000	100.000000	100.000000	100.000000	100.000000	100.000000	100.000000	100.000000	100.000000	100.000000	100.000000	100.000000	100.000000

EXHIBIT "B"

THERE IS NO EXHIBIT "B" TO THIS AGREEMENT.

## EXHIBIT " "

Attached to and made a part of that certain Operating Agreement dated November 15, 1985, by and between American National Petroleum Company as Operator and James A. Allega, et al as non-operators

# ACCOUNTING PROCEDURE JOINT OPERATIONS

## I. GENERAL PROVISIONS

### 1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

### 2. Statement and Billings

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

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

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

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

### 4. Adjustments

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

### 5. Audits

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

### 6. Approval by Non-Operators

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

## II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

### 1. Rentals and Royalties

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

### 2. Labor

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

### 3. Employee Benefits

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

### 4. Material

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

### 5. Transportation

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

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by the Parties.
- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of \$200 or less excluding accessorial charges.

### 6. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraph 1. ii of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the Overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

### 7. Equipment and Facilities Furnished by Operator

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

### 8. Damages and Losses to Joint Property

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

### 9. Legal Expense

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



**10. Taxes**

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

**11. Insurance**

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

**12. Other Expenditures**

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

**III. OVERHEAD - Governed in accordance with those Operating Agreements listed on Exhibit "A-1". See Article VI of this Agreement.**

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

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

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

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

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

**A. Overhead - Fixed Rate Basis**

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

Drilling Well Rate \$ \_\_\_\_\_  
Producing Well Rate \$ \_\_\_\_\_

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

**(a) Drilling Well Rate**

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

**(b) Producing Well Rates**

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
  - [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
  - [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
  - [4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
  - [5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.
- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement 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 Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be ~~the rates currently in use, plus or minus the computed adjustment.~~

**B. Overhead - Percentage Basis**

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

(a) Development

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

(b) Operating

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

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

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

**2. Overhead - Major Construction**

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

A. \_\_\_\_\_ % of total costs if such costs are more than \$ \_\_\_\_\_ but less than \$ \_\_\_\_\_; plus

B. \_\_\_\_\_ % of total costs in excess of \$ \_\_\_\_\_ but less than \$1,000,000; plus

C. \_\_\_\_\_ % of total costs in excess of \$1,000,000.

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

**3. Amendment of Rates**

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

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

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

**1. Purchases**

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

**2. Transfers and Dispositions**

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

**A. New Material (Condition A)**

(1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.

(2) Line Pipe

(a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.

(b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

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

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

(1) Material moved to the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.

(2) Material moved from the Joint Property

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

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

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

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

**(1) Condition C**

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

**(2) Condition D**

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

**D. Obsolete Material**

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

**E. Pricing Conditions**

- (1) Loading and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.
- (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

**3. Premium Prices**

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

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

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

## V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

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

At reasonable intervals, Inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before 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**

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

**3. Special Inventories**

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

**4. Expense of Conducting Periodic Inventories**

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

## VI ADMINISTRATIVE OVERHEAD REIMBURSEMENT

The operator will be reimbursed for an allocable portion of overhead expenses incurred in connection with the administration of the properties of the working interest owners.

The term "overhead expenses" consists of all customary and routine legal and accounting, geological, engineering, travel, office rent, telephone, secretarial, salaries and other incidental expenses necessary to the administration of the working owners' properties.

The administrative overhead 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 as provided in Section III of this Accounting Procedure.

**American  
National  
Petroleum  
Company**

1717 St. James Place, Ste. 200  
Houston, Texas 77056-3099  
P.O. Box 27725 (77227-7725)  
(713) 961-1770  
Fax 961-7220, 961-7216

**RECEIVED**

FEB 15 1990

**EXPL. & DEVEL.**

February 12, 1990

*Pacific Enterprises Oil Company (USA)  
Southwest Region  
P. O. Box 3083  
Midland, TX 79702-3083*

*Attention: Terry Gant  
Landman*

*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*

*Dear Terry:*

*American National (ANPC) and its record title partners Coquina Oil Corporation et al totalling fifty percent (50%) leasehold working interest in the NW/4 Section 21 have reviewed Pacific Enterprises' proposal dated January 26, 1990 to drill the subject well.*

*ANPC is interested in joining in the proposal, however it tentatively plans to lay off fifty percent (50%) of its interest to a third party on the basis of retaining a twenty-five percent (25%) carry to this date of first sales. ANPC is offering Pacific Enterprises first opportunity to consider taking this interest on this basis prior to bringing in a third party.*

*Please let us know something on or before February 21, 1990. After that date, ANPC will attempt to market this interest.*

*Very truly yours,*

*Michael W. Englert  
Vice President/Land & Marketing*

*MWE/kms*

c:\land\englert\corres\pacific.001

# PACIFIC ENTERPRISES OIL COMPANY (USA)

January 26, 1990

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

American Natural Petroleum Company  
1717 St. James Place  
Suite 200  
Houston, Texas 77227

Attention: Mr. Mike Englert

(915) 961-1770

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/controller of an undivided 50% (41.25% 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,

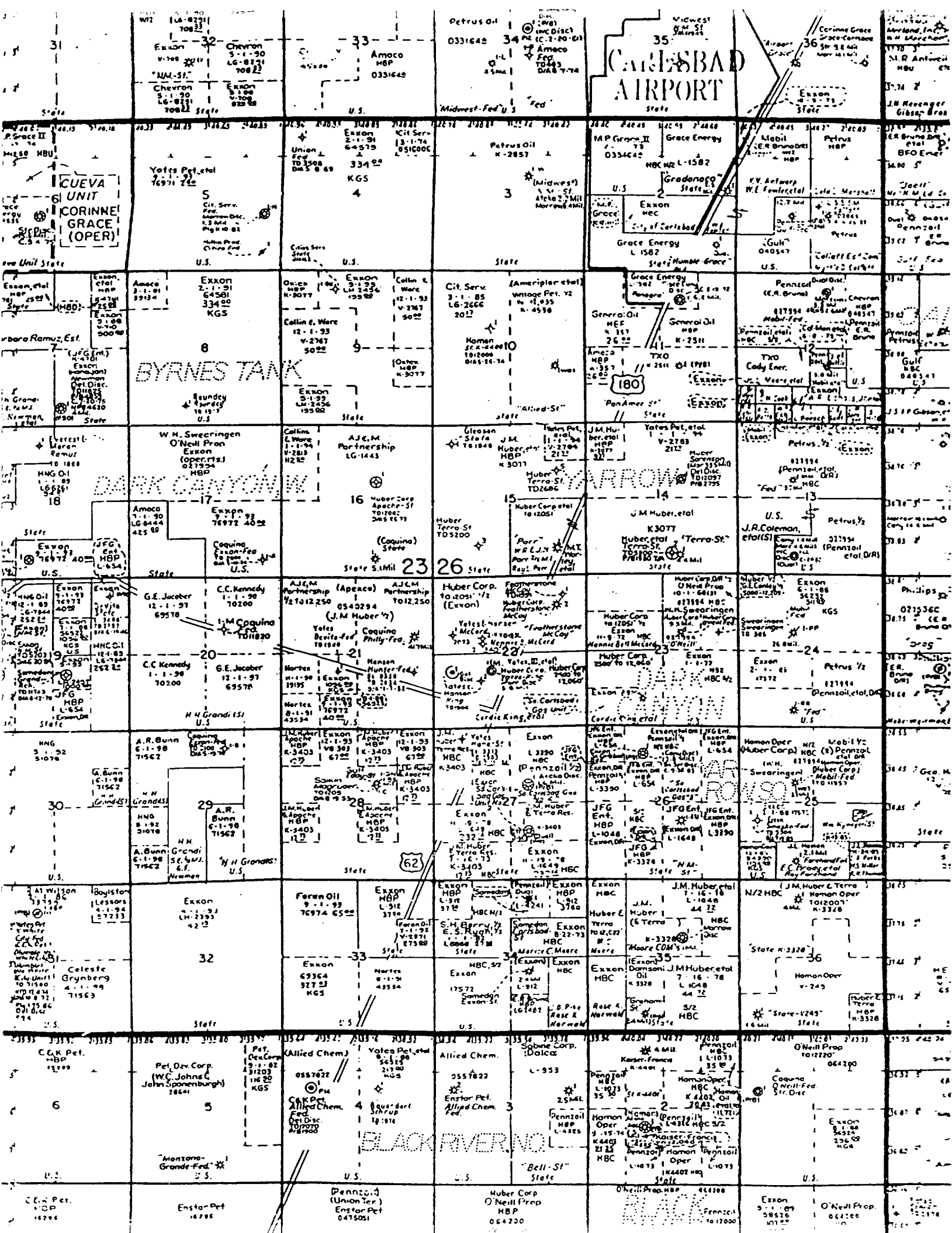
PACIFIC ENTERPRISES  
OIL COMPANY (USA)



Terry Gant  
Landman

TG/dsr

Enclosure



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	\$454,000.00
Completion	<u>298,000.00</u>
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	75%	\$564,000	APPROVED ____ DISAPPROVED ____	
American Natural Petroleum Co.	25%	\$188,000		
	TOTAL	\$752,000		

-----

COMPANY REPRESENTATIVE

AMERICAN NATURAL PETROLEUM CO  
COMPANY

DATE



January/1990

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

Prospect: Dark CanyonField Carlsbad, South

Well Location

N/2 Sec 21Legal Description T-23-S, R-26-ECounty EddyState NMProposed 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, 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	
<b>TOTAL</b>					
Surface Casing					
600' of 13-3/8" OD H-40 48#/ft., 8rd, ST&C @ 18.50/ft.	50	11,100	xxx	0	11,100
Intermediate Casing					
2000' of 8-5/8" OD, 24#/ft., 8rd ST&C @ \$9.00/ft.					
800' of 8-5/8" OD, 32#/ft., 8rd ST&C @ \$12.50/ft.	51	28,000	xxx	0	28,000
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	114,400
Liner					
___ft of ___" OD, ___#/ft @ \$___/ft	xxx	0	53	0	0
Tubing					
11,600' of 2-3/8" OD, N-80, 4.7#/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/FMKO	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
<b>TOTAL TANGIBLES</b>		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/FMKO	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
<b>TOTAL INTANGIBLE INSTALLATION COSTS</b>		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
<b>TOTAL WELL COST COMPLETED</b>		454,000		298,000	752,000

Prepared by:

*C. Robert McWhorter III*

Date

*1/11/90*

Approved by:

*C. B. B.*

Date

*1/13/90*