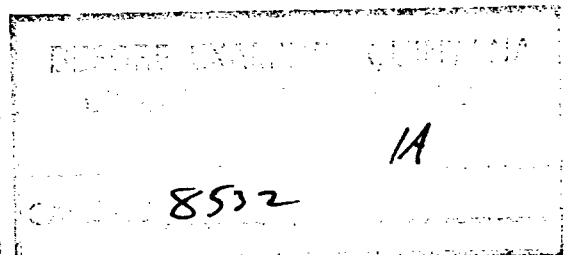


**PROPOSED
LOCATION**

Sunburst Exploration, Inc.
Sunburst/Featherstone
State #1

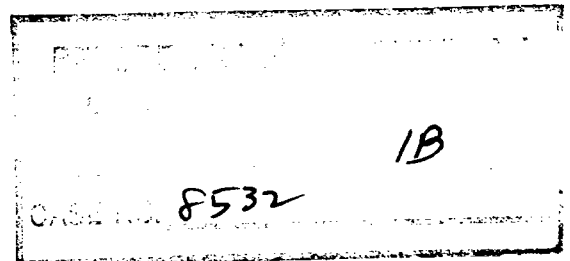
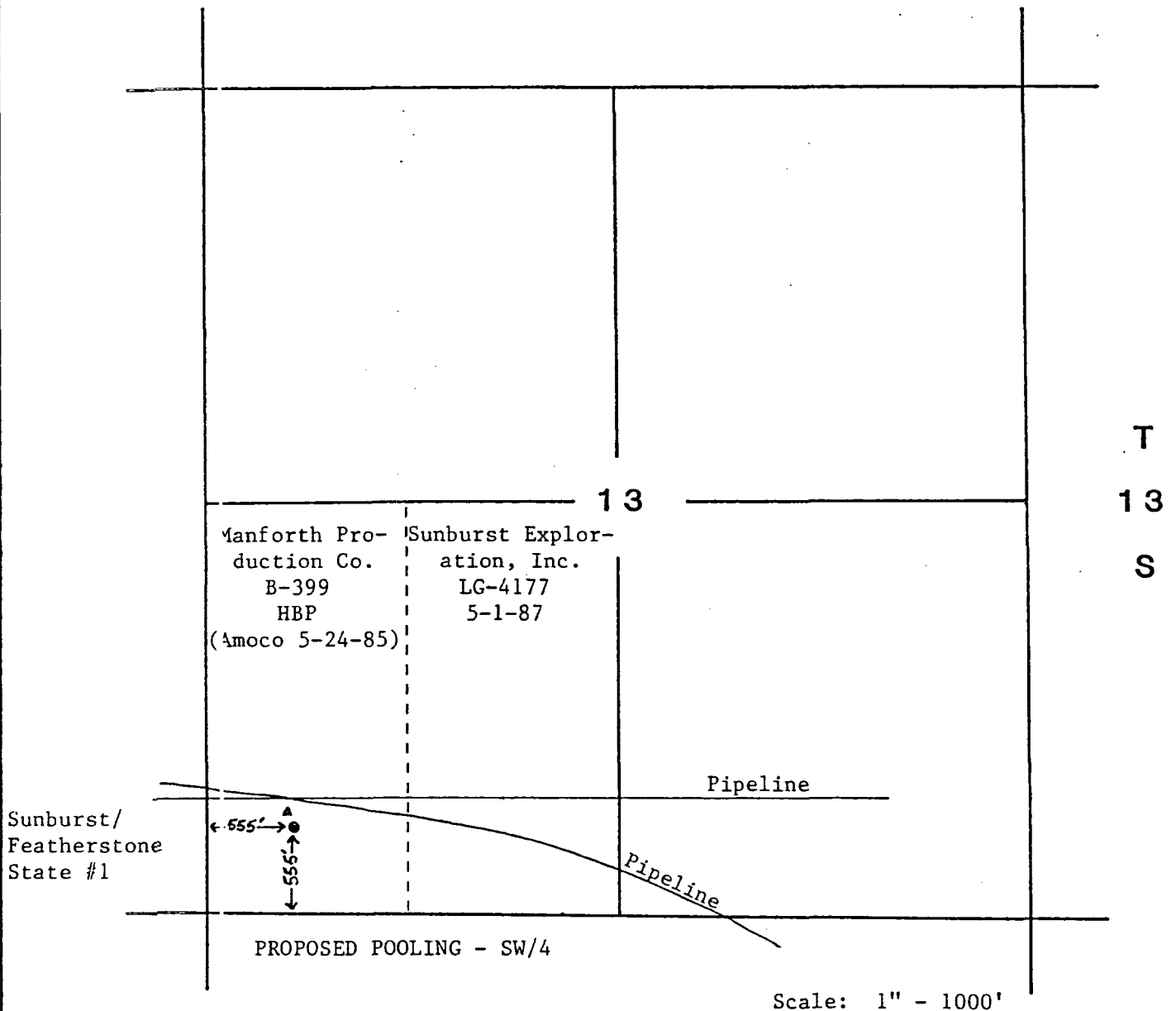
1" = 4000'



BAUMB NORTHWEST PROSPECT

SUNBURST EXPLORATION, INC.

R-32-E



BAUM NORTHWEST PROSPECT

SUNBURST EXPLORATION, INC.

OF PROPOSED WELL	
DISTRIBUTION	
SANTA FE	
FILE	
U.S.G.S.	
LAND OFFICE	
OPERATOR	

5A. Indicate Type of Lease
STATE <input checked="" type="checkbox"/> PER <input type="checkbox"/>
5. State Oil & Gas Lease No.
W/2 SW/4 B-399
E/2 SW/4 LG-4177

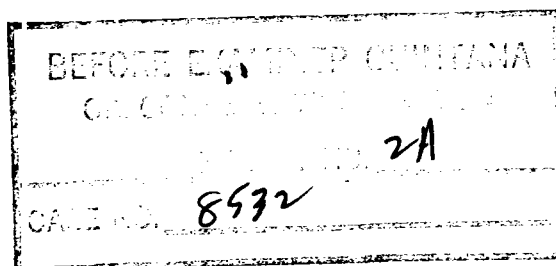
APPLICATION FOR PERMIT TO DRILL, DEEPEN, OR PLUG BACK

Type of Work	7. Unit Agreement Name		
Type of Well	8. Farm or Lease Name		
DRILL <input checked="" type="checkbox"/> DEEPEN <input type="checkbox"/> PLUG BACK <input type="checkbox"/>	Sunburst/Featherstone St		
OIL WELL <input checked="" type="checkbox"/> GAS WELL <input type="checkbox"/> OTHER <input type="checkbox"/>	9. Well No.		
Name of Operator	1		
Fred G. Yates, Inc.	10. Field and Pool, or Wildcat		
Address of Operator	Baum Field		
Sunwest Centre, Suite 1010, Roswell, NM 88201	11. County		
Location of Well	Lea		
UNIT LETTER <u>M</u> LOCATED <u>555</u> FEET FROM THE <u>South</u> LINE	12. Proposed Depth		
<u>555</u> FEET FROM THE <u>West</u> LINE OF SEC. <u>13</u> TWP. <u>13S</u> R. <u>32E</u> N. <u>34E</u>	10,100		
	13. Formation		
	Upper Pennsylvanian		
	14. Rotary or C.T.		
	Rotary		
15. Approx. Date Work will start	April 10, 1985		
16. Approx. Date Work will start	April 10, 1985		
17. Approx. Date Work will start	April 10, 1985		
18. Approx. Date Work will start	April 10, 1985		
19. Approx. Date Work will start	April 10, 1985		
20. Approx. Date Work will start	April 10, 1985		
21. Approx. Date Work will start	April 10, 1985		
22. Approx. Date Work will start	April 10, 1985		
23. Approx. Date Work will start	April 10, 1985		
24. Approx. Date Work will start	April 10, 1985		
25. Approx. Date Work will start	April 10, 1985		
26. Approx. Date Work will start	April 10, 1985		
27. Approx. Date Work will start	April 10, 1985		
28. Approx. Date Work will start	April 10, 1985		
29. Approx. Date Work will start	April 10, 1985		
30. Approx. Date Work will start	April 10, 1985		
31. Approx. Date Work will start	April 10, 1985		
32. Approx. Date Work will start	April 10, 1985		
33. Approx. Date Work will start	April 10, 1985		
34. Approx. Date Work will start	April 10, 1985		
35. Approx. Date Work will start	April 10, 1985		
36. Approx. Date Work will start	April 10, 1985		
37. Approx. Date Work will start	April 10, 1985		
38. Approx. Date Work will start	April 10, 1985		
39. Approx. Date Work will start	April 10, 1985		
40. Approx. Date Work will start	April 10, 1985		
41. Approx. Date Work will start	April 10, 1985		
42. Approx. Date Work will start	April 10, 1985		
43. Approx. Date Work will start	April 10, 1985		
44. Approx. Date Work will start	April 10, 1985		
45. Approx. Date Work will start	April 10, 1985		
46. Approx. Date Work will start	April 10, 1985		
47. Approx. Date Work will start	April 10, 1985		
48. Approx. Date Work will start	April 10, 1985		
49. Approx. Date Work will start	April 10, 1985		
50. Approx. Date Work will start	April 10, 1985		
51. Approx. Date Work will start	April 10, 1985		
52. Approx. Date Work will start	April 10, 1985		
53. Approx. Date Work will start	April 10, 1985		
54. Approx. Date Work will start	April 10, 1985		
55. Approx. Date Work will start	April 10, 1985		
56. Approx. Date Work will start	April 10, 1985		
57. Approx. Date Work will start	April 10, 1985		
58. Approx. Date Work will start	April 10, 1985		
59. Approx. Date Work will start	April 10, 1985		
60. Approx. Date Work will start	April 10, 1985		
61. Approx. Date Work will start	April 10, 1985		
62. Approx. Date Work will start	April 10, 1985		
63. Approx. Date Work will start	April 10, 1985		
64. Approx. Date Work will start	April 10, 1985		
65. Approx. Date Work will start	April 10, 1985		
66. Approx. Date Work will start	April 10, 1985		
67. Approx. Date Work will start	April 10, 1985		
68. Approx. Date Work will start	April 10, 1985		
69. Approx. Date Work will start	April 10, 1985		
70. Approx. Date Work will start	April 10, 1985		
71. Approx. Date Work will start	April 10, 1985		
72. Approx. Date Work will start	April 10, 1985		
73. Approx. Date Work will start	April 10, 1985		
74. Approx. Date Work will start	April 10, 1985		
75. Approx. Date Work will start	April 10, 1985		
76. Approx. Date Work will start	April 10, 1985		
77. Approx. Date Work will start	April 10, 1985		
78. Approx. Date Work will start	April 10, 1985		
79. Approx. Date Work will start	April 10, 1985		
80. Approx. Date Work will start	April 10, 1985		
81. Approx. Date Work will start	April 10, 1985		
82. Approx. Date Work will start	April 10, 1985		
83. Approx. Date Work will start	April 10, 1985		
84. Approx. Date Work will start	April 10, 1985		
85. Approx. Date Work will start	April 10, 1985		
86. Approx. Date Work will start	April 10, 1985		
87. Approx. Date Work will start	April 10, 1985		
88. Approx. Date Work will start	April 10, 1985		
89. Approx. Date Work will start	April 10, 1985		
90. Approx. Date Work will start	April 10, 1985		
91. Approx. Date Work will start	April 10, 1985		
92. Approx. Date Work will start	April 10, 1985		
93. Approx. Date Work will start	April 10, 1985		
94. Approx. Date Work will start	April 10, 1985		
95. Approx. Date Work will start	April 10, 1985		
96. Approx. Date Work will start	April 10, 1985		
97. Approx. Date Work will start	April 10, 1985		
98. Approx. Date Work will start	April 10, 1985		
99. Approx. Date Work will start	April 10, 1985		
100. Approx. Date Work will start	April 10, 1985		

PROPOSED CASING AND CEMENT PROGRAM

SIZE OF HOLE	SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	SACKS OF CEMENT	EST. TOP
17 1/4	13 3/8 OD	48 or 54.5#	400+	Circulate	-----
11	8 5/8 OD	24 & 32 #	4050	250 sacks	9000'

Drill with rotary rig to total depth, DST significant shows enroute, Log. Run casing for completion attempt or P&A.



* BOP plan schematic attached

Cement on the 8 5/8 casing must be brought from the top of the salt or anywhere to the surface casing by either circulating with cement or a DV tool at the top of the salt.

ABOVE SPACE DESCRIBE PROPOSED PROGRAM: IF PROPOSAL IS TO DEEPEN OR PLUG BACK, GIVE DATA ON PRESENT PRODUCTIVE ZONE AND PROPOSED NEW PRODUCTION ZONE. GIVE BLOWOUT PREVENTER PROGRAM, IF ANY.

I hereby certify that the information above is true and complete to the best of my knowledge and belief.

Signed Jerry Sexton Title Engineer Date 3/13/85

(This space for State Use)

ORIGINAL SIGNED BY JERRY SEXTON

DISTRICT SUPERVISOR

PROVED BY _____ TITLE _____ DATE MAR 18 1985

CONDITIONS OF APPROVAL, IF ANY:

Approved for drilling, only. Production will not be permitted until forced pooling of the SW/4 Sec. 13 is approved, or a non-standard appropriation unit has been applied for and approved.

**NEW MEXICO OIL CONSERVATION COMMISSION
WELL LOCATION AND ACREAGE DEDICATION PLAT**

Form C-102
Supersedes C-128
Effective 1-1-65

All distances must be from the outer boundaries of the Section

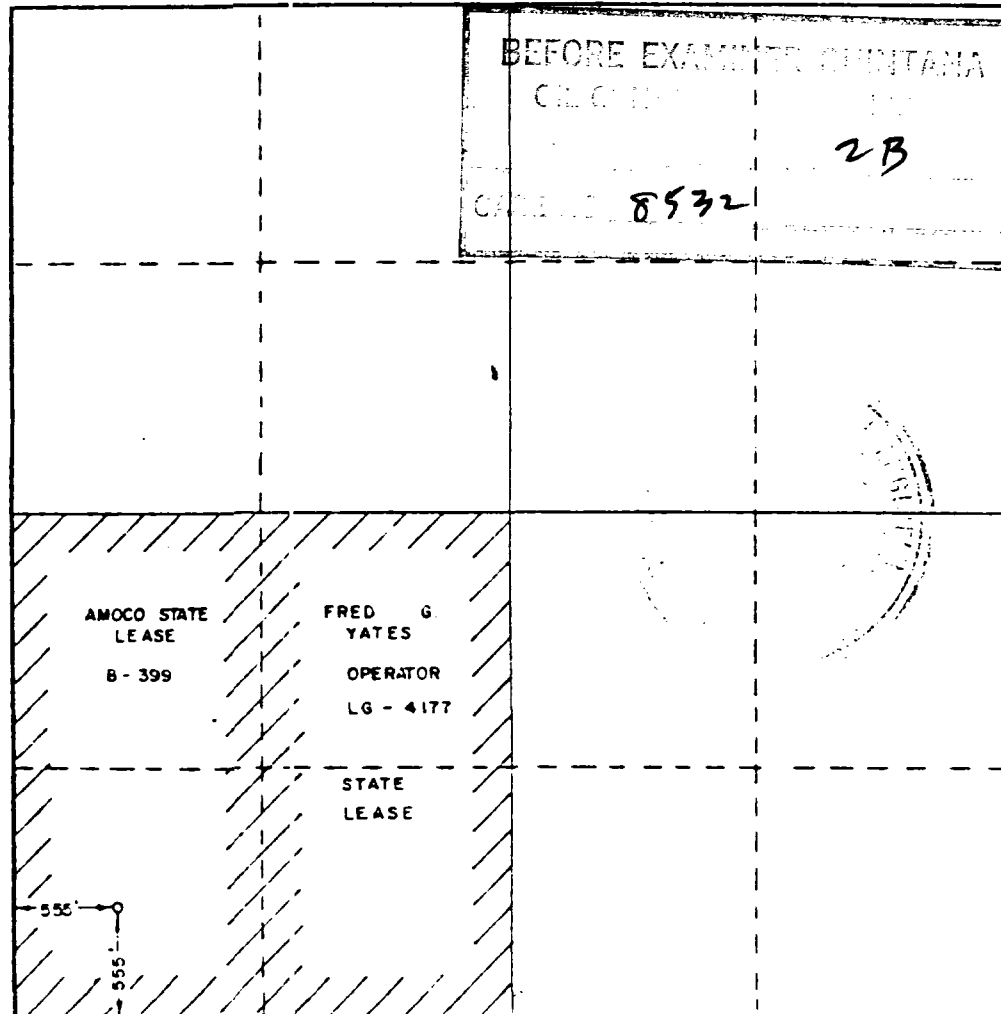
Operator FRED G. YATES			Lease SUNBURST/FEATHERSTONE STATE G		Well No. 1
Unit Letter M	Section 15	Township 13S	Range 32E	County LEA	
Actual Footage Location of Well: 555 feet from the SOUTH line and 555 feet from the WEST line					
Ground Level Elev. 4296.8	Producing Formation BOUGH D		Pool BAUM(UPPER PENN)		Dedicated Acreage: 160 Acres

1. Outline the acreage dedicated to the subject well by colored pencil or hatchure marks on the plat below.
2. If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
3. If more than one lease of different ownership is dedicated to the well, have the interests of all owners been consolidated by communitization, unitization, force-pooling, etc?

☐ Yes ☐ No If answer is "yes," type of consolidation Forced pooling hearing March 27, 1985

If answer is "no," list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary.) _____

No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interests, has been approved by the Commission.



CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Name John W. West
Agent

Company
Fred G. Yates, Inc.

Date
3/15/85

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my knowledge and belief.

Date Surveyed
3/14/85

Registered Professional Engineer
and/or Land Surveyor

John W. West

Certificate No. **JOHN W. WEST, 676**
BONDED - \$10,000

Original

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

MODEL FORM OPERATING AGREEMENT

BAUM NORTHWEST PROSPECT

OPERATING AGREEMENT

DATED

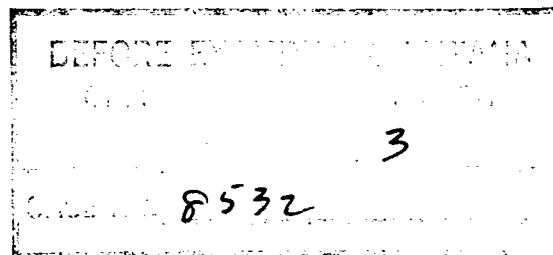
March 15, , 19 85 ,

OPERATOR Fred G. Yates, Inc.

CONTRACT AREA Township 13 South, Range 32 East, N.M.P.M.

Section 13: SW $\frac{1}{4}$

COUNTY OR ~~PARRISH~~ OF Lea STATE OF New Mexico



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

Original

12-13
13
13
13
13-14
14
14 Ad
14
14 Ad
15

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Fred G. Yates, Inc., 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.

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

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

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

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

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

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

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

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

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

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

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

ARTICLE V. OPERATOR

A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

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

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

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

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

C. Employees:

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

D. Drilling Contracts:

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

**ARTICLE VI.
DRILLING AND DEVELOPMENT**

A. Initial Well:

On or before the 16th day of April, 1985, Operator shall commence the drilling of a well for oil and gas at the following location:

**Township 13 South, Range 32 East, N.M.P.M.
Section 13: SW $\frac{1}{4}$**

and shall thereafter continue the drilling of the well with due diligence to a depth sufficient to test the Upper Pennsylvanian formation or a depth of 9900 feet, whichever is shallower.

unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth. Operators only liability for failure to commence said test well shall be the ipso facto termination of this agreement.

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

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

1 **B. Subsequent Operations:**

2
3 1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area
4 other than the well provided for in Article VI.A., or to rework, deepen or plug back a dry hole drilled
5 at the joint expense of all parties or a well jointly owned by all the parties and not then producing
6 in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the
7 other parties written notice of the proposed operation, specifying the work to be performed, the loca-
8 tion, proposed depth, objective formation and the estimated cost of the operation. The parties receiv-
9 ing such a notice shall have thirty (30) days after receipt of the notice within which to notify the
10 parties wishing to do the work whether they elect to participate in the cost of the proposed operation.
11 If a drilling rig is on location, notice of proposal to rework, plug back or drill deeper may be given
12 by telephone and the response period shall be limited to ~~forty-eight (48) hours, exclusive of Saturday,~~
13 ~~Sunday or legal holidays.~~ **twenty-four (24) hours**. Failure of a party receiving such notice to reply within the period above fixed
14 shall constitute an election by that party not to participate in the cost of the proposed operation. Any
15 notice or response given by telephone shall be promptly confirmed in writing.

16
17 2. Operations by Less than All Parties: If any party receiving such notice as provided in Article
18 VI.B.1. or VI.E.1. elects not to participate in the proposed operation, then, in order to be entitled to
19 the benefits of this article, the party or parties giving the notice and such other parties as shall elect
20 to participate in the operation shall, within sixty (60) days after the expiration of the notice period of
21 thirty (30) days (or as promptly as possible after the expiration of the ~~forty-eight (48) hour~~ **twenty-four (24)**
22 where the drilling rig is on location, as the case may be) actually commence work on the proposed
23 operation and complete it with due diligence. Operator shall perform all work for the account of the
24 Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Op-
25 erator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform
26 the work required by such proposed operation for the account of the Consenting Parties, or (b) desig-
27 nate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when
28 conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms
29 and conditions of this agreement.

30
31 If less than all parties approve any proposed operation, the proposing party, immediately after the
32 expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest
33 of the parties approving such operation, and (b) its recommendation as to whether the Consenting Par-
34 ties should proceed with the operation as proposed. Each Consenting Party, within ~~forty-eight (48)~~ **twenty-four (24)**
35 hours ~~(exclusive of Saturday, Sunday or legal holidays)~~ after receipt of such notice, shall advise the
36 proposing party **whether or not it will remain a Consenting Party and**

37 carry its proportionate part of Non-Consenting Parties' interest. The proposing party, at its
38 election, may withdraw such proposal if there is insufficient participation, and shall promptly notify
39 all parties of such decision. **Any consenting Party failing to notify the proposing party**
40 **within the 24 hours specified shall be deemed to have agreed to carry its propor-**
41 **tionate part of the Non-Consenting Parties interest.**

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

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

68
69 (b) 100% of that portion of the costs and expenses of drilling reworking, deepening, or plugging
70 back, testing and completing, after deducting any cash contributions received under Article VIII.C., and

1 300 % 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.~~ windfall profits tax

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 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. 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

1 party taking its share of production in kind shall be required to pay for only its proportionate share
2 of such part of Operator's surface facilities which it uses.

3
4 Each party shall execute such division orders and contracts as may be necessary for the sale of its
5 interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled
6 to receive payment direct from the purchaser thereof for its share of all production.

7
8 In the event any party shall fail to make the arrangements necessary to take in kind or separately
9 dispose of its proportionate share of the oil and gas produced from the Contract Area, Operator shall have
10 the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such
11 oil and gas or sell it to others at any time and from time to time, for the account of the non-taking
12 party at the best price obtainable in the area for such production. Any such purchase or sale by Op-
13 erator shall be subject always to the right of the owner of the production to exercise at any time its
14 right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a
15 purchaser. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for
16 such reasonable periods of time as are consistent with the minimum needs of the industry under the
17 particular circumstances, but in no event for a period in excess of one (1) year. Notwithstanding the
18 foregoing, Operator shall not make a sale, including one into interstate commerce, of any other party's
19 share of gas production without first giving such other party thirty (30) days notice of such intended
20 sale.

21
22 In the event one or more parties' separate disposition of its share of the gas causes split-stream de-
23 liveries to separate pipelines and or deliveries which on a day-to-day basis for any reason are not
24 exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the
25 balancing or accounting between the respective accounts of the parties shall be in accordance with
26 any Gas Balancing Agreement between the parties hereto, whether such Agreement is attached as
27 Exhibit "E", or is a separate Agreement.

28 29 D. Access to Contract Area and Information:

30
31 Each party shall have access to the Contract Area at all reasonable times, at its sole risk to inspect
32 or observe operations, and shall have access at reasonable times to information pertaining to the de-
33 velopment or operation thereof, including Operator's books and records relating thereto. Operator, upon
34 request, shall furnish each of the other parties with copies of all forms or reports filed with govern-
35 mental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports
36 of stock on hand at the first of each month, and shall make available samples of any cores or cuttings
37 taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to
38 Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the
39 information.

40 41 E. Abandonment of Wells:

42
43 1. Abandonment of Dry Holes: Except for any well drilled pursuant to Article VI.B.2., any well
44 which has been drilled under the terms of this agreement and is proposed to be completed as a dry hole
45 shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent
46 effort, be unable to contact any party, or should any party fail to reply within ~~twenty-eight (28) hours~~ ^{twenty-four (24)}
47 ~~(exclusive of Saturday, Sunday or legal holidays)~~ after receipt of notice of the proposal to plug and
48 abandon such well, such party shall be deemed to have consented to the proposed abandonment. All
49 such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost,
50 risk and expense of the parties who participated in the cost of drilling of such well. Any party who ob-
51 jects to the plugging and abandoning such well shall have the right to take over the well and conduct
52 further operations in search of oil and or gas subject to the provisions of Article VI.B.

53
54 2. Abandonment of Wells that have Produced: Except for any well which has been drilled or re-
55 worked pursuant to Article VI.B.2. hereof for which the Consenting Parties have not been fully reim-
56 bursed as therein provided, any well which has been completed as a producer shall not be plugged and
57 abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall
58 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense
59 of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment
60 of such well, all parties do not agree to the abandonment of any well, those wishing to continue its op-
61 eration shall tender to each of the other parties its proportionate share of the value of the well's salvable
62 material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated
63 cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall
64 assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity,
65 quality, or fitness for use of the equipment and material, all of its interest in the well and related equip-
66 ment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the
67 formation or formations then open to production. If the interest of the abandoning party is or includes
68 an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an
69 oil and gas lease, limited to the interval or intervals of the formation or formations then open to produc-
70 tion, for a term of one year and so long thereafter as oil and or gas is produced from the interval or inter-

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

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation 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, 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 has been paid, to include interest on the deficiency at a rate per annum equal to prime rate as set by Chase Manhattan of NY and, if suit is brought to collect any deficiency, reasonable attorney's fees. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

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

C. Payments and Accounting:

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

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

D. Limitation of Expenditures:

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

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

☒ Opt on 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 ^{twenty-four (24)} ~~forty-eight (48)~~ hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion attempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties, elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less than all parties.

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

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

E. Royalties, Overriding Royalties and Other Payments:

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

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

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

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

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

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

G. Taxes

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

II. 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 "D"~~. 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

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

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

B. Renewal or Extension of Leases:

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

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

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

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

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

C. Acreage or Cash Contributions:

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

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

D. Subsequently Created Interest:

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

1. If non-consent operations are conducted pursuant to any provision of this agreement, and the party conducting such operations becomes entitled to receive the production attributable to the interest out of which the subsequently created interest is derived, such party shall receive same free and clear of such subsequently created interest. The party creating same shall bear and pay all such subsequently created interests and shall indemnify and hold the other parties hereto free and harmless from any and 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 1.731. 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

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

9
10 **ARTICLE X.**
11 **CLAIMS AND LAWSUITS**
12

13 Operator may settle any single damage claim or suit arising from operations hereunder if the ex-
14 penditure does not exceed Five thousand Dollars
15 (\$ 5,000.00) and if the payment is in complete settlement of such claim or suit. If the amount
16 required for settlement exceeds the above amount, the parties hereto shall assume and take over the
17 further handling of the claim or suit, unless such authority is delegated to Operator. All costs and ex-
18 pense of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense
19 of the parties. If a claim is made against any party or if any party is sued on account of any matter
20 arising from operations hereunder over which such individual has no control because of the rights given
21 Operator by this agreement, the party shall immediately notify Operator, and the claim or suit shall
22 be treated as any other claim or suit involving operations hereunder.

23
24 **ARTICLE XI.**
25 **FORCE MAJEURE**
26

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

33
34 The requirement that any force majeure shall be remedied with all reasonable dispatch shall not
35 require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its
36 wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party
37 concerned.

38
39 The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other
40 industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood,
41 explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment,
42 and any other cause, whether of the kind specifically enumerated above or otherwise, which is not
43 reasonably within the control of the party claiming suspension.

44
45 **ARTICLE XII.**
46 **NOTICES**
47

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

58
59 **ARTICLE XIII.**
60 **TERM OF AGREEMENT**
61

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

66
67 ~~[] Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are con-~~
68 ~~tinued in force as to any part of the Contract Area, whether by production, extension, renewal or other-~~
69 ~~wise, and, or so long as oil and/or gas production continues from any lease or oil and gas interest.~~
70

[X] Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of 90 days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling 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 90 days from the date of abandonment of said well.

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

ARTICLE XIV. COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

This agreement shall be subject to the conservation laws of the state in which the 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. However, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy, Federal Energy Regulatory Commission or predecessor agencies to the extent Operator's interpretation or application of such rules, rulings, regulations or orders were made in good faith. Non-Operators further agree to reimburse Operator for their proportionate share of any amounts Operator may be required to refund, rebate or pay as a result of an incorrect interpretation or application of the above noted rules, rulings, regulations or orders, together with the Non-Operator's proportionate part of interest and penalties owing by Operator as a result of such incorrect interpretation or application of such rules, rulings, regulation or orders.

B. Governing Law:

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

ARTICLE XV OTHER PROVISIONS

A. Substitute Wells:

1. If, in the drilling of the Initial Well, Operator loses the hole or encounters mechanical difficulties rendering it impracticable, in the opinion of the Operator to drill the well to the Objective Depth, then and in any of such events on or before sixty (60) days after completion of the Initial Well, Operator shall have the option to commence the actual drilling of another well (Substitute Well) at a lawful location of Operator's selection on the Unit Area, and prosecute the drilling of said well with due diligence and in a good and workmanlike manner to the Objective Depth. For all purposes of this agreement, the drilling of the Substitute well shall be considered as the drilling of the Initial Well.

2. Any provision herein concerning the Initial Well shall also apply to the Substitute Well, and any provision herein excepting the Initial Well shall also except the Substitute Well.

B. Statements and Billings - Notwithstanding any provision contained herein or in any exhibit attached to the contrary, it is specifically agreed between the parties hereto that Operator shall be required to render statements and billings only to the undersigned parties for costs and expenses chargeable to their interests as set out herein. Any party who disposes of a part of his interest shall be solely responsible for invoicing and collecting from his assignees; provided however, such party and his assignees may designate in writing a new party from their group, acceptable to Operator to receive statements and billings and pay Operator for cost and expenses chargeable to the entire interest originally credited herein to such party.

ARTICLE XVI.
MISCELLANEOUS

BAUM NORTHWEST PROSPECT
March 15, 1985

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 March, 1985.

OPERATOR

ATTEST:

Fred G. Yates, Inc.

Anton A. Hammond

By

Fred G. Yates
Fred G. Yates

NON-OPERATORS

ATTEST:

Amoco Production Company

By

J. R. Barnett

ATTEST:

Yates-McMinn, Ltd.

By

Fred G. Yates

ATTEST:

Sunburst Exploration, Inc.

By

ATTEST:

New Mexico Oil Corporation

By

ATTEST:

Valley Oil & Gas Company

By



Use of this identification mark is optional except when authorized by the AAPL. American Association of Petroleum Landmen.

ARTICLE XVI.
MISCELLANEOUS

BAUM NORTHWEST PROSPECT
March 15, 1985

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 March, 1985.

OPERATOR

ATTEST:

Paul A. Hammond

Fred G. Yates, Inc.

By

Fred G. Yates

NON-OPERATORS

ATTEST:

Amoco Production Company

By

ATTEST:

Yates-McMinn, Ltd.

By

Fred G. Yates

ATTEST:

Sunburst Exploration, Inc.

By

ATTEST:

New Mexico Oil Corporation

By

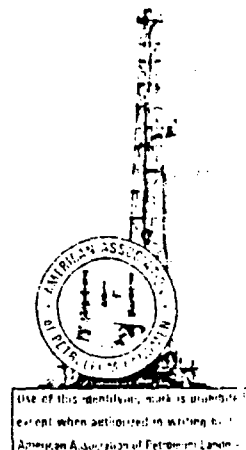
ATTEST:

John A. Brown

Valley Oil & Gas Company

By

Robert A. Brown



STATE OF NEW MEXICO)

COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this _____ day of _____, 1985, by _____ of New Mexico Oil Corporation, a _____ corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

STATE OF NEW MEXICO .)

COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this 9th day of April, 1985, by Phelps Anderson, President of Valley Oil & Gas Company, a New Mexico corporation, on behalf of said corporation.

My Commission Expires:

11-28-87

Sandra Kay Williams
Notary Public

ARTICLE XVI.
MISCELLANEOUS

BAUM NORTHWEST PROSPECT
March 15, 1985

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 March, 1985.

OPERATOR

ATTEST:

Benton A. Hammer

Fred G. Yates, Inc.

By

Fred G. Yates

NON-OPERATORS

ATTEST:

Amoco Production Company

By

ATTEST:

Benton A. Hammer

Yates-McMinn, Ltd.

By

Fred G. Yates

ATTEST:

Sunburst Exploration, Inc.

By

ATTEST:

Marion V. Hawes

New Mexico Oil Corporation

By

ATTEST:

Valley Oil & Gas Company

By



STATE OF NEW MEXICO)

COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this 4th day of April, 1985, by Fred G. Yates, President of Fred G. Yates, Inc., a New Mexico corporation, on behalf of said corporation.

My Commission Expires:

8-20-88

Kellie D. Jordan
Notary Public

STATE OF _____)

COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1985, by _____, of Amoco Production Company, a _____ corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

STATE OF NEW MEXICO)

COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this 8th day of April, 1985, by Fred G. Yates, President of Fred G. Yates, Inc., a New Mexico corporation, General Partner of Yates-McMinn, Ltd., a New Mexico limited partnership, on behalf of said corporation and partnership.

My Commission Expires:

8-20-88

Kellie D. Jordan
Notary Public

STATE OF NEW MEXICO)

COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this _____ day of _____, 1985, by _____, Sunburst Exploration, Inc., a _____ corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

STATE OF NEW MEXICO)

COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this 8 day of April, 1985, by L. C. HARRIS, President of New Mexico Oil Corporation, a New Mexico corporation, on behalf of said corporation.

My Commission Expires:

November 14, 1987

Ruthy A. Hall
Notary Public

STATE OF NEW MEXICO)

COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this _____ day of _____, 1985, by _____, _____ of Valley Oil & Gas Company, a _____ corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

ARTICLE XVI.
MISCELLANEOUS

BAUM NORTHWEST PROSPECT
March 15, 1985

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 March, 1985.

OPERATOR

ATTEST:

Anton H. Hamm Jr.

Fred G. Yates, Inc.

By

Fred G. Yates
Fred G. Yates

NON-OPERATORS

ATTEST:

Amoco Production Company

By

ATTEST:

Yates-McMinn, Ltd.

By

Fred G. Yates

ATTEST:

Landra K. Skipper

Sunburst Exploration, Inc.

By

Sam Hammitt

ATTEST:

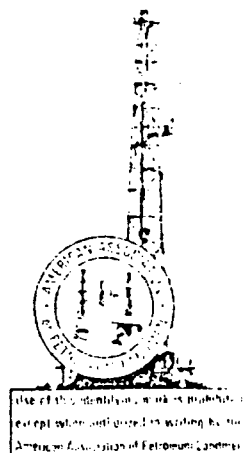
New Mexico Oil Corporation

By

ATTEST:

Valley Oil & Gas Company

By



STATE OF NEW MEXICO)

COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this 4th day of April, 1985; by Fred G. Yates, President of Fred G. Yates, Inc., a New Mexico corporation, on behalf of said corporation.

My Commission Expires:

8-20-88

Kenneth D. Jordan
Notary Public

STATE OF _____)

COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____, 1985, by _____, _____ of Amico Production Company, a _____ corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

STATE OF NEW MEXICO)

COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this _____ day of _____, 1985, by Fred G. Yates, President of Fred G. Yates, Inc., a New Mexico corporation, General Partner of Yates-McMinn, Ltd., a New Mexico limited partnership, on behalf of said corporation and partnership.

My Commission Expires:

Notary Public

STATE OF NEW MEXICO)

COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this 8 day of April, 1985, by Larry Hennrich, President of Sunburst Exploration, Inc., a New Mexico corporation, on behalf of said corporation.

My Commission Expires:

April 16, 1988

Linda K. Skipper
Notary Public

STATE OF NEW MEXICO)
COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this _____ day of _____, 1985, by _____, _____ of New Mexico Oil Corporation, a _____ corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

STATE OF NEW MEXICO)
COUNTY OF CHAVES)

The foregoing instrument was acknowledged before me this _____ day of _____, 1985, by _____, _____ of Valley Oil & Gas Company, a _____ corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

EXHIBIT "A"

ATTACHED TO AND MADE A PART OF OPERATING
AGREEMENT DATED March 15, 1985 BETWEEN
FRED G. YATES, INC. AS OPERATOR AND
OTHER SIGNATORY PARTIES THERETO AS NON-
OPERATORS

1. Lands Subject to Contract:

Township 13 South, Range 32 East, N.M.P.M.

Section 13: SW1/4

2. Restrictions as to Formations and Depth:

NONE.

3. Percentage Interests of the Parties to this Agreement:

BCP
WORKING INTEREST

Amoco Production Company	.50000000
Yates-McMinn, Ltd	.31250000
Sunburst Exploration	.07000000
New Mexico Oil Corporation	.11750000
	<u>1.00000000</u>

ACP
WORKING INTEREST

Amoco Production Company	.50000000
Yates-McMinn, Ltd.	.23437500
Sunburst Exploration, Inc.	.11500000
New Mexico Oil Corporation	.08812500
Valley Oil & Gas Company	.06250000
	<u>1.00000000</u>

BPO
WORKING INTEREST

Amoco Production Company	.50000000
Yates-McMinn, Ltd.	.23437500
Sunburst Exploration, Inc.	.11500000
New Mexico Oil Corporation	.08812500
Valley Oil & Gas Company	.06250000
	<u>1.00000000</u>

APO
WORKING INTEREST

Amoco Production Company	.50000000
Yates-McMinn, Ltd.	.23437500
Sunburst Exploration, Inc.	.11500000
New Mexico Oil Corporation	.08812500
Valley Oil & Gas Company	.06250000
	<u>1.00000000</u>

4. Oil & Gas and/or Oil & Gas Interests Subject to this Agreement:

- a) Oil and Gas Lease dated November 24, 1931, executed by the State of New Mexico in favor of Orrin L. Staplin, being State Lease No. B-399, insofar as said lease covers the following described lands in Lea County, New Mexico:

Township 13 South, Range 32 East, N.M.P.M.

Section 13: W1/2SW1/4

- b) Oil and Gas Lease dated May 1, 1977, executed by the State of New Mexico in favor of Featherstone Development Corporation, being State Lease No. LG-4177, insofar as said lease covers the following described lands in Lea County, New Mexico:

Township 13 South, Range 32 East, N.M.P.M.

Section 13: E1/2SW1/4

5. Addresses of the Parties for Notice Purposes:

Amcco Production Company
P.O. Box 3092
Houston, TX 77253

Yates-McMinn, Ltd.
Fred G. Yates, Inc.
SUNWEST Centre, Suite 919
Roswell, N.M. 88201

Sunburst Exploration, Inc.
P.O. Box 2608
Roswell, N.M. 88201

New Mexico Oil Corporation
P.O. Box 1714
Roswell, N.M. 88201

Valley Oil & Gas Company
P.O. Box 1000
Roswell, N.M. 88201

BAUM NORTHWEST PROSPECT
March 15, 1985

There is no EXHIBIT "B"
to this Operating Agreement

EXHIBIT "C"

Attached to and made a part of The Operating Agreement dated
March 15, 1985 between Fred G. Yates, Inc., as Operator, and
Other Parties signatory hereto 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

- A. 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.
- B. Expenses incurred by Operator in representing the Joint Property at hearings or proceedings before state or federal regulatory or administrative agencies.

10. Taxes

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

11. Insurance

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

12. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 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 \$ 4,515.00
Producing Well Rate \$ 460.00

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

(a) Drilling Well Rate

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

(b) Producing Well Rates

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

(3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement 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, re-drilling, deepening or any remedial operations on any or all wells involving the use of drilling crew and equipment; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as Operating.~~

2. Overhead - Major Construction

To 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.

*To be negotiated

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.

EXHIBIT "D"

ATTACHED TO AND MADE A PART OF OPERATING
AGREEMENT DATED March 15, 1985, BETWEEN
FRED G. YATES, INC., AS OPERATOR AND
OTHER SIGNATORY PARTIES THERETO AS NON-
OPERATORS

At all times during the conduct of operations hereunder, Operator shall maintain in force the following insurance:

- A. Workmens' Compensation Insurance and Employers' Liability Insurance as required by the laws of the State in which operations are being conducted.
- B. Comprehensive General Public Liability in the following:
 - Bodily Injury: \$300,000 combined
single limit
 - Property Damage: included
- C. Automobile Public Liability and Property Damage Insurance with limits of not less than \$300,000 for any one person injured in any accident and not less than \$300,000 for any number of persons injured in one accident, and with not less than \$300,000 property damage coverage for one accident.

All premiums paid on such insurance shall be charged to the joint account. Except by mutual consent of the parties, no other insurance shall be maintained for the joint account, and all losses not covered by such insurance shall be charged to the joint account.

EXHIBIT "E"

ATTACHED TO AND MADE A PART OF OPERATING
AGREEMENT DATED March 15, 1985, BETWEEN
FRED G. YATES, INC., AS OPERATOR AND
OTHER SIGNATORY PARTIES THERETO AS NON-
OPERATORS

GAS BALANCING AGREEMENT

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

In accordance with the terms of the Operating Agreement, each party hereto has the right to take its share of gas produced from the Contract Area and market the same. In the event any of the parties hereto is not able to market its share of gas produced from the Contract Area to a purchaser which is unable at any time while this agreement is in effect to take the share of gas attributable to the interest of such party, the terms of this storage agreement shall automatically become effective.

During the period or periods when any party hereto has no market for its share of gas produced from the Contract Area, or its purchaser is unable to take its share of gas produced from the Contract Area, the other parties shall be entitled to produce each month one hundred percent of the allowable gas production assigned to such Contract Area by the regulatory agency having jurisdiction thereover, and shall be entitled to take and deliver to its or their purchaser all of such gas production. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this gas storage agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser. Each party unable to market its share of the gas produced shall be credited with gas in storage equal to its share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost. The Operator will maintain a current account of the gas balance between the parties and will furnish all parties hereto monthly statements showing the total quantity of gas produced, the amount used in lease operations, vented or lost, and the total quantity of liquid hydrocarbons recovered therefrom.

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

After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its share of the gas produced from the Contract Area. In addition to its share, each party, including the Operator, until it has recovered its gas in storage and balanced the gas account as to its interest, shall be entitled to take or deliver to a purchaser a volume of gas equal to its share plus fifty percent (50%) of the overproduced party or parties' share of gas produced from the Contract Area. If two or more parties are entitled to the fifty percent (50%) of the overproduced party or parties' share of the gas produced, they shall divide such fifty percent (50%) in accordance with the percentage of participation in the contract area.

In the event production of gas from the Contract Area permanently ceases prior to the time that the accounts of the parties have been balanced, it is agreed that a complete balancing will be accomplished by a money settlement between the parties. Such settlement shall be based upon the price actually received by the parties for the latest delivery of a volume of gas equal to that for which settlement is made.

This agreement shall become effective in accordance with its terms and shall remain in force and effect as long as the Operating Agreement to which it is attached remains in effect, and shall inure to the benefit of and be binding upon the parties hereto, their successors, legal representatives and assigns.

State of New Mexico



JIM BACA
COMMISSIONER

Commissioner of Public Lands
April 9, 1985

P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

Express Mail Delivery Use:
310 Old Santa Fe Trail
Santa Fe, New Mexico 87501

Sunburst Exploration, Inc.
P. O. Box 2608
Roswell, New Mexico 88202

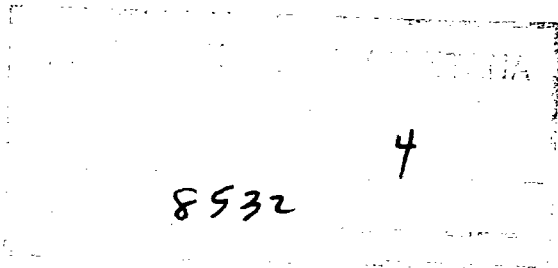
Re: New Mexico Oil Conservation Division Case No. 8532

Attn: Mr. Larry T. Hunnicutt

Gentlemen:

It is my understanding that all interest owners in the SW $\frac{1}{4}$, Section 13, T-13S, R-32E, Lea County, New Mexico have reached an agreement as to who would drill a well on the approved 160 acres spacing unit and they have also agreed as to the cost. An AFE and an operating agreement has purportedly been signed by all necessary parties, and there is no further need for the compulsory pooling requested in Case No. 8532.

The Commissioner of Public Lands, however, respectfully requests this case be heard and an Order issued for compulsory pooling as there is a deceased record title owner, namely Floyd Karsten, that cannot execute a Communitization Agreement as required by our statutes, in order to pool two leases creating a 160 acre spacing unit. The Commissioner of Public Lands does recognize the authority of the Oil Conservation Division to order the pooling of more than one lease for a proration unit. In short, our reason for proceeding with this hearing is to legally pool the two State leases which cannot voluntarily be communitized because of a deceased record title owner.



Very truly yours,

Jim Baca
Commissioner of Public Lands

Ray D. Graham

By: Ray D. Graham, Director
Oil and Gas Division
A/C 505-827-5744

JB:RDG:cw

cc: Fred G. Yates, Inc.
Sunwest Centre, Suite 919
Roswell, New Mexico 88201

cc: Mr. Richard Stamets
New Mexico Oil Conservation Division
Santa Fe, New Mexico

WFE Prepared by: 22/4/1

DATE: 3/11/85

Prospect: Northwest Baum

LEASE/UNIT: Sunburst/Featherstone State

LOCATION: SW 1/4 Sec. 13, T13S, R32E, 555' FSL & 555' FWL

DRILLING METHOD: Rotary

WELL NUMBER #1
Lea STATE N.M.
COUNTY/PARISH
DEPTH 9900' TARGET FORMATION Permo-Penn

	Producing Cost	Dry Hole Cost
Drilling and completion costs		
Intangible drilling costs		
Road-location-bits-surveyor-surface-settlement	\$ 26,000	\$ 26,000
Rathole service	1,700	1,700
Turnkey price		
Footage 10,000 @ 15.00	150,000	150,000
Daywork 4 @ 4600.	18,400	18,400
Surface casing service	4,500	4,500
Intermediate casing service	15,000	15,000
Mud	18,000	18,000
Water	12,000	12,000
Bits, hole openers & reamers		
Supervisor	3,000	3,000
Rentals-stabilization & rotating heads	4,000	4,000
Transportation	2,600	2,600
Miscellaneous	3,000	3,000
Total intangible drilling costs	\$ 258,200	\$ 258,200
Intangible drilling formation evaluation cost		
Logs, Comp N, F Dens DIL, MLL		
GR	22,100	22,100
Coring service		
DST 3 @ 3,600	10,800	10,800
Geological mud logging service	5,000	5,000
Miscellaneous	3,500	3,500
Total intangible drlg formation evaluation	\$ 41,400	\$ 41,400
Intangible completion costs		
Service unit cost 10 days @ 1300	13,000	
Production casing service	8,000	
Completion fluid(s)	4,500	
Rentals	14,000	
Perforation/production logging	6,200	
Stimulation-treating	15,000	
Supervisor	2,800	
Transportation	2,700	
Miscellaneous	3,000	
Plugging expense		12,000
Total intangible completion costs	\$ 69,200	\$ 12,000
Tangible drilling costs and completion costs		
Conductor casing of		
Surface casing 450' of 13-3/8"	6,200	6,200
Intermediate casing 4050' of 8-5/8"	41,700	41,700
Production casing 10,000' of 5-1/2"	73,600	
Production tubing 9850' of 2-7/8"	28,890	
Casing head	3,500	3,500
Tubing head & christmas tree	11,000	
Subsurface equipment	1,000	
Total tangible drlg costs & compl costs	\$ 165,890	\$ 51,400
Lease equipment		
Anchor	750	
Flow lines, valves & connection	2,600	
Tanks	18,900	
Separator(s)	3,000	
Treater	7,500	
Gas production unit	2,100	
Meter runs	80,000	
Artificial lift & driver	16,000	
Installation costs	130,850	
Total lease equipment	\$ 368,800	311,600
Total intangible costs	165,890	51,400
Total tangible costs	130,850	
Total lease equipment	4,500	4,500
Administrative		
TOTAL COSTS	\$ 670,040	\$ 367,500

BEFORE EXAMINER QUINTANA
OIL AND GAS
CASE NO. 8532

It is recognized that the amounts provided for herein are estimated only, and approval of this authorization shall ex- APPROVED

WFE Prepared by: Q224M

Roswell, NM 88201

RECEIVED 1985

DATE: 3/11/85

Prospect: Northwest Baum

LEASE/UNIT: Sunburst/Featherstone State

WFL NUMBER #1

LOCATION: SW 1/4 Sec. 13, T13S, R32E, S55' FSL & 555' FWL

COUNTY/PARISH

Lea

STATE N.M.

DRILLING METHOD: Rotary

DEPTH 9900'

TARGET FORMATION

Permo-Penn

	Producing Cost	Dry Hole Cost
Drilling and completion costs		
Intangible drilling costs		
Road-location-pits-surveyor-surface-settlement	\$ 26,000	\$ 26,000
Rathole service	1,700	1,700
Turnkey price		
Footage 10,000' @ 15.00	150,000	150,000
Daywork @ 4600.	18,400	18,400
Surface casing service	4,500	4,500
Intermediate casing service	15,000	15,000
Mud	18,000	18,000
Water	12,000	12,000
Bits, hole openers & reamers		
Supervisor	3,000	3,000
Rentals-stabilization & rotating heads	4,000	4,000
Transportation	2,600	2,600
Miscellaneous	3,000	3,000
Total intangible drilling costs	\$ 258,200	\$ 258,200
Intangible drilling formation evaluation cost		
Logs, Comp N, F Dens DLL, MLL		
GR	22,100	22,100
Coring service		
DST 3 @ 3,600	10,800	10,800
Geological mud logging service	5,000	5,000
Miscellaneous	3,500	3,500
Total intangible drlg formation evaluation	\$ 41,400	\$ 41,400
Intangible completion costs		
Service unit cost 10 days @ 1300	13,000	
Production casing service	8,000	
Completion fluid(s)	4,500	
Rentals	14,000	
Perforation/production logging	6,200	
Stimulation-treating	15,000	
Supervisor	2,800	
Transportation	2,700	
Miscellaneous	3,000	
Plugging expense		12,000
Total intangible completion costs	\$ 69,200	\$ 12,000
Tangible drilling costs and completion costs		
Conductor casing of		
Surface casing 450' of 13-3/8"	6,200	6,200
Intermediate casing 4050' of 8-5/8"	41,700	41,700
Production casing 10,000' of 5-1/2"	73,600	
Production tubing 9850' of 2-7/8"	28,890	
Casing head	3,500	3,500
Tubing head & christmas tree	11,000	
Subsurface equipment	1,000	
Total tangible drlg costs & compl costs	\$ 165,890	\$ 51,400
Lease equipment		
Anchors	750	
Flow lines, valve & connection	2,600	
Tanks	18,900	
Separator(s)	3,000	
Treater	7,500	
Gas production unit		
Meter runs	2,100	
Artificial lift & driver	80,000	
Installation costs	16,000	
Total lease equipment	\$ 130,850	
Total intangible costs	368,800	311,600
Total tangible costs	165,890	51,400
Total lease equipment	130,850	
Administrative	4,500	4,500
TOTAL COSTS	\$ 670,040	\$ 367,500

It is recognized that the amounts provided for herein are estimated only, and approval of this authorization shall extend to the actual costs incurred in conducting the operations specified, whether more or than herein set out."

David S. Harle
David S. Harle
Sunburst Exploration, COMPANY
APPROVED
April 2, 1985
DATE

AFE Prepared by: 222 4M

ROSWELL, NM 88201

DATE: 3/11/85

Prospect: Northwest Baum

LEASE/UNIT: Sunburst/Featherstone State

LOCATION: SW 1/4 Sec. 13, T13S, R32E, 555' FSL & 555' FWL

DRILLING METHOD: Rotary

WFL NUMBER #1

COUNTY/PARISH

Lea

STATE

N.M.

DEPTH 9900'

TARGET FORMATION

Permo-Penn

	Producing Cost	Dry Hole Cost
Drilling and completion costs		
Intangible drilling costs		
Road-location-pits-surveyor-surface-settlement	\$ 26,000	\$ 26,000
Rathole service	1,700	1,700
Turnkey price		
Footage 10,000 @ 15.00	150,000	150,000
Daywork 4 @ 4600.	18,400	18,400
Surface casing service	4,500	4,500
Intermediate casing service	15,000	15,000
Mud	18,000	18,000
Water	12,000	12,000
Bits, hole openers & reamers		
Supervisor	3,000	3,000
Rentals-stabilization & rotating heads	4,000	4,000
Transportation	2,600	2,600
Miscellaneous	3,000	3,000
Total intangible drilling costs	\$ 258,200	\$ 258,200
Intangible drilling formation evaluation cost		
Logs, Comp N., F Dens DLL, MLL	22,100	22,100
GR		
Coring service		
DST 3 @ 3,600	10,800	10,800
Geological mud logging service	5,000	5,000
Miscellaneous	3,500	3,500
Total intangible drlg formation evaluation	\$ 41,400	\$ 41,400
Intangible completion costs		
Service unit cost 10 days @ 1300	13,000	
Production casing service	8,000	
Completion fluid(s)	4,500	
Rentals	14,000	
Perforation/production logging	6,200	
Stimulation-treating	15,000	
Supervisor	2,800	
Transportation	2,700	
Miscellaneous	3,000	
Plugging expense		12,000
Total intangible completion costs	\$ 69,200	\$ 12,000
Tangible drilling costs and completion costs		
Conductor casing of		
Surface casing 450' of 13-3/8"	6,200	6,200
Intermediate casing 4050' of 8-5/8"	41,700	41,700
Production casing 10,000' of 5-1/2"	73,600	
Production tubing 9850' of 2-7/8"	28,890	
Casing head	3,500	3,500
Tubing head & christmas tree	11,000	
Subsurface equipment	1,000	
Total tangible drlg costs & compl costs	\$ 165,890	\$ 51,400
Lease equipment		
Anchors	750	
Flow lines, valve & connection	2,600	
Tanks	18,900	
Separator(s)	3,000	
Treater	7,500	
Gas production unit		
Meter runs	2,100	
Artificial lift & driver	80,000	
Installation costs	16,000	
Total lease equipment	\$ 130,850	
Total intangible costs	368,800	311,600
Total tangible costs	165,890	51,400
Total lease equipment	130,850	
Administrative	4,500	4,500
TOTAL COSTS	\$ 670,040	\$ 367,500

It is recognized that the amounts provided for herein are estimated only, and approval of this authorization shall tend to the actual costs incurred in conducting the operations specified, whether more or less than herein set out.

APPROVED
AMOCO PRODUCTION COMPANY COMPANY

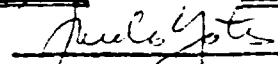
4-1-85

DATE

and prepared by: DATE: 3/11/85
 Prospect: Northwest Baum
 LEASE/UNIT: Sunburst/Featherstone State
 LOCATION: SW 1/4 Sec. 13, T13S, R32E, 555' FSL & 555' FWL COUNTY/PARISH Lea STATE N.M.
 DRILLING METHOD: Rotary DEPTH 9900' TARGET FORMATION Permo-Penn.

	Producing Cost	Dry Hole Cost
Drilling and completion costs		
Intangible drilling costs		
Road-location-plts-surveyor-surface-settlement	\$ 26,000	\$ 26,000
Rathole service	1,700	1,700
Turnkey price		
Footage 10,000 @ 15.00	150,000	150,000
Daywork 4 @ 4600.	18,400	18,400
Surface casing service	4,500	4,500
Intermediate casing service	15,000	15,000
Mud	18,000	18,000
Water	12,000	12,000
Bits, hole openers & reamers		
Supervisor	3,000	3,000
Rentals-stabilization & rotating heads	4,000	4,000
Transportation	2,600	2,600
Miscellaneous	3,000	3,000
Total intangible drilling costs	\$ 258,200	\$ 258,200
Intangible drilling formation evaluation cost		
Logs, Comp N, F Dens DLL, MLL		
GR	22,100	22,100
Coring service		
DST 3 @ 3,600	10,800	10,800
Geological mud logging service	5,000	5,000
Miscellaneous	3,500	3,500
Total intangible drlg formation evaluation	\$ 41,400	\$ 41,400
Intangible completion costs		
Service unit cost 10 days @ 1300	13,000	
Production casing service	8,000	
Completion fluid(s)	4,500	
Rentals	14,000	
Perforation/production logging	6,200	
Stimulation-treating	15,000	
Supervisor	2,800	
Transportation	2,700	
Miscellaneous	3,000	
Plugging expense		12,000
Total intangible completion costs	\$ 69,200	\$ 12,000
Tangible drilling costs and completion costs		
Conductor casing of		
Surface casing 450' of 13-3/8"	6,200	6,200
Intermediate casing 4050' of 8-5/8"	41,700	41,700
Production casing 10,000' of 5-1/2"	73,600	
Production tubing 9850' of 2-7/8"	28,890	
Casing head	3,500	3,500
Tubing head & christmas tree	11,000	
Subsurface equipment	1,000	
Total tangible drlg costs & compl costs	\$ 165,890	\$ 51,400
Lease equipment		
Anchors	750	
Flow lines, valve & connection	2,600	
Tanks	18,900	
Separator(s)	3,000	
Treater	7,500	
Gas production unit		
Meter runs	2,100	
Artificial lift & driver	80,000	
Installation costs	16,000	
Total lease equipment	\$ 130,850	
Total intangible costs	368,800	311,600
Total tangible costs	165,890	51,400
Total lease equipment	130,850	
Administrative	4,500	4,500
TOTAL COSTS	\$ 670,040	\$ 367,500

It is recognized that the amounts provided for herein are estimated only, and approval of this authorization shall extend to the actual costs incurred in conducting the operations specified, whether more or less than herein set out."



 Yates-McMinn, Ltd.

APPROVED
 COMPANY
 4/08/85
 DATE

AFE Prepared by: 3/11/85

DATE: 3/11/85

Prospect: Northwest Baum

LEASE/UNIT: Sunburst/Featherstone State

WFL NUMBER #1

LOCATION: SW 1/4 Sec. 13, T13S, R32E, 555' FSL & 555' FWL

COUNTY/PARISH

Lea

STATE

N.M.

DRILLING METHOD: Rotary

DEPTH 9900'

TARGET FORMATION

Permo-Penn

Producing Cost

Dry Hole Cost

Drilling and completion costs

Intangible drilling costs

Road-location-pits-surveyor-surface-settlement

\$ 26,000

\$ 26,000

Rathole service

1,700

1,700

Turnkey price

Footage 10,000 @ 15.00

150,000

150,000

Daywork 4 @ 4600.

18,400

18,400

Surface casing service

4,500

4,500

Intermediate casing service

15,000

15,000

Mud

18,000

18,000

Water

12,000

12,000

Bits, hole openers & reamers

Supervisor

3,000

3,000

Rentals-stabilization & rotating heads

4,000

4,000

Transportation

2,600

2,600

Miscellaneous

3,000

3,000

Total intangible drilling costs

\$ 258,200

\$ 258,200

Intangible drilling formation evaluation cost

Logs, Comp N, F Dens DLL, MLL

22,100

22,100

GR

Coring service

DST 3 @ 3,600

10,800

10,800

Geological mud logging service

5,000

5,000

Miscellaneous

3,500

3,500

Total intangible drlg formation evaluation

\$ 41,400

\$ 41,400

Intangible completion costs

Service unit cost 10 days @ 1300

13,000

Production casing service

8,000

Completion fluid(s)

4,500

Rentals

14,000

Perforation/production logging

6,200

Stimulation-treating

15,000

Supervisor

2,800

Transportation

2,700

Miscellaneous

3,000

Plugging expense

12,000

Total intangible completion costs

\$ 69,200

\$ 12,000

Tangible drilling costs and completion costs

Conductor casing of

Surface casing 450' of 13-3/8"

6,200

6,200

Intermediate casing 4050' of 8-5/8"

41,700

41,700

Production casing 10,000' of 5-1/2"

73,600

Production tubing 9850' of 2-7/8"

28,890

Casing head

3,500

3,500

Tubing head & christmas tree

11,000

Subsurface equipment

1,000

Total tangible drlg costs & compl costs

\$ 165,890

\$ 51,400

Lease equipment

Anchors

750

Flow lines, valve & connection

2,600

Tanks

18,900

Separator(s)

3,000

Treater

7,500

Gas production unit

Meter runs

2,100

Artificial lift & driver

80,000

Installation costs

16,000

Total lease equipment

\$ 130,850

Total intangible costs

368,800

311,600

Total tangible costs

165,890

51,400

Total lease equipment

130,850

Administrative

4,500

4,500

TOTAL COSTS

\$ 670,040

\$ 367,500

It is recognized that the amounts provided for herein are estimated only, and approval of this authorization shall extend to the actual costs incurred in conducting the operations specified, whether more or less than herein set out.

APPROVED:
New Mexico Oil Corporation

April 8, 1985

DATE

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 8532
Order No. R-

APPLICATION OF FRED G. YATES, INC.
FOR COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8 a.m. on April 10, 1985, at Santa Fe, New Mexico, before Examiner Gilbert P. Quintana.

NOW, on this ____ day of April, 1985, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

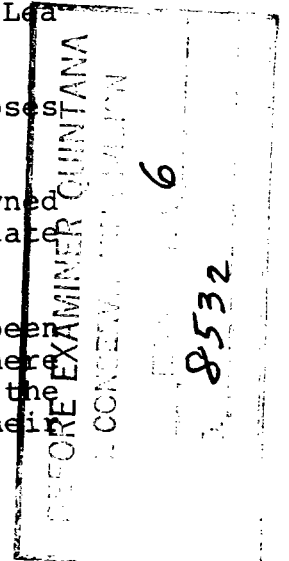
(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Fred G. Yates, Inc., seeks an order pooling all mineral interests from the surface to the base of the Baum-Upper Pennsylvanian Pool underlying the SW $\frac{1}{4}$ of Section 13, Township 13 South, Range 32 East, NMPM, Lea County, New Mexico.

(3) The applicant has the right to drill and proposes to drill a well at a standard location.

(4) The mineral rights in the proration unit are owned by the State of New Mexico, and are leased under State Leases B-399-35 and LG-4177-1.

(5) The entire working interest in the unit has been voluntarily committed to the proration unit. However, there are record interest owners of State Lease B-399-35 in the proposed proration unit who have not agreed to pool their interests.



(6) The consent of or compulsory pooling of the record owners is required by the State Land Office before communitization of the two state leases will be approved.

(7) No charge for the risk involved in drilling the subject well is sought against any record owner of State Lease B-399-35.

(8) An itemized schedule of estimated well costs has been submitted to all working interest owners and to the Division. The working interest owners have consented to the costs set forth on the schedule.

(9) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the oil in any pool completion resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(10) The applicant should be designated the operator of the subject well and unit.

(11) \$4515.00 per month drilling and \$460.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates).

(12) All proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(13) Upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before July 10, 1985, the order pooling said unit should become null and void and of no effect whatsoever.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, from the surface to the base of the Baum-Upper Pennsylvanian Pool underlying the SW $\frac{1}{4}$ of Section 13, Township 13 South, Range 32 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 160-acre spacing and proration unit to be dedicated to a well to be drilled at a standard location.

PROVIDED HOWEVER, that the operator of said unit shall commence the drilling of said well on or before the tenth day of July, 1985, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Baum-Upper Pennsylvanian Pool;

PROVIDED FURTHER, that in the event said operator does not commence the drilling of said well on or before the tenth day of July, 1985, Order (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Order (1) of this order should not be rescinded.

(2) Fred G. Yates, Inc. is hereby designated the operator of the subject well and unit.

(3) \$4515.00 per month while drilling and \$460.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates).

(4) Any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(5) All proceeds from production from the subject well which are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(6) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE: at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

R. L. STAMETS,
Director

S E A L

BAUM-UPPER PENNSYLVANIAN POOL
(Formerly Baum-Wolfcamp Pool)
Lea County, New Mexico

Order No. R-3368-A, Redesignating and Adopting Operating Rules for the Baum-Upper Pennsylvanian Pool, Lea County, New Mexico, June 1, 1968.

Order No. R-3368-A supersedes Order No. R-3368, adopting temporary operating rules for the Baum-Wolfcamp Pool, January 22, 1963.

Application of Coastal States Gas Producing Company for an Amendment to Order No. R-3368, Lea County, New Mexico.

CASE NO. 3701
Order No. R-3368-A

ORDER OF THE COMMISSION

BY THE COMMISSION: This cause came on for hearing at 8 a.m. on May 22, 1968, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 29th day of May, 1968, the Commission, a quorum being present, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That by Order No. R-3368, dated January 22, 1968, temporary Special Rules and Regulations were promulgated for the Baum-Wolfcamp Pool, Lea County, New Mexico, providing for 80-acre spacing units, limited well locations, and an 80-acre proportional factor of 4.77 for allowable purposes, and providing that said temporary rules be reconsidered at an examiner hearing in January, 1969.

(3) That the applicant, Coastal States Gas Producing Company, seeks amendment of the temporary Special Rules and Regulations promulgated by Order No. R-3368 to provide for 160-acre spacing units with the assignment of 80-acre allowables.

(4) That the applicant also seeks to have said rules and regulations, as proposed, made permanent.

(5) That a number of wells have been completed in the subject pool subsequent to the issuance of Order No. R-3368.

(6) That the additional evidence concerning the characteristics of the subject reservoir gained as a result of said completions establishes that one well in the pool can efficiently and economically drain and develop 160 acres.

(7) That the additional evidence presented indicates that the establishment of 160-acre spacing units and an 80-acre proportional factor of 4.77 for allowable purposes is warranted.

(8) That the Special Rules and Regulations promulgated by Order No. R-3368, as amended by this order, will afford to the owner of each property in the pool the opportunity to produce his just and equitable share of the oil in the pool.

(9) That in order to prevent the economic loss caused by the drilling of unnecessary wells, to avoid the augmentation of risk arising from the drilling of an excessive number of wells, to prevent reduced recovery which might result from the drilling of too few wells, and to otherwise prevent waste and protect correlative rights, the Special Rules and Regulations promulgated by Order No. R-3368, as amended by this order, should be continued in full force and effect until further order of the Commission.

(10) That the aforementioned additional evidence also establishes that the subject pool is producing from the Upper Pennsylvanian formation rather than the Wolfcamp formation.

(11) That the subject pool should be redesignated the Baum-Upper Pennsylvanian Pool.

IT IS THEREFORE ORDERED:

(1) That, effective June 1, 1968, Order (a) of Order No. R-675-A, Order (a) of Order No. R-914, Order (e) of Order No. R-3367, and Order (a) of Order No. R-3389 are hereby amended by deleting therefrom the word "Wolfcamp" wherever it appears and substituting in lieu thereof the words "Upper Pennsylvanian."

(2) That the Special Rules and Regulations governing the Baum-Wolfcamp Pool, Lea County, New Mexico, promulgated by Order No. R-3368, are hereby amended to read in their entirety as follows, effective June 1, 1968:

**SPECIAL RULES AND REGULATIONS
FOR THE
BAUM-UPPER PENNSYLVANIAN POOL**

RULE 1. Each well completed or recompleted in the Baum-Upper Pennsylvanian Pool or in the Upper Pennsylvanian formation within one mile thereof, and not nearer to or within the limits of another designated Upper Pennsylvanian oil pool, shall be spaced, drilled, operated, and produced in accordance with the Special Rules and Regulations hereinafter set forth.

RULE 2. Each well shall be located on a standard unit containing 160 acres, more or less, substantially in the form of a square, which is a quarter section being a legal subdivision of the United States Public Land Surveys.

RULE 3. The Secretary-Director of the Commission may grant an exception to the requirements of Rule 2 without notice

Case 8532

(BAUM-UPPER PENNSYLVANIAN POOL - Cont'd.)

and hearing when an application has been filed for a non-standard unit consisting of less than 160 acres or the unorthodox size or shape of the tract is due to a variation in the legal subdivision of the United States Public Land Surveys. All operators offsetting the proposed non-standard unit shall be notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Secretary-Director may approve the application upon receipt of written waivers from all offset operators or if no offset operator has entered an objection to the formation of the non-standard unit within 30 days after the Secretary-Director has received the application.

RULE 4. Each well shall be located within 150 feet of the center of a governmental quarter-quarter section or lot.

RULE 5. The Secretary-Director may grant an exception to the requirements of Rule 4 without notice and hearing when an application has been filed for an unorthodox location necessitated by topographical conditions or the recompletion of a well previously drilled to another horizon. All operators offsetting the proposed location shall be notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Secretary-Director may approve the application upon receipt of written waivers from all operators offsetting the proposed location or if no objection to the unorthodox location has been entered within 20 days after the Secretary-Director has received the application.

RULE 6. A standard proration unit (158 through 162 acres) shall be assigned an 80-acre proportional factor of 4.77 for allowable purposes, and in the event there is more than one well on a 160-acre proration unit, the operator may produce the allowable assigned to the unit from the wells on the unit in any proportion.

The allowable assigned to a non-standard proration unit shall bear the same ratio to a standard allowable as the acreage in such non-standard unit bears to 160 acres.

IT IS FURTHER ORDERED:

(1) That the locations of all wells presently drilling to or completed in the Baum-Upper Pennsylvanian Pool or in the Upper Pennsylvanian formation within one mile thereof are hereby approved; that the operator of any well having an unorthodox location shall notify the Hobbs District Office of the Commission in writing of the name and location of the well on or before June 1, 1968.

(2) That each well presently drilling to or completed in the Baum-Upper Pennsylvanian Pool or in the Upper Pennsylvanian formation within one mile thereof shall, after June 1, 1968, receive an allowable in the same proportion to a standard 160-acre allowable for the pool as the acreage presently dedicated to the well bears to 160 acres, until Form C-102 dedicating 160 acres to the well has been filed with the Commission, or until a non-standard unit containing less than 160 acres has been approved.

(3) That Order No. R-3368 entered by the Commission on January 22, 1968, is hereby superseded.

(4) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

NORTH SHIPROCK-DAKOTA POOL
San Juan County, New Mexico

Order No. R-3408, Adopting Operating Rules for the North Shiprock-Dakota Pool, San Juan County, New Mexico, April 29, 1968.

Application of Dugan Production Corporation for the Creation of an Oil Pool and for Special Pool Rules, San Juan County, New Mexico.

CASE NO. 3755
Order No. R-3408

ORDER OF THE COMMISSION

BY THE COMMISSION: This cause came on for hearing at 9 a.m. on April 24, 1968, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 29th day of April, 1968, the Commission, a quorum being present, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Dugan Production Corporation, seeks the creation of a new oil pool for Dakota production in San Juan County, New Mexico, and the establishment of special pool rules therefor providing for development on 2-1/2-acre spacing with a provision that each 40-acre tract be subject to a single Northwest New Mexico normal unit allowable.

(3) That the Thomas A. Dugan Shiprock Well No. 1, located in Unit B of Section 14, Township 30 North, Range 18 West, NMPM, San Juan County, New Mexico, has discovered a separate common source of supply which should be designated the North Shiprock-Dakota Oil Pool; that the vertical limits of said pool should be Dakota formation, and that the horizontal limits of said pool should be the NE/4 of said Section 14.

Case 8532

County, Lea

Township 13 South Range 32 East

Township 13 South Range 33 East

Township _____ Range _____

Township _____ Range _____

Form 104—(Four on Township)

6	5	4	3	2	1	6	5	4	3	2	1
7	8	9	10	11	12	7	8	9	10	11	12
18	17	16	15	14	13	18	17	16	15	14	13
19	20	21	22	23	24	19	20	21	22	23	24
30	29	28	27	26	25	30	29	28	27	26	25
31	32	33	34	35	36	31	32	33	34	35	36
6	5	4	3	2	1	6	5	4	3	2	1
7	8	9	10	11	12	7	8	9	10	11	12
18	17	16	15	14	13	18	17	16	15	14	13
19	20	21	22	23	24	19	20	21	22	23	24
30	29	28	27	26	25	30	29	28	27	26	25
31	32	33	34	35	36	31	32	33	34	35	36

within the same block.