

DOYLE HARTMAN

Oil Operator

500 N. MAIN

P.O. BOX 10426

MIDLAND, TEXAS 79702

(915) 684-4011

July 10, 1985

Mr. Howard Olsen
Post Office Box 32279
Phoenix, Arizona 85018

BEFORE EXAMINER QUINTANA OIL CONSERVATION DIVISION <u>HARTMAN</u> EXHIBIT NO. <u>8</u> CASE NO. <u>8668</u>

Re: Proposed Infill Well
Carlson Federal No. 4
SE/4 SE/4 Section 23
T-25-S, R-37-E
Lea County, New Mexico
(40-acre Langlie Mattix)

Dear Mr. Olsen:

Reference is made to our previous communications concerning operations as to the Langlie Mattix pool covering SE/4 SE/4 Section 23, T-25-S, R-37-E, Lea County, New Mexico. Please be informed that we are proposing the drilling of an infill well on the captioned lease in order to efficiently and effectively drain all remaining Langlie Mattix gas reserves under the SE/4 SE/4 Section 23, T-25-S, R-37-E, that will not be drained by the Carlson No. 3 well which is also situated on the subject 40-acre proration unit.

Since the drilling of a new well is not covered by any existing agreement between the current owners of the subject lease, we invite you to join us with your 25% working interest in drilling the proposed new well. If you wish to participate in the drilling of our proposed new well, we will prepare and forward to you an Operating Agreement for your review and approval. We are enclosing with this letter an AFE covering the cost of drilling our proposed Carlson No. 4 infill well.

In the event you do not wish to participate in the drilling of the proposed new well, we further offer you the following additional options:

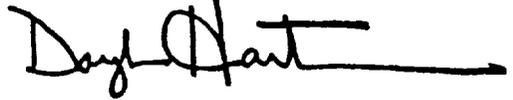
1. We again extend our offer of January 24, 1985 to purchase your net interest for \$22,500.
2. We will be happy to take a farmout of your interest and drill the well to earn a 70% net revenue interest.

Since we hope to spud the proposed new well within the next forty-five days, we are at this time proceeding with all necessary regulatory procedures for the drilling of the subject well. Therefore, we

Mr. Howard Olin
July 10, 1985
Page 2

respectfully request hearing from you as soon as possible concerning
your decision in this matter.

Very truly yours,

A handwritten signature in black ink, appearing to read "Doyle Hartman". The signature is written in a cursive style with a long horizontal flourish extending to the right.

Doyle Hartman

DOYLE HARTMAN
OIL OPERATOR
500 N. MAIN STREET
MIDLAND, TEXAS

AUTHORIZATION FOR EXPENDITURE AND DETAIL WELL ESTIMATE

LEASE NAME Carlson Federal WELL NO. 4 W.I. 100% of Well Cost
 COUNTY Lea STATE New Mexico FIELD Langlie Mattix
 LOCATION: SE/4 SE/4 Section 23, T-25-S, R-37-E

DRILLING INTANGIBLES:		PRODUCER	DRY HOLE
1. Drilling Cost	3,500 Feet @ 13.145 Per Foot	46,000	46,000
2. Day Work	1 day at 3,800	3,800	3,800
3. Coring Service	Well Surveys	8,400	8,400
4. Bits and Reamers		- - -	- - -
5. Testing		- - -	- - -
6. Directional Drilling		- - -	- - -
7. Fuel	Water	6,500	6,500
8. Mud	Mud Logging	8,100	8,100
9. Cementing Service	Cement Floats	15,600	5,000
10. Company Labor	Contract Labor	9,500	3,600
11. Surface Damages and Right-of-Way		2,800	2,800
12. Digging Pits	Filling Pits	1,200	1,200
13. Pit Lining		1,500	1,500
14. Roads & Bridges	Dredging & Grading	8,000	8,000
15. Acidizing	10,000 Fracturing 86,000 Perforating 4,000	100,000	- - -
16. Plugging		- - -	2,800
17. Trucking Cost		2,900	1,500
18. Development Superintendence	14 days @ \$ 500 /day	7,000	3,500
19. Rental Equipment		4,500	500
20. Swabbing and Testing		10,500	- - -
21. Legal and Professional Expenses:			
	Product Price Determination	2,400	2,400
	Regulatory Hearings Other	3,600	3,600
22. Abstracts and Title Opinions		4,300	4,300
23. Geological, Geophysical and Land Support			
24. Other Costs			
25. Contingency @ 15 %		43,400**	20,500
	Total Intangibles	290,000	134,000
WELL EQUIPMENT:			
26. Casing	400 Ft. of 9 5/8 @ 8.50 Per Ft.		
	3,500 Ft. of 7 @ 6.46 Per Ft.		
	3500 Ft. of 2 3/8 @ 2.63 Per Ft.	26,000	3,400
27. Tubing		9,200	- - -
28. Casing Head		1,300	1,300
29. Xmas Tree or Pumping Connections		4,600	- - -
30. Pumping Unit		19,500	- - -
31. Engine/Motor Controller and Power System		4,500	- - -
32. Sucker Rods		6,100	- - -
33. Pump		2,000	- - -
34. Tank Battery		2,600	- - -
35. Separator or Dehydration Equip.		2,400	- - -
36. Metering Equipment		- - -	- - -
37. Flow Lines		1,900	- - -
38. Guards and Fences		2,300	2,300
39. Other Costs			
40. Contingency @ 15 %		17,600**	1,000
	Total Tangibles	100,000	8,000
TOTAL COST OF WELL		390,000**	142,000
	Howard Olsen 25 Share at %	97,500	35,500

REMARKS: Our projected cost for drilling and completing the proposed infill well is \$329,000. This cost is for a routine well with no problems. With the addition of a 15% contingency for possible problems, the total cost comes to \$390,000 for a completed well.

Originated by Larry G. Nemy Title Engineer Date July 10, 1985
 Approved _____ Title _____ Date _____

HOWARD OLSEN
P.O. BOX 32279
PHOENIX, ARIZONA 85016

602 951-9774

January 31, 1985

Doyle Hartman
P.O. Box 10426
Midland, TX 79702

RE: CARLSON FEDERAL #3
LEA COUNTY, NEW MEXICO

Dear Mr. Hartman,

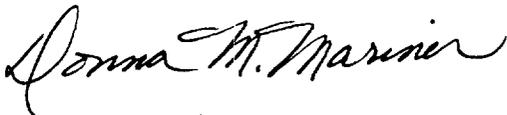
In response to your letter of January 24, 1985 regarding the purchase of our interest in the above said well, I have discussed your proposal with Mr. Olsen and he feels the offer is insufficient.

Regarding the working interest expense for the said well in which we are to share, after much conversation between our offices on the correct amount, we have acquired a copy of the original Operating Agreement. According to the said agreement, overhead is to be billed at \$125.00 per month for each drilling well for which our working interest is .25 percent.

Due to this information, please consider this a demand for your check to adjust the producing overhead in accordance with the Operating Agreement. Also, invoices for September through December 1984 should be adjusted to reflect this change.

Your cooperation in this matter is appreciated.

Sincerely,



Donna M. Mariner
Accountant

DH/cac

cc: JAD
RS
B

FEB 5 1985

DOYLE HARTMAN

Oil Operator

500 N. MAIN

P.O. BOX 10426

MIDLAND, TEXAS 79702

(915) 684-4011

January 24, 1985

Mr. R. Howard Olsen
Post Office Box 32279
Phoenix, Arizona 85016

Re: Carlson Federal Nos. 2 & 3
SE/4 SE/4 Section 23 (#3)
SE/4 NE/4 Section 26 (#2)
T-25-S, R-37-E
Lea County, New Mexico

Dear Mr. Olsen:

Reference is made to the phone conversations between your office and Jim Burr of our office regarding the following for the above noted wells:

1. Production volume--we have checked the production for the subject well for the years 1983 and 1984 and find that for the year 1983 the Carlson Federal No. 3 (No. 2 well not producing) averaged 24 MCFPD and since we became operator on June 1, 1984, this well has averaged 35 MCFPD.
2. Pricing--at the time we assumed operations of the Carlson Federal No. 3, El Paso Natural Gas Company arbitrarily lowered the price from the stripper price previously paid to Sun Oil Company to an approximate net price of \$1.35/MCF. We have already discussed this matter with El Paso and have requested that the price be restored to the stripper price.
3. Operational costs--as to the Carlson No. 3, we are charging exactly what it costs us to operate this well, which is the same rate as we charge for all wells that we operate. We do not feel we should be asked to operate any well at a loss, which you can surely understand being an independent yourself. As you know, Congress provided stripper pricing for wells such as the Carlson Federal No. 3 in order that such low volume wells can continue to be operated at a profit and not be plugged. If you feel it necessary, we can furnish you back-up data to justify our operating costs.

We can certainly understand your concern generally since the well operations have been recently shifted from Sun with whom you are familiar to us with whom you are not familiar. We hope this explanation answers your questions and, in this regard, we would be willing to offer you \$22,500.00 for all of your right, title, and interest in the above noted wells and acreage. This offer is higher on a pro rata basis than the consideration paid to Sun for its 75% working interest. If you are

Mr. R. Howard Ol 1-

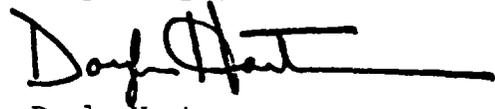
January 24, 1985

Page 2

agreeable to a sale, we would be willing to pay all legal fees incident to the sale and title approval.

Thank you for your consideration and please let us hear from you as soon as is conveniently possible.

Very truly yours,

A handwritten signature in black ink, appearing to read "Doyle Hartman", with a long horizontal line extending to the right.

Doyle Hartman

DH/mh



**Sun Exploration and
Production Company**
Four NorthPark East
5656 Blackwell
P O Box 2880
Dallas TX 75221-2880
214 890 5573

March 25, 1985

*Carlson
Sutton*

Ms. Ruth Sutton
Doyle Hartman
P. O. Box 10426
Midland, TX 79702

Re: Bid Package No. 84132

Dear Ms. Sutton:

In reply to your letter of March 18, 1985 concerning the Operating Agreement for the Carlson No. 2 and 3, we have requested our Contract and Lease Department to reexamine this property. Mr. Foy Ball of that department has replied that the correct Operating Agreement for this property should be (C-854) identified as Drilling and Operating Agreement dated November 2, 1936 between Sun and Ajax Drilling Corporation.

If you have any questions concerning this Agreement please contact Foy Ball at (214) 890-2934. He should be able to answer any questions you might have. I apologize for the confusion in identifying this agreement.

Sincerely yours,

SUN EXPLORATION AND PRODUCTION COMPANY

Judy M. Hail

JUDY M. HAIL

JMH/jy

4-1-85 copy to JML w/ attachment 504

DOYLE HARTMAN

Oil Operator

800 N. MAIN

P.O. BOX 10426

MIDLAND, TEXAS 79702

(915) 684-4011

March 18, 1985

Sun Exploration and Production Company
Divestment Department
Post Office Box 2880
Dallas, Texas 75221

Attention: Ms. Judy M. Hail

Re: Carlson No. 2 & 3
SE/4 SE/4 Section 23
and SE/4 NE/4 Section 26
T-25-S, R-37-E
Lea County, New Mexico
(Bid Package No. 84132)

Gentlemen:

In response to a request by our controller, Mr. Jim Burr, you recently furnished us with a copy of Operating Agreement dated April 1, 1961 between Union Texas Petroleum and Joseph E. Seagram which is identified as covering the captioned property.

We have examined this agreement, and it appears to cover the leases jointly owned by Union Texas and Sun. As to this acreage, those rights are limited to depths below 4,000 feet.

Will you please have your contracts people look into this matter again and furnish us with whatever agreement they were using in conducting the joint operations on this property above 4,000 feet.

Thanks for your assistance.

Very truly yours,

DOYLE HARTMAN



Ruth Sutton
Landman

RS/dm

100 - Sun

11151-54A-3 240

DRILLING CONTRACT

THIS AGREEMENT Made and entered into by and between Anderson-Prichard Oil Corporation, a Delaware Corporation, hereinafter called Party of the First Part, and Ajax Drilling Corporation, a Texas Corporation, hereinafter called Party of the Second Part,

WITNESSETH: That,

WHEREAS, On the 2nd day of November, 1936, a certain Drilling and Operating Agreement was entered into by and between C. H. Carlson and Hilda Carlson, his wife, as "Owner" and Anderson-Prichard Oil Corporation, as "Contractor", giving and granting unto said Contractor the exclusive right of possession and occupancy of certain lands embraced in certain Oil and Gas Prospecting Permit issued by the Secretary of the Interior of the United States to C. H. Carlson, bearing Las Cruces Serial No. 032579, said Oil and Gas Prospecting Permit covering and including the following described land situated in Lea County, State of New Mexico, to-wit:

N $\frac{1}{2}$ Sec. 1; E $\frac{1}{2}$ Sec. 13; SW $\frac{1}{4}$ NW $\frac{1}{4}$ Sec. 21;
S $\frac{1}{2}$ Sec. 22; S $\frac{1}{2}$ Sec. 25; S $\frac{1}{2}$ Sec. 26;
S $\frac{1}{2}$ NW $\frac{1}{4}$, NW $\frac{1}{4}$ NE $\frac{1}{4}$, NE $\frac{1}{4}$ NW $\frac{1}{4}$, SE $\frac{1}{2}$ Sec. 26;
S $\frac{1}{2}$ NE $\frac{1}{4}$, NE $\frac{1}{4}$ NE $\frac{1}{4}$, NW $\frac{1}{4}$, S $\frac{1}{2}$ Sec. 27, Twp.
25 S., Range 37 E., N $\frac{1}{2}$ P. M., embracing
A 10.20 acres,

and,

WHEREAS, On the 26th day of October, 1936, a certain contract was entered into by and between Indian Petroleum Corporation, as First Party, and Anderson-Prichard Oil Corporation, as Second Party, giving or granting unto said Anderson-Prichard Oil Corporation the exclusive right of possession and occupancy of certain lands embraced in a certain Oil and Gas Lease granted by the United States of America to R. J. Wells under date of January 4, 1935, under the terms and provisions of the Act of Congress dated February 25, 1920, Public No. 146, designated as Las Cruces 032502 (b) insofar as said lease covers the following described lands situated in said County and State, to-wit:

Lots Two (2), Three (3) and Four (4), Southwest Quarter (SW $\frac{1}{4}$) of Northeast Quarter (NE $\frac{1}{4}$), South Half (S $\frac{1}{2}$) of Northwest Quarter (NW $\frac{1}{4}$), Southwest Quarter (SW $\frac{1}{4}$), and West Half (W $\frac{1}{2}$) of Southeast Quarter (SE $\frac{1}{4}$) of Section Four (4);

All of Section Five (5);

Lots One (1) and Four (4), Southwest Quarter (SW $\frac{1}{4}$) of Northeast Quarter (NE $\frac{1}{4}$), Southeast Quarter (SE $\frac{1}{4}$) of Northwest Quarter (NW $\frac{1}{4}$), Northeast Quarter (NE $\frac{1}{4}$) of Southwest Quarter (SW $\frac{1}{4}$), and Northeast Quarter (NE $\frac{1}{4}$) of Southeast Quarter (SE $\frac{1}{4}$) of Section Six (6);

All in Township Twenty-five (25) South,
Range Thirty-Seven (37) East, N. M. P. M.,
Lea County, New Mexico;

WHEREAS, It is the desire of all of the parties here-
to that the land hereinafter described be tested for oil
and gas; and

WHEREAS, Second Party for the consideration herein-
after stated is ready, able and willing to commence opera-
tions for the drilling of two wells on the land above de-
scribed at the locations and within the time hereinafter
stated and continue the drilling of each of said wells with
due and reasonable diligence free of all cost to First Party
to the depths hereinafter specified.

NOW, THEREFORE, KNOW ALL MEN BY THESE PRESENTS: That
for and in consideration of the premises and of the faithful
performance of the covenants herein contained it is agreed:

ARTICLE I.

Test Wells- Second Party agrees at its sole cost and
expense to drill and complete with standard or cable tools
two wells for the production of oil and gas at the following
locations and to the following depths, to-wit:

Center of
(a) One to be located in the center of the SW $\frac{1}{4}$ NW $\frac{1}{4}$ of
Section 21, Township 25 south, Range 37 East, above described;
actual drilling operations thereon to be commenced on or be-
fore the 20th day of November, 1936, and continued with due
and reasonable diligence to the depth of 3650 feet, unless
production of oil and/or gas, or a hole full of sulphur or
salt water, be encountered at a lesser depth. In the event
production of oil and/or gas is encountered in said well
Second Party shall, at its sole cost and expense, furnish
and install all necessary casing, tubing and surface equip-
ment required for the production of oil and gas into and in-
cluding the tanks.

Well #1
(b) One well at a location to be selected by First
Party either in the SW $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 4, or SE $\frac{1}{4}$ SE $\frac{1}{4}$ of
Section 5, Township 25 South, Range 37 East, above described.
Immediately upon completion of the well referred to in sub-
paragraph (a) hereof, First Party shall make application to
the proper governmental authority for permit to drill the
well provided for herein and shall press such application
with due diligence. Second Party shall commence actual drill-
ing operations thereon within ten days after the granting of
such permit and shall continue such drilling operations with
due and reasonable diligence to the depth of 3650 feet, un-
less production of oil and/or gas, or a hole full of sulphur
or salt water be encountered at a lesser depth. In the event
production of oil and/or gas is encountered in said well,
Second Party shall, at its sole cost and expense, furnish and
install all necessary casing, tubing and surface equipment
required for the production of oil and gas into and including
the tanks.

ARTICLE II.

Inspection and Information - First Party shall, at all
times, have free access to the wells hereinabove provided for,
and to any and all information available pertaining to the
drilling of the same, including daily logs and changes in
formations and samples of all cuttings or fluids which may
be encountered in the drilling thereof. First Party shall have
the right to procure samples of all such formations and fluids
and Second Party shall not drill into any known producing hor-

izon without first giving first party sufficient notice thereof so that first party may have a representative on the ground to witness the drilling into such horizons, if it so desires. In the event such wells shall be unproductive of oil or gas in paying quantities at the total depths hereinabove provided for, then second party shall notify first party before the same shall be plugged, in order that first party may have a representative on the ground for the purpose of taking a joint measurement or to witness the measurement of such well or wells.

ARTICLE III

Logs, Reports and Plugging - Second Party shall keep a true and accurate log of such wells and a correct tally of the various sizes and lengths of casing that may be set in said wells, and, upon completion thereof, shall deliver to first party a true and complete log of said wells, together with a true and accurate record of all casing set therein, showing the make, size, weight, thread and lengths thereof, and the points at which such casing shall have been set. Second Party shall furnish to first party daily written reports of the progress of said wells, mailing the same to Anderson-Prichard Oil Corporation, 1000 Ramsey Tower, Oklahoma City, Oklahoma. Any and all wells abandoned by second party shall be plugged at its expense, and in full compliance with the laws, rules and regulations of the United States and the State of New Mexico, or any other Governmental Agency thereof.

ARTICLE IV.

Insurance -

(a) Second Party agrees to hold first party harmless from and against all claims, expenses, loss and damage arising from any cause whatsoever in connection with the work to be performed under this contract, regardless of whether such work be performed by second party or by his employees, or by subcontractors under second party or employees of such sub-contractors, or by both, or all.

(b) The second party shall carry and pay for workmen's compensation insurance which shall comply with the workmen's compensation laws of each state in which work is to be performed under this contract, and shall cover all of second party's employees engaged in the work to be performed under this contract. The second party shall also see to it that each and every sub-contractor under him shall carry and pay for Workmen's Compensation Insurance covering all of such sub-contractors' employees engaged in any work under this contract. The workmen's compensation insurance provided by such sub-contractors shall comply with the laws of each state in which work is to be performed under this contract. If this contract covers operations in Oklahoma, employers liability coverage must be carried with death limit of at least \$25,000.00 for one person killed and at least \$50,000.00 for any number of persons in one accident, this in addition to the regular compensation coverage that is required under the laws of Oklahoma.

(c) The second party shall also carry and pay for Public Liability insurance covering all work to be performed under this contract, with limits of not less than \$25,000.00 as to

any one person and \$50,000.00 as to any one accident.

(d) Second party shall provide automobile public liability insurance with limits of not less than \$25,000.00 as to any one person, and not less than \$50,000.00 as to any one accident, and shall also provide automobile property damage insurance with a limit of not less than \$5,000.00 to cover all automotivo equipment used by second party in the operations contemplated and to be performed under this contract. All such automobile insurance policies shall include the names of all the parties hereto as the assured.

(e) All such policies of insurance shall be delivered to Anderson-Prichard Oil Corporation at its office in Oklahoma City, Oklahoma, for examination and return to second party, and, in addition thereto second party shall furnish to Anderson-Prichard Oil Corporation, at its said office, a certificate or certificates of insurance on Anderson-Prichard Oil Corporation's form I-100, each of which shall be attested by a duly authorized representative of the insurance company writing the respective policy, and shall contain an agreement on the part of the insurer that the insurance concerning which the certificate is given shall not be cancelled without at least ten days' notice to Anderson-Prichard Oil Corporation at Oklahoma City, Oklahoma.

ARTICLE V.

Abandonment- It is agreed by and between the parties hereto that time is of the essence of this contract and that in the event second party shall fail or neglect to commence the actual drilling operations of either of the wells hereinabove provided for, within the time herein specified, or if, after having commenced the drilling thereof it shall fail to complete any of said wells as herein provided, first party shall be under no obligations to make and deliver the assignments hereinafter mentioned. If second party shall fail or neglect, except where such failure or neglect is due to or the result of strikes, lockouts, fire, unusual delay in transportation, unawidable casualties, accidents, or any causes beyond its control, to continue the operations on said wells, or either of them, for a period of ten (10) days after having commenced the drilling thereof, without first having obtained the written consent of first party so to do, such neglect or discontinuance shall, of itself, and without notice or demand by first party, constitute a breach of this contract by second party and first party shall have, within sixty (60) days after such breach, in addition to its other lawful and equitable remedies, the right to take possession of such well or wells, and, in such event, shall have the free use of all tools, appliances and machinery thereat belonging to or under the control of second party, for the purpose of drilling and/or completing said well or wells, without any liability whatsoever to second party for the use of such tools, appliances, machinery and equipment, except for loss or damage thereto not occasioned by the usual wear and tear incident to such use, and, in such event, first party shall be under no obligation to deliver to second party the assignments mentioned. It is hereby expressly understood and agreed, however, that none of the provisions of this paragraph shall be construed as in anywise releasing or excusing second party from its liability to first party for any breach of this contract.

ARTICLE VI.

Assignments- (a) For and in consideration of the drilling, completing and equipping by second party of the two test wells referred to in Article I above, in the manner and within

Carlson
the time therein mentioned, first party, upon completion of both of said wells and the furnishing to it of true and accurate logs thereof duly certified to, will, subject to the conditions and reservations hereinafter provided, make, execute and deliver to second party an assignment covering an undivided one-half (1/2) of its right, title and interest in, to and under the above mentioned drilling and operating agreement of November 2nd, 1936, executed by C. M. Carlson and Hilda Carlson, his wife, to Anderson-Prichard Oil Corporation insofar as the same covers and affects the following described lands situated in said County and State, to-wit:

Southwest Quarter (SW $\frac{1}{4}$) of Northwest Quarter (NW $\frac{1}{4}$) of Section 21, Township 25 South, Range 37 East, N. M. P. M., containing 40 acres, more or less,

Wells
and will, subject to the conditions and reservations hereinafter provided, make, execute and deliver to Second Party an assignment covering an undivided one-half of its right, title and interest in, to and under said contract of October 26, 1936, entered into by and between Indian Petroleum Corporation and Anderson-Prichard Oil Corporation insofar as said contract covers and affects the lands to be assigned to Anderson-Prichard Oil Corporation under the terms thereof; said assignments to be subject to all the terms and provisions of the drilling and operating agreement dated November 2nd, 1936, and the contract, dated October 26, 1936, and of this contract insofar as said contracts relate to the land to be described in said assignment and the rules and regulations of the Secretary of the Interior of the United States and all governing statutes, without covenants of general warranty; but first party shall covenant in said assignment that it will warrant and defend the title to the interest thereby assigned against the claims of any and all persons whomsoever claiming by, through or under it, but not otherwise.

As a further consideration for the drilling, completing and equipping of the two wells aforesaid, the party of the first part hereby agrees that second party shall be entitled to receive, free from all operating costs, the sum of \$5,000.00 from the net proceeds derived from the sale of 1/2 of first party's remaining 1/2 of the first oil and/or gas, if, as and when produced, saved and marketed from the well agreed to be drilled by second party under the terms of paragraph (a) in Article I hereof.

(b) It is further agreed by and between the parties hereto that beginning with the date of this contract and from thenceforth all gross production taxes chargeable against the oil and gas that may be produced from the lands to be described in said assignments by first party to second party and all taxes assessed against any oil and gas lease heretofore or hereafter executed covering the lands to be described in said assignments, and against all lease equipment thereon situated, and all lease rentals shall be borne and paid equally by the parties hereto.

(c) First Party shall be under no obligation to deliver the assignments hereinabove provided for, until and unless all claims, charges, liens and encumbrances of every character that may have been incurred on said premises by second party during the drilling of said wells, shall have been paid, satisfied and discharged, and if, after the completion of said wells, second party shall allow or permit any liens to be fixed against said premises, first party shall have the right, without being obligated so to do, to pay any and all such lien charges thereon and be subrogated to the rights of the holders thereof.

ARTICLE VII.

It is understood and agreed that the said two test wells, when drilled, completed and equipped as hereinbefore provided, together with all the right, title and interest now owned by first party in and to said contract of October 26, 1936, and said drilling and operating agreement of November 2nd, 1936, insofar as the same cover and affect the lands to be described in said assignments shall be owned in equal proportions by the parties hereto; subject, however, to the \$5,000.00 oil payment hereinbefore mentioned.

ARTICLE VIII

Designation of Operator- Second Party shall have the sole control of drilling, completing and equipping said two test wells as provided herein, but it is understood and agreed that first party shall become the operator of each of said wells as soon as completed and equipped and all of the property jointly owned under the terms hereof, and second party shall from thenceforth have full and complete charge and control of all subsequent drilling and producing operations on said jointly owned property. It is understood and agreed, however, that second party being the owner of drilling tools and being engaged in the business of drilling oil and gas wells shall have the preference right to drill all future wells on the jointly owned property on contract basis under the direction and supervision of first party, provided that the price charged by second party for such work shall not be in excess of the average price prevailing in said field for like work. After the completion and equipment of said two test wells, respectively, as provided herein, the cost of operation of said wells and any subsequent development of the jointly owned property shall be borne equally by the parties hereto and said operating charges shall be computed on the basis of the Mid-Continent Schedule attached hereto, made a part hereof, and marked "Exhibit A".

per letter of 1-27-37

Account

ARTICLE IX.

Access to Property and Records- Each party hereto shall have access to said jointly owned property and to any and all information pertaining to wells drilled, production secured, oil and/or gas marketed therefrom and shall be permitted to inspect and observe operations of every kind and character upon said jointly owned property and shall have access to the books, records and vouchers relating to the operation thereof at all reasonable times.

ARTICLE X.

RENTALS- It is understood and agreed that the operator shall pay all lease rentals maturing and payable under the terms of any oil and gas lease heretofore or hereafter executed by the United States Government insofar as said lease or leases cover or affect the jointly owned property. Such rental payments, made by the operator, shall be charged to the joint account and non-operator shall reimburse operator for its proportionate part of all such rentals.

ARTICLE XI.

Payment of Bills- Second Party, as operator of the jointly owned property hereinabove referred to, shall advance and pay all costs and expenses necessary for the operation and further development of the jointly owned property in accordance with the terms of this contract and shall bill non-operator for such cost and expense in accordance with its in-

per letter of 1-27-37

terest in the said property.

Operator agrees to furnish non-operator with itemized statements of all expenditures, receipts, charges and credits covering each month's business and that such statements covering the preceding month's business shall be mailed by operator to non-operator on or before 30 days thereafter; and within 15 days thereafter non-operator shall pay operator, subject to further audit and adjustment, if necessary, at Oklahoma City, Oklahoma, its proportionate part of all sums expended for and in the development and operation of said jointly owned property, and upon failure of non-operator to pay operator within 15 days, as aforesaid, the said sum or sums shall bear interest at the rate of six (6%) per cent per annum until so paid.

In order to secure operator in the operation and/or development of said premises and each of them for oil and gas mining purposes, for all sums properly due from non-operating party, incurred by operator in the operation of said jointly owned property, operator shall at any and all times during the continuance of this contract have a first and prior lien upon all right, title and interest or estate of non-operating party in said jointly owned property covered by this contract, including all equipment thereon and all oil, gas and casinghead gas produced or to be produced and saved therefrom, owned by or accruing to the credit of non-operating party to the full extent of said sum paid by operator for non-operating party's account, in the operation of said premises covered by this contract.

ARTICLE XII

Governmental Regulation- Nothing herein contained shall be construed as being in any manner in derogation of the terms, conditions and provisions of the Act of Congress under and by virtue of which the above mentioned permits or leases were issued, or of any regulation of the Department of Interior of the United States lawfully promulgated thereunder; but, on the contrary, this agreement shall in all particulars be deemed amenable to reformation to eliminate or modify any portions thereof found to be in contravention of the provisions of said act or such regulation and shall remain and be in full force and effect as to all provisions not so eliminated or modified.

ARTICLE XIII.

Non-Partnership- It is further expressly understood and agreed by and between the parties hereto that this contract shall never be construed as constituting a partnership between the parties hereto and that the liability of the parties is limited to the provisions of this contract.

ARTICLE XIV.

Notices- Any notices required to be given or served hereunder may be sent by registered mail to first party at 1000 Ramsey Tower, Oklahoma City, Oklahoma, and to second party at 606 Republic Bank Building, Dallas, Texas, unless and until either shall change place of notice by written communication sent to the other by registered mail.

ARTICLE XV.

Sale of Oil and Gas - It is understood and agreed, and the assignments above mentioned to be executed as hereinabove provided shall so provide that each party hereto shall be entitled to receive directly payment for its respective share of the proceeds of the sale of oil and/or gas produced, saved and sold from said premises.

ARTICLE XVI

Duration- This agreement and each and all of the terms, conditions hereof insofar as the same affect or pertain to the jointly owned property shall be and remain in full force and effect so long as oil, gas, or casinghead gas is or can be produced in paying quantities therefrom.

ARTICLE XVII

This agreement shall extend to, and be ~~be~~ binding upon the heirs, successors and assigns of the parties hereto; provided, however, second party shall have no right to assign its rights or interests under the terms of this contract prior to the completion of the wells hereinabove provided for, without first having obtained the written consent of first party to do so.

IN WITNESS WHEREOF, The Parties hereto have executed this contract, in triplicate, this 5th day of November, A. D. 1936.

ATTEST:

J. Anderson
SECRETARY

ANDERSON-FRICHARD OIL CORPORATION

BY: *J. Steve Anderson*
VICE-PRESIDENT

"PARTY OF THE FIRST PART"

ATTEST:

E. Fred Neuschack
SECRETARY

AGAD DRILLING CORPORATION

BY: *P. H. Anderson*
PRESIDENT

"PARTY OF THE SECOND PART"

THE STATE OF OKLAHOMA :

COUNTY OF OKLAHOMA. :

On this 6th day of November 1936, before me, personally appeared J. Steve Anderson and P. H. Anderson, to me personally known and being by me duly sworn on oath did say that they are the Vice President and Secretary, respectively, of Anderson-Frichard Oil Corporation, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors and said J. Steve Anderson and P. H. Anderson acknowledged said instrument to be the free act and deed of said corporation.

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IN WITNESS WHEREOF, witness my hand and notarial seal the date in this certificate above written.

Harold Keller
NOTARY PUBLIC

My commission expires:

Jan. 29-1940.

THE STATE OF TEXAS, :
 :
COUNTY OF DALLAS. :

On this 5th day of November, 1936, before me, personally appeared John L. Herschbach and E. Fred Herschbach, to me personally known and being by me duly sworn on oath did say that they are the President and Secretary, respectively, of AJAX DRILLING CORPORATION, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors and said John L. Herschbach and E. Fred Herschbach acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, witness my hand and notarial seal the date in this certificate above written.

Vera Brunsen
NOTARY PUBLIC

My Commission Expires:
June 1st, 1937.

ACCOUNTING PROCEDURE

(UNIT AND JOINT LEASE SCHEDULE)

I. DEVELOPMENT AND OPERATING CHARGES:

The Operator shall charge the joint lease account with the following items:

- (1) Royalties, when not to be paid direct to Royalty Owners by the purchaser of the oil, gas, casinghead gas or other products of the lease.
- (2) Labor, teaming, and other services necessary for the development, maintenance and operation of the property.
- (3) Materials, equipment and supplies purchased, and/or furnished by Operator from his warehouse stocks or from his other leases, for use on the joint lease.
- (4) Moving material to the joint lease from Vendor's or from Operator's warehouse in the district or from other leases of Operator, but in either of the last events the distance charged to the joint lease shall not exceed the distance from the nearest reliable supply store or railway receiving point.
- (5) Moving surplus materials from the joint lease to outside Vendees, if sold f. o. b. destination, or minor returns to Operator's warehouse, but no charge shall be made against the joint lease account for moving major surplus materials to Operator's warehouse, exceeding the cost of moving such material to the nearest reliable supply store or railway receiving point, or to other leases belonging to Operator, except by special agreement with Non-Operator.
- (6) Use of and service by Operator's exclusively owned equipment, and utilities at rates not exceeding those prevailing in the district where the joint lease is located.
- (7) Damages or losses incurred by fire, flood, storm or other accidental or natural causes.
- (8-a) Expenses of litigation, including outside attorney's fees and expenses, judgments, claims, etc., involving the lease or incident to its development and operation. Actual expenses incurred by Operator's or Non-Operator's staff in securing evidence, etc., shall be a proper charge against the lease.
- (8-b) Should any case be handled by Operator's or Non-Operator's legal staff, thereby eliminating the retaining of outside counsel, a charge commensurate with the services rendered and actual time consumed may be made against the joint lease account.
- (9) Ad Valorem taxes and other property taxes. Gross production and receipts or income taxes shall be rendered and paid direct by Operator and Non-Operator covering their respective interests and shall not be reported and paid as a joint lease charge, except where required by law or by the term of the contract to which this Exhibit is attached.
- (10) Premiums for insurance, if required to be carried for the benefit of the joint account, as follows:
 - (a) Property insurance against loss by fire, tornado, etc.
 - (b) Workmen's compensation, public liability and employers' liability insurance, together with all expenditures incurred and paid in settlement of claims, judgments, etc., not recovered from the insurance carrier.
 - (c) Public liability and property damage insurance on automotive equipment owned by and operated for the joint lease, as well as any other expenditures incurred and paid in settlement of claims, judgments, etc., not recovered from the insurance carrier to fully discharge all liability of Operator ensuing from an accident occurring on or in connection with work done by such jointly owned automotive equipment for the benefit of the joint lease.
- (11) If no insurance is required to be carried on any or all of the above risks, all actual expenditures incurred and paid by the Operator in settlement of any and all losses, claims, damages, judgments, and any other expenses including legal services, shall be charged to the joint lease account.
- (12) A proportionate share of the salary and expenses of Operator's District Superintendent and other general District Employees serving the lease, whose time is not allocated directly to the lease, and therefore may be apportioned on a well basis over all wells served, each drilling well to be considered as equivalent to..... producing wells, or on some other equitable basis consistent with Operator's accounting practice.
- (13) A proportionate share of maintaining and operating a District Office in conducting the management of operations on the joint lease and other leases owned and operated by Operator in the same locality, such charge to be made on a well basis over all wells served, and each drilling well to be considered as equivalent to..... producing wells, or on some other equitable basis consistent with Operator's accounting practice.
- (14) Camp Expense: The expense of providing and maintaining on or in the vicinity of the joint lease all necessary camps, housing facilities for employees, and boarding employees, if necessary. When leases other than the joint lease are served by these facilities, then an equitable distribution of expense including depreciation, or a fair monthly rental in lieu of the investment, maintenance and operating cost of buildings, etc., shall be prorated against all leases served.
- (15) Handling charges: To cover the cost of handling material into and in the warehouse, a handling charge not in excess of 5% of the net cost of the material, new or second-hand, placed upon the lease from the Operator's warehouse, may be assessed against the joint account. On tanks, derricks, tubular goods (2" and over), boilers, engines, compressors and pumps, the handling charges shall not exceed 2½% of the net cost.
- (16) Overhead charges which shall be in lieu of any charges for any part of the compensation or salaries paid to managing officers and employees of the Operator, down to and including the division superintendent and any portion of the office expense of the principal business office of the Operator, which office is located at....., but are not in lieu of field office expenses incurred in operating any such properties, and such overhead charges do not include any other expenses of the Operator incurred in the development and operation of said leases, and the Operator shall have the right to assess against the properties covered hereby, the following overhead charges:
 - (a) \$..... per month for each drilling well, beginning on the date the well is spudded and terminating when it is on production or is plugged, as the case may be, except that no charge shall be made during suspension of drilling operations for or more consecutive days.
 - (b) \$..... per well per month for the first five producing wells.
 - (c) \$..... per well per month for the second five producing wells.
 - (d) \$..... per well per month for all producing wells over ten.The above specific overhead rates may be amended from time to time by agreement between Operator and Non-Operator if in practice they are found to be insufficient or excessive.
- (17) Any other items of cost and expense incurred by Operator for the necessary and proper development, equipment and operation of the joint lease.

II. BASIS OF CHARGES TO JOINT ACCOUNT:

- (1) Outside Purchases: All materials and equipment purchased and all service procured from the outside sources will be charged at their actual cost to Operator, after deducting any and all trade and/or cash discounts actually allowed off invoices, or received by Operator.
- (2) New Materials furnished by Operator (Condition "A").
New materials transferred to lease from Operator's warehouse or other leases shall be priced, f. o. b. the nearest supply store or rail way receiving point, at replacement cost of the same kind of materials. This will include large equipment such as tanks, rigs, pumps, boilers and engines. All tubular goods (2" and over) will be charged on the basis of mill-shipment, or carload price. Other materials, where the replacement cost cannot be readily ascertained, may, for the purposes of consistency and convenience, be charged on the basis of a reputable Supply Company's Preferential List Price, f. o. b. nearest supply store or railway receiving point to the lease, prevailing on the date of transfer of the materials to the lease.
- (3) Second-hand Materials furnished by Operator (Condition "B" and "C").
 - (a) Tubular goods (2" and over), fittings, registered machinery, and other equipment which is in sound and serviceable condition at date of transfer, will be classed as Condition "B" and charged at 75% of the price of new materials, in accordance with the provisions of Paragraph (2) above.
 - (b) Tanks, derricks, and buildings or other equipment involving erection costs, will be charged on a basis not to exceed 75% of knocked-down new price for similar materials.

AMENDMENT TO OPERATING AGREEMENT

THIS AGREEMENT, made and entered into this 30th day of June, 1949, by and between the undersigned parties:

W I T N E S S E T H:

WHEREAS, the parties hereto or their predecessors in interest have heretofore entered into a certain Operating Agreement described as follows:

Drilling contract dated November 5, 1936, executed by Anderson-Richard Oil Corporation and Ajax Drilling Corporation, relating to lands covered by the C. N. Carlson and E. J. Wells permits in Township 35 South, Range 37 East, Lea County, New Mexico.

WHEREAS, the undersigned desire to amend the above described Operating Agreement as hereinafter provided.

NOW, THEREFORE, in consideration of the premises and the agreements herein contained, it is agreed that the above described Operating Agreement is hereby amended to include the following provision:

Each party to this agreement shall have the continuing right at all times to receive in kind or to separately dispose of its proportionate share of the oil, gas, and/or casinghead gas produced by Operator from the lands covered by this Agreement, plus its proportionate share of all royalty oil, gas and/or casinghead gas not delivered in kind.

During such time as Non-operator is not exercising its right to receive in kind or to separately dispose of its proportionate part of such production, Operator shall have the right to purchase for its own account or to sell to others at not less than the prevailing market price, all oil, gas, and/or casinghead gas produced from the lands covered by this Agreement. Any contracts entered into by Operator for the sale of Non-operator's proportionate share of the production shall be on a temporary basis for a period not greater than the minimum usually demanded by a purchaser of like grade and quantity of such production at the point where such sale and delivery is made, but not in excess of one (1) year; provided, however, this right shall be revocable at the will of Non-operator as to its interest upon such party taking its proportionate part in kind. All sales shall be on a division order basis and payment shall be made directly to the party entitled thereto.

This Agreement shall not affect any existing right to purchase, purchase agreement, or option to purchase whereby either party has granted to the other the right to purchase all or any part of its interest in the production from the joint operation.

Except as herein provided, said Operating Agreement shall remain in full force and effect in accordance with its terms and provisions.

This Agreement shall be effective as of the date first above written and shall be binding as to each party signing the same, even though all parties interested in the operating rights subject to the said Operating Agreement do not execute this Agreement, and may be executed in separate counterparts with like effect as if all signing parties had executed the same instrument.

ATTEST:

Ray H. ...
Asst. Secretary

ATTEST:

E. ...
Asst. Secretary

ANDERSON-PRICHARD OIL CORPORATION

By: J. H. ...
Vice-President

FIBRE CHICAGO CORPORATION

By: ... C. ...
Vice-President

