Sun Exploration and Production Company

BEFORE EXAMINER STOGNER
Oil Conservation Division
SUN Exhibit No. 1
Case No. 9326

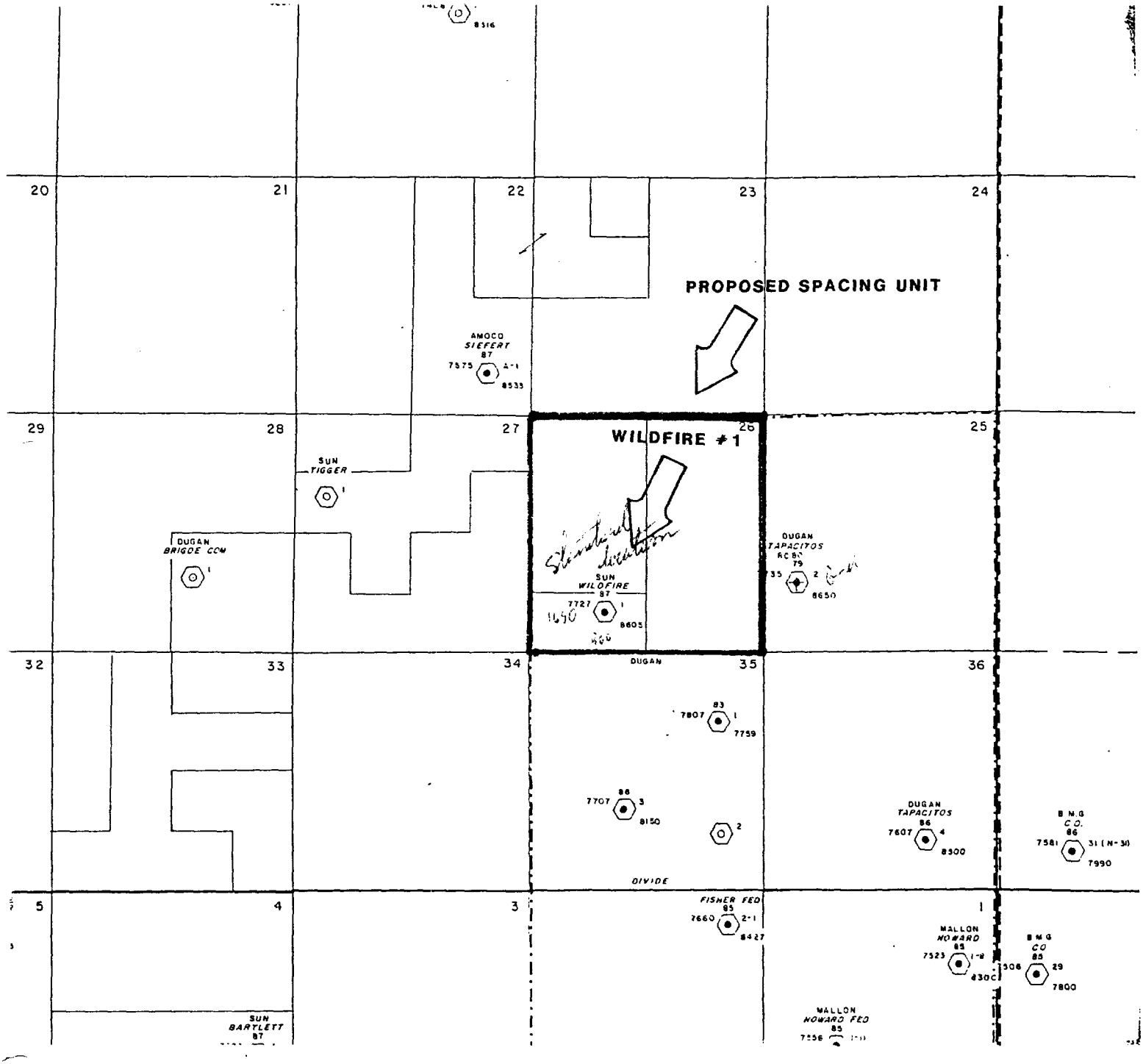
NEW MEXICO OIL CONSERVATION COMMISSION

CASE NO. 9326

WILDFIRE #1

WEST HALF SECTION 26 T 26N R 2W

RIO ARRIBA COUNTY, NEW MEXICO



Rio Arriba County, New Mexico

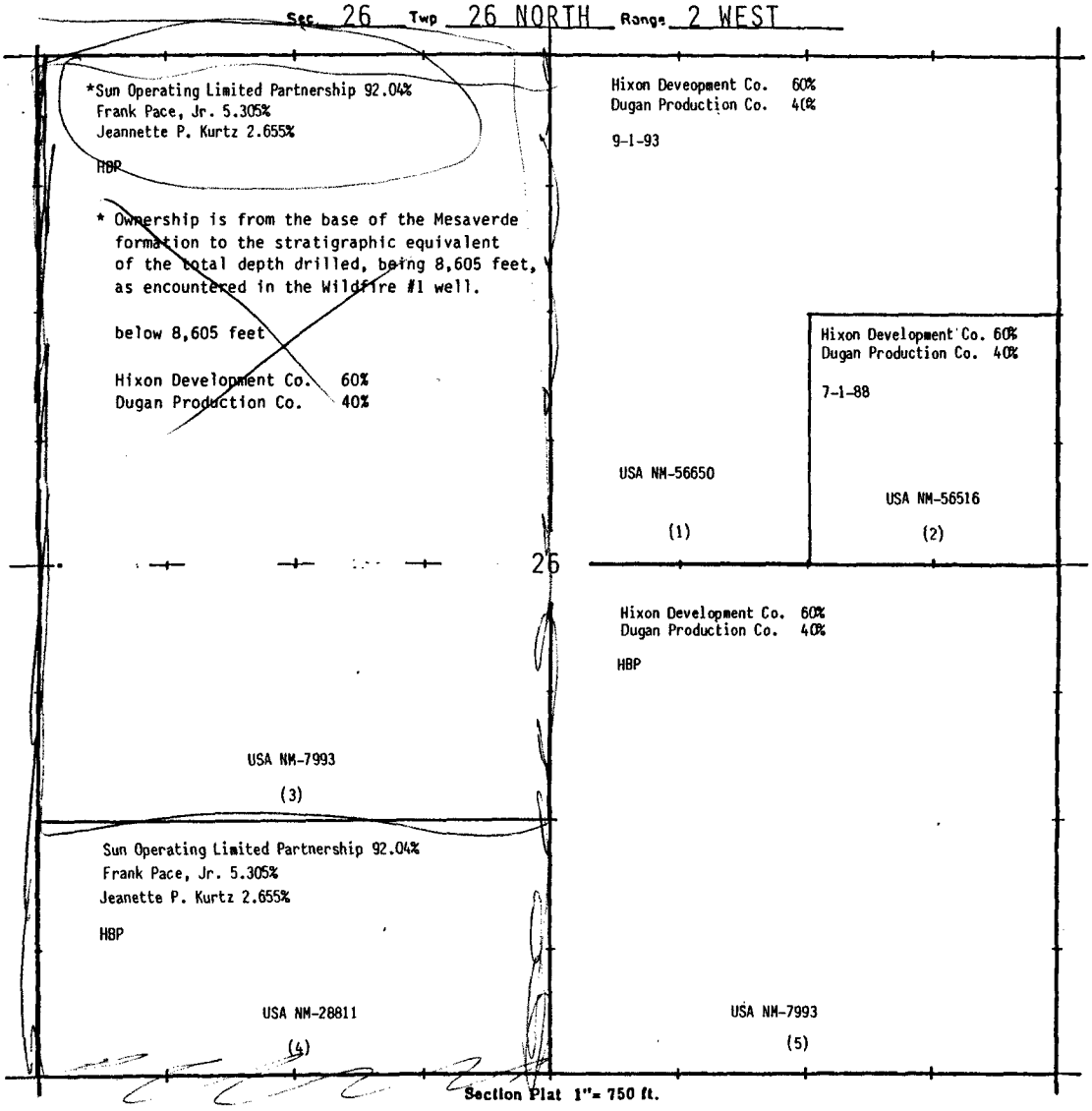
Detailed Ownership Report

March 22, 1988

TRACT	DESCRIPTION	MINERAL OWNER AND ADDRESS	INTEREST	STATUS
1	T26N, R2W Sec. 26: N½NE¼, SW¼NE¼, (120.00 ac.)	USA NM-56650	100%	Hixon Development Co. Box 2810 Farmington, NM 87499 60% interest Dugan Production Co. Box 28 Farmington, NM 87499 40% interest Expires: 9-1-93 Royalty: 1/8th ORRI: 7.5% of 8/8ths NM-56650 Lease Also Includes Other Lands: T26N, R2W Sec. 23: S½SW¼, SE¼
2	T26N, R2W Sec. 26: SE¼NE¼ (40.00 ac.)	USA NM-56516	100%	SAME OWNERSHIP AS ABOVE Expires: 7-1-88 Royalty: KGS scale ORRI: 7.5% of 8/8ths NM-56516
3	T26N, R2W Sec. 26: NW¼, N½SW¼ (240.00 ac.)	USA * See note below NM-7993	100%	Sun Operating Limited Partnership 92.04% interest Frank Pace, Jr. c/o International Executive Service Corp. 622 3rd Ave. 32nd Floor New York, New York 10017 5.305% interest Jeannette P. Kurtz P.O. Box 6227 Denver, CO 80206 2.655% interest Expires: HBP Royalty: 1/8th ORRI: 12.5% of 8/8ths NM-7993
4	T26N, R2W Sec. 26: S½SW¼ (80.00 ac.)	USA NM-28811	100%	SAME OWNERSHIP AS ABOVE Expires: HBP Royalty: 1/8th ORRI: 7.5% of 8/8ths NM-28811
5	T26N, R2W Sec. 26: SE¼ (160.00 ac.)	USA NM-7993 NOTE: Sec. 26: NW¼, N½SW¼ (Tract 3) above was not segregated from this lease as of last check with BLM, 3-21-88.	100%	Hixon Development Co. 60% interest Dugan Production Co. 40% interest Expires: HBP Royalty: 1/8th ORRI: 7.5% of 8/8ths NM-7993
3	* Note:	This ownership is from the base of the Mesaverde formation to the stratigraphic equivalent of the total depth drilled, being 8,605 feet, as encountered in the Wildfire #1 well.		below 8,605 feet Hixon Development Co. 60% Dugan Production Co. 40%

RIO ARRIBA COUNTY — NEW MEXICO STATE

Sec. 26 Twp. 26 NORTH Range 2 WEST



Section Plat 1"= 750 ft.

2 joint operating agreement

LANG & HOLT ENERGY COMPANY
1625 BROADWAY, SUITE 2860
DENVER, COLORADO 80202
(303) 629-7773

NEW MEXICO OIL CONSERVATION COMMISSION
CASE NO. 9326
WORKING INTEREST OWNERSHIP SUMMARY

West Half Section 26:

Before Pay Out After Pay Out

	BPO	APO
Sun E&P Co.	.92040	.609765
Frank Pace, Jr.	.05310	.035179
Dugan production	.00000	.120000
Michael W. Murphy	.00000	.037500
Jeannette P. Kurtz	.02650	.017556
Hixon Development	.00000	.180000
	1.00000	1.000000

East Half Section 26:

	BPO
Hixon Development	.600
Dugan Production	.400
	1.000

640 Acre Production and Spacing Unit:

	BPO	APO
Sun E&P Co.	.46020	.304883
Frank Pace, Jr.	.02655	.017589
Jeannette P. Kurtz	.01325	.008778
Dugan Production	.20000	.260000
Michael W. Murphy	.00000	.018750
Hixon Development	.30000	.390000
	1.00000	1.000000

NEW MEXICO OIL CONSERVATION COMMISSION
CASE NO. 9326

WELL HISTORY
WILDFIRE #1
SE SW/4 SECTION 26, T26N, R2W

10-18-86 Spud (G.L. elev: 7715', K.B. elev: 7727')

11-22-86 T.D. at 8605'
(PBTD 8496')

Perforated 7348-7656, various depths, 35 holes.
Fractured with 82,000 gal 30# cross-link gel and 90,000# 20/40 sand.

4-10-87 Completion Report: 3 hrs, 10.2 STB oil, 15 MCF gas, 20 BBL load water, 180 psi FTP.

5-4-87 Gas-oil ratio test: 24 hrs, 50 STB oil, 315 MCF gas, 8 BBL water, 75 psi FTP. Well shut in.

6-30-87 Bottom hole pressure test at 7400', 1191 psig.

11-19-87 Bottom hole pressure test at 7400', 1028 psig.

2-23-88 Bottom hole pressure test at 7400', 972 psig.

press decline

Current status, well shut in.

1P2/3124

(formerly 9-330)

DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

(See other instructions on reverse side)

5. LEASE DESIGNATION AND SERIAL NO.: NM 28811

WELL COMPLETION OR RECOMPLETION REPORT AND LOG*

1a. TYPE OF WELL: OIL WELL [X] GAS WELL [ ] DRY [ ] Other

b. TYPE OF COMPLETION: NEW WELL [X] WORK OVER [ ] DEEP-EN [ ] PLUG BACK [ ] DIFF. RESVR. [ ] Other

6. IF INDIAN, ALLOTTEE OR TRIBE NAME:

7. UNIT AGREEMENT NAME:

8. FARM OR LEASE NAME: Wildfire

9. WELL NO.: 1

2. NAME OF OPERATOR: JEROME P. McHUGH

3. ADDRESS OF OPERATOR: P O Box 809, Farmington, NM 87499

10. FIELD AND POOL, OR WILDCAT: Gavilan Mancos

4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements)*
At surface: 900' FSL - 1650' FWL
At top prod. interval reported below:
At total depth:

11. SEC., T., R., M., OR BLOCK AND SURVEY OR AREA: Sec. 26, T26N, R2W, NMPM

14. PERMIT NO.	DATE ISSUED	12. COUNTY OR PARISH	13. STATE
	10/9/86	Rio Arriba	NM

15. DATE SPUDDED	16. DATE T.D. REACHED	17. DATE COMPL. (Ready to prod.)	18. ELEVATIONS (DF, RKB, RT, GR, ETC.)*	19. ELEV. CASINGHEAD
10/18/86	11/22/86	4/10/87	7715' GL; 7727' KB	7715' GL

20. TOTAL DEPTH, MD & TVD	21. PLUG, BACK T.D., MD & TVD	22. IF MULTIPLE COMPL., HOW MANY*	23. INTERVALS DRILLED BY	ROTARY TOOLS	CABLE TOOLS
8605'	8496'	NA	→	TD	

24. PRODUCING INTERVAL(S), OF THIS COMPLETION—TOP, BOTTOM, NAME (MD AND TVD)*: 7348-7656', Mancos

25. WAS DIRECTIONAL SURVEY MADE: No

26. TYPE ELECTRIC AND OTHER LOGS RUN: Dual Induction Guard, Spectral Density Dual Spaced Neutron, GR-CCL, Cement Bond

27. WAS WELL CORED: No

28. CASING RECORD (Report all strings set in well)

CASING SIZE	WEIGHT, LB./FT.	DEPTH SET (MD)	HOLE SIZE	CEMENTING RECORD	AMOUNT PULLED
9-5/8"	36	264' KB	12-1/4"	177 cf Class B W/ 2% CaCl	---
5-1/2"	17	8600' KB	7-7/8"	See reverse	---

29. LINER RECORD

SIZE	TOP (MD)	BOTTOM (MD)	SACKS CEMENT*	SCREEN (MD)
None				

30. TUBING RECORD

SIZE	DEPTH SET (MD)	PACKER SET (MD)
2-7/8"	7668' KB	---

31. PERFORATION RECORD (Interval, size and number)
7348, 50, 52, 64, 76, 78, 80, 91;
7412, 14, 30, 32, 42, 47, 58, 71, 90, 98;
7534, 36, 51, 54, 57, 67, 73, 83, 93, 97;
7604, 18, 26, 38, 40, 46 & 56.
Total of 35 holes

32. ACID, SHOT, FRACTURE, CEMENT SQUEEZE, ETC.

DEPTH INTERVAL (MD)	AMOUNT AND KIND OF MATERIAL USED
7348-7656'	750 gal. 7-1/2% HCL
	82,000 gal 30# cross-link gel
	90,000 20/40 sand

33.* PRODUCTION

DATE FIRST PRODUCTION	PRODUCTION METHOD (Flowing, gas lift, pumping—size and type of pump)	WELL STATUS (Producing or shut-in)
1/5/87*	Flowing	SI

DATE OF TEST	HOURS TESTED	CHOKE SIZE	PROD'N. FOR TEST PERIOD →	OIL—BBL.	GAS—MCF.	WATER—BBL.	GAS-OIL RATIO
4/10/87	3	---		10.2	15	20**	1471

FLOW. TUBING PRESS.	CASING PRESSURE	CALCULATED 24-HOUR RATE →	OIL—BBL.	GAS—MCF.	WATER—BBL.	OIL GRAVITY-API (CORR.)
180 psi	575 psi		81.6	120	160**	38.6°

34. DISPOSITION OF GAS (Sold, used for fuel, vented, etc.): Vented during test; to be sold.

TEST WITNESSED BY: M. Brasuel

35. LIST OF ATTACHMENTS: *1st new oil swabbed to tank during completion operation
**Frac water

36. I hereby certify that the foregoing and attached information is complete and correct as determined from all available records

SIGNED James S. Hazen TITLE Field Supt. DATE 4/10/87

*(See Instructions and Spaces for Additional Data on Reverse Side)

Title 18 U.S.C. Section 1001, makes it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

37. SUMMARY OF POROUS ZONES: (Show all important zones of porosity and contents thereof; cored intervals; and all drill-stem, tests, including depth interval tested, cushion used, time tool open, flowing and shut-in pressures, and recoveries):

FORMATION	TOP	BOTTOM	DESCRIPTION, CONTENTS, ETC.
			11/24/86 Cemented 1st stage as follows: 10 bbls. mud flush followed by 420 sx 50/50 poz with 2% gel, 6-1/4 #/sk Kolite & 1/4 #/sk celloflake (584 cu.ft.) Partial returns on 1st stage, but never lost circulation. Plug down at 2:51 am, 11/24/86. Float checked good. Continued with partial returns while circulating. Started 2nd stage at 3:51 am. & cemented as follows: 10 bbls. mud flush followed by 300 sx 65/35 poz with 12% gel & 1/4 #/sk celloflake & 300 sx 50/50 poz with 2% gel, 6-1/4 #/sk Kolite & 1/4 #/sk celloflake (881 cu.ft.) Plug down at 4:55 am. Partial returns. Circulated 3 hrs. Lost small amount of mud. Cemented 3rd stage as follows: 10 bbls. mud flush followed by 720 sx 65/35 poz with 12% gel & 1/4 #/sk celloflake & 75 sx 50/50 poz with 2% gel, 6-1/4 #/sk Kolite & 1/4 #/sk celloflake (2069 cu.ft.) Bumped plug at 10:35 am. Lost circulation 160 bbls. into cement job. Slowed down rate to 2 bbls./min. Got partial returns and lost returns for good 211 bbls. into cement job. No cement circulated to surface. Total of 3534 cf in 3 stages. 12/5/86 Pumped 600 sx 65/35 poz down bradenhead w/ maximum pressure of 520 psi. (1572 cf) DV Tools at 6494' KB & 4172' KB.

38. GEOLOGIC MARKERS

NAME	TOP	
	MEAS. DEPTH	TRUE VERT. DEPTH
Ojo Alamo	3600'	
Kirtland	3745	
Fruitland	3820	
Pictured Cliffs	3940	
Lewis	4065	
Cliff House	5758	
Menefee	5895	
Point Lookout	6140	
Mancos	6330	
Niobrara "A"	7167	
"B"	7371	
"C"	7530	
Sanostee	7785	
Carlile	7968	
Greenhorn	8150	
Graneros	8215	
Dakota	8315	

5 NMOCD 1 DE 1 Dugan 1 Andes/Lang 1 Gary E. 1 File

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT

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TRANSPORTER	OIL	
	GAS	
OPERATOR		
PRORATION OFFICE		

Form C-104
Revised 10-01-78
Format 06-01-83
Page 1

OIL CONSERVATION DIVISION

P. O. BOX 2088
SANTA FE, NEW MEXICO 87501

RECEIVED
APR 13 1987
OIL CON. DIV.
DIST. 3

REQUEST FOR ALLOWABLE AND AUTHORIZATION TO TRANSPORT OIL AND NATURAL GAS

I.

Operator: JEROME P. McHUGH

Address: P O Box 809, Farmington, NM 87499

Reason(s) for filing (Check proper box)
- [XX] New Well
- [ ] Recompletion
- [ ] Change in Ownership

Change in Transporter of:
- [ ] Oil
- [ ] Dry Gas
- [ ] Casinghead Gas
- [ ] Condensate

Other (Please explain)

If change of ownership give name and address of previous owner _____

II. DESCRIPTION OF WELL AND LEASE

Lease Name	Well No.	Pool Name, Including Formation	Kind of Lease	Lease No.
Wildfire	1	Gavilan Mancos	State, Federal or Fee Fed.	NM 28811

Location
Unit Letter N ; 900 Feet From The South Line and 1650 Feet From The West

Line of Section 26 Township 26N Range 2W , NMPM, Rio Arriba County

III. DESIGNATION OF TRANSPORTER OF OIL AND NATURAL GAS

Name of Authorized Transporter of Oil [XX] or Condensate [ ]	Address (Give address to which approved copy of this form is to be sent)
Gary Energy Corp.	P O Box 159, Bloomfield, NM 87413
Name of Authorized Transporter of Casinghead Gas [XX] or Dry Gas [ ]	Address (Give address to which approved copy of this form is to be sent)
Jerome P. McHugh	P O Box 809, Farmington, NM 87499

If well produces oil or liquids, give location of tanks.	Unit	Sec.	Twp.	Rge.	Is gas actually connected?	When
	N	26	26N	2W	No	

If this production is commingled with that from any other lease or pool, give commingling order number: _____

NOTE: *Complete Parts IV and V on reverse side if necessary.*

VI. CERTIFICATE OF COMPLIANCE

I hereby certify that the rules and regulations of the Oil Conservation Division have been complied with and that the information given is true and complete to the best of my knowledge and belief.

James S. Hazen (Signature)
Field Supt. (Title)
4/10/87 (Date)

Jerome P. McHugh
Farmington, N.M.
APR 27 1987
RECEIVED

RECEIVED
APR 29 1987

OIL CONSERVATION DIVISION
APPROVED APR 13 1987, 19
BY _____
TITLE SUPERVISOR DISTRICT # 3

This form is to be filed in compliance with RULE 1104.

If this is a request for allowable for a newly drilled or deepened well, this form must be accompanied by a tabulation of the deviation tests taken on the well in accordance with RULE 111.

All sections of this form must be filled out completely for allowable on new and recompleted wells.

Fill out only Sections I, II, III, and VI for changes of owner, well name or number, or transporter, or other such change of condition.

Separate Forms C-104 must be filed for each pool in multiply completed wells.

IV. COMPLETION DATA

Designate Type of Completion – (X)	Oil Well	Gas Well	New Well	Workover	Deepen	Plug Back	Same Res'v.	Diff. Res'v
	XX		XX					

Date Spudded	Date Compl. Ready to Prod.	Total Depth	P.B.T.D.
10/18/86	4/10/87	8605'	8496'
Elevations (DF, RKB, RT, GR, etc.)	**Name of Producing Formation**	**Top Oil/Gas Pay**	**Tubing Depth**
7715' GL	Gavilan Mancos	7348'	7668' KB
Perforations			**Depth Casing Shoe**
7348-7656', 35 holes			8600' KB

TUBING, CASING, AND CEMENTING RECORD

HOLE SIZE	CASING & TUBING SIZE	DEPTH SET	SACKS CEMENT
12-1/4"	9-5/8"	264' KB	177 cf
7-7/8"	5-1/2"	8600' KB	3534 cf in 3 stages
			+ 1572 cf pumped down
	2-7/8	7668' KB	bradenhead

V. TEST DATA AND REQUEST FOR ALLOWABLE *(Test must be after recovery of total volume of load oil and must be equal to or exceed top allowable for this depth or be for full 24 hours)*

OIL WELL

Date First New Oil Run To Tanks	Date of Test	Producing Method *(Flow, pump, gas lift, etc.)*	
1/5/87	4/10/87	Flowing	
Length of Test	**Tubing Pressure**	**Casing Pressure**	**Choke Size**
3 hrs.	180 psi	575 psi	---
Actual Prod. During Test	**Oil-Bbls.**	**Water-Bbls.**	**Gas-MCF**
	81.6 BOPD	160 BWPD	120 MCFGPD

GAS WELL

Actual Prod. Test-MCF/D	Length of Test	Bbls. Condensate/MMCF	Gravity of Condensate
Testing Method *(pitot, back pr.)*	**Tubing Pressure (Shut-in)**	**Casing Pressure (Shut-in)**	**Choke Size**

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT

P. O. BOX 2088
SANTA FE, NEW MEXICO 87501

2 OCD
1 DE
1 File

Form C-116
Revised 10-1-78

GAS-OIL RATIO TESTS

Operator: JEROME P. McHUGH | Pool: Gavilan Mancos | County: Rio Arriba

Address: P O Box 809, Farmington, NM 87499 | TYPE OF TEST - (X) | Scheduled [ ] | Completion [XX] | Special [ ]

LEASE NAME	WELL NO.	LOCATION U	S	T	R	DATE OF TEST	STATUS	CHOKE SIZE	TBG. PRESS.	DAILY ALLOWABLE	LENGTH OF TEST HOURS	PROD. DURING TEST WATER BBLS.	GRAV. OIL	OIL BBLS.	GAS M.C.F.	GAS - OIL RATIO CU.FT/BBL
Full Sail	4	I	30	25N	2W	SHUT IN WAITING ON GAS CONNECTION.										
Wildfire	1	N	26	26N	2W	5/4/87	S*	--	75		24	8 (frac)	36	50	315	6300

*SI Waiting on pipeline.

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MAY 7 1987

No well will be assigned an allowable greater than the amount of oil produced on the official test.

During gas-oil ratio test, each well shall be produced at a rate not exceeding the top unit allowable for the pool in which well is located by more than 25 percent. Operator is encouraged to take advantage of this 25 percent tolerance in order that well can be assigned increased allowables when authorized by the Division.

Gas volumes must be reported in MCF measured at a pressure base of 15.025 psia and a temperature of 60° F. Specific gravity base will be 0.60.

Report casing pressure in lieu of tubing pressure for any well producing through casing.

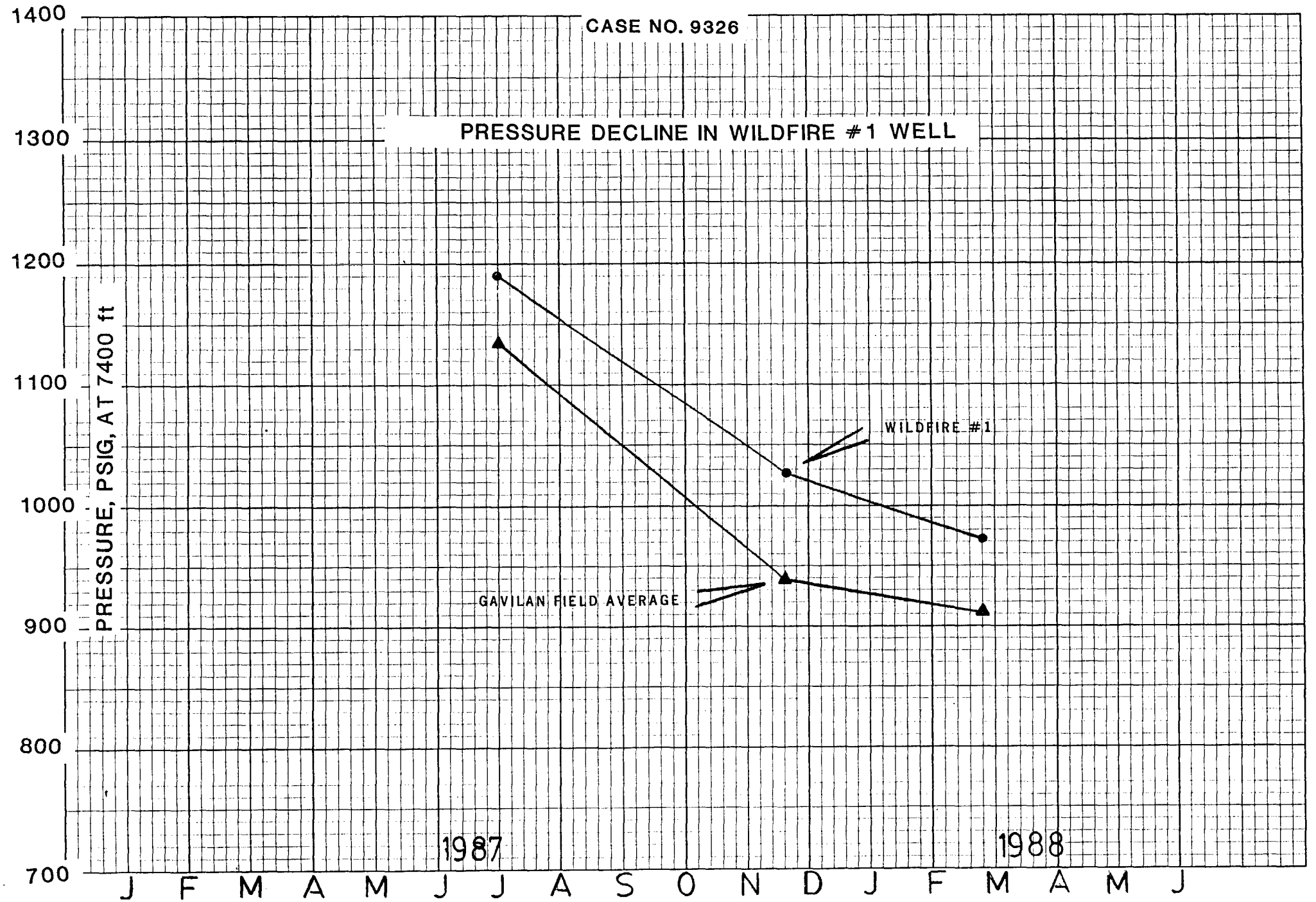
Mail original and one copy of this report to the district office of the New Mexico Oil Conservation Division in accordance with Rule 301 and appropriate pool rules.

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

James S. Hazen (Signature)
Field Supt. (Title)
5/4/87

NEW MEXICO OIL CONSERVATION COMMISSION

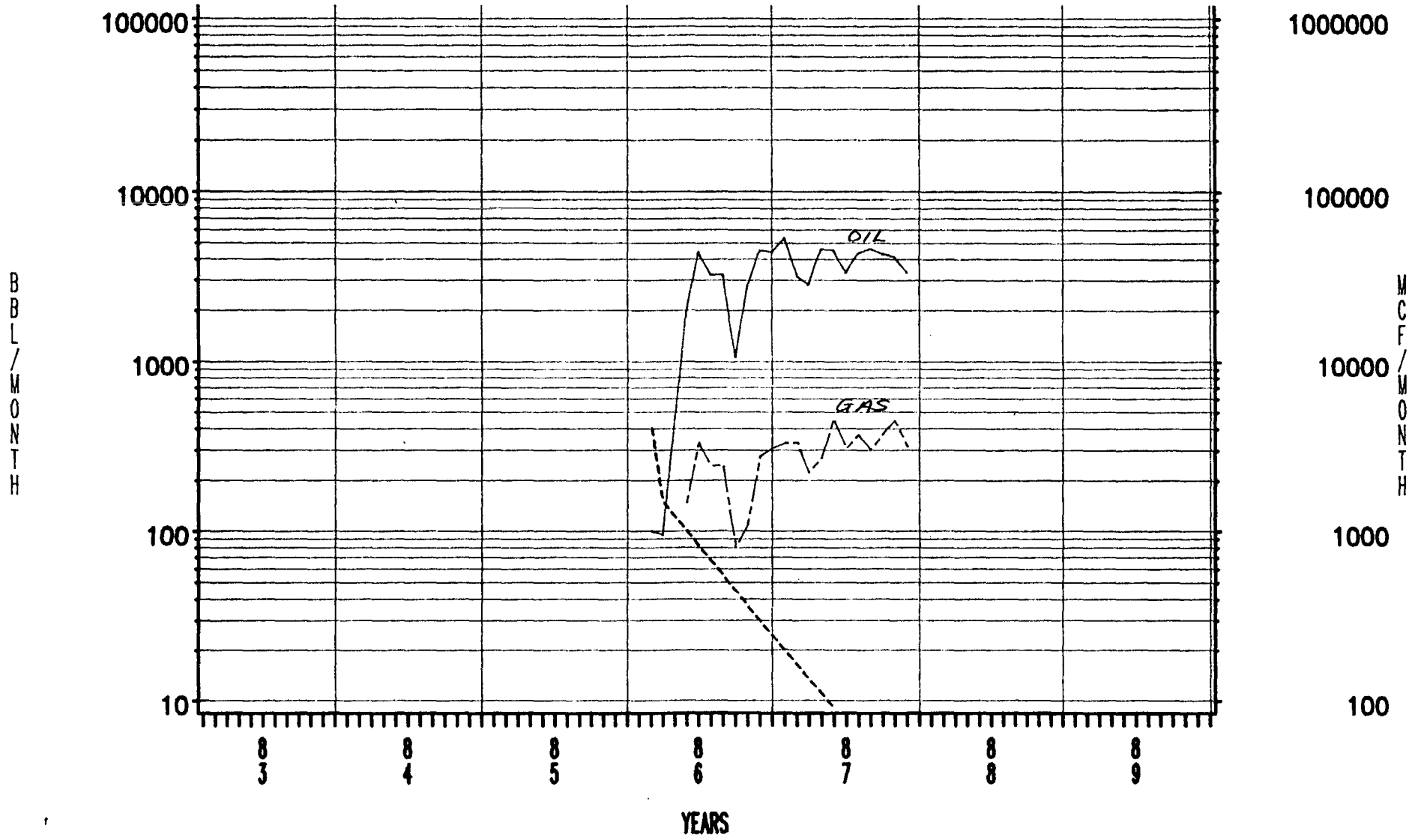
CASE NO. 9326



NEW MEXICO OIL CONSERVATION COMMISSION

CASE NO. 9326

LEASE PLOT FOR
PROP_NO= LEASE=TAPACITOS WELL_ID=000004

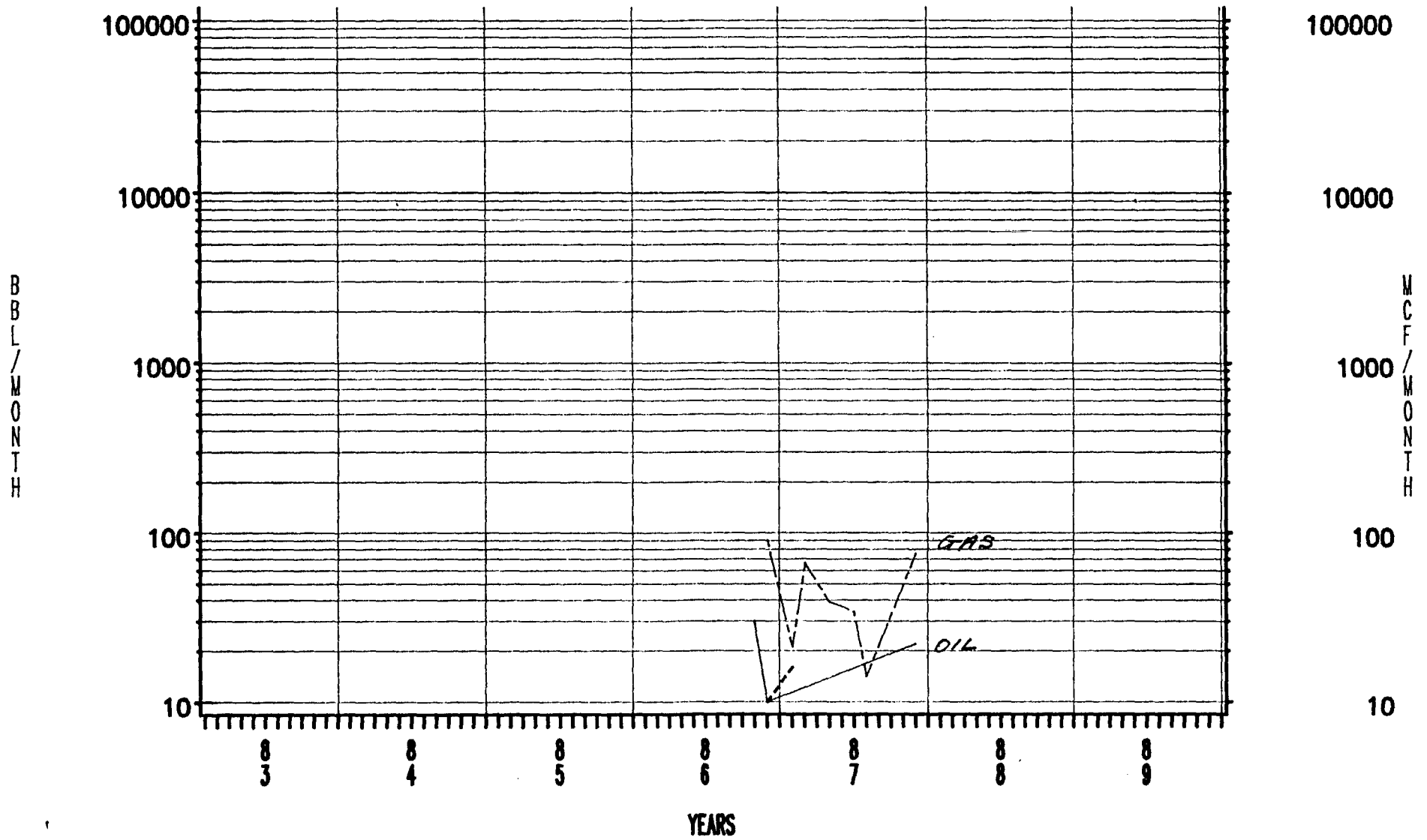


OIL _ WTR _ _ _ GAS _._.

NEW MEXICO OIL CONSERVATION COMMISSION

CASE NO. 9326

LEASE PLOT FOR
PROP_NO= LEASE=DIVIDE WELL_ID=000001

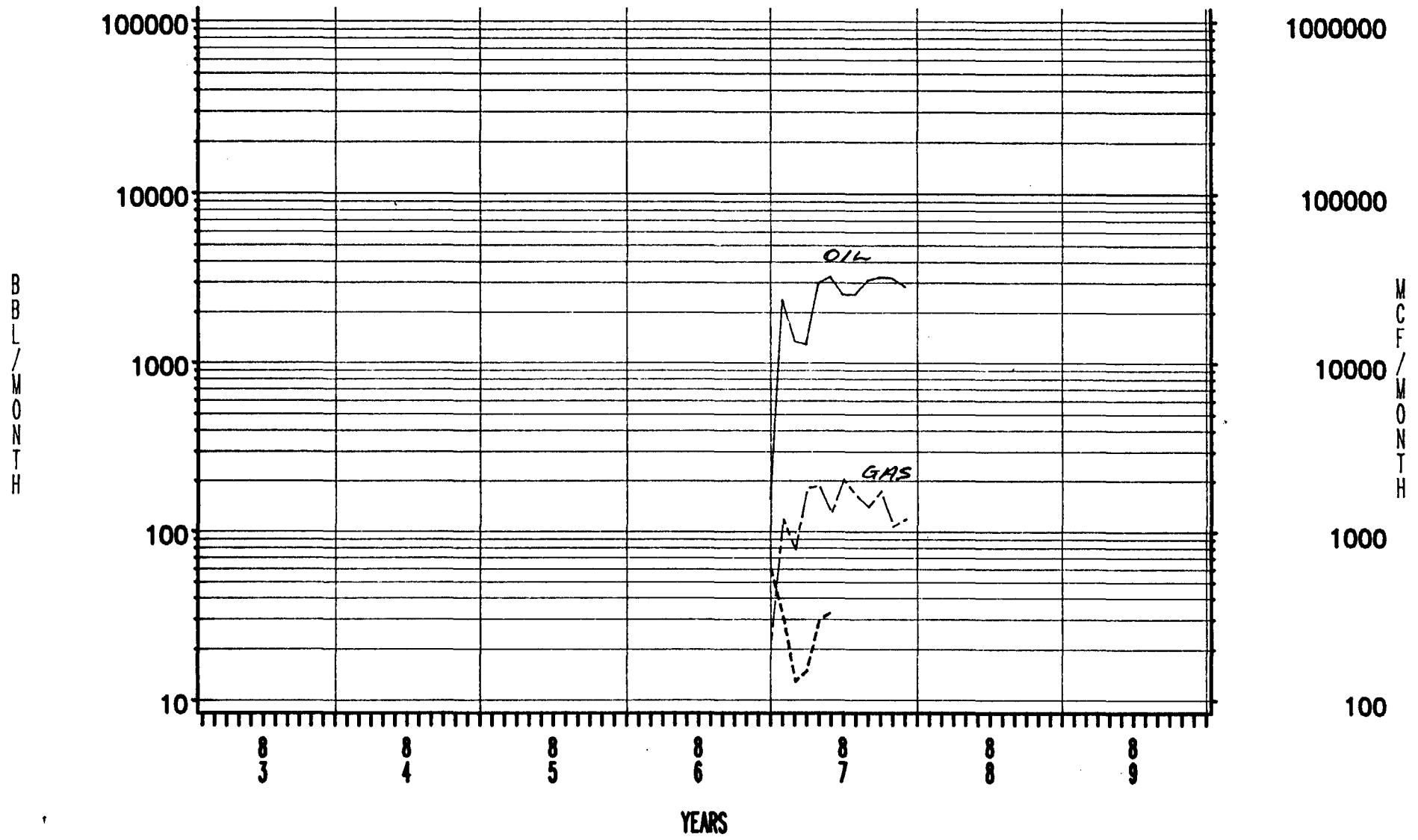


OIL _ WTR _ _ _ GAS _._.

NEW MEXICO OIL CONSERVATION COMMISSION

CASE NO. 9326

LEASE PLOT FOR
PROP_NO= LEASE=DIVIDE WELL_ID=000003

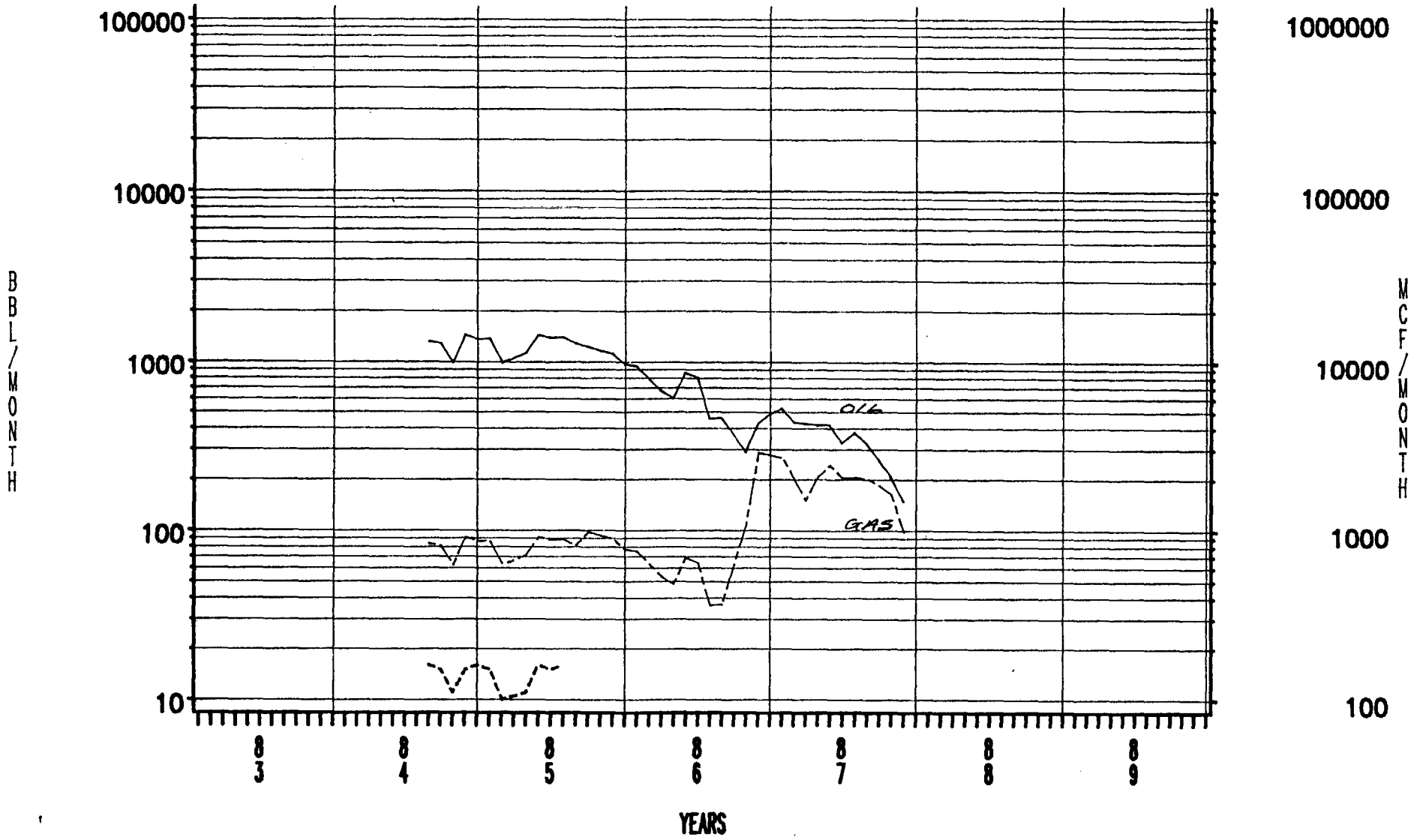


OIL _ WTR _ _ _ GAS _._.

NEW MEXICO OIL CONSERVATION COMMISSION

CASE NO. 9326

LEASE PLOT FOR
PROP_NO= LEASE=TAPACITOS WELL_ID=000002



OIL _ WTR _ _ _ GAS _._.

NEW MEXICO OIL CONSERVATION COMMISSION
CASE NO. 9326

AVERAGE WELL COST ANALYSIS
CANADA OJITOS UNIT ANALOGY

Well	AFE Cost	Final Report Cost
36(A-20)	613500	615000
37(G-5)	621000	551000
38(F-7)	664000	710000
Average	632833	625333

1P2/3124

NEW MEXICO OIL CONSERVATION COMMISSION
CASE NO. 9326

DETERMINATION OF ALLOCATED WELL COST

Total Well Cost Estimate:	$626,000
Less Costs of:	
AFE estimate for 5000' gas gathering line (10-28-87):	$47,500
Estimate for purchasing and installing artificial lift and associated expenditures:	$67,500
Net Well Cost to Date:	$511,000
East Half Sec. 26 Share @ 50%	$255,500
West Half Sec. 26 Share @ 50%	$255,500

1P2/3124

NEW MEXICO OIL CONSERVATION COMMISSION
CASE NO. 9326

OPERATING AGREEMENT SYNOPSIS
WILDFIRE #1 WELL
WEST HALF SECTION 26, T26N, R2W

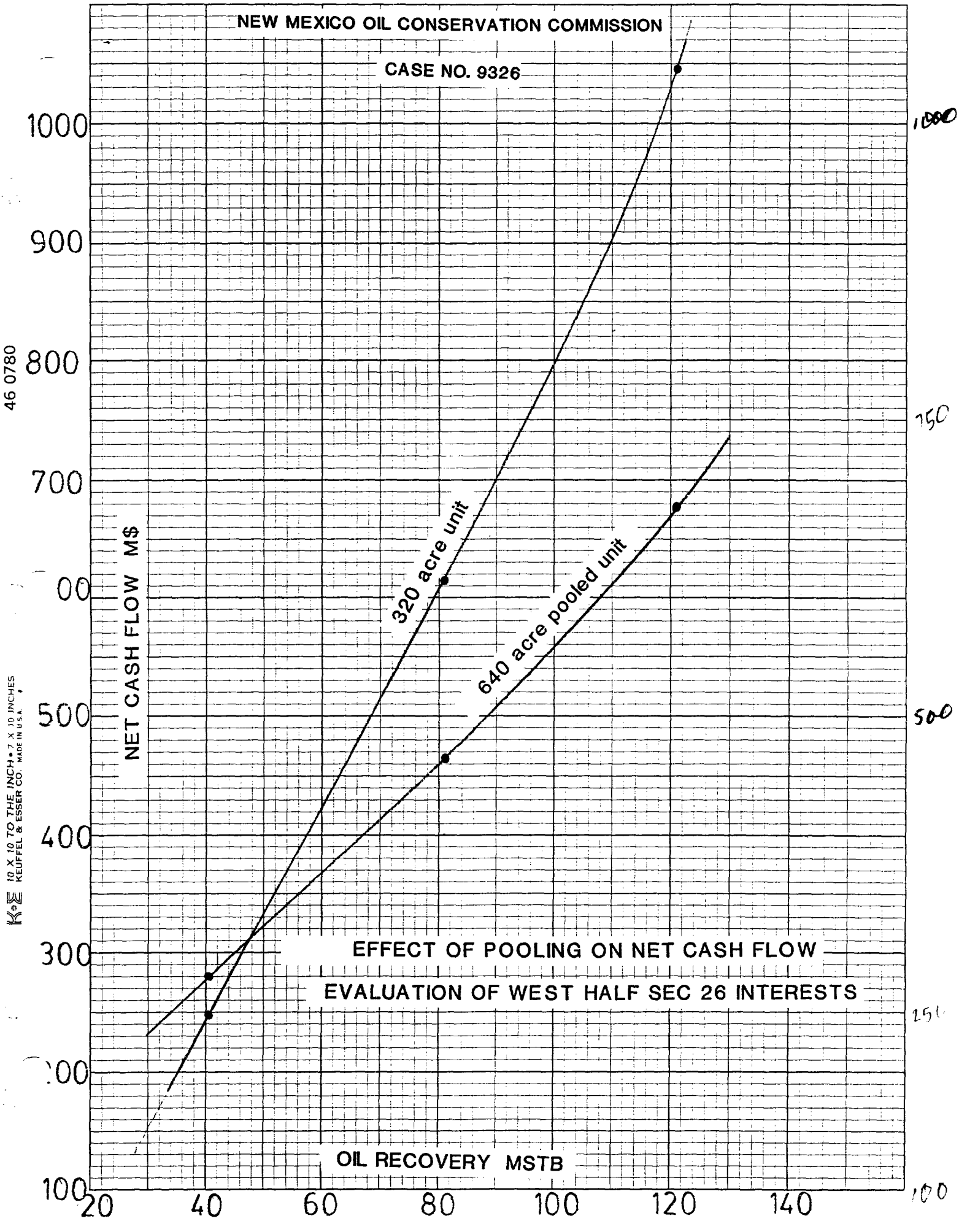
I. Expenditure Limit of $20,000 Without Consent of All Parties

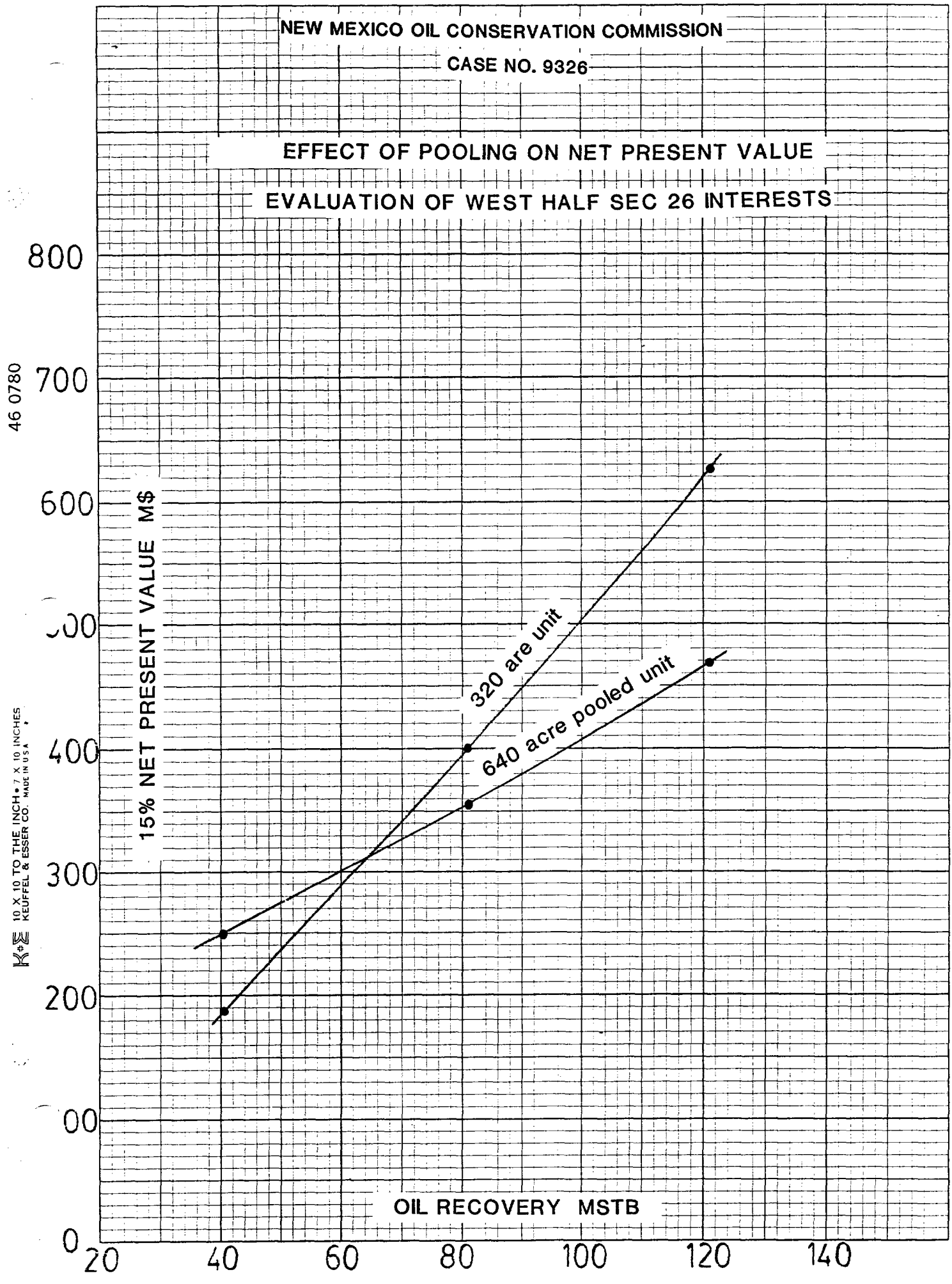
II. District Overhead Expense: Fixed Rate
Drilling Wells $3500
Producing Wells $350 OK

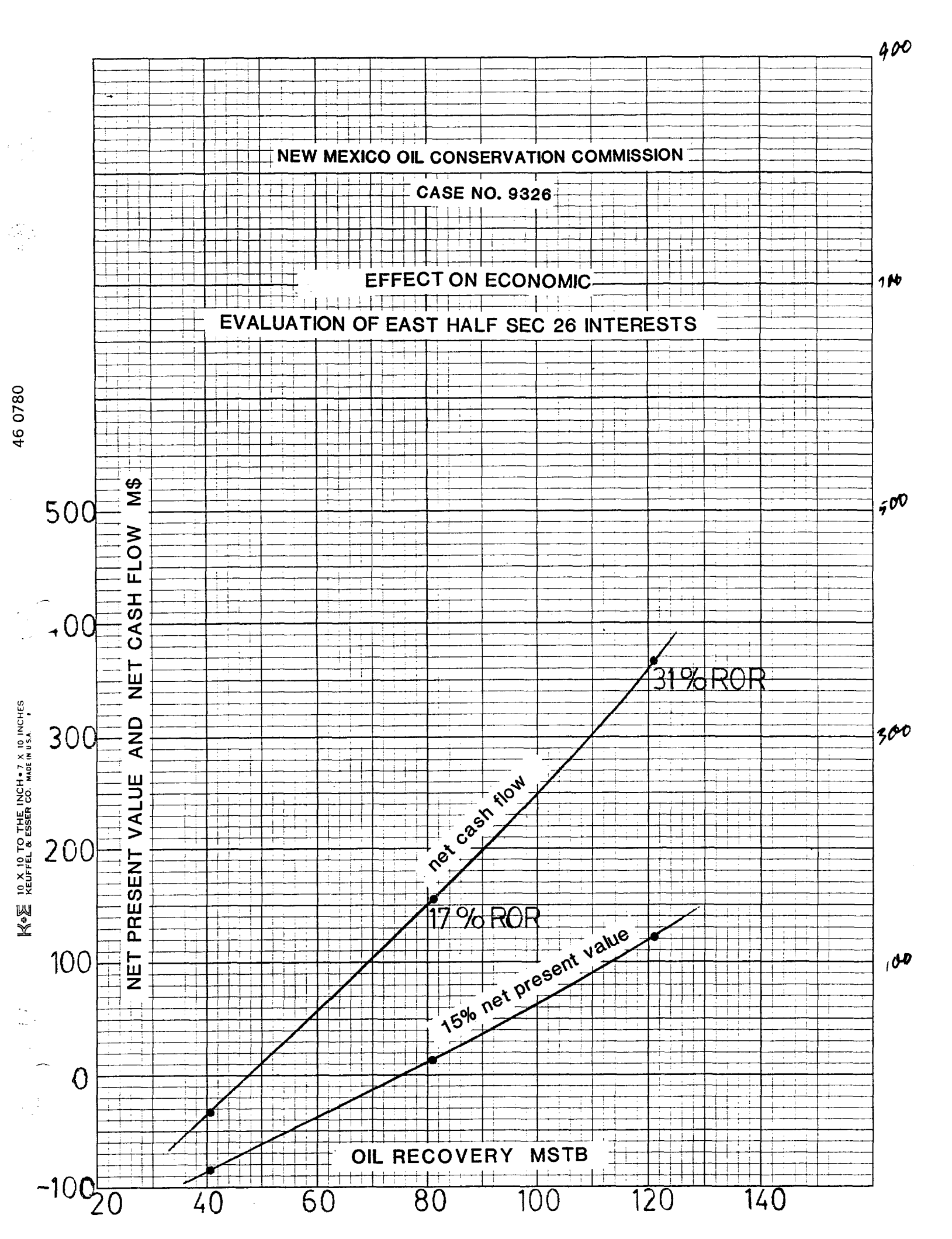
III. Delinquent Interest Rate: 12% or maximum permissible state rate

IV. Non-consent Provision: that is in the joint
300% Drilling and Completion Cost
100% Surface Equipment
100% Operating Expense

1P2/3124


NEW MEXICO OIL CONSERVATION COMMISSION
CASE NO. 9326
NET CASH FLOW M$
OIL RECOVERY MSTB
320 acre unit
640 acre pooled unit
EFFECT OF POOLING ON NET CASH FLOW
EVALUATION OF WEST HALF SEC 26 INTERESTS
1000
900
800
700
00
500
400
300
:00
100
20
40
60
80
100
120
140
1000
750
500
250
100
46 0780
10 X 10 TO THE INCH • 7 X 10 INCHES
KEUFFEL & ESSER CO. MADE IN U.S.A.


NEW MEXICO OIL CONSERVATION COMMISSION
CASE NO. 9326
EFFECT OF POOLING ON NET PRESENT VALUE
EVALUATION OF WEST HALF SEC 26 INTERESTS
15% NET PRESENT VALUE M$
800
700
600
400
300
200
00
0
320 are unit
640 acre pooled unit
OIL RECOVERY MSTB
20
40
60
80
100
120
140
46 0780
10 X 10 TO THE INCH • 7 X 10 INCHES
KEUFFEL & ESSER CO. MADE IN U.S.A.



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10 X 10 TO THE INCH • 7 X 10 INCHES
KEUFFEL & ESSER CO. MADE IN U.S.A.

NEW MEXICO OIL CONSERVATION COMMISSION
CASE NO. 9326

HISTORY OF EVENTS

June 29, 1987	Sun makes an offer to purchase Hixon Development's overriding royalty interest in the west half of Sec. 26-26N-2W.
December 29, 1987	Hixon Development files a waiver to drill the J. Whitney #1 well in the east half of Sec. 26 and form a 320 acre unit.
January 21, 1988	Hixon Development proposes forming a 640 acre pooled unit in consideration for a $183,333.33 payment.
February 1, 1988	Sun replies to the initial proposal that the offer is being considered.
February 9, 1988	An application to form a 640 acre unit is sent to the New Mexico Oil Conservation Commission.
February 11, 1988	Hixon Development is advised of Sun's application for forming a 640 acre unit.
February 12, 1988	Approximate date when Sun verbally informs Hixon of its counter proposal for a $255,500 payment from the east half interest owners.
February 16, 1988	Hixon replies to Sun's counter offer that the cost is too high.
February 22, 1988	Sun mails additional explanation of its counter offer to Hixon.
February 25, 1988	A request to the Oil Conservation Commission to consolidate and continue cases 9326 and 9295 is filed.
March 18, 1988	Approximate date, when Hixon asks Sun if Sun would be willing to negotiate costs and accept a figure less than $255,500. Sun's response is that the west half owners cannot accept a lower value.

1P2/3124

KELLAHIN, KELLAHIN AND AUBREY
Attorneys at Law
El Patio - 117 North Guadalupe
Post Office Box 2265
Santa Fe, New Mexico 87504-2265

W. Thomas Kellahin
Karen Aubrey

Jason Kellahin
Of Counsel

Telephone 982-4285
Area Code 505

February 25, 1988

Mr. Michael E. Stogner
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87504

Re: Sun Exploration and Production Co.
NMOCD Case 9326

Dear Mr. Stogner:

Mr. Tommy Roberts, attorney for Hixon Development Company has requested that the Sun Case 9326 now set for hearing on March 2, 1988 be continued and consolidated with the Hixon Case 9295 which is set on the March 16, 1988 examiner's docket.

I have advised Mr. Roberts that Sun has no objection to his request for a continuance and accordingly request that Case 9326 be continued and consolidated with Case 9295 to be heard on March 16th.

Very truly yours,

Original signed by
W. THOMAS KELLAHIN

W. Thomas Kellahin

WTK:ca

cc: Allen Tubb, Esq. (Sun-Dallas)
Tommy Roberts, Esq.
Ken Mueller (Sun-Denver)

Ken P

Sun Production Operations Division
Rocky Mountain District

February 22, 1988

Sun Exploration and Production Company
PO Box 5940
Terminal Annex
Denver CO 80217-5940
303 696 3500

Hixon Development Company
P.O. Box 2810
Farmington, New Mexico 87499

Attention: John Corbett

RE: Wildfire #1
Section 26, T26N, R2W
Gavilan Pool
Rio Arriba, New Mexico

Dear Sir:

In regards to Hixon Development Corporation's proposal to pool the east half and west half of Section 26, Sun believes a more equitable payment due the west half owners is $255,500. This figure is based on an average current cost of $626,000, to drill, complete, and equip wells in this area. The figure of $255,500 was derived using one-half the average cost less the proportionate share of additional equipment needed to place the Wildfire #1 well on production.

Sun's position in these matters is that 640 acre spacing and proration units are appropriate in light of the pressure communication between wells in the field. The New Mexico Oil and Gas Conservation Commission has established 640 acre spacing with the option for a second well on the proration unit. The Commission has "grandfathered" existing 320 acre units. This rule, however, does not preclude operators from applying for an exception to the pool rules and voluntarily pooling units such as the Wildfire #1. The rule, as written, does protect owners of existing wells from suffering possible financial losses due to force pooling.

If you are in agreement to the proposed payment and that Sun remain operator of the well, please notify Sun, to my attention, and an appropriate contract can be developed.

Sincerely,

Ken Mueller

Ken Mueller

KM:rc

cc: Tom Golden
Allen Tubb
Floyd Wiesepape

IP2/3079

HixonDevelopment
COMPANY

February 16, 1988

Mr. Ken Mueller
District Reservoir Engineer
Sun Exploration and Production Company
P.O. Box 5940
Terminal Annex
Denver, CO 80217-5940

Subject: Wildfire Well No. 1
Section 26, T26N, R2W
Rio Arriba Co., NM

Dear Mr. Mueller:

Hixon Development Company has received your counter to our offer to join the referenced well. First, let me thank you for your prompt response. Secondly, in the future please contact Hixon directly on this issue.

Regarding your proposal, there appears to be some inconsistency in our two approaches. I believe that you are familiar with Sun's earlier bid to buy our interest in the Wildfire, but in the event that you are not you may wish to refer to the enclosure at this time. Hixon's offer was made on the value of the property based on Sun's price. Sun, on the other hand, has countered us with their cost to buy the property.

Post Office Box 2810
Farmington, New Mexico 87499
505 326-3325

While we expect to bear our share of future well costs (i.e. tying the well into our gas gathering system), Hixon cannot justify an investment where our costs would be greater than our present value. If Sun's previous estimation of the present value is incorrect I would be happy to discuss input parameters and it is possible that we could work jointly to reach an acceptable purchase price.

Very truly yours,

John C. Corbett

John C. Corbett
Vice President - Exploration

Enclosure

xc: Dugan Production Corp.
P.O. Box 208
Farmington, NM 87499

Tommy Roberts
3005 Northridge Dr.
Farmington, NM 87401

KELLAHIN, KELLAHIN AND AUBREY
Attorneys at Law
El Patio - 117 North Guadalupe
Post Office Box 2265
Santa Fe, New Mexico 87504-2265

W. Thomas Kellahin
Karen Aubrey

Jason Kellahin
Of Counsel

Telephone 982-4285
Area Code 505

February 11, 1988

"Federal Express"

Tommy Roberts, Esq.
3005 Northridge Drive
Suite G
Farmington, New Mexico 87401

Re: Hixon Case 9295

Dear Tommy:

Enclosed is a copy of the compulsory pooling application I file on Tuesday of this week. As we discussed on Wednesday, I am awaiting receipt from Sun of a proposed method for Hixon to participate in the Wildfire well and will call you just as soon as I have that information.

I would request that we continue the Hixon case until the March 2nd hearing and hopefully by then we will be able to resolve this matter.

Best regards,

W. Thomas Kellahin

WTK:ca
Enc.

cc: Frank Syfan, Esq.
Ken Mueller
Allen Tubb, Esq.

KELLAHIN, KELLAHIN AND AUBREY
Attorneys at Law
El Patio - 117 North Guadalupe
Post Office Box 2265
Santa Fe, New Mexico 87504-2265

W. Thomas Kellahin
Karen Aubrey

Jason Kellahin
Of Counsel

Telephone 982-4285
Area Code 505

February 9, 1988

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

Re: Application of Sun Exploration and Production Company for Compulsory Pooling for the Wildfire Well, Gavilan Mancos Oil Pool

Dear Mr. LeMay:

On behalf of Sun Exploration and Production Company, please find enclosed our application for compulsory pooling for the Wildfire Well #1 in Section 26, T26N, R2W, Rio Arriba County, New Mexico. This case involves the same subject matter as the Hixon Case 9295 set for hearing on February 17, 1988. We would request that the Hixon case be continued and consolidated with this case.

The following is a suggested advertisement for this case:

Application of Sun Exploration and Production Company for an order pooling all mineral interests in the Gavilan-Mancos Oil Pool underlying a certain 640-acre tract of land in Rio Arriba County, New Mexico. Applicant in the above-styled cause, seeks an order pooling all mineral interests in the Gavilan-Mancos Oil Pool underlying all of Section 26, Township 26 North, Range 2 West, to form a standard 640-acre oil spacing and proration unit in said pool. Said unit is to be dedicated to the Sun Exploration and Production Company Wildfire Well No. 1 in Unit N of said Section 26 which is presently completed in and producing from the Gavilan-Mancos Oil Pool. Also to be considered will be the method for cost allocation and participation thereof as well as actual operating costs and charges for supervision. Applicant further requests that Sun Exploration and Production Company remain as operator of

the well and that the effective date of any order issued in the case be retroactive to June 8, 1987. Said well is located approximately 4.5 miles east-northeast of Ojitos Post Office.

Very truly yours,

W. Thomas Kellahin

WTK:ca
Enc.

cc: Mr. Ken Mueller
Sun Exploration and Production Company
Cherry Creek Place
3151 South Vaughn Way
Aurora, Colorado 80014

Allen Tubb, Esq.
Sun Exploration & Production Company
Four North Park East
Dallas, Texas 75231

"Certified Return-Receipt Requested"

All Parties Listed in Application

STATE OF NEW MEXICO
DEPARTMENT OF ENERGY AND MINERALS
OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION
OF SUN EXPLORATION AND PRODUCTION
COMPANY FOR COMPULSORY
RIO ARRIBA COUNTY, NEW MEXICO. CASE NO.

A P P L I C A T I O N

Comes now SUN EXPLORATION AND PRODUCTION COMPANY, by and through its attorneys, Kellahin, Kellahin & Aubrey and in accordance with Section 70-2-17(c) NMSA-1978 applies to the New Mexico Oil Cosnervation Division for an order pooling all mineral interest in the Gavilan Mancos Oil Pool underlying Section 26, T26N, R2W, NMPM, Rio Arriba County, New Mexico to form a 640-acre oil spacing and proration unit in said pool to be dedicated to the Sun Exploration and Production Company Wildfire Well No. 1 located in Unit N of said Section 26 which is presently being completed for production from the Gavilan Mancos Oil Pool and dedicated to a previously approved 320 acre non-standard oil spacing and proration unit as promulgated by Rule 2(a) of Division Order R-7407-E, and in support thereof would show:

1. Applicant is the operator of the Wildfire Well No. 1 located in Unit N of Section 26, T26N, R2W, NMPM, Rio Arriba County, New Mexico.

2. Applicant has drilled its Wildfire Well in Section 26 and is in the process of completing and testing the subject well.

3. Applicant seeks to dedicate all of Section 26, being 640 acres, to the well with respect to production from the Gavilan Mancos Oil Pool.

4. The New Mexico Oil Conservation Commission issued Order R-7407-E effective June 8, 1987 provides for 640 acre spacing and proration units for the Gavilan Mancos Oil Pool.

5. Hixon Development Company is a working interest owner in the E/2 of said Section 26 and has filed an application with the Oil Conservation Division which is docketed as Division Case 9295 seeking the approval of a 320-acre non-standard oil proration and spacing unit consisting of the E/2 of said Section 26.

6. Sun is seeking the voluntary agreement from all mineral interest owners in Section 26 for the participation in the Wildfire Well and the formation of a 640 acre unit for the subject well but has been unable to reach an agreement with all parties on the method for participation in the Wildfire Well.

7. Applicant seeks to have this matter heard at the Examiner's hearing now scheduled for March 2, 1987 and further seeks that the Hixon Case 9295 now set for February 17, 1988 be continued and consolidated for hearing on the same docket with the Sun application.

8. That the parties listed in Exhibit A attached hereto have been provided with a copy of this application as notification of the application and request for hearing pursuant to Division notice rules.

9. The pooling of all the Gavilan Mancos Oil interest underlying Section 26 will prevent the drilling of unnecessary wells, prevent waste, and protect correlative rights.

WHEREFORE, applicant requests that this application be set for hearing before the duly appointed Division examiner on March 2, 1988 and that after hearing the Division enter its order pooling the mineral interest described herein. Applicant further seeks that it be named operator of the well, that the order make provisions for applicant to recover reasonable compensation for the investment made on behalf of the mineral owners in Section 26, and that the effective date of the allocation of production be June 8, 1987, and that if after the election period expires, any party who has failed to pay its fair share of the participation costs

be assessed a risk factor in the amount of 200% and for such other and further relief as may be proper.

Respectfully submitted,

By _____
W. Thomas Kellahin, Esq.
P. O. Box 2265
Santa Fe, New Mexico 87504

Attorneys for Sun
Exploration and Production
Company

EXHIBIT "A"

Hixon Development Company
Attn: Mr. Aldrich L. Kuchera
Box 2810
Farmington, New Mexico 87401

Dugan Production Corporation
Attn: Mr. John Roe
P. O. Box 208
Farmingotn, New Mexico 87401

Sun Production Operations Division
Rocky Mountain District

Sun Exploration and Production Company
PO Box 5940
Terminal Annex
Denver CO 80217-5940
303 696 3500

February 1, 1988

Hixon Development Co.
P.O. Box 2810
Farmington, New Mexico 87499

Attention: Aldrich Kuchera

Dear Mr. Kuchera:

I am in receipt of your letter concerning the Wildfire Well No. 1, Section 26, T26N, R2W, Rio Arriba Co., New Mexico. I understand your proposal is to apply for a non-standard 320 acre proration unit consisting of the E/2 of section 26 this Wednesday, February 3, 1988. Alternative proposal is to pay $183,333.33 for a 50% W.I. in the Wildfire No. 1 and contribute the 320 acre E/2 of section 26 to a 640 acre proration unit.

I am in the process of evaluating your offer. Should Sun decide to accept, a Joint Operating Agreement between Sun (as operator of the W/2) and all working interests in the E/2 will be needed.

Sincerely,

Ken Mueller

Ken Mueller
District Reservoir Engineer

KM:rc

1P2/3030 - (1)

HixonDevelopment
COMPANY

January 21, 1988

Mr. William Branch
Manager, Acquisitions
Sun Exploration & Production Company
8150 North Central Expy.
P. O. Box 2880
Dallas, TX 75221-2880

Subject: Wildfire Well No. 1
Section 26, T26N, R3W
San Juan Co., NM

Dear Mr. Branch:

This letter is in reference to your correspondence dated June 29, 1987 regarding the referenced well. It also concerns our letter to Ms. Elisa Shea of your Denver office, a copy of which is enclosed.

We have reviewed this situation and feel that a possible alternative to drilling the proposed infill well in section 26 would be for Hixon Development Company et al to join with Sun and create a 640 acre proration unit encompassing the entire section. This could be accomplished by our purchasing a 50% working interest in the Wildfire No. 1 and at the same time contributing our half of the section to your well.

In order to be equitable in joining our interests we are offering you the same dollar amount per working interest percent that you offered Hixon in your June letter, the only difference being that you were offering to buy an overriding royalty interest with a reversion. We have determined that a working interest percentage is equal to half of the value of an override percentage. Thus your offer of $22,000.00 for a 3.0% ORRI would be proportionate to $183,333.33 for a 50.0% working interest.

Our hearing for the nonstandard location is scheduled for February 3, 1988, so if it is possible we would like to have some idea of what your position on communitization is by then. If that is not possible we can still communitize even though a non-standard proration unit has been approved. This offer may be accepted in writing any time until 4:00 p.m. MST February 19, 1988.

Post Office Box [illegible]
Farmington, New Mexico 87499
505 326-3325

This offer is made subject to the same six points included in your letter, to wit:

1. The effective date of the purchase shall be 7:00 a.m. on April 1, 1988. All operating and other costs and charges attributable to the Subject Properties prior to the effective date shall remain your responsibilty. Taxes and other like charges shall be prorated as of the effective date of the purchase.

2. The closing of the sale shall take place within thirty (30) days after Hixon notifies you that Hixon accepts your title. In the event your title to any of the Subject Properties should fail, Hixon shall have the right but not the obligation to close on those properties whose title Hixon has approved and Hixon shall reduce the purchase price by the amount allocated by it to the properties whose title failed. In the event title should fail as to a portion of any of the Subject Properties so that you are unable to deliver to Hixon the billing and income interests therein specified in Exhibit "A", Hixon shall have the right but not the obligation to close on said property but shall reduce the purchase price allocated by it in the proportion that the amount of reduced income interest bears to the income interest specified.

3. The purchase price shall be reduced by the amount of net income, if any (being the proceeds from the sale of all production less operating costs) received by you from the Subject Properties, from and after the effective date. Within ninety days following closing, or as soon thereafter as practical, an accounting and adjustment between the parties will be made of all charges and credits arising subsequent to the effective date and prior to closing. However, neither party to this agreement shall be absolved from liability should such accounting and adjustment not be completed within said ninety-day period.

4. You shall forthwith furnish to Hixon copies of all leases, abstracts of title, agreements and other documents and correspondence, including prior title opinions, in your possession in any way affecting title to the Subject Properties.

5. At closing, you will deliver to Hixon assignments, bills of sale, and other instruments, relating to or necessary to close the sale of the Subject Properties, all to be in form and content acceptable to Hixon. In such instruments you shall warrant that you are the owner of the interests described therein and have the right to sell same and that the Subject Properties are free and clear of all liens, charges and encumbrances of whatsoever kind and nature, including but not

limited to any federal or state refund obligations, excepting only instruments presently of record creating royalty and overriding royalty interests. On and after the closing, you agree at Hixon's request, from time to time, to execute and deliver such other and additional instruments, notices, releases and other documents and to do all such other acts necessary to fully accomplish Hixon's acquisition of the Subject Properties.

6. You shall continue to remain liable and shall indemnify Hixon from and against any liability, loss, costs, claims, or damages arising or accruing prior to the closing date, and such indemnification shall be included in and shall be deemed to apply to all assignments, transfers and other documents conveying the Subject Properties to Hixon.

To accept this offer, please return one executed copy of this letter to Hixon to my attention. Upon your acceptance, this letter shall constitute a contract of purchase and sale binding upon the parties hereto and their respective successors and assigns.

Very truly yours,

HIXON DEVELOPMENT COMPANY

Aldrich L. Kuchera
President

JCC/plc

Accepted and Agreed to this _____ day
of _____, 1988.

SUN EXPLORATION & PRODUCTION COMPANY

By:_____
Title:

WC

HixonDevelopment
COMPANY

December 29, 1987

Ms. Elisa Shea
Sun Exploration & Production Company
1801 Broadway, Suite 1000
Denver, Colorado 80202

Subject: Non-standard Proration Unit
Joe Whitney #1 Well
990' FNL, 890' FEL
26-T26N-R2W, N.M.P.M.
Rio Arriba County, New Mexico

Dear Ms. Shea:

Hixon Development Company requests a waiver from your company to drill and complete the subject well in a non-standard proration unit offsetting your existing leases. The request is made per NMOCD Order R7407E which established 640 acre spacing for the Gavilan Mancos pool. The Order requires that all non-standard proration units be approved after a hearing before the commission.

Please find three enclosures with this letter. The first is a plat showing Gavilan Mancos pool wells and stepouts in the vicinity of our proposed location. The second two are waivers stating that you approve of our nonstandard proration unit.

We respectfully request that you sign both waivers and return them in the enclosed postpaid envelope. If you object to the proposed location, please provide a letter to this office stating your reason.

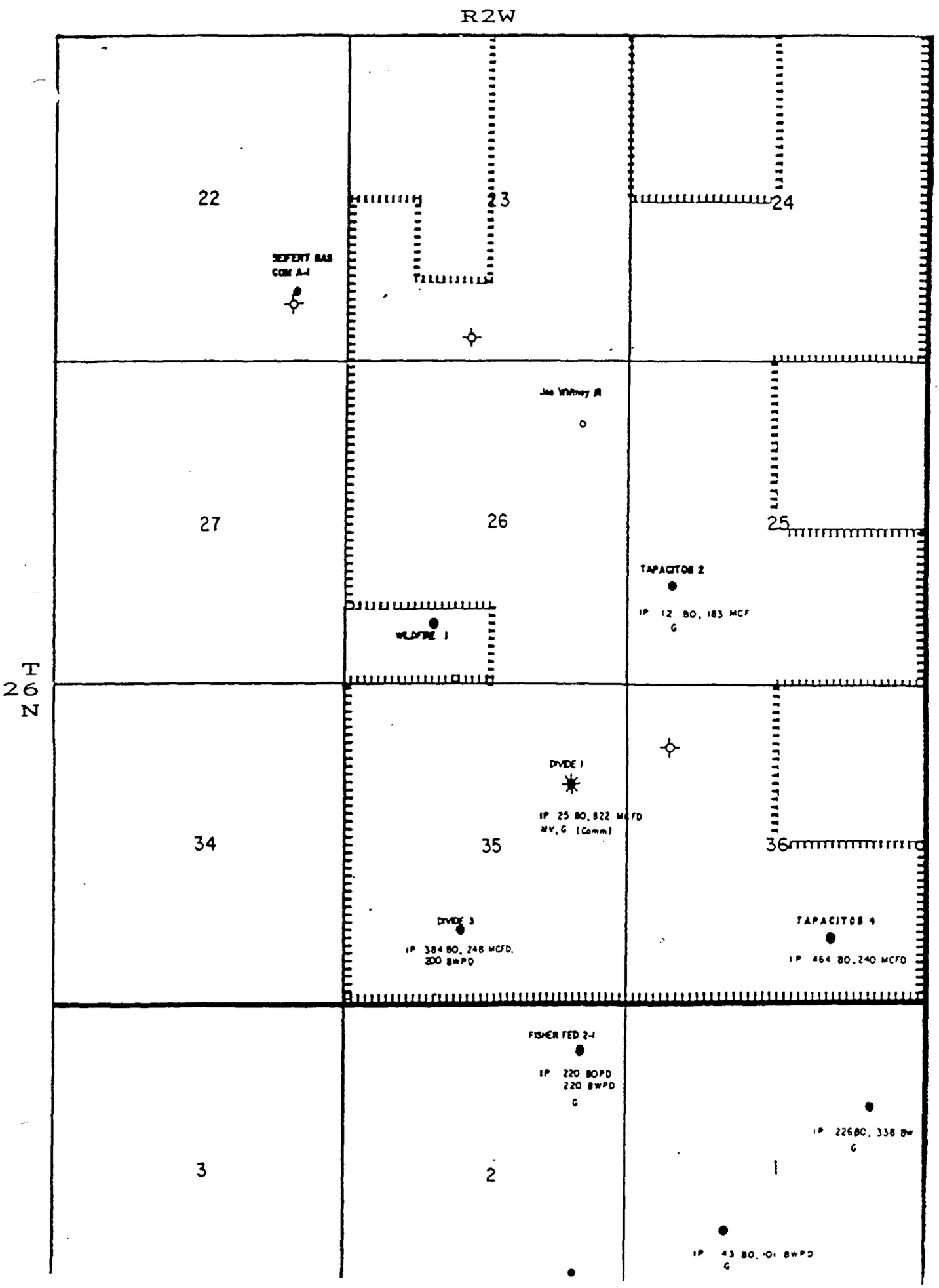
Thank you for your prompt attention to this matter.

Very truly yours,

Charles Orin Foster
Vice President - Land

COF/das

Enclosures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SIEFERT GAS COM A-1
Joe Whitney #1
TAPACITOS 2
IP 12 BO, 183 MCF
G
WILDFIRE 1
DIVIDE 1
IP 25 BO, 822 MCFD
MV, G (Comm)
DIVIDE 3
IP 384 BO, 248 MCFD,
200 BWPD
TAPACITOS 4
IP 464 BO, 240 MCFD
FISHER FED 2-1
IP 220 BOPD
220 BWPD
G
IP 226 BO, 338 BW
G
IP 43 BO, 101 BWPD
G

Cur —
Tce —
Well File —

Sun Exploration and Production Company
Sun Exploration Centre II
8150 North Central Expy
P O Box 2880
Dallas TX 75221-2880
214 891 1500

June 29, 1987

Hixon Development Company
~~341 Milan Building~~ 5151 AZTEC DRIVE
~~San Antonio, Texas 78205-1603~~
FARMINGTON, NEW MEXICO 87401

Re: RA-25-87
Gavilan Field
Rio Arriba County, New Mexico

Gentlemen:

Sun Exploration and Production Company ("Sun") desires to purchase all of your right, title and interest in the properties described on Exhibit "A" attached hereto and made a part hereof, along with all of your right, title and interest in the wells, equipment, personal property, and easements in connection therewith.

Providing you own not less than the Billing and Income Interest set forth in Exhibit "A" and subject to the terms and conditions set forth below, Sun will pay you, at the closing, the sum of $22,000.00 for all your right, title and interest in and to the Subject Properties.

Our agreement shall be subject to the following:

1. The effective date of the purchase shall be 7:00 a.m. on July 1, 1987. All operating and other costs and charges attributable to the Subject Properties prior to the effective date shall remain your responsibility. Taxes and other like charges shall be prorated as of the effective date of the purchase.

2. The closing of the sale shall take place within thirty (30) days after Sun notifies you that Sun accepts your title. In the event your title to any of the Subject Properties should fail, Sun shall

have the right but not the obligation to close on those properties whose title Sun has approved and Sun shall reduce the purchase price by the amount allocated by it to the properties whose title failed. In the event title should fail as to a portion of any of the Subject Properties so that you are unable to deliver to Sun the billing and income interests therein specified in Exhibit "A," Sun shall have the right but not the obligation to close on said property but shall reduce the purchase price allocated by it in the proportion that the amount of reduced income interest bears to the income interest specified.

3. The purchase price shall be reduced by the amount of net income, if any (being the proceeds from the sale of all production less operating costs) received by you from the Subject Properties, from and after the effective date. Within ninety days following closing, or as soon thereafter as practical, an accounting and adjustment between the parties will be made of all charges and credits arising subsequent to the effective date and prior to closing. However, neither party to this agreement shall be absolved from liability should such accounting and adjustment not be completed within said ninety-day period.

4. You shall forthwith furnish to Sun copies of all leases, abstracts of title, agreements and other documents and correspondence, including prior title opinions, in your possession in any way affecting title to the Subject Properties.

5. At closing, you will deliver to Sun assignments, bills of sale, and other instruments relating to or necessary to close the sale of the Subject Properties, all to be in form and content acceptable to Sun. In such instruments you shall warrant that you are the owner of the interests described therein and have the right to sell same and that the Subject Properties are free and clear of all liens, charges and encumbrances of whatsoever kind and nature, including but not limited to any federal or state refund obligations, excepting only instruments presently of record creating royalty and overriding royalty interests. On and after the closing, you agree at Sun's request, from time to time, to execute and deliver such other and additional instruments, notices, releases and other documents and to do all such other acts necessary to fully accomplish Sun's acquisition of the Subject Properties.

6. You shall continue to remain liable and shall indemnify Sun from and against any liability, loss, costs, claims, or damages arising or accruing prior to the closing date, and such indemnification shall be included in and shall be deemed to apply to all assignments, transfers and other documents conveying the Subject Properties to Sun.

RA/II/GAVILAN/HIXON

This offer shall be open for acceptance up to but not after July 21, 1987 at 4:00 p.m., Dallas, Texas time, and if your acceptance is not received by such time, this offer shall be null and void unless extended by mutual agreement.

To accept this offer, please return one executed copy of this letter to Sun to my attention. Upon your acceptance, this letter shall constitute a contract of purchase and sale binding upon the parties hereto and their respective successors and assigns.

Very truly yours,

SUN EXPLORATION AND PRODUCTION COMPANY

William H. Branch
Manager, Acquisitions

Accepted and Agreed to this _____ day
of _____, 19___.

HIXON DEVELOPMENT COMPANY

By: _____
Title:

RA/II/GAVILAN/HIXON

EXHIBIT "A"

To Letter Agreement dated June 29, 1987

Between

HIXON DEVELOPMENT COMPANY

And

SUN EXPLORATION AND PRODUCTION COMPANY

SUBJECT PROPERTIES:

All of your right, title and interest in the leases located in Rio Arriba County, New Mexico,, more particularly described below, along with all of your right, title and interest in the wells, equipment, personal property and easements in connection therewith:

Unit	Working Interest	Income Interest
Wildfire #1 Unit W/2 of Section 26-26N-2W	-0- BPO .24000000 APO	.03000000 ORRI .19200000 ESTIMATED

RA/II/GAVILAN/HIXON

Wildfire #1

APPROVAL--CERTIFICATION--DETERMINATION

Pursuant to the authority vested in the Secretary of the Interior, Section 17(j) of the Mineral Leasing Act of 1920, as amended (74 Stat. 784; 30 U.S.C. 226(j), and delegated to the District Manager, U.S. Bureau of Land Management, I do hereby:

A. Approve the attached communitization agreement covering, W½ Section 26, T. 26 N., R. 2 W., Rio Arriba County, New Mexico as to crude oil and associated natural gas producible from the Gallup and Dakota Formation.

B. Determine that the Federal lease or leases as to the lands committed to the attached agreement cannot be independently developed and operated in conformity with the well-spacing program established for the field or area in which said lands are located, and that consummation and approval of the agreement will be in the public interest.

C. Certify and determine that the drilling, producing, rental, minimum royalty and royalty requirements of the Federal lease or leases committed to said agreement are hereby established, altered, changed, or revoked to conform with the terms and conditions of the agreement.

Approved: FEB 0 6 1987

Gary C. Stephens
For District Manager
Bureau of Land Management

EFFECTIVE: November 1, 1986

CONTRACT NO.: NM015P35-87C-325

OPERATOR

COMMUNITIZATION AGREEMENT

Contract No. NM015P35-87C-325

THIS AGREEMENT entered into as of the 1st day of November, 1986, by and between the parties subscribing, ratifying, or consenting hereto, such parties being hereinafter referred to as "parties hereto".

W I T N E S S E T H :

WHEREAS, the Act of February 25, 1920 (41 Stat. 437), as amended by the Act of August 8, 1946 (60 Stat. 950; 30 U.S.C. Secs. 181 et. seq.) authorizes communitization or drilling agreements communitizing or pooling a Federal oil and gas lease, or any portion thereof, with other lands, whether or not owned by the United States, when separate tracts under such Federal lease cannot be independently developed and operated in conformity with an established well-spacing program for the field or area and such communitization or pooling is determined to be in the public interest: and

WHEREAS, the parties hereto own working, royalty or other leasehold interests, or operating rights under the oil and gas leases and lands subject to this agreement which cannot be independently developed and operated in conformity with the well-spacing program established for the field or area in which said lands are located; and

WHEREAS the parties hereto desire to communitize and pool their respective mineral interest in lands subject to this agreement for the purpose of developing and producing communitized substances in accordance with the terms and conditions of this agreement:

NOW, THEREFORE, in consideration of the premises and the mutual advantages to the parties hereto, it is mutually covenanted and agreed by and between the parties hereto as follows:

1. The lands covered by this agreement (hereinafter referred to as "communitized area") are described as follows:"

Township 26 North, Range 2 West, N.M.P.M.
Section 26: W/2
Rio Arriba County, New Mexico

Containing 320 acres, more or less, and this agreement shall include only the Gallup and Dakota formations underlying said lands and the crude oil and associated natural gas, hereinafter referred to as "communitized substances", producible from such formations.

This agreement shall apply to the Gallup and Dakota formations in the same manner as though a separate agreement for each formation had been entered into.

2. Attached hereto, and made a part of this agreement for all purposes is Exhibit B, designating the operator of the communitized area and showing the acreage, percentage and ownership of oil and gas interests in all lands within the communitized area, and the authorization, if any for communiti zing or pooling any patented or fee lands within the communitized area.

3. All matters of operation shall be governed by the operator under and pursuant to the terms and provisions of this agreement. A successor operator may be designated by the owners of the working interest in the communitized area and three (3) executed copies of a designation of successor operator shall be filed with the Authorized Officer.

4. Operator shall furnish the Secretary of the Interior, or his authorized representative, with a log and history of any well drilled on communitized area, monthly reports of operations, statements of oil and gas sales and royalties and such other reports as are deemed necessary to compute monthly the royalty due the United States, as specified in the applicable oil and gas operating regulations.

5. The communitized area shall be developed and operated as an entirety, with the understanding and agreement between the parties hereto that all communitized substances produced therefrom shall be allocated among the leaseholds comprising said area in the proportion that the acreage interest of each leasehold bears to the entire acreage interest committed to this agreement.

6. (a) The royalties payable on communitized substances allocated to the individual leases comprising the communitized area and the rentals provided for in said leases shall be determined and paid on the basis prescribed in each of the individual leases. Payments of rentals under the terms of leases subject to this agreement shall not be affected by this agreement except as provided for under the terms and provisions of said leases or as may herein be otherwise provided. Except as herein modified and changed, the oil and gas leases subject to this agreement shall remain in full force and effect as originally made and issued.

   (b) It is agreed that for any Federal lease bearing a sliding- or step-scale rate of royalty, such rate shall be determined separately as to production from each communitized agreement to which such lease may be committed, and separately as to any noncommunitized lease production, provided, however, as to leases where the rate of royalty for gas is based on total lease production per day, such rate shall be determined by the sum of all communitized production allocated to such a lease and any noncommunitized lease production.

7. There shall be no obligation on the lessees to offset any well or wells completed in the same formation(s) as covered by this agreement on separate component tracts into which the communitized area is now or may hereafter be divided, nor shall any lessee be required to measure separately communitized substances by reason of the diverse ownership thereof, but the lessees hereto shall not be released from their obligation to protect said communitized area from drainage of communitized substances by a well or wells which may be drilled offsetting said area.

8. The commencement, completion, continued operation or production of a well or wells for communitized substances on the communitized area shall be construed and considered as the commencement, completion, continued operation or production on each and all of the lands within and comprising said communitized area, and operations or production pursuant to this agreement shall be deemed to be operations or production as to each lease committed hereto.

9. Production of communitized substances and disposal thereof shall be in conformity with allocation, allotments, and quotas made or fixed by any duly authorized person or regulatory body under applicable Federal or State statutes. This agreement shall be subject to all applicable Federal and State laws or executive orders, rules, and regulations, and no party hereto shall suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this agreement if such compliance is prevented by, or if such failure results from, compliance with any such laws, orders, rules, or regulations.

10. This agreement is effective November 1, 1986 upon execution by the necessary parties, notwithstanding the date of execution, and upon approval by the Secretary of the Interior or by his duly authorized representative, and shall remain in force and effect as to the Gallup and Dakota Formations individually for a period of 2 years, and so long thereafter as communitized substances are, or can be, produced in paying quantities from communitized formations or formation: Provided, that prior to production in paying quantities from the communitized area and upon fulfillment of all requirements of the Secretary of the Interior, or his duly authorized representative, with respect to any dry hole or abandoned well, this agreement may be terminated at any time by mutual agreement of the parties hereto. This agreement shall not terminate upon cessation of production if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted with reasonable diligence during the period of nonproduction. The two-year term of this agreement will not in itself serve to extend the term of any Federal lease which would otherwise expire during said period.

11. The covenants herein shall be construed to be covenants running with the land with respect to the communitized interests of the parties hereto and their successors in interest until this agreement terminates and any grant, transfer, or conveyance of any such land or interest subject hereto, whether voluntary or not, shall be and hereby is conditioned upon the assumption of all obligations hereunder by the grantee, transferee, or other successor in interest, and as to Federal land shall be subject to approval by the Secretary of the Interior.

12. It is agreed between the parties hereto that the Secretary of the Interior, or his duly authorized representative, shall have the right of supervision over all operations within the communitized area to the same extent and degree as provided in the oil and gas leases under which the United States of America is Lessor and in the applicable oil and gas regulations of the Department of the Interior.

13. This agreement shall be binding upon the parties hereto and shall extend to and be binding upon their respective heirs, executors, administrators, successors and assigns.

14. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument, in writing, specifically referring hereto, and shall be binding upon all parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all parties had signed the same document.

15. Nondiscrimination: In connection with the performance of work under this agreement, the operator agrees to comply with all of the provisions of Section 202(1) to (7) inclusive, of Executive Order 11246 (30 F.R. 12319), as amended, which are hereby incorporated by reference in this agreement.

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

WORKING INTEREST OWNERS

Kindermac Partners,
a Colorado General Partnership

DATE: November 5, 1986 By: _____
Jerome P. McHugh
Attorney-In-Fact

Nassau Resources, Inc.

DATE: November 5, 1986 By: _____
Jerome P. McHugh, President

Dugan Production Corp.

DATE: _____ By: _____

R. L. Andes

DATE: _____ By: _____

W. E. Lang

DATE: _____ By: _____

Michael W. Murphy

DATE: _____ By: _____

ACKNOWLEDGEMENTS

STATE OF COLORADO)
) ss.
COUNTY OF ARAPAHOE)

On this 5th day of November, 1986, before me personally appeared Jerome P. McHugh to me known to be the person who executed the foregoing instrument as attorney-in-fact for and in behalf of Kindermac Partners, a Colorado general partnership, and acknowledged that he executed the same as the free act and deed of said Kindermac Partners.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

Randi E. Martin

Randi E. Martin, Notary Public
in and for said County and State
Address: 650 S. Cherry St.
Denver, CO 80222

My commission expires: 9-26-90

STATE OF COLORADO)
) ss.
COUNTY OF ARAPAHOE)

On this 5th day of November, 1986, before me personally appeared Jerome P. McHugh, to me known to be the person who executed the foregoing instrument as President for and in behalf of Nassau Resources, Inc., and acknowledged that he executed the same as the free act and deed of said Nassau Resources, Inc.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

Randi E. Martin

Randi E. Martin, Notary Public
in and for said County and State
Address: 650 S. Cherry St.
Denver, CO 80222

My commission expires: 9-26-90

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

WORKING INTEREST OWNERS

Kindermac Partners,
a Colorado General Partnership

DATE: November 5, 1986

By: _____
Jerome P. McHugh
Attorney-In-Fact

Nassau Resources, Inc.

DATE: November 5, 1986

By: _____
Jerome P. McHugh, President

Dugan Production Corp.

DATE: November 11, 1986

By: _____
Thomas A. Dugan, President

R. L. Andes

DATE: _____

By: _____

W. E. Lang

DATE: _____

By: _____

Michael W. Murphy

DATE: _____

By: _____

ACKNOWLEDGEMENTS

STATE OF NEW MEXICO)
) ss.
COUNTY OF SAN JUAN)

The foregoing instrument was acknowledged before me this 11th day of November, 1986, by Thomas A. Dugan as President for DUGAN PRODUCTION CORP.

Witness my hand and official seal.

Judy F. Roderick
Notary Public
Address: Farmington, NM

My commission expires: 11/13/89

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

WORKING INTEREST OWNERS

Kindermac Partners,
a Colorado General Partnership

DATE: November 5, 1986

By: _____
Jerome P. McHugh
Attorney-In-Fact

Nassau Resources, Inc.

DATE: November 5, 1986

By: _____
Jerome P. McHugh, President

Dugan Production Corp.

DATE: _____

By: _____

R. L. Andes

DATE: Nov 12 86

By: _____

W. E. Lang

DATE: _____

By: _____

Michael W. Murphy

DATE: _____

By: _____

ACKNOWLEDGEMENTS

STATE OF New Mexico)
) ss.
COUNTY OF San Juan)

The foregoing instrument was acknowledged before me this 12th day of November, 1986, by R. L. Andes
as _____ for _____.

Witness my hand and official seal.

Frances Lipps
Notary Public
Address: 5004 Hallmarc
Farmington, NM 87401

FRANCES LIPPS NOTARY PUBLIC STATE OF NEW MEXICO

My commission expires: 3-28-87

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

WORKING INTEREST OWNERS

Kindermac Partners,
a Colorado General Partnership

DATE: November 5, 1986

By: _____
Jerome P. McHugh
Attorney-In-Fact

Nassau Resources, Inc.

DATE: November 5, 1986

By: _____
Jerome P. McHugh, President

Dugan Production Corp.

DATE: _____

By: _____

R. L. Andes

DATE: _____

By: _____

W. E. Lang

DATE: November 11 1986

By: W. E. Lang

Michael W. Murphy

DATE: _____

By: _____

ACKNOWLEDGEMENTS

STATE OF New Mexico)
) ss.
COUNTY OF San Juan)

The foregoing instrument was acknowledged before me this 11th day of November, 1986, by W. E. Lang
as _____ for _____.

Witness my hand and official seal.

_____
Notary Public
Address:

FRANCES LIPPS NOTARY PUBLIC STATE OF

My commission expires: 3-28-87

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written and have set opposite their respective names the date of execution.

WORKING INTEREST OWNERS

Kindermac Partners,
a Colorado General Partnership

DATE: November 5, 1986

By: _____
Jerome P. McHugh
Attorney-In-Fact

Nassau Resources, Inc.

DATE: November 5, 1986

By: _____
Jerome P. McHugh, President

Dugan Production Corp.

DATE: _____

By: _____

R. L. Andes

DATE: _____

By: _____

W. E. Lang

DATE: _____

By: _____

Michael W. Murphy

DATE: November 14, 1986

By: _____

ACKNOWLEDGEMENTS

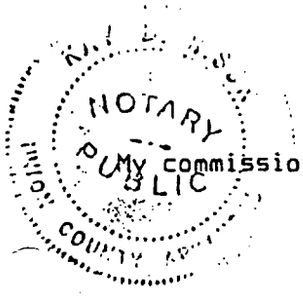
STATE OF ARKANSAS)
) ss.
COUNTY OF UNION)

The foregoing instrument was acknowledged before me this 14th day of November, 1986, by Michael W. Murphy as XXXXX for XXXXX.

Witness my hand and official seal.

Kay B. Risor
Notary Public
Address:
KAY B. RISOR, Notary Public
Union County, Arkansas
My Commission Expires Feb. 1, 1991

My commission expires:



RATIFICATION BY LESSEE OF RECORD

The undersigned acknowledges receipt of a copy of that certain Communitization Agreement dated November 1, 1986, covering the W/2 of Section 26, Township 26 North, Range 2 West, N.M.P.M., Rio Arriba County, New Mexico, in which Nassau Resources, Inc. is designated Operator, and pursuant to Paragraph 14 thereof, hereby ratifies and consents to the same.

Date of execution: November 5, 1986

Kindermac Partners,
a Colorado General Partnership

By: _____
Jerome P. McHugh
Attorney-In-Fact

STATE OF COLORADO)
) ss.
COUNTY OF ARAPAHOE)

On this 5th day of November, 1986, before me personally appeared Jerome P. McHugh, to me known to be the person who executed the foregoing instrument as attorney-in-fact for and in behalf of Kindermac Partners, a Colorado general partnership, and acknowledged that he executed same as the free act and deed of said Kindermac Partners.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

RANDI E. MARTIN NOTARY PUBLIC OF COLORADO

_____
Randi E. Martin, Notary Public
in and for said County and State
Address: 650 S. Cherry St.
Denver, CO 80222

My commission expires: 9-26-90

RATIFICATION BY LESSEE OF RECORD

The undersigned acknowledges receipt of a copy of that certain Communitization Agreement dated November 1, 1986, covering the W/2 of Section 26, Township 26 North, Range 2 West, N.M.P.M., Rio Arriba County, New Mexico. in which Nassau Resources, Inc. is designated Operator, and pursuant to Paragraph 14 thereof, hereby ratifies and consents to the same.

Date of execution: November 5, 1986

Nassau Resources, Inc.

By: _____
Jerome P. McHugh, President

STATE OF COLORADO)
) ss.
COUNTY OF ARAPAHOE)

On this 5th day of November, 1986, before me personally appeared Jerome P. McHugh, to me know to be the person who executed the foregoing instrument as President for and in behalf of Nassau Resources, Inc., and acknowledged that he executed same as the free act and deed of said Nassau Resources, Inc.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

RANDI E. MARTIN NOTARY PUBLIC

_____
Randi E. Martin, Notary Public
in and for said County and State
Address: 650 S. Cherry St.
Denver, CO 80222

My commission expires: 9-26-90

RATIFICATION BY LESSEE OF RECORD

The undersigned acknowledges receipt of a copy of that certain Communitization Agreement dated November 1, 1986, covering the W/2 of Section 26, Township 26 North, Range 2 West, N.M.P.M., Rio Arriba County, New Mexico, in which Nassau Resources, Inc. is designated Operator, and pursuant to Paragraph 14 thereof, hereby ratifies and consents to the same.

Date of execution: 11/11/86

Dugan Production Corp.

By: Thomas A. Dugan

STATE OF NEW MEXICO)
)
COUNTY OF SAN JUAN)

On this 11th day of November, 1986, before me personally appeared Thomas A. Dugan, President to me known to be the person who executed the foregoing instrument and acknowledged that he executed same as his free act and deed.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

NOTARY PUBLIC

Judy F. Roderick
Notary Public
in and for said County and State
Address: Farmington, NM

My commission expires: 11/13/89

RATIFICATION BY LESSEE OF RECORD

The undersigned acknowledges receipt of a copy of that certain Communitization Agreement dated November 1, 1986, covering the W/2 of Section 26, Township 26 North, Range 2 West, N.M.P.M., Rio Arriba County, New Mexico, in which Nassau Resources, Inc. is designated Operator, and pursuant to Paragraph 14 thereof, hereby ratifies and consents to the same.

Date of execution: Nov. 12, 86

R. L. Andes

By: R. L. Andes

STATE OF New Mexico)
)
COUNTY OF San Juan)

On this 12th day of November, 1986, before me personally appeared R. L. Andes, to me known to be the person who executed the foregoing instrument and acknowledged that he executed same as his free act and deed.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

FRANCES LIPPS NOTARY PUBLIC

Notary Public
in and for said County and State
Address: 5004 Hallmarc
Farmington, NM 87401

My commission expires: 3-28-87

RATIFICATION BY LESSEE OF RECORD

The undersigned acknowledges receipt of a copy of that certain Communitization Agreement dated November 1, 1986, covering the W/2 of Section 26, Township 26 North, Range 2 West, N.M.P.M., Rio Arriba County, New Mexico, in which Nassau Resources, Inc. is designated Operator, and pursuant to Paragraph 14 thereof, hereby ratifies and consents to the same.

Date of execution: 11-11-86 W. E. Lang

By: W. E. Lang

STATE OF New Mexico)
)
COUNTY OF San Juan)

On this 11 day of November, 1986, before me personally appeared W. E. Lang, to me known to be the person who executed the foregoing instrument and acknowledged that he executed same as his free act and deed.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

Frances Lyons
Notary Public
in and for said County and State
Address:

My commission expires: 3-28-87

RATIFICATION BY LESSEE OF RECORD

The undersigned acknowledges receipt of a copy of that certain Communitization Agreement dated November 1, 1986, covering the W/2 of Section 26, Township 26 North, Range 2 West, N.M.P.M., Rio Arriba County, New Mexico, in which Nassau Resources, Inc. is designated Operator, and pursuant to Paragraph 14 thereof, hereby ratifies and consents to the same.

Date of execution: November 14, 1986 Michael W. Murphy

By: Michael W Murphy
TWD

STATE OF ARKANSAS)
)
COUNTY OF UNION)

On this 14th day of November, 1986, before me personally appeared Michael W. Murphy, to me known to be the person who executed the foregoing instrument and acknowledged that he executed same as his free act and deed.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

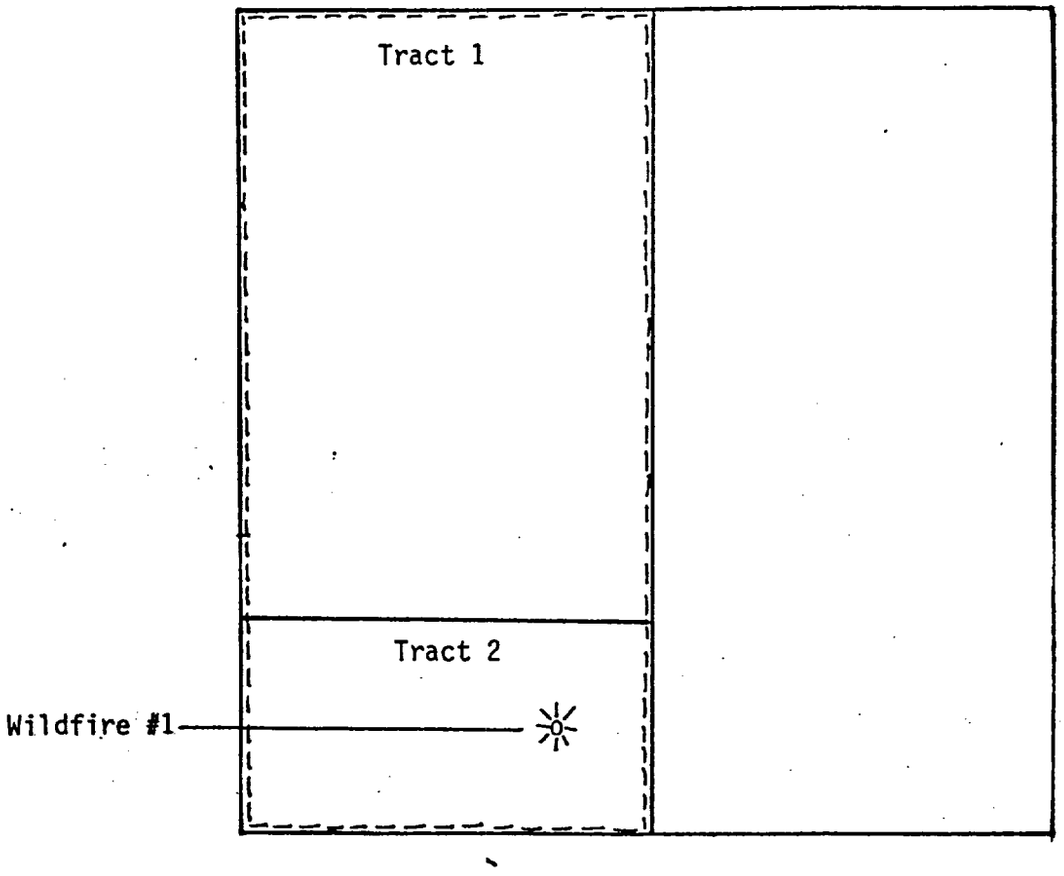
KAY B. RISOR NOTARY PUBLIC

Kay B. Risor
Notary Public
in and for said County and State
Address:

My commission expires: KAY B. RISOR, Notary Public
Union County, Arkansas
My Commission Expires Feb. 1, 1991

EXHIBIT "A"

Plat of Communitized Area covering the W/2 of Section 26, Township 26 North, Range 2 West, NMPM, Rio Arriba County, New Mexico.



Well Location: SE/4SW/4-Sec. 26-T26N-R2W Communitized Area:

Working Interest Owners:	BPO	APO
Kindermac Partners	100%	66.25%
Dugan Production Corp.	-0-	15.00%
R. L. Andes	-0-	9.00%
W. E. Lang	-0-	6.00%
Michael W. Murphy	-0-	3.75%
	100%	100.00%

EXHIBIT "B"

To Communitization Agreement dated November 1, 1986.

Communitized Area: Township 26 North, Range 2 West, N.M.P.M.
Section 26: W/2
Rio Arriba County, New Mexico
Containing 320 acres, more or less

Operator of Communitized Area: Nassau Resources, Inc.

Description of Leases Committed:

Tract 1:

Lessor:	U.S.A. NM-7993	
Lessee of Record:	Dugan Production Corp.	
Date of Lease:	November 1, 1976	
Term:	10 years	
Description of Lands Committed:	Township 26 North, Range 2 West, N.M.P.M. Section 26: NW/4, N/2SW/4	
Number of acres:	240	
Names and Percentages of Working Interest Owners:	Dugan Production Corp. R. L. Andes W. E. Lang	50.00% 30.00% 20.00%
Names and Percentages of ORRI Owners:	Billie Robinson	7.50%

EXHIBIT "B"

Tract 2:

Lessor:	U.S.A. NM-28811	
Lessee of Record:	Michael W. Murphy	
Date of Lease:	November 1, 1976	
Term:	10 years	
Description of Lands Committed:	Township 26 North, Range 2 West, N.M.P.M. Section 26: S/2SW/4	
Number of acres:	80	
Names and Percentages of Working Interest Owners:	Michael W. Murphy	100.00%
Names and Percentages of ORRI Owners:	Charles Meeker and Charles F. Niemeth	6.25%

RECAPITULATION

Tract No.	Number of Acres Committed	Percentage of Interest in Communitized Area
1	240	75%
2	80	25%
	320	100%

*Pooling Clause:

Lessee is hereby granted the right and power to pool or combine the acreage covered by these leases, or any portion thereof, with other land, lease or leases in the vicinity thereof at any time and from time to time, whether before or after production, when in Lessee's judgment it is necessary or advisable to do so for the prevention of waste and the conservation and greatest ultimate recovery of oil and gas. Such pooling shall be into a unit or units not exceeding in area the acreage prescribed or required in any Federal or State law, order, rule or regulation for the drilling or operation of one well, or for obtaining the maximum allowable production from one well, or 40 acres for the production of oil or 640 acres for the production of gas, whichever is the larger, plus a tolerance over the maximum area of 40 acres for the production of oil or 640 acres for the production of gas to include additional acreage in any irregular governmental subdivision or lot or portion thereof. Such pooling shall be effected by Lessee's executing and filing in the office where this lease is recorded an instrument identifying and describing the pooled acreage. The production of pooled substances and development and operation on any portion of a unit so pooled, including the commencement, drilling, completion and operation of a well thereon, shall be considered and construed, and shall have the same effect, except for the payment of royalty, as production, development and operation on the leased premises under the terms of this lease. The royalties herein provided shall accrue and be paid to Lessor on pooled substances produced from any unit in the proportion, but only in the proportion, that Lessor's acreage interest in the land covered hereby and placed in the unit bears to the total acreage in the land placed in such unit.

51788.

FILED IN THE COUNTY CLERK'S OFFICE
AT 11:20 O'CLOCK A M
Book 116 Page 611-635

FEB 18 1987

JOSE E. ATENCIO
County Clerk Rio Arriba County
New Mexico
By [signature] Deputy

COUNTY CLERK SEAL

A.A.P.L. FORM 610-1982

MODEL FORM OPERATING AGREEMENT

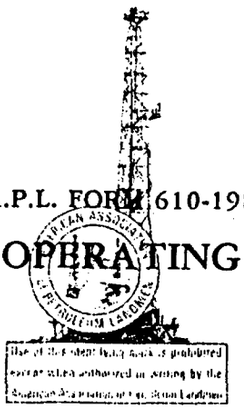


EXHIBIT "B"

Attached to and made a part of that certain Farmout Agreement dated effective as of September 15, 1986, by and between Michael W. Murphy, Farmor and Kindermac Partners, Farmee.

OPERATING AGREEMENT

DATED

September 15, 19 86,

OPERATOR ~~Nassau Resources, Inc.~~ SUN

CONTRACT AREA Township 26 North, Range 2 West, N.M.P.M.

Section 3: N/2SE/4; Section 26: S/2SW/4

Containing 160 acres, more or less.

COUNTY ~~OR PARISH~~ OF Rio Arriba STATE OF New Mexico

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

GUIDANCE IN THE PREPARATION OF THIS AGREEMENT:

1. Title Page - Fill in blanks as applicable.

2. Preamble, Page 1 - Enter name of Operator.

3. Article II - Exhibits:
   (a) Indicate Exhibits to be attached.
   (b) If it is desired that no reference be made to non-discrimination, the reference to Exhibit "F" should be deleted.

4. Article III.B. - Interests of Parties in Costs and Production - Enter royalty fraction as agreed to by parties.

5. Article IV.A. - Title Examination - Select option as agreed to by the parties.

6. Article IV.B. - Loss of Title - If "Joint Loss" of Title is desired, the following changes should be made:
   (a) Delete Articles IV.B.1 and IV.B.2.
   (b) Article IV.B.3 - Delete phrase "other than those set forth in Articles IV.B.1 and IV.B.2 above."
   (c) Article VII.E. - Change reference at end of the first grammatical paragraph from "Article IV.B.2" to "Article IV.B.3."
   (d) Article X. - Add as the concluding sentence - "All claims or suits involving title to any interest subject to this agreement shall be treated as a claim or a suit against all parties hereto."

7. Article V - Operator - Enter name of Operator.

8. Article VI.A - Initial Well:
   (a) Date of commencement of drilling.
   (b) Location of well.
   (c) Obligation depth.

9. Article VI.B.2.(b) - Subsequent Operations - Enter penalty percentage as agreed to by parties.

10. Article VI.C. - Taking Production in Kind - If a Gas Balancing Agreement is not in existence nor attached hereto as Exhibit "E", then use Alternate Page 8.

11. Article VII.D.1. - Limitation of Expenditures - Select option as agreed to by parties.

12. Article VII.D.3. - Limitation of Expenditures - Enter limitation of expenditure of Operator for single project and amount above which Operator may furnish information AFE.

13. Article IX. - Internal Revenue Code Election - Delete this article in the event the agreement is a Tax Partnership and Exhibit "G" is attached.

14. Article X. - Claims and Lawsuits - Enter claim limit as agreed to by parties.

15. Article XIII. - Term of Agreement:
   (a) Select Option as agreed to by parties.
   (b) If Option No. 2 is selected, enter agreed number of days in two (2) blanks.

16. Article XIV.B - Governing Law - Enter state as agreed to by parties.

17. Signature Page - Enter effective date.

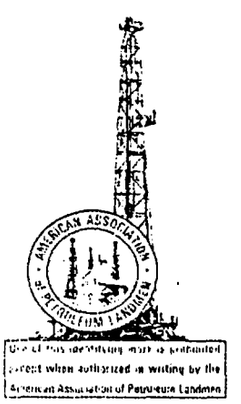


TABLE OF CONTENTS

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

OPERATING AGREEMENT

SLN

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

☐ B. Exhibit "B", Form of Lease.

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

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

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

☐ G. Exhibit "G", Tax Partnership.

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

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

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

B. Interests of Parties in Costs and Production:

Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set forth in Exhibit "A". In the same manner, the parties shall also own all production of oil and gas from the Contract Area subject to the payment of royalties to the extent of 12.5% of 8/8ths which shall be borne as hereinafter set forth.

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

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

C. Excess Royalties, Overriding Royalties and Other Payments:

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

D. Subsequently Created Interests:

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

1. If the burdened party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of said subsequently created interest and the burdened party shall indemnify and save said other party, or parties, harmless from any and all claims and demands for payment asserted by owners of the subsequently created interest; and,

2. If the burdened party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B. shall be enforceable against the subsequently created interest in the same manner as they are enforceable against the working interest of the burdened party.

ARTICLE IV.
TITLES

A. Title Examination:

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

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

ARTICLE IV
continued

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

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

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

B. Loss of Title:

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

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

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

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

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

Initial Test Well is covered by Article 2. in Farmout Agreement dated effective as of September 15, 1986 to which this Operating Agreement is attached as Exhibit "B".

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

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

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

ARTICLE VI
continued

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

B. Subsequent Operations:

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

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

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

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

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

ARTICLE VI
continued

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

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

(b) 300 % of that portion of the costs and expenses of drilling, reworking, deepening, plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and 100 % of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

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

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

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

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

ARTICLE VI
continued

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

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

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

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

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

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

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

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

C. TAKING PRODUCTION IN KIND:

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

ARTICLE VI
continued

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

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

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such oil or sell it to others at any time and from time to time, for the account of the non-taking party at the best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year.

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

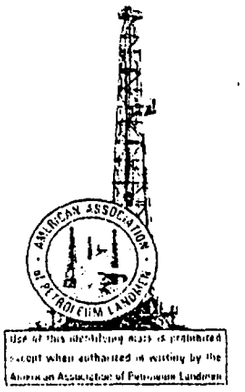
D. Access to Contract Area and Information:

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

E. Abandonment of Wells:

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

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



ARTICLE VI
continued

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

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

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

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

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

B. Liens and Payment Defaults:

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

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

C. Payments and Accounting:

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

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

D. Limitation of Expenditures:

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

ARTICLE VII
continued

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

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

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

3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Twenty Thousand and NO/100---------Dollars ($ 20,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project costing in excess of Twenty Thousand and NO/100---------- Dollars ($ 20,000.00) but less than the amount first set forth above in this paragraph.

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

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

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

F. Taxes:

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

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

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

ARTICLE VII
continued

G. Insurance:

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

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

ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

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

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

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

B. Renewal or Extension of Leases:

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

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

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

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

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

C. Acreage or Cash Contributions:

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

ARTICLE VIII
continued

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

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

D. Maintenance of Uniform Interest:

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

1. the entire interest of the party in all leases and equipment and production; or

2. an equal undivided interest in all leases and equipment and production in the Contract Area.

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

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

E. Waiver of Rights to Partition:

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

~~F. Preferential Right to Purchase:~~

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

ARTICLE IX.
INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from operations hereunder can be adequately determined without the computation of partnership taxable income.

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed Twenty Thousand and NO/100---------- Dollars ($ 20,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder.

ARTICLE XI.
FORCE MAJEURE

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

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

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

ARTICLE XII.
NOTICES

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

ARTICLE XIII.
TERM OF AGREEMENT

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

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

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

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

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law:

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

C. Regulatory Agencies:

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

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

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

ARTICLE XV.
OTHER PROVISIONS

ARTICLE XVI.
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of 15th day of September, 1986.

OPERATOR

Nassau Resources, Inc.

By: _____
Jerome P. McHugh, President

NON-OPERATORS

Kindermac Partners, a Colorado General Partnership

By: _____
Jerome P. McHugh, Attorney-In-Fact

* Michael W. Murphy

_____

*Execution is conditional upon Kindermac's acceptance of Michael W. Murphy's letter dated October 2, 1986.

ARTICLE XVI.
MISCELLANEOUS

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Nassau Resources, Inc.

By: _____
Jerome P. McHugh, President

NON-OPERATORS

Kindermac Partners, a Colorado General Partnership

By: _____
Jerome P. McHugh, Attorney-In-Fact

Michael W. Murphy

Frank Pace, Jr.

Jeannette P. Kurtz

ARTICLE XVI.
MISCELLANEOUS

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OPERATOR

Nassau Resources, Inc.

By: _____
Jerome P. McHugh, President

NON-OPERATORS

Kindermac Partners, a Colorado General Partnership

By: _____
Jerome P. McHugh, Attorney-In-Fact

Michael W. Murphy

Frank Pace, Jr.

Jeannette P. Kurtz

EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated September 15, 1986, by and between Nassau Resources, Inc., Operator, and Kindermac Partners and Michael W. Murphy, Non-Operator.

(1) Lands and Leases subject to this Agreement are as follows:

Township 26 North, Range 2 West
Section 3: N/2SE/4
Section 26: S/2SW/4
Rio Arriba County, New Mexico
Containing 160 acres, more or less.

1. Lessor: U.S.A. (NM-28811)
Lessee: Charles R. Meeker, et al
Lease Date: November 1, 1976
Recording Data: N/A
Description: Township 26 North, Range 2 West, N.M.P.M.
Section 3: N/2SE/4
Section 26: S/2SW/4

(2) There are no restrictions as to formations.

(3) The percentages of interests of parties to this Agreement are as follows:

	BPO	APO
Kindermac Partners	92.04%	78.234%
Frank Pace, Jr.	5.31%	4.5135%
Michael W. Murphy	-0-	15.0000% *
Jeannette P. Kurtz	2.65%	2.2525%

*Assumes party farming out will elect to convert its reserved override to a working interest after payout.

(4) This is covered by (1) above.

(5) The addresses of the parties to the Agreement for notice purposes are as follows:

Nassau Resources, Inc.
650 South Cherry Street, Suite 1225
Denver, Colorado 80222
Attention: Kent C. Craig

Kindermac Partners, a Colorado General Partnership
650 South Cherry Street, Suite 1225
Denver, Colorado 80222
Attention: Kent C. Craig

Michael W. Murphy
200 N. Jefferson, Suite 500
El Dorado, Arkansas 71730

Frank Pace, Jr.
International Executive Service Corp.
622 Third Avenue, 32nd Floor
New York, New York 10017

Jeannette P. Kurtz
P. O. Box 6227
Denver, Colorado 80206

KRAFTBILT 601, BOX 800, TULSA OK 74101

COPAS — 1974
Recommended by the Council of Petroleum Accountants Societies

COPAS

EXHIBIT "C"

Attached to and made a part of that certain Operating Agreement dated September 15, 1986 by and between Nassau Resources, Inc., Operator, and Michael W. Murphy and Kindermac Partners, Non-Operators.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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

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

4. Adjustments

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

5. Audits

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

6. Approval by Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

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

2. Labor

A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.

(2) Salaries of First Level Supervisors in the field.

(3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

3. Employee Benefits

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

4. Material

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

5. Transportation

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

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

B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.

C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of $200 or less excluding accessorial charges.

6. Services

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

7. Equipment and Facilities Furnished by Operator

A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

B. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

8. Damages and Losses to Joint Property

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

9. Legal Expense

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

10. Taxes

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

11. Insurance

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

12. Other Expenditures

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

III. OVERHEAD

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:

(XXX) 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 (X) be covered by the Overhead rates.

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate $ 3,500

Producing Well Rate $ 350

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

(a) Drilling Well Rate

[1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.

[2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days

[3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

[1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.

[2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.

[3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.

[4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.

[5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

(3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of $25,000 :

A. 5 % of total costs if such costs are more than $ 25,000 but less than $ 100,000 ; plus

B. 3 % of total costs in excess of $ 100,000 but less than $1,000,000; plus

C. 2 % of total costs in excess of $1,000,000.

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

3. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

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

(2) Line Pipe

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

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

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

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

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

(2) Material moved from the Joint Property

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

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

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

C. Other Used Material (Condition C and D)

(1) Condition C

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

(2) Condition D

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

D. Obsolete Material

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

E. Pricing Conditions

(1) Loading and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.

(2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

4. Expense of Conducting Periodic Inventories

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

EXHIBIT "D"

To Operating Agreement dated September 15, 1986

INSURANCE

Operator shall, at the joint expense of the parties hereto, at all times while operations are conducted hereunder, provide with responsible insurance companies, insurance as follows:

a. Workman's Compensation Insurance in accordance with the laws of the state in which the operating area is located and Employer's Liability Insurance with limits of not less than $100,000; and

b. Public Liability Insurance with respect to bodily injuries with limits of not less than $500,000 as to any one person and $500,000 as to any one accident; and Property Damage Liability Insurance with limits of not less than $500,000 as to any one accident; and

c. Automobile Public Liability Insurance with respect to bodily injuries with limits of not less than $500,000 as to any one person and $500,000 as to any one accident; also, Automobile Public Liability Insurance with respect to Property Damage with limits of not less than $200,000 as to any one accident.

Operator shall not provide, for the joint account of the parties hereto, insurance against the hazards of fire, windstorm, explosion, blowout, cratering, reservoir damage, pollution damage, or insurance other than that specified above.

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EXHIBIT "F"

To Operating Agreement Dated September 15, 1986

SUPPLEMENT

EQUAL EMPLOYMENT OPPORTUNITY PROVISION

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

(1) The Operator will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. The Operator will take affirmative action to ensure that applicants are employed, and that employees are treated during employment without regard to their race, color, religion, sex or national origin. Such action shall include, but not be limited to the following: Employment, upgrading, demotion, or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training including apprenticeship. The Operator agrees to post in conspicuous places, available to employees and applicants for employment notices to be provided setting forth the provisions of this non-discrimination clause.

(2) The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex or national origin.

(3) The Operator will send to each labor union or representative of workers with which Operator has a collective bargaining agreement or other contract or understanding, a notice to be provided, advising the said labor union or workers' representatives of the Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

(4) The Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.

(5) The Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to Operator's books, records, and accounts by the administering agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

(6) In the event of the Operator's non-compliance with the non-discrimination clauses of this contract or with any of the said rules, regulations, or orders, this contract may be cancelled, terminated or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts or federally assisted construction contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

(7) The Operator will include the provisions of paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Operator will take such action with respect to any subcontract or purchase order as the administering agency may direct as a means of enforcing such provisions including sanctions for non-compliance: Provided, however, that in the event the Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the administering agency, the Operator may request the United States to enter into such litigation to protect the interests of the United States.

Operator acknowledges that Operator may be required to file Standard Form 100 (EEO-1) promulgated jointly by the Office of Federal Contract Compliance, the Equal Employment Opportunity Commission and Plans for Progress with the appropriate agency within 30 days of the date of contract award if such report has not been filed for the current year and otherwise comply with or file such other compliance reports as may be required under Executive Order 11246, as amended and Rules and Regulations adopted thereunder.

Operator further acknowledges that Operator may be required to develop a written affirmative action compliance program as required by the Rules and Regulations approved by the Secretary of Labor under authority of Executive Order 11246 and supply Cities with a copy of such program if Cities so requests.

CERTIFICATION OF NONSEGREGATED FACILITIES

By entering into this contract, the Operator certifies that Operator does not and will not maintain or provide for Operator's employees any segregated facilities at any of Operator's establishments, and that Operator does not and will not permit Operator's employees to perform their services at any location, under Operator's control, where segregated facilities are maintainted. The Operator agrees that a breach of this certification is a violation of the Equal Opportunity clause in this contract. As used in this certification, the term "segregated facilities" means, but is not limited to, any waiting room, work areas, rest rooms and wash room, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation, and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, color, religion, or national origin, because of habit, local custom, or otherwise. Operator further agrees that (except where Operator has obtained identical certifications from proposed contractors and subcontractors for specific time periods) Operator will obtain identical certifications from proposed contractors and subcontractors prior to the award of contracts or subcontracts exceeding $10,000 which are not exempt from the provisions of the Equal Opportunity clause; that Operator will retain such certifications in Operator's files and that Operator will forward the following notice to such proposed contractors and subcontractors (except where the proposed contractors or subcontractors have submitted identical certification for specific time periods): Notice to prospective contractors and subcontractors of requirement for certifications of nonsegregated facilities. A Certificate of Nonsegregated Facilities must be submitted prior to the award of a contract or subcontract exceeding $10,000 which is not exempt from the provisions of the Equal Opportunity clause. The certification may be submitted either for each contract and subcontract or for all contracts and subcontracts during a period (i.e., quarterly, semiannually, or annually).

EXHIBIT "H"

Attached to and made a part of that certain Farmout Agreement dated September 15, 1986, by and between Michael W. Murphy, Farmor, and Kindermac Partners, Farmee.

PROVISIONS APPLICABLE TO WELLS

The party drilling any well provided for in the agreement in which this Exhibit is attached, agrees and binds itself to observe and comply with the provisions hereinafter contained; failure to comply with such provisions shall release Michael W. Murphy, and/or his assigns, hereinafter referred to as non-drilling party, from the obligations and covenants contained in said agreement.

A. To be provided prior to commencement of operations of any well.

1. One copy of location plat of the proposed test certified by a licensed surveyor and based on actual ground surveys.

2. One copy of the drilling prognosis.

3. One copy of all notices filed with Federal, State or Indian Agencies.

B. To be provided during the drilling of any test.

1. Operator shall provide non-operator full access at all times to derrick floor and full and free access to all information regarding the well including cuttings, cores, drilling depths, etc.

2. Samples are to be available at the well site at all times. One set of samples including one foot core chips of any cores recovered shall be sent at the operator's expense to:

American Stratigraphic Co.
6336 East 39th Street
Denver, Colorado 80207

Any storage fee shall be paid by drilling party.

3. Operator shall furnish non-operators copies of core description, core analysis, core orientation studies, drill stem charts, and reports as soon as available.

4. Operator shall furnish daily drilling reports by telephone and mail giving the nature of all work done, the depth and formation penetrated beginning with date actual work is commenced at the location and continuing until drilling, logging, testing, completing, and equipping is completed, or if a dry hole, the well has been plugged and abandoned.

5. Furnish non-drilling party the following logs:

Field Print	Final	Log Type	Interval
1	1	operators discretion and all zones of interest	operators discretion and all zones of interest

For any well drilled on Farmor's acreage, or in which Farmor has an interest, logs are to be furnished as soon as available. Copies of logs covering the prospective horizons shall be telecopied by logging company to the non-drilling parties prior to plugging and abandonment.

x (Required if checked) Non-operator shall have 24 hours from receipt of such logs, exclusive of Saturday, Sunday and legal holidays, in which to approve plugging and abandoning or running of production casing.

These provisions added by amendatory letter 10-7-86

6. __x__ (Required if checked) Operator shall have a geologist and/or mud logger present at the well site during drilling, coring and testing. The drill site representative shall maintain a description of the formations penetrated.

7. Operator shall make adequate tests of all formations on the basis of available data that would be tested by a prudent Operator.

8. Notice of intent to core, drill stem test, log, plug, or run casing and telecopies of logs should be furnished by telephone to:

Marmik Oil Company	Office Phone:	501/862-8546
Curtis G. Morrill	Home Phone:	501/862-5421

or

Lee Shobe	Home Phone:	303/674-3038

9. Daily drilling and progress reports required under 2.D. above shall be given to:

Marmik Oil Company
200 North Jefferson, Suite 500
El Dorado, Arkansas 71730
Attention: Kay B. Risor

C. To be provided upon completion of any well. Furnish by mail to Marmik Oil Company, 200 North Jefferson, Suite 500, El Dorado, Arkansas 71730, Attention: Curtis G. Morrill.

1. Two copies of dip meter, directional and deviation surveys.

2. Two copies of complete well history or geological completion report.

3. Two copies of all forms required by any governmental office or body.

If obtained during operations, furnish two copies as set forth above as to the following:

a. Mud Logs (incremental and final).

b. Core descriptions and analysis.

c. Drill stem test charts and reports.

d. Fluid and gas analysis.

4. Special Requirements:

None

5. Other parties to be notified:

None

Wilfiez

United States Department of the Interior

BUREAU OF LAND MANAGEMENT
ALBUQUERQUE DISTRICT OFFICE

435 Montano N.E.
Albuquerque, New Mexico 87107

TAKE PRIDE IN AMERICA

IN REPLY REFER TO:

NM-7993 (GC)
NM-28811 (GC)
NM-015-P35-87C-325
3160 (015)

SEP 25 1987

Sun Exploration and Production Co.
ATTN: Ms. Cindy Bush
PO Box 5940
Terminal Annex
Denver, CO 80217-5940

Gentlemen:

Three copies of a "Designation of Successor Operator" for Communitization Agreement NM-015-P35-87C-325 were received in this office on July 29, 1987, by which Sun Operating Limited Partnership replaces Jerome P. McHugh as the operator of communitized area. This communitization agreement covers the W½ section 26, T. 26 N., R. 2 W., NMPM, containing 320.00 acres of land in Federal leases NM-7993 and NM-28811 as to the Gallup and Dakota Formations.

Pursuant to Section 3 of the above Communitization Agreement, the designation of Sun Operating Limited Partnership as successor operator is hereby accepted for record purposes. Copies of the instrument are being distributed to the appropriate Federal offices and one copy is returned herewith.

If you have any questions, please contact Barbara Meyers at the above address or telephone (505) 761-4609.

Sincerely,

Sid Vogelgesang

For District Manager

Enclosure

Operator

DESIGNATION OF SUCCESSOR OPERATOR

WILDFIRE #1

COMMUNITIZATION AGREEMENT

NM-015-P35-87C-325

87 SEP 11 P 2: 50

Covering the W/2,Section 26, Township 26 North, Range 2, West, Rio Arriba, N.M. County, New Mexico.

This indenture, dated as of the 1st day of April, 1987, by and between Sun Operating Limited Partnership, hereinafter designated as "First Party", and the owners of communitized working interest, hereinafter designated as "Second Parties",

Jeannette P. Kurtz

Frank Pace, JR.

Witnesseth: That, whereas under the provisions of Section 17(j) of the Act of February 25, 1920, as amended (74 Stat. 784); 30 U.S.C. 266(j), and by authority delegated to the Authorized Officer of the Bureau of Land Management, on the 1st day of November, 1986, approved Communitization Agreement NM-015-P35-87C-325, wherein Jerome P. McHugh is designated as Operator of the Communitized area, and

Whereas, the First Party has been and hereby is designated by the Second parties as Operator of the communitized area, and said First Party desires to assume all the rights, duties and obligations of Operator under said Communitization Agreement;

Now, therefore, in consideration of the promises hereinbefore set forth and the promises hereinafter stated, the First Party hereby covenants and agrees to fulfill the duties and assume the obligations of Operator of the Communitized area under and pursuant to all the terms of Communitization Agreement NM-015-P35-87C-325, and the Second Parties covenant and agree that effective as the date herein specified, and upon receipt of this indenture, properly executed, by the Authorized Officer of the Bureau of Land Management, First Party shall be granted the exclusive right and privilege of exercising any and all rights and privileges as Operator, pursuant to the terms and conditions of said Communitization Agreement, said Communitization Agreement being hereby incorporated herein by reference and made a part hereof as fully and effectively as though said agreement were expressly set forth in this instrument as of the date hereinabove set forth.

FIRST PARTY

Sun Operating Limited Partnership
by Sun Exploration and Production Company
its Managing General Partner

By _____
Attorney ~~in Fact~~

SECOND PARTIES

Jeannette P. Kurtz

By _____

Frank Pace, Jr.

By _____

State of Texas)
) ss
County of Dallas)

The Foregoing instrument was acknowledged before me by

J. D. Waggoner

This 26th day of June 1987.

Witness my hand and official seal.

My Commission Expires:

7/13/87

Notary Public

Accepted for Record
9/25/87
Assistant District Manager
for Minerals
Albuquerque District

FIRST PARTY

Sun Operating Limited Partnership
by Sun Exploration and Production Company
its Managing General Partner

By _____
Attorney in Fact

SECOND PARTIES

Jeannette P. Kurtz

By Jeannette P Kurtz

Frank Pace, Jr.

By _____

State of Texas)
) ss
County of Dallas)

The Foregoing instrument was acknowledged before me by

J. D. Haggard

This 26th day of June 1987.

Witness my hand and official seal.

My Commission Expires:

7/13/87

Notary Public

Accepted for Record
9/25/87
Sid Voss
Assistant District Manager
for Minerals
Albuquerque District

FIRST PARTY

Sun Operating Limited Partnership
by Sun Exploration and Production Company
its Managing General Partner

By _____
Attorney in Fact

SECOND PARTIES

Jeannette P. Kurtz

By _____

Frank Pace, Jr.

By _____

State of Texas)
) ss
County of Dallas)

The Foregoing instrument was acknowledged before me by

_____

This 26th day of June 1987.

Witness my hand and official seal.

My Commission Expires:

7/13/87

_____
Notary Public

Accepted for Record
9/25/87
_____
Assistant District Manager
for Minerals
Albuquerque District