

MOSLEY CANYON PROSPECT
Sec. 5, T-24-S, R-25-E
Eddy County, New Mexico

SANTA FE ENERGY - owns State Lease V-2630
Lot 4 (NW/4NW/4), Sec. 5

8-10-88 Ltr to Vernon Dyer: Request Option F/O in N/2 Sec. 5 75%
nri 25% Bi APO in support of reentry
in S/2 Sec. 32.

8-11-88 Ph. to Pat Tower: out til 8-15-88

8-22-88 Ph. to Pat Tower: S.F. won't give Option F/O
S.F. will probably join.
S.F. interested in Morrow Test this
year

8-23-88 Ltr to Pat Tower Proposal to drill Morrow/Strawn
test by 1-1-89 w/ AFEs Dual & Single
Compl., Hand Delivered.

8-30-88 Hand Delivered AFEs with
correct land descriptions.

9-30-88 SOLD REENTRY TO G.W.

10-18-88 Ph. to Pat Tower: left message

10-25-88 Gary Green Ph.: He rec'd notice on Pooling Docket asked
me to send OPER. Agmt & AFE

10-28-88 Hand Delivered AFE to Dual
Completion & Oper. Agmt

11-2-88 Ph. to Gary Green: AFE OK Oper. Agmt being circulated some
chgs indicated.

8-17: be back tomorrow
8-18: " " Monday
8-22: left message for Pat Tower
8-22: Pat Tower - probably join
won't give option F/O
8-23: Hand Delivered AFE's
Dual Compl & single
8-30: Hand Delivered AFE's w/correct
description.
Santa Fe int. in joining Morrow Test

August 10, 1988

SANTA FE ENERGY COMPANY
500 W. Illinois
Midland, TX 79701

Attention: Mr. Vernon D. Dyer 687-3551
8-17-88 Pat Tower handles this.

Re: Lot 4, Section 5,
T-24-S, R-25-E,
Eddy County, New Mexico
(Mosley Canyon NM017)

Dear Mr. Dyer:

O'Brien Goins Simpson Exploration Company, (OGSE), owns a lease on acreage in the S/2 of Section 5, T-23-S, R-25-E offsetting the referenced acreage to the north. 32

OGSE has plans to reenter the HNG Mosley Springs well and attempt to complete it in the Strawn Formation. We tentatively have this planned to commence on or before November 1, 1988.

Should this reentry result in a commercially productive well, OGSE will commence a well in the N/2 of Section 5, probably at a location in the SE/4 of the NW/4. This well must be spudded on or before January 1, 1989 because the Enron lease (which OGSE has purchased) expires on that date.

OGSE hereby requests that Santa Fe grant an Option Farmout of its interest in the N/2 of Section 5 (being Lot 4) which will be the proration unit for the well. The basic terms of this proposal are as follows:

1. On or before November 1, 1988, OGSE will reenter or cause to be reentered the HNG Mosley Springs No. 1 well located in the S/2 of Section 32, T-23-S, R-25-E, and attempt to complete it in the Strawn Formation at an approximate depth of 9600 feet.
2. On or before January 1, 1989, OGSE will have the option to commence or cause to be commenced a well at a legal location in the N/2 of Section 5, T-24-S, R-25-E, and drill same to at least a depth sufficient to test the same intervals or formations productive in the reentry of the HNG Mosley Springs No. 1 well.
3. OGSE earns by production all of Santa Fe's rights down to total depth penetrated plus 100 feet in the N/2 of Section 5. Santa Fe will deliver a 75% net revenue interest before payout and Santa Fe

SANTA FE ENERGY COMPANIES

August 10, 1988

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will have the option to convert its reserved overriding royalty to a 25% working interest upon payout of the test well. The overriding royalty interest reserved and the working interest to which it may be converted are to be proportionately reduced.

Please call me if you have any questions or want to discuss this proposal.

Thank you for your consideration.

Yours truly,

O'BRIEN GOINS SIMPSON EXPLORATION

Thom O'Brien

TO'B/slm

Delivered by Hand 8-23-88

8-30-88: Description wrong on
AFE's

Hand Delivered corrected
AFE's Dual & Single Compl.

August 23, 1988

SANTA FE ENERGY
500 W. Illinois
Suite 500
Midland, TX 79701

Attention: Mr. Pat Tower

Re: Well Proposal
N/2, Section 5
T-25-S, R-24-E,
Eddy County, New Mexico
(Mosley Canyon NM017)

Dear Pat:

As we discussed on the phone, here is the AFE for the Morrow-Strawn test we have planned for the N/2 of Section 5.

In my letter of August 10, 1988, I requested that Santa Fe grant an Option Farmout of its interest in the N/2 of Section 5. As I said in all likelihood O'Brien Goins Simpson Exploration will commence a well on the N/2 of Section 5 before January 1, 1989.

This letter together with the attached AFE is notice of our proposal to drill an 11,200 foot Morrow Test in a unit composed of the N/2 of Section 5. The AFE represents the estimated cost to drill, complete and equip to produce the proposed well.

OGSE requests that Santa Fe indicate its intention to join in the cost of drilling this well or farm out on the terms outlined in my letter dated August 10, 1988.

If OGSE has not received a reply to this proposal by September 15, 1988, we will initiate compulsory pooling procedures.

Yours truly,

O'BRIEN GOINS SIMPSON EXPLORATION

Thom O'Brien

TO'B/slm
Enclosures

cc: Karen Aubrey
Kellahin, Kellahin and Aubrey

October 28, 1988

AMOCO PRODUCTION COMPANY - *Fed Express Del. 10-31-88*
501 Westlake Park Blvd. *11-1-88 Amoco, Tim Custer, still considering N/Z proposal*
Houston, TX 77077 *Will prepare F/O Agmt and SIZ Sec 5*

Attention: Tim Custer

YATES PETROLEUM CORPORATION - *Fed Express Del 10-31-88*
105 S. 4th Street *11-1-88: Yates will cooperate joint or F/O. - want info on OGSE*
Artesia, NM 88210

Attention: Rob Bullock

SANTA FE ENERGY COMPANY - *Hand Delivered 10-28-88*
500 W. Illinois *11-2-88 Gary Green AFE OK, O/A being circulated, some chgs*
Suite 500
Midland, TX 79701

Attention: Gary Green

Re: Proposed Mosley Canyon "5"
State Com. #1 Well
N/319.62 acres of Section 5
T-24-S, R-25-E,
Eddy County, New Mexico
(Mosley Canyon NM017)

Gentlemen:

Enclosed please find an AFE and Operating Agreement concerning the referenced well.

The proposed well is planned as a Strawn and Morrow Test to be drilled to an approximate depth of 11,200 feet. The location for the well is 990' from the North line and 1980' from the West line of Section 5. The AFE is based on a dual completion in both the Strawn and Morrow.

Should you elect to join in the cost of this proposed well, please indicate your approval and acceptance by signing and returning to the undersigned a copy of the AFE and the signature pages to the Operating Agreement and Memorandum of Operating Agreement. Please have your signature notarized on the Memorandum.

October 28, 1988
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Should you not be interested in joining in the well, OGSE will entertain farmout proposals.

You are probably aware that OGSE has made application for an order to pool all mineral interests underlying the N/319.62 acres of Section 5, and is set on the docket for Wednesday, November 9, 1988.

Yours truly,

OGS OPERATING COMPANY, INC.

Thom O'Brien

TO'B/slm
Enclosures

MOSLEY CANYON PROSPECT
Sec. 5, T-24-S, R-25-E
Eddy County, New Mexico

YATES PETROLEUM - State Lease V-2516
Lots 1 & 2, SW/4NE/4, N/2SE/4, Sec. 5

6-7-88	Ltr to Rob Bullock	S/2, Section 5 F/O request 75% nri 25% Bi APO
6-20-88	Ph. to Rob Bullock	did not receive 6-7 ltr sent another
7-23-88	Ltr to Rob Bullock	Option F/O request N/2 Sec. 5 drill w/in 180 days
8-5-88	Ph. to Rob Bullock	Message "
8-9-88	Ph. to Rob Bullock	Revised proposal, Option F/O after reentry in Sec. 32 drill N/2 or S/2 Sec. 5 by 1-1-89 75% nri 25% Bi APO
8-10-88	Ltr to Rob Bullock	"
8-16-88	Ph. to Rob Bullock	Message
8-19-88	Ph. to Rob Bullock	need to talk w/ Ray Beck, Explo. Mgr.
8-22-88	Ph. to Rob Bullock and Ray Beck	Yates will probably join.
8-23-88	Ltr to Ray Beck:	proposes formation of N/2 & S/2 wi units w/ AFE's
8-24-88	Gates Ltr to Ray Beck:	sent mud logs on HNG Mosley Springs well and Moncrief Jurnegan St. #1
8-30-88	Ltr:	sent AFE's w/ correct descriptions of location
9-8-88	Ph. to Rob Bullock	Yates discussing proposal Mr Yates angered at threat to Force Pool Yates may propose E/2 unit.
9-21-88	Ph. to Rob Bullock	No decision yet
9-30-88	Sold reentry to G. W.	
10-18-88	Ph. to Rob Bullock	let him know I put on Pooling Docket for 11-9-88, and OGS is doing reentry soon if good must spud N/2 by 1-1-89, Offered to give Yates info from Reentry if they agree to join or F/O.

10-28-88 Ltr Delivered 10-31-88:

AFE & OA on N/2 unit.

11-1- 88 Ph. to Rob Bullock:

Yates will join or F/O.

11-4-88 Ltr Rec'd 11-7-88

" " " " "
subs. to receiving GEOL info on
reentry in Sec 32

July 23, 1988

YATES PETROLEUM CORPORATION
105 S. 4th Street
Artesia, NM 88210

Attention: Rob Bullock 505-748-1471

8-5-88: Left Rob Message

8-9-88: Rob Bullock: Revised Proposal

Option F/3 OGSE reentry Sec 32
OPTION ON SEC 5 N/2 $\frac{1}{2}$ S/2

Re: N/2, Section 5,
Township-24-South,
Range-25-East,
Eddy County, New Mexico
(Mbsley Canyon NM017)

Dear Mr. Bullock:

To follow up your phone conversation with Thom O'Brien on Friday, July 22, O'Brien Goins Simpson Exploration, (OGSE), would like an option farmout on Yates acreage in the N/2 of Section 5.

Within 180 days of completion of the well proposed in our letter of June 7, 1988 in the S/2 of Section 5, OGSE would drill a similar well in the N/2.

If OGSE drilled under the option farmout, Yates would deliver a 75% net revenue interest lease before payout with the option at payout to convert any reserved overriding royalty to a 25% proportionately reduced working interest. OGSE would earn rights down to 100' below the deepest depth drilled.

Please let us know if you have any questions.

Thank you for your consideration.

Sincerely,

O'BRIEN GOINS SIMPSON EXPLORATION

Jan Foust

JF/slm

August 10, 1988

YATES PETROLEUM CORPORATION
105 S. 4th Street
Artesia, NM 88210

Attention: Rob Bullock 505-748-1476

8-16: Rob Bullock left message

8-22: Rob Bullock & Ray Beck
Yates probably will join.

Re: Proposed Farmout
Section 5
T-24-S, R-25-E,
Eddy County, New Mexico
(Mosley Canyon NM017)

Dear Bob:

As we discussed, here is the proposed Farmout O'Brien Goins Simpson Exploration Company, (OGSE), would like to request concerning Yates' interest in Section 5.

OGSE plans to reenter the HNG Mosley Springs well located in the S/2 of Section 32, T-23-S, R-25-E and to test the Strawn. If this reentry results in a commercial producer, OGSE would commence a well in the N/2 of Section 5, probably at a location in the SE/4 of the NW/4. This must be done on or before January 1, 1989 because the Enron lease covering the S/2NW/4 of Section 5 (which OGSE has purchased) expires on that date. If the reentry is not productive then OGSE would commence a well in the S/2 of Section 5 at a location in the SE/4 of the SW/4 as an offset to the Moncrief well in the N/2 of Section 8.

My proposal is as follows:

1. The basic terms of the proposal remain the same. Yates would deliver a 75% net revenue interest lease before payout, OGSE earns rights down to total depth plus 100 feet and Yates will have the option to convert its retained overriding royalty to a 25% working interest upon payout of each well separately on a well by well basis. Yates' overriding royalty and the working interest to which it may be converted are to be reduced proportionately.
2. On or before November 1, 1988, OGSE will reenter or cause to be reentered the HNG Mosley Springs No. 1 located in the S/2 of Section 32, T-23-S, R-25-E and attempt to complete it in the Strawn Formation at an approximate depth of 9600 feet.

3. On or before January 1, 1989, OGSE will have the option to commence or cause to be commenced a test well at a legal location either in the N/2 of Section 5 to earn all of Yates' interest in the N/2 or in the S/2 of Section 5 to earn all of Yates' interest in the S/2. This well will be drilled at least to a depth of 9,600 feet, or sufficient to test the Strawn Formation, whichever is the lesser depth.
4. Within 180 days of completion of the first test well drilled in Section 5, OGSE shall have the option to commence an additional well in Section 5 to earn Yates' rights in the proration unit for such well. OGSE shall drill such well to a depth of sufficient to test the same intervals or formations productive in the first test well in Section 5.

Please call if you have any questions.

Yours truly,

O'BRIEN GOINS SIMPSON EXPLORATION

Thom O'Brien

TO'B/slm

August 23, 1988

FEDERAL EXPRESS

YATES PETROLEUM CORPORATION
105 S. 4th Street
Artesia, NM 88210

Attention: Ray Beck

Re: Section 5
T-24-S, R-25-E,
Eddy County, New Mexico
(Mosley Canyon NM017)

Dear Mr. Beck:

By letter dated August 10, 1988, a copy of which is attached, I requested a Farmout of Yates interest in Section 5.

O'Brien Goins Simpson Exploration, (OGSE), proposes the drilling of either an 11,200 foot Strawn or Morrow Test well on a unit composed of the N/2 of Section 5 or a 9,600 foot Strawn Test on a unit composed of the S/2 of Section 5, prior to the end of this year.

Enclosed are two AFEs, one for each of the two wells described above. These AFEs represent the estimated costs to drill, complete and equip to produce the proposed wells.

OGSE requests that Yates indicate its intention to join in the cost of drilling these wells or to farm out on the terms outlined in my letter of August 10th.

If OGSE has not received a response to this proposal by September 15, 1988, we will initiate compulsory pooling procedures on both locations.

Yours truly,

O'BRIEN GOINS SIMPSON EXPLORATION

Thom O'Brien

TO'B/slm
Enclosure

cc: Karen Aubrey
Kellahin, Kellahin and Aubrey

August 24, 1988

YATES PETROLEUM CORPORATION
105 S. 4th Street
Artesia, NM 88210

Attention: Ray Beck

Re: Section 32, T-23-S, R-25-E, and
Sections 7, 8, T-2-4S, R-25-E,
Eddy County, New Mexico
(Mosley Canyon NM017)

Dear Mr. Beck:

As discussed in our conversation of August 23, 1988, I have enclosed copies of the mudlogs on the HNG Mosley Spring "32" State Com. #1 and the Moncrief Jumegan State #1.

I hope these logs are helpful and I appreciate your early attention to our proposal.

Sincerely,

O'BRIEN GOINS SIMPSON EXPLORATION

Michael W. Gates

MWG/slm
Enclosures

August 30, 1988

FEDERAL EXPRESS

YATES PETROLEUM CORPORATION
105 S. 4th Street
Artesia, NM 88210

Attention: Ray Beck

Re: Section 5,
T-2-4S, R-25-E,
Eddy County, New Mexico
(Mosley Canyon NM017)

Dear Mr. Beck:

In reference to Thom O'Brien's letter dated August 23, 1988, enclosed please find copies of two AFEs which will replace those AFEs sent to Yates Petroleum Corporation earlier.

The location was incorrectly described on the AFEs sent on August 23, 1988.

If you have any questions, please contact this office.

Sincerely,

O'BRIEN GOINS SIMPSON EXPLORATION

Sarah Matchus

9-9-88: Yates may propose E12 unit
Rob says Mr Yates angry at threat
to FORCE Pool

10-19-88: Phone to Rob Bullock explain putting N12
on FIP Docket 11-9-88 OGSE has
to spud by 1-1-89

/slm
Enclosure

October 28, 1988

AMOCO PRODUCTION COMPANY - *Fed Express Del. 10-31-88*
501 Westlake Park Blvd. *11-1-88 Amoco, Tim Custer, still considering N/2 proposal*
Houston, TX 77077 *Will prepare F/O Agmt on S1/2 Sec 5*

Attention: Tim Custer

YATES PETROLEUM CORPORATION - *Fed Express Del 10-31-88*
105 S. 4th Street *11-1-88: Yates will cooperate joint w/ F/O. - want info on OGSE*
Artesia, NM 88210

Attention: Rob Bullock

SANTA FE ENERGY COMPANY - *Hand Delivered 10-28-88*
500 W. Illinois *11-2-88 Gary Green AFE OK, O/A being circulated, some chgs*
Suite 500
Midland, TX 79701

Attention: Gary Green

Re: Proposed Mosley Canyon "5"
State Com. #1 Well
N/319.62 acres of Section 5
T-24-S, R-25-E,
Eddy County, New Mexico
(Mosley Canyon NM017)

Gentlemen:

Enclosed please find an AFE and Operating Agreement concerning the referenced well.

The proposed well is planned as a Strawn and Morrow Test to be drilled to an approximate depth of 11,200 feet. The location for the well is 990' from the North line and 1980' from the West line of Section 5. The AFE is based on a dual completion in both the Strawn and Morrow.

Should you elect to join in the cost of this proposed well, please indicate your approval and acceptance by signing and returning to the undersigned a copy of the AFE and the signature pages to the Operating Agreement and Memorandum of Operating Agreement. Please have your signature notarized on the Memorandum.

October 28, 1988
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Should you not be interested in joining in the well, OGSE will entertain farmout proposals.

You are probably aware that OGSE has made application for an order to pool all mineral interests underlying the N/319.62 acres of Section 5, and is set on the docket for Wednesday, November 9, 1988.

Yours truly,

OGS OPERATING COMPANY, INC.

Thom O'Brien

TO'B/slm
Enclosures

MARTIN YATES, III
1912 - 1985
FRANK W. YATES
1936 - 1986



105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210
TELEPHONE (505) 748-1471

S. P. YATES
CHAIRMAN OF THE BOARD
JOHN A. YATES
PRESIDENT
PEYTON YATES
EXECUTIVE VICE PRESIDENT
RANDY G. PATTERSON
SECRETARY
DENNIS G. KINSEY
TREASURER

November 4, 1988

O'Brien Goins Simpson Exploration Company
1140 Two First City Center
Midland, Texas 79701

Attention: Thom O'Brien

Re: Proposed Mosley Canyon "5" St. Com. #1
Township 24 South, Range 25 East, NMPM
Section 5: N $\frac{1}{2}$
Eddy County, New Mexico

Gentlemen:

In regards to your proposed captioned well, Yates will either join in the cost of drilling said well or farmout to the well, delivering a 75% net revenue interest lease before payout with the option at payout to convert said overriding royalty interest to a 25% working interest, proportionately reduced.

The above is subject to O'Brien Goins Simpson Exploration Company furnishing Yates with all geological information on the HNG Mosley Springs Re-entry in the S $\frac{1}{2}$ of Section 32, Township 23 South, Range 25 East, Eddy County, New Mexico.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION

Robert Bullock
Landman

RB/bp

MOSLEY CANYON PROSPECT
Sec. 5, T-24-S, R-25-E
Eddy County, New Mexico

AMOCO - State Lease L-4681 HBP
Lot 3, NE/4NW/4, Sec. 5

5-10-88 Ltr to Carter Moore: S/2, Sec. 5 F/O Request
75% nri 25% Bi Wi APO

6-7-88 Phone Shiela Mitchell: F/O Request Amoco circulating proposal

6-20-88 Phone Shiela Mitchell: F/O Request Amoco circulating proposal

7-22-88 Phone Shiela Mitchell: Taking leave of absence Tim Custer will
handle

8-2-88 Ltr to Tim Custer: Option F/O on N/2 Sec 5
drill w/in 120 days of compl. in S/2
Sec. 5 75% nri 25% Bi APO

8-5-88 Ph. Tim Custer: "

8-9-88 Ph. Tim Custer: Revised proposal Option F/O
reentry in Sec. 32, option on Amoco's
interest in Sec. 5 75% nri 25% Bi APO

8-10-88 Ltr Tim Custer: Revised proposal reenter by 11-1-88
spud in Sec. 5 by 1-1-89 in N/2 or S/2
180 day cont. development, 75% nri 25%
Bi APO

8-30-88 Ph. Tim Custer: Asked for letter from Amoco agreeing to
join or farmout in Sec. 5, F/O terms
incr. orri or Bi 25% APO

9-7-88 Ph. Tim Custer: Proposed straight F/O of Amoco int. in
Sec. 5. OGSE drill w/in 120 days in
Sec. 5 N/2 or S/2 our choice, 30% BI or
incr. orri APO

9-15-88 Ph. Tim Custer: Amoco won't f/o all int in Sec. 5.,
They want info from reentry first then
decide. I said no. Amoco will
consider a F/O of int. in either N/2 or
S/2 not both.

9-30-88 Sold Reentry to G. W.

10-4-88 Ph. Tim Custer: Told him OGSE wants F/O of int. in S/2
Sec. 5. Amoco may join or f/o in N/2
Sec. 5 Must drill N/2 by 1-1-89.

10-18-88 Ph. Tim Custer:

Amoco has approved F/O in S/2 Sec. 5.
Told him about Pooling Docket because
we sold reentry if its good we will
have to spud by 1-1-89 in N/2 of Sec.
5. Offered to provided Amoco w/ info
on reentry if Amoco would agree to join
or f/o in N/2 Sec. 5.

10-19-88 Ltr to Tim Custer:

Proposal to drill Strawn/Morrow Test
N/2 Sec. 5
AFE for Dual Compl.
Will provide info. on Reentry if Amoco
agrees to join or F/O.
Put on Pooling Docket 11-9-88.

11-1-88 Ph. Tim Custer:

Amoco has approved F/O of S/2 Sec. 5
Will prepare agmt spud by 3-1-89
Considering proposal in N/2 Sec. 5

8-5 Tim Custer will submit
8-9 " " revised proposal
OPTION F/O : OGSE REENTRY IN
SEC 32
OPTION ON N/2 & S/2
Amoco Prop. F/O

August 2, 1988

AMOCO PRODUCTION COMPANY
501 Westlake Park Blvd.
Houston, TX 77077

Attention: Tim Custer - 713-556-3011

Re: Option Farmout
NE/4NW/4, Section 5
Township-24-South, Range-25-East,
Eddy County, New Mexico
(Mosley Canyon NM017)

Gentlemen:

O'Brien Goins Simpson Exploration Company, (OGSE), has proposed a Strawn Test which may extend to the Morrow in the S/2 of Section 5. Amoco was contacted May 10, 1988 regarding joining in this test or farming out to the 320 unit.

Within 120 days of completion of the well in the S/2 of Section 5, OGSE would like the option to drill a similar test in the N/2 of Section 5. Amoco has an acreage position in this unit, also.

We are interested in acquiring an Option Farmout of Amoco's interest on the following terms:

1. Amoco would deliver a 75% net revenue interest before payout.
2. OGSE would earn rights to 100' below the deepest depth drilled.
3. Upon payout, Amoco would have the option to convert any reserved overriding royalty to a 25% working interest proportionately reduced.

The spacing units for Strawn and Morrow are 320 acres.

If you have any questions, please don't hesitate to call.

Sincerely,

O'BRIEN GOINS SIMPSON EXPLORATION

Jan Foust

JF/slm

August 10, 1988

AMOCO PRODUCTION COMPANY
501 Westlake Park Blvd.
Houston, TX 77077

Attention: Tim Custer

INCR ORR; OR } APO
BI 30% }

→

8-30: Tim C. Ask for letter from Amoco
AGREEING to join or FLO ALL int in
SEC 5. Terms FLO INCR ORR; OR BI for 2
APO

9-7-88: Tele. Tim C. PROPOSE straight FLO
of Amoco INT. in SEC 5 drill within
120 days, INCR. ORR; OR BI for 30%.
APO.

9-15-88: Amoco will NOT FLO both N1/2 & S1/2
WANT info from reentry, then decide.
MAY consider FLO in just N1/2 or S1/2

10-4-88: ASKED FOR FLO in S1/2 SEC 5
Amoco MAY join or FLO in N1/2 SEC 5

10-18-88: Tim C. Amoco has APPROVED FLO in S1/2 SEC 5
Told him we have sold reentry and will start soon
if Amoco will agree to join or FLO will provide info
Told him about FIP docket 11-9-89
in N1/2 SEC 5.

Re: Proposed Farmout
Section 5
T-24-S, R-25-E,
Eddy County, New Mexico
(Mosley Canyon NM017)

Dear Tim:

As we discussed, here is the proposed Farmout O'Brien Goins Simpson Exploration Company, (OGSE), would like to request concerning Amoco's interest in Section 5.

First, geologically we believe there are two prospective locations in Section 5, one in the S/2 of Section 5 which offsets the Moncrief well in Section 8 to the south, and the other in the N/2 of Section 5, this location would depend on the outcome of our reentry of the HNG Mosley Spring well in Section 32. Unfortunately, both of these locations are in the W/2 of Section 5. Forming a W/2 unit in Section 5 would limit us to one well to drain Section 5, which, in our opinion, would be more effectively drained by two wells; also we feel that a well located in an E/2 unit would be too far down dip.

Should our reentry of the HNG well in Section 32 result in a commercial producer, OGSE would commence a well in the N/2 of Section 5 probably at a location in the SE/4 of the NW/4. Of course this must be done before 1-1-89 because the Enron lease (which we have acquired) expires on that date. If our reentry is not productive, then OGSE would commence a well on the S/2 of Section 5 at a location in the SE/4 of the SW/4.

My proposal is as follows:

1. The basic terms of the proposal remain the same. Amoco would deliver a 75% net revenue interest lease before payout, OGSE earns rights down to total depth plus 100 feet and Amoco will have the option to convert its retained overriding royalty to a 25% working interest upon payout of each well separately on a well by well basis. Amoco's overriding royalty and the working interest to which it may be converted are to be reduced proportionately.

August 10, 1988

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2. On or before November 1, 1988, OGSE will reenter or cause to be reentered the HNG Mosley Springs No. 1 located in the S/2 of Section 32, T-23-S, R-25-E and attempt to complete it in the Strawn Formation at an approximate depth of 9600 feet.
3. On or before January 1, 1989, OGSE will have the option to commence or cause to be commenced a test well at a legal location either in the N/2 of Section 5 to earn all of Amoco's interest in the N/2 or in the S/2 of Section 5 to earn all of Amoco's interest in the S/2. This well will be drilled to a depth of 9,600 feet, or sufficient to test the Strawn Formation, whichever is the lesser depth.
4. Within 180 days of completion of the first test well drilled in Section 5, OGSE shall have the option to commence an additional well in Section 5 to earn Amoco's rights in the proration unit for such well. OGSE shall drill such well to a depth of sufficient to test the same intervals or formations productive in the first test well in Section 5.

Please call if you have any questions.

Yours truly,

O'BRIEN GOINS SIMPSON EXPLORATION

Thom O'Brien

TO'B/slm

11-1-88: Tim Custer

Amoco considering Proposal in N/2
Will PREPARE FID AGMT in S/2

October 19, 1988

AMOCO PRODUCTION COMPANY
501 Westlake Park Blvd.
Houston, TX 77077

Attention: Tim Custer

Re: N/2, Section 5
T-24-S, R-25-E,
Eddy County, New Mexico
(Mosley Canyon NM017)

Dear Tim:

As we discussed on the phone, O'Brien Goins Simpson Exploration Company, (OGSE), has plans to drill a well in the N/2 of Section 5 to test the Strawn and Morrow Formations.

OGSE is going to reenter the HNG Mosley Springs well in the S/2 of Section 32 by the end of this month and test the Strawn Formation. If this proves to be productive, then we will probably move south and spud in the N/2 of Section 5. OGSE has a lease, which we purchased from Enron in the S/2NW/4 of Section 5 which expires January 1, 1989 so we will have to start before year end.

I have enclosed an AFE for a Dual Completion in the Strawn and Morrow Formations, for your information. If we complete the well in the Strawn only, the completion costs would be about half as much as for the dual completion.

I have put our name on the docket for a compulsory pooling hearing on November 9, 1988 to pool the N/2 of Section 5. As I told you, this is due to our dead line with our lease expiring January 1, 1989 and because I have not gotten an answer from Yates or Santa Fe Energy. I hope we do not have to go through a force pooling procedure.

OGSE will agree to provide Amoco with information from our reentry in the S/2 of Section 32 if Amoco will agree to join in the well or farm out to OGSE on the same basis as our Farmout in the S/2 of Section 5.

Thank you for your attention to this matter.

Yours truly,

O'BRIEN GOINS SIMPSON EXPLORATION

Thom O'Brien

TO'B/slm
Enclosure

October 28, 1988

AMOCO PRODUCTION COMPANY - Fed Express Del. 10-31-88
501 Westlake Park Blvd. 11-1-88 Amoco, Tim Custer, still considering N/Z proposal
Houston, TX 77077 Will prepare F/O Agmt on S1/2 Sec 5

Attention: Tim Custer

YATES PETROLEUM CORPORATION - Fed Express Del 10-31-88
105 S. 4th Street 11-1-88: Yates will cooperate joint w/ F/O. - Want info on OGSE
Artesia, NM 88210

Attention: Rob Bullock

SANTA FE ENERGY COMPANY - Hand Delivered 10-28-88
500 W. Illinois 11-2-88 Gary Green AFE OK, O/A being circulated, some chgs
Suite 500
Midland, TX 79701

Attention: Gary Green

Re: Proposed Mosley Canyon "5"
State Com. #1 Well
N/319.62 acres of Section 5
T-24-S, R-25-E,
Eddy County, New Mexico
(Mosley Canyon NM017)

Gentlemen:

Enclosed please find an AFE and Operating Agreement concerning the referenced well.

The proposed well is planned as a Strawn and Morrow Test to be drilled to an approximate depth of 11,200 feet. The location for the well is 990' from the North line and 1980' from the West line of Section 5. The AFE is based on a dual completion in both the Strawn and Morrow.

Should you elect to join in the cost of this proposed well, please indicate your approval and acceptance by signing and returning to the undersigned a copy of the AFE and the signature pages to the Operating Agreement and Memorandum of Operating Agreement. Please have your signature notarized on the Memorandum.

October 28, 1988
Page 2

Should you not be interested in joining in the well, OGSE will entertain farmout proposals.

You are probably aware that OGSE has made application for an order to pool all mineral interests underlying the N/319.62 acres of Section 5, and is set on the docket for Wednesday, November 9, 1988.

Yours truly,

OGS OPERATING COMPANY, INC.

Thom O'Brien

TO'B/slm
Enclosures

28

1987 Survey of Combined Fixed-Rate Overhead Charges For Oil and Gas Producers

The following survey of 1985 combined fixed-rate overhead charges for oil and gas producers was prepared by the accounting firm of Ernst & Whinney. The survey results are based on more than 900 replies to a questionnaire distributed to oil and gas producers in cooperation with the following 13 industry organizations:

- California Independent Producers Association
- Independent Petroleum Association of New Mexico
- Louisiana Association of Independent Producers & Royalty Owners
- Michigan Oil & Gas Association
- North Texas Oil & Gas Association
- Ohio Oil & Gas Association
- Oklahoma Independent Petroleum Association
- Panhandle Producers & Royalty Owners Association
- Pennsylvania Oil & Gas Association
- Permian Basin Petroleum Association
- Tennessee Oil & Gas Association
- Texas Independent Producers & Royalty Owners Association
- West Central Texas Oil & Gas Association

The questionnaire was structured to obtain information for drilling and operating rates and for varying well depths in 16 U.S. geographic regions. It was distributed in June 1987 to members of the participating organizations, so the information should generally reflect operating agreements in effect at that time.

There was a 9 percent response rate, and most responses were complete and usable in the tabulation. Results were compiled on the basis of regions according to Geological Survey Circular 860, U.S. Department of the Interior as depicted here.

The tables on the following pages show the average monthly overhead charges and the median monthly charges (the point above and below which there was an equal number of reported values), together with a comparison with 1986 averages.

While Ernst & Whinney solicited and compiled the survey results reported here, the firm did not verify the responses and, therefore, makes no representation

as to their accuracy. For copies of the report booklet, contact Kenneth M. Burke, National Director of Energy Industry Services, Ernst & Whinney, 333 Clay, Suite 3100, Houston, TX 77002, 713/751-1200 or Roy E. Crocker, Senior Consultant, Ernst & Whinney, P.O. Box 1836, Roswell, NM 88201, 505/622-8500.

Annual Overhead Adjustment Factor

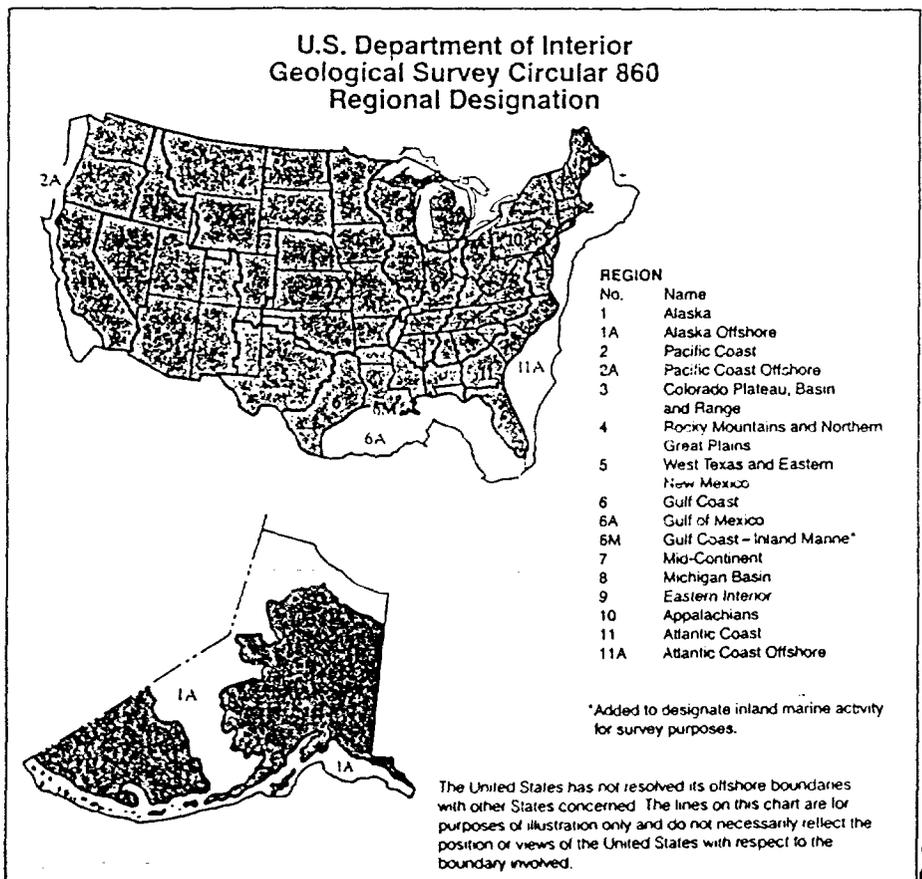
The COPAS Accounting Procedures for Joint Operations issued in 1962, 1968 and 1974, and the 1976 Offshore Accounting Procedure provide for annual adjustments to be applied to the combined fixed-rate overhead charges. The adjustments are to be made April 1 of each year based on the annual change in the index of average weekly earnings of crude petroleum and gas production workers issued by the U.S. Department of Labor, Bureau of Labor

Statistics. The following table presents the annual percentage increase in these statistics since 1963:

1963	1.6%	1976	10.3%
1964	3.9%	1977	10.5%
1965	.8%	1978	10.3%
1966	2.2%	1979	11.0%
1967	3.6%	1980	9.3%
1968	5.4%	1981	9.3%
1969	1.9%	1982	13.0%
1970	7.0%	1983	9.9%
1971	5.9%	1984	5.9%
1972	8.9%	1985	2.7%
1973	7.5%	1986	4.4%
1974	5.2%	1987	4.5%
1975	16.7%		

These figures represent significant increases and show that failure to make the prescribed adjustment can result in substantial loss of revenue.

1. COPAS Accounts, Spring 1987 edition.



Region: West Texas and Eastern New Mexico - 5

Oil Wells

Responses 1987 1986		Depth in Feet But Over Not Over		Monthly Drilling Well Rates				Monthly Producing Well Rates			
				1987		1986		1987		1986	
				Average or Mean	Median	Average or Mean	Median	Average or Mean	Median	Average or Mean	Median
201	155	0-	5,000	\$ 3,017	\$ 3,000	\$ 2,827	\$ 3,000	\$ 300	\$ 300	\$ 292	\$ 300
154	140	5,000-	10,000	3,867	3,650	3,632	3,586	374	365	362	350
71	50	10,000-	15,000	4,961	4,901	4,583	4,500	475	475	459	450
23	13	15,000-	20,000	5,807	5,700	5,037	4,500	526	570	488	450
11	8	20,000		6,067	5,744	5,027	4,392	565	574	532	578
37	37	No Depth Limit		5,047	5,297	4,374	4,000	521	535	422	400

Gas Wells

Responses 1987 1986		Depth in Feet But Over Not Over		Monthly Drilling Well Rates				Monthly Producing Well Rates			
				1987		1986		1987		1986	
				Average or Mean	Median	Average or Mean	Median	Average or Mean	Median	Average or Mean	Median
132	110	0-	5,000	\$ 3,255	\$ 3,000	\$ 2,937	\$ 3,000	\$ 313	\$ 300	\$ 299	\$ 300
107	94	5,000-	10,000	3,898	3,550	3,624	3,500	360	360	364	350
51	36	10,000-	15,000	4,963	4,870	4,637	4,500	477	487	454	450
21	11	15,000-	20,000	5,815	5,500	4,657	4,500	566	575	494	450
10	7	20,000		6,099	5,500	4,832	4,392	558	600	522	578
32	29	No Depth Limit		4,900	5,297	4,250	4,000	522	535	444	425

Region: Gulf Coast - 6

Oil Wells

Responses 1987 1986		Depth in Feet But Over Not Over		Monthly Drilling Well Rates				Monthly Producing Well Rates			
				1987		1986		1987		1986	
				Average or Mean	Median	Average or Mean	Median	Average or Mean	Median	Average or Mean	Median
113	83	0-	5,000	\$ 4,131	\$ 4,000	\$ 3,256	\$ 3,200	\$ 396	\$ 375	\$ 360	\$ 350
144	100	5,000-	10,000	4,763	4,500	4,280	4,375	477	450	454	450
81	49	10,000-	15,000	6,075	5,894	5,430	5,250	617	580	531	531
37	13	15,000-	20,000	6,990	7,000	5,513	5,250	708	666	582	575
20	7	20,000		6,840	6,900	5,697	6,350	762	700	615	660
64	38	No Depth Limit		6,308	6,017	5,956	5,670	648	611	608	610

Gas Wells

Responses 1987 1986		Depth in Feet But Over Not Over		Monthly Drilling Well Rates				Monthly Producing Well Rates			
				1987		1986		1987		1986	
				Average or Mean	Median	Average or Mean	Median	Average or Mean	Median	Average or Mean	Median
86	66	0-	5,000	\$ 4,386	\$ 4,000	\$ 3,443	\$ 3,500	\$ 424	\$ 400	\$ 379	\$ 385
121	92	5,000-	10,000	4,803	4,880	4,310	4,500	480	450	460	450
82	57	10,000-	15,000	6,149	5,930	5,577	5,400	618	554	568	570
45	18	15,000-	20,000	6,785	7,000	5,730	5,250	718	700	610	609
21	7	20,000		6,847	7,000	5,834	6,600	759	700	613	660
61	36	No Depth Limit		6,298	6,000	6,229	6,000	652	628	637	612

Region: Gulf of Mexico - 6A

Oil Wells

Responses 1987 1986		Depth in Feet But Over Not Over		Monthly Drilling Well Rates				Monthly Producing Well Rates			
				1987		1986		1987		1986	
				Average or Mean	Median	Average or Mean	Median	Average or Mean	Median	Average or Mean	Median
8	3	0-	5,000	\$16,666	\$15,000	\$ 4,917	\$ 5,000	\$1,652	\$1,500	\$ 468	\$ 450
8	3	5,000-	10,000	12,301	10,000	5,750	5,250	1,212	952	468	450
6	4	10,000-	15,000	11,929	5,500	6,466	5,250	1,073	600	551	450
5	2	15,000-	20,000	10,529	8,403	4,875	4,500	1,208	840	512	450
2		20,000		7,750	5,500			1,200	600		
15	8	No Depth Limit		18,296	20,700	15,366	16,500	1,844	2,000	1,339	1,000

Gas Wells

Responses 1987 1986		Depth in Feet But Over Not Over		Monthly Drilling Well Rates				Monthly Producing Well Rates			
				1987		1986		1987		1986	
				Average or Mean	Median	Average or Mean	Median	Average or Mean	Median	Average or Mean	Median
10	3	0-	5,000	\$16,666	\$15,000	\$ 4,917	\$ 5,000	\$1,500	\$1,000	\$ 468	\$ 450
10	4	5,000-	10,000	12,628	10,000	6,438	5,250	1,355	1,500	551	450
7	4	10,000-	15,000	14,843	10,000	6,466	5,250	1,532	1,800	551	450
5	2	15,000-	20,000	10,579	8,403	4,875	4,500	1,228	840	512	450
2		20,000		7,750	5,500			1,200	600		
15	9	No Depth Limit		18,296	20,700	15,250	16,500	1,844	2,000	1,498	1,650

OGE DRILLING, INC.

DRILLING OR WORKOVER AFE

AFE NO. _____

- | | | |
|-------------------------------------|--------------------------------------|------------------------------------|
| <input type="checkbox"/> WILDCAT | <input type="checkbox"/> DEVELOPMENT | <input type="checkbox"/> WORKOVER |
| <input type="checkbox"/> DRILLING | <input type="checkbox"/> DRILLING | <input type="checkbox"/> SAME ZONE |
| <input type="checkbox"/> COMPLETION | <input type="checkbox"/> COMPLETION | <input type="checkbox"/> NEW ZONE |
| <input type="checkbox"/> RE-ENTRY | <input type="checkbox"/> RE-ENTRY | <input type="checkbox"/> P & A |

LSE. NO. _____

W. I. _____

EST. NET COST _____

AFE DATE 8-12-88

LEASE & WELL NO. MOSLEY CANYON "5" STATE COM. #1		DEPTH & FORM 11,200' Morrow
LOCATION North Half (N/2), Section 5, T-24-S, R-25-E		DUAL COMPLETION
COUNTY & STATE Eddy County, New Mexico	FIELD Dark Canyon	
OPERATOR OGS Operating Company, Inc.		SPUD DATE

INTANGIBLE WELL COST				
	DESCRIPTION	DRILLING	COMPLETION	TOTAL
1	Access, Location & Roads	25,000	5,000	
2	Rig Move	--		
3	Footage Cost	190,400		
4	Day Work Cost 4 days at 4000	16,000	8,000	
5	Bits & Reamers	--		
6	Fuel	--		
7	Water	35,000	2,000	
8	Mud & Chemicals	8,000		
9	Cementing & Service	22,000	10,000	
10	Coring			
11	Surveying & Testing	22,500	2,200	
12	Mud Logging	9,800		
13	Perforating		4,000	
14	Stimulation		20,000	
15	Transportation	4,700	5,700	
16	Drilling Overhead & Supervision	19,200	6,400	
17	Equipment Rental	1,000	6,000	
18	Completion Rig 12 days at 1200		14,400	
19	Other Drilling Expense	2,300	5,000	
20	Contingencies (10% of Intangibles)	35,600	8,870	
21		9,000		
22				
23	TOTAL INTANGIBLES	400,500	97,570	498,070

TANGIBLE WELL COST				
	DESCRIPTION	DRILLING	COMPLETION	TOTAL
24	40' Of 20 " Conductor Casing	3,000		
25	400' Of 13-3/8 " Surface Casing	8,200		
26	2600' Of 9-5/8 " Intermediate Casing	40,000		
27	' Of " Intermediate Casing			
28	' Of " Intermediate Casing			
29	11,200' Of 7 " Production Casing		130,000	
30	' Of " Tie-Back Casing			
31	11,200' Of 2-3/8 " Tubing		30,000	
32	9,600' Of 2-3/8 " Tubing		26,000	
33	' Of " Tubing			
34	Liner Equipment			
35	Wellhead Equipment	5,000	12,000	
36	Producing Facilities, Tank Battery, Flowline		50,000	
37	Packers & Other Subsurface Tools		10,000	
38	Contingencies (10% of Tangibles)			
39				
40				
41	TOTAL TANGIBLES	56,200	258,000	314,200
42	TOTAL WELL COST	456,700	355,570	812,270

COMPANY APPROVAL

By	Date								

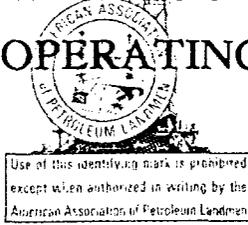
JOINT OPERATOR APPROVAL

Firm _____ By _____ Title _____ Date 31

AFE No. _____

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

MODEL FORM OPERATING AGREEMENT



OPERATING AGREEMENT

DATED

October 19, 19 88,

OPERATOR OGS OPERATING COMPANY, INC.

CONTRACT AREA The North 319.62 acres of Section 5,

Township-24-South, Range-25-East (being

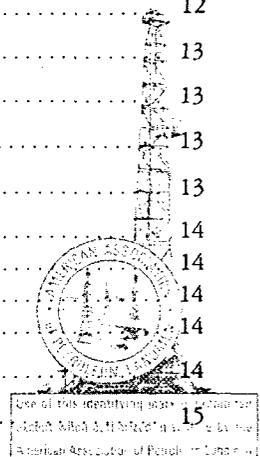
all of Lots 1, 2, 3 and 4, the S/2 of the
NW/4 and the S/2 of the NE/4)

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

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

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between OGS OPERATING COMPANY, INC.
1140 Two First City Center, Midland, Texas 79701, 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 1/8th 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

1 Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys for title examination
2 (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties
3 in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Ex-
4 hibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above
5 functions.
6

7 Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection
8 with leases or oil and gas interests contributed by such party. Operator shall be responsible for the preparation and recording of pooling
9 designations or declarations as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling orders
10 This shall not prevent any party from appearing on its own behalf at any such hearing.
11

12 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
13 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 par-
14 ticipate in the drilling of the well.
15

16 **B. Loss of Title:**

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18 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
19 reduction of interest from that shown on Exhibit "A", the party contributing the affected lease or interest shall have ninety (90) days
20 from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisi-
21 tion 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
22 and gas leases and interests: and,

23 (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
24 entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid or incurred,
25 but there shall be no additional liability on its part to the other parties hereto by reason of such title failure;

26 (b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has
27 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 oc-
28 curred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract
29 Area by the amount of the interest lost;

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

34 (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
35 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
36 who bore the costs which are so refunded;

37 (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
38 borne by the party or parties whose title failed in the same proportions in which they shared in such prior production; and,

39 (f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest
40 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
41 connection therewith.
42

43 2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well
44 payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates,
45 there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required
46 payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment,
47 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
48 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
49 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
50 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
51 the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it
52 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
53 or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

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

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

60 (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
61 lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.
62

63 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
64 and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of
65 the Contract Area.
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ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

OGS OPERATING COMPANY, 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. Operator shall not be removed until all amounts owed to it by Non-Operators have been paid in full.

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 the Operator. Nothing herein shall limit Operator in employing professional consultants or contract services of technical personnel either temporarily or permanently in connection with joint operations hereunder. The salaries, wages, personal expenses and/or costs of such personnel shall be charges to the Joint Account.

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

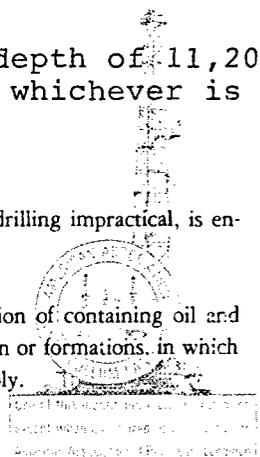
A. Initial Well:

On or before the 1st day of January, 1989, Operator shall commence the drilling of a well for oil and gas at the following location: 990' FNL and 1980' FWL of Section 5, T-24-S, R-25-E, Eddy County, New Mexico

and shall thereafter continue the drilling of the well with due diligence to an approximate depth of 11,200' of to a depth sufficient to test the Morrow Formation, whichever is the lesser depth.

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

1 If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the
2 well as a dry hole, the provisions of Article VI.E.1. shall thereafter apply.
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6 **B. Subsequent Operations:**
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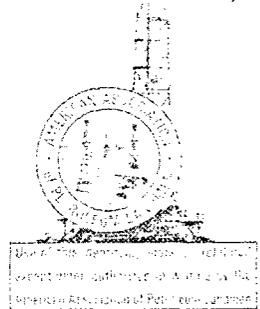
8 1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area other than the well provided
9 for in Article VI.A., or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all
10 the parties and not then producing in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the
11 other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective forma-
12 tion and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice
13 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 drill-
14 ing 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
15 limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays. Failure of a party receiving such notice to reply within
16 the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or
17 response given by telephone shall be promptly confirmed in writing.
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21 If all parties elect to participate in such a proposed operation, Operator shall, within ninety (90) days after expiration of the notice
22 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 loca-
23 tion, as the case may be), actually commence the proposed operation and complete it with due diligence at the risk and expense of all par-
24 ties hereto; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties,
25 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
26 permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title ex-
27 amination or curative matter required for title approval or acceptance. Notwithstanding the force majeure provisions of Article XI, if the
28 actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein) and
29 if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accor-
30 dance with the provisions hereof as if no prior proposal had been made.
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34 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
35 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
36 giving the notice and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of
37 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
38 on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all
39 work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is
40 a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed opera-
41 tion for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Con-
42 senting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and con-
43 ditions of this agreement.
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47 If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable
48 notice period, shall advise the Consenting Parties of the total interest of the parties approving such operation and its recommendation as
49 to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours
50 (exclusive of Saturday, Sunday and legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit par-
51 ticipation to such party's interest as shown on Exhibit "A" or (b) carry its proportionate part of Non-Consenting Parties' interests, and
52 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
53 such a response shall not exceed a total of forty-eight (48) hours (inclusive of Saturday, Sunday and legal holidays). The proposing party,
54 at its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.
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58 The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have
59 elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such
60 operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties.
61 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
62 sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a pro-
63 ducer 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,
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ARTICLE VI
continued

1 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.
2 Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties
3 in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties,
4 and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting
5 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
6 market value thereof if such share is not sold, (after deducting production taxes, excise taxes, royalty, overriding royalty and other in-
7 terests not excepted by Article III.D. payable out of or measured by the production from such well accruing with respect to such interest
8 until it reverts) shall equal the total of the following:
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12 (a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead
13 connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such
14 Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-
15 Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-
16 Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to such Non-Consenting
17 Party had it participated in the well from the beginning of the operations; and
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21 (b) 400 % of that portion of the costs and expenses of drilling, reworking, deepening, plugging back, testing and completing,
22 after deducting any cash contributions received under Article VIII.C., and 400 % of that portion of the cost of newly acquired equip-
23 ment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had
24 participated therein.
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28 An election not to participate in the drilling or the deepening of a well shall be deemed an election not to participate in any re-
29 working or plugging back operation proposed in such a well, or portion thereof, to which the initial Non-Consent election applied that is
30 conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment account. Any such
31 reworking or plugging back operation conducted during the recoupment period shall be deemed part of the cost of operation of said well
32 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
33 the reworking or plugging back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If
34 such a reworking or plugging back operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be ap-
35 plicable as between said Consenting Parties in said well.
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39 During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the
40 proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, excise, gathering and other
41 taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production not excepted by Ar-
42 ticle III.D.
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46 In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall be permitted to use, free
47 of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; and upon
48 abandonment of a well after such reworking, plugging back or deeper drilling, the Consenting Parties shall account for all such equip-
49 ment to the owners thereof, with each party receiving its proportionate part in kind or in value, less cost of salvage.
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53 Within sixty (60) days after the completion of any operation under this Article, the party conducting the operations for the
54 Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an
55 itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its
56 option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly bill-
57 ings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the party conducting the
58 operations for the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities in-
59 curred 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
60 realized from the sale of the well's working interest production during the preceding month. In determining the quantity of oil and gas
61 produced during any month, Consenting Parties shall use industry accepted methods such as, but not limited to, metering or periodic
62 well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation
63 which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs
64 of the work done and of the equipment purchased in determining when the interest of such Non-Consenting Party shall revert to it as
65 above provided; and if there is a credit balance, it shall be paid to such Non-Consenting Party.
66



ARTICLE VI
continued

1 If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above,
2 the relinquished interests of such Non-Consenting Party shall automatically revert to it, and, from and after such reversion, such Non-
3 Consenting Party shall own the same interest in such well, the material and equipment in or pertaining thereto, and the production
4 therefrom as such Non-Consenting Party would have been entitled to had it participated in the drilling, reworking, deepening or plugging
5 back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of the further costs of
6 the operation of said well in accordance with the terms of this agreement and the Accounting Procedure attached hereto.
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10 Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent of all parties, no wells shall
11 be completed in or produced from a source of supply from which a well located elsewhere on the Contract Area is producing, unless such
12 well conforms to the then-existing well spacing pattern for such source of supply.
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16 The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A.
17 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
18 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 pro-
19 duction, ceases to produce in paying quantities.
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23 3. Stand-By Time: When a well which has been drilled or deepened has reached its authorized depth and all tests have been
24 completed, and the results thereof furnished to the parties, stand-by costs incurred pending response to a party's notice proposing a
25 reworking, deepening, plugging back or completing operation in such a well shall be charged and borne as part of the drilling or deepening
26 operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted, whichever
27 first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms of the second gram-
28 matical paragraph of Article VI.B.2, shall be charged to and borne as part of the proposed operation, but if the proposal is subsequently
29 withdrawn because of insufficient participation, such stand-by costs shall be allocated between the Consenting Parties in the proportion
30 each Consenting Party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all Consenting Par-
31 ties.
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35 4. Sidetracking: Except as hereinafter provided, those provisions of this agreement applicable to a "deepening" operation shall
36 also be applicable to any proposal to directionally control and intentionally deviate a well from vertical so as to change the bottom hole
37 location (herein called "sidetracking"), unless done to straighten the hole or to drill around junk in the hole or because of other
38 mechanical difficulties. Any party having the right to participate in a proposed sidetracking operation that does not own an interest in the
39 affected well bore at the time of the notice shall, upon electing to participate, tender to the well bore owners its proportionate share (equal
40 to its interest in the sidetracking operation) of the value of that portion of the existing well bore to be utilized as follows:
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44 (a) If the proposal is for sidetracking an existing dry hole, reimbursement shall be on the basis of the actual costs incurred in
45 the initial drilling of the well down to the depth at which the sidetracking operation is initiated.
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49 (b) If the proposal is for sidetracking a well which has previously produced, reimbursement shall be on the basis of the well's
50 salvable materials and equipment down to the depth at which the sidetracking operation is initiated, determined in accordance with the
51 provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning.
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55 In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period
56 shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays; provided, however, any party may request and
57 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
58 incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, stand-
59 by costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing par-
60 ty'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 in-
61 stances the response period to a proposal for sidetracking shall be limited to thirty (30) days.
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65 **C. TAKING PRODUCTION IN KIND:**
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67 Each party shall take in kind or separately dispose of its proportionate share of all oil and gas produced from the Contract Area,
68 exclusive of production which may be used in development and producing operations and in preparing and treating oil and gas for
69 marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by any
70 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

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

2
3 Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in production from
4 the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment directly from the purchaser thereof for
5 its share of all production.

6
7 In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of
8 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
9 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
10 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
11 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
12 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
13 time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess
14 of one (1) year.

15
16 In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines and/or
17 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
18 be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with any gas balancing
19 agreement between the parties hereto, whether such an agreement is attached as Exhibit "E", or is a separate agreement.

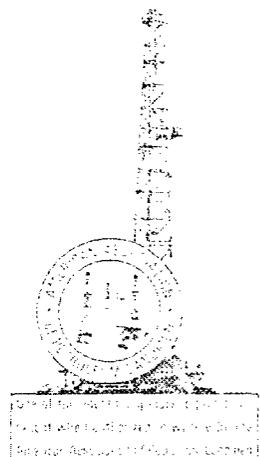
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21 **D. Access to Contract Area and Information:**

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

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31 **E. Abandonment of Wells:**

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33 1. Abandonment of Dry Holes: Except for any well drilled or deepened pursuant to Article VI.B.2., any well which has been
34 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
35 without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply
36 within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of notice of the proposal to plug and abandon
37 such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in
38 accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or deepening
39 such well. Any party who objects to plugging and abandoning such well shall have the right to take over the well and conduct further
40 operations in search of oil and/or gas subject to the provisions of Article VI.B.

41
42 2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted
43 hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a
44 producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall
45 be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within
46 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,
47 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
48 parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of
49 Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign
50 the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and
51 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 in-
52 terval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and
53 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 in-
54 tervals 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 pro-
55 duced 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

SEE ARTICLE XV. B. AND C. FOR ADDITIONAL PROVISIONS.

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.

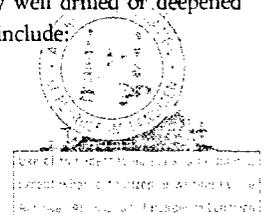
C. Payments and Accounting:

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-five Thousand Dollars (\$ 25,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares 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 Fifteen Thousand Dollars (\$ 15,000.00) 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.

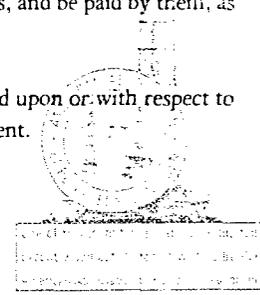
Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holidays), or at the earliest opportunity permitted by circumstances, prior to taking 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

1 G. Insurance:

2
3 At all times while operations are conducted hereunder, Operator shall comply with the workmen's compensation law of
4 the state where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said com-
5 pensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C". Operator shall
6 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
7 hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workmen's compensation
8 law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.

9
10 In the event automobile public liability insurance is specified in said Exhibit "D", or subsequently receives the approval of the
11 parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's automotive equipment.

12
13 ARTICLE VIII.
14 ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST
15

16 A. Surrender of Leases:

17
18 The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole
19 or in part unless all parties consent thereto.

20
21 However, should any party desire to surrender its interest in any lease or in any portion thereof, and the other parties do not
22 agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in
23 such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production
24 thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an oil and gas in-
25 terest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering
26 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
27 lease to be on the form attached hereto as Exhibit "B". Upon such assignment or lease, the assigning party shall be relieved from all
28 obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well
29 attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and pro-
30 duction other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the
31 party assignor or lessor the reasonable salvage value of the latter's interest in any wells and equipment attributable to the assigned or leas-
32 ed acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of
33 salvaging and the estimated cost of plugging and abandoning. If the assignment or lease is in favor of more than one party, the interest
34 shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties.

35
36 Any assignment, lease or surrender made under this provision shall not reduce or change the assignor's, lessor's or surrendering
37 party's interest as it was immediately before the assignment, lease or surrender in the balance of the Contract Area; and the acreage
38 assigned, leased or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this
39 agreement.

40
41 B. Renewal or Extension of Leases:

42
43 If any party secures a renewal of any oil and gas lease subject to this agreement, all other parties shall be notified promptly, and
44 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
45 renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper pro-
46 portionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the
47 interests held at that time by the parties in the Contract Area.

48
49 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
50 who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area
51 to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease.
52 Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

53
54 Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein
55 by the acquiring party.

56
57 The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease
58 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
59 contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or con-
60 tracted 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
61 the provisions of this agreement.

62
63 The provisions in this Article shall also be applicable to extensions of oil and gas leases.

64
65 C. Acreage or Cash Contributions:

66
67 While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other
68 operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be
69 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 con-
70 tribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions

ARTICLE VIII
continued

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

5
6 If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such
7 consideration shall not be deemed a contribution as contemplated in this Article VIII.C.

8
9 **D. Maintenance of Uniform Interest:**

10
11 For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, no
12 party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells,
13 equipment and production unless such disposition covers either:

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

16
17 Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement
18 and shall be made without prejudice to the right of the other parties.

19
20 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
21 require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for
22 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
23 party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter
24 into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract
25 Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

26
27
28
29 **E. Waiver of Rights to Partition:**

30
31 If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an
32 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
33 interest therein.

34
35 **F. Preferential Right to Purchase:**

36
37 Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract
38 Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the
39 name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms
40 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
41 on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchas-
42 ing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing par-
43 ties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to
44 dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent com-
45 pany or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.

46
47 **ARTICLE IX.**
48 **INTERNAL REVENUE CODE ELECTION**

49
50 This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association
51 for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several
52 and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax
53 purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded
54 from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as per-
55 mitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to ex-
56 ecute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the
57 United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements,
58 and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further
59 evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the
60 Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other
61 action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract
62 Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1,
63 Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is per-
64 mitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing elec-
65 tion, each such party states that the income derived by such party from operations hereunder can be adequately determined without the
66 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 Ten Thousand Dollars (\$10,000.00) 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

SEE ARTICLE XV. K. FOR ADDITIONAL PROVISIONS.

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 120 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 120 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.

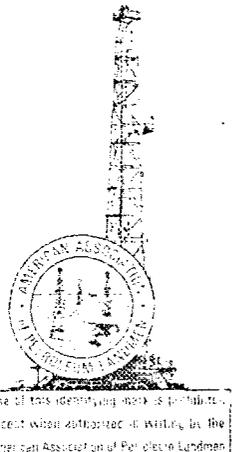
C. Regulatory Agencies:

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 XV

OTHER PROVISIONS

A. BILLING ADDITIONAL INTERESTS

Notwithstanding any of the other provisions of this Agreement and of the accounting procedure attached as Exhibit "C", the parties to this agreement specifically agree that in no event during the term of this Operating Agreement shall Operator be required to make more than one billing for the entire interest credited to each party on Exhibit "A". It is further agreed that if any party to this Agreement (hereinafter referred to as "Selling Party") disposes of part of the interest credited to it on Exhibit "A", the Selling Party will be solely responsible for billing its assignee or assignees, and shall remain primarily liable to the other parties for the interest or interests assigned and shall make prompt payment to Operator for the entire amount of statements and billings to the Selling Party for the interest conveyed until such time as the Selling Party has designated and qualified one assignee to receive the billing for the entire interest. In order to qualify one assignee to receive the billing for the entire interest credited to Selling Party on Exhibit "A", the Selling Party shall furnish to Operator the following:

1. written notice of the conveyance and certified copy of the assignments by which the transfers were made;
2. the name of the assignee to be billed and a written statement executed by the assignee to be billed in which it consents to receive statements and billings for the entire interest credited to Selling Party on Exhibit "A" hereof, and further consents to handle any necessary sub-billing in the event it does not own the entire interest credited Selling Party on Exhibit "A"; and
3. ratification of this Operating Agreement (including an executed and recordable instrument entitled "Memorandum of Operating Agreement") executed by the assignee to be billed (and all other assignees) wherein it/they adopt, ratify and confirm all of the provisions of this Operating Agreement as if it/they had been a party thereto.

B. SECURITY: ADDITION TO ARTICLE VII. B.

The lien and security interest granted by each Non-Operator to Operator and by Operator to each Non-Operator under Article VII. B. shall extend not only to such party's oil and gas rights in the Contract Area (which for greater certainty shall include all of each party's leasehold interest and leasehold estate in the Contract Area), the oil and/or gas when extracted, personal property and equipment (as mentioned in said Article), but also to all accounts and proceeds from sales of oil and gas, contract rights, inventory and general intangibles constituting a part of, relating to or arising out of said oil and gas rights, extracted oil and gas and said equipment which are otherwise owned or held by any such party in the contract Area. Furthermore, the lien and security interest of each of said parties shall extend to all proceeds and products of all of the property and collateral described in this paragraph and in Article VII. B. as being subject to said lien and security interest. Any party, to the extent it deems necessary to perfect the lien and security interest provided, may file this Operating Agreement or Memorandum thereof as a lien in the applicable real estate records and as a financing statement with the limitation of the foregoing.

Operator and Non-Operators, their successors and assigns, agree to execute a recordable instrument entitled Memorandum of Operating Agreement shown as Exhibit No. 1 of this Agreement, to be filed both in the county records for real estate purposes and such other records as may be necessary for compliance with the Uniform Commercial Code.

C. BANKRUPTCY

If, following the granting of relief under the Bankruptcy Code to any party hereto, as debtor thereunder, this Agreement should be held to

be an executory contract within the meaning of 11 U.S.C. §365, then the Operator, or if the Operator is the debtor-in-bankruptcy, the Non-Operator shall be entitled to a determination by debtor, or trustee for debtor, within thirty (30) days from the date an order for relief is entered under the Bankruptcy Code, as to the rejection or assumption of this Operating Agreement. In the event of an assumption, Operator or said Non-Operators, shall be entitled to adequate assurances as to future performance of debtor's obligation hereunder and the protection of the interest of all other parties.

D. PAYMENTS AND REMEDIES FOR DEFAULT: ADDITION TO ARTICLE VII. B. AND C.

Operator, at its election, shall have the right from time to time to demand and receive from Non-Operators payment in advance of their respective share of:

- 1) The estimated expense, as shown on the Authority for Expenditure (AFE) for the well, of drilling said well to its objective depth and completing the testing thereof (costs to casingpoint), by written notice to Non-Operators (Participants) not more than twenty (20) days prior to the date on which drilling operations are scheduled to commence. Each party electing to participate in the drilling of the well shall pay to Operator its proportionate share of such expense within fifteen (15) days after receipt of Operator's written notice requesting payment; and
- 2) The estimated expense, as shown on the authority for expenditure (AFE) for the well, of the setting of casing and completing and equipping such well for production (completion attempt), by written notice included in the notice by Operator to Non-Operators regarding the election to participate in the setting of casing and a completion attempt. Each party electing to participate in a completion attempt shall pay to Operator its proportionate share of such expense within fifteen (15) days after the receipt of Operator's written notice requesting payment.

Upon failure of any Non-Operator (Participant) to pay the requested advance with respect to an operation in which such Non-Operator has agreed to participate, Operator shall immediately notify such Non-Operator (defaulting party) of Operator's election, without prejudice to any other existing remedies, to treat such default in the manner provided in either (a) or (b) below, and if the defaulting party fails to pay the requested advance within five (5) days after receipt of such notice, Operator's election shall become effective. The Operator, at its option, may elect:

- (a) To pay such defaulting party's share of all further costs incurred in connection with the Operation and to seek by appropriate legal action to recover such costs together with interest thereon at the rate provided in Exhibit "C" of the Operating Agreement and reasonable attorney's fees.
- (b) To consider such non-payment to constitute an election by such defaulting party not to participate under Article VI. B. 2. of this Operating Agreement with respect to the operation for which payment was not made, in the same manner, to the same extent and with the same force that a failure to reply within the prescribed period constitutes an election not to participate. After rendition of a statement therefore by Operator, the Non-Defaulting parties which elect to bear their part of such defaulting parties' interest 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.

Operator agrees to return to Participant in cash or credit, without interest, such portions of the amounts paid by Participant as are not needed to drill and/or plug and abandon any well provided for hereunder.

All invoices to be paid shall be payable to Operator at 1140 Two First City Center, Midland, Texas 79701.

Notwithstanding anything to the contrary, and in addition to the rights

granted Operator by Article VII. B., if any party fails or is unable to pay its share of expense within Forty-five (45) days after receipt of an invoice therefor, Operator may notify such Non-Operator in writing of its election, without prejudice to any other existing remedies, to regard such Non-Operator as a Non-Consenting Party hereunder, pursuant to the provisions of Article VI. B. 2. as to such unpaid expenses, whereupon Operator shall become liable therefor. If Non-Operator fails to pay such amount within ten (10) days after receipt of such notice, Operator's election shall become effective, Non-Operator will no longer owe said sum to Operator and Non-Operator shall be subject to the non-consent provisions hereof the same as if such party had elected to be a Non-Consenting party at the inception of the operation. Operator's rights hereunder shall be cumulative and may be exercised as each invoice for expenses, including lease operating and leasehold expenses is not paid within forty-five (45) days. If, after the election of Operator to regard a Non-Operator as a Non-Consenting Party has become effective, such Non-Operator tenders all or a portion of the amounts owed, Operator may, but shall not be obligated to, accept the tendered amounts and waive the non-consent provisions. This provision shall not apply to any sums owed Operator, which Non-Operator contests in good faith and for which Non-Operator has delivered to Operator written exception, specifically setting forth the charges objected to, the reason for the objection and the claimed adjustment.

As long as the defaulting party has unpaid balances outstanding, it shall have no further access to the Contract Area or information obtained in connection with operations hereunder and shall not be entitled to vote on any matter hereunder. While any party is in default, the voting interest of each non-defaulting party shall be in the proportion its participating interest bears to the total non-defaulting participating interest. As to any proposed operation in which it otherwise would have the right to participate, such defaulting party shall have the right to be a Consenting or participating Party only if it pays all of the amounts to which it is in default, in full, including the penalty amounts provided for in Article VI. B., before the applicable proposed election or decision deadline.

Notwithstanding anything to the contrary contained within this Agreement, the parties hereto agree that:

1. Operator shall not have the right to implement any of the remedies with respect to default described in Article VII. B., XV. C. and/or XV. E. while the Operator and defaulting Non-Operator are engaged in on-going negotiations or discussions conducted in good faith regarding disputed joint billings and/or advances. It being understood, however, that the provision shall not relieve Non-Operator of its responsibility to timely pay that portion of any joint billings and/or advance estimates which are not the subject of any such good faith dispute;
2. It is the intention of Article XV. E. to grant Non-Operators reciprocal rights against Operator in the event Operator, rather than Non-Operator, should fail or refuse to pay its proportionate share of all costs, expenses (including, without limitation, shut-in royalty payments, minimum royalties, and other lease maintenance expenses), and/or advance payments requested of Non-Operators by Operator. Where appropriate within the text of Article VII. and XV. E., in order to effectuate this reciprocity, where the word "Operator" is used, the word "Non-Operator" may be substituted therefor, and where the word "Non-Operator" is used, the word "Operator" may be substituted therefor.

E. CERTAIN PLUGGING AND ABANDONMENT COSTS

If, pursuant to Article VI. B. 2. hereof, less than all of the parties elect to participate in a proposed reworking, deepening or plugging back operation, and if such operation does not result in the production of hydrocarbons in paying quantities or results in a completion that ceases to produce in commercial quantities prior to the time at which the consenting parties are fully reimbursed as provided in Article VI. B. 2., then, notwithstanding the printed provisions of this Agreement, the party or parties who elected not to participate in such reworking, deepening or plugging back operation shall nevertheless be

responsible for their proportionate part of the cost to plug and abandon such well, and salvage the equipment therefrom, except for the additional plugging and abandonment or salvage costs that are caused by the non-consent reworking, deepening or plugging back operation; the consenting parties shall be solely responsible for such additional costs.

F. METERING OF PRODUCTION

If a diversity of working interest ownership in production from a lease subject to this Agreement occurs as a result of operation by less than all parties under Article VI. B. 2. herein, it is agreed that the oil and other liquid hydrocarbons produced from the well or wells completed by Consenting Parties may be separately measured by standard metering equipment to be properly tested periodically for accuracy.

G. ADDITIONAL RIGHTS

If any rights in the Contract Area or any new Area of Interest between the parties hereto are acquired by virtue of the drilling, deepening or completion of a well, a Non-Consenting party in such drilling, deepening or completing shall not be entitled to any interest in such rights.

H. PRIORITY OF OPERATIONS

Notwithstanding anything contained herein to the contrary, it is agreed that where a well, which has been authorized under the terms of this agreement by all parties, or by one or more but less than all parties under Article VI., shall have been drilled to the contract depth or the objective formation, whichever is less, and the parties participating in the well cannot mutually agree upon the sequence and timing of further operations regarding such well, the following elections shall control in the order enumerated hereafter:

1. an election to do additional logging, coring or testing;
2. an election to attempt to complete the well at either the objective depth or objective formation;
3. an election to plug back and attempt to complete said well; however, if more than one proposal to plug back is made, the proposal to plug back to the next deepest prospective interval shall have priority over proposals to plug back to shallower prospective intervals;
4. an election to sidetrack the well; and
5. an election to deepen said well.

It is provided, however, that if at the time said participating parties are considering any of the above elections the hole is in such a condition that a reasonably prudent operator would not conduct the operations contemplated by the particular election involved for fear of placing the hole or objective formation in jeopardy, such election shall be eliminated from the sequence set forth above.

I. NGPA FILINGS, DEDICATIONS/GAS CONTRACT NEGOTIATIONS

Operator may, at its election (but is not required to), file and prosecute applications for the determination of the status under the Natural Gas Policy Act of 1978 ("NGPA") of wells subject to this Operating Agreement for the joint account of parties hereto to the extent that such filings by Operator are permitted by law, rule, regulation or order. Each party hereto shall be responsible for making all other filings and reports required under the NGPA, including, but without limitation thereof, refund undertakings and interim, retroactive or other collection statements. Operator shall not be responsible to any

Non-Operator for any damage or loss arising out of or connected with the filing or prosecution of the application or applications for determination, including the failure to file, delay in filing or failure to prosecute such application(s). The sole recourse of each Non-Operator is to file and process for his own account whatever application or applications for determination he deems appropriate. In the event Operator elects to file an application or applications for determination, the cost and expenses of preparing, filing and prosecuting such application(s) shall be charged to the joint account.

With respect to operations hereunder, Non-Operator agrees 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 of 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.

All costs incurred by Operator in complying with the Natural Gas Policy Act of 1978 or in complying with Federal, State and local law for the obtaining and monitoring of all well classifications required in the Natural Gas Policy Act of 1978 or in complying with any laws under the Department of Energy, and all consulting fees, and directly related costs incurred by Operator in connection with investigations for prior dedications and/or calls negotiations with oil and/or gas purchasers, and negotiations for gas purchaser contracts (including casinghead gas contracts) shall be a direct charge, borne by the joint account as provided in Exhibit "C" and shall not be included in administrative overhead under part III of Exhibit "C".

J. DISBURSEMENT OF ROYALTIES

If a purchaser of any oil, gas or other hydrocarbons produced from the Contract Area declines to make disbursements of all royalties, overriding royalties and other payments out of, or with respect to, production which are payable on the Contract Area, Operator will, if any Non-Operator so desires, make such disbursement on behalf of said Non-Operator at its direction, provided, Non-Operator shall execute such documents as may be necessary in the opinion of Operator to enable Operator to receive all payments for oil, gas and other hydrocarbons, directly from said purchaser. In that event, Operator will use its best efforts to make disbursements correctly within thirty (30) days of receipt from the purchaser, but will be liable for incorrect disbursements only in the event of gross or willful negligence.

K. ARTICLE XII, ADDITION

Except as may otherwise be expressly provided above, any notice or communication required or desired to be given under the terms of this Agreement shall be given by Certified or Registered Mail, Return Receipt Requested, by personal delivery against signed receipt thereof, or by telegram on which postage and/or other sending charges have been prepaid by sending party, at such party's address listed on Exhibit "A" to this Agreement or at such other address as such party may have previously specified by like notice.

L. This Agreement may be executed in any number of counterparts, each of which shall be considered as original for all purposes.

M. This Operating Agreement supersedes and replaces any prior Operating Agreement covering the Contract Area executed by any party hereto.

N. PREPARATION OF EXHIBIT "A"

The interest of the parties as set forth on Exhibit "A" were calculated based on the best information available to the Operator. If the information is found to have been erroneous, or if a mathematical or typographical error has been made in preparing the exhibits, the interest may be recalculated to reflect the correct interests.

END OF 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 19th day of October, 19 88.

OPERATOR

OGS OPERATING COMPANY, INC.

Attest:

Carla T. Fair

By: Carla T. Fair
Assistant-Secretary

Thom O'Brien

By: Thom O'Brien
Vice-President

NON-OPERATORS

O'BRIEN GOINS SIMPSON EXPLORATION
COMPANY

Thom O'Brien

By: Thom O'Brien
Title: Partner
YATES PETROLEUM CORPORATION

Attest:

By:
Title:

By:
Title:

SANTA FE ENERGY COMPANY

Attest:

By:
Title:

By:
Title:

AMOCO PRODUCTION COMPANY

Attest:

By:

By:

SIGNATURE PAGE: to that certain Operating Agreement dated October 19, 1988 covering the North 319.62 acres of Section 5, T-24-S, R-25-E, NMPM, Eddy County, New Mexico.

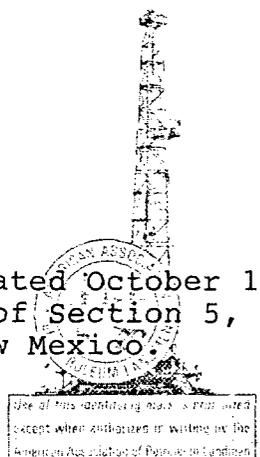


EXHIBIT "A"

Attached to and made a part of that certain Operating Agreement dated October 19, 1988, by and between OGS Operating Company, Inc. as Operator, and O'Brien Goins Simpson Exploration Company, et al, as Non-Operators, covering the N/2 of Section 5, Mosley Canyon Prospect, Eddy County, New Mexico. (NM017)

I. LANDS SUBJECT TO THIS AGREEMENT:

Township-24-South, Range-25-East, NMPM

Section 5: North 319.62 acres of Section 5, being Lots 1, 2, 3, and 4, the S/2 of the NW/4 and the S/2 of the NE/4

Eddy County, New Mexico

II. RESTRICTION AS TO DEPTH:

From the surface of the ground to the base of the Morrow Formation.

III. INTEREST OF THE PARTIES IN COSTS AND PRODUCTION:

<u>Working Interest Owner</u>	<u>Net Acres</u>	<u>Working Interest</u>
1. OGS Operating Company, Inc.	3.1962	0.010000
2. O'Brien Goins Simpson Explo.	116.8038	0.365446
3. Yates Petroleum Corporation	120.5400	0.377135
4. Santa Fe Energy Company	39.0700	0.122239
5. Amoco Production Company	<u>40.0100</u>	<u>0.125180</u>
	319.6200	1.000000

IV. OIL AND GAS LEASES SUBJECT TO THIS AGREEMENT:

- Lessor: State of New Mexico V-2630
 Lessee: Santa Fe Energy
 Dated: August 1, 1988
 Recorded: Volume , Page of the Records of Eddy County, New Mexico
 Land Covered: INSOFAR ONLY AS SAID LEASE covers Lot 4 (NW/4 of the NW/4) of Section 5, Township-24-South, Range-25-East, Eddy County, New Mexico (39.07 acres)
 Royalty: 1/6th of all oil and gas
 Overriding Royalty:
- Lessor: State of New Mexico V-2516
 Lessee: Yates Petroleum Corporation
 Dated: February 1, 1988
 Recorded: Volume , Page of the Records of Eddy County, New Mexico
 Land Covered: INSOFAR ONLY AS SAID LEASE covers Lots 1 and 2 (N/2 of the NE/4) and the SE/4 of the NE/4 of Section 5, -- Township-24-South, Range-25-East, Eddy County, New Mexico (120.54 acres)
 Royalty: 1/6th of all oil and gas
 Overriding Royalty:

IV. OIL AND GAS LEASES SUBJECT TO THIS AGREEMENT: Continued

3. Lessor: State of New Mexico L-4631
 Lessee: Amoco Production Company
 Dated:
 Recorded: Volume , Page of the Records of Eddy
 County, New Mexico
 Land Covered: INSOFAR ONLY AS SAID LEASE covers Lots 3
 (NE/4 of the NW/4) of Section 5,
 Township-24-South, Range-25-East, Eddy
 County, New Mexico (40.01 acres)
 Royalty: 1/8th of all oil and gas
 Overriding Royalty:
4. Lessor: State of New Mexico V-945
 Lessee: HNG Oil Company
 Dated: January 1, 1984
 Recorded: Volume , Page of the Records of Eddy
 County, New Mexico
 Land Covered: INSOFAR ONLY AS SAID LEASE covers S/2 of the
 NW/4 of Section 5, Township-24-South,
 Range-25-East, Eddy County, New Mexico (80.00
 acres)
 Royalty: 1/6th of all oil and gas
 Overriding Royalty: 4.83% of all oil and gas
5. Lessor: Joann R. Benedict, et vir
 Lessee: O'Brien Goins Simpson Exploration Company
 Dated: April 28, 1988
 Recorded: Volume 21, Page 171 of the Records of Eddy
 County, New Mexico
 Land Covered: Southeast Quarter of the Northeast Quarter
 (SE/4NE/4) and South Half of the Southeast
 Quarter (S/2SE/4) of Section 5,
 Township-24-South, Range-25-East, Eddy
 County, New Mexico
 Royalty: 3/16th of all oil and gas
 Overriding Royalty: 1.625% of all oil and gas
6. Lessor: Barbara J. Wendt, et vir
 Lessee: O'Brien Goins Simpson Exploration Company
 Dated: April 21, 1988
 Recorded: Volume 20, Page 1071 of the Records of Eddy
 County, New Mexico
 Land Covered: Southeast Quarter of the Northeast Quarter
 (SE/4NE/4) and South Half of the Southeast
 Quarter (S/2SE/4) of Section 5,
 Township-24-South, Range-25-East, Eddy
 County, New Mexico
 Royalty: 3/16th of all oil and gas
 Overriding Royalty: 1.625% of all oil and gas
7. Lessor: Ridley Gardner, et ux
 Lessee: O'Brien Goins Simpson Exploration Company
 Dated: April 21, 1988
 Recorded: Volume 20, Page 966 of the Records of Eddy
 County, New Mexico
 Land Covered: Southeast Quarter of the Northeast Quarter
 (SE/4NE/4) and South Half of the Southeast
 Quarter (S/2SE/4) of Section 5,
 Township-24-South, Range-25-East, Eddy
 County, New Mexico
 Royalty: 3/16th of all oil and gas
 Overriding Royalty: 1.625% of all oil and gas

IV. OIL AND GAS LEASES SUBJECT TO THIS AGREEMENT: Continued

8. Lessor: Dorothy F. Bragg, et vir
 Lessee: O'Brien Goins Simpson Exploration Company
 Dated: April 21, 1988
 Recorded: Volume 20, Page 910 of the Records of Eddy County, New Mexico
 Land Covered: Southeast Quarter of the Northeast Quarter (SE/4NE/4) and South Half of the Southeast Quarter (S/2SE/4) of Section 5, Township-24-South, Range-25-East, Eddy County, New Mexico
 Royalty: 3/16th of all oil and gas
 Overriding Royalty: 1.625% of all oil and gas
9. Lessor: John H. White, et ux
 Lessee: O'Brien Goins Simpson Exploration Company
 Dated: April 21, 1988
 Recorded: Volume 20, Page 908 of the Records of Eddy County, New Mexico
 Land Covered: Southeast Quarter of the Northeast Quarter (SE/4NE/4) and South Half of the Southeast Quarter (S/2SE/4) of Section 5, Township-24-South, Range-25-East, Eddy County, New Mexico
 Royalty: 3/16th of all oil and gas
 Overriding Royalty: 1.625% of all oil and gas

V. ADDRESSES AND PHONE NUMBERS OF THE PARTIES FOR ALL PURPOSES:

1. OGS Operating Company, Inc.
 1140 Two First City Center
 Midland, TX 79701
 (915) 682-6373
2. O'Brien Goins Simpson Exploration
 1140 Two First City Center
 Midland, TX 79701
 (915) 682-6373
3. Yates Petroleum Corporation
 105 S. 4th Street
 Artesia, NM 88210
 (505) 748-1471
4. Santa Fe Energy Company
 500 W. Illinois
 Suite 500
 Midland, TX 79701
 (915) 687-3551
5. Amoco Production Company
 501 Westlake Blvd.
 P.O. Box 3092
 Houston, TX 77079
 (713) 556-3011

END OF EXHIBIT "A"

THERE IS NOT AN EXHIBIT "B" TO THIS OPERATING AGREEMENT.

EXHIBIT " C "

Attached to and made a part of that certain Operating Agreement dated October 19, 1988 by and between OGS Operating Company, Inc., as Operator and O'Brien Goins Simpson Exploration Company, et al , as Non-Operator, covering the N/2 of Section 5, T-24-S, R-25-E, NMPM, Eddy County, New Mexico. (Mosley Canyon NM017)

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation within fifteen (15) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at First City National Bank, Midland, TX on the first day of the month in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

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

5. Audits

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

6. Approval By Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Ecological and Environmental

Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or archaeological nature and pollution control procedures as required by applicable laws and regulations.

2. Rentals and Royalties

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

3. Labor

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

4. Employee Benefits

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies.

5. Material

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

6. Transportation

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

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

- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store where like material is normally available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

7. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

8. Equipment and Facilities Furnished By Operator

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed Eight percent (8.0%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

9. Damages and Losses to Joint Property

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

10. Legal Expense

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

11. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties hereto in accordance with the tax value generated by each party's working interest.

12. Insurance

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

13. Abandonment and Reclamation

Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory authority.

14. Communications

Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.

15. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

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

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

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

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

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

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 4,500.00
(Prorated for less than a full month)

Producing Well Rate \$ 450.00

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

(a) Drilling Well Rate

- (1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.
- (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig or other units used in workover, commence through date of rig or other unit release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.

(b) Producing Well Rates

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

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

B. Overhead - Percentage Basis

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

(a) Development

_____ Percent (_____ %) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 10 of Section II and all salvage credits.

(b) Operating

_____ Percent (_____ %) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

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

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

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for overhead based on the following rates for any Major Construction project in excess of \$ 2,500.00 :

- A. 5 % of first \$100,000 or total cost if less, plus
- B. 3 % of costs in excess of \$100,000 but less than \$1,000,000, plus
- C. 2 % of costs in excess of \$1,000,000.

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

3. Catastrophe Overhead

To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account for overhead based on the following rates:

- A. 5 % of total costs through \$100,000; plus
- B. 3 % of total costs in excess of \$100,000 but less than \$1,000,000; plus
- C. 2 % of total costs in excess of \$1,000,000.

Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead provisions of this Section III shall apply.

4. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

- (a) Tubular goods, sized 2 $\frac{3}{8}$ inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.
- (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate truck rate shall be used.
- (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.
- (d) Macaroni tubing (size less than 2 $\frac{3}{8}$ inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

(2) Line Pipe

- (a) Line pipe movements (except size 24 inch OD and larger with walls $\frac{3}{4}$ inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
 - (b) Line pipe movements (except size 24 inch OD and larger with walls $\frac{3}{4}$ inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
 - (c) Line pipe 24 inch OD and over and $\frac{3}{4}$ inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.
 - (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.
- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.
- (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2 A (1) and (2).

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

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

(2) Material used on and moved from the Joint Property

- (a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as new Material or
- (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as used Material.

(3) Material not used on and moved from the Joint Property

At seventy-five percent (75%) of current new price as determined by Paragraph A.

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

C. Other Used Material

(1) Condition C

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

(2) Condition D

Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material under procedures normally used by Operator without prior approval of Non-Operators.

- (a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.
- (b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines. shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

(3) Condition E

Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally utilized by Operator without prior approval of Non-Operators.

D. Obsolete Material

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

E. Pricing Conditions

- (1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph 1.A(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.
- (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

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

4. Warranty of Material Furnished By Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. Special Inventories

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

4. Expense of Conducting Inventories

- A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.
- B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

EXHIBIT "D"

Attached to and made a part of that certain Operating Agreement dated October 19, 1988, by and between OGS Operating Company, Inc., as Operator, and O'Brien Goins Simpson Exploration Company, et al, as Non-Operators, covering the N/2, Section 5, Mosley Canyon Prospect, Eddy County, New Mexico. (NM015)

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

- A. Worker's Compensation to satisfy the requirements of any State or Federal Worker's Compensation Act applicable to operations conducted by the Operator for the Joint Account, including Employer's Liability Insurance, with limits sufficient to satisfy the underlying insurance requirements of the Umbrella Excess Policy described in Paragraph D. of this Section.
- B. Comprehensive General Liability, including Contractual Liability, for bodily injury and property damage, with limits of liability not less than \$300,000.00 covering injury to or death of one person and not less than \$300,000.00 covering injury to or death of more than one person by reason of one accident, and Property Damage Liability Insurance with limits of not less than \$100,000.00 for each accident and \$100,000.00 in the aggregate and sufficient to satisfy the underlying insurance requirements of the Umbrella Excess Policy described in Paragraph D. of this Section.
- C. Comprehensive Automobile Liability, including liability arising out of non-owned and hired cars, for bodily injury and property damage with limits of liability sufficient to satisfy the underlying insurance requirements of the Umbrella Excess Policy described in Paragraph D. of this Section.
- D. Umbrella Excess Liability with a limit of \$5 million.
- E. Operator's Extra Expense -- Control of Well, as respects drilling, deepening, or workover wells, including (1) the cost of control of a well in the event of a blowout; (2) Bodily Injury or Property Damage Liability caused by pollution, seepage or contamination; (3) pollution cleanup; (4) extinguishing of an oil or gas well fire; and (5) redrilling/recompletion of the well, with a limit of \$3,000,000.00 for wells less than 10,000 feet in depth and \$5,000,000.00 for wells in excess of 10,000 feet in depth.

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

The failure of the above described policies to cover any loss that may occur, or the insolvency of the insurance carrier selected by the Operator, shall not be deemed negligence of the Operator or lack of due diligence upon the part of the Operator.

In the event any insurance on this Exhibit is not available (or becomes unavailable) at reasonable premium rates in the judgement of the Operator, then the Operator shall not be required to obtain or continue such insurance in force.

END OF EXHIBIT "D"

EXHIBIT "E"

Attached to and made a part of that certain Operating Agreement dated October 19, 1988, by and between OGS Operating Company, Inc., as Operator, and O'Brien Goins Simpson Exploration Company, et al, as Non-Operators, covering the N/2, Section 5, Mosley Canyon, Eddy County, New Mexico. (NM017)

GAS STORAGE AND BALANCING AGREEMENT

- (1) During the period or periods when any party hereto has no market for, or its purchaser is unable to take, or if any party fails to take, its share of gas (such a party or parties called individually or collectively "underproduced party"), the other party or parties (called individually or collectively "overproduced party") shall be entitled to produce each month one hundred percent (100%) of the allowable gas production assigned to the Unit Area by the appropriate governmental entity having jurisdiction, and such overproduced party shall have the right to take all of the share of the underproduced party, subject to the provisions hereof, until such underproduced party shall exercise its rights to take its share of such gas production. All parties hereto shall share in and own all the condensate as actually recovered at the surface in accordance with their respective interests, but the overproduced party taking all such gas may sell and deliver all such gas to its purchaser(s), subject to the provisions hereof. Thereafter each underproduced party shall be credited with gas in storage equal to its share of the gas produced, less its share of gas used in lease operations, vented or lost. Operator shall maintain a current account of the gas balance between the parties and shall furnish all parties hereto monthly statements showing the total quantity of gas produced, used in lease operations, vented and/or lost, and the total quantity of condensate recovered.
- (2) After notice to Operator and the overproduced party, an underproduced party may begin taking and/or delivering its share of the gas produced. In addition to its share, each underproduced party, until it has recovered its gas in storage and balanced its gas account, shall be entitled to take or deliver a volume of gas equal to thirty-seven and one-half percent (37-1/2%) of the overproduced party's share of gas produced. If "underproduced party" constitutes more than one party entitled to the additional gas produced, such parties shall divide such additional gas in accordance with their shares of Unit participation.
- (3) At all times while gas is produced from the Unit Area, each party shall make appropriate settlement of all royalties, overriding royalty interests, and other like payments for which it is responsible (referred to collectively as "royalty") as if each party were actually taking or delivering to a purchaser its share, and its share only, of such gas production, provided that during any period of imbalance, the overproduced party shall remit to the underproduced party the royalty share of production proceeds of the underbalanced party's Unit share of gas being taken by the overproduced party. In lieu of making payment of such royalty share of proceeds to the underproduced party, the overproduced party may, if it so elects, make payment directly to the royalty owners of the underproduced party.
- (4) Each party producing and/or delivering gas to its purchaser(s) shall pay any and all production taxes due on such gas.
- (5) When the gas sales from a reservoir in a gas well permanently cease, Operator shall be responsible for determining the final account of underproduction and overproduction. Each overproduced party shall compensate each underproduced party in accordance with said accounting with a sum of money equal to the amount actually received from the sale of underproduced party's share of gas by such overproduced party during each period of overproduction not theretofore recovered by underproduced party pursuant to Paragraph (2) above, less applicable taxes, on a cumulative basis. Payment for such overproduction shall be in the order of accrual with actual recovery of underproduced gas by underproduced party prior to such cessation of production being accounted for as to storage and withdrawal on a first in - first out basis. If such overproduced party has paid the royalties attributable to such overproduction, the amount of such royalties shall be deducted from such payment.

EXHIBIT "E"

- (6) The provisions of this agreement shall be separately applicable to each well and each reservoir within each well to the end that production from one reservoir in a gas well may not be utilized for the purpose of balancing underproduction from other reservoirs or gas wells.
- (7) Nothing herein contained shall change or affect each party's obligation to pay its proportionate share of all costs and liabilities incurred in joint operations as its share thereof is set forth in the above described Operating Agreement.

END OF EXHIBIT "E"

EXHIBIT "F"

Attached to and made a part of that certain Operating Agreement dated October 19, 1988, by and between OGS Operating Company, Inc., as Operator, and O'Brien Goins Simpson Exploration Company, et al, as Non-Operators, covering the N/2, Section 5, Mosley Canyon, Eddy County, New Mexico. (NM017)

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 form 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 for the contracting officer setting forth the provision 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 it has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Operator's commitments under Section 202 of Executive Order No. 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 No. 11246 of September 24, 1965, and the rules, regulations, and relevant orders of the Secretary of Labor.
- 5) The Operator will furnish all information and reports required by Executive Order No. 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 its books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.
- 6) In the event of Operator's non-compliance with the non-discrimination clauses of this contract or with any such 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 in accordance with procedures authorized in Executive Order No. 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order No. 11246 of September 24, 1965, or by rules, regulations, or order of the Secretary of Labor, or as otherwise provided by law.
- 7) The Operator will include the provisions of paragraph (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 No. 11246 of September 24, 1965, so that such provisions will be binding upon each subcontract or vendor. The Operator will take such action with respect to any subcontract or purchase order as the contracting 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 contracting agency, the Operator may request the United States to enter into such litigation to protect the interests of the United States.

EXHIBIT "F"

Operator acknowledges that it 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 thirty (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 No. 11246, as amended, and Rules and Regulations adopted thereunder.

Operator further acknowledges that it 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 No. 11246 and supply Non-Operators with a copy of such program if they so request.

CERTIFICATION OF NON-SEGREGATED FACILITIES

Operator assures Non-Operators that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not and will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. For this purpose, it is understood that the phrase "segregated facilities" includes facilities which are in fact segregated on basis of race, color, religion or national origin, because of habit, local custom or otherwise. It is further understood and agreed that maintaining or providing segregated facilities for its employees or permitting its employees to perform their services at any location under its control where segregated facilities are maintained is a violation of the equal opportunity clause required by Executive Order No. 11246 of September 24, 1965.

Operator further understands and agrees that a breach of the assurance herein contained subjects it to the provisions of the Order at 41 CFR Chapter 60 the The Secretary of Labor dated May 21, 1968, and the provisions of the equal opportunity clause enumerated contracts between the United States of America and Non-Operators.

Whoever knowingly and willfully makes any false, fictitious or fraudulent representation may be liable to criminal prosecution under 18 U.S.C. 1001.

END OF EXHIBIT "F"

EXHIBIT "1"

Attached to and made a part of that certain Operating Agreement dated October 19, 1988, by and between OGS Operating Company, Inc., as Operator, and O'Brien Goins Simpson Exploration Company, et al, as Non-Operators, covering the N/2, Section 5, Mosley Canyon, Eddy County, New Mexico. (NM017)

MEMORANDUM OF OPERATING AGREEMENT

STATE OF NEW MEXICO §

COUNTY OF EDDY §

Reference is made to that certain Model Form Operating Agreement, A.A.P.L. Form 610-1982, dated the 19th day of October, 1988, wherein OGS Operating Company, Inc., whose address is 1140 Two First City Center, Midland, Texas 79701, is named Operator, and each of the undersigned is named as a Non-Operator, covering the Contract Area consisting of lands located in Eddy County, New Mexico, more particularly described on Exhibit "1-A" attached hereto and made a part hereof.

The terms and provisions of the referenced Operating Agreement are incorporated in and made a part hereof. Article VII. B. and Article XV. D. of the referenced Operating Agreement grants to Operator and to Non-Operators a lien upon each party's oil and gas rights in the Contract Area and a security interest in each party's interest in oil and/or gas when produced, accounts, proceeds, contract rights, fixtures and personal property and equipment now or hereafter used to secure payment of each party's share of expenses, together with interest, for the development and operation of the Contract Area. Oil and/or gas or accounts will be financed at the wellhead located on the lands described in Exhibit "1-A". This instrument shall be deemed a Financing Statement.

This instrument is intended to give notice to third parties of the respective rights of each of the parties hereto under the referenced Operating Agreement and the rights of each party to undivided interests in the oil and gas rights in the Contract Area, notwithstanding the fact that the real estate records of the county where the lands described in Exhibit "1-A" are located show different rights than are reflected hereby.

A fully-executed copy of the above-described Operating Agreement is available in the offices of Operator at the address shown above.

Each of the undersigned Non-Operators agrees, at Operator's request, to join Operator in executing one or more copies of this instrument at any time and from time to time whenever filing or recording this instrument is deemed by Operator to be necessary or desirable.

This instrument may be executed in multiple counterparts by each of the undersigned, and Operator is hereby authorized to assemble such counterparts into one document.

DATED and effective as of the date of the above-described Operating Agreement.

OGS OPERATING COMPANY, INC.

By: [Signature]
Thom O'Brien
Vice-President

STATE OF TEXAS §
COUNTY OF MIDLAND §

This instrument was acknowledged before me on the 28th day of OCTOBER, 1988, by Thom O'Brien as Vice-President of OGS Operating Company, Inc., a Texas corporation, on behalf of said corporation.



SARAH MATCHUS
Notary Public, State of Texas
My Commission Expires June 8, 1989

[Signature]
NOTARY PUBLIC
STATE OF TEXAS

SIGNATURE PAGE to that certain Memorandum of Operating Agreement dated October 19, 1988 by and between OGS Operating Company, Inc., as Operator, and Non-Operators covering the N/2, Section 5, Mosley Canyon, Eddy County, New Mexico. (NM017)

NON-OPERATORS

O'BRIEN GOINS SIMPSON EXPLORATION COMPANY

By: T. B. O'Brien
Managing General Partner

YATES PETROLEUM CORPORATION

ATTEST:

By: _____
Title:

By: _____
Title:

SANTA FE ENERGY COMPANY

ATTEST:

By: _____
Title:

By: _____
Title:

STATE OF TEXAS §
COUNTY OF MIDLAND §

This instrument was acknowledged before me on _____ day of _____, 1988 by T. B. O'Brien as Managing General Partner of O'Brien Goins Simpson Exploration Company, on behalf of said partnership.

Notary Public for the State of Texas

STATE OF §
COUNTY OF §

This instrument was acknowledged before me on _____ day of _____, 1988 by _____ of Yates Petroleum Corporation, on behalf of said corporation.

Notary Public for the State of _____

STATE OF §
COUNTY OF §

This instrument was acknowledged before me on _____ day of _____, 1988 by _____ of Santa Fe Energy Company, on behalf of said corporation.

Notary Public for the State of _____

SIGNATURE PAGE to that certain Memorandum of Operating Agreement dated October 19, 1988 by and between OGS Operating Company, Inc., as Operator, and O'Brien Goins Simpson Exploration Company, et al, as Non-Operators covering the N/2, Section 5, Mosley Canyon, Eddy County, New Mexico. (NM017)

NON-OPERATORS

AMOCO PRODUCTION COMPANY

ATTEST:

By:
Title:

By:
Title:

STATE OF §
COUNTY OF §

This instrument was acknowledged before me on _____ day of _____, 1988 by _____ as _____ of Amoco Production Company, on behalf of said corporation.

Notary Public for the State of _____

EXHIBIT "1-A"

Attached to and made a part of that certain Memorandum of Operating Agreement dated October 19, 1988, by and between OGS Operating Company, Inc. as Operator, and O'Brien Goins Simpson Exploration Company, et al, as Non-Operators, covering the N/2 of Section 5, Mosley Canyon Prospect, Eddy County, New Mexico. (NM017)

I. LANDS SUBJECT TO THIS AGREEMENT:

Township-24-South, Range-25-East, NMPM

Section 5: North 319.62 acres of Section 5, being Lots 1, 2, 3, and 4, the S/2 of the NW/4 and the S/2 of the NE/4

Eddy County, New Mexico

II. RESTRICTION AS TO DEPTH:

From the surface of the ground to the base of the Morrow Formation.

III. INTEREST OF THE PARTIES IN COSTS AND PRODUCTION:

Working Interest Owner	Net Acres	Working Interest
1. OGS Operating Company, Inc.	3.1962	0.010000
2. O'Brien Goins Simpson Explo.	116.8038	0.365446
3. Yates Petroleum Corporation	120.5400	0.377135
4. Santa Fe Energy Company	39.0700	0.122239
5. Amoco Production Company	<u>40.0100</u>	<u>0.125180</u>
	319.6200	1.000000

IV. OIL AND GAS LEASES SUBJECT TO THIS AGREEMENT:

- Lessor: State of New Mexico V-2630
 Lessee: Santa Fe Energy
 Dated: August 1, 1988
 Recorded: Volume , Page of the Records of Eddy County, New Mexico
 Land Covered: INSOFAR ONLY AS SAID LEASE covers Lot 4 (NW/4 of the NW/4) of Section 5, Township-24-South, Range-25-East, Eddy County, New Mexico (39.07 acres)
 Royalty: 1/6th of all oil and gas
 Overriding Royalty:
- Lessor: State of New Mexico V-2516
 Lessee: Yates Petroleum Corporation
 Dated: February 1, 1988
 Recorded: Volume , Page of the Records of Eddy County, New Mexico
 Land Covered: INSOFAR ONLY AS SAID LEASE covers Lots 1 and 2 (N/2 of the NE/4) and the SE/4 of the NE/4 of Section 5, Township-24-South, Range-25-East, Eddy County, New Mexico (120.54 acres)
 Royalty: 1/6th of all oil and gas
 Overriding Royalty:

IV. OIL AND GAS LEASES SUBJECT TO THIS AGREEMENT: Continued

3. Lessor: State of New Mexico L-4631
 Lessee: Amoco Production Company
 Dated:
 Recorded: Volume , Page of the Records of Eddy
 County, New Mexico
 Land Covered: INSOFAR ONLY AS SAID LEASE covers Lots 3
 (NE/4 of the NW/4) of Section 5,
 Township-24-South, Range-25-East, Eddy
 County, New Mexico (40.01 acres)
 Royalty: 1/8th of all oil and gas
 Overriding Royalty:
4. Lessor: State of New Mexico V-945
 Lessee: HNG Oil Company
 Dated: January 1, 1984
 Recorded: Volume , Page of the Records of Eddy
 County, New Mexico
 Land Covered: INSOFAR ONLY AS SAID LEASE covers S/2 of the
 NW/4 of Section 5, Township-24-South,
 Range-25-East, Eddy County, New Mexico (80.00
 acres)
 Royalty: 1/6th of all oil and gas
 Overriding Royalty: 4.83% of all oil and gas
5. Lessor: Joann R. Benedict, et vir
 Lessee: O'Brien Goins Simpson Exploration Company
 Dated: April 28, 1988
 Recorded: Volume 21, Page 171 of the Records of Eddy
 County, New Mexico
 Land Covered: Southeast Quarter of the Northeast Quarter
 (SE/4NE/4) and South Half of the Southeast
 Quarter (S/2SE/4) of Section 5,
 Township-24-South, Range-25-East, Eddy
 County, New Mexico
 Royalty: 3/16th of all oil and gas
 Overriding Royalty: 1.625% of all oil and gas
6. Lessor: Barbara J. Wendt, et vir
 Lessee: O'Brien Goins Simpson Exploration Company
 Dated: April 21, 1988
 Recorded: Volume 20, Page 1071 of the Records of Eddy
 County, New Mexico
 Land Covered: Southeast Quarter of the Northeast Quarter
 (SE/4NE/4) and South Half of the Southeast
 Quarter (S/2SE/4) of Section 5,
 Township-24-South, Range-25-East, Eddy
 County, New Mexico
 Royalty: 3/16th of all oil and gas
 Overriding Royalty: 1.625% of all oil and gas
7. Lessor: Ridley Gardner, et ux
 Lessee: O'Brien Goins Simpson Exploration Company
 Dated: April 21, 1988
 Recorded: Volume 20, Page 966 of the Records of Eddy
 County, New Mexico
 Land Covered: Southeast Quarter of the Northeast Quarter
 (SE/4NE/4) and South Half of the Southeast
 Quarter (S/2SE/4) of Section 5,
 Township-24-South, Range-25-East, Eddy
 County, New Mexico
 Royalty: 3/16th of all oil and gas
 Overriding Royalty: 1.625% of all oil and gas

IV. OIL AND GAS LEASES SUBJECT TO THIS AGREEMENT: Continued

8. Lessor: Dorothy F. Bragg, et vir
 Lessee: O'Brien Goins Simpson Exploration Company
 Dated: April 21, 1988
 Recorded: Volume 20, Page 910 of the Records of Eddy
 County, New Mexico
 Land Covered: Southeast Quarter of the Northeast Quarter
 (SE/4NE/4) and South Half of the Southeast
 Quarter (S/2SE/4) of Section 5,
 Township-24-South, Range-25-East, Eddy
 County, New Mexico
 Royalty: 3/16th of all oil and gas
 Overriding Royalty: 1.625% of all oil and gas
9. Lessor: John H. White, et ux
 Lessee: O'Brien Goins Simpson Exploration Company
 Dated: April 21, 1988
 Recorded: Volume 20, Page 908 of the Records of Eddy
 County, New Mexico
 Land Covered: Southeast Quarter of the Northeast Quarter
 (SE/4NE/4) and South Half of the Southeast
 Quarter (S/2SE/4) of Section 5,
 Township-24-South, Range-25-East, Eddy
 County, New Mexico
 Royalty: 3/16th of all oil and gas
 Overriding Royalty: 1.625% of all oil and gas

V. ADDRESSES AND PHONE NUMBERS OF THE PARTIES FOR ALL PURPOSES:

1. OGS Operating Company, Inc.
 1140 Two First City Center
 Midland, TX 79701
 (915) 682-6373
2. O'Brien Goins Simpson Exploration
 1140 Two First City Center
 Midland, TX 79701
 (915) 682-6373
3. Yates Petroleum Corporation
 105 S. 4th Street
 Artesia, NM 88210
 (505) 748-1471
4. Santa Fe Energy Company
 500 W. Illinois
 Suite 500
 Midland, TX 79701
 (915) 687-3551
5. Amoco Production Company
 501 Westlake Blvd.
 P.O. Box 3092
 Houston, TX 77079
 (713) 556-3011

END OF EXHIBIT "1-A"