





**KERR-McGEE CORPORATION**

KERR-McGEE CENTER • OKLAHOMA CITY, OKLAHOMA 73125

June 24, 1992

EXPLORATION AND PRODUCTION DIVISION

Mewbourne Oil Company  
500 W, Texas, Suite 1020  
Midland, TX 79701

Attn: Mr. Paul Hayden

RE: Farmout Request  
S/2, Section 23, T19S-R27E  
Eddy County, New Mexico  
(FROC-NEW MEXICO)

Dear Mr. Hayden:

Pursuant to our telephone conversation of this afternoon this shall confirm Kerr-McGee's agreement to farmout the interest it owns in the referenced area to Mewbourne Oil Company granting the terms outlined in your March 20, 1992 letter.

Also, as you are aware, Kerr-McGee is waiting on the response from its letter of June 19, 1992 to the beneficial owners in the unit. (Copy Attached)

I will prepare the formal agreement once the time in which the beneficial owners have to respond has expired.

Yours very truly,

KERR-McGEE CORPORATION

  
Meg L. Prestidge  
Senior Land Specialist

MLP/sbr

Enclosures

BEFORE EXAMINER STOGNER
OIL CONSERVATION DIVISION
EXHIBIT NO. <u>2-A</u>
CASE NO. _____



**KERR-MCGEE CORPORATION**

KERR-MCGEE CENTER • OKLAHOMA CITY, OKLAHOMA 73125

June 19, 1992

EXPLORATION AND PRODUCTION DIVISION

Writer's Telephone #405/270-3833

CERTIFIED MAIL W/RETURN RECEIPT

TO: Beneficial Owners  
(See Attached List)

RE: Mewbourne Oil Company's  
Angell Ranch State "23" #1  
S $\frac{1}{2}$  of Section 23, T19S-R27E  
Eddy County, New Mexico  
(FROC-NEW MEXICO)

Dear Sirs:

Attached is a copy of a farmout request dated March 20, 1992, received from Mewbourne Oil Company. Mewbourne requested a farmout of the acreage Kerr-McGee, et al. owns in the referenced area. Kerr-McGee did not respond to this request, but opted to wait for a well proposal.

Attached is a copy of Mewbourne Oil Company's April 24, 1992, letter wherein they proposed the drilling of the Angell Ranch State "23" #1. Also enclosed is a copy of an Application for Compulsory Pooling which has been filed by the law firm of Hinkle, Cox, Eaton, Coffield & Hershey, on behalf of Mewbourne Oil Company.

Kerr-McGee does not intend to participate with Mewbourne in the drilling of the Angell Ranch State "23" #1 well and will try to farmout its interest under the terms of the March 20, 1992 farmout request letter.

If you concur with Kerr-McGee Corporation's recommendation, please so indicate by signing and returning one copy of this letter in the enclosed self-addressed, stamped envelope. If we do not receive a reply by July 1, 1992, then you will be deemed to have agreed to the farmout.

Beneficial Owners  
Angell Ranch State "23" #1  
June 19, 1992  
Page 2

If you wish to participate, please let us know and we will prepare an assignment of your beneficial interest transferring record title to you. Please be advised that due to the leasehold being a state lease, you will have to become bonded with the State of New Mexico in order to be approved for title transfer.

Yours very truly,

KERR-McGEE CORPORATION



Meg L. Prestidge  
Senior Land Specialist

MLP:mb

Attachment

BY: \_\_\_\_\_ agrees to join Kerr-McGee in farming out its acreage under the best terms available.

Phil Hancock  
682-5122

represents Fairway  
Oil & Gas. He said  
they would either  
farmout, ~~or~~ join or sell  
their interest to us.  
He is waiting to hear  
from Meg w/ Ken-McLee

6-25-92  
P.H.



Per Meg Prestige w/  
Kerr-McLee Corp. —  
They agreed to farmout to  
us on the terms proposed  
by us. P.H.  
6-24-92

Alameda & Don Gaspar  
Santa Fe, New Mexico 87501  
505-982-4333 Reservations: 1-800-234-4534

**SENDER:**

- Complete items 1 and/or 2 for additional services.
- Complete items 3, and 4a & b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece next to the article number.

I also wish to receive following services (for an extra fee):

1.  Addressee's Address
2.  Restricted Delivery

Consult postmaster for fee.

## 3. Article Addressed to:

Fairway O & G Company  
362 W Shore Trail  
Sparta, NJ 07871

Angell Ranch "23" #1

## 5. Signature (Addressee)

## 6. Signature (Agent)

*Wayne D. [Signature]*

## 4a. Article Number

P-124-767-595

## 4b. Service Type

- Registered  Insured  
 Certified  COD  
 Express Mail  Return Receipt for Merchandise

## 7. Date of Delivery

5/7/92

## 8. Addressee's Address (Only if requested and fee is paid)

PS Form 3811, October 1990

★U.S. GPO: 1990-273-881

**DOMESTIC RETURN RECEIPT**



**KERR-McGEE CORPORATION**

KERR-McGEE CENTER • OKLAHOMA CITY, OKLAHOMA 73125

May 5, 1992

EXPLORATION AND PRODUCTION DIVISION

Writer's Telephone #405/270-3734

Mr. D. Paul Hayden  
Mewbourne Oil Company  
500 West Texas, Suite 1020  
Midland, Texas 79701

Re: Angell Ranch  
State 23-1  
19S 27E Sec. 23  
Eddy County, NM

Dear Mr. Hayden:

Kerr-McGee is currently reviewing your Morrow well proposal as referenced above. As indicated in our various conversations, this is a cumbersome title which may be subject to various JOA's. It is also complicated by the fact that Flag-Redfern, Kerr-McGee's predecessor in title, put numerous in-house parties into the prospect, along with selling off certain undivided interests, of which you are aware.

It is not our intent to hold you up under this prospect, but have determined that additional work will need to be done to determine what rights we have in dealing with our interest.

Please bear with us and we will be in contact with you in the near future regarding the disposition of our interest.

Yours very truly,

KERR-McGEE CORPORATION



John J. O'Brien, Jr.  
Landman

JJO/bg

# MEWBOURNE OIL COMPANY

500 W. TEXAS, SUITE 1020

MIDLAND, TEXAS 79701

(915) 682-3715

FAX (915) 685-4170

May 1, 1992

## CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Fairway Oil and Gas Company  
362 W. Shore Trail  
Sparta, New Jersey 07871

RE: Angell Ranch State "23" #1  
T19S, R27E  
Section 23: SW/4SE/4, Below the  
base of the Queen formation or  
3000'  
Eddy County, New Mexico

Gentlemen:

Records available to us indicate Fairway Oil and Gas Company owns an interest in the operating rights under the captioned land. In this connection, Mewbourne Oil Company, as operator, proposes drilling the captioned well to test the Lower Morrow formation on the following proposed terms:

- 1) Mewbourne, as operator, will commence within 120 days from the execution date of your farmout agreement an initial test well at a location of Mewbourne's choice in the SE/4 of the captioned Section 23 and drill same to a depth sufficient to test the Morrow formation, estimated total depth being 10,900'. The S/2 of the above described Section 23 will be dedicated to the well.
- 2) In the event the initial test well is completed as a dry hole or if it is completed as a producer but such well's proration unit does not include Fairway's acreage, Mewbourne would have the option to commence a 120 day continuous development schedule with the intent of earning your acreage under the captioned land.
- 3) If any well drilled under the terms of this agreement results in production including your acreage and operating rights, Mewbourne will earn an assignment of your operating rights in the proration unit allocated to the well from below the base of the Queen formation to 100 feet below the total depth drilled in each well.

- 4) Fairway would retain in addition to the shallow rights from the surface to the base of the Queen formation or 3000', whichever is lesser and below 100 feet below the total depth drilled in each of Mewbourne's well(s), an overriding royalty interest equal to the difference between 25% of all oil and gas produced and the total of all royalty interests, overriding royalty interests and other burdens on production which the premises may be subject, to the extent Mewbourne will be assigned a 75% net revenue interest lease in each proration unit earned by Mewbourne.
- 5) At payout of the initial well and any additional wells drilled under the terms of the farmout agreement on a well by well basis, you would have the option to convert your override to a 25% working interest, proportionately reduced to the actual interest you own in the proration unit of the initial test well and each additional well.
- 6) Upon acceptance of the farmout proposal, you agree to furnish Mewbourne with whatever title information you have in your files in connection with this property such as copies of the original base lease, title opinions, gas contracts currently in effect, etc.

In the event Fairway Oil and Gas Company prefers not to farmout its interest as proposed above, Mewbourne would be interested in acquiring Fairway's interest on the basis of \$200.00 per net mineral acre for a primary term assignment of two (2) years.

Should your company not be interested in farming or selling its interest as proposed, Mewbourne invites Fairway Oil and Gas Company to join Mewbourne in drilling the initial test well to the extent of Fairway's interest in the spacing unit. Enclosed for your consideration and execution regarding this option is a copy of Mewbourne's AFE for the above well.

Your early response regarding the above well proposal will be greatly appreciated.

Sincerely,

Mewbourne Oil Company



D. Paul Haden  
Landman

DPH/nb

CC: Gary L. Winter  
Ken Waits

# MEWBOURNE OIL COMPANY

500 W, TEXAS, SUITE 1020  
MIDLAND, TEXAS 79701

(915) 682-3715

FAX (915) 685-4170

April 24, 1992

Kerr-McGee Corporation  
123 Robert S. Kerr  
Oklahoma City, Oklahoma 73125

Attention: John J. O'Brien, Jr.  
Main Tower MT-2605

RE: Angell Ranch State "23" #1  
T19S, R27E  
Section 23: SW/4SE/4  
Eddy County, New Mexico

John:

Enclosed for your further handling is a copy of Mewbourne's AFE for the captioned well. This is in regard to Mewbourne's farmout request for a Morrow test well to be drilled in the SE/4 with the spacing unit being dedicated to the S/2 of the captioned Section 23.

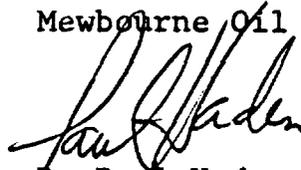
As discussed previously, apparently Synergy Resources operates a well in the NE/4SE/4 of the captioned Section 23 which is filed in the Eddy Undesignated Queen (Gas) section of the Oil Conservation Division records. In the event Kerr-McGee elects to farmout its interest as proposed in lieu of joining Mewbourne in the well, Mewbourne would like to have a farmout of the formations not dedicated to Synergy's well to the base of the Morrow.

In the event Kerr-McGee elects to join, please have the enclosed AFE executed on behalf of your corporation and return to me for further handling. Upon receipt of same, an operating agreement will be forwarded to you for consideration and execution.

Regarding Kerr-McGee's interest under the captioned land, county records reference an Operating Agreement dated May 1, 1978 between Flag-Redfern Oil Company and Gulf Oil Corporation. Is such agreement still in effect? Please advise.

Sincerely,

Mewbourne Oil Company



D. Paul Haden  
Landman

DPH/nb  
CC: Gary L. Winter  
Ken Waits

John O'Brien w/ Kerr Mc Gee  
called. He's working on our proposal  
right now. Among other land, their  
interest is HBP by a Queen well in  
the SE/4 of Section 23. He wants an  
AFE.

P.H.  
4-20-92

# MEWBOURNE OIL COMPANY

500 W, TEXAS, SUITE 1020  
MIDLAND, TEXAS 79701

(915) 682-3715

FAX (915) 685-4170

April 14, 1992

Kerr-McGee Corporation  
123 Robert S. Kerr  
Oklahoma City, OK 73125

Attention: John J. O'Brien, Jr.  
Main Tower MT-2605

RE: Angell Ranch State "23" #1  
T19S, R27E  
Section 23: SW/4SE/4  
Eddy County, New Mexico

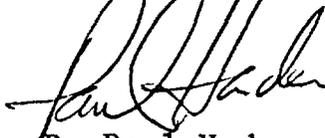
Gentlemen:

With reference to my previous letter of March 20, 1992 wherein Mewbourne requested a farmout from Kerr-McGee Corporation in support of a Morrow test well, Mewbourne has not received a response from Kerr-McGee regarding same.

Please respond at your earliest convenience regarding Mewbourne's proposal.

Sincerely,

Mewbourne Oil Company



D. Paul Haden  
Landman

DPH/nb  
CC: Gary L. Winter  
Ken Waits

**SENDER:**

- Complete items 1 and/or 2 for additional services.
- Complete items 3, and 4a & b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece next to the article number.

I also wish to receive following services (for an e. fee):

- 1.  Addressee's Address
- 2.  Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

Kerr-McGee  
123 Robert S. Kerr  
Oklahoma City, OK

4a. Article Number

P-124-768-833

4b. Service Type

- Registered  Insured
- Certified  COD
- Express Mail  Return Receipt for Merchandise

7. Date of Delivery

MAR 23 1992

Angell Ranch State "23"

5. Signature (Addressee)

8. Addressee's Address (Only if requested and fee is paid)

6. Signature (Agent)

*W. Bennett*

# MEWBOURNE OIL COMPANY

500 W, TEXAS, SUITE 1020

MIDLAND, TEXAS 79701

(915) 682-3715

FAX (915) 685-4170

March 20, 1992

## CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Kerr-McGee Corporation  
123 Robert S. Kerr  
Oklahoma City, Oklahoma 73125

Attention: John J. O'Brien, Jr.  
Main Tower MT-2605

RE: Angell Ranch State "23" #1  
T19S, R27E  
Section 23: SW/4SE/4  
Eddy County, New Mexico

Gentlemen:

Records available to us indicate Kerr-McGee owns the operating rights under the captioned land. In this connection, Mewbourne Oil Company, as operator, proposes drilling the captioned well to test the Lower Morrow formation on the following proposed terms:

- 1) Mewbourne, as operator, will commence within 120 days from the execution date of your farmout agreement an initial test well at a location of Mewbourne's choice in the SE/4 of the captioned Section 23 and drill same to a depth sufficient to test the Morrow formation, estimated total depth being 10,900'. The S/2 of the above described Section 23 will be dedicated to the well.
- 2) In the event the initial test well is completed as a dry hole or if it is completed as a producer but such well's proration unit does not include Kerr-McGee's acreage, Mewbourne would have the option to commence a 120 day continuous development schedule with the intent of earning Kerr-McGee's acreage under the captioned land.
- 3) If any well drilled under the terms of this agreement results in production including your acreage and operating rights, Mewbourne will earn an assignment of your operating rights in the proration unit allocated to the well from the surface to 100 feet below the total depth drilled in each well. In the event certain depths are currently allocated to an existing well, Mewbourne would earn from the base of the currently productive formation to 100 feet below the total depth drilled in Mewbourne's well on a well by well basis.

- 4) Kerr-McGee would retain in addition to the shallow rights currently dedicated to existing wells and below 100 feet below the total depth drilled in each of Mewbourne's well(s), an overriding royalty interest equal to the difference between 25% of all oil and gas produced and the total of all royalty interests, overriding royalty interests and other burdens on production which the premises may be subject, to the extent Mewbourne will be assigned a 75% net revenue interest lease in each proration unit earned by Mewbourne.
- 5) At payout of the initial well and any additional wells drilled under the terms of the farmout agreement on a well by well basis, you would have the option to convert your override to a 25% working interest, proportionately reduced to the actual interest you own in the proration unit of the initial test well and each additional well.
- 6) Upon acceptance of the farmout proposal, you agree to furnish Mewbourne with whatever title information you have in your files in connection with this property such as copies of the original base lease, title opinions, gas contracts currently in effect, etc.

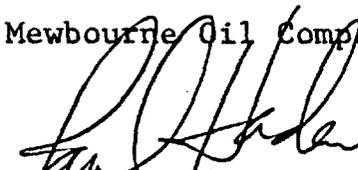
In the event Kerr-McGee prefers not to farmout its interest as proposed above, Mewbourne would be interested in acquiring Kerr-McGee's interest on the basis of \$200.00 per net mineral acre for a primary term assignment of two (2) years.

Should Kerr-McGee not be interested in farming or selling its interest as proposed, Mewbourne invites Southland to join Mewbourne in drilling the initial test well to the extent of Southland's interest in the spacing unit. An AFE will be furnished Southland in the near future regarding this option.

Your early response regarding the above well proposal will be greatly appreciated.

Sincerely,

Mewbourne Oil Company



D. Paul Haden  
Landman

DPH/nb

CC: Gary L. Winter  
Ken Waits

Per John O'Brien →  
Kerr-McLee would  
be interested in farmout,  
not buy out.

P.H.

12-11-91

Re: SW14SE14 Sec. 23

---

Per Don Davis —  
They are agreeable to  
selling us a 2 year  
term assignment for  
225<sup>00</sup>/ac., subject to  
~~the~~ continuous development.  
at the end of the  
primary term. I  
told him that would  
be agreeable to us.  
7-6-92 P. H.

BEFORE EXAMINER SIGNATURE

OIL CONSERVATION DIVISION

EXHIBIT NO. 2-B

CASE NO. \_\_\_\_\_

7-6-92

Don Davis w/ Southard.

He called in A.M., I  
told him \$250<sup>00</sup> was still  
too much for their property.

They were to have meeting  
in the morning.

~~He~~ I called in @ 3:00 P.M.,  
he wasn't there, left  
message for him to call.

7-2-92 —

Don Davis w/ Meridian —

Says they would sell us  
a 3 yr. term assignment  
of all of their acreage  
in Sec. 23 for 250<sup>00</sup>/ac.

I told him that was too  
much money, we offered  
200<sup>00</sup>/ac. for all of their  
acreage. They declined.

I offered to purchase

an assignment for their  
acreage just in the S/2  
for 250<sup>00</sup>/ac. - they  
declined.

P.H.

Dennis Sledge w/  
Meridian (Southland Roy.)  
says their geological  
staff is still evaluating  
our offer.

P.H.

6-30-92

To Paul  URGENT

Date 6-26 Time 4:59 A.M.  
P.M.

**WHILE YOU WERE OUT**

From Ray Moore

of Meridian

Phone 915 688-6922  
Area Code Number Ext.

Fax \_\_\_\_\_  
Area Code Number

Telephoned	<input checked="" type="checkbox"/>	Please call	<input checked="" type="checkbox"/>
Came to see you	<input type="checkbox"/>	Wants to see you	<input type="checkbox"/>
Returned your call	<input type="checkbox"/>	Will call again	<input type="checkbox"/>

Message \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Signed \_\_\_\_\_

Called Don Davis w/  
So. Ray - not there  
left message for him  
to call me.

P.H.  
6-24-92

Don Davis w/ Meridian —  
They wanted the option to  
join or purchase after we  
drilled our well in Dec. 26.  
I told him that wasn't  
a fair deal as we were  
taking all the risk.  
I told him I would talk  
to management about it.

PJH.

6-23-92

Later - ~~6-23-92~~ (6-23-92)

We can't let them make  
their decision after we  
drill our well in 26.

We may want to drill our  
first well in 23.

Called Don Davis -  
not there - left a  
message.

To H. Paul  URGENT

Date 6-11 Time 9:30 A.M.  
P.M.

### WHILE YOU WERE OUT

From Don Davis

of Meridian

Phone 688-6922  
Area Code Number Ext.

Fax \_\_\_\_\_

Area Code		Number	
Telephoned	<input checked="" type="checkbox"/>	Please call	<input checked="" type="checkbox"/>
Came to see you	<input type="checkbox"/>	Wants to see you	<input type="checkbox"/>
Returned your call	<input type="checkbox"/>	Will call again	<input type="checkbox"/>

Message 6-12-92

They are considering  
Ho on E2 or S12 unit.  
They want to obtain a  
peration unit.

Signed \_\_\_\_\_

● **SENDER:** Complete items 1 and 2 when additional services are desired, and complete items 3 and 4.

Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent the article from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1.  Show to whom delivered, date, and addressee's address. (Extra charge)      2.  Restricted Delivery (Extra charge)

3. Article Addressed to: Southland Royalty Company POB 51810 Midland, Texas 79710 Attn: Don Davis  Angell Ranch/PH		4. Article Number P-124-768-858
5. Signature - Addressee X		Type of Service: <input type="checkbox"/> Registered <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Certified <input type="checkbox"/> COD <input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise
6. Signature - Agent X <i>[Signature]</i>		Always obtain signature of addressee or agent and <u>DATE DELIVERED</u> .
7. Date of Delivery <i>[Signature]</i>		8. Addressee's Address (ONLY if requested and fee paid)

# MEWBOURNE OIL COMPANY

500 W, TEXAS, SUITE 1020  
MIDLAND, TEXAS 79701

(915) 682-3715

FAX (915) 685-4170

June 3, 1992

## CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Southland Royalty Company  
P. O. Box 51810  
Midland, Texas 79710-1810

Attention: Don W. Davis

RE: Angell Ranch "23" State #1  
T19S, R27E  
Section 23: S/2  
Eddy County, New Mexico

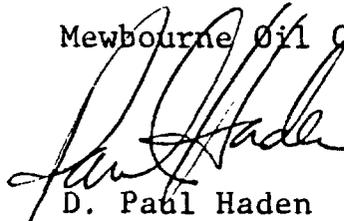
Gentlemen:

In reference to my previous letters of April 24, April 14 and March 20, 1992 wherein Mewbourne requested a farmout of Southland's operating rights under the captioned land, among other lands, Mewbourne has not received a commitment from Southland as to Mewbourne's proposal.

Regarding the above, is Southland Royalty interested in working out a trade with Mewbourne in support of Mewbourne's proposed Morrow test well? Please respond.

Sincerely,

Mewbourne Oil Company



D. Paul Haden  
Landman

DPH/nb

CC: Gary L. Winter  
Ken S. Waits

# MEWBOURNE OIL COMPANY

500 W. TEXAS, SUITE 1020  
MIDLAND, TEXAS 79701

(915) 682-3715

FAX (915) 685-4170

April 14, 1992

Southland Royalty Company  
P. O. Box 51810  
Midland, Texas 79710-1810

Attention: Mr. Don W. Davis

RE: Angell Ranch State "23" #1  
T19S, R27E  
Section 23: All except the  
SW/4SE/4  
Eddy County, New Mexico

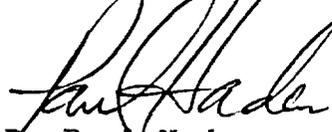
Gentlemen:

With reference to my previous letter of March 20, 1992 wherein Mewbourne requested a farmout from Southland Royalty Company in support of a Morrow test well, Mewbourne has not received a response from Southland regarding same.

Please respond at your earliest convenience regarding Mewbourne's proposal.

Sincerely,

Mewbourne Oil Company



D. Paul Haden  
Landman

DPH/nb  
CC: Gary L. Winter  
Ken Waits

**SENDER:**

- Complete items 1 and/or 2 for additional services.
- Complete items 3, and 4a & b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece next to the article number.

I also wish to receive following services (for an extra fee):

1.  Addressee's Address
2.  Restricted Delivery

Consult postmaster for fee.

## 3. Article Addressed to:

Southland Royalty Company  
POB 51810  
Midland, TX 79710

## 4a. Article Number

P-124-768-819

## 4b. Service Type

- Registered       Insured  
 Certified       COD  
 Express Mail       Return Receipt for Merchandise

## 7. Date of Delivery

3/23

Angell Ranch State "23"

## 5. Signature (Addressee)

## 8. Addressee's Address (Only if requested and fee is paid)

## 6. Signature (Agent)

*D. W. Wells*

# MEWBOURNE OIL COMPANY

500 W, TEXAS, SUITE 1020  
MIDLAND, TEXAS 79701

(915) 682-3715

FAX (915) 685-4170

March 20, 1992

## CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Southland Royalty Company  
P. O. Box 51810  
Midland, Texas 79710

Attention: Don W. Davis

RE: Angell Ranch State "23" #1  
T19S, R27E  
Section 23: All, SAVE AND EXCEPT  
the SW/4SE/4  
Eddy County, New Mexico

Gentlemen:

Records available to us indicate Southland Royalty Company owns a portion of the operating rights under the captioned land. In this connection, Mewbourne Oil Company, as operator, proposes drilling the captioned well to test the Lower Morrow formation on the following proposed terms:

- 1) Mewbourne, as operator, will commence within 120 days from the execution date of your farmout agreement an initial test well at a location of Mewbourne's choice in the SE/4 of the captioned Section 23 and drill same to a depth sufficient to test the Morrow formation, estimated total depth being 10,900'. The S/2 of the above described Section 23 will be dedicated to the well.
- 2) Upon completion of the initial test well as a commercial producer or dry hole, Mewbourne would have the option to commence additional wells on a 120 day continuous development schedule for an attempt to earn all of Southland's operating rights not allocated to existing production under the above land to the base of the Morrow formation.
- 3) If any well drilled under the terms of this agreement results in production including your acreage and operating rights, Mewbourne will earn an assignment of your operating rights in the proration unit allocated to the well from the surface to 100 feet below the total depth drilled in each well. In the event certain depths are currently allocated to an existing well, Mewbourne would earn from the base of the currently productive formation to 100 feet below the total depth drilled in Mewbourne's well on a well by well basis.

- 4) Southland would retain in addition to the shallow rights currently dedicated to existing wells and below 100 feet below the total depth drilled in each of Mewbourne's well(s), an overriding royalty interest equal to the difference between 25% of all oil and gas produced and the total of all royalty interests, overriding royalty interests and other burdens on production which the premises may be subject, to the extent Mewbourne will be assigned a 75% net revenue interest lease in each proration unit earned by Mewbourne.
- 5) At payout of the initial well and any additional wells drilled under the terms of the farmout agreement on a well by well basis, you would have the option to convert your override to a 25% working interest, proportionately reduced to the actual interest you own in the proration unit of the initial test well and each additional well.
- 6) Upon acceptance of the farmout proposal, you agree to furnish Mewbourne with whatever title information you have in your files in connection with this property such as copies of the original base lease, title opinions, gas contracts currently in effect, etc.

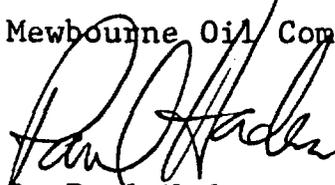
In the event Southland Royalty prefers not to farmout its interest as proposed above, Mewbourne would be interested in acquiring Southland's interest on the basis of \$200.00 per net mineral acre for a primary term assignment of two (2) years.

Should Southland not be interested in farming or selling its interest as proposed, Mewbourne invites Southland to join Mewbourne in drilling the initial test well to the extent of Southland's interest in the spacing unit. An AFE will be furnished Southland in the near future regarding this option.

Your early response regarding the above well proposal will be greatly appreciated.

Sincerely,

Mewbourne Oil Company



D. Paul Haden  
Landman

DPH/nb

CC: Gary L. Winter  
Ken Waits

# MEWBOURNE OIL COMPANY

500 W, TEXAS, SUITE 1020  
MIDLAND, TEXAS 79701

(915) 682-3715

FAX (915) 685-4170

October 21, 1991

Southland Royalty Company  
c/o Meridian Oil Inc.  
21 Desta Drive  
Midland, Texas 79705

Attention: Don W. Davis

RE: T19S, R27E  
Section 23: All, Save and  
Except the SW/4SE/4  
Eddy County, New Mexico

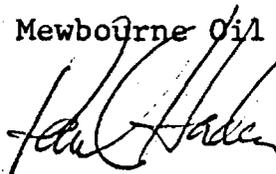
Gentlemen:

State and county records indicate Southland Royalty Company owns 550 net acres in the operating rights under the captioned land. Accordingly, Mewbourne Oil Company hereby offers you \$200.00 per net acre for all of Southland's (Meridian's) interest under the captioned land.

As it is noted there may be production on portions of the captioned land, Mewbourne would be agreeable to limiting an assignment to Mewbourne below the base of the producing formation as to the effected proration units allocated to production.

Sincerely,

Mewbourne Oil Company



D. Paul Haden  
Landman

DPH/nb

**MEWBOURNE OIL COMPANY  
AUTHORIZATION FOR EXPENDITURE**

Prospect: Angell Ranch  
Field:  
Section: 23  
Township: 19S

Location: SE¼  
Block  
County: EDDY

Well Name & Number:  
Range: 27E  
State: N. Proposed Depth: 10,850

DESCRIPTION		Cost To Casing Point AFE NO.	Completion Cost AFE NO.
<b>INTANGIBLE COST 180</b>			
300	Permits and Surveys	600	600
301	Location, Roads and surveys	26000	2000
302	Footage or Turnkey Drilling	184500	0
303	Day Work	20000	0
304	Fuel, Water and Other	22000	1000
305	Completion/Workover Rig	0	20000
306	Mud and Chemicals	20000	0
303	Cementing	15000	25000
308	Logging and Wireline	18000	7000
309	Casing-Tubing Services	3000	2000
310	Mud Logging	5000	0
311	Testing	4000	2000
312	Treating	0	45000
313	Coring	0	0
320	Transportation	2500	5000
321	Welding and Construction Labor	2000	1000
322	Contract Supervision	0	0
330	Equipment Rental	6000	4000
334	Well/Lease Legal/Tax	500	0
335	Well/Lease Insurance	6000	0
350	Intangible Supplies	500	500
360	Pipeline ROW and Easements	0	500
367	Pipeline Interconnect	0	12000
375	Company Supervision	33000	13500
380	Overhead Fixed Rate	9250	5000
399	Contingencies	18843	7306
<b>Total Intangibles</b>		<b>\$395,693</b>	<b>\$153,406</b>
<b>TANGIBLE COST 181</b>			
Conductor Casing			
	Surface Casing 13 3/8" @ 350'	7700	0
	Intermediate Casing 8 5/8" @ 2500'	30000	0
	Production Casing 5 1/2" @ 10850'	0	81400
	Production Casing	0	0
	Tubing 2 7/8" @ 10850'	0	25000
860	Drilling Head	4500	0
865	Tubing Head	0	2500
870	Upper Section	0	7000
875	Sucker Rods	0	0
880	Packer, Pump & Other Subsurface	0	6000
885	Pumping Unit & Prime Mover + Electricity	0	0
890-1	Tanks (Steel & Fiberglass)	0	6000
894-5	Separation Equipment (fired, Non-fired)	0	10000
898	Metering Equipment	0	3000
900	Line Pipe	0	18500
905	Valves	0	5000
908	Miscellaneous Fittings & Accessories	0	3000
910	Production Equipment Installation	0	10000
920	Pipeline Construction	0	30000
<b>Total Tangibles</b>		<b>\$42,200</b>	<b>\$207,400</b>
<b>SUBTOTAL</b>		<b>\$437,893</b>	<b>\$360,806</b>
<b>TOTAL WELL COST</b>		<b>\$798,696</b>	

Date Prepared: 4-21-92  
Prepared By: Erick W. Nelson

Company Approval: *WB Clary*  
Date Approved: 4-21-92  
Joint Owner Approval:

Joint Owner Interest:  
Joint Owner Amount:

BEFORE EXAMINER SIGNATURE  
OIL CONSERVATION DIVISION

EXHIBIT NO. (FOR EXPLORATION PURPOSES)

CASE NO. 3

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF MEWBOURNE OIL COMPANY  
FOR COMPULSORY POOLING, EDDY COUNTY,  
NEW MEXICO.

No. 10501

AFFIDAVIT REGARDING NOTICE

STATE OF NEW MEXICO            )  
  ) ss.  
COUNTY OF SANTA FE            )

D. Paul Haden, being duly sworn upon his oath, deposes and states:

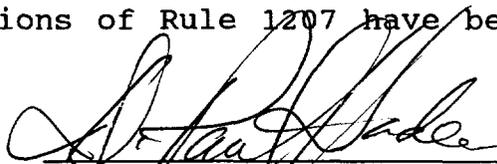
1. I am over the age of 18 and have personal knowledge of the matters stated herein.

2. I am the landman for Applicant herein.

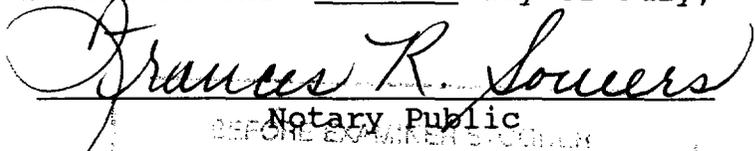
3. Applicant has conducted a good faith, diligent effort to find the correct addresses of interest owners entitled to receive notice of the Application herein.

4. Notice of the Application was provided to the interest owners at their correct addresses by mailing them, by certified mail, a copy of the Application. Copies of the notice letter and certified return receipts are attached hereto as Exhibit A.

5. The notice provisions of Rule 1207 have been complied with.

  
\_\_\_\_\_  
D. Paul Haden

Subscribed and sworn to before me this 8th day of July, 1992, by D. Paul Haden.

  
\_\_\_\_\_  
Notary Public

My commission expires:  
September 25, 1994.

BEFORE EXAMINER'S OFFICE  
OIL CONSERVATION DIVISION  
EXHIBIT NO 4  
CASE NO. \_\_\_\_\_

# HINKLE, COX, EATON, COFFIELD & HENSLEY

ATTORNEYS AT LAW

218 MONTEZUMA

POST OFFICE BOX 2068

SANTA FE, NEW MEXICO 87504-2068

(505) 982-4554

FAX (505) 982-8623

CLARENCE E. HINKLE (1901-1985)  
W. E. BONDURANT, JR. (1913-1973)  
ROY C. SNODGRASS, JR. (1914-1987)

OF COUNSEL  
O. M. CALHOUN\*  
MACK EASLEY  
JOE W. WOOD  
RICHARD S. MORRIS

WASHINGTON, D.C.  
SPECIAL COUNSEL  
ALAN J. STATMAN

June 10, 1992

700 UNITED BANK PLAZA  
POST OFFICE BOX 10  
ROSWELL, NEW MEXICO 88202  
(505) 822-6510  
FAX (505) 623-9332

2800 CLAYDELTA CENTER  
6 DESTA DRIVE  
POST OFFICE BOX 3580  
MIDLAND, TEXAS 79702  
(915) 683-4691  
FAX (915) 683-6518

1700 TEAM BANK BUILDING  
POST OFFICE BOX 9238  
AMARILLO, TEXAS 79105  
(806) 372-5569  
FAX (806) 372-9761

500 MARQUETTE N.W., SUITE 800  
POST OFFICE BOX 2043  
ALBUQUERQUE, NEW MEXICO 87103  
(505) 768-1500  
FAX (505) 768-1529

LEWIS C. COX  
PAUL W. EATON  
CONRAD E. COFFIELD  
HAROLD L. HENSLEY, JR.  
STUART D. SHANOR  
ERIC D. LANPHERE  
C. D. MARTIN  
PAUL J. KELLY, JR.  
ROBERT P. TINNIN, JR.  
MARSHALL G. MARTIN  
OWEN M. LOPEZ  
DOUGLAS L. LUNSFORD  
JOHN J. KELLY  
NICHOLAS J. NOEDING  
T. CALDER EZZELL, JR.  
WILLIAM B. BURFORD\*  
RICHARD E. OLSON  
RICHARD R. WILFONG\*  
THOMAS J. MCBRIDE  
STEVEN D. ARNOLD  
JAMES J. WECHSLER  
NANCY S. CUSACK  
JEFFREY L. FORNACIARI  
JEFFREY D. HEWETT  
JAMES BRUCE  
JERRY F. SHACKELFORD\*  
JEFFREY W. HELLBERG\*  
ALBERT L. PITTS  
THOMAS M. HNASKO  
JOHN C. CHAMBERS\*  
GARY D. COMPTON\*  
MICHAEL A. GROSS  
THOMAS D. HAINES, JR.  
GREGORY J. NIBERT  
DAVID T. MARKETTE\*  
MARK C. DOW

KAREN M. RICHARDSON\*  
FRED W. SCHWENDIMANN  
JAMES M. HUDSON  
JEFFREY S. BAIRD  
MACDONNELL GORDON  
REBECCA NICHOLS JOHNSON  
WILLIAM P. JOHNSON  
STANLEY K. KOTOVSKY, JR.  
H. R. THOMAS  
KARA L. KELLOGG

BETTY H. LITTLE\*  
RUTH S. MUSGRAVE  
ELLEN S. CASEY  
S. BARRY PAISNER  
MARGARET CARTER LUDEWIG  
STEPHEN M. CRAMPTON  
MARTIN MEYERS  
GREGORY S. WHEELER  
ANDREW J. CLOUTIER  
JAMES A. GILLESPIE  
GARY W. LARSON  
STEPHANIE LANDRY  
JOHN R. KULSETH, JR.  
MARGARET R. MCNETT  
BRIAN T. CARTWRIGHT\*  
LISA K. SMITH\*  
JAMES KENT SCHUSTER\*  
ROBERT H. BETHEA\*  
BRADLEY W. HOWARD  
CHARLES A. SUTTON\*  
NORMAN D. EWART  
DARREN T. GROCE\*  
MOLLY MCINTOSH

\*NOT LICENSED IN NEW MEXICO

## CERTIFIED MAIL RETURN RECEIPT REQUESTED

Mr. John J. O'Brien, Jr.  
Kerr-McGee Corporation  
Main Tower MT-2605  
123 Robert S. Kerr  
Oklahoma City, Oklahoma 73125

Mr. Don W. Davis  
Southland Royalty Company  
Post Office Box 51810  
Midland, Texas 79710-1810

Fairway Oil and Gas Company  
362 W. Shore Trail  
Sparta, New Jersey 07871

Gentlemen:

Enclosed for your information is a copy of an Application for Compulsory Pooling regarding the S $\frac{1}{2}$  of Section 23, Township 19 South, Range 27 East, Eddy County, New Mexico, which was filed with the New Mexico Oil Conservation Division on behalf of Mewbourne Oil Company. Records indicate each of you owns mineral interests in the S $\frac{1}{2}$  of Section 23. This Application will be heard by the Oil Conservation Division on Thursday, July 9, 1992, at 8:15 a.m., at the Division's offices at 310 Old Santa Fe Trail, Santa Fe,

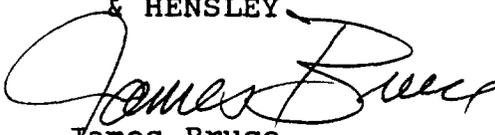


Messrs. John J. O'Brien  
and Don W. Davis  
Fairway Oil and Gas Company  
June 10, 1992  
Page Two

New Mexico. Failure to appear at that time will preclude you from  
contesting this matter at a later date.

Very truly yours,

HINKLE, COX, EATON, COFFIELD  
& HENSLEY



James Bruce

JB:frs  
Enclosure

**SENDER:** Complete items 1 and 2 when additional services are desired, and complete items 3 and 4. Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

Show to whom delivered, date, and addressee's address.  Restricted Delivery (Extra charge)

<p>3. Article Addressed to:</p> <p>Don W. Davis Southland Royalty Co. Post Office Box 51810 Midland, TX 79710-1810</p>	<p>4. Article Number</p> <p>P 841 120 519</p> <p>Type of Service:</p> <p><input type="checkbox"/> Registered <input type="checkbox"/> Insured</p> <p><input checked="" type="checkbox"/> Certified <input type="checkbox"/> COB</p> <p><input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise</p> <p>Always obtain signature of addressee or agent and DATE DELIVERED.</p>
--	---

<p>5. Signature - Address</p> <p>X</p>	<p>8. Addressee's Address (ONLY if requested and fee paid)</p>
<p>6. Signature - Agent</p> <p>X <i>Don W. Davis</i></p>	
<p>7. Date of Delivery</p> <p>JUN 15 1988</p>	

PS Form 3811, Mar. 1988 U.S.G.P.O. 1988-212-965 DOMESTIC RETURN RECEIPT

**SENDER:** Complete items 1 and 2 when additional services are desired, and complete items 3 and 4. Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

Show to whom delivered, date, and addressee's address.  Restricted Delivery (Extra charge)

<p>3. Article Addressed to:</p> <p>Fairway Oil &amp; Gas Company Post Office Box 10710 Midland, TX 79710-1071</p>	<p>4. Article Number</p> <p>P 841 120 519</p> <p>Type of Service:</p> <p><input type="checkbox"/> Registered <input type="checkbox"/> Insured</p> <p><input checked="" type="checkbox"/> Certified <input type="checkbox"/> COB</p> <p><input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise</p> <p>Always obtain signature of addressee or agent and DATE DELIVERED.</p>
---	---

<p>5. Signature - Address</p> <p>X</p>	<p>8. Addressee's Address (ONLY if requested and fee paid)</p>
<p>6. Signature - Agent</p> <p>X <i>Don W. Davis</i></p>	
<p>7. Date of Delivery</p> <p>6/15/88</p>	

PS Form 3811, Mar. 1988 U.S.G.P.O. 1988-212-965 DOMESTIC RETURN RECEIPT

**SENDER:** Complete items 1 and 2 when additional services are desired, and complete items 3 and 4. Put your address in the "RETURN TO" Space on the reverse side. Failure to do this will prevent this card from being returned to you. The return receipt fee will provide you the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

Show to whom delivered, date, and addressee's address.  Restricted Delivery (Extra charge)

<p>3. Article Addressed to:</p> <p>John J. O'Brien, Jr. Kerr-McGee Corporation Main Tower MT-2605 223 Robert S. Kerr Oklahoma City, OK 73125</p>	<p>4. Article Number</p> <p>P 841 120 518</p> <p>Type of Service:</p> <p><input type="checkbox"/> Registered <input type="checkbox"/> Insured</p> <p><input checked="" type="checkbox"/> Certified <input type="checkbox"/> COB</p> <p><input type="checkbox"/> Express Mail <input type="checkbox"/> Return Receipt for Merchandise</p> <p>Always obtain signature of addressee or agent and DATE DELIVERED.</p>
--	---

<p>5. Signature - Address</p> <p>X</p>	<p>8. Addressee's Address (ONLY if requested and fee paid)</p>
<p>6. Signature - Agent</p> <p>X <i>John J. O'Brien, Jr.</i></p>	
<p>7. Date of Delivery</p>	

PS Form 3811, Mar. 1988 U.S.G.P.O. 1988-212-965 DOMESTIC RETURN RECEIPT

# COPAS Accounting Procedure Wage Index Adjustment for 1992

The Petroleum Accountants Society of Oklahoma-Tulsa has completed for COPAS the percentage Wage Index Adjustment to be an increase of 1.5 percent. This adjustment applies to the Administration Overhead and/or combined fixed rates as of April 1, 1992, based on 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. These adjustments are provided for in the COPAS Accounting Procedures dated 1962, 1968, 1974 and 1984, and the Offshore Accounting Procedures of 1976 and 1986.

The computation is as follows:

1991	Average Earnings	\$704.74
1990	Average Earnings	\$694.22
	Increase	\$10.52
	$\$10.52 \div \$694.22 =$	1.5%

Effective with April 1992 business, increase 1991 rates by multiplying current rates by 101.5%.

Following are the past year's adjustments:

Effective April 1	Adjustment
1963	+1.6%
1964	+3.9%
1965	+ .8%
1966	+2.2%
1967	+3.6%
1968	15.1%
1969	11.9%
1970	+7.0%
1971	+5.9%
1972	+8.9%
1973	+7.5%
1974	+5.2%
1975	+16.7%
1976	+10.3%
1977	+10.5%
1978	+10.3%
1979	+11.0%
1980	+9.3%
1981	+9.3%
1982	+13.0%
1983	+9.9%
1984	+5.9%
1985	+2.7%
1986	+4.4%
1987	+4.5%
1988	-1.4%
1989	+3.3%
1990	+8.1%
1991	+7.2%
1992	+1.5%

MEMBER NO. \_\_\_\_\_ (7A)  
DATE NO. 10501

Audit Per Diem Rate Adjustment Continues on Next Page

## COPAS Employee Benefits Survey

The 1992 Employee Benefits Limitation Survey was mailed on May 11, 1992, to all COPAS member companies and responses are due by June 15, 1992.

The results of this survey will directly determine the COPAS Employee Benefits Percentage for 1993 and we strongly encourage your company to participate. Please contact Debbie Theotokatos at (303) 893-1666 if you have any questions.

EXHIBIT " "

1 Attached to and made a part of \_\_\_\_\_  
2 \_\_\_\_\_  
3 \_\_\_\_\_  
4 \_\_\_\_\_

7  
8 **ACCOUNTING PROCEDURE**  
9  
10 **JOINT OPERATIONS**

11  
12 **I. GENERAL PROVISIONS**

13  
14 **1. Definitions**

15  
16 "Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure  
17 is attached.

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

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

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

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

24 "Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

35  
36 **2. Statement and Billings**

37  
38 Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint  
39 Account for the preceding month. Such bills will be accompanied by statements which identify the authority for  
40 expenditure, lease or facility, and all charges and credits summarized by appropriate classifications of investment and  
41 expense except that items of Controllable Material and unusual charges and credits shall be separately identified and  
42 fully described in detail.

43  
44 **3. Advances and Payments by Non-Operators**

45  
46 A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their  
47 share of estimated cash outlay for the succeeding month's operation within fifteen (15) days after receipt of the  
48 billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust  
49 each monthly billing to reflect advances received from the Non-Operators.

50  
51 B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made  
52 within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at \_\_\_\_\_  
53 \_\_\_\_\_ on the first day of the month in which delinquency occurs plus 1% or the  
54 maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located,  
55 whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid  
56 amounts.

57  
58 **4. Adjustments**

59  
60 Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof;  
61 provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall  
62 conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar  
63 year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes  
64 claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same  
65 prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of  
66 Controllable Material as provided for in Section V.

1 5. **Audits**

- 2
- 3 A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit  
4 Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four  
5 (24) month period following the end of such calendar year; provided, however, the making of an audit shall not  
6 extend the time for the taking of written exception to and the adjustments of accounts as provided for in  
7 Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make  
8 every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience  
9 to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this  
10 paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year  
11 without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made  
12 at the expense of those Non-Operators approving such audit.
- 13
- 14 B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

15

16 6. **Approval By Non-Operators**

17

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

22

23

24 **II. DIRECT CHARGES**

25

26 Operator shall charge the Joint Account with the following items:

27

28 1. **Ecological and Environmental**

29

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

33

34 2. **Rentals and Royalties**

35

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

37

38 3. **Labor**

- 39
- 40 A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of  
41 Joint Operations.
- 42
- 43 (2) Salaries of First Level Supervisors in the field.
- 44
- 45 (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are  
46 excluded from the overhead rates.
- 47
- 48 (4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly  
49 employed in the operation of the Joint Property if such charges are excluded from the overhead rates.
- 50
- 51 B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to  
52 employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.  
53 Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment"  
54 on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If  
55 percentage assessment is used, the rate shall be based on the Operator's cost experience.
- 56
- 57 C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are  
58 applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.
- 59
- 60 D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under  
61 Paragraph 3A of this Section II.
- 62

63 4. **Employee Benefits**

64

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

69

70

1 5. **Material**

2  
3 Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such  
4 Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is  
5 reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be  
6 avoided.

7  
8 6. **Transportation**

9  
10 Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

- 11  
12 A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be  
13 made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like  
14 material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.  
15  
16 B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint  
17 Account for a distance greater than the distance to the nearest reliable supply store where like material is normally  
18 available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be  
19 made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the  
20 Parties.  
21  
22 C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is  
23 available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the  
24 amount most recently recommended by the Council of Petroleum Accountants Societies.  
25

26 7. **Services**

27  
28 The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph  
29 10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract  
30 services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead  
31 rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the  
32 Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.  
33

34 8. **Equipment and Facilities Furnished By Operator**

- 35  
36 A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate  
37 with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating  
38 expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to  
39 exceed \_\_\_\_\_ percent ( \_\_\_\_\_ %) per annum. Such rates shall not exceed average commercial  
40 rates currently prevailing in the immediate area of the Joint Property.  
41  
42 B. In lieu of charges in paragraph 8A above, Operator may elect to use average commercial rates prevailing in the  
43 immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates  
44 published by the Petroleum Motor Transport Association.  
45

46 9. **Damages and Losses to Joint Property**

47  
48 All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or  
49 losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross  
50 negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as  
51 soon as practicable after a report thereof has been received by Operator.  
52

53 10. **Legal Expense**

54  
55 Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgements and  
56 amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to  
57 protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of  
58 outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be  
59 covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section  
60 I, Paragraph 3.  
61

62 11. **Taxes**

63  
64 All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof,  
65 or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad  
66 valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then  
67 notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties  
68 hereto in accordance with the tax value generated by each party's working interest.  
69  
70

1 12. Insurance

2  
3 Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the  
4 event Joint Operations are conducted in a state in which Operator may act as self-insurer for Worker's Compensation  
5 and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-  
6 insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.  
7

8 13. Abandonment and Reclamation

9  
10 Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory  
11 authority.  
12

13 14. Communications

14  
15 Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and  
16 microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint  
17 Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.  
18

19 15. Other Expenditures

20  
21 Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III and which  
22 is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint  
23 Operations.  
24

25  
26 III. OVERHEAD

27  
28 1. Overhead - Drilling and Producing Operations

29  
30 i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge  
31 drilling and producing operations on either:

- 32  
33 ( ) Fixed Rate Basis, Paragraph 1A, or  
34 ( ) Percentage Basis, Paragraph 1B  
35

36 Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and  
37 salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under  
38 Paragraph 3A, Section II. The cost and expense of services from outside sources in connection with matters of  
39 taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in  
40 the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are  
41 agreed to by the Parties as a direct charge to the Joint Account.  
42

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

- 45  
46 ( ) shall be covered by the overhead rates, or  
47 ( ) shall not be covered by the overhead rates.  
48

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

- 52  
53 ( ) shall be covered by the overhead rates, or  
54 ( ) shall not be covered by the overhead rates.  
55

56 A. Overhead - Fixed Rate Basis

57  
58 (1) Operator shall charge the Joint Account at the following rates per well per month:

59  
60 Drilling Well Rate \$ \_\_\_\_\_  
61 (Prorated for less than a full month)

62  
63 Producing Well Rate \$ \_\_\_\_\_  
64

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

66  
67 (a) Drilling Well Rate

68  
69 (1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date  
70 the drilling rig, completion rig, or other units used in completion of the well is released, whichever

1 is later, except that no charge shall be made during suspension of drilling or completion operations  
2 for fifteen (15) or more consecutive calendar days.

- 3  
4 (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5)  
5 consecutive work days or more shall be made at the drilling well rate. Such charges shall be  
6 applied for the period from date workover operations, with rig or other units used in workover,  
7 commence through date of rig or other unit release, except that no charge shall be made during  
8 suspension of operations for fifteen (15) or more consecutive calendar days.

9  
10 (b) Producing Well Rates

- 11  
12 (1) An active well either produced or injected into for any portion of the month shall be considered as  
13 a one-well charge for the entire month.  
14  
15 (2) Each active completion in a multi-completed well in which production is not commingled down  
16 hole shall be considered as a one-well charge providing each completion is considered a separate  
17 well by the governing regulatory authority.  
18  
19 (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the  
20 production shall be considered as a one-well charge providing the gas well is directly connected to  
21 a permanent sales outlet.  
22  
23 (4) A one-well charge shall be made for the month in which plugging and abandonment operations  
24 are completed on any well. This one-well charge shall be made whether or not the well has  
25 produced except when drilling well rate applies.  
26  
27 (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease  
28 allowable, transferred allowable, etc.) shall not qualify for an overhead charge.  
29  
30 (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the  
31 agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying  
32 the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude  
33 Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as  
34 shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published  
35 by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as  
36 published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or  
37 minus the computed adjustment.  
38

39 B. Overhead - Percentage Basis

- 40  
41 (1) Operator shall charge the Joint Account at the following rates:  
42  
43 (a) Development  
44  
45 \_\_\_\_\_ Percent ( \_\_\_\_\_ %) of the cost of development of the Joint Property exclusive of costs  
46 provided under Paragraph 10 of Section II and all salvage credits.  
47  
48 (b) Operating  
49  
50 \_\_\_\_\_ Percent ( \_\_\_\_\_ %) of the cost of operating the Joint Property exclusive of costs provided  
51 under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased  
52 for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the  
53 mineral interest in and to the Joint Property.  
54  
55 (2) Application of Overhead - Percentage Basis shall be as follows:

56  
57 For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III,  
58 development shall include all costs in connection with drilling, redrilling, deepening, or any remedial  
59 operations on any or all wells involving the use of drilling rig and crew capable of drilling to the producing  
60 interval on the Joint Property; also, preliminary expenditures necessary in preparation for drilling and  
61 expenditures incurred in abandoning when the well is not completed as a producer, and original cost of  
62 construction or installation of fixed assets, the expansion of fixed assets and any other project clearly  
63 discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other  
64 costs shall be considered as operating.  
65

66 2. Overhead - Major Construction

67  
68 To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of  
69 fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the  
70 Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint

1 Account for overhead based on the following rates for any Major Construction project in excess of \$ \_\_\_\_\_ :

- 2  
3 A. \_\_\_\_\_ % of first \$100,000 or total cost if less, plus  
4  
5 B. \_\_\_\_\_ % of costs in excess of \$100,000 but less than \$1,000,000, plus  
6  
7 C. \_\_\_\_\_ % of costs in excess of \$1,000,000.  
8

9 Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single  
10 project shall not be treated separately and the cost of drilling and workover wells and artificial lift equipment shall be  
11 excluded.  
12

### 13 3. Catastrophe Overhead

14  
15 To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due  
16 to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are  
17 necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the  
18 expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account  
19 for overhead based on the following rates:

- 20  
21 A. \_\_\_\_\_ % of total costs through \$100,000; plus  
22  
23 B. \_\_\_\_\_ % of total costs in excess of \$100,000 but less than \$1,000,000; plus  
24  
25 C. \_\_\_\_\_ % of total costs in excess of \$1,000,000.  
26

27 Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead  
28 provisions of this Section III shall apply.  
29

### 30 4. Amendment of Rates

31  
32 The overhead rates provided for in this Section III may be amended from time to time only by mutual agreement  
33 between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.  
34  
35

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

37  
38 Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all Material  
39 movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at  
40 Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or  
41 surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to  
42 outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition  
43 A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.  
44

### 45 1. Purchases

46  
47 Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of  
48 Material found to be defective or returned to vendor for any other reasons, credit shall be passed to the Joint Account  
49 when adjustment has been received by the Operator.  
50

### 51 2. Transfers and Dispositions

52  
53 Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator,  
54 unless otherwise agreed to by the Parties, shall be priced on the following basis exclusive of cash discounts:  
55

#### 56 A. New Material (Condition A)

##### 57 (1) Tubular Goods Other than Line Pipe

- 58  
59 (a) Tubular goods, sized 2 $\frac{3}{8}$  inches OD and larger, except line pipe, shall be priced at Eastern mill  
60 published carload base prices effective as of date of movement plus transportation cost using the 80,000  
61 pound carload weight basis to the railway receiving point nearest the Joint Property for which  
62 published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound  
63 or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio  
64 and casing from Youngstown, Ohio.  
65  
66

- 67 (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus  
68 transportation cost from that mill to the railway receiving point nearest the Joint Property as provided  
69 above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000  
70

1 pound Oil Field Haulers Association interstate truck rate shall be used.  
2

3 (e) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston,  
4 Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate,  
5 to the railway receiving point nearest the Joint Property.  
6

7 (d) Macaroni tubing (size less than 2 $\frac{3}{8}$  inch OD) shall be priced at the lowest published out-of-stock prices  
8 f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate  
9 per weight of tubing transferred, to the railway receiving point nearest the Joint Property.  
10

11 (2) Line Pipe

12  
13 (a) Line pipe movements (except size 24 inch OD and larger with walls  $\frac{3}{4}$  inch and over) 30,000 pounds or  
14 more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above.  
15 Freight charges shall be calculated from Lorain, Ohio.  
16

17 (b) Line pipe movements (except size 24 inch OD and larger with walls  $\frac{3}{4}$  inch and over) less than 30,000  
18 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment,  
19 plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular  
20 goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain,  
21 Ohio.  
22

23 (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  
24 manufacture at current new published prices plus transportation cost to the railway receiving point  
25 nearest the Joint Property.  
26

27 (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall  
28 be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at  
29 prices agreed to by the Parties.  
30

31 (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable  
32 supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the  
33 railway receiving point nearest the Joint Property.  
34

35 (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current  
36 new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or  
37 point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint  
38 Property. Unused new tubulars will be priced as provided above in Paragraph 2.A.(1) and (2).  
39

40 B. Good Used Material (Condition B)

41  
42 Material in sound and serviceable condition and suitable for reuse without reconditioning:  
43

44 (1) Material moved to the Joint Property

45  
46 At seventy-five percent (75%) of current new price, as determined by Paragraph A.  
47

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

49  
50 (a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was  
51 originally charged to the Joint Account as new Material or  
52

53 (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was  
54 originally charged to the Joint Account as used Material.  
55

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

57  
58 At seventy-five percent (75%) of current new price as determined by Paragraph A.  
59

60 The cost of reconditioning, if any, shall be absorbed by the transferring property.  
61

62 C. Other Used Material

63  
64 (1) Condition C

65  
66 Material which is not in sound and serviceable condition and not suitable for its original function until  
67 after reconditioning shall be priced at fifty percent (50%) of current new price as determined by  
68 Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition  
69 C value plus cost of reconditioning does not exceed Condition B value.  
70

1 (2) Condition D

2  
3 Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose  
4 shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material  
5 under procedures normally used by Operator without prior approval of Non-Operators.

6  
7 (a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe  
8 of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be  
9 priced at used line pipe prices.

10  
11 (b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g.  
12 power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe.  
13 Upset tubular goods shall be priced on a non upset basis.

14  
15 (3) Condition E

16  
17 Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under  
18 procedures normally utilized by Operator without prior approval of Non-Operators.

19  
20 D. Obsolete Material

21  
22 Material which is serviceable and usable for its original function but condition and/or value of such Material  
23 is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by  
24 the Parties. Such price should result in the Joint Account being charged with the value of the service  
25 rendered by such Material.

26  
27 E. Pricing Conditions

28  
29 (1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢)  
30 per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs  
31 sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year  
32 following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in  
33 Section III, Paragraph 1.A.(3). Each year, the rate calculated shall be rounded to the nearest cent and  
34 shall be the rate in effect until the first day of April next year. Such rate shall be published each year  
35 by the Council of Petroleum Accountants Societies.

36  
37 (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down  
38 price of new Material.

39  
40 3. Premium Prices

41  
42 Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other  
43 unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required  
44 Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it  
45 to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing  
46 Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within  
47 ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use  
48 and acceptable to Operator.

49  
50 4. Warranty of Material Furnished By Operator

51  
52 Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint  
53 Account until adjustment has been received by Operator from the manufacturers or their agents.

54  
55 **V. INVENTORIES**

56  
57 The Operator shall maintain detailed records of Controllable Material.

58  
59 1. Periodic Inventories, Notice and Representation

60  
61 At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice  
62 of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that  
63 Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an  
64 inventory shall bind Non-Operators to accept the inventory taken by Operator.

65  
66 2. Reconciliation and Adjustment of Inventories

67  
68 Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six  
69 months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for  
70

1 overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.  
2

3 **3. Special Inventories**  
4

5 Special inventories may be taken whenever there is any sale, change of interest, or change of Operator in the Joint  
6 Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of  
7 interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory. In cases  
8 involving a change of Operator, all Parties shall be governed by such inventory.  
9

10 **4. Expense of Conducting Inventories**  
11

12 A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the  
13 Parties.  
14

15 B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except  
16 inventories required due to change of Operator shall be charged to the Joint Account.  
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