

Salt Lake Com No. 1

Chronology August-October, 1988

- August 30, 1988 Letter to Texaco asking for farmout or joinder. Included AFE with letter.
- September 7, 1988 Curtis Smith (Texaco) called and said Texaco had sent bid package out on their interest in the Little Eddy Unit. I asked for copy of the bid package.
- September 16, 1988 Called Smith (Texaco) and asked for Texaco to either join or farmout. Also reminded Smith that Exxon would have to force pool their interest if no decision was reached in a timely manner. Smith said he found out that bid package had not gone out to industry yet. Smith also said that it would be inappropriate to force pool now (September 16, 1988).
- September 20, 1988 Asked Doug Schutz of Santa Fe to send me a copy of the Little Eddy Unit Agreement, which he did the next day.
- September 21, 1988 I called Jens Hansen (Bass) and confirmed that Bass was the Operator of the Little Eddy Unit. Hansen said that Texaco should handle negotiations
- September 23, 1988 Sent Bass a letter similar to August 30, 1988 Texaco correspondence asking Bass to join or farmout with proposed Joint Operating Agreement attached (copy of letter and JOA sent to Texaco).
- September 26, 1988 Hansen (Bass) called and discussed proposal. Bass would not want to join in the well for just the Morrow formation, but concluded that it would be easier for them to be force pooled and that force pooling would be better for Bass than a farmout.
- October 3, 1988 Met with Hansen (Bass) in Santa Fe at the New Mexico Oil & Gas Association meeting. Bass still believes that it would be easier for Bass to be force pooled.

Exhibit No. 6

Exxon Corporation

Case No. 9520

Hearing Date: November 9, 1988

October 10, 1988 I called Smith (Texaco) and told him that we were proceeding with a force pooling hearing.

October 11, 1988 I sent informal letter to Texaco and Bass informing them that we were going to apply for force pooling.

October 17, 1988 Hansen (Bass) called and asked if Exxon would be interested in a farmout. I replied, yes, we would be very interested in a farmout.

October 18, 1988 I sent the formal notice of the force pooling hearing to be held in Santa Fe, New Mexico on Wednesday, November 9, 1988 at 8:15. Certified, Return receipt requested to Texaco and Bass.

November 7, 1988 I called Hansen (Bass) and he said Bass would farmout.

November 8, 1988 I called Smith (Texaco) and he said Texaco would not farmout or join, but would not object to being forced pooled.

JBT:11/8/88



EXPLORATION DEPARTMENT
WESTERN DIVISION

August 30, 1988

Farmout/Join Request
AB-88-325 (A)
Salt Lake, S.
Lea County, New Mexico

Texaco Inc.
P. O. Box 3109
Midland, Texas 79702

Attn: Mr. S. L. Chandler

Gentlemen:

Exxon requests either a farmout of your interest or your joinder in the drilling of a well in the W/2 of Section 32, T20S-R33E, Lea County, New Mexico. The well will be located in the SENW of Section 32 and will be drilled to 14,000 feet or a depth to test the Morrow formation.

We propose the following general terms for your consideration.

Proposed Farmout Terms:

1. Production to earn from the surface to the base of the deepest depth of production by proration unit.
2. Texaco to deliver a 75% Net Revenue Interest.
3. 120 days between wells (if the proration unit for the initial well does not earn all of the farmout acreage.)
4. Farmout acreage to be Section 32: SWNW; W/2SW, T20S-R33E.
5. Such other terms and conditions contained in your usual Farmout Agreement that are mutually acceptable between our companies.
6. Initial well to be commenced within 180 days from the date of the Farmout Agreement.

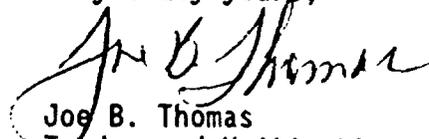
Join Terms:

1. Texaco to execute a Joint Operating Agreement for a unit area covering Section 32: W/2, T20S-R33E.

2. The JOA would be on the AAPL Form 610-1982 Model Form Operating Agreement.
The costs to be shared:
 - A. Texaco 37.5%
 - B. Exxon 62.5%
3. Exxon would be named the Operator.
4. 300% nonconsent provisions.
5. Initial well to be spudded within 180 days of the execution of the JOA.
6. Attached AFE for your review.

Please advise if either of the above is acceptable to you so that we can obtain our final management approval.

Very truly yours,


Joe B. Thomas
Trades and Unitization
(915) 683-0236

JBT5/slr

Attachments

OBJECTIVE TO DRILL & COMPLETE THE SALT LAKE COM 1, WELL #1 TO A
TOTAL DEPTH OF 3,800'.

LOCATION: 1980' FNL & 1320' FWL, SECTION 32, T20S, R33E, LEA COUNTY,
NEW MEXICO

RECEIVED
JUN 28 1988
SOUTHWESTERN
WELL SERVICE

A	LC	DIV	DIST	AFE (UNIT)	W-T	BUDG CODE		
						DM	MS	D&C
DRILLING DETAIL						DM	MS	D&C
425							41	
426							20	
427							52	
428							266	
429							25	
430							49	
431							63	
432							39	
DRILLING SUB TOTAL							555	
COMPLETION DETAIL								
435								
437								
439								
441								
442								
443								
445								
448								
COMPLETION INTANGIBLE SUB TOTAL							78	
464								
465							340	
467							59	
COMPLETION INTANGIBLE SUB TOTAL							399	
COMPLETION SUB TOTAL							477	
TOTAL							939.5	1032

WORKING INTEREST	%	MS	
		D&C	DM
* EXXON CO USA	* 100	1032	839.5
* TEXACO	* 0	0	0

* ASSUMES FARM IN OF 120 ACRE TRACT FROM TEXA

NON OPERATOR APPROVAL
COMPANY _____
BY _____ DATE _____

APPROVAL RECOMMENDED
INITIAL FOR ENG SECL OPER ACCTS
DIST _____
DIV _____

PREPARED BY L. SOHANEY 6/24/88
APPROVED _____ DISTRICT MGR/SUP _____ DATE _____
APPROVED _____ DIV DRILL OPERATIONS MGR _____ DATE _____
APPROVED _____ DIV MANAGER _____ DATE _____
APPROVED _____ -O DEPT OPERATIONS MGR _____ DATE _____
APPROVED _____ EXEC CHARGE _____ DATE _____

EXXON COMPANY, U.S.A.
POST OFFICE BOX 1600 • MIDLAND, TEXAS 79702 1600

EXPLORATION DEPARTMENT
WESTERN DIVISION

September 23, 1988

Farmout/Join Request
AB-88-325 (A)
Salt Lake, S.
Lea County, New Mexico

Bass Enterprises Production Company
1st City Bank Tower
201 Main St.
Fort Worth, Texas 76102

Attn: Mr. Jens Hansen

Gentlemen:

As we discussed by telephone yesterday, Exxon requests either a farmout of your unit interest or your joinder based on your unit interest in the drilling of a well in the W/2 of Section 32, T20S-R33E, Lea County, New Mexico. The well will be located in the SENW of Section 32 and will be drilled to 14,000 feet or a depth to test the Morrow formation.

We propose the following general terms for your consideration.

Proposed Farmout Terms:

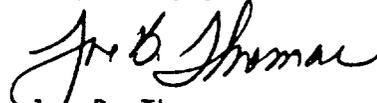
1. Production to earn from the surface to the base of the deepest depth of production by proration unit.
2. Bass as Unit Operator to deliver a 75% Net Revenue Interest.
3. 120 days between wells (if the proration unit for the initial well does not earn all of the farmout acreage.)
4. Farmout acreage to be Section 32: SWNW;W2SW, T20S-R33E.
5. Such other terms and conditions contained in your usual farmout agreement that are mutually acceptable between our companies.
6. Initial well to be commenced within 180 days from the date of the farmout agreement.

Join Terms:

1. Bass as Unit Operator to execute a Joint Operating Agreement for a unit area covering Section 32:W2, T20S-R33E.
2. The Joint Operating Agreement would be on the AAPL Form 610-1982 Model Form Operating Agreement. The costs to be shared:
 - A. Bass as Unit Operator 37.5%
 - B. Exxon 62.5%
3. Exxon would be named the Operator.
4. 300% nonconsent provisions.
5. Initial well to be spudded within 180 days of the execution of the Joint Operating Agreement.
6. Attached preliminary AFE for your review.
7. Proposed form of Joint Operating Agreement attached.

Please advise if either of the above is acceptable to you so that we can obtain our final management approval.

Very truly yours,



Joe B. Thomas

JBT9/a/slr

Attachments

c: (w/attachments)
Texaco Inc.
P. O. Box 3109
Midland, Texas 79702
Attn: Mr. Curtis Smith

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

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

_____, 19 __, _____

OPERATOR _____

CONTRACT AREA _____

COUNTY OR PARISH OF _____ STATE OF _____

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 _____ 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.
H. Exhibit "H", Notice of Lien and Mortgage -- Financing Statement.

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 _____ 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.

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:

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

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

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

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

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

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

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

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

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

ARTICLE VI

continued

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

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

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

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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 reworking or plugging back operation proposed in such a well, or portion thereof, to which the initial Non-Consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment account. Any such reworking or plugging back operation conducted during the recoupment period shall be deemed part of the cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties one hundred percent (100%) of that portion of the costs of the reworking or plugging back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If such a reworking or plugging back operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting Parties in said well.

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

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

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

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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.

20
21 **D. Access to Contract Area and Information:**

22
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.

30
31 **E. Abandonment of Wells:**

32
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

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

5
6 Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from
7 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 re-
8 quest, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges con-
9 templated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned
10 well. Upon proposed abandonment of the producing interval(s) assigned or leased, the assignor or lessor shall then have the option to
11 repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the pro-
12 visions hereof.

13
14 3. Abandonment of Non-Consent Operations: The provisions of Article VI.E.1. or VI.E.2. above shall be applicable as between
15 Consenting Parties in the event of the proposed abandonment of any well excepted from said Articles; provided, however, no well shall be
16 permanently plugged and abandoned unless and until all parties having the right to conduct further operations therein have been notified
17 of the proposed abandonment and afforded the opportunity to elect to take over the well in accordance with the provisions of this Article
18 VI.E.

19
20 **ARTICLE VII.**
21 **EXPENDITURES AND LIABILITY OF PARTIES**

22
23 **A. Liability of Parties:**

24
25 The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and
26 shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted
27 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
28 shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

29
30 **B. Liens and Payment Defaults:**

31
32 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
33 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
34 at the rate provided in Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the
35 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 ob-
36 taining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien
37 rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share
38 of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from
39 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
40 purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien
41 and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

42
43 If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by
44 Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that
45 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
46 reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

47
48 **C. Payments and Accounting:**

49
50 Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development
51 and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective propor-
52 tionate shares upon the expense basis provided in Exhibit "C". Operator shall keep an accurate record of the joint account hereunder,
53 showing expenses incurred and charges and credits made and received.

54
55 Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance
56 of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding
57 month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together
58 with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted
59 on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within
60 ~~thirty (30)~~ thirty (30) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount
61 due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual ex-
62 penses to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

63
64 **D. Limitation of Expenditures:**

65
66 1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened
67 pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the drilling or deepening shall include:

ARTICLE VII
continued

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

3
4 [X] Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its
5 authorized depth, and all tests have been completed, and the results thereof furnished to the parties. Operator shall give immediate notice
6 to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight
7 (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion at-
8 tempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, in-
9 cluding necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall
10 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,
11 elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging
12 back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less
13 than all parties.

14
15 2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or
16 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
17 include all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage
18 and/or surface facilities.

19
20 3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated
21 to require an expenditure in excess of Fifty thousand and no/100-----Dollars (\$ 50,000.00)
22 except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been
23 previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden
24 emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required
25 to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other
26 parties. ~~Operator shall report an emergency for expenditure (AFE) for its own use. Operator shall furnish any Non-Operator with the~~
27 ~~information requested for any single project costing in excess of -----~~
28 ~~Dollars ----- but less than the amount first set forth above in this paragraph.~~

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

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32 Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the
33 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 con-
34 tributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on
35 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
36 failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such pay-
37 ment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the pro-
38 visions of Article IV.B.2.

39
40 Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production
41 of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holidays), or at the earliest opportunity permitted by
42 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
43 Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments of any shut-in well payment
44 shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

46 F. Taxes:

47
48 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property
49 subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they
50 become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not
51 be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-
52 Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, over-
53 riding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or
54 owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduc-
55 tion. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding
56 anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax
57 value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in
58 the manner provided in Exhibit "C".

59
60 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner
61 prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final deter-
62 mination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any
63 interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint ac-
64 count, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as
65 provided in Exhibit "C".

66
67 Each party shall pay or cause to be paid all production, severance, excise, gathering and other taxes imposed upon or with respect to
68 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 ARTICLE VIII.

13 ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

14 A. Surrender of Leases:

15
16 The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole
17 or in part unless all parties consent thereto.

18
19 However, should any party desire to surrender its interest in any lease or in any portion thereof, and the other parties do not
20 agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in
21 such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production
22 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-
23 terest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering
24 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
25 lease to be on the form attached hereto as Exhibit "B". Upon such assignment or lease, the assigning party shall be relieved from all
26 obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well
27 attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and pro-
28 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
29 party assignor or lessor the reasonable salvage value of the latter's interest in any wells and equipment attributable to the assigned or leas-
30 ed acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of
31 salvaging and the estimated cost of plugging and abandoning. If the assignment or lease is in favor of more than one party, the interest
32 shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties.

33
34 Any assignment, lease or surrender made under this provision shall not reduce or change the assignor's, lessor's or surrendering
35 party's interest as it was immediately before the assignment, lease or surrender in the balance of the Contract Area; and the acreage
36 assigned, leased or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this
37 agreement.

38 B. Renewal or Extension of Leases:

39
40 If any party secures a renewal of any oil and gas lease subject to this agreement, all other parties shall be notified promptly, and
41 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
42 renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper pro-
43 portionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the
44 interests held at that time by the parties in the Contract Area.

45
46 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
47 who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area
48 to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease.
49 Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

50
51 Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein
52 by the acquiring party.

53
54 The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease
55 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
56 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-
57 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
58 the provisions of this agreement.

59
60 The provisions in this Article shall also be applicable to extensions of oil and gas leases.

61 C. Acreage or Cash Contributions:

62
63 While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other
64 operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be
65 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-
66 tribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions
67

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
15 1. the entire interest of the party in all leases and equipment and production; or
16
17 2. an equal undivided interest in all leases and equipment and production in the Contract Area.

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

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

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.

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**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 and 00/100 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**

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 180 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 180 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 _____ 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

1. Operator agrees to comply with all laws and lawful regulations applicable to any activities carried out in the name of or on behalf of any one or more of the parties to this agreement under the provisions of this agreement and/or any amendments to it.
2. Operator agrees that all financial settlements, billings, and reports rendered to any one or more of the parties to this agreement, as provided for in this agreement and/or any amendments to it, will, to the best of its knowledge and belief, reflect properly the facts about all activities and transactions handled for the account of such party or parties, which data may be relied upon as being complete and accurate in any further recording and reporting made by such party or parties for whatever purpose.
3. Operator agrees to notify the other parties to this agreement promptly upon discovery of any instance where the Operator fails to comply with the provision (1) above or where Operator has reason to believe data covered by (2) above is no longer accurate and complete.
4. Each party to this agreement ratifies and agrees to execute a "Notice of Lien and Mortgage -- Financing Statement" in the form attached hereto as Exhibit "H" simultaneously with their execution of this agreement. Each party further authorizes the Operator to file such instrument in the appropriate records of the county or counties where the contract lands are located and in the Uniform Commercial Code records of the appropriate Secretary of State's office and/or such other records as may be required under applicable state law to fully perfect the security interests created herein.

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ARTICLE XVI.
MISCELLANEOUS

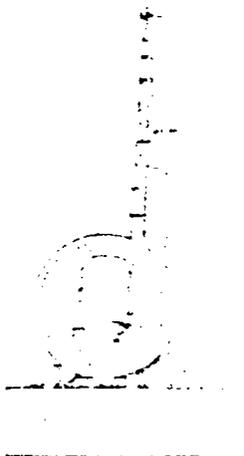
This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

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 _____ day of _____, 19_____.

OPERATOR

NON-OPERATORS



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**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 _____ day of _____, 19_____

OPERATOR

NON-OPERATORS

EXHIBIT " C "

Attached to and made a part of _____

**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 ^{(thirty) 30} ~~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 Citibank N.A. of New York 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 1. 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 audit 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. If an audit exception(s) cannot be reconciled within 180 days, the non-operator(s) shall be notified of the audit exception(s) status.

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 twelve percent (12%) 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:

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
 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
 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 \$ 6,150.00
 (Prorated for less than a full month)

Producing Well Rate \$ 615.00

- (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 \$ 25,000 :

- 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"

To Operating Agreement dated _____, 19 ____ between

Operator, during the term of this Agreement, shall comply with the provisions of Article VII.G hereof. No other insurance will be carried by Operator for benefit of the Joint Account.

All damage or injury to the Contract Area property thereon shall be borne by the parties hereto in proration to their interests therein. The liability, if any, of the parties hereto in damages for claims growing out of personal injury to or death from third parties or injury to or destruction of property of third parties resulting from the operations conducted hereunder shall be borne in proportion to their interests in the Contract Area property, and each party individually may acquire such insurance as it deems proper to protect itself against such claims. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the Workmen's Compensation Law of the State where the operations are being conducted and to maintain such other insurance as Operator may require.

EXHIBIT "E"

GAS BALANCING AGREEMENT

ATTACHED to and made a part of that certain Operating Agreement dated _____ by and between _____ Operator, and _____, Non-Operators.

1. Each party shall have the right to take in kind and separately dispose of its proportionate share of the gas produced from the Contract Area and shall be entitled to an opportunity to produce its fair share of the allowable gas production from a well (or proration unit, including lawful tolerances) established by appropriate regulatory authority.

2. It is the intent that each party be entitled to gas produced attributable to its participation as set forth in Exhibit "A" attached to this Operating Agreement. The Operator has the duty to control gas production and the responsibility of administering the provisions of this Agreement. The Operator shall cause deliveries to be made to the gas purchasers at such rates as may be required to give effect to the intent that the gas production accounts of all parties are to be brought into balance under the provisions contained herein. All parties hereto shall share proportionately in and own liquid hydrocarbons recovered with the gas by lease equipment and shall pay their proportionate share of current operating expense in accordance with the Operating Agreement to which this Exhibit is attached.

3. To give effect to the intent of this agreement, the Operator shall be governed by the following rights of each party:

- (a) Each underproduced party (a party who has taken a lesser volume of gas than the quantity such party is herein entitled) shall have the right to take a greater amount of gas than its proportionate share of the well's current production, provided that the right to take such greater amount shall be in proportion that its interest bears to the total interest of all underproduced parties desiring to take more than their proportionate share of the well's current production.
- (b) Each overproduced party (a party who has taken a greater volume of gas than the quantity such party is herein entitled) shall reduce its respective share of production in the proportion that such party's interest bears to the total interest of all overproduced parties, but in no event shall any overproduced party be required to reduce its share to less than fifty percent (50%) of such overproduced party's proportionate share of the well's current production.

4. The Operator, at the request of any party, may produce the entire well stream, if necessary, for a deliverability test not to exceed seventy-two (72) hours duration required under such requesting party's gas sales contract.

5. Each party taking gas shall furnish the Operator a monthly statement of gas volumes taken. After commencement of production, Operator shall furnish a current account monthly of the gas balance between parties hereto including the total quantity of gas produced, the portion thereof used in operations, vented or lost, and the total quantity of gas delivered to a market.

6. Each party producing and/or delivering gas to its purchaser shall pay or cause to be paid any and all production taxes due on such gas.

7. The provisions of this Agreement shall be separately applicable and shall constitute a separate Agreement as to each well (or proration unit) and each reservoir to the end that production from one reservoir may not be utilized for the purpose of balancing underproduction from any other reservoirs.

8. Should production of gas from a well or proration unit be permanently discontinued or the well be included in a unitized area or any party assign his interest to another party at a time when the gas account is out of balance, settlement will be made between the underproduced and overproduced parties for overproduced volumes. In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced party or parties attributable to the overproduction which said overproduced party received, less applicable taxes and/or royalties theretofore paid. Such settlement shall be based upon the price received for the overproduced volumes of gas. In determining the overproduced volumes for which settlement is due, the following rule shall be used: When an underproduced party takes gas in excess of its current share of production only the volume in excess of its current share shall be treated as make-up, and this make-up volume shall be applied to reduce prior deficits in the order of accrual of such deficit.

For gas sold in intrastate commerce, the price basis shall be the actual price received for sale of the gas at the time the overproduction was accumulated. For gas sold in interstate commerce, the price basis shall be the price received at the time of the overproduction which is not subject to possible refund, as provided by the Federal Energy Regulatory Commission pursuant to final order or settlement applicable to such gas, plus any additional collected amount which is not ultimately required by said Commission to be refunded, such additional collected amount to be accounted for at such time as final determination is made.

9. Nothing herein shall be construed as ever altering, amending or negating any agreement heretofore entered into by any party hereto obligating such party to pay any overriding royalty, payment out of production or royalties payable under any lease out of its interest regardless of whether such party is or is not taking or selling its full share of production.

December 21, 1981

EXHIBIT "F"

To Operating Agreement dated _____, 19____ between

I. 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, national origin or sex. 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, national origin or sex. Such action shall include, but not be limited to the following: Employment, upgrading, demotion, or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Operator agrees to post in conspicuous places, available to employees and applicants for employment notices to be provided 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, national origin or sex.
- (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 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
- (4) The Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.
- (5) The Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to 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 the Operator's non-compliance with the non-discrimination clauses of this contract or with any of 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 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.
- (7) The Operator will include the provisions of paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Operator will take such action with respect to any subcontract or purchase order as the 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.

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 Joint Reporting Committee, Federal Depot, Jeffersonville, Indiana, 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 11246, as amended and Rules and Regulations adopted thereunder.

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

II. CERTIFICATION OF NON-SEGREGATED FACILITIES

- (1) 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 a 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 11246 of September 24, 1965.
- (2) 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 of the Secretary of Labor dated May 21, 1968, and the provisions of the equal opportunity clause enumerated in contracts between the United States of America and Non-Operators.
- (3) Whoever knowingly and willfully makes any false, fictitious or fraudulent representation may be liable to criminal prosecution under 18 U.S.C. § 1001.

III. OCCUPATIONAL SAFETY AND HEALTH ACT

Operator will observe and comply with all safety and health standards promulgated by the Secretary of Labor under Section 107 of the Contract Work Hours and Standards Act, published in 29 CFR Part 1518 and adopted by the Secretary of Labor as occupational safety and health standards under the Williams-Steiger Occupational Safety and Health Act of 1970. Such safety and health standards shall apply to all subcontractors and their employees as well as to the prime contractor and its employees.

IV. VETERAN'S PREFERENCE

Operator agrees to comply with the following insofar as contracts it lets for an amount of \$10,000 or more which will generate 400 or more man-days of employment (each man-day consisting of any day in which an employee performs more than one hour of work) and further agrees to include the following provision in contracts with Contractors and Subcontractors:

"CONTRACTOR AND SUBCONTRACTOR LISTING REQUIREMENT

- (1) As provided by 41 CFR 50-250, the contractor agrees that all employment openings of the contractor which exist at the time of the execution of this contract and those which occur during the performance of this contract, including those not generated by the contract and including those occurring at an establishment of the contractor other than the one wherein the contract is being performed but excluding those of independently operated corporate affiliates, shall, to the

maximum extent feasible, be offered for listing at an appropriate local office of the State employment service system wherein the opening occurs and to provide such periodic reports to such local office regarding employment openings and hires as may be required: Provided, that this provision shall not apply to openings which the contractor fills from within the contractor's organization or are filled pursuant to a customary and traditional employer-union hiring arrangement and that listing of employment openings shall involve only the normal obligations which attach to the placing of job orders.

- (2) The contractor agrees to place the above provisions in any subcontract directly under this contract."

V. CERTIFICATION OF COMPLIANCE WITH ENVIRONMENTAL LAWS

Operator agrees to comply with the Clean Air Act (42 U.S.C. § 1857) and the Federal Water Pollution Control Act (33 U.S.C. § 1251) when conducting operations involving nonexempt contracts. In all nonexempt contracts with subcontractors, Operator shall require:

- (1) No facility to be utilized by Subcontractor in the performance of this contract with Operator is listed on the Environmental Protection Agency (EPA) List of Violating Facilities. See Executive Order No. 11738 of September 12, 1973, and 40 CFR § 15.20.
- (2) Prompt written notification shall be given by Subcontractor to Operator of any communication indicating that any such facility is under consideration to be included on the EPA List of Violating Facilities.
- (3) Subcontractor shall comply with all requirements of Section 114 of the Clean Air Act (42 U.S.C. § 1857) and Section 308 of the Federal Water Pollution Control Act (33 U.S.C. § 1251), relating to inspection, monitoring, entry, reports, and information, as well as all other requirements specified in these Sections, and all regulations and guidelines issued thereunder.
- (4) The foregoing criteria and requirements shall be included in all of Subcontractor's nonexempt subcontracts, and Subcontractor shall take such action as the Government may direct as a means of enforcing such provisions. See 40 CFR § 15.4 & 5.
- (5) Operator agrees to notify non-operators of any violations in the afore provisions.

VI. Operator agrees to comply with Executive Orders 11458 and 11625 regarding Minority Business Enterprises and all orders, rules, and regulations issued thereunder or amendments thereto.

VII. Operator agrees to comply with Rehabilitation Act of 1973 and all orders, rules, and regulations issued thereunder and amendments thereto.

EXHIBIT "H"

Attached to and made a part of that certain Operating Agreement dated _____, 19____, by and between Exxon Corporation, Operator, and _____, Non-Operator(s).

MEMORANDUM OF OPERATING AGREEMENT AND
NOTICE OF LIEN AND MORTGAGE — FINANCING STATEMENT

STATE OF §

COUNTY OF §

Exxon Corporation ("Operator") and the undersigned ("Non-Operator") have entered into an Operating Agreement providing for the development and production of crude oil, natural gas and associated substances, dated _____, 19____, covering the following described lands:

(description of lands)

or

(see Exhibit "A" attached)

The Operating Agreement provides for mutual liens and security interests to secure payment by the parties of their respective share of costs under the Operating Agreement.

Without limiting or superseding the liens and security interests provided for in the Operating Agreement and in order to further secure payment by Non-Operator of amounts due Operator from time to time under the terms of the Operating Agreement as its share of expense, Non-Operator has granted and does hereby grant to Operator, its successors and assigns, the following:

1. A lien and mortgage covering all of Non-Operator's leasehold, unleased mineral or other working interest in and under the above-referenced lands which are of record as of the effective date hereof or acquired hereafter by Non-Operator.
2. A lien and mortgage covering, and a security interest in, the undivided portion of the equipment located on the above-referenced lands, including fixtures, which is employed in the production of oil and/or gas therefrom and is owned as of the date hereof or hereafter acquired by Non-Operator.
3. A security interest in Non-Operator's undivided portion of the oil and/or gas when extracted from the above-referenced lands and in the accounts arising from the sale by Non-Operator of such oil and gas, and in rights under any gas balancing agreements.
4. A lien and security interest covering all contract rights, general intangibles, interests in partnerships or other associations, and any other interests arising from the development of the above described lands for oil and gas purposes.
5. A lien and security interest covering the proceeds of the sale of any of the collateral referenced in 1-4 above, together with a lien and security interest attaching to the collateral to the extent required to reimburse for any interest, court costs, and attorneys' fees to which a party may be entitled by reason of exercise of any lien or security rights hereunder.

In order to secure payment by Operator from time to time of its share of expense under the above-referenced Operating Agreement, Operator has granted and does hereby grant to Non-Operator and the other parties to said Operating Agreement who execute this instrument a lien and mortgage and a security interest of the same nature and effect as those described in the preceding paragraph.

The minerals or the like (including oil and gas) or accounts described in the preceding paragraphs will be financed at the wellhead or wellheads located on the lands described above. This instrument shall be filed for record in the real estate records of the county or counties named in the land description shown above. The secured party is not a seller or purchase money lender of the collateral described in items 1-5 above.

Exhibit "A"
Memorandum of Operating Agreement and
Notice of Lien and Mortgage — Financing Statement
Page 2 of 4

Furthermore, this Memorandum of Operating Agreement and Notice of Lien and Mortgage — Financing Statement incorporates by reference all other terms and conditions of said Operating Agreement. Said Operating Agreement specifically provides as follows:

1. That a party's ability to freely sell, assign, or transfer interests in land committed to the agreement is restricted or encumbered. These restrictions or encumbrances may include a preferential right to purchase the interest of any party desiring to sell its interest under the agreement, restrictions on the surrender of leases, a maintenance of uniform interest provision, provisions applicable to renewal or extension of leases, provisions applicable to acreage or cash contributions, non-consent provisions, and gas storage and balancing provisions, among others.
2. That each party to the agreement has the right to take-in-kind or separately dispose of its proportionate share of oil and gas produced.
3. That the liability of the parties to the agreement is several, and not joint and collective, with each party being liable only for its proportionate share of costs of developing and operating the contract area.

Should any person or firm desire additional information regarding the Operating Agreement or wish to inspect a copy of same, said person or firm should contact the Operator by writing to Exxon Corporation, through its subsidiary Exxon Company, U.S.A., Attn: Land, at P. O. Box 1600, Midland, TX 79702-1600, or alternatively to Exxon Company, U.S.A., Attn: Land, P. O. Box 2305, Houston, TX 77252-2305.

Each party to said Operating Agreement may execute as a Non-Operator a counterpart of this instrument which contains a signature page for such party. Operator may combine the signature pages executed by such parties with the first two pages identical to the first two pages hereof and file and/or record such aggregated instrument.

EXECUTED as of this ____ day of _____, 19____.

EXXON CORPORATION, Operator

BY: _____

ADDRESS: _____

TAX I.D. No.: _____

Non-Operator

BY: _____

ADDRESS: _____

Non-Operator

BY: _____

ADDRESS: _____

Exhibit "B"
Memorandum of Operating Agreement and
Notice of Lien and Mortgage -- Financing Statement
Page 3 of 4

Non-Operator

BY: _____

ADDRESS: _____

Non-Operator

BY: _____

ADDRESS: _____

STATE OF TEXAS §

COUNTY OF MIDLAND §

BEFORE ME, the undersigned authority, on this day personally appeared _____, known to me to be the person whose name is subscribed to the foregoing instrument as _____ of EXXON CORPORATION, a New Jersey Corporation, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said Exxon Corporation.

GIVEN UNDER my had and seal of office, this the ____ day of _____ A.D., 19__.

MY COMMISSION EXPIRES: _____

NOTARY PUBLIC IN AND FOR MIDLAND COUNTY,
TEXAS

STATE OF §

COUNTY OF §

BEFORE ME, the undersigned authority, on this day personally appeared _____, known to me to be the person whose name is subscribed to the foregoing instrument as _____ of _____, a _____, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said _____.

GIVEN UNDER my had and seal of office, this the ____ day of _____ A.D., 19__.

MY COMMISSION EXPIRES: _____

NOTARY PUBLIC IN AND FOR
_____ COUNTY, _____

Exhibit "H"
Memorandum of Operating Agreement and
Notice of Lien and Mortgage — Financing Statement
Page 4 of 4

STATE OF §
COUNTY OF §

BEFORE ME, the undersigned authority, on this day personally appeared _____, known to me to be the person whose name is subscribed to the foregoing instrument as _____ of _____, a _____, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said _____.

GIVEN UNDER my had and seal of office, this the ____ day of _____ A.D., 19__.

MY COMMISSION EXPIRES:

NOTARY PUBLIC IN AND FOR

COUNTY, _____

STATE OF §
COUNTY OF §

BEFORE ME, the undersigned authority, on this day personally appeared _____, known to me to be the person whose name is subscribed to the foregoing instrument as _____ of _____, a _____, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said _____.

GIVEN UNDER my had and seal of office, this the ____ day of _____ A.D., 19__.

MY COMMISSION EXPIRES:

NOTARY PUBLIC IN AND FOR

COUNTY, _____

EXHIBIT "H"

Attached to and made a part of that certain Operating Agreement dated _____, 19____, by and between _____, Operator, and Exxon Corporation, et al., Non-Operators.

MEMORANDUM OF OPERATING AGREEMENT AND
NOTICE OF LIEN AND MORTGAGE — FINANCING STATEMENT

STATE OF §

COUNTY OF §

_____ ("Operator") and the undersigned ("Non-Operator") have entered into an Operating Agreement providing for the development and production of crude oil, natural gas and associated substances, dated _____ 19____, covering the following described lands:

(description of lands)

or

(see Exhibit "A" attached)

The Operating Agreement provides for mutual liens and security interests to secure payment by the parties of their respective share of costs under the Operating Agreement.

Without limiting or superseding the liens and security interests provided for in the Operating Agreement and in order to further secure payment by Non-Operator of amounts due Operator from time to time under the terms of the Operating Agreement as its share of expense, Non-Operator has granted and does hereby grant to Operator, its successors and assigns, the following:

1. A lien and mortgage covering all of Non-Operator's leasehold, unleased mineral or other working interest in and under the above-referenced lands which are of record as of the effective date hereof or acquired hereafter by Non-Operator.
2. A lien and mortgage covering, and a security interest in, the undivided portion of the equipment located on the above-referenced lands, including fixtures, which is employed in the production of oil and/or gas therefrom and is owned as of the date hereof or hereafter acquired by Non-Operator.
3. A security interest in Non-Operator's undivided portion of the oil and/or gas when extracted from the above-referenced lands and in the accounts arising from the sale by Non-Operator of such oil and gas, and in rights under any gas balancing agreements.
4. A lien and security interest covering all contract rights, general intangibles, interests in partnerships or other associations, and any other interests arising from the development of the above described lands for oil and gas purposes.
5. A lien and security interest covering the proceeds of the sale of any of the collateral referenced in 1-4 above, together with a lien and security interest attaching to the collateral to the extent required to reimburse for any interest, court costs, and attorneys' fees to which a party may be entitled by reason of exercise of any lien or security rights hereunder.

In order to secure payment by Operator from time to time of its share of expense under the above-referenced Operating Agreement, Operator has granted and does hereby grant to Non-Operator and the other parties to said Operating Agreement who execute this instrument a lien and mortgage and a security interest of the same nature and effect as those described in the preceding paragraph.

The minerals or the like (including oil and gas) or accounts described in the preceding paragraphs will be financed at the wellhead or wellheads located on the lands described above. This instrument shall be filed for record in the real estate records of the county or counties named in the land description shown above. The secured party is not a seller or purchase moneylender of the collateral described in items 1-5 above.

Exhibit "F"

**Memorandum of Operating Agreement and
Notice of Lien and Mortgage — Financing Statement
Page 2 of 4**

Furthermore, this Memorandum of Operating Agreement and Notice of Lien and Mortgage — Financing Statement incorporates by reference all other terms and conditions of said Operating Agreement. Said Operating Agreement specifically provides as follows:

1. That a party's ability to freely sell, assign, or transfer interests in land committed to the agreement is restricted or encumbered. These restrictions or encumbrances may include a preferential right to purchase the interest of any party desiring to sell its interest under the agreement, restrictions on the surrender of leases, a maintenance of uniform interest provision, provisions applicable to renewal or extension of leases, provisions applicable to acreage or cash contributions, non-consent provisions, and gas storage and balancing provisions, among others.
2. That each party to the agreement has the right to take-in-kind or separately dispose of its proportionate share of oil and gas produced.
3. That the liability of the parties to the agreement is several, and not joint and collective, with each party being liable only for its proportionate share of costs of developing and operating the contract area.

Should any person or firm desire additional information regarding the Operating Agreement or wish to inspect a copy of same, said person or firm should contact the Operator by writing to: _____

Each party to said Operating Agreement may execute as a Non-Operator a counterpart of this instrument which contains a signature page for such party. Operator may combine the signature pages executed by such parties with the first two pages identical to the first two pages hereof and file and/or record such aggregated instrument.

EXECUTED as of this ____ day of _____, 19____.

_____, Operator

BY: _____

ADDRESS: _____

TAX I.D. No.: _____

EXXON CORPORATION,
Non-Operator

BY: _____

ADDRESS: _____

_____,
Non-Operator

BY: _____

ADDRESS: _____

TAX I.D. NO. OR SOCIAL SECURITY NUMBER:

Non-Operator

BY: _____

ADDRESS: _____

Non-Operator

BY: _____

ADDRESS: _____

STATE OF §

COUNTY OF §

BEFORE ME, the undersigned authority, on this day personally appeared _____, known to me to be the person whose name is subscribed to the foregoing instrument as _____ of _____, a _____, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said _____.

GIVEN UNDER my had and seal of office, this the ____ day of _____ A.D., 19__.

MY COMMISSION EXPIRES: _____

NOTARY PUBLIC IN AND FOR
_____ COUNTY, _____

STATE OF TEXAS §

COUNTY OF MIDLAND §

BEFORE ME, the undersigned authority, on this day personally appeared _____, known to me to be the person whose name is subscribed to the foregoing instrument as _____ of EXXON CORPORATION, a New Jersey Corporation, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said Exxon Corporation.

GIVEN UNDER my had and seal of office, this the ____ day of _____ A.D., 19__.

MY COMMISSION EXPIRES: _____

NOTARY PUBLIC IN AND FOR MIDLAND COUNTY,
TEXAS

Exhibit "H"
Memorandum of Operating Agreement and
Notice of Lien and Mortgage -- Financing Statement
Page 4 of 4

STATE OF §
COUNTY OF §

BEFORE ME, the undersigned authority, on this day personally appeared _____, known to me to be the person whose name is subscribed to the foregoing instrument as _____ of _____, a _____, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said _____.

GIVEN UNDER my had and seal of office, this the ____ day of _____ A.D., 19__.

MY COMMISSION EXPIRES: _____

NOTARY PUBLIC IN AND FOR
_____ COUNTY, _____

STATE OF §
COUNTY OF §

BEFORE ME, the undersigned authority, on this day personally appeared _____, known to me to be the person whose name is subscribed to the foregoing instrument as _____ of _____, a _____, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said _____.

GIVEN UNDER my had and seal of office, this the ____ day of _____ A.D., 19__.

MY COMMISSION EXPIRES: _____

NOTARY PUBLIC IN AND FOR
_____ COUNTY, _____

STATE OF §
COUNTY OF §

BEFORE ME, the undersigned authority, on this day personally appeared _____, known to me to be the person whose name is subscribed to the foregoing instrument as _____ of _____, a _____, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said _____.

GIVEN UNDER my had and seal of office, this the ____ day of _____ A.D., 19__.

MY COMMISSION EXPIRES: _____

NOTARY PUBLIC IN AND FOR
_____ COUNTY, _____

Furthermore, this Memorandum of Operating Agreement and Notice of Lien and Mortgage -- Financing Statement incorporates by reference all other terms and conditions of said Operating Agreement. Said Operating Agreement specifically provides as follows:

1. That a party's ability to freely sell, assign, or transfer interests in land committed to the agreement is restricted or encumbered. These restrictions or encumbrances may include a preferential right to purchase the interest of any party desiring to sell its interest under the agreement, restrictions on the surrender of leases, a maintenance of uniform interest provision, provisions applicable to renewal or extension of leases, provisions applicable to acreage or cash contributions, non-consent provisions, and gas storage and balancing provisions, among others.
2. That each party to the agreement has the right to take-in-kind or separately dispose of its proportionate share of oil and gas produced.
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Should any person or firm desire additional information regarding the Operating Agreement or wish to inspect a copy of same, said person or firm should contact the Operator by writing to Exxon Corporation, through its subsidiary Exxon Company, U.S.A., Attn: Land, at P. O. Box 1600, Midland, TX 79702-1600, or alternatively to Exxon Company, U.S.A., Attn: Land, P. O. Box 2305, Houston, TX 77252-2305.

Each party to said Operating Agreement may execute as a Non-Operator a counterpart of this instrument which contains a signature page for such party. Operator may combine the signature pages executed by such parties with the first two pages identical to the first two pages hereof and file and/or record such aggregated instrument.

EXECUTED as of this ____ day of _____, 19____.

EXXON CORPORATION, Operator

BY: _____

ADDRESS: _____

TAX I.D. No.: _____

Non-Operator

BY: _____

ADDRESS: _____

Non-Operator

BY: _____

ADDRESS: _____

Non-Operator

BY: _____

ADDRESS: _____

Non-Operator

BY: _____

ADDRESS: _____

STATE OF TEXAS §

COUNTY OF MIDLAND §

BEFORE ME, the undersigned authority, on this day personally appeared _____, known to me to be the person whose name is subscribed to the foregoing instrument as _____ of EXXON CORPORATION, a New Jersey Corporation, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said Exxon Corporation.

GIVEN UNDER my had and seal of office, this the ____ day of _____ A.D., 19__.

MY COMMISSION EXPIRES: _____

NOTARY PUBLIC IN AND FOR MIDLAND COUNTY, TEXAS

STATE OF §

COUNTY OF §

BEFORE ME, the undersigned authority, on this day personally appeared _____, known to me to be the person whose name is subscribed to the foregoing instrument as _____ of _____, a _____, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said _____.

GIVEN UNDER my had and seal of office, this the ____ day of _____ A.D., 19__.

MY COMMISSION EXPIRES: _____

NOTARY PUBLIC IN AND FOR _____ COUNTY, _____

STATE OF §
COUNTY OF §

BEFORE ME, the undersigned authority, on this day personally appeared _____, known to me to be the person whose name is subscribed to the foregoing instrument as _____ of _____, a _____, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said _____.

GIVEN UNDER my had and seal of office, this the ____ day of _____ A.D., 19__.

MY COMMISSION EXPIRES:

NOTARY PUBLIC IN AND FOR
COUNTY, _____

STATE OF §
COUNTY OF §

BEFORE ME, the undersigned authority, on this day personally appeared _____, known to me to be the person whose name is subscribed to the foregoing instrument as _____ of _____, a _____, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said _____.

GIVEN UNDER my had and seal of office, this the ____ day of _____ A.D., 19__.

MY COMMISSION EXPIRES:

NOTARY PUBLIC IN AND FOR
COUNTY, _____

**MEMORANDUM OF OPERATING AGREEMENT AND
NOTICE OF LIEN AND MORTGAGE -- FINANCING STATEMENT**

STATE OF §

COUNTY OF §

_____ ("Operator") and the undersigned ("Non-Operator") have entered into an Operating Agreement providing for the development and production of crude oil, natural gas and associated substances, dated _____ 19___, covering the following described lands:

(description of lands)

or

(see Exhibit "A" attached)

The Operating Agreement provides for mutual liens and security interests to secure payment by the parties of their respective share of costs under the Operating Agreement.

Without limiting or superseding the liens and security interests provided for in the Operating Agreement and in order to further secure payment by Non-Operator of amounts due Operator from time to time under the terms of the Operating Agreement as its share of expense, Non-Operator has granted and does hereby grant to Operator, its successors and assigns, the following:

1. A lien and mortgage covering all of Non-Operator's leasehold, unleased mineral or other working interest in and under the above-referenced lands which are of record as of the effective date hereof or acquired hereafter by Non-Operator.
2. A lien and mortgage covering, and a security interest in, the undivided portion of the equipment located on the above-referenced lands, including fixtures, which is employed in the production of oil and/or gas therefrom and is owned as of the date hereof or hereafter acquired by Non-Operator.
3. A security interest in Non-Operator's undivided portion of the oil and/or gas when extracted from the above-referenced lands and in the accounts arising from the sale by Non-Operator of such oil and gas, and in rights under any gas balancing agreements.
4. A lien and security interest covering all contract rights, general intangibles, interests in partnerships or other associations, and any other interests arising from the development of the above described lands for oil and gas purposes.
5. A lien and security interest covering the proceeds of the sale of any of the collateral referenced in 1-4 above, together with a lien and security interest attaching to the collateral to the extent required to reimburse for any interest, court costs, and attorneys' fees to which a party may be entitled by reason of exercise of any lien or security rights hereunder.

In order to secure payment by Operator from time to time of its share of expense under the above-referenced Operating Agreement, Operator has granted and does hereby grant to Non-Operator and the other parties to said Operating Agreement who execute this instrument a lien and mortgage and a security interest of the same nature and effect as those described in the preceding paragraph.

The minerals or the like (including oil and gas) or accounts described in the preceding paragraphs will be financed at the wellhead or wellheads located on the lands described above. This instrument shall be filed for record in the real estate records of the county or counties named in the land description shown above. The secured party is not a seller or purchase money lender of the collateral described in items 1-5 above.

**Memorandum of Operating Agreement and
Notice of Lien and Mortgage -- Financing Statement
Page 2 of 4**

Furthermore, this Memorandum of Operating Agreement and Notice of Lien and Mortgage -- Financing Statement incorporates by reference all other terms and conditions of said Operating Agreement. Said Operating Agreement specifically provides as follows:

1. That a party's ability to freely sell, assign, or transfer interests in land committed to the agreement is restricted or encumbered. These restrictions or encumbrances may include a preferential right to purchase the interest of any party desiring to sell its interest under the agreement, restrictions on the surrender of leases, a maintenance of uniform interest provision, provisions applicable to renewal or extension of leases, provisions applicable to acreage or cash contributions, non-consent provisions, and gas storage and balancing provisions, among others.
2. That each party to the agreement has the right to take-in-kind or separately dispose of its proportionate share of oil and gas produced.
3. That the liability of the parties to the agreement is several, and not joint and collective, with each party being liable only for its proportionate share of costs of developing and operating the contract area.

Should any person or firm desire additional information regarding the Operating Agreement or wish to inspect a copy of same, said person or firm should contact the Operator by writing to: _____

Each party to said Operating Agreement may execute as a Non-Operator a counterpart of this instrument which contains a signature page for such party. Operator may combine the signature pages executed by such parties with the first two pages identical to the first two pages hereof and file and/or record such aggregated instrument.

EXECUTED as of this ____ day of _____, 19____.

_____, Operator

BY: _____

ADDRESS: _____

TAX I.D. No.: _____

EXXON CORPORATION,
Non-Operator

BY: _____

ADDRESS: _____

_____,
Non-Operator

BY: _____

ADDRESS: _____

Non-Operator

BY: _____

ADDRESS: _____

Non-Operator

BY: _____

ADDRESS: _____

STATE OF §

COUNTY OF §

BEFORE ME, the undersigned authority, on this day personally appeared _____, known to me to be the person whose name is subscribed to the foregoing instrument as _____ of _____, a _____, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said _____.

GIVEN UNDER my had and seal of office, this the ____ day of _____ A.D., 19__.

MY COMMISSION EXPIRES: _____

NOTARY PUBLIC IN AND FOR
COUNTY, _____

STATE OF TEXAS §

COUNTY OF MIDLAND §

BEFORE ME, the undersigned authority, on this day personally appeared _____, known to me to be the person whose name is subscribed to the foregoing instrument as _____ of EXXON CORPORATION, a New Jersey Corporation, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said Exxon Corporation.

GIVEN UNDER my had and seal of office, this the ____ day of _____ A.D., 19__.

MY COMMISSION EXPIRES: _____

NOTARY PUBLIC IN AND FOR MIDLAND COUNTY,
TEXAS

Memorandum of Operating Agreement and
Notice of Lien and Mortgage -- Financing Statement
Page 4 of 4

STATE OF §

COUNTY OF §

BEFORE ME, the undersigned authority, on this day personally appeared _____, known to me to be the person whose name is subscribed to the foregoing instrument as _____ of _____, a _____, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said _____.

GIVEN UNDER my had and seal of office, this the ____ day of _____ A.D., 19__.

MY COMMISSION EXPIRES:

NOTARY PUBLIC IN AND FOR
_____ COUNTY, _____

STATE OF §

COUNTY OF §

BEFORE ME, the undersigned authority, on this day personally appeared _____, known to me to be the person whose name is subscribed to the foregoing instrument as _____ of _____, a _____, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said _____.

GIVEN UNDER my had and seal of office, this the ____ day of _____ A.D., 19__.

MY COMMISSION EXPIRES:

NOTARY PUBLIC IN AND FOR
_____ COUNTY, _____

EXXON COMPANY, U.S.A.
POST OFFICE BOX 1600 • MIDLAND, TEXAS 79702-1600

EXPLORATION DEPARTMENT
WESTERN DIVISION

October 11, 1988

AB-88-325 (A)
Salt Lake, S.
Lea County, New Mexico

Mr. Jens Hansen
Bass Enterprises Production Company
1st City Bank Tower
201 Main St.
Ft. Worth, Texas 76102

Mr. Curtis Smith
Texaco Inc.
P. O. Box 3109
Midland, Texas 79702

Exxon is proceeding under the Unitization Statutes of New Mexico to pool the W2 Section 32 T20S-R33E. I presume that the formal hearing for pooling will be held sometime in November, 1988.


Joe B. Thomas
Trades and Unitization
(915) 683-0236

JBT1/b/slr

bxc: Bill Duncan
Ben Gregson
Doug R. Laufer

Mr. Jim Bruce
Hinkle, Cox, Eaton, Coffield & Hensley
6 Desta Drive
Midland, Texas 79705

Mr. Bruce: Please proceed with the force pooling application.

EXXON COMPANY, U.S.A.
POST OFFICE BOX 1600 • MIDLAND, TEXAS 79702-1600

EXPLORATION DEPARTMENT
WESTERN DIVISION

October 18, 1988

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

AB-88-325 (A)
Salt Lake, S.
Lea County, New Mexico

Mr. Jens Hansen
Bass Enterprises Production Company
1st City Bank Tower
201 Main St.
Ft. Worth, Texas 76102

Mr. Curtis Smith
Texaco Producing, Inc.
P. O. Box 3109
Midland, Texas 79702

Exxon has applied to the New Mexico Oil Conservation Division for compulsory pooling of all formations from the surface to the base of the Morrow formation underlying the W/2 of Section 32, Township 20 South, Range 33 East, Lea County, New Mexico, as described in the application attached hereto. This hearing will be held on Wednesday, November 9, at 8:15 a.m. in Santa Fe, New Mexico. The offices of the Oil Conservation Division are located on the second floor of the State Land Office Building, located at the intersection of Alameda and Old Santa Fe Trail in Santa Fe. Failure to appear at that time will foreclose any protest by you.

Very truly yours,

EXXON CORPORATION

By:



Joe B. Thomas

JBT3/b/slr

Attachment

bc: D. J. Andrews
Bill Duncan
D. R. Laufer
James Bruce (Albuquerque)
Conrad Coffield (Midland)

PS Form 3811, Jan. 1979

RETURN RECEIPT, REGISTERED, INSURED AND CERTIFIED MAIL

● SENDER: Complete items 1, 2, and 3.
Add your address in the "RETURN TO" space on reverse.

1. The following service is requested (check one.)
 Show to whom and date delivered.....
 Show to whom, date and address of delivery.....
 RESTRICTED DELIVERY
 Show to whom and date delivered.....
 RESTRICTED DELIVERY.
 Show to whom, date, and address of delivery \$ _____
 (CONSULT POSTMASTER FOR FEES)

2. ARTICLE ADDRESSED TO:
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D. Higgins

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PS Form 3811, Jan. 1979

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☆GPO : 1979-300-459

STATE OF NEW MEXICO
ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 9520
Order No. R-8790

APPLICATION OF EXXON CORPORATION
FOR COMPULSORY POOLING, LEA
COUNTY, NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on November 9, 1988, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 30th day of November, 1988, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

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

(2) The applicant, Exxon Corporation, seeks an order pooling all mineral interests from the surface to the base of the Undesignated South Salt Lake-Morrow Gas Pool underlying the W/2 of Section 32, Township 20 South, Range 33 East, NMPM, Lea County, New Mexico, forming a standard 320-acre spacing and proration unit for any and all formations and/or pools within said vertical limits developed on 320-acre spacing.

(3) At the time of the hearing, it was determined that the proposed well, which is to be dedicated to the above described proration unit, is located at an unorthodox gas well location 1980 feet from the North line and 1420 feet from the West line (Unit F) of said Section 32.

(4) The applicant has the right to drill and proposes to drill a well at the above described unorthodox gas well location.

(5) Prior to commencing drilling operations, the applicant should be required to obtain Division approval for the above described unorthodox gas well location.

(6) There are interest owners in the proposed proration unit who have not agreed to pool their interests.

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

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

(9) Any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(10) Any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(11) Any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(12) Following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(13) The applicant proposed that overhead rates of \$6068.00 per month while drilling and \$660.00 per month while producing be fixed as reasonable charges for supervision (combined fixed rates).

(14) Average overhead rates obtained from Ernst & Whinney 1988 Survey of Combined Fixed-Rate Overhead Charges for Oil and Gas Producers are substantially lower than those proposed by the applicant.

(15) The overhead rates proposed by the applicant should be adjusted to reflect amounts more in line with current industry averages.

(16) \$5500.00 per month while drilling and \$550.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

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

(18) Upon the failure of the operator of said pooled unit to commence the drilling of the well to which said unit is dedicated on or before March 1, 1989, the order pooling said unit should become null and void and of no effect whatsoever.

(19) Should all the parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(20) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, from the surface to the base of the Morrow formation underlying the W/2 of Section 32, Township 20 South, Range 33 East, NMPM, Undesignated South Salt Lake-Morrow Gas Pool, Lea County, New Mexico, are hereby pooled to form a standard 320-acre gas spacing and proration unit for any and all formations and/or pools within said vertical limits developed on 320-acre spacing, said unit to be dedicated to a well to be drilled at a proposed unorthodox gas well location 1980 feet from the North line and 1420 feet from the West line (Unit F) of said Section 32.

PROVIDED HOWEVER, the operator of said unit shall commence the drilling of said well on or before the 1st day of March, 1989, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 1st day of March, 1989, Ordering Paragraph No. (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER THAT, should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Ordering Paragraph No. (1) of this order should not be rescinded.

(2) Prior to commencing drilling operations on the subject well, the applicant shall be required to obtain Division approval for the above described unorthodox gas well location.

(3) Exxon Corporation is hereby designated the operator of the subject well and unit.

(4) After the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(5) Within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(6) The operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(7) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated well costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(8) The operator is hereby authorized to withhold the following costs and charges from production:

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(9) The operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(10) \$5500.00 per month while drilling and \$550.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures

required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(11) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

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

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

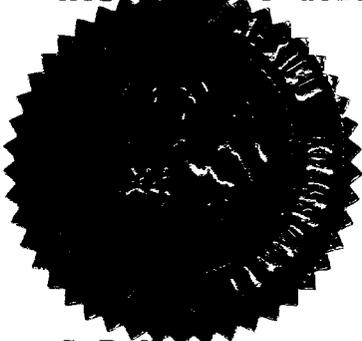
(14) Should all parties to this forced pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(15) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

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

CASE NO. 9520
Order No. R-8790
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DONE at Santa Fe, New Mexico, on the day and year
hereinabove designated.



S E A L

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

WILLIAM J. LEMAY
Director