ADAMS AND REESE LLP

Attorneys at Law
Baton Rouge
Houston
Jackson
Mobile
New Orleans
Washington, DC

Robin B. Cheatham
(504) 585-0411
cheathamrb@arlaw.com

T-6
2057

August 5, 1999

Minerals Management Service
1201 Elmwood Park Blvd.
New Orleans, LA 70123

AUG 5 1999

Re: Filing Request
Eugene Island 281
Eugene Island 282
Grand Isle 82
High Island 195
Matagorda Island 687
South Timbalier 143
South Timbalier 144
South Timbalier 166
South Timbalier 221
~~Vermilion 16~~
Vermilion 131
Vermilion 257
Vermilion 284
West Cameron 607

Dear Sir:

Enclosed is an original and one (1) copy of an Operator's Oil Well Lien Affidavit and Notice of Claim of Lien and/or Lien Affidavit of each of the properties listed above for filing in your records. Please return to me a stamped copy for my records. Also, enclosed is our check

in order to cover your charges for these services.

Thank you for your assistance in this matter. If you have any questions, please do not hesitate to contact me.

Yours very truly,

ADAMS AND REESE, L.L.P.

Robin B. Cheatham

RBC:jrb
Enclosures

T-6
5259

GRAND ISLAND
BLOCK 82
OCS-G-5659
OPERATOR APACHE CORPORATION

OPERATOR'S OIL WELL LIEN AFFIDAVIT AND NOTICE OF CLAIM OF LIEN

STATE OF TEXAS

COUNTY OF HARRIS

BEFORE ME, the undersigned authority, personally came and appeared:

Genie Panaccione, Assistant Treasurer of Apache Corporation

who, after being duly sworn, did depose and say:

He is the Agent and Attorney-in-Fact of Apache Corporation ("Apache"), whose address is 2000 Post Oak Blvd., Suite 100 Houston, TX 77056-4400, that he is duly authorized to make and is making this affidavit for and on behalf of Apache; that Apache is the Operator of the lease described herein, that pursuant to a certain Joint Operating Agreement ("JOA"), Forcenergy, Inc. and/or Forcenergy Resources, Inc. ("Forcenergy"), 3838 N. Causeway Blvd., Suite 2300, Metairie, LA 70002 agreed to pay Apache for labor, equipment and other services, including but not limited to lease operating expenses ("LOE") as more particularly described in the Joint Operating Agreements and Authorization for Expenditures (AFE) attached hereto and incorporated herein, rendered prior to December, 1998 through April, 1999, for or in connection with the drilling and/or exploration and/or operation and/or maintenance of oil and/or gas wells located on the Outer Continental Shelf, offshore Louisiana in Grand Island, Block 82, OCS-G 5659 (the "Lease"); that the labor, equipment and other services, including LOE and AFE that were supplied for and in connection with the drilling, construction, repair, maintenance or operation of oil and gas wells, that Forcenergy has not paid Apache for the services, and that there is presently due Apache and the owners of the leasehold interest, the full sum of $167,827.99, plus any and all further and additional sums, obligations or liabilities and expenses due pursuant to the JOA including but not limited to any and all amounts for plugging and abandonment of wells, structures, pipelines, platforms; any and all imbalances for gas, oil or condensate and any and all AFEs; plus interest, all pursuant to the JOA attached hereto and made a part hereof; and that at all relevant times hereto, the labor, equipment and other services, including, but not limited to LOEs and AFEs were used for or in connection with the drilling and/or

exploration and/or operation and/or maintenance of oil and/or gas wells located on the Outer Continental Shelf, offshore Louisiana in Grand Island, Block 82, bearing Lease # OCS-G 5659 and were used in connection with oil and gas production on the Lease. That Forcenergy, Inc. and Forcenergy Resources, Inc. did file bankruptcy proceedings pursuant to Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court, Eastern District of Louisiana bearing docket numbers 99-11391"A" and 99-11392"A".

That this Oil Well Lien Affidavit and Notice of Claim of Lien is being made in accordance with La. R.S. 9:4861, et seq., and all other applicable laws for the purposes of preserving the liens and privileges granted by law to Apache against the interest of Forcenergy in and to the Lease set forth herein, and on all oil or gas produced from the well or wells and the proceeds thereof inuring to the working interest therein, and on the oil or gas well or wells and the Lease whereon the same are located, and on all drilling rigs, standard rigs, platforms, machinery, appurtenances, appliances, equipment, buildings, tanks, and other structures and related equipment, attached thereto or located on the Lease, for the amount due for the cost of preparing and recording the privilege, as well as (10%) attorneys fees in the event it becomes necessary to employ an attorney to enforce collection.

Affiant reserves the right to amend this lien affidavit in the event additional sums are determined to be due.

The Affiant further declares that he is causing this Oil Well Lien Affidavit and Notice of Claim of Lien to be filed in the Mortgage Records of the Parish of Jefferson, State of Louisiana.

APACHE CORPORATION

BY: Gwin S. Panarello DDR

Agent and Attorney-in-Fact

SWORN TO AND SUBSCRIBED BEFORE ME THIS 6th DAY OF July, 1999.

Terri R. Caldwell
NOTARY PUBLIC

TERRI R. CALDWELL
NOTARY PUBLIC
State of Texas
Comm. Exp. 09/23/99

FILE INFORMATION: File #: 000069

Description....:	GRAND ISLE AREA BLK 81 & 82 OA
Status.....:	ACTIVE STATUS
Reference.....:	HALL-HOUSTON OIL COMPANY
File Type.....:	OPERATING AGREEMENT
Country.....:	UNITED STATES
Location.....:	LOUISIANA
Mineral Type...:	O / G
Stage Code.....:	Approved
Originator.....:	OUTSIDE PARTY
File Location..:	CORP LAND ADM DOC CONT
# of Subsects..:	0
Agency #.....:	

D A T E S:

APPROVED DATE.....:	07/23/1998	By: Norma Kunze
LAST FILE ACTIVITY.....:	07/23/1998	By: Norma Kunze
CONTRACT DATE.....:	06/01/1988	By: Norma Kunze
FILE CREATED IN SYSTEM.....:	07/22/1998	By: Norma Kunze
EFFECTIVE DATE.....:	05/01/1988	By: Norma Kunze

A C R E A G E:

GROSS ACRES.....:	5,750.000 ACRES
NET ACRES.....:	0.000 ACRES
COMPANY NET ACRES.....:	0.000 ACRES

O R G A N I Z A T I O N:

LEASEDATA SECURITY CONTROL (LD)
ENTITY - APACHE (ENT001)

LEASEDATA PROSPECT (PRO)
ENTITY - APACHE (ENT001)
REGION - OFFSHORE (RGN007)
PROSPECT - GRAND ISLE 82 (OL3010)

AF 1291

S U B S E C T I O N P R O F I L E

SUB	TYPE	S	A?	SU ORGANIZATION	GRS ACRES CO NET ACRES	NET ACRES CO NET DV ACRES

***** NO TRACTS FOUND *****

P A R T I C I P A T I O N:

INTEREST TYPE PARTNER	EFFECTIVE	TERMINATED	ADDRESS ID	OPERATOR?	INTEREST
WORKING INTEREST CORNERSTONE ENERGY CORP 2121 SAGE SUITE 300, HOUSTON,TX 77056	05/01/1988		4600334		0.25000000
WORKING INTEREST BALANCING INTEREST	05/01/1988		8888888		0.12500000
WORKING INTEREST HALL-HOUSTON OIL COMPANY 700 LOUISIANA, SUITE 2100, HOUSTON,TX 77002	05/01/1988		9008435	Operator	0.50000000
WORKING INTEREST RIDGEWOOD ENERGY 1988-III 947 LINWOOD AVE, RIDGEWOOD,NJ 07450	05/01/1988		6500051		0.12500000
***** TOTAL INTEREST					1.00000000

L E G A L D E S C R I P T I O N:

ST COUNTY
DETAIL

LA OFFSHORE GRAND ISLE AREA Blk #82

Remark Dated:07/23/1998 LEGAL DESCRIPTION
GRAND ISLE AREA, BLOCK 82: NW/4 & S2

GROSS ACRES.....:	5,750.00 ACRES
NET ACRES.....:	0.00 ACRES
COMPANY NET ACRES.....:	0.00 ACRES

LA OFFSHORE GRAND ISLE AREA Blk #82

GROSS ACRES.....:	5,750.00 ACRES
NET ACRES.....:	0.00 ACRES
COMPANY NET ACRES.....:	0.00 ACRES

D E P T H I N T E R V A L S :

FROM	TO

AF 1292

DEPTH	INDICATOR	FORMATION	DEPTH	INDICATOR	FORMATION	UNIT

***** NO DEPTHS FOUND *****

P R O V I S I O N S:

DESCRIPTION	RESPONSE	VALUE	U/M	LOCATION	PAGE
OPERATING AGREEMENT FORM (AAPL	COM				
TEST WELL (Y/N; DEPTH)	N		FT		
PRODUCTION IN KIND (Y/N)	Y				
OPERATOR PAYS LSE RN, MR, SI (	Y				
MAINTENANCE OF UNIFORM INT (Y/N	N				
AREA OF MUTUAL INTEREST (Y/N)	N				
PREFERENTIAL RIGHT TO PURCHASE	N				
DEPTH RESTRICTIONS (Y/N)	N				
CROSS-ASSIGNMENTS REQUIRED (Y/N	N				
GAS BALANCING ATTACHED (Y/N)	Y				
DRILL OR REWORK RESPONSE TIME (	Y	30	DYS		
DRILL OR REWORK RESPONSE TIME (	Y	24	HRS		
ABANDON DRY HOLE RESPONSE TIME	N		HRS		
ABANDON PRODUCED WL RESPONSE TI	Y	30	DYS		
PENALTY CATEGORY RECOVERY %					
Payout Bal Forward N/C Always		100	%		
Payout Bal Forward N/S Always		100	%		
Expl-Non-Consent Drill/Comple		800	%		
Expl-Non-Sig Drill/Comp (100%		100	%		
Expl-Non-Consent Surface Equi	N		%		
Expl-Non-Sig Surface Equip (1			%		
Expl-Non-Consent Subsurface E		800	%		
Expl-Non-Sig Subsurface Equip		100	%		
Expl-Non-Consent Platform Con		500	%		
Expl-Non-Sig Platform Const (		100	%		
Expl-Non-Consent Platform/Pip		200	%		
Expl-Non-Sig Platform/PL (100		100	%		
Expl-Non-Consent LOE		100	%		
Expl-Non-Sig LOE (100%)		100	%		
Dev-Non-Consent Drill/Complet		500	%		
Dev-Non-Sig Drill/Comp (100%)		100	%		
Dev-Non-Consent Surface Equip	N		%		
Dev-Non-Sig Surface Equip (10			%		
Dev-Non-Consent Subsurface Eq		500	%		
Dev-Non-Sig Subsurface Equip		100	%		
Dev-Non-Consent Platform Cons		500	%		
Dev-Non-Sig Platform Const (1		100	%		
Dev-Non-Consent Platform/Pipe		200	%		
Dev-Non-Sig Platform/PL (100%		100	%		
Dev-Non-Consent LOE		100	%		
Dev-Non-Sig LOE (100%)		100	%		
Production Facilities Non-Con		500	%		
Production Facilities Non-Sig		100	%		
COST CALCS - STEPPED RATE OVERH					
Construction Rule		CON004			
Exclusion Construction Acct		DRL_WO_ALIFT			
Catastrophic Rule		CAT002			
Exclusion Catastrophic Acct					
COST CALCS - PERCENTAGE OVERHEA					

AF 1293

Percent 1	N		%
Exclusion Percent 1 Acct			
Percent 2	N		%
Exclusion Percent 2 Acct			

COST CALCS - COST CALCULATION D

Remark Dated: 07/23/1998 PROVISIONS - COPAS
IN THE EVENT OPER. CHG. ENG. DES. & DRAFTING COSTS TO
JOINT ACCT. RULE CON001

Escalatable	Y		
Flat Rate			$

PRODUCING STATISTICAL RATIO ASS

Prod Stat Ratio - 1	PROD	
Producing Rate	3,387.61	$

DRILLING STATISTICAL RATIO ASSI

Drilling Days from Prior Peri	Y	
Drilling Days Stat Ratio - 1	DRILL	
Drilling Rate	33,876.15	$
Drilling Montly Rate	N	

O B L I G A T I O N S:

START DATE	FREQUENCY	END DATE	LAST MET	RESPONSIBILITY

***** NO OBLIGATIONS FOUND *****

C R O S S R E F E R E N C E S:

XREF TO	IDENTIFIER DESCRIPTION		FILE TYPE FILE STATUS
CONTRACT NUMBER	OL3010C002 OPERATING AGMT	05/01/88	CRS
CONTRACT NUMBER	OL3010C003 FARMOUT AGREEMENT	05/06/88	CRS
CONTRACT NUMBER	OL3010C004 PART AGREEMENT	05/25/88	CRS
CONTRACT NUMBER	OL3010C007 PART AGREEMENT	05/25/88	CRS
CONTRACT NUMBER	OL3010C008 PART AGREEMENT	05/25/88	CRS
CONTRACT NUMBER	OL3010C009 PURCHASE AND SALE	11/05/93	CRS
CONTRACT NUMBER	OL3010C010 PURCHASE AND SALE	12/15/93	CRS
CONTRACT NUMBER	OL3010C013 FARMOUT AGREEMENT DTD 3-28-98(BEL 9889)		
SAP JOA CLASS CODE	08 COPAS 1986 (OFFSHORE)		

AF 1294

PROPERTY NUMBER	0011600-01 GRAND ISLE 82	LSC
PROPERTY NUMBER	0011600-03 GRAND ISLE 82 A-5	
PROPERTY NUMBER	0011600-04 GRAND ISLE 82 A #3 & #4	LSC
PROPERTY NUMBER	0011600-05 GRAND ISLE BLOCK 82 A-6	

D O C U M E N T S:

***** NO DOCUMENTS FOUND *****

*** END OF REPORT ***

000069

FILE# OL 3010 C002

DESCRIPTION GRAND ISLE AREA BLOCKS 81 & 82 BLOCK 82
0011600 - 01
-03
-04
-05

FILE TYPE OA

REFERENCE HALL-HOUSTON OIL COMPANY

LOCATION (ST) LA

COUNTRY US

MINERAL TYPE O/G

ORIGINATOR OSP

FILE LOCATION CLA

ACREAGE INFORMATION: GROSS 5750

CONTRACT DATE 06/01/88 **EFF DATE** 05/01/88

ORGANIZATION INFO:

LEASEDATA PROSPECT GRAND ISLE 82

LEASEDATA ENTITY APACHE (ENT) 001

ORIGINAL PARTIES TO AGREEMENT:

PARTICIPANT #1

TYPE WI **INTEREST** .50

PARTICIPANT HALL-HOUSTON OIL COMPANY

EFF DATE _____ **TERMINATE DATE** _____

OPERATOR: (Y) N **REFERENCE:** (Y) N

PARTICPANT #2

AF 1296

TYPE WI **INTEREST** .25

PARTICIPANT Cornerstone Energy Corporation

EFF DATE _____ **TERMINATE DATE** 2121 Sage, Suite 380 Houston

OPERATOR Y N **REFERENCE** Y N

7/14/98

Pg 6 for #4

PARTICPANT #3

TYPE WI **INTEREST** .125

PARTICIPANT Ridgewood Energy Corporation

EFF DATE _____ **TERMINATE DATE** 947 Linwood Ave Ridgewood, N. J.

OPERATOR Y N **REFERENCE** Y N

LEGAL DESCRIPTION:

SURVEY TYPE _____ **STATE** LA **COUNTY** OFFSHORE

DESCRIPTION (INCLUDE DEPTH RESTRICTIONS) _____

Grand Isle Area, Block 82 ; NW^4 And S^2

GROSS ACS 5750

PROVISIONS – JOA MODEL

OPERATING AGREEMENT FORM Company

TEST WELL Y (N) **DEPTH** _____

PRODUCTION IN KIND (Y) N

OPERATOR PAYS RENTAL, SI, MR (Y) N

MAINTENANCE OF UNIFORM INTEREST Y (N)

AREA OF MUTUAL INTEREST Y (N)

PREFERENTIAL RIGHT TO PURCHASE Y (N)

DEPTH RESTRICTIONS Y (N) _____

CROSS-ASSIGNMENTS REQUIRED Y (N)

GAS BALANCING AGREEMENT (Y) N

PROPOSED OPERATION RESPONSE TIME:

DRILL OR REWORK RIG IS ON SITE 30 DAYS OR 24 HRS IF

ABANDON DRY HOLE _____ HRS

ABANDON WELL THAT HAS PRODUCED 30 DAYS

PROVISIONS – SAP MODEL

NON-CONSENT PENALTY CATEGORIES:

SURFACE EQUIPMENT (EXPL) _____ %

WELL OPERATING COST – LOE (EXPL) 100 %

DRLG, REWORKING, P&A, ETC (EXPL) 800 %

SUBSURFACE EQUIPMENT (EXPL) 800 %

PLATFORM CONSTRUCTION (EXPL) 500 %

PLATFORM EXISTING (EXPL) 200 %

FACILITIES (EXPL) 500 %

SURFACE EQUIPMENT (DEV) _____ %

WELL OPERATING COST – LOE (DEV) 100 %

DRLG, REWORKING, P&A, ETC (DEV) 500 %

SUBSURFACE EQUIPMENT (DEV) 500 %

PLATFORM CONSTRUCTION (DEV) 500 %

PLATFORM – EXISTING (DEV) 200 %

FACILITIES (DEV) 500 %

MAJOR CONSTRUCTION CON004

THRESHOLD A: 6 % > $ 25,000 < $ 100,000

THRESHOLD B: 4 % > $ 100,000 < $ 4,000,000

THRESHOLD C: 2 % > $ 4,000,000

AF 1298

EXCLUDED COSTS Y N IF Y, WHAT _____

(OFFSHORE) CON001

THRESHOLD D: 5 % > $ 25,000 < $ 100,000

THRESHOLD E: 3 % > $ 100,000 < $ 1,000,000

THRESHOLD F: 2 % > $ 1,000,000

EXCLUDED COSTS (Y) N IF Y, WHAT Drlg & WO Wells AND Artificial Lift Equipment

CATASTROPHIC OVERHEAD CAT002

THRESHOLD A: 6 % ≤ $ 100,000

THRESHOLD B: 4 % > $ 100,000 < $ 1,000,000

THRESHOLD C: 2 % > $ 1,000,000

EXCLUDED COSTS Y (N) IF Y, WHAT _____

OVERHEAD

PERCENTAGE RATE Y N

DEVELOPMENT _____ %

OPERATING _____ %

FIXED RATE: (Y) N

DRILLING WELL RATE $ 22,000 $33,876.15

PRODUCING WELL RATE $ 2,200 $ 3387.61

ADJUSTABLE WELL RATE (Y) N

OBLIGATION #1

TYPE _____

START DATE _____ FREQ _____ END DATE _____

LAST MET _____ RESPONSIBILITY: LAND _____ PROD _____

OBLIGATION #2

TYPE _____

START DATE _____ FREQ _____ END DATE _____

LAST MET_____ RESPONSIBILITY: LAND _____ PROD _____

CROSS-REFERENCES (COPAS FORM, PROPERTY #, WELLZONE #, LEASES, OLD JOA CONTRACT #, ETC)

CROSS REFERENCE #1

TYPE ____SAP JOA CLASS CODE_____IDENTIFIER___(CLICK ON RETRIEVE)__

DESCRIPTION (COPAS FORM /YR/ON/OFFSHORE)___1986 OFFSHORE_____

CROSS-REFERENCE #2

TYPE _____ IDENTIFIER _____

DESCRIPTION _____

CROSS-REFERENCE #3

TYPE _____ IDENTIFIER _____

DESCRIPTION _____

CROSS –REFERENCE #4

TYPE _____ IDENTIFIER _____

DESCRIPTION _____

DOCUMENT #1

TYPE _____

ST OF REC _____ CO OF REC_____REC_____

DESCRIPTION _____

DOCUMENT #2

TYPE _____

ST OF REC _____ CO OF REC _____ REC _____

DESCRIPTION_____

PARTICIPANT # 4

TYPE WI INTEREST .125

PARTICIPANT Sandpoint Petroleum, INC

DATE _____ EFF TERMINATE DATE 500 Marquette, N.W. Suite 650 Albuquerque, N.M.

OPERATOR Y N REFERENCE Y N

PARTICIPANT # ___

TYPE _____ INTEREST _____

PARTICIPANT _____

EFF DATE _____ TERMINATE DATE _____

OPERATOR Y N REFERENCE Y N

PARTICIPANT # ___

TYPE _____ INTEREST _____

PARTICIPANT _____

DATE _____ EFF TERMINATE DATE _____

OPERATOR Y N REFERENCE Y N

PARTICIPANT # ___

TYPE _____ INTEREST _____

PARTICIPANT _____

EFF DATE _____ TERMINATE DATE _____

OPERATOR Y N REFERENCE Y N

PARTICIPANT # ___

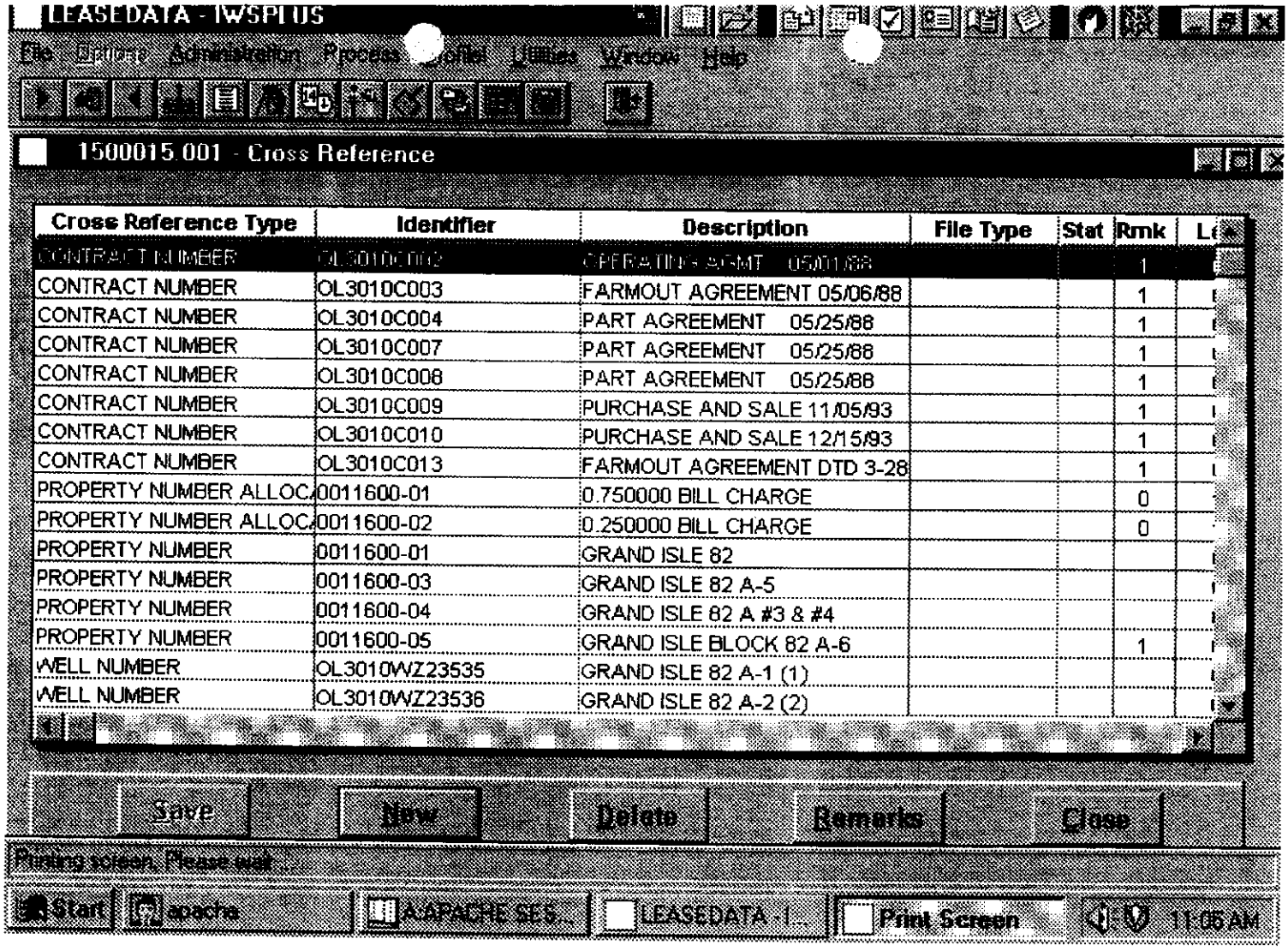
TYPE _____ INTEREST _____

PARTICIPANT _____

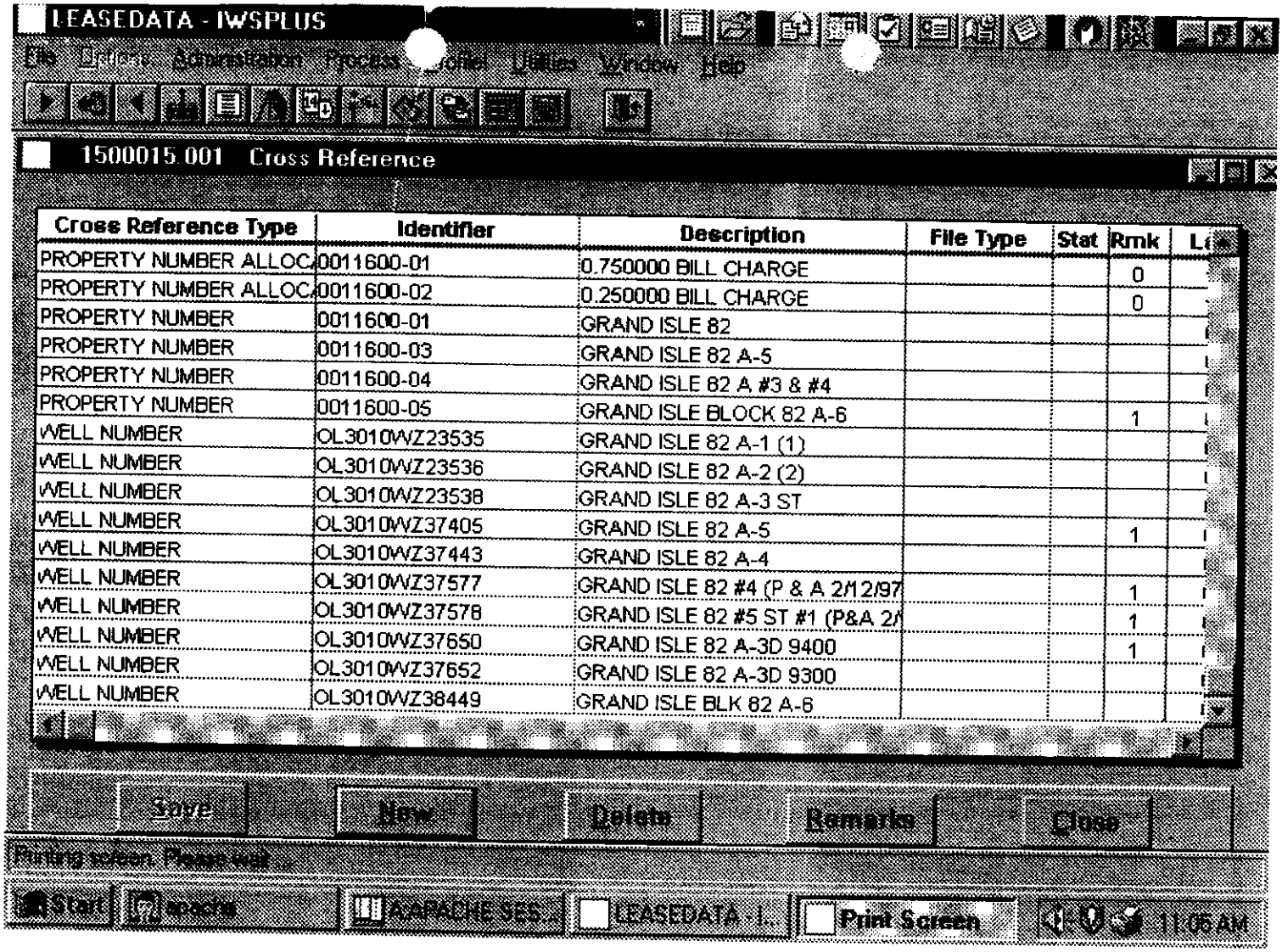
EFF DATE _____ TERMINATE DATE _____

OPERATOR Y N REFERENCE Y N

AF 1301


LEASEDATA - IWSPLUS
File Options Administration Process Profiles Utilities Window Help
1500015 001 - Cross Reference
Cross Reference Type | Identifier | Description | File Type | Stat | Rmk | Lt
CONTRACT NUMBER | OL3010C002 | OPERATING AGMT 05/01/88 | | | 1 |
CONTRACT NUMBER | OL3010C003 | FARMOUT AGREEMENT 05/06/88 | | | 1 |
CONTRACT NUMBER | OL3010C004 | PART AGREEMENT 05/25/88 | | | 1 |
CONTRACT NUMBER | OL3010C007 | PART AGREEMENT 05/25/88 | | | 1 |
CONTRACT NUMBER | OL3010C008 | PART AGREEMENT 05/25/88 | | | 1 |
CONTRACT NUMBER | OL3010C009 | PURCHASE AND SALE 11/05/93 | | | 1 |
CONTRACT NUMBER | OL3010C010 | PURCHASE AND SALE 12/15/93 | | | 1 |
CONTRACT NUMBER | OL3010C013 | FARMOUT AGREEMENT DTD 3-28 | | | 1 |
PROPERTY NUMBER ALLOC | 0011600-01 | 0.750000 BILL CHARGE | | | 0 |
PROPERTY NUMBER ALLOC | 0011600-02 | 0.250000 BILL CHARGE | | | 0 |
PROPERTY NUMBER | 0011600-01 | GRAND ISLE 82 | | | |
PROPERTY NUMBER | 0011600-03 | GRAND ISLE 82 A-5 | | | |
PROPERTY NUMBER | 0011600-04 | GRAND ISLE 82 A #3 & #4 | | | |
PROPERTY NUMBER | 0011600-05 | GRAND ISLE BLOCK 82 A-6 | | | 1 |
WELL NUMBER | OL3010WZ23535 | GRAND ISLE 82 A-1 (1) | | | |
WELL NUMBER | OL3010WZ23536 | GRAND ISLE 82 A-2 (2) | | | |
Save
New
Delete
Remarks
Close
Printing screen. Please wait...
Start
apache
A:APACHE SES...
LEASEDATA - I...
Print Screen
11:05 AM

AF 1302


LEASEDATA - IWSPLUS
File Query Administration Process Profile Utilities Window Help
1500015.001 Cross Reference
Cross Reference Type | Identifier | Description | File Type | Stat | Rmk
PROPERTY NUMBER ALLOC | 0011600-01 | 0.750000 BILL CHARGE | 0
PROPERTY NUMBER ALLOC | 0011600-02 | 0.250000 BILL CHARGE | 0
PROPERTY NUMBER | 0011600-01 | GRAND ISLE 82
PROPERTY NUMBER | 0011600-03 | GRAND ISLE 82 A-5
PROPERTY NUMBER | 0011600-04 | GRAND ISLE 82 A #3 & #4
PROPERTY NUMBER | 0011600-05 | GRAND ISLE BLOCK 82 A-6 | 1
WELL NUMBER | OL3010WZ23535 | GRAND ISLE 82 A-1 (1)
WELL NUMBER | OL3010WZ23536 | GRAND ISLE 82 A-2 (2)
WELL NUMBER | OL3010WZ23538 | GRAND ISLE 82 A-3 ST
WELL NUMBER | OL3010WZ37405 | GRAND ISLE 82 A-5 | 1
WELL NUMBER | OL3010WZ37443 | GRAND ISLE 82 A-4
WELL NUMBER | OL3010WZ37577 | GRAND ISLE 82 #4 (P & A 2/12/97 | 1
WELL NUMBER | OL3010WZ37578 | GRAND ISLE 82 #5 ST #1 (P&A 2/ | 1
WELL NUMBER | OL3010WZ37650 | GRAND ISLE 82 A-3D 9400 | 1
WELL NUMBER | OL3010WZ37652 | GRAND ISLE 82 A-3D 9300
WELL NUMBER | OL3010WZ38449 | GRAND ISLE BLK 82 A-6
Save New Delete Remarks Close
Printing screen. Please wait...
Start spectra A:\APACHE SES... LEASEDATA - I... Print Screen 11:05 AM

AF 1303

00069

00011600 - 01
- 03
- 04
- 05

Grand Isle Block 81

OFFSHORE OPERATING AGREEMENT

EFFECTIVE MAY 1, 1988

OCS-G 5658 AND OCS-G 5659

BLOCK 81 AND BLOCK 82

GRAND ISLE AREA

OFFSHORE LOUISIANA

AF 1304

OFFSHORE OPERATING AGREEMENT

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ARTICLE 11
DEVELOPMENT WELL OPERATIONS

ARTICLE 12
NON-CONSENT OPERATIONS

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LIABILITY, CLAIMS, AND LAWSUITS

ARTICLE 20
INTERNAL REVENUE PROVISION

ARTICLE 21
CONTRIBUTIONS

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ARTICLE 23
APPLICABLE LAW

ARTICLE 24
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TERM

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OFFSHORE OPERATING AGREEMENT

GRAND ISLE AREA, BLOCK 81 AND BLOCK 82

OCS-G 5658 AND OCS-G 5659

OFFSHORE LOUISIANA

GULF OF MEXICO

THIS AGREEMENT, entered into effective as of the 1st day of May, 1988, by and between the signers hereof, sometimes hereinafter called the parties, and HALL-HOUSTON OIL COMPANY, sometimes hereinafter called "Hall" or "Operator".

WITNESSETH:

WHEREAS, the parties are the owners, in the same proportion as their respective interests hereunder appear in Exhibit "A", hereof, of the Oil and Gas Lease, which for convenience is hereinafter referred to as "Lease".

AND, WHEREAS, the parties and Hall-Houston Oil Company mutually desire to enter into this Agreement to explore, develop, produce and operate said lease.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements herein contained to be observed, kept and performed by the Parties hereto, respectively, it is agreed by and between them as follows, to wit:

ARTICLE 1

APPLICATION

1.1 Application to Each Lease. If more than one oil and gas lease is identified in Exhibit "A", this Agreement shall apply separately to each such lease.

ARTICLE 2

DEFINITIONS

2.1 Development Operations. Operations subsequent to the date on which two (2) or more Parties, having combined Working Interest of fifty-one percent (51%) or more, determine that production capability sufficient to justify development has been established; in no event shall such date be subsequent to the date on which construction of a platform is approved.

AF 1309

2.2 Development Well. Any well proposed as a Development Operation.

2.3 Exploration Operations. Operations prior to Development Operations.

2.4 Exploration Well. Any well proposed as an Exploratory Operation.

2.5 Facilities. All lease equipment beyond the wellhead connections acquired pursuant to this Agreement.

2.6 Lease. Each oil and gas lease identified in Exhibit "A" and the lands affected thereby.

2.7 Non-Consent. As used in conjunction with "Well", "Operation", "Drilling Platform" or "Production Platform" or other facilities or property, means participation in the particular operation or ownership of the particular facilities or property involved by less than all of the Parties hereto.

2.8 Non-Operator. Any Party to this agreement other than the Operator.

2.9 Non-Participating Party. Any Party other than the Participating Party (Parties).

2.10 Non-Participating Party's Share. The Participating Interest a Non-participating Party would have had if all Parties had participated in the operation.

2.11 Operator. The party designated under this Agreement to conduct Exploratory and Development Operations.

2.12 Participating Interest. A Participating Party's percentage of participation in an operation conducted pursuant to this Agreement.

2.13 Participating Party. A Party who joins in an operation conducted pursuant to this Agreement.

2.14 Producible Well. A well producing oil or gas, or, if not producing oil or gas, a well determined to be capable of producing oil and gas in paying quantities pursuant to any applicable order issued by appropriate governmental authority; however, any well shall be considered a Producible Well if so determined by two (2) or more Parties having a combined Working Interest of fifty-one percent (51%) or more.

2.15 Working Interest. The ownership of each Party in and to the Lease as set forth in Exhibit "A".

ARTICLE 3

EXHIBITS

3.1 Exhibits. Attached hereto are the following Exhibits which are incorporated herein by reference:

3.1.1 Exhibit A. Description of Leases.

3.1.2 Exhibit B. Insurance Provisions.

3.1.3 Exhibit C. Accounting Procedure.

3.1.4 Exhibit D. Non-Discrimination Provisions.

3.1.5 Exhibit E. Gas Balancing Agreement.

ARTICLE 4

OPERATOR

4.1 Operator. Hall-Houston Oil Company is hereby designated as Operator.

4.2 Resignation. Operator may resign at any time by giving notice to the parties. Such resignation shall become effective at 7:00 a.m. on the first day of the month following a period of thirty (30) days after said notice, unless a successor Operator has assumed the duties of Operator prior to that date.

4.3 Removal of Operator. Operator may be removed by an affirmative vote of the Non-operator Parties having a combined Working Interest of sixty-five percent (65%) or more.

4.4 Selection of Successor. Upon resignation or removal of Operator, a successor Operator shall be selected by an affirmative vote of the Parties having a combined Working Interest of sixty-five percent (65%) or more; however, if the removed or resigned operator fails to vote or votes only to succeed itself, the successor Operator shall be selected by an affirmative vote of the Parties having a combined Working Interest of sixty-five percent (65%) or more after excluding the Working Interest of the removed or resigned operator.

4.5 Delivery of Property. Prior to the effective date of resignation or removal, Operator shall deliver promptly to successor Operator the possession of everything owned by the Parties pursuant to this Agreement.

ARTICLE 5

AUTHORITY AND DUTIES OF OPERATOR

5.1 Exclusive Right to Operate. Unless otherwise provided, Operator shall have the exclusive right and duty to conduct all operations pursuant to this Agreement.

5.2 Workmanlike Conduct. Operator shall conduct all operations in a good and workmanlike manner, as would a prudent operator under the same or similar circumstances. Operator shall not be liable to the Parties for losses sustained or liabilities incurred except such as may result from its gross negligence or willful misconduct. Unless otherwise provided, Operator shall consult with the Parties and keep them informed of all important matters.

5.3 Liens and Encumbrances. Operator shall endeavor to keep the Lease and equipment free from all liens and encumbrances occasioned by operations hereunder, except those provided for in section 8.5.

5.4 Employees. Operator shall select employees and determine their number, hours of labor and compensation. Such employees shall be employees of Operator.

5.5 Records. Operator shall keep accurate books, accounts and records of operations hereunder which, unless otherwise provided for in this Agreement, shall be available at reasonable times to each Party or its authorized representatives.

5.6 Compliance. Operator shall comply with and require all agents and contractors to comply with all applicable laws, rules, regulations, and orders of any governmental agency having jurisdiction.

5.7 Drilling. Operator shall have all drilling operations conducted by qualified and responsible independent contractors under competitive contracts which have first been submitted and approved by each Non-Operator Party. However, Operator may employ its drilling equipment in the conduct of such operations pursuant to a written agreement among the Participating Parties.

5.8 Reports. Operator shall make such reports to governmental authorities that it has a duty to make as Operator and shall furnish copies of such reports to Participating Parties. Operator shall give timely written notice to the Parties of all litigation and hearings affecting the Lease or operations hereunder.

5.9 Information to Participating Parties. Operator shall furnish each Participating Party the following information pertaining to each well being drilled:

a) copy of application for permit to drill and all amendments thereto;

b) daily drilling reports;

c) complete report of all core analyses;

d) copies of any logs or surveys as run;

e) copies of any well test results, bottom-hole pressure surveys, gas and condensate analyses, or similar information;

f) copies of reports made to regulatory agencies;

g) notices to logging, coring, and testing operations; and

h) upon written request, samples of cuttings and cores marked as to depth, to be packaged and shipped at expense of the requesting Party.

5.10 Information to Non-Participating Parties. Operator shall furnish to each Non-participating Party copies of all reports made to regulatory agencies.

ARTICLE 6

VOTING AND VOTING PROCEDURE

6.1 Designation of Representatives. The names and addresses of the representative and alternate, who are authorized to represent and bind each Party with respect to operations hereunder, are set forth in Exhibit "A". The designated representative or alternate may be changed by written notice to the other Parties.

6.2 Voting Procedures. Unless otherwise provided, any matter requiring approval of the Parties shall be determined as follows:

6.2.1 Voting Interest. Each Party shall have a voting interest equal to its Working Interest or its Participating Interest as applicable.

6.2.2 Votes Required. Proposals requiring approval of the Parties shall be decided by an affirmative vote of two (2) or more Parties having a combined voting interest of fifty-one percent (51%) or more.

6.2.3 Votes. The Parties may vote at meetings; by telephone, promptly confirmed in writing to Operator; or by letter, telegram, telex or telecopier. Operator shall give prompt notice of the results of such voting to each Party.

6.2.4 Meetings. Meetings of the Parties may be called by Operator upon its own motion or at the request of one (1) or more Party having a combined voting interest of not less than twenty percent (20%) or more. Unless there is an emergency, no meeting shall be called on less than ten (10) days advance written notice, including the agenda; however, the Parties may mutually agree to a shorter period of time as they deem appropriate. Operator shall be Chairman of each meeting. A meeting to deal with an emergency may be called at any time by any Party.

ARTICLE 7

ACCESS

7.1 Access to Lease. Each Party shall have access to the Lease at its sole risk and expense at all reasonable times to inspect operations and wells in which it participates and to records and data pertaining thereto.

7.2 Reports. Upon written request, Operator shall furnish to a requesting Party any information to which such Party is entitled hereunder. The cost of gathering and furnishing information not otherwise furnished pursuant to Article 5 shall be charged to the requesting Party.

7.3 Confidentiality. Except as provided in Section 7.4 and except for necessary disclosures to governmental agencies, no Party shall release any geological, geophysical, or reservoir information or any logs or other information pertaining to the progress, tests, or results of any well unless agreed to in writing by the Participating Parties.

7.4 Limited Disclosure. Any Party may make confidential data available to reputable engineering firms and gas transmission companies for hydrocarbon reserve and other technical evaluations and to reputable financial institutions for study prior to commitment of funds. The confidential data made available shall not be removed from the custody or premises of the Party making such data available. Any third party permitted such access shall first agree in writing to be bound by the confidentiality provisions of this Agreement.

ARTICLE 8

EXPENDITURES

8.1 Basis of Charge to the Parties. Operator shall pay all costs and each Party shall reimburse Operator in proportion to its Participating Interest. All charges, credits, and accounting for expenditures shall be pursuant to Exhibit "C". The provisions of this Agreement shall prevail in the event of conflict with Exhibit "C".

8.2 Authorization. Operator shall neither make any single expenditure nor undertake any project estimated to cost in excess of Fifty Thousand Dollars ($50,000) without prior approval of the Parties. Operator shall furnish written information to all the Parties of any expenditures in excess of Fifty Thousand Dollars ($50,000). Subject to any election provided in Articles 10 and 11, approval of a well operation shall include approval of all necessary expenditures through installation of the wellhead. In the event of an emergency, Operator may immediately make such expenditures as in its opinion are required to deal with the emergency. Operator shall report to the Parties, as promptly as possible, the nature of the emergency and action taken.

8.3 Advance Billings. Operator shall have the right to require each Party to advance its respective share of estimated expenditures pursuant to Exhibit "C".

8.4 Commingling of Funds. Funds received by Operator under this Agreement may be commingled with its own funds.

8.5 Security Rights. In addition to any other security rights and remedies provided by law with respect to services rendered or materials and equipment furnished under this Agreement, each Party shall have and is hereby given a first and prior lien on the interests of the other Parties subject to this Agreement, including the production therefrom and the equipment thereon and all proceeds thereof, in order to secure payment of any amount and/or charges due and owing by such defaulting Party in accordance with the provisions hereof, together with interest thereon at the rate set forth in Exhibit "C" or the maximum rate allowed by law, whichever is less, plus any attorney's fees, court costs, and other related collection costs. If any Party does not pay such amounts and/or charges when due and owing, the non-defaulting Parties shall have the additional right to collect from the purchaser the proceeds from the sale of such defaulting Party's share of production until the amount owed by the defaulting Party has been paid.

8.6 Unpaid Charges. If any Party fails to pay the charges due hereunder within sixty (60) days after such charges are determined to be due and owing, the other Participating Parties shall, upon Operator's request, pay the unpaid amount in proportion to their interest. Each Party so paying its share of the unpaid amount shall be subrogated to Operator's security rights to the extent of such payment.

8.7 Default. If any Party does not pay its share of the charges when due, Operator may give such Party notice that unless payment is made within fifteen (15) days, such Party shall be in default. Any party in default shall have no further access to the maps, records, data, interpretations, or other information obtained in connection with operations. A defaulting Party shall not be entitled to vote on any matter until such time as said Party's payments are current. The voting interest of each non-defaulting Party shall be in the proportion its Participating Interest bears to the total non-defaulting Participating Interest. As to any operation approved during the time a Party is in default, such Party shall be deemed to be a Non-participating Party.

ARTICLE 9

NOTICES

9.1 Giving and Receiving Notices. All notices shall be in writing and delivered in person or by mail, telex, telecopier, or cable; however, if a drilling rig is on location, such notices shall be given by telephone and immediately confirmed in writing. Notice shall be deemed given only when received by the Party to whom such notice is directed, except that any notice by certified mail or equivalent, telegraph, or cable properly addressed, pursuant to Section 6.1, and with all postage and charges prepaid shall be deemed given seventy-two (72) hours after such notice is deposited in the mail or twenty-four (24) hours after such notice is filed with an operating telegraph or cable company for immediate transmission.

9.2 Content of Notice. Any notice which requires a response shall indicate the maximum response time specified in section 9.3. If a proposal involves a platform or Facility, the notice shall contain a description of same, including location and the estimated costs of design, fabrication, transportation and installation. If a proposal involves a well operation, the notice shall include the proposed depth, the objective zone or zones to be tested, the surface and bottom-hole locations, applicable details regarding directional drilling, the equipment to be used, and the estimated costs of the operation including all necessary expenditures through installation of the wellhead.

9.3 Response to Notices. Each Party's response to a proposal shall be in writing to all other Parties. Except for those in Articles 10, 11, 15, and 16, the maximum response times shall be as follows:

9.3.1 Platform Construction. When any proposal for well operations involves the construction of a platform, the maximum response time shall be thirty (30) days.

9.3.2 Proposal Without Platform. When any proposal for well operations does not require construction of a platform, maximum response time shall be thirty (30) days; however, if a drilling rig is on location, the maximum response time shall be twenty-four (24) hours.

9.3.3 Other Matters. For all other matters requiring notice, the maximum response time shall be thirty (30) days.

9.4 Failure to Respond. Failure of any Party to respond to a notice within the required period shall be deemed to be a negative response.

ARTICLE 10

EXPLORATORY WELLS

10.1 Operations by All Parties. Any Party may propose an Exploratory Well by notifying the other Parties. If all the Parties agree to participate in drilling the proposed well, Operator shall drill same at all parties' cost and risk.

10.2 Second Opportunity to Participate. If fewer than all but two (2) or more Parties having a combined Working Interest of fifty-one percent (51%) or more elects to participate, the Operator shall inform the Parties of the elections made, whereupon any Party originally electing not to participate may then elect to participate by notifying the proposing Party within twenty-four (24) hours after receipt of such information.

10.3 Operations by Fewer Than All Parties. If fewer than all but two (2) or more Parties having a combined Working Interest of fifty-one percent (51%) or more elects to participate in and agrees to bear the cost and risk of drilling proposed well, Operator, or another Party if Operator is not a Participating Party, shall drill such well as Operator under this Agreement. If the well commenced within ninety (90) days after the date of the last applicable election date and is drilled as proposed in accordance with this Agreement, any Party electing not to participate shall be deemed to have relinquished its operating rights in such well as if it were a Non-consent Well. Recoupment of costs shall be determined by Section 12.5 and the drilling of such well shall be governed by Article 12; however, percentages under Section 12.2 shall be as follows:

12.2.1a eight hundred percent (800%)

12.2.1b five hundred percent (500%)

12.2.1c five hundred percent (500%)

12.2.1d two hundred percent (200%)

12.2.1e one hundred percent (100%)

10.4 Course of Action After Drilling to Initial Objective Depth. At such time as an Exploratory Well has been drilled as proposed, Operator shall notify the Participating Parties setting forth Operator's recommendations for further operations. Such Parties, within twenty-four (24) hours after receipt of such recommendations, may accept or make additional recommendations. If additional recommendations are made, the Participating Parties shall have an additional twenty-four (24) hours to respond. The action taken shall be that decided by two (2) or more Parties having a combined Participating Interest of fifty-one percent (51%) or more. If this vote is not obtained within the time limits specified above, the well shall be plugged and abandoned at the expense of the Participating Parties. If the decision is to drill deeper or complete, a Party may be relieved of the obligation and liability as to such deepening or completion by paying its proportionate share of the estimated costs of plugging and abandoning the well at the initial objective depth.

If drilling to the initial objective depth does not result in a Producible Well and the decision is to drill deeper, each original Non-participating Party shall be notified by the Operator, within forty-eight (48) hours after receiving such notice, that it will join in deepening the well below the initial objective depth. As of the last applicable election date, each Non-participating Party shall be deemed to have relinquished to the Participating Parties in proportion to their interests, its operating rights in the well, as to those depths below the initial objective depth. The deepening of such well shall be governed by the terms of Article 12; however, the percentages under Section 12.2.1 shall be as specified in Section 10.3.

It is understood and agreed that completion operations will take precedence over deepening operations and a Non-participating Party in completion operations will be subject to the terms of Article 10.3.

ARTICLE 11

DEVELOPMENT WELL OPERATIONS

11.1 Operations by All Parties. Any Party may propose Development Well operations, including any platform required by such operations, by notifying the other Parties. If all Parties elect to participate in the proposed operation, Operator shall conduct such operation at their cost and risk.

11.2 Second Opportunity to Participate. If fewer than all but one (1) or more Parties having a combined Working Interest of fifty-one percent (51%) or more elects to participate, the proposing Party shall inform the Parties of the elections made, whereupon any Party originally electing not to participate may then elect to participate by notifying the proposing Party within twenty-four (24) hours after receipt of such information.

11.3 Operations by Fewer Than All Parties. If fewer than all but two (2) or more Parties having a combined Working Interest of fifty-one percent (51%) or more elects to participate in and agree to bear the cost and risk of a Development Operation, Operator shall conduct such operation pursuant to Article 12. If such operations are to be conducted from an existing platform, the election to participate shall be made by one (1) or more Parties having a combined Participating Interest in such platform of fifty-one percent (51%) or more.

11.4 Timely Operations. Operations shall be commenced within ninety (90) days following the date upon which the last applicable election may be made. If no operations are begun within such time period, the effect shall be as if the proposal had not been made. Operations shall be deemed to have commenced (a) on the date the contract for a new platform design is let, if the notice indicated the need for such a platform; or (b) on the date rigging-up operations are commenced.

11.5 Deeper Drilling. If a well is proposed to be drilled below the deepest producible zone penetrated by a Producible Well, any Party may elect to participate either in the well as proposed or to the base of the deepest producible zone. A Party electing to participate in such well to the base of said zone shall bear its proportionate part of the cost and risk of drilling to said zone including completion or abandonment. All operations below the depth to which such Party agreed to participate shall be governed by Article 12.

ARTICLE 12

NON-CONSENT OPERATIONS

12.1 Non-Consent Operations. Operator shall conduct Non-consent Operations at the sole risk and expense of the Participating Parties, in accordance with the following provisions:

12.1.1 Non-Interference. Non-consent Operations shall not interfere unreasonably with operations being conducted by all Parties.

12.1.2 Multiple Completion Limitation. Non-consent Operations shall not be conducted in a well having multiple completions unless: (a) each completion is owned by the same Parties in the same proportions; (b) the well is incapable of producing from any of its completions; or (c) all Participating Parties in the well consent to such operations.

12.1.3 Metering. In Non-consent Operations, production need not be separately metered but may be determined on the basis of well tests.

12.1.4 Non-Consent Well. Operations on a Non-consent Well shall not be conducted in any producible zone penetrated by a Producible Well without approval of each Non-participating Party unless: (a) such zone shall have been designated in the notice as a completion zone; (b) completion of such well in said zone will not increase the well density governmentally prescribed or approved for such zone; and (c) the horizontal distance between the vertical projections of the midpoint of the zone in such well and any existing well in the same zone will be at least one thousand (1000) feet if an oil-well completion or two thousand (2000) if a gas-well completion.

12.1.5 Cost Information. Operator shall, within one hundred twenty (120) days after completion of a Non-consent Well, furnish the Parties an inventory and an itemized statement of the cost of such well and equipment pertaining thereto. Operator shall furnish to the Parties a monthly statement showing operating expenses, and the proceeds from the sale of production from the well for the preceding month.

12.1.6 Completions. For the purposes of determinations hereunder, each completion shall be considered a separate well.

12.2 Forfeiture of Interest. Upon commencement of Non-consent Operations, each Non-participating Party's interest and leasehold operating rights in the Non-consent Operation and title to production therefrom shall be owned by and vested in each Participating Party in proportion to its Participating Interest for as long as the operations originally proposed are being conducted or production is obtained, subject to the following:

12.2.1 Production Reversion Penalties. Such interest, rights and title shall revert to each Non-participating Party when the Participating Parties have recouped out of the proceeds of production from such Non-consent Operations an amount which equals the sum of the following:

a) five-hundred percent (500%) of the cost of drilling; completing, recompleting, deepening, deviating, or plugging back each Non-consent Well, and equipping it through the wellhead connections, reduced by any contribution received under Section 21.2; plus

b) five-hundred percent (500%) of the cost of Facilities necessary to carry out the operation; plus

c) five-hundred percent (500%) of the cost of any Non-consent Platform which must be installed to carry out the operation; plus .

d) two-hundred percent (200%) of the cost of using any Platform already installed; plus

e) one-hundred percent (100%) of the cost of operating expenses, royalties, and severance, gathering, production and windfall profit taxes.

Upon the recoupment of such costs, a Non-participating Party shall become a Participating Party in such operations.

12.2.2 Non-Production Reversion. If such Non-consent Operations fail to obtain production or if such operations result in production which ceases prior to recoupment by the Participating Parties of the penalties provided for above, such operating rights shall revert to each Non-participating Party except that all Non-consent Wells, Platforms, and Facilities shall remain vested in the Participating Parties however, any salvage in excess of the sum remaining to be recouped under Section 12.2.1 shall be credited to all Parties.

12.3 Deepening of Non-Consent Well. If any Participating Party proposes to deepen a Non-consent Well, a Non-participating Party in said well may participate in such deepening by notifying the Operator within 48 hours after receiving the deepening proposal that it will join in the deepening operation and by agreeing to pay to the Participating Parties an amount equal to such Non-participating Party's share of the actual costs of drilling and casing such well. The Participating Parties shall continue to be entitled to recoup the full sum specified in Section 12.2.1 applicable to the Non-consent Well, less the amount paid under this section, out of the proceeds of production from the non-consent portion of the well.

12.4 Operations from Non-Consent Platforms. A Party which did not originally participate in a platform shall be a Non-participating Party as to all operations from such platform and shall be subject to the provisions of Section 12.2. Reversion shall occur only after the original Participating Parties have recouped the sum set forth in Section 12.2.1 for the platform and the Non-consent Operations thereon.

12.5 Discovery or Extension from Mobile Drilling Operations. If a Non-consent Well drilled from a mobile drilling rig or floating vessel results in the discovery or extension of a productive formation and if within six (6) months from the date the drilling equipment is released, a platform is ordered and if the platform location is within three thousand (3000) feet from the vertical projection of the bottom-hole location of any such well, the recoupment of amounts applicable to such well under Section 12.2.1 shall be out of all production from such Non-consent Well and one-half of the production from all other wells on the platform.

12.6 Allocation of Platform Costs to Non-Consent Operations. Non-consent operations shall be subject to further conditions as follows:

12.6.1 Charges. If a Non-consent Well is drilled from a platform, the Participating Parties in such well shall pay to the Operator for the credit of the owners of such platform a charge for the right to use the platform and its Facilities as follows:

a) Such Participating Parties shall pay a sum equal to that portion of the total cost of the platform which one platform slot bears to the total number of slots on the platform. If the Non-consent Well is abandoned, the right of Participating Parties to use that slot shall terminate, unless such Parties commence drilling a substitute well from the same slot within ninety (90) days after abandonment.

b) If Non-consent Well production is handled through the Facilities, the Participating Parties shall pay a sum equal to that portion of the total cost of such Facilities which one well bears to the total number of wells utilizing the Facilities.

12.6.2 Operating and Maintenance Charges. The Participating Parties shall pay all costs necessary to connect a Non-consent Well to the Facilities and that proportionate part of the expense of operating and maintaining the platform and Facilities applicable to the Non-consent Well. Platform operating and maintenance expenses shall be allocated equally to all wells served, and operating and maintenance expenses for the Facilities shall be allocated equally to all producing wells.

12.6.3 Payments. Payment of sums pursuant to Section 12.6.1 does not constitute the purchase of an additional interest in the platform or Facilities. Such payments shall be included in the total amount which the Participating Parties are entitled to recoup out of production from the Non-consent Well.

12.7 Non-Consent Drilling to Maintain Lease. If operations are necessary to maintain lease acreage which would otherwise expire under its own terms, then, notwithstanding any other provisions of paragraphs 2.1, 10.3 and 11.3, any one (1) or more parties to this Agreement, regardless of their individual or combined Working Interest, may conduct such operations. Each Non-participating Party as to such operations shall execute and deliver a recordable assignment to the Participating Parties of its interest in such lease or portion thereof which would otherwise expire within thirty (30) days after such Non-participating Party elects to participate in such operations pursuant to the provisions of Article IX. In no event shall a Non-participating Party be relieved of any obligations attributable to the forfeited interest prior to such assignment; provided, however, that each Non-participating Party shall retain its interest in the production from previously completed wells.

12.8 Allocation of Costs Between Zones (Single Completion). For the purpose of allocating costs on any well completed in only one zone in which the ownership is not the same for the entire depth or the completion thereof, the cost of drilling, completing, and equipping such well shall be allocated on the following basis:

a) Intangible drilling, completion and material costs from the surface to a depth one hundred (100) feet below the base of the completed zone shall be charged to the owners or the Parties participating in that zone.

b) Intangible drilling, completion, casing string and material costs, other than tubing costs, from a depth of one hundred (100) feet below the base of the completed zone to total depth shall be charged to the owners or the Parties participating in the costs to total depth.

12.9 Allocation of Costs Between Zones (Multiple Completions). For the purpose of allocating costs on any well completed in dual or multiple zones in which the ownership is not the same for the entire depth or the completion thereof, the cost of drilling, completing, and equipping such well shall be allocated on the following basis:

a) Intangible drilling, completion and material costs other than tubing costs, from the surface to a depth one hundred (100) feet below the base of the upper completed zone shall be divided equally between the completed zones and charged to the owners thereof or the Parties participating in each zone.

b) Intangible drilling, completion, casing string, and material costs, other than tubing, from a depth one hundred (100) feet below the base of the upper completed zone to a depth one hundred (100) feet below the base of the second completed zone shall be divided equally between the second and any other zone completed below such depth and charged to the owners thereof or to the Parties participating in each such zone. If the well is completed in additional zones, the costs applicable to each such zone shall be determined and charged to the owners thereof in the same manner as prescribed by the dual zones completion.

c) Intangible drilling, completion, casing string and material costs, other than tubing costs, from a depth of one hundred (100) feet below the base of the lower completed zone to total depth shall be charged to the owners or to the Parties participating in the costs to total depth.

d) Costs of tubing strings serving each separate zone shall be charged to the owners or to the Parties participating in each zone.

e) For the purposes of allocating tangible and intangible costs between zones that occur at less than one hundred (100) foot intervals, the distance between the base of the upper zone to the top of the next lower zone shall be allocated equally between zones.

12.10 Allocation of Costs Between Zones (Dry Hole). For the purpose of allocating costs on any well determined to be a dry hole, in which the ownership is not the same for the entire depth or the completion thereof, the cost of drilling, plugging, and abandoning such well shall be allocated on the following basis:

a) Costs to drill, plug, and abandon a well proposed for completion in single, dual, or multiple zones shall be charged to the Participating Parties in the same manner as if the well were completed as a producing well in all zones as proposed.

b) Plugging and abandoning of any well following any deepening, completion attempt, or other operation shall be at the sole risk and expense of the Participating Parties in such operation, subject however to the provisions of Section 11.5.

12.11 Intangible Drilling and Completion Allocations. For the purpose of calculations hereunder, intangible drilling and completion costs, including non-controllable material costs, shall be allocated between zones, including the interval from the lower completed zones to total depth, on a drilling day ratio basis where the factor for each zone is determined by a fraction for which the numerator is the number of drilling and completion days applicable to that zone and the denominator is the total number of days spent on the well, beginning on the day the rig arrives on location and terminating when the rig is released.

ARTICLE 13

FACILITIES

13.1 Approval. Any Party may propose the installation of Facilities by notice to the other Parties with information adequate to describe the proposed facilities and the estimated costs. All responses shall be made to the Operator. The affirmative vote of two (2) or more Parties having a combined Participating Interest of fifty-one percent (51%) or more in the wells to be served shall constitute approval which shall be binding on all owners of the wells to be served; however, nothing hereunder shall limit a Party's rights under Section 22.1.

13.2 Contracts. Operator may enter into contracts with independent contractors for the Facilities and, insofar as is reasonable, shall utilize competitive bidding.

ARTICLE 14

ABANDONMENT AND SALVAGE

14.1 Platform Salvage and Removal Costs. When the Parties owning a platform mutually agree to dispose such platform, it shall be disposed of by the Operator as approved by such Parties. The costs, risks, and net proceeds, if any, resulting from such disposition shall be shared by such Parties in proportion to their Participating Interests.

14.2 Abandonment of Producing Well. Any Party may propose the abandonment of a well by notifying the other Parties. No well shall be abandoned without the mutual consent of the Participating Parties. The Participating Parties not consenting to the abandonment shall pay to each Participating Party desiring to abandon its share of the current value of the well's salvageable material and equipment as determined pursuant to Exhibit C, less the estimated current costs of salvaging same and of plugging and abandoning the well as determined by the Participating Parties.

14.3 Assignment of Interest. Each Participating Party desiring to abandon a well pursuant to Section 14.2 shall assign effective as of the last applicable election date, to the Non-abandoning Parties, in proportion to their Participating Interests, its interest in such well and the equipment therein and its ownership in the production from such well. Any Party so assigning shall be relieved from any further liability with respect to such well.

14.4 Abandonment Operations Required by Governmental Authority. Any well abandonment or platform removal required by a governmental authority shall be accomplished by Operator with the costs, risks, and net proceeds, if any, to be shared by the Parties owning such well or platform in proportion to their Participating Interests.

ARTICLE 15

WITHDRAWAL

15.1 Withdrawal. A party may withdraw from this Agreement as to a Lease by assigning, to the other Parties who do not desire to withdraw, all its interest in such Lease and the wells, platforms and Facilities used in operations on such Lease; provided that such assignment shall not relieve such Party from any obligation or liability incurred prior to the first day of the month following receipt of the assignment by assignees. The assigned interest shall be owned by the assignees in proportion to their respective Participating Interests. The assignees, in proportion to the respective interests so acquired, shall pay the assignor for its interest in the wells, platforms and Facilities, the current salvage value thereof, less its share of the estimated current cost of salvaging same, plugging and abandoning wells, and removal of all platforms and Facilities, as determined

by the Parties. In the event such withdrawing Party's interest in such salvage value is less than such Party's share of the estimated costs, the withdrawing Party shall pay the Operator, for benefit of the non-withdrawing Parties, a sum equal to the deficiency. Within sixty (60) days after receiving notice of the assignment, Operator shall render a final statement to the withdrawing Party for its share of all expenses incurred through the first day of the month following the date of receipt of the assignment, plus any deficiency in salvage value. Providing all such expenses, including any deficiency hereunder, due from the withdrawing Party have been paid within thirty (30) days after the rendering of such final payment, the assignment shall be effective the first day of the month following its receipt, and the withdrawing Party shall thereafter be relieved from all further obligations and liabilities with respect to such lease.

15.2 Limitations on Withdrawal. No Party shall be relieved of its obligations hereunder during a blowout, a fire, or other emergency, but may withdraw from this Agreement after termination of such emergency, provided such Party shall remain liable for its share of all costs arising from said emergency.

ARTICLE 16

RENTALS, ROYALTIES, AND OTHER PAYMENTS

16.1 Creation of Overriding Royalty. If any Party has heretofore created or hereafter creates any overriding royalty, production payment, or other burden payable out of production attributable to such Party's Working Interest in the Lease owned, and if any other Party or Parties become entitled to an assignment pursuant to the provisions of this Agreement, or as a result of Non-consent Operations hereunder, becomes entitled to receive the Working Interest otherwise belonging to a Non-participating Party in such Operations, the Party entitled to receive the assignment from or the Working Interest production of such Non-participating Party shall receive same free and clear of such burdens, and the Non-participating Party creating such burdens shall save the Participating Parties harmless with respect to the receipt of such assigned interest or such Working Interest production.

16.2 Payment of Rentals and Minimum Royalties. Operator shall pay in a timely manner rentals, minimum royalties, the Offshore Oil Pollution Compensation Fund imposed by Section 302 (d) of the Outer Continental Shelf Lands Act Amendment of 1978, or similar payments accruing under the terms of the Lease and submit evidence of each such payment to the Parties.

16.3 Non-participation in Payments. Should any Party elect not to pay its share of any rental, minimum royalty, or similar payment, such Party shall notify the other Parties at least sixty (60) days prior to the date on which such payment is due; and, in this event, Operator shall make such payment for the benefit of all the Participating Parties. In such event the Non-participating parties shall, upon the request of the Participating Parties assign to them such portions of its interest in the Lease as would be maintained by such payment. Unless otherwise agreed, such assigned interest shall be owned by each Participating Party in proportion to its Participating Interest.

16.4 Royalty Payments. Operator shall pay and charge to the Joint Account the royalty and any additional payments provided for in the Lease subject to this Agreement, but shall not be liable to Non-operators for any good faith failure to make any such payment properly or punctually.

ARTICLE 17

TAXES

17.1 Property Taxes. Operator shall render property covered by this Agreement as may be subject to ad valorem taxation, and shall pay such property taxes for benefit of each Party. Operator shall charge each Party its share of such tax payments.

17.2 Contest of Property Tax Valuation. Operator shall timely and diligently protest to a final determination any valuation it deems unreasonable. Pending such determination, Operator may elect to pay under protest. Upon final determination, Operator shall pay the taxes and any interest, penalty or cost accrued as a result of such protest. In either event, Operator shall charge each Party its share.

17.3 Production and Severance Taxes. Each Party shall pay, or cause to be paid, all production and severance taxes due on any production which it receives pursuant to the terms of this Agreement.

17.4 Other Taxes and Assessments. Operator shall pay other applicable taxes or assessments including the Offshore Oil Pollution Compensation Fund imposed by Section 302 (d) of Outer Continental Shelf Lands Act Amendments of 1978 and charge each Party its share.

ARTICLE 18

INSURANCE

18.1 Insurance. Operator shall obtain the insurance provided in Exhibit "B" and charge each Party its proportionate share of the cost of such coverage.

ARTICLE 19

LIABILITY, CLAIMS, AND LAWSUITS

19.1 Individual Obligations. The obligations, duties, and liabilities of the Parties shall be several and not joint or collective; and nothing contained herein shall ever be construed as creating a partnership of any kind, joint venture, association, or other character of business entity recognizable in law for any purpose. Each Party shall hold all the other Parties harmless from liens and encumbrances on the Lease arising as a result of its acts.

19.2 Notice of Claim or Lawsuit. If a claim is made against any Party or if any Party is sued on account of any matter arising from operations hereunder, such Party shall give prompt written notice to the other Parties.

19.3 Settlements. Operator may settle any single damage claim or suit involving operations hereunder if the expenditure does not exceed Ten Thousand Dollars ($10,000) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds such amount, the Parties shall determine the further handling of the claim or suit.

19.4 Legal Expense. Legal expenses shall be handled pursuant to Exhibit "C".

19.5 Liability for Losses, Damages, Injury, or Death. Liability for losses, damages, injury, or death arising from operations under this Agreement shall be borne by the Parties in proportion to their Participating Interests in the operations out of which such liability arises, except when such liability results from the gross negligence or willful misconduct of Operator, in which case Operator shall be liable.

19.6 Indemnification. The Participating Parties agree to hold the Non-participating Parties harmless and to indemnify and protect them against all claims, demands, liabilities, and liens for property damage or personal injury, including death, caused by or otherwise arising out of Non-consent Operations, and any loss and cost suffered by any Non-participating Party as an incident thereof.

ARTICLE 20

INTERNAL REVENUE PROVISION

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

ARTICLE 21

CONTRIBUTIONS

21.1 Notice of Contributions Other Than Advances for Sale of Production. Each Party shall promptly notify the other Parties of all contributions which it may obtain, or is attempting to obtain, concerning the drilling of any well on the Lease. Payments received as consideration for entering into a contract for sale of production from the Lease, loans, and other financing arrangements shall not be considered contributions for the purposes of this Article.

21.2 Cash Contributions. In the event a Party receives a cash contribution toward the drilling of a well, said cash contribution shall be paid to Operator and Operator shall credit the amount thereof to the Parties in proportion to the Participating Interest. If such well is a Non-consent well, the amount of the contribution shall be deducted from the cost specified in Section 12.2.1.a.

21.3 Acreage Contributions. In the event a Party receives an acreage contribution towards the drilling of a well, said acreage contribution shall be shared by each Participating Party who accepts in proportion to its Participating Interest in the well.

ARTICLE 22

DISPOSITION OF PRODUCTION

22.1 Facilities to Take in Kind. Any Party shall have the right, at its sole risk and expense, to construct Facilities for taking its share of production in kind, provided that such Facilities at the time of installation do not interfere with continuing operations on the Lease.

22.2 Duty to Take in Kind. Each Party shall have the right and duty to take in kind or separately dispose of its share of the oil and gas produced and saved from the Lease.

22.3 Failure to Take in Kind. If any Party fails to take in kind or dispose of its share of the oil and gas, Operator may either (a) purchase oil at the price prevailing in the area for oil of the same kind, gravity, and quality, or (b) sell such oil and gas to others at the best price obtainable by Operator, subject to revocation at will by the non-taking Party. All contracts of sale by Operator of any Party's share of oil or gas shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any contract be for a period in excess of one (1) year. Proceeds of all sales made by Operator pursuant to this Section shall be paid to the Parties entitled thereto. Unless required by governmental authority or judicial process, no Party shall be forced to share an available market with any non-taking Party.

22.4 Expenses of Delivery in Kind. Any cost incurred by Operator in making delivery of any Party's share of oil and gas, or disposing of same pursuant to Section 22.3, shall be borne by such Party.

22.5 Gas Balancing Provisions. Attached hereto is Exhibit "E", entitled "Gas Balancing Agreement", containing an agreement of the PARTIES which is incorporated into this Agreement as if copied at length herein.

ARTICLE 23

APPLICABLE LAW

23.1 Applicable Law. This Agreement shall be interpreted according to the laws of State of Texas.

ARTICLE 24

LAWS, REGULATIONS, AND NONDISCRIMINATION

24.1 Laws and Regulations. This Agreement and operations hereunder are subject to all applicable laws, rules, regulations, and orders, and any provision of this Agreement found to be contrary to or inconsistent with any such law, rule, regulation, or order shall be deemed modified accordingly.

24.2 Nondiscrimination. In the performance of work under this Agreement, the Parties agree to comply, and Operator shall require each independent contractor to comply, with the governmental requirements set forth in Exhibit "D" and with all of the provisions of Section 202(1) to (7), inclusive, of Executive Order No. 11246, as amended.

ARTICLE 25

FORCE MAJEURE

25.1 Force Majeure. All obligations imposed by this Agreement on each Party, except for the payment of money, shall be suspended while compliance is prevented, in whole or in part, by a labor dispute, fire, flood, war, civil disturbance, or act of God, by laws, by government rules, regulations or orders, by inability to secure materials, or by any other cause, whether similar or dissimilar, beyond the reasonable control of the said Party. provided, however, the performance shall be resumed within a reasonable time after such cause has been removed, and provided further that no Party shall be required against its will to settle any labor dispute.

25.2 Notice. Whenever a Party's obligations are suspended under Section 25.1, such Party shall immediately notify the other Parties and give full particulars of the reason for such suspension.

ARTICLE 26

SUCCESSORS AND ASSIGNS

26.1 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective heirs, successors, representatives and assigns and shall constitute a covenant running with the Lease. Each Party shall incorporate in any assignment of an interest in the Lease a provision that such assignment is subject to this Agreement. Such Assignment shall include a special warranty by the Assigning Party.

ARTICLE 27

TERM

27.1 Term. This Agreement shall remain in effect so long as the Lease shall remain in effect; however, all property belonging to the Parties shall be disposed of and final settlement shall be made under this Agreement.

ARTICLE 28

EXECUTION

28.1 Counterpart Execution. This Agreement may be executed by signing the original or a counterpart thereof. If this Agreement is executed in counterparts, all counterparts taken together shall have the same effect as if all the Parties had signed the same instrument.

Executed this 1st day of June, 1988.

OPERATOR

WITNESSES:

HALL-HOUSTON OIL COMPANY

Sheri Detwiler

Rhonda L. Hunt

By: Wayne P. Hall
Wayne P. Hall
President

NON-OPERATOR

WITNESSES:

CORNERSTONE ENERGY CORPORATION

By:
Jack Modesett, Jr.
President

WITNESSES:

RIDGEWOOD ENERGY CORPORATION 1988-III, DRILLING AND COMPLETION, L.P.

By: RIDGEWOOD ENERGY CORPORATION, GENERAL PARTNER

By:
Robert J. Swanson
President

WITNESSES:

SANDPOINT PETROLEUM INC.

By:

AF 1329

ARTICLE 27

TERM

27.1 Term. This Agreement shall remain in effect so long as the Lease shall remain in effect; however, all property belonging to the Parties shall be disposed of and final settlement shall be made under this Agreement.

ARTICLE 28

EXECUTION

28.1 Counterpart Execution. This Agreement may be executed by signing the original or a counterpart thereof. If this Agreement is executed in counterparts, all counterparts taken together shall have the same effect as if all the Parties had signed the same instrument.

Executed this 1st day of June, 1988.

OPERATOR

HALL-HOUSTON OIL COMPANY

WITNESSES:

Sheri Detwiler

Rhonda L. Hunt

By: Wayne P. Hall
Wayne P. Hall
President

NON-OPERATOR

CORNERSTONE ENERGY CORPORATION

WITNESSES:

By:
Jack Modesett, Jr.
President

WITNESSES:

RIDGEWOOD ENERGY CORPORATION 1988-III, DRILLING AND COMPLETION, L.P.

By: RIDGEWOOD ENERGY CORPORATION, GENERAL PARTNER

By:
Robert J. Swanson
President

WITNESSES:

SANDPOINT PETROLEUM INC.

By:

ARTICLE 27

TERM

27.1 Term. This Agreement shall remain in effect so long as the Lease shall remain in effect; however, all property belonging to the Parties shall be disposed of and final settlement shall be made under this Agreement.

ARTICLE 28

EXECUTION

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Executed this 1st day of June, 1988.

OPERATOR

WITNESSES:

HALL-HOUSTON OIL COMPANY

By: Wayne P. Hall
President

NON-OPERATOR

WITNESSES:

CORNERSTONE ENERGY CORPORATION

By: _____
Jack Modesett, Jr.
President

WITNESSES:

RIDGEWOOD ENERGY CORPORATION 1988-III, DRILLING AND COMPLETION, L.P.

By: RIDGEWOOD ENERGY CORPORATION, GENERAL PARTNER

By: _____
Robert J. Swanson
President

WITNESSES:

SANDPOINT PETROLEUM INC.

By: Daniel L. Dagg, President

AF 1331

ARTICLE 27

TERM

27.1 Term. This Agreement shall remain in effect so long as the Lease shall remain in effect; however, all property belonging to the Parties shall be disposed of and final settlement shall be made under this Agreement.

ARTICLE 28

EXECUTION

28.1 Counterpart Execution. This Agreement may be executed by signing the original or a counterpart thereof. If this Agreement is executed in counterparts, all counterparts taken together shall have the same effect as if all the Parties had signed the same instrument.

Executed this 1st day of June, 1988.

OPERATOR

WITNESSES:

HALL-HOUSTON OIL COMPANY

By: Wayne P. Hall
Wayne P. Hall
President

NON-OPERATOR

WITNESSES:

CORNERSTONE ENERGY CORPORATION

By: _____
Jack Modesett, Jr.
President

WITNESSES:

RIDGEWOOD ENERGY CORPORATION 1988-III, DRILLING AND COMPLETION, L.P.

By: RIDGEWOOD ENERGY CORPORATION, GENERAL PARTNER

By: _____
Robert J. Swanson
President

WITNESSES:

SANDPOINT PETROLEUM INC.

By: _____, President

AF 1332

ARTICLE 27

TERM

27.1 Term. This Agreement shall remain in effect so long as the Lease shall remain in effect; however, all property belonging to the Parties shall be disposed of and final settlement shall be made under this Agreement.

ARTICLE 28

EXECUTION

28.1 Counterpart Execution. This Agreement may be executed by signing the original or a counterpart thereof. If this Agreement is executed in counterparts, all counterparts taken together shall have the same effect as if all the Parties had signed the same instrument.

Executed this 1st day of June, 1988.

OPERATOR

WITNESSES:

HALL-HOUSTON OIL COMPANY

Sherri Dutwiler

Rhonda L. Hunt

By: Wayne P. Hall
Wayne P. Hall
President

NON-OPERATOR

WITNESSES:

CORNERSTONE ENERGY CORPORATION

By:
Jack Modesett, Jr.
President

WITNESSES:

RIDGEWOOD ENERGY CORPORATION 1988-III, DRILLING AND COMPLETION, L.P.

Janie Ann Christy

Marina Valdez

By: RIDGEWOOD ENERGY CORPORATION, GENERAL PARTNER

By:
~~Robert J. Swanson~~
~~President~~
Bruno Pettoni, V.P.
Ridgewood Energy Corp.
General Partner

WITNESSES:

SANDPOINT PETROLEUM INC.

By:

STATE OF TEXAS

COUNTY OF HARRIS

On the 1st day of June, 1988, personally appeared before me Wayne P. Hall, who being by me duly sworn, did say that he is the President of the corporation, and that said instrument was signed in behalf of said corporation by authority of a resolution of its Board of Directors and said Wayne P. Hall acknowledged said instrument to be the free act and deed of said corporation.

WITNESS by hand and official seal.

My Commission Expires:

Beverly H. Gilbert
Notary Public

BEVERLY H. GILBERT
NOTARY PUBLIC, STATE OF TEXAS
MY COMMISSION EXPIRES
FEB. 10, 1992

STATE OF TEXAS

COUNTY OF HARRIS

On the _____ day of _____, 1988, personally appeared before me Jack Modesett, Jr., who being by me duly sworn, did say that he is the President of the corporation, and that said instrument was signed in behalf of said corporation by authority of a resolution of its Board of Directors and said Jack Modesett, Jr. acknowledged said instrument to be the free act and deed of said corporation.

WITNESS by hand and official seal.

My Commission Expires:

_____
Notary Public

AF 1334

STATE OF New Jersey

COUNTY OF Bergen

Before me, the undersigned Notary Public, on this day personally appeared ~~Robert J. Swanson~~ Bruce Patton, known to me to be the person whose name is subscribed to the foregoing instrument and acknowledged to me that he, being fully authorized to do so, executed and delivered the same as Vice President for Ridgewood Energy Corporation, a corporation, General partner of Ridgewood Energy Corporation 1988-III, Drilling and Completion, L.P., a limited partnership, on the day and year therein mentioned as the act and deed of said corporation on behalf of said limited partnership, for the purpose and consideration therein expressed.

Given under my hand and seal of office, this 3rd day of June, 1988.

Cristina Gambone
Notary Public

My Commission Expires:

June 27, 1989

STATE OF

COUNTY OF

On the _____ day of _____, 1988, personally appeared before me _____, who being by me duly sworn, did say that he is the _____ of the corporation, and that said instrument was signed in behalf of said corporation by authority of a resolution of its Board of Directors and said _____ acknowledged said instrument to be the free act and deed of said corporation.

WITNESS by hand and official seal.

My Commission Expires:

_____
Notary Public

_____

AF 1335

STATE OF TEXAS

COUNTY OF HARRIS

On the 1st day of June, 1988, personally appeared before me Wayne P. Hall, who being by me duly sworn, did say that he is the President of the corporation, and that said instrument was signed in behalf of said corporation by authority of a resolution of its Board of Directors and said Wayne P. Hall acknowledged said instrument to be the free act and deed of said corporation.

WITNESS by hand and official seal.

My Commission Expires:

Beverly H. Gilbert
Notary Public

BEVERLY H. GILBERT
NOTARY PUBLIC, STATE OF TEXAS
MY COMMISSION EXPIRES
FEB. 10, 1992

STATE OF TEXAS

COUNTY OF HARRIS

On the _____ day of _____, 1988, personally appeared before me Jack Modesett, Jr., who being by me duly sworn, did say that he is the President of the corporation, and that said instrument was signed in behalf of said corporation by authority of a resolution of its Board of Directors and said Jack Modesett, Jr. acknowledged said instrument to be the free act and deed of said corporation.

WITNESS by hand and official seal.

My Commission Expires:

_____
Notary Public

_____

STATE OF TEXAS

COUNTY OF HARRIS

On the 1st day of June, 1988, personally appeared before me Wayne P. Hall who being by me duly sworn, did say that he is the President of the corporation, and that said instrument was signed in behalf of said corporation by authority of a resolution of its Board of Directors and said Wayne P. Hall acknowledged said instrument to be the free act and deed of said corporation.

WITNESS by hand and official seal.

My Commission Expires:

Beverly H. Gilbert
Notary Public

BEVERLY H. GILBERT
NOTARY PUBLIC, STATE OF TEXAS
MY COMMISSION EXPIRES
FEB. 10, 1992

STATE OF TEXAS

COUNTY OF HARRIS

On the _____ day of _____, 1988, personally appeared before me Jack Modesett, Jr., who being by me duly sworn, did say that he is the President of the corporation, and that said instrument was signed in behalf of said corporation by authority of a resolution of its Board of Directors and said Jack Modesett, Jr. acknowledged said instrument to be the free act and deed of said corporation.

WITNESS by hand and official seal.

My Commission Expires:

_____
Notary Public

AF 1337

STATE OF

COUNTY OF

Before me, the undersigned Notary Public, on this day personally appeared Robert J. Swanson, known to me to be the person whose name is subscribed to the foregoing instrument and acknowledged to me that he, being fully authorized to do so, executed and delivered the same as President for Ridgewood Energy Corporation, a corporation, General partner of Ridgewood Energy Corporation 1988-III, Drilling and Completion, L.P., a limited partnership, on the day and year therein mentioned as the act and deed of said corporation on behalf of said limited partnership, for the purpose and consideration therein expressed.

Given under my hand and seal of office, this ____ day of _____, 1988.

My Commission Expires:

_____
Notary Public

_____

STATE OF

COUNTY OF

On the _____ day of _____, 1988, personally appeared before me _____, who being by me duly sworn, did say that he is the _____ of the corporation, and that said instrument was signed in behalf of said corporation by authority of a resolution of its Board of Directors and said _____ acknowledged said instrument to be the free act and deed of said corporation.

WITNESS by hand and official seal.

My Commission Expires:

_____
Notary Public

_____

STATE OF

COUNTY OF

Before me, the undersigned Notary Public, on this day personally appeared Robert J. Swanson, known to me to be the person whose name is subscribed to the foregoing instrument and acknowledged to me that he, being fully authorized to do so, executed and delivered the same as President for Ridgewood Energy Corporation, a corporation, General partner of Ridgewood Energy Corporation 1988-III, Drilling and Completion, L.P., a limited partnership, on the day and year therein mentioned as the act and deed of said corporation on behalf of said limited partnership, for the purpose and consideration therein expressed.

Given under my hand and seal of office, this ____ day of _____, 1988.

My Commission Expires:

_____
Notary Public

_____

STATE OF

COUNTY OF

On the _____ day of _____, 1988, personally appeared before me _____, who being by me duly sworn, did say that he is the _____ of the corporation, and that said instrument was signed in behalf of said corporation by authority of a resolution of its Board of Directors and said _____ acknowledged said instrument to be the free act and deed of said corporation.

WITNESS by hand and official seal.

My Commission Expires:

_____
Notary Public

_____

EXHIBIT "A"

Attached to and made a part of that certain OFFSHORE OPERATING AGREEMENT dated May 1, 1988.

I. LEASE:

OCS-G 5658 - NE/4 and S/2 of Block 81, Grand Isle Area, containing 3,750 acres more or less, as shown on OCS Leasing Map, Louisiana Map No. 7.

OCS-G 5659 - NW/4 and S/2 of Block 82, Grand Isle Area, containing 5,750 acrs more or less, as shown on OCS Leasing Map, Louisiana Map No. 7.

II. INTEREST OF PARTIES:

Hall-Houston Oil Company	50.00%
Cornerstone Energy Corporation	25.00%
Ridgewood Energy Corporation	12.50%
Sandpoint Petroleum Inc.	12.50%

III. ADDRESSES OF PARTIES AND DESIGNATED REPRESENTATIVES:

Hall-Houston Oil Company
RepublicBank Center
700 Louisiana, Suite 2390
Houston, Texas 77002
(713) 228-0711
Attn: Wayne P. Hall

Cornerstone Energy Corporation
2121 Sage, Suite 380
Houston, Texas 77056
(713) 627-7460
Attn: Jack Modesett, Jr.

Ridgewood Energy Corporation 1988-III
Drilling and Completion, L.P.
The Ridgewood Commons
947 Linwood Avenue
Ridgewood, New Jersey 07450
(201) 447-9000
Attn: Robert E. Swanson

Sandpoint Petroleum Inc.
500 Marquette, N.W.
Suite 650
Albuquergue, New Mexico 87102
(505) 842-1490
Attn: Pete Temple

EXHIBIT "B"

Attached to and made a part of that certain Offshore Operating Agreement dated May 1, 1988.

A. As to all operations hereunder, Operator shall carry for other benefit and protection of the parties hereto:

1. Insurance which shall comply with all applicable workmen's compensation and occupational disease laws and which shall cover all employees engaged in operations under this Agreement: Such insurance shall include coverage for, but not limited to, Employers Liability insurance with a limit of $1,000,000 per occurrence; all claims under the United States Longshoremen's and Harbor Worker's Act, the Jones Act, and Outer Continental Shelf Lands Act.

2. Comprehensive general and automobile liability insurance with a combined bodily injury and property damage limit of $1,000,000 per occurrence subject to a minimal deductible.

3. Insurance for Control of Well, Redrilling and Restoration due to blowout and/or cratering above or below surface, and Seepage and Pollution Liability coverage including cleanup and containment with a minimum limit of $35,000,000 per occurrence. Coverage shall also include Care Custody and Control insurance with a minimum limit of $250,000 per occurrence.

4. Umbrella Liability insurance in the amount of $50,000,000 in excess of Comprehensive General Liability coverage provided in paragraph A2 above.

B. Operator shall require all contractors engaged in work on or for the benefit of the operations hereunder to comply with applicable Workers' Compensation and Employer's Liability Laws. A Contractor or Sub-Contractor of Operator shall be required to carry such insurance in such amount as in the judgment of Operator shall be adequate to protect and indemnify the parties hereto.

606 BOX 800 TULSA, OK 74101

COPAS—1988—OFFSHORE
Recommended by the Council of Petroleum Accountants Societies

COPAS

EXHIBIT " C "

Attached to and made a part of that Certain Offshore Operating Agreement dated May 1, 1988.

ACCOUNTING PROCEDURE
OFFSHORE 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 of 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.

"Shore Base Facilities" shall mean onshore support facilities that during drilling, development, maintenance and producing operations provide such services to the Joint Property as receiving and transshipment point for supplies, materials and equipment; debarkation point for drilling and production personnel and services; communication, scheduling and dispatching center; other associated functions benefiting the Joint Property.

"Offshore Facilities" shall mean platforms and support systems such as oil and gas handling facilities, living quarters, offices, shops, cranes, electrical supply equipment and systems, fuel and water storage and piping, heliport, marine docking installations, communication facilities, navigation aids, and other similar facilities necessary in the conduct of offshore operations.

*shall include Operations Foreman and those Foremen reporting to him (her).

2. Statements and Billings

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

3. Advances and Payments by Non-Operators

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

B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Citibank 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 of the jurisdiction in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

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

5. Audits

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

B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

6. Approval by Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. **Rentals and Royalties**

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

2. **Labor**

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

   (2) Salaries and wages of Operator's employees directly employed on Shore Base Facilities or other Offshore Facilities serving the Joint Property if such costs are not charged under Paragraph 7 of this Section II.

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

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

   (5) 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 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

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

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

3. **Employee Benefits**

   Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies.

4. **Material**

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

5. **Transportation**

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

   A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store 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.

6. **Services**

   The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraphs i and ii of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead rates. The cost of professional consultant services or contract services of technical personnel directly engaged in the operation of the Joint Property shall be charged to the Joint Account if such charges are excluded from the overhead rates.

7. **Equipment and Facilities Furnished by Operator**

   A. Operator shall charge the Joint Account for use of Operator-owned equipment and facilities, including Shore Base and/or Offshore Facilities, at rates commensurate with costs of ownership and operation. Such rates may include labor, maintenance, repairs, other operating expense, insurance, taxes, depreciation and interest on gross investment less accumulated depreciation not to exceed twelve percent (12%) per annum. In addition, for platforms only, the rate may include an element of the estimated cost of platform dismantlement. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

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

8. **Damages and Losses to Joint Property**

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

9. **Legal Expense**

   Expense of handling, investigating and settling litigation or claims, discharging of liens, payments 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.

10. **Taxes**

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

11. **Insurance**

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted at offshore locations in which Operator may act as self-insurer for Workers' Compensation and Employers' Liability, Operator may include the risk under its self-insurance program in providing coverage under State and Federal laws and charge the Joint Account at Operator's cost not to exceed manual rates.

12. **Communications**

Costs of acquiring, leasing, installing, operating, repairing and maintaining communication systems including radio and microwave facilities between the Joint Property and the Operator's nearest Shore Base Facility. 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 7 of this Section II.

13. **Ecological and Environmental**

Costs incurred on the Joint Property as a result of statutory regulations for archaeological and geophysical surveys relative to identification and protection of cultural resources and/or other environmental or ecological surveys as may be required by the Bureau of Land Management or other regulatory authority. Also, costs to provide or have available pollution containment and removal equipment plus costs of actual control and cleanup and resulting responsibilities of oil spills as required by applicable laws and regulations.

14. **Abandonment and Reclamation**

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

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

As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge the Joint Account in accordance with this Section III.

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 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 this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

i. Except as otherwise provided in Paragraph 2 of this Section III, 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.
   (X) shall not be covered by the overhead rates.

ii. Except as otherwise provided in Paragraph 2 of this Section 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:
   (X) shall be covered by the overhead rates.
   ( ) shall not be covered by the overhead rates.

1. **Overhead – Drilling and Producing Operations**

As compensation for overhead incurred in connection with drilling and producing operations, Operator shall charge on either:
(X) Fixed Rate Basis, Paragraph 1A, or
( ) Percentage Basis, Paragraph 1B

A. **Overhead – Fixed Rate Basis**

(1) Operator shall charge the Joint Account at the following rates per well per month:
Drilling Well Rate $ 22,000 (Prorated for less than a full month)
Producing Well Rate $ 2,200

(2) Application of Overhead – Fixed Rate Basis for Drilling Well Rate shall be as follows:

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

(b) 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.

(3) Application of Overhead – Fixed Rate Basis for Producing Well Rate shall be as follows:

(a) 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.

(b) 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.

(c) 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.

(d) 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.

(e) 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.

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

B. Overhead - Percentage Basis

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

(a) Development

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

(b) Operating

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

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

For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, redrilling, or deepening of any or all wells, and shall also include any remedial operations requiring a period of five (5) consecutive work days or more on any or all wells; 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 except that catastrophe costs shall be assessed overhead as provided in Section III, Paragraph 3.

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, or in the dismantling for abandonment of platforms and related production facilities, 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. If the Operator absorbs the engineering, design and drafting costs related to the project:

(1) 6 % of total costs if such costs are more than $ 25,000 but less than $100,000; plus

(2) 4 % of total costs in excess of $100,000 but less than $1,000,000; plus

(3) 2 % of total costs in excess of $1,000,000.

B. If the Operator charges engineering, design and drafting costs related to the project directly to the Joint Account:

(1) 5 % of total costs if such costs are more than $ 25,000 but less than $100,000; plus

(2) 3 % of total costs in excess of $100,000 but less than $1,000,000; plus

(3) 2 % of total costs in excess of $1,000,000.

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

On each project, Operator shall advise Non-Operator(s) in advance which of the above options shall apply. In the event of any conflict between the provisions of this paragraph and those provisions under Section II, Paragraph 2 or Paragraph 6, the provisions of this paragraph shall govern.

3. Overhead - Catastrophe

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:

(1) 6 % of total costs through $100,000; plus

(2) 4 % of total costs in excess of $100,000 but less than $1,000,000; plus

(3) 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.

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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 2⅜ 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 2⅜ 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 ¼ 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 ¼ 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 ¼ 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.

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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(4). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.

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

3. **Premium Prices**

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

4. **Warranty of Material Furnished By Operator**

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. **Periodic Inventories, Notice and Representation**

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

2. **Reconciliation and Adjustment of Inventories**

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

3. **Special Inventories**

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

4. **Expense of Conducting Inventories**

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

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

EXHIBIT "D"

Attached to and made a part of that certain Offshore Operating Agreement dated May 1, 1988

FEDERAL CONTRACT PROVISIONS

The Federal Contract Provisions which are attached to the foregoing agreement, are made a part thereof and shall be effective to the extent of their applicability thereunder. Contractor, or other party to an agreement with HALL-HOUSTON OIL COMPANY, as the case may be, is hereinafter referred to as CONTRACTOR.

I. Equal Opportunity Clause

(Applicable to contracts and purchase orders which may exceed $10,000 in value, unless otherwise exempt under 41 CFR 60-1.5)

DURING THE PERFORMANCE OF THIS CONTRACT, THE CONTRACTOR AGREES AS FOLLOWS:

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

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

3. The CONTRACTOR will send to each labor union or representative of workers with which he 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 worker's representatives of the CONTRACTOR's commitments under Section 202 of Executive Order No. 11246 of September 24, 1965, and shall post copies of the notice on conspicuous places available to employees and applicants for employment.

4. The CONTRACTOR will comply with all provisions of Executive Order No. 11246 of September 24, 1965, and of the rules, regulations and relevant orders of the Secretary of Labor.

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5. The CONTRACTOR will furnish all information and reports required by Executive Order No. 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to his 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 CONTRACTOR's non-compliance with the nondiscrimination clauses of this contract or with any of such rules, regulations or orders, this contract may be canceled, terminated or suspended in whole or in part and the CONTRACTOR may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order No. 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in said Executive Order No. 11246 of September 24, 1965, or by rule, regulation or order of the Secretary of Labor, or as otherwise provided by law.

7. The CONTRACTOR 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 No. 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The CONTRACTOR will take such actions with respect to any subcontract or purchase order as may be directed by the Secretary of Labor as a means of enforcing such provisions, including sanctions for non-compliance; provided, however, that in the event the CONTRACTOR becomes involved in, or is threatened with litigation with a subcontractor or vendor as a result of such direction, the CONTRACTOR may request the United States to enter into such litigation to protect the interests of the United States.

II. Standard Form 100 (EEO-1) and Affirmative Action Program

(Applicable to contracts and purchase orders which may exceed $50,000 in value and if the CONTRACTOR has fifty (50) or more employees)

1. The CONTRACTOR agrees to file with the appropriate federal agency a complete and accurate report on Standard Form 100 (EEO-1) within thirty (30) days after the signing of this agreement or the award of any such purchase order, as the case may be, (unless such a report has been filed in the last 12 months), and agrees to continue to file such reports annually, on or before March 31. (41 CFR 60-1.7 (c))

2. The CONTRACTOR agrees to develop a current written affirmative action compliance program for each of its establishments in accordance with the regulations of the Secretary of Labor promulgated under Executive Order No. 11246, as amended. Within 120 days from the signing of this agreement or the award of any such purchase order, the CONTRACTOR agrees to maintain a copy of separate affirmative action compliance programs for each establishment at each local office responsible for the personnel matters of such establishment. The CONTRACTOR further agrees to require each of its

subcontractors to develop an affirmative action compliance program for each of its establishments if the subcontract may exceed $50,000 in value and the subcontractor has fifty (50) or more employees. (41 CFR 60-1.40)

III. Minority Business Enterprises

(41 CFR 1-1.13) (Applicable to contracts which may exceed $10,000 in value.)

1. UTILIZATION OF MINORITY BUSINESS ENTERPRISES

A. It is the policy of the government that minority business enterprises shall have the maximum practicable opportunity to participate in the performance of government contracts.

B. The CONTRACTOR agrees to use his best efforts to carry out this policy in the award of his subcontracts to the fullest extent consistent with the efficient performance of this contract. As used in this contract, the term "minority business enterprise" means a business, at least 50 percent is owned by minority group members or, in case of publicly owned businesses, at least 51 percent of the stock of which is owned by minority group members. For the purposes of this definition, minority group members are Negroes, Spanish-speaking American persons, American-Orientals, American-Indians, American-Eskimos, and American-Aleuts. CONTRACTORS may rely on written representations by subcontractors regarding their status as minority business enterprises in lieu of an independent investigation.

2. MINORITY BUSINESS ENTERPRISES SUBCONTRACTING PROGRAM

(41 CFR 1-1.13) (Applicable to contracts which may exceed $500,000 in value)

A. The CONTRACTOR agrees to establish and conduct a program which will enable minority business enterprises (as defined in the clause entitled "Utilization of Minority Business Enterprises") to be considered fairly as subcontractors and suppliers under this contract. In this connection, the CONTRACTOR shall --

a. Designate a liason officer who will administer the CONTRACTOR's minority business enterprises program.

b. Provide adequate and timely consideration of the potentialities of known minority business enterprises in all "make-or-buy" decisions.

c. Assure that known minority business enterprises will have an equitable opportunity to compete for subcontracts, particularly by arranging solicitations, time for the preparation of bids, quantities, specifications, and delivery schedules so as to facilitate the participation of minority business enterprises.

d. Maintain records showing (i) procedures which have been adopted to comply with the policies set forth in this clause, including the establishment of a source list of minority business enterprises, (ii) awards to minority business enterprises on the source list, and (iii) specific efforts to identify and award contracts to minority business enterprises.

e. Include the Utilization of Minority Business Enterprises clause in subcontracts which offer substantial minority business enterprises subcontracting opportunities.

f. Cooperate with the Contracting Officer in any studies and surveys of the CONTRACTOR's minority business enterprises procedures and practices that the Contracting Officer may from time to time conduct.

g. Submit periodic reports of subcontracting to known minority business enterprises with respect to the records referred to in subparagraph (4), above, in such form and manner and at such time (not more often than quarterly) as the Contracting Officer may prescribe.

B. The CONTRACTOR further agrees to insert, in any subcontract hereunder which may exceed $500,000, provisions which shall conform substantially to the language of the clause, including this paragraph (B), and to notify the Contracting Officer of the names of such subcontractors.

IV. Certification of Nonsegregated Facilities

The CONTRACTOR, by entering into this contract, certifies that it does not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. It certifies further that it will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained.

The CONTRACTOR agrees that a breach of this certification is a violation of the Equal Opportunity clause in this contract. As used in this certification, the term "segregated facilities" means any waiting rooms, work area, restrooms and washrooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation, and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, creed, color, or national origin, because of habit, local custom, or otherwise. It further agrees that (except where it has obtained identical certifications from proposed subcontractors for specific time periods) it will obtain identical certifications from proposed subcontractors prior to the award of subcontracts exceeding $10,000 which are not

exempt from the provisions of the Equal Opportunity clause; that it will retain such certifications in its files; and that it will forward the following notice to such proposed subcontractors (except where the proposed subcontractors have submitted identical certifications for specific time periods).

NOTICE TO PROSPECTIVE SUBCONTRACTORS OF REQUIREMENT FOR CERTIFICATIONS OF NONSEGREGATED FACILITIES

A Certification of Nonsegregated Facilities must be submitted prior to the award of a subcontract exceeding $10,000 which is not exempt from the provisions of the Equal Opportunity clause. The certification may be submitted either for each subcontract or for all subcontracts during a period (i.e., quarterly, semi-annually, or annually). NOTE: The penalty for making false statements in offers is prescribed in 18 U.S.C. 1001.

V. Affirmative Action for Disabled Veterans and Veterans of the Vietnam Era

(41 CFR 60-250) (Applicable to contracts and purchase orders which may exceed $10,000 in value)

The CONTRACTOR agrees and certifies that it is and will remain in compliance with the affirmative action clause set forth at 41 CFR 60-250.4, which clause is incorporated herein by reference. The CONTRACTOR further agrees to comply with all applicable provisions of Section 402 of the Vietnam Era Veterans Readjustment Assistance Act of 1974, 38 U.S.C. Section 2012, and all applicable requirements of 41 CFR 60-250.

VI. Affirmative Action for Handicapped Workers

(41 CFR 60-741) (Applicable to contracts and purchase orders which may exceed $2,500 in value)

The CONTRACTOR agrees and certifies that it is and will remain in compliance with the affirmative action clause set forth at 41 CFR 60-741.4, which clause is incorporated by reference. The CONTRACTOR further agrees to comply with all applicable provisions of Section 503 of the Rehabilitation Act of 1973, as amended, 29 U.S.C. Section 793, and all applicable requirements of 41 CFR 60-741.

EXHIBIT "E"

Attached to and made a part of that certain Offshore Operating Agreement dated May 1, 1988.

GAS BALANCING AGREEMENT

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 proportionate share of the allowable production from a well (including lawful tolerances) established by appropriate regulatory authority.

2. It is the intent that each party be entitled to gas produced in the proportion that its ownership interest bears to the sum of all ownership interests. It is the intent that the Operator have the duty of controlling gas production and the responsibility of administering the provisions of this agreement. 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.

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 not marketed or has taken a lesser volume of gas than the quantity such party is herein entitled) shall have the right upon giving ten (10) days advance written notice to Operator to take a greater amount of gas than its proportionate share of 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. It is understood that such "make-up" by the underproduced party shall be attributed to offset his prior underproduction in the order of accrual of the imbalance caused by such underproduction.

(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 take 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 take to less than fifty percent (50%) of such overproduced party's proportionate share of the current production of gas.

4. Each party producing and/or delivering gas to its purchaser shall pay any and all royalties and production taxes due on such gas. Nothing herein shall cause a producing party to account for or pay overriding or other leasehold burdens created by or burdening the interest of any nonproducing or underproducing party.

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5. The provisions of this agreement shall be separately applicable to each well and each reservoir to the end that, subject to the provisions of paragraph 6 below, production from one reservoir may not be utilized for the purpose of balancing underproduction from other reservoirs unless agreed to by all parties and gas is of similar vintage.

6. When production from a reservoir permanently ceases, Operator shall be responsible to determine the final accounting of underproduction and overproduction. Each overproduced party shall have the option of furnishing each underproduced party gas of like vintage from other sources ("make-up gas") or settling the imbalance in cash as provided below. Make-up gas shall be supplied from sources determined solely by the overproduced party; provided, no such source may be included unless a delivery point for the gas can be agreed upon by the overproduced and underproduced parties involved.

If any overproduced party does not elect to supply make-up gas within 90 days from termination of such production, a monetary settlement will be made between the under produced and the overproduced parties. In making such settlement, each such overproduced party shall remit to the Operator for the account of each underproduced party an amount of money calculated by multiplying the volume of overproduced gas of such vintage by the actual amount of money per m.c.f. of such gas that such overproduced party actually received, less taxes and royalties theretofore paid by the overproduced party. The Operator will disburse to each underproduced party its proportionate share of the monies collected. Such amount shall be shared by each underproduced party in the proportion that the underproduction of each bears to the underproduction of all parties. If any overproduced party has paid royalties or taxes attributable to his overproduction, the amount of such royalties shall be deducted from such payment made by him. The amount of payment for all such overproduction shall be determined in the order of accrual.

7. Nothing in this gas balancing agreement shall cause the Operator to produce a well or reservoir at higher than maximum allowable rates which might have been established by a regulatory authority.

8. The Operator shall maintain a running account of the gas balance between the parties and will furnish each party monthly statements showing the quantities of gas produced from each reservoir, the amount thereof used in joint account operations, vented or lost, and the total quantities delivered to purchasers together with the over/under status of each party.