

Docket 148-66-40

OPERATING PARTIES AGREEMENT

WATER FLOOD PROGRAM
LOWER TUSCALOOSA POOL (EAST SEGMENT)
WEST LINCOLN FIELD
LINCOLN COUNTY, MISSISSIPPI

STATE OF MISSISSIPPI)
) KNOW ALL MEN BY THESE PRESENTS THAT:
COUNTY OF LINCOLN)

THIS AGREEMENT, made and entered into this 1st day of August,
1966, by and between the parties who execute this instrument:

W I T N E S S E T H:

WHEREAS, the parties hereto represent that each is the owner of
Operating Interest (as hereinafter defined) in one or more tracts of land
situated in the West Lincoln Field in Lincoln County, Mississippi; and

WHEREAS, in order to promote conservation of hydrocarbons in the
Lower Tuscaloosa Pool (East Segment), West Lincoln Field, Lincoln County,
Mississippi, and to minimize surface and underground waste and for the pro-
tection of correlative and co-equal rights and to enable the maximum efficient
recovery of hydrocarbons in place in the Water Flood Area, the parties have
decided that it is desirable, proper, expedient and in the public interest to
enter into this Agreement in compliance with authorizations contained in and
within the spirit of Chapter 256 of the Mississippi Laws of 1948, as amended;
and

WHEREAS, in order to carry out the objectives hereinabove set out,
the parties hereto have executed a Water Flood Agreement (as hereinafter
described), and the parties recognize it necessary to provide for the develop-
ment and operation of the Water Flood Zone and to develop and operate the

Water Flood Area.

NOW, THEREFORE, in consideration of the premises, of the covenants and agreements herein contained and of the mutual benefits to be derived therefrom, the parties hereto agree among and with each other as follows:

I.

DEFINITIONS:

A. WATER FLOOD AREA. The Water Flood Area is hereby defined as that part of the West Lincoln Field, Lincoln County, Mississippi, within the SE $\frac{1}{4}$ of SE $\frac{1}{4}$, Section 15; E $\frac{1}{2}$ of NE $\frac{1}{4}$ of Section 22; and W $\frac{1}{2}$ of NW $\frac{1}{4}$ of Section 23; all in Township 6 North, Range 6 East, Lincoln County, Mississippi, underlain by the Lower Tuscaloosa Oil Pool.

B. OPERATING PARTY. An Operating Party is any owner of an operating interest, i. e., an interest not entitled to share in production free of cost, who, as hereinafter provided, joins herein or becomes an Operating Party by any other means. This definition shall apply whether the parties to this Agreement are referred to as Operating Party or Operating Parties.

C. OPERATOR. Operator shall mean the party (or its successor) specifically designated by the Operating Parties under the Operating Agreement as having the right and duty to develop and operate the Water Flood Well.

D. WATER FLOOD ZONE. Water Flood Zone shall mean all of that certain stratigraphic interval underlying the Water Flood Area which is the interval between the top of the Lower Tuscaloosa Formation and the base of the Lower Tuscaloosa Formation, the top of which stratigraphic interval was encountered at 10, 100 feet below sea level and the base of which was

encountered at 10,297 feet below sea level in the Roeser & Pendleton, Inc. - Pan American Production Co. - S. J. Holloway Unit Well No. 1 located in the SW $\frac{1}{4}$ of SW $\frac{1}{4}$ of Section 14, Township 6 North, Range 6 East, Lincoln County, Mississippi.

E. WATER FLOOD SUBSTANCES. Water Flood Substances shall mean and include crude petroleum oil, natural gas and other hydrocarbon fluids associated with such crude petroleum oil and natural gas and all other hydrocarbons, whether liquid, gaseous or mixed, contained in the Water Flood Zone.

F. ROYALTY OWNER, ROYALTY RIGHT AND ROYALTY INTEREST. Royalty Owner shall mean (1) any owner who, subject to an Operating Party's right to search for and produce Water Flood Substances, owns carried working interest, net profit interest, payment out of production, mineral rights, royalties or overriding royalties in and to said Water Flood Substances or the proceeds thereof; (2) any owner of the right, in whole or in part, free or lease, to search for and produce Water Flood Substances from any tract or tracts, which owner, for the purposes hereof, shall be considered to be a Royalty Owner to the extent of one-eighth (1/8) of his respective rights and interests, provided that such one-eighth (1/8) shall be subject to any and all conveyances of royalty interests, carried working interest, net profits interest or payment out of production, if any, in the respective tracts or portions thereof with which such unleased mineral may be burdened. Any such right and interest is defined and referred to herein as "Royalty Right" or "Royalty Interest" to distinguish same from "Operating Interest".

G. OPERATING PARTIES AGREEMENT. The Operating Parties Agreement is the agreement executed as of the date hereof by and between

the Operating Parties and designated as "Operating Parties Agreement, Water Flood Project, Lower Tuscaloosa Pool (East Segment), West Lincoln Field, Lincoln County, Mississippi". As among Operating Parties, their interests are also subject to the terms of said Operating Parties Agreement.

H. WATER FLOOD AGREEMENT. The Water Flood Agreement is the agreement executed as of the date hereof by royalty owners and Operating Parties whereby, upon the conditions therein set out, the Operating Parties are to institute a Water Flood Program in the Water Flood Area and the royalty owners have authorized the Operating Parties to locate an injection well on the lands included within the Water Flood Area and to inject water into the Water Flood Zone in the West Lincoln Field (East Segment), Lincoln County, Mississippi. In the event of conflict between the provisions of this Operating Parties Agreement and the Water Flood Agreement, the provisions of the Operating Parties Agreement shall control insofar as matters pertaining to the Operating Interests are concerned.

II.

DESIGNATION OF OPERATOR:

A. Until the parties may otherwise direct, Marshall R. Young Oil Company is hereby designated as Operator hereof and, as such, shall have the power and duties hereinafter set out; provided, however, the Operator shall be discharged and its powers, rights and duties terminated if one of the following shall occur: (a) Operator tenders its resignation; (b) Operator becomes insolvent; or (c) Operator ceases to own a participating interest.

B. Should Operator be discharged for any of the reasons set out in the preceding paragraph, a successor Operator shall be selected by the parties voting in accordance with Paragraph IV hereof. An Operator just

discharged shall be allowed to vote in the selection of a successor Operator but shall be prohibited from voting to reinstate itself as the next succeeding Operator. The Operator who resigns or is removed as aforesaid shall not be released from its obligations hereunder for a period of ninety (90) days after its resignation or removal unless a successor Operator shall have taken over the operations hereunder prior to the expiration of said period.

III.

POWERS AND DUTIES OF OPERATOR:

A. On or before thirty (30) days after the effective date of this Agreement, Operator shall commence operations for the completion of an injection well at a location in the Northwest Corner of the SW $\frac{1}{4}$ of NW $\frac{1}{4}$ of Section 23, Township 6 North, Range 6 East, Lincoln County, Mississippi, and shall equip said well for salt water injection and shall conduct all necessary operations as contemplated by this agreement by the injection of salt water and/or other substances into said well and into the sands encountered in the Lower Tuscaloosa Pool (East Segment) in an effort to increase the amount of Water Flood Substances which may ultimately be recovered from the Water Flood Zone.

B. Operator shall conduct all operations hereunder in a good and workmanlike manner and, in the absence of specific instructions from the Operating Parties, shall have the right and duty to conduct such operations in accordance with its best judgment of what a prudent operator would do under the same or similar circumstances. Operator shall freely consult with the Operating Parties and shall keep the Operating Parties advised of all matters arising during the operation of the Water Flood Area which Operator, in the exercise of its best judgment, considers important.

Operator shall never be liable to the Parties for errors in judgment or for any act done or omitted in good faith in the performance of any of the provisions of this Agreement.

Operator shall determine the number of employees reasonably required for operations hereunder, shall select such employees and fix the hours of labor and compensation therefor, and such employees shall be the employees of Operator only.

C. In the conduct of any meetings of the Operating Parties, Operator's representative shall act as Chairman thereof, and Operator's representative on each of the committees appointed by Operating Parties shall act as the Chairman of such committees.

D. Before proceeding with any of the completion and commencement of operations of the Water Flood Well and related facilities, Operator shall submit its proposal in writing with respect thereto to the Parties for approval, as provided in Paragraph IV hereof.

E. Before proceeding with any of the following matters, Operator shall submit its proposal in writing with respect thereto to the Parties for approval, as provided in Article IV hereof:

1. The proposed sale of any item of surplus material and equipment, the current new price of which exceeds One Thousand Five Hundred Dollars (\$1,500.00);

2. The proposed expenditure of any sum in excess of Five Thousand Dollars (\$5,000.00) for any one project, except in case of blowout, explosion, fire, flood or other emergency, in connection with which Operator may take such steps and may incur such expense as in its opinion are required to deal with the emergency and to safeguard life and property, provided that Operator shall report the

emergency to the parties as soon as reasonably possible.

IV.

VOTING PROCEDURE:

Meetings of the Operating Parties shall be called from time to time by the Operator for the purpose of submission of any matter required to be determined or approved by the Operating Parties or of any other matter which the Operator wishes to submit for determination or approval to the Operating Parties. Such meetings also shall be promptly called by the Operator if so requested at any time by one or more of the Parties to this agreement. Notices of the date, hour and place at which a meeting is to be held shall be given by the Operator by mailing such notices at least ten (10) days before the meeting, addressed to each of the Operating Parties. Each party hereto shall have the right to designate a representative to act and vote for such party in any such meeting. Any such representative so designated may act and vote as the designated representative of more than one Party, and for the purposes of voting under this Agreement the combined cost participation interest of the Parties represented by any one representative shall, if all such participation interests are voted as a unit, be considered as a vote of one Party. One or more parties owning in the aggregate a majority of the cost participation interest shall be necessary to constitute an affirmative decision of the parties.

At any meeting of the Operating Parties, any non-attending Operating Party may vote on any question or questions presented at such meeting by mail or wire addressed to the Operator, provided the vote is received by the Operator prior to the proposed meeting.

V.

WATER FLOOD PROGRAM:

As part of the consideration of the joinder of royalty owners in the Water Flood Agreement, the Parties have agreed to commence within thirty (30) days after the effective date of the Water Flood Agreement certain work as provided in Paragraph II of the Water Flood Agreement. All such work shall be performed in accordance with the provisions of this Agreement and for the joint account of Operating Parties hereunder.

VI.

RIGHTS AND PRIVILEGES OF PARTIES:

Each Party shall have, among other things, the following specific rights and privileges:

1. Access at such Party's own risk to the Water Flood Area at all reasonable times to inspect the operations hereunder and all wells and records and data pertaining thereto;
2. Operator shall furnish each Party, currently as compiled, complete well information generally, including, without limitation by enumeration, copies of all production data, pressure information, and any and all other records and data pertaining to the completion, operation and performance of the Water Flood Well and the Water Flood Program.

VII.

ALLOCATION OF COST AND EXPENSE:

- A. Operator may initially advance and pay all costs and expenses

for the development and operation for the drilling, completion and operation of the Water Flood Well and related facilities. Operator shall charge said costs and expenses to the joint account of the Parties hereto in the proportion of each Party's cost participation interest. Each Operating Party shall bear and pay, and shall reimburse Operator for, its said proportionate share of all said costs and expenses as hereinafter provided.

However, it is specifically understood and agreed that no cost or expense incurred in the operation and maintenance of producing wells shall be considered as an expense under the terms and provisions of this Agreement.

B. Operator shall bill the Parties monthly for their proportionate part of such costs and expenses incurred by Operator during the previous month, such charges to be made by Operator and such invoices to be paid by the Parties in accordance with the accounting procedure attached hereto as Exhibit "A". In the event of any conflict between the provisions of this Agreement and the provisions of Exhibit "A", the provisions of this Agreement shall prevail, and the provisions of said Exhibit "A" shall be considered amended and modified hereby.

C. Operator shall have the right at its option to require the Parties to advance their respective proportions of such costs and expenses by submitting to the Parties, on or before the 15th day of any month, an itemized estimate of such costs and expenses for the succeeding month with a request for payment in advance. Within fifteen (15) days thereafter, each Party shall pay to Operator its proportionate part of such estimate. Adjustment between estimates and the actual cost shall be made by Operator at the close of each calendar month, and the account of the Parties shall be adjusted accordingly.

D. Should any party fail or refuse to make any payment to Operator at the time and in the manner provided for herein, the same shall bear interest at the rate of eight percent (8%) per annum from the date due until paid.

E. The parties hereto shall share on an operating cost participation basis in the following proportions:

Marshall R. Young Oil Company	70.1875%
Chevron Oil Company	28.5000%
Tela Corporation and/or its assigns	1.3125%

and shall own the Water Flood Injection Well, the equipment thereon and therein, and related facilities, and the operating rights thereto in the percentages shown above.

VIII.

RELATIONSHIP AND LIABILITIES OF PARTIES:

It is agreed and understood that by this Agreement and operations hereunder it is not the intention of the Parties hereto to create a partnership or association. The duties, obligations and liabilities of the Parties hereto are intended to be several and not joint or collective, and nothing contained in this agreement shall ever be construed to create a trust or association or to impose a partnership duty, obligation or liability with respect to any one or more of the Parties hereto.

Each Party shall be individually responsible only for its own obligations, as set out in this Agreement, and shall be liable only for its proportionate share of the costs and expenses, as herein provided.

Whenever in this Agreement reference is made to operations for the

joint account of any of the Parties hereto, or to charges or credits to a joint account, or whenever similar language is used, the Parties use such language merely as a convenient method of referring to the accounting necessary between them, and it is agreed that no such phraseology shall ever be construed as creating any joint liability upon the part of the Parties hereto for any obligation incurred under this Agreement, or as setting apart or creating any fund or jointly owned property for the satisfaction of any such obligation, or as creating a common fund for any other purpose.

IX.

INSURANCE:

A. With respect to the Water Flood operations in the Water Flood Area, the Operator shall carry Workmen's Compensation and Employer's Liability Insurance in accordance with the laws of the State of Mississippi, and other insurance of such type and amount as may be authorized and approved from time to time by Operating Parties.

B. All insurance coverage required hereby shall be carried at the joint expense and for the benefit of Operating Parties. However, premiums for Automobile Public Liability and Property Damage Insurance of Operator's fully owned equipment shall not be charged directly to the joint account but shall be covered by the flat rate charges assessed for the use of such equipment.

X.

EFFECTIVE DATE AND TERM:

A. This Agreement shall become binding upon the Parties immediately upon execution hereof but shall not become effective until executed by

ninety percent (90%) in interest of the Operating Parties and shall be and become effective on the date and at the time the Water Flood Agreement becomes effective.

B. From and after the effective date of this Agreement, the same shall remain in force and effect so long as either or both of the following conditions shall prevail without cessation or interruption of more than ninety (90) consecutive days:

1. So long as one or more of the Water Flood Substances are produced from the Water Flood Area in paying quantities.

2. So long as Operating Parties are engaged in drilling, reworking or other operation in any part of the Water Flood Area for the purpose of discovering, obtaining or producing any Water Flood Substances.

XI.

CONDUCT OF LITIGATION:

In the event Operator, as such, or one or more of the Operating Parties, should be sued upon any cause of action growing or arising out of the operations hereunder, Operator, or the party or parties so sued, as the case may be, shall immediately notify all other parties of the institution of such suit. In the event any such suit (a) is instituted against Operator in its capacity as such, then Operator shall assume and take over the defense of such suit but shall consult and advise the Operating Parties, and in such event Operator may, with approval of Operating Parties, employ outside attorney or attorneys; or (b) is instituted against any party or parties, Operator shall, with the approval of Operating Parties, assume and

take over the defense of such suit, and in pursuance thereof may, with the approval of Operating Parties, employ outside attorney or attorneys, but Operator shall consult and advise with Operating Parties. Should a judgment be rendered against Operator in its capacity as such, or against any party or parties upon any such cause of action, and Operator, as such, or any such party or parties, is required to pay or satisfy such judgment and expense of any litigation, or any part thereof, then Operator, or any such party or parties, shall be entitled to contribution from all of the other parties, each party contributing thereto in the same proportion that he would have contributed had such judgment and expense been a normal cost and expense hereunder.

XII.

MISCELLANEOUS:

A. The Parties hereto have simultaneously with the execution hereof executed the Water Flood Agreement covering and affecting the Water Flood Area and the Water Flood Zone in the West Lincoln Field, Lincoln County, Mississippi, in their respective capacities as Operating Parties, and said Water Flood Agreement is hereby adopted by reference and made a part hereof as though fully set out herein. It is expressly agreed that the terms used in said Water Flood Agreement shall have the same meanings where used herein.

B. This Agreement may be executed in any number of counterparts, and each such counterpart so executed shall have the same force and effect as an original instrument and as if all of the Parties to the aggregate counterparts had signed the same document; or the same may be ratified by separate instruments in writing referring to this contract, each such ratification having

the force and effect of an executed counterpart hereof and in effect incorporating by reference all of the provisions hereof.

C. Notwithstanding any provisions herein that the rights and liabilities of the parties hereunder are several and not joint or collective, or that this agreement and the operations hereunder shall not constitute a partnership, if for Federal Income Tax purposes this agreement and the operations hereunder are regarded as a partnership, then each of the parties hereto hereby 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 said Code and the regulations promulgated thereunder. Operator is hereby authorized and directed to execute on behalf of each of the parties hereto 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 1.761-1(a).

IN WITNESS WHEREOF, the parties hereto have executed this Agreement in multiple originals as of the day and year first above written.

MARSHALL R. YOUNG OIL COMPANY

By: _____

ATTEST:

CHEVRON OIL COMPANY

By: _____

ATTEST:

STATE OF _____

COUNTY OF _____

BEFORE ME, the undersigned authority in and for the State and County aforesaid, personally came and appeared _____, _____, and _____, of MARSHALL R. YOUNG OIL COMPANY, who each acknowledged that as such officers of said corporation, they signed, sealed and delivered the above and foregoing instrument on the day and year therein mentioned as the act and deed of said corporation, being first thereunto duly authorized so to do.

GIVEN under my hand and seal, this _____ day of _____, 1966.

Notary Public

My commission expires:

STATE OF _____

COUNTY OF _____

BEFORE ME, the undersigned authority in and for the State and County aforesaid, personally came and appeared _____, _____, and _____, of CHEVRON OIL COMPANY, who each acknowledged that as such officers of said corporation, they signed, sealed and delivered the above and foregoing instrument on the day and year therein mentioned as the act and deed of said corporation, being first thereunto duly authorized so to do.

GIVEN under my hand and seal, this _____ day of _____, 1966.

Notary Public

My commission expires:

STATE OF _____

COUNTY OF _____

PERSONALLY appeared before me, the undersigned authority at law in and for said County and State, the within named _____,

who acknowledged that he signed and delivered the above and foregoing instrument on the day and year therein mentioned.

GIVEN under my hand and seal, this _____ day of _____, 1966.

Notary Public

My commission expires:

STATE OF _____

COUNTY OF _____

Personally appeared before me, the undersigned authority at law in and for said County and State, the within named _____, who acknowledged that he signed and delivered the above and foregoing instrument on the day and year therein mentioned.

GIVEN under my hand and seal, this _____ day of _____, 1966.

Notary Public

My commission expires:
