Protecting Oil and Gas Lien and Security Interests:
Use of Memorandum of Operating Agreement and Financing Statement

by

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Discussion of the necessity for and an analysis of the text of the Model Memorandum of Operating Agreement and Financing Statement.

APPENDICES

(Be advised that the forms provided in this book have been reduced and should not be used as reproduced.)

I. UNRECORDED LIENS AND SECURITY INTERESTS

A. In General

Lien and security interest provisions have taken on increased significance due to recent downturns in the oil and gas industry, and the resulting frequency of bankruptcy and financial difficulty among oil and gas companies. 1/ The purpose of this article is to examine the precautions parties can take to preserve lien and security interest rights, and insure that their rights will be given the highest possible priority in the event a party to an agreement becomes insolvent or fails to meet his obligations under an Operating Agreement.

Joint development of oil and gas properties has become a commonplace means of risk reduction among oil and gas companies. Operating Agreements set out the obligations of the parties to share the expense of exploration, drilling, and production, and the rights of the parties to share in the benefits of the operation. Remedies--methods for recovering expenses in the event a party to the agreement defaults--are also included in the Operating Agreement.

The American Association of Petroleum Landmen Form 610-1982 Model Form Operating Agreement (A.A.P.L. 610-1982 Operating Agreement) 2/ grants to the Operator designated therein, a lien and security interest in specified property of the Non-Operators, to secure payment of the Non-Operators' proportionate share of expense. 3/ A like lien and security interest in the property of the Operator is granted to Non-Operators to secure payment of the Operator's share of expense. 4/

1/ See generally: Annot, The Operator's Lien, 12(2) Tex. St. B. Sec. Rep., Oil Gas & Min. L. Rep. (July 1986); Bradford, The Ownership of Pre-Petition Oil Runs in Bankruptcy: Using the Texas and Oklahoma Constructive Trust Laws to Gain Priority in Payout, 38 Okla. L. Rev. 483 (1985); Grinstead, The Effect of Texas U.C.C. Section 9.319 on Oil and Gas Secured Transactions, 63 Tex. L. Rev. 311 (1984); Kinzie & Dancy, Protecting the Oil Field Creditor, 56 Okla. Bar J. 1203 (1985); Noblin, The Effect of Bankruptcy and Encumbrances on Mineral Interests in Mississippi, 53 Miss. L.J. 551 (1983); Ray, Oil and Gas Bankruptcy; A Preventive Approach, Inside Management, June 1986, at 55.

2/ American Association of Petroleum Landmen (A.A.P.L.) Form 610-1982 Model Form Operating Agreement is the form most commonly used in the industry for structuring joint operations of property for oil and gas.

3/ A.A.P.L. Form 610-1982 at art. VIIB.

4/ Id.

This lien and security interest gives the parties to the Operating Agreement a right to sell the property of a defaulting party in order to obtain money for the payment of expenses. As discussed below, this sale may occur under the supervision of the court or non-judicially, depending upon the terms of the contract and the extent to which state law will allow non-judicial foreclosure. 5/

In addition to the A.A.P.L. 610-1982 Operating Agreement, parties may enter into API Unit Operating Agreements, Federal Unit Operating Agreements, and Offshore Operating Agreements, which agreements also provide for the granting of liens and security interests. These operating agreements generally do not provide that the Operator grants a lien and a security interest to the Non-Operators. The granting of such mutual liens and security interests so that every party, Operator and Non-Operator alike, is secured can be accomplished by amending the Operating Agreement or by a separate document.

B. The Problem with Unrecorded Liens and Security Interests

In the past, it has not been customary in the oil and gas industry for Operators to record liens and security interests arising under the Operating Agreement. 6/ Recently, however, a slumping economy, falling oil prices, and governmental regulation have caused an increasing number of bankruptcies and an increasing incidence of delayed payment or non-payment of expenses by parties to Operating Agreements. Excessive borrowing and easy credit have come to haunt even the most effectively managed companies. Financial strain, and the nature of debtor/creditor laws in the U.S. have rendered unrecorded lien and security interest rights less valuable than they may have been in the past.

Generally, persons with like interests in the property of a debtor stand an equal chance of recovering a judgment in their favor. However, procedures exist by which creditors can give their interests priority over the interests of other creditors. For example, an unrecorded security interest is subordinate to the interests of creditors who have taken steps to perfect their interests. 7/ In addition, under real property laws, the holder of an unrecorded lien will lose his lien if the

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5 See infra text accompanying notes 103-107.

6 On rare occasions, Operators have filed the Operating Agreement of record.

7 U.C.C. § 9-312(5) (1972). Mechanics' and Materialmen's liens are created by the statutes of a number of states and in some states these statutes may protect a working interest owner who has expended monies on behalf of a debtor working interest owner. Some states explicitly provide for a statutory operator's lien. Derman, Joint Operating Agreement: Working Manual, Natural Resources Law Section Monograph Series No. 2, Pages 27-29 (1986); Haas and Wickes, Oil and Gas Liens, 31 Rocky Mtn. Min. L. Inst. §18.03, §18.04 (1986).

debtor transfers his property to a purchaser for value who does not know there is a lien on the property. 8/

The Bankruptcy Code also reduces the value of a debtor's unrecorded liens and security interests. When the debtor files for bankruptcy, his property is transferred to the trustee in bankruptcy, who is considered a purchaser for value without notice of any unrecorded lien on the debtor's property. 9/ He can thereby avoid any unrecorded transfer of property and/or any encumbrance on property. 10/ Finally, the trustee is given the power to accept or reject, at his discretion, any executory contract between the debtor and another party, including any agreement for future assignment of an interest in the debtor's property. 11/

Thus, absent recordation, the rules governing debtor and creditor relationships reduce the value of lien and security interest rights in proportion to the number of creditors with like claims on the property of the debtor. It is essential that the oil and gas interest owner understand the means available to a creditor for protecting his rights and gaining the highest possible priority for his claims. Recording security interests and liens may also give added force to demands for payment and may provide the necessary leverage for obtaining payment from a debtor who has not yet reached insolvency.

C. Recording for Notice and Perfection

The value of lien and security interests can be augmented by following the procedures established by statute for providing notice to other creditors of a prior lien or security interest. The theory behind such laws is that a creditor cannot be allowed to complain about a risk he knowingly assumes.

To protect Operating Agreement liens and security interests, some commentators have suggested filing the Operating Agreement in the real property records of the county where the operations are performed. 12/

8/ See, e.g., Ca. Civ. Code Ann. § 1214 (West 1982).

9/ 11 U.S.C. § 544(a) (1982).

10/ Id.

11/ 11 U.S.C. § 365(a) (1982).

12/ See Annot, supra note 1, at 2; Note, Oil and Gas: Security Interests Under the A.A.P.L. Form 610-1977 Model Form Operating Agreement, 36 Okla. L. Rev. 916, 921 (1983). But see MBank Abilene, NA v. Westwood Energy, Inc., 723 SW2d 246 (Tex. Civ. App. 1986) where the court held that MBank was charged with notice of liens contained in prior unrecorded operating agreements because the operating agreements were referred to in instruments that were recorded.

Recording the Operating Agreement will provide notice to the purchaser for value that the property he is acquiring is subject to a lien. Likewise, the trustee in Bankruptcy acquires the property with notice of the lien, so that the property enters the bankruptcy estate subject to the lien. The recorded Operating Agreement may also give the parties 'perfected' status under the UCC, thereby giving the holders priority over creditors with unperfected security interests in the same property.

On the other hand, the Operating Agreement is a lengthy document which is expensive to file, and may contain confidential or semi-confidential terms which the parties do not want to place on public display. 13/ The Operating Agreement is not acknowledged in most instances, and generally must be acknowledged to qualify for recordation. 14/ Because the Operating Agreement fails to meet some of the formalities required by the UCC for an enforceable financing statement, it must be modified before filing. 15/ In addition, there is some risk that the Operating Agreement is insufficient as a financing statement to cover all types of property subject to lien and security interest provisions in states requiring special requirements in the case of collateral which is, or will become, fixtures. 16/ Finally, the Operating Agreement may not provide notice of all matters that the parties would like to place of record. For example, filing the Operating Agreement alone will not prevent contracts for assignment of future interests within the Contract Area (such as farmout contracts) from being avoided by the trustee in bankruptcy. 17/ The disadvantages to filing the Operating Agreement are sufficiently great to warrant consideration of alternative methods of providing notice.

The ideal protection for the parties is a relatively brief instrument (a memorandum) which can be filed in state and county records to (1) provide notice of liens on real property; (2) perfect security interests in all personal property and fixtures; and (3) provide notice of transfers of equitable interests in property to which legal title will be assigned in full at a later date. To accomplish these objectives, the instrument must meet the requirements of a financing statement under the Uniform Commercial Code (UCC), 18/ and must be a sufficient memorandum of the Operating Agreement to satisfy notice requirements under state

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13/ Kinzie & Dancy, supra note 1, at 1204.

14/ See infra text accompanying notes 93-94.

15/ Note, supra note 12, at 921.

16/ See infra text accompanying notes 48-53.

17/ See infra text accompanying notes 126-142.

18/ See infra text accompanying notes 47-62.

real property law. 19/ The instrument should also contain a clause which provides notice of equitable interests held by the parties to the Operating Agreement under farmout contracts. 20 The discussion that follows will consider the feasibility of developing such a "Memorandum of Operating Agreement & Financing Statement" (Memorandum).

19/ See infra text accompanying notes 91-102.

20/ See infra text accompanying notes 126-142.

II. PROPERTY SUBJECT TO LIENS AND SECURITY INTERESTS

A. In General

The first step in evaluating any oil and gas creditor problem is to scrutinize the language of the Operating Agreement to determine what property is covered by the lien and security interests involved. 21/ A.A.P.L. 610-1982 22/ provides in pertinent part as follows:

> Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expenses, together with interest thereon. . . . To the extent that Operator has a security interest under the Uniform Commercial Code of the State, Operator shall be entitled to exercise the rights and remedies of a secured party under the code. . . . Operator grants a like lien and security interest to the Non-Operator to secure payment of Operator's proportionate share of expenses. 23/

Two distinct property rights are granted in this provision: (1) a lien upon real property, and (2) a security interest in tangible and intangible personal property and fixtures. 24/ The effect of the lien is governed by the real property laws of the state where the operations are conducted, whereas the effect of the security interest is governed by the UCC. 25/ Each will be discussed in turn.

21/ Annot, supra note 1, at 1.

22/ Supra note 2.

23/ Id. at art. VIIB.

24/ The distinction between these rights is blurred when the property involved falls within the uncertain areas between personal property, fixtures and real property. See Kinzie & Dancy, supra note 1, at 1204. For present purposes it is enough to distinguish between these two rights, without considering the intricacies of property classification.

25/ U.C.C. § 9-102(l)(a)(1972). This article will discuss the UCC as it appears in the 1972 Official Text. For a listing of major variation in the various states, see Hawkland, UCC Series (1986). Note that Texas has added U.C.C. § 9-319 which provides for perfection of security interests through possession. This article is helpful to the oil and gas Operator who claims priority over the first purchaser of production. This topic is beyond the scope of this article, but is discussed in detail in Grinstead, supra note 1. See also Wyo. Stat. § 34-21-948 (1986), which provides for an automatically perfected security interest, securing the obligations

B. Specific Property

The specific property covered will depend upon the terms of the Operating Agreement, and in part, upon the scope the court and the parties are willing to give to the Operating Agreement provisions once financial trouble has occurred.

The use of broad categories of property in the Operating Agreement increases the risk that a defaulting party will assert that specific items of property were not included, and increases the risk that a court will find that the parties intended to exclude items from the provisions. Although it may be undesirable to list property in detail in the Operating Agreement, the property can be delineated in detail on the Memorandum in order to make the rights of all parties to the agreement more certain.

Potentially, the security interest provision could cover all extracted oil and gas stored on the Contract Area, all equipment and other personal (moveable) property used in connection with operations, all accounts, contract rights and other intangibles held by the parties in connection with operation, all proceeds from the sale of property covered by the security interest, and all fixtures on the Contract Area. 26/

The lien covers oil and gas before extraction (in those states which recognize private ownership of oil and gas before extraction ["in place"]). 27/ The lien can also cover any leases or absolute ownership of mineral rights in the Contract Area, 28/ and to some extent, fixtures within the Contract Area. 29/

C. After-Acquired Property

Statutes in some states provide for a lien on after-acquired property, i.e., a lien on interests in property acquired by the debtor

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of the first purchaser of oil and gas production to pay the purchase price, in favor of virtually any person holding a signed writing granting a right in oil and gas production.

26/ U.C.C. § 9-102(l) (1972). See Model Memorandum, para. 6.0, Appendix 1, for a detailed listing of property.

27/ Annot, supra note 1, at 1.

28/ Id.

29/ U.C.C. § 9-313(2); Hamilton, Integration of UCC Fixture Filings with the Real Estate Recordation System--Recent Developments, 45 Tex. L. Rev. 1175, 1183 & n.40-41 (1967).

after the lien date. 30/ When no statute either provides for or prohibits a lien on after-acquired property in a jurisdiction, and the after-acquired property falls within the mortgage description, it can generally be included in a mortgage unless prohibited by judicial decision. 31/ Judicial decisions in a majority of states have upheld the validity of such a provision as between the parties, although liens on after-acquired property are often refused priority as to third parties, even if recorded. 32/

The UCC recognizes the validity of an after-acquired property provision in a security agreement, 33/ with certain exceptions relating to consumer goods. 34/ An after-acquired property clause in the security agreement gives the secured party an interest in existing and future assets which fall within the scope of collateral described in the security agreement. 35/

Although it is not necessary to specifically describe after-acquired property in the security agreement or financing statement when the obvious purpose of the provision is to cover something which by its nature changes from time to time (i.e., accounts; inventory), 36/ the

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30/ Cal. Civ. Code § 2883 (Deering 1972); Mont. Code Ann. § 71-3-105 (1985); N.D. Cent. Code § 35-01-05 (1980); Okla. Stat. Ann. tit. 42, § 8 (1979); S.D. Codified Laws Ann. § 44-1-6 (1983); Hawaii Rev. Stat. § 506-3 (1976).

31/ For an example of a jurisdiction prohibiting an after-acquired property clause, see GA. Code Ann. § 67-103 (Supp. 1985); Dupriest v. Bennett Bros., 7 S.E.2d 293 (Ga. App. 1940) (No mortgage on after-acquired property unless allowed by statutory exception to § 67-103).

32/ See, e.g., Wasserman v. McDonnell, 190 Mass. 326, 328 N.E. 959, 960 (1906). The Wasserman rule, commonly called the Massachusetts rule, is followed in a number of jurisdictions. See Cohen & Geber, The After-Acquired Property Clause, 87 U. Pa. L. Rev. 635, 639 n.22 (1939).

33/ U.C.C. § 9-204(1) (1972).

34/ U.C.C. § 9-402(2) (1972).

35/ U.C.C. § 9-204 (1972). 69 Am. Jur. 2d, Secured Trans. § 298 (1973). It may also be possible to file an effective financing statement to perfect security interests in after-acquired property not mentioned in the financing statement so long as the security instrument itself specifies after-acquired property to be covered. See U.C.C. 9-402 Comments to Official Text (1972).

36/ 69 Am. Jur. 2d Secured Trans. §§ 340 & 207 (1973).

particular class of collateral should be specified. 37/ Classes of property that could be included in the Memorandum include oil and gas to be extracted at a later date, assignments of farmout rights, and accounts, fixtures, real property, and personal property acquired within the Contract Area or in furtherance of the purposes of the Operating Agreement.

However, it should be noted that attempts to use the financing statement to expand rights under a security agreement (i.e., by including an after-acquired property clause in the financing statement although the security instrument does not cover after-acquired property), have been declared invalid. 38/ As to the debtor's purchasers and other creditors, a financing statement may be used to restrict the security interest created by the security agreement (i.e., perfect interests in less than all of the collateral), but cannot be used to enlarge the security interest. 39/ Thus, in order to make the Memorandum effective as a financing statement as to after-acquired property, the security interest provision in the Operating Agreement must be amended to encompass after-acquired property.

37/ 69 Am. Jur. 2d Secured Trans. § 395 (1973).

38/ 69 Am. Jur. 2d Secured Trans. § 394 n.69 (1973).

39/ Id. at 240.

III. PERFECTION OF SECURITY INTERESTS/UCC

A. In General

UCC article 9 governs security interests as defined by the UCC. The term security interest is defined as "an interest in personal property or fixtures which secures payment or performance of an obligation;" 40/ however, UCC 9-102(1)(c) provides that article 9 shall apply "to any transaction, regardless of its form, which is intended to create a security interest in personal property or fixtures." 41/ Thus, article 9 applies only to contractual security interests, and only to interests in personal property and fixtures. 42/ The Operating Agreement, which creates a contractual interest in personal property and fixtures to secure payment or performance of an obligation, is a security interest within the meaning of the UCC.

The UCC provides that such interests are enforceable under the code if (1) the debtor has signed a security agreement which contains a description of the collateral; (2) value has been given; and (3) the debtor has rights in the collateral. 43/ Upon execution by the parties, the Operating Agreement meets these requirements for enforceability and the interest 'attaches' immediately. 44/

Article 9-312 allows the holder of a valid security interest to 'perfect' his interest. 45/ 'Perfection' is UCC terminology for the process of providing notice to all creditors of security interests in property. The UCC prescribes the formalities required to provide notice and indicates the place of filing such notice. 46/ These requirements vary slightly from state to state, but are satisfied in every state by filing a "financing statement."

B. Formalities Required In a Financing Statement

1. Basic Requirements

The basic provisions of UCC article 9-402(1) must be met in all states. A financing statement must contain (1) the name of the debtor;

40/ U.C.C. § 1-201 (1972).

41/ U.C.C. § 9-102(1)(a) (1972).

42/ Note, supra note 12, at 917.

43/ U.C.C. § 9-203(1) (1972) (requirements for enforceability).

44/ See U.C.C. § 9-203(2) (1972) (time of attachment).

45/ U.C.C. § 9-401 (1972).

46/ U.C.C. §§ 9-401, 9-402 (1972).

(2) the name of the secured party; (3) the signature of the debtor; (4) the address of the secured party from which information concerning the secured interest may be obtained; (5) the mailing address of the debtor; and (6) a statement indicating the types [classes], or describing the items of collateral. 47/

In the case of the A.A.P.L. Operating Agreement security interest, each party is a potential debtor and a potential creditor of each other party. To meet the requirements of article 9-402(1), the Memorandum must contain the names of all parties, the signatures of all parties, and the addresses of all parties from which information concerning the security interest can be obtained. The mailing address of a party must be included if different from the above address, and a list of property used as collateral must be provided.

2. Additional Requirements

In addition to the basic requirements above, the requirements of article 9-402(5) must be met when collateral is fixtures or minerals, including oil and gas. In this regard, filing the Operating Agreement alone may be insufficient as a financing statement.

Article 9-402(5) requires that the financing statement must (1) indicate that it covers fixtures or minerals and the like; (2) recite that it is to be filed in the real estate records; (3) include a description of the real estate sufficient, if it contained a mortgage, to give constructive notice of the mortgage under the laws of the state; and (4) include the name of the record owner of the real estate, if the debtor does not have an interest of record in the real estate where the minerals and fixtures are located. 48/

Because the Operating Agreement security interest covers both fixtures and minerals, it is essential to meet the requirements of article 9-402(5) when drafting the Memorandum. The Model Memorandum includes a statement that it covers fixtures and minerals, 49/ and that it is to be filed in the real estate records. 50/ In addition there is space for the required property description. 51/ The UCC requires only that the property description comply with the state's laws prescribing

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47/ U.C.C. § 9-402(1) (1972).

48/ U.C.C. § 9-402(5) (1972).

49/ See Model Memorandum, para. 6.0, Appendix 1.

50/ See Model Memorandum, para. 7.0, Appendix 1.

51/ See Model Memorandum, Exhibit A, infra text at Appendix 1.

the requisites of a property description for a mortgage. 52/ Thus, a description sufficient to provide notice of the lien is also sufficient to meet UCC requirements. 53/ The difficult issue in applying article 9-402(5) is accommodating the requirement that the financing statement contain the name of the record owner of the real estate. Must all record owners by specified? If so, who are the record owners (Lessees? Farmors? Owners of title to the minerals?)

3. The Record Owner Requirement 54/

In most instances, as between the holder of an unperfected security interest in a fixture and the holder of an unrecorded real property interest in a fixture, the holder of the real property interest will prevail. This is so even if the real property interest arises after the security interest, so long as the holder of the property interest had no knowledge of the security interest at the time his interest arose. 55/ On the other hand, a perfected security interest will take priority over a recorded or unrecorded real property interest in a fixture if the real property interest arises after the security interest is perfected. 56/

Difficulty arises when a person desiring to purchase a real estate interest begins a title search. Under earlier drafts of the UCC, the record owner of the real estate was not required to be specified on the financing statement; 57/ therefore, the financing statement could not be indexed against the real estate records in states where no tract indexes were maintained. "[The] absence of specific filing instructions in the Code for fixture financing statements resulted in these statements being kept in 'old shoe boxes' and not indexed at all." 58/ As a result, many states have amended the UCC to require that the name of the record owner of the real estate must be included in the financing statement, at least

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52/ U.C.C. 9-402(5) (1972). Note that some states have less stringent standards for a property description under UCC than under the conveyance statutes of the state.

53/ See infra text accompanying notes 78-87 for the requirements under state law for providing notice of liens.

54/ See generally Hamilton, Integration of UCC Fixture Filings with the Real Estate Recordation System--Recent Developments, 45 Tex. L. Rev. 1175 (1967); 51 Tex. Jur. 2d § 202 (1970).

55/ U.C.C. § 9-313 (1972).

56/ U.C.C. § 9-313(4)(b) (1972).

57/ Hamilton, supra note 29, at 1192.

58/ Id. at 1185-86.

when the debtor does not have an interest of record in the real estate where the fixture is located. 59/

The UCC 'record owner' requirement is discussed briefly in the 1972 Official Text to the UCC:

> Where the debtor does not have an interest of record in the real estate, a fixture financing statement must show the name of a record owner, and Section 9-403(7) requires the financing statement to be indexed in the name of the owner. Thus, the fixture financing statement will fit into the real estate search system. 60/

Thus, the theory is that because both the owner of the real property where the fixture is located and the purchaser of the fixture own a mortgageable interest, the creditors of the real property owner must receive constructive notice of security interests in the fixture if the purchaser's security interest is to be given priority.

To illustrate, assume Hot Co., a tenant of Landlord, purchases a commercial air-conditioning unit for its office from Cool Co. The purchase is made on an installment contract. Cool Co. files a financing statement to insure that Hot Co. pays installments on the unit. Thereafter, Bank-It lends $100,000 to Landlord, accepting the Hot Co. property as collateral. The bank takes the value of the air-conditioning unit into consideration when making the decision to lend, since Landlord is a slum landlord, and the Hot Co. property, located beside a nuclear waste dump, is nearly valueless. Hot Co. has never recorded its lease.

If the financing statement contains only the names of Cool Co. and Hot Co., it cannot be recorded in the real property records, because Hot Co. has no interest of record in the property where the air-conditioner is located. Further, Bank-It will not have notice of the existence of Cool Co.'s security interest.

If, however, the financing statement contains the name of Landlord (the record owner of the real estate where the air-conditioner is located), then the financing statement can be indexed against the deed of Landlord. Bank-It will have notice that the air-conditioning unit is subject to Cool Co.'s lien, and therefore Bank-It would have no reason to complain that Cool Co. is given priority over its own claims in the property.

The UCC solution to this problem is to require either that Hot Co. record its lease, at which time it becomes a record owner of the real estate, or that Landlord's name be included in the financing statement as the record owner of the real estate. Because Cool Co. cannot insure that

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59/ See generally Hamilton, supra note 29, at 1175.

60/ U.C.C. Official Text at 137 (1972).

Hot Co. will record its lease to avoid a potential problem with Bank-It, it would be wise for any creditor in Cool Co.'s position to include the name of the lessor on the financing statement.

As applied to an Operating Agreement security interest, identification of all record title owners can be onerous. While the names of the lessees are included in the Operating Agreement, and can be included in the financing statement, individual lessors within a Contract Area can be too numerous to include (consider, for example, a Contract Area which encompasses a portion of a city). Frequently, the only feasible solution is to list the names of the lessees (parties to the agreement), and depend upon each party to the agreement to record his leases. By recording a lease, the lessee becomes the record title owner and satisfies UCC article 9-403(7).

In addition, the parties to an Operating Agreement often create expansive Contract Areas which include open tracts, i.e., tracts in which the parties to the Operating Agreement do not have an interest at the time the Operating Agreement is executed. A strict interpretation of UCC article 9-403(7) would require amendment as the leases are acquired to include the name of each additional lessor. Alternatively, the names of the lessors (or lessees, if leases have been taken and recorded by parties who have not executed the Operating Agreement) could be included on the financing statement. This approach is burdensome and might be viewed as a cloud on title.

Finally, one or more of the parties may hold a farmout contract which allows a party to go onto the land of another to extract minerals. A farmout is more in the nature of a license than a lease until a successful well has been drilled and paid for from the proceeds of production. Until a well has been successfully completed, the name of the record owner (the farmor) of that property will have to be included in the financing statement.

Fortunately, it is customary in the industry for oil and gas lessees to record leases in the real property records. If the names of all of the parties to the Operating Agreement (lessees) and the names of all the farmors are included on the financing statement, the financing statement should be sufficient to protect the priority of security interests in property currently held of record by the parties to the Memorandum.

If additional leases are obtained within the Contract Area, they can be recorded at that time, and the financing statement will then be sufficient as to those leases. If farmouts are obtained within the Contract Area at a later date, there is some risk that security interests in fixtures and minerals on those lands may not be given priority over interests of the farmor's creditors. If the lien and security interests seem sufficiently important to prioritize, then the financing statement can be amended 61/ when the farmouts are acquired.

61/ See infra text accompanying notes 80-84.

Cases and Attorney General opinions in some states have expressed the view that a financing statement is invalid if the record owner's name is not included, and that the omission will not be deemed a minor error. 62/ However, the better view would be to uphold the financing statement as valid as to all collateral on lands to which the record owner's name is provided. This view would accord with the purpose of the record owner provision, to avoid giving the financing statement priority as against a creditor of the record owner when the record owner is not specified on the financing statement. Moreover, since the Memorandum is both a financing statement and a lien, it will be filed where required by the UCC as well as in the county records as a lien. Such recordation in the county lien records should provide constructive (or at least inquiry notice) to creditors who are contemplating extending credit to a party who owns a property interest within the Contract Area.

C. Place of Filing

In order to perfect a security interest in collateral other than real property, including fixtures, it is necessary to file a financing statement in the proper place(s). 63/ UCC article 9-401, as adopted by the various states, governs the place(s) of filing. 64/ The proper place of filing varies with the types of collateral covered. Thus, for the Memorandum, which covers real and personal property and fixtures to be effective as to all property types, it must be filed in several places.

1. Basic Filing Requirements

The proper place to file when collateral is minerals or the like (including oil and gas) or when the financing statement is filed as a fixture filing and the collateral is goods which are or are to become fixtures is in the office where a mortgage on the real estate concerned would be filed or recorded. 65/ For all other types of collateral, with the exception of farm products and consumer goods, the UCC requires an additional centralized filing in the office of the Secretary of State, or other office designated to handle UCC records. 66/

2. Additional Filing Requirements

62/ Kitchen Cabinet Corp. v. Margarella, 9 UCC Rep. Serv. 908 (1971); Atty. Gen. Op. 63-194, 1 UCC Rep. Serv. 787 (1963).

63/ U.C.C. § 9-304 (1972).

64/ U.C.C. § 9-401 (1972).

65/ U.C.C. § 9-401(1)(b) (1972).

66/ U.C.C. § 9-401(c) (1972). See infra text at Appendix 6 for the mailing address of the centralized filing office of each state.

Several states have added an additional filing requirement based upon the location of the debtor's place of business. 67/ These states also provide for filing a financing statement when the debtor has no place of business in the state. 68/ It is important to remember in this regard that all parties to the Memorandum are potential debtors and must be considered such in determining the proper place to file the financing statement.

The variations in filing locations adopted by the states are reflected herein in the chart in Appendix 5, which shows the proper place(s) to file in each state. Appendix 7 herein contains Model Filing Instructions which can be sent to the county filing officer and UCC filing officer to insure filing in the proper manner.

D. Continuation Statements

A financing statement terminates after five years unless a continuation statement is filed during the six month period prior to the end of the five year term. 69/ Because most of the risk involved in joint operations on oil and gas property generally occurs in the early period of development, before production is obtained, parties may not deem it worthwhile to install the necessary system to track the running of financing statements. However, if the continuation of the security interest is desired parties can file a continuation statement and extend the period of perfection of the security interest five years from the "last date to which the [prior] filing was effective." 70/ Succeeding continuation statements can be filed in the same manner. 71/

Appendix 2 herein contains a Model Continuation Statement. The continuation statement must express the intention of the parties to continue the effect of the financing statement. 72/ In addition, the statement must contain the file number of the original financing statement, and the signature of the parties. 73/ The execution date of the continuation statement may be included for the reference of the parties;

67/ See, e.g., Wyo. Stat. 34-21-950(a)(iii) (1977).

68/ Id.

69/ U.C.C. § 9-403 (1972).

70/ U.C.C. § 9-403(3) (1972).

71/ Id.

72/ Id.

73/ Id.

however, the continuation will not become effective until the date of filing. 74/

It is possible that the parties to the Memorandum could consent in advance to the filing of a continuation by the Operator, to be binding on all parties to the Memorandum when filed. This procedure, if enforceable against all parties, would avoid the inconvenience of circulating the continuation statement for the signature of all the parties. The Model Memorandum grants the Operator the right to file continuation statements.

E. Termination Statement

Once the debtor has satisfied all outstanding secured obligations, he may make demand upon the secured party for a termination statement. The purpose of the termination statement is to provide notice that the debtor's personal property and fixtures are no longer encumbered. The UCC requires a secured party to comply with the demand by sending the debtor a termination statement within ten days. 75/ Failure to comply results in liability for specified statutory damages. 76/ A copy must be provided for each filing officer with whom the financing statement was filed. 77/ The termination statement must state that the secured party no longer claims a security interest under the financing statement, and must identify the financing statement by file number. 78/

Once a party has met all his obligations under the Operating Agreement, he is eligible to demand a termination statement from each party to the Operating Agreement. To simplify the process of terminating his interests, the Model Memorandum provides that a party may make demand upon the Operator, who will then file a termination statement on behalf of all parties to the Operating Agreement. By agreeing in advance (when the parties execute the Memorandum) such a procedure will prevent any party from claiming an interest in the debtor's property after the date of filing of the termination statement. Likewise, the fact that the debtor has consented to the arrangement should act as a waiver of his right to assert statutory damages against any Non-Operator for failure to file an independent termination statement.

74/ Id.

75/ U.C.C. § 9-404(1) (1972). See infra text at Appendix 3 for Model Release of Memorandum of Operating Agreement and Termination of Financing Statement.

76/ Id.

77/ Id.

78/ Id.

Any assignment of security interests which occurs prior to termination must be considered when a termination statement is filed. The UCC provides:

> A termination statement signed by a person other than the secured party of record must [include or] be accompanied by [the assignment] or a separate statement of assignment signed by the secured party of record [that he has assigned the security interest to the signer of the termination statement] and complying with subsection (2) of Section 9-405. 79/

Thus, the Operator must attach to the termination statement a copy of the assignment, if any, made to any current party to the Operating Agreement, but not yet placed of record as provided in UCC article 9-405. It would also be advisable to reference in the termination statement the names of the other parties to the Memorandum, and state that the termination statement is filed by the Operator pursuant to and on behalf of all parties to the Memorandum.

F. Amending the Financing Statement

The UCC provides that a financing statement substantially complying with Code requirements is effective even though it contains minor errors that are not seriously misleading. 80/ Accordingly, minor changes in circumstances will not invalidate a financing statement which is otherwise valid. Nevertheless, when circumstances change so substantially that the financing statement would be materially misleading to creditors, it is necessary to file an amendment. 81/

Because the Memorandum may be filed before payout in a farmout situation, the Memorandum must be amended at payout to include the name of the farmor if he elects to convert to a working interest. The Memorandum would also require amendment if the Contract Area is enlarged, or if some other material change in collateral occurs.

The UCC provides for amendment of financing statements, but does not specify any particular amendment process. 82/ The procedure under UCC

79/ U.C.C. § 9-404 (1972).

80/ U.C.C. § 9-402(8) (1972).

81/ Id.

82/ See U.C.C. 9-402(4) (1972). Note that under 9-402 the amendment of a financing statement does not extend the term of the financing statement. A continuation statement must be used to extend the period of perfection as to collateral covered by the original financing statement, and as to new collateral. But if the amendment adds collateral to the financing statement, the financing statement article 9-405 for providing notice of assignments is indicative of the type of procedure which should be followed when amending the financing statement. 83/

A "Financing Statement" is defined in the UCC as the original financing statement plus any amendments thereof. 84/ Presumably, then, there is no need to file an entirely new financing statement each time the financing statement is amended. On the other hand, it would be unreasonable to allow one party, unilaterally, to change the financing statement terms without the consent of the other parties. The amendment should, at a minimum, contain the signatures of all the parties who are potential debtors under the Operating Agreement, the file number of the original financing statement, the date of the original financing statement, and the printed names of the parties. It would be advisable for all parties to execute an amendment. If for no other reason, a solvent company today may be insolvent tomorrow.

G. Placing Assignments of Record

Although assignment of a security interest by a secured party would seem to require amendment of the financing statement, the UCC provides a procedure for placing assignments of record. 85/ The assignee must file a written statement of assignment (either the assignment document itself or a separate instrument). The statement must be signed by the secured party of record and the debtor, contain the file number and date of the original financing statement, provide the name and address of the assignee, and describe the collateral assigned. 86/ The statement must be filed in each place that the financing statement is filed. 87/

H. Ratification

For most purposes the Memorandum will be sufficient without amendment, and in the rare case where amendment is necessary, it will not be unduly burdensome to obtain the signatures of the parties for such amendment. Nevertheless, when it is anticipated that a farmor or other person with interests in the Contract Area will subsequently become a party to the Operating Agreement and the Memorandum, it will be more

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is effective as to the added collateral only from the date of such amendment.

83/ See infra text accompanying notes 85-87.

84/ U.C.C. § 9-402(4) (1972).

85/ U.C.C. § 9-405 (1972).

86/ U.C.C. § 9-405(2) (1972).

87/ Id.

convenient for the parties to consent in advance to the ratification of the Memorandum by other parties holding an interest in the Contract Area.

A ratification, signed by a new party, will serve two purposes. First, by ratifying the Memorandum, the ratifying party will enter into the Memorandum as a potential debtor/creditor. In this sense the ratification will act as an amendment to the financing statement when it is filed in the UCC records. The ratification when filed will also act as notice that the ratifying party has subjected his property to the lien in the Operating Agreement.

A document of ratification can be drafted in advance to serve these purposes. The Model Ratification, Appendix 4, should be filed along with the financing statement and the lien, but was drafted to give notice if filed independently in the UCC or county records. 88/

I. Foreclosure Under the UCC

The Operating Agreement provides that "to the extent that Operator has a security interest under the Uniform Commercial Code of the state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code." The "mutual or like lien" granted by the Operator confers the same rights on the Non-Operators. The rights and remedies of a secured party, in bankruptcy and non-bankruptcy situations, are found in UCC article 9-501 through 9-507. The secured party's rights include the right to take possession of collateral when the debtor is in default, either through self-help repossession, or through judicial action. 89/ The UCC provides procedures for handling notice, repossession, sale, and deficiency (or excess) from sale. 90/ Careful attention should be paid to the procedures outlined in the Code.

88/ The use of a ratification is suggested to expedite and simplify the process. If for some reason the use of a ratification is objectionable, the parties can terminate the prior financing statement, release the lien and file a new Memorandum, which includes the names of the additional parties.

89/ U.C.C. §§ 9-501 - 9-507 (1972).

90/ Id.

IV. NOTICE OF LIENS ON REAL PROPERTY

As discussed in the introduction to this article, a lien on real property is essentially the right to sell the property subject to the lien, or force a judicial sale of that property, to obtain money due the lien holder under a contract (Operating Agreement). If the lien property is transferred to a purchaser for value who has no notice of the lien, the lien is extinguished. 91/ To prevent extinguishment of the lien rights, the lien holder may file notice of the lien in the real property records of the county where the property is located. 92/

A. Formalities of Notice

Each state has a recording statute which prescribes the content of notice of liens and the formalities which must be observed to qualify the notice document for recording. These requirements may be found in the statutes for recording and in the statutes which set out the requirements for valid conveyances. The requirements are substantially the same in every state, with minor variations, as follows:

1. Acknowledgment

In a majority of states, acknowledgment is a prerequisite to recordation of any conveyance affecting title to real property (including liens and mortgages). 93/ Although the instrument of conveyance is effective as among the parties when executed, it may not be held ineffective as notice to third parties if recorded without acknowledgment. 94/

2. Execution In the Presence of Witnesses

A majority of states require acknowledgment of a conveyance by the person executing it before a proper authority or proof by a subscribing witness or witnesses. 95/ This either/or option is not available, however, in Connecticut, Ohio, South Carolina, Vermont, Florida, Louisiana, and Michigan. 96/ The document of conveyance in these states

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91/ See, e.g., Cal. Civ. Code Ann. § 1214 (West 1982).

92/ Id.

93/ See, e.g., Alaska Stat. § 34.15.150 (1984).

94/ See, e.g., Hallet v. Sumpter, 14 Alaska 13, 106 F. Supp. 996 (D. Alaska 1952).

95/ Supra note 80.

96/ Conn. Gen. Stat. Ch. 821, § 47-5(4) (1985); Ohio Rev. Code 5301.01 (1981); S.C. Code Ann. 30-5-30 (1977) and 1974-75 Op. Atty. Gen. No. 3990, at 64; Vt. Stat. Ann. § 341 (1975); Fla. Stat. Ann. § 689.01

must be subscribed by two witnesses and must be acknowledged before recording. 97/

3. Additional Formalities

The name and address of the person preparing the Memorandum must be typed on the face of the instrument prior to recordation in Alabama, Florida, Michigan, North Carolina and Kentucky. 98/ Presumably, in the case of a form document, the preparer is the person who fills out the form, as opposed to the person who drafted the form.

A taxpayer identification number or reference to lot and block number must be included in New Jersey. 99/ The names of all persons signing the instrument (including witnesses, parties, notaries) must be typed or printed or stamped below their signatures in Maryland, New Jersey, and Rhode Island. 100/ In South Carolina the State Auditor must endorse the instrument before recordation is effective as notice, 101/ and in Kentucky the instrument must state the date and maturity of the obligation secured by the mortgage or deed. 102/

Local laws may also require special formalities. Despite the numerous formal requirements, a standard form can be devised to meet the majority of requirements in all states. The standard form may be modified to comply with statutes requiring witnesses, Taxpayer I.D. numbers, the name and address of the preparer, and any other technical requirements.

B. Foreclosure

Judicial foreclosure is provided for by statute in every state. The lienholder files a petition with the court for foreclosure of the lien, and eventually, the property is sold, and the proceeds are applied to the debt owed to the lien holder.

(1969); La. R.S. § 2743 (Supp. 1986); Mich. Comp. Laws § 565.8 (West Supp. 1986).

97/ Id.

98/ Ala. Code § 35-4-110 (1977); Fla. Stat. Ann. § 695.24 (1969); Mich. Comp. Laws § 565.201-203 (1967); N.C. Gen. Stat. § 47-17.1 (1984); Ky. Rev. Stat. § 382.355 (Supp. 1984).

99/ N.J. Stat. Ann. § 46:15-2.1 (West Supp. 1986).

100/ Md. Real Prop. Code Ann. § 4-101 (1981); N.J. Stat. Ann. § 46:15-13 (West Sup. 1986); R.I. Gen. Laws § 34-11-1.1 (1984).

101/ S.C. Code Ann. § 30-5-80 (1977).

102/ Ky. Rev. Stat. § 382.335 (Supp. 1984).

However, in states which do not forbid non-judicial foreclosure the right to foreclose without court proceedings may be agreed upon by the parties. A non-judicial foreclosure provision allows sale of the lien property without the expense or delay of court proceedings, and adds force to the lienholder's demands for payment. Statutes governing the enforceability of non-judicial foreclosure provisions in the states appear in three basic forms.

1. Express Power of Sale 103/

Some states allow non-judicial foreclosure of any mortgage which grants the mortgagee an express power of sale. The mortgage holder may be required to comply with notice or other procedural requirements to effect a valid sale. Although the Operating Agreement does not address this issue, the Model Memorandum allows for the use of a non-judicial foreclosure provision.

2. Deed of Trust with Power of Sale 104/

Some states allow non-judicial foreclosure under a deed of trust with power of sale, but do not allow non-judicial foreclosure under any other circumstances. A trust deed with power of sale is similar to a mortgage with power of sale except that the property securing the indebtedness is transferred to a third party in trust. The third party (trustee) is given the power to sell the property in the event that the obligation is not paid according to the terms of the agreement. 105/ It is interesting to note in this regard that officers and employees of a corporate beneficiary may qualify to act as trustee. 106/

To incorporate a power of sale into the Memorandum, the lien provision would provide that "each party grants to ___(name)_______ as trustee with power of sale, a lien upon its ______(property)_____ to secure __________(obligation)_________." In addition, it would be necessary to specify the terms and conditions of the trustee's exercise of the power of sale. The procedures specified must accord with statutory conditions imposed on the exercise of a power of sale in the jurisdiction where the property is located. 107/

103/ See, e.g., Mo. Ann. Stat. § 443.290 (1986).

104/ See, e.g., Ariz. Rev. Stat. Ann. § 33-807A and § 33-721 (Supp. 1985); Ind. Stat. Ann § 32-8-11-3 (1973).

105/ Am. Jur. Legal Forms 2d § 179:52 (1973).

106/ See Koehler v. Pioneer American Ins. Co., 425 S.W.2d 889 (Tex. Civ. App. 1968).

107/ See Am. Jur. Legal Forms 2d § 179:52 (1973).

3. Absolute Prohibition 108/

Other states prohibit non-judicial foreclosure entirely, and have enacted statutes which provide that all mortgages must be foreclosed by action in court, whether under deed of trust or otherwise, and notwithstanding any clause to the contrary in the mortgage.

C. Release

Statutes in many states require the holder of an encumbrance on real property to file a release of record if the obligation is satisfied and the debtor demands release. 109/ Civil or criminal penalties are imposed for failure to file when demand is made by the debtor.

For the sake of convenience, the Release of Liens may be combined with a UCC Termination Statement. The parties may consent in advance to filing of a release by the Operator on behalf of all the parties, once all the obligations of the parties have been satisfied. It is questionable whether the Operator should be able to 'release' his own property from the liens and security interests. However, given that the consent to release is conditioned upon satisfaction of all obligations under the Operating Agreement, wrongful release for the benefit of the Operator could be attacked in a breach of contract action, or possibly, as a breach of fiduciary duty. 110/

108/ See, e.g., Iowa Code Ann. § 654.1 (West Supp. 1986), III. Stat. Ann. Ch. 110, § 15-101 (1984), S.C. Gen. Stat. § 29-3-630 (1977).

109/ See, e.g., Okla. Stat. Ann. tit. 46, § 15 (1979).

110/ Query whether such an action is worth much if the debtor/Operator is insolvent.

V. LOUISIANA LIENS AND SECURITY INTERESTS

Louisiana has not adopted the UCC. As a result, a corporation cannot file a financing statement in Louisiana to secure its position or gain a priority over general creditors and holders of unperfected security interests in a debtor's property in the event of bankruptcy, or the debtor's failure to satisfy his obligations under the Operating Agreement.

Louisiana statutes do provide for chattel and real property mortgages which, if recorded, provide advantages similar to UCC 'perfection.' The following paragraphs summarize the Mortgage laws of Louisiana and their application to liens and security interests granted in Operating Agreements.

A. Types of Mortgages--Generally

Louisiana law provides for three types of mortgages: conventional mortgages, resulting from contract; legal mortgages, resulting from operation of law; and judicial mortgages, resulting from recordation of judgment. 111/ The Operating Agreement lien is a conventional mortgage.

A mortgage is defined by statute as a right granted to the creditor over the property of a debtor for the security of his debt which gives the creditor the power of having the property seized and sold in default of payment. 112/ A mortgage may be classified as a general mortgage or special mortgage. A general mortgage covers all the debtor's property, present and future, of a given class. 113/ A special mortgage covers only specified property presently owned by the debtor. 114/

Article 3308 provides that future property can never be the subject of a conventional mortgage, but case decisions indicate that although future indefinite property cannot be the subject of a conventional mortgage, future definite property may be mortgaged. 115/ Thus, although general after-acquired property clauses are not enforceable, a mortgage of a specific thing to be acquired by the debtor in the future may be mortgaged. 116/

111/ La. Rev. Stat. Ann. art. 3286 & 3287 (1952).

112/ La. Rev. Stat. Ann. art. 3278 (1952).

113/ La. Rev. Stat. Ann. art. 3288 (1952).

114/ Id.

115/ La. Rev. Stat. Ann. Art. 3308 (1952). See also Ewing v. Small Business Administration, 359 F. Supp. 16 (E.D. La. 1973).

116/ State of La. v. Atlas Pipeline Corp., 33 F. Supp. 160 (W.D.La. 1940).

B. Types of Property Mortgageable

Mortgageable property includes:

(1) corporeal immovables subject to alienation and their component parts.

(2) usufract of corporeal immovables for duration of usufruct, and right of use servitudes with their accessories.

(3) ships and other vessels

(4) moveable accessories that an owner of an industrial or commercial immovable has placed upon it for its service or improvement (equipment/inventory).

(5) mineral rights

(6) interests under lease

(7) railroad property

Mortgageable property on the oil and gas lease would include the leasehold, mineral rights, improvements on the leasehold and even equipment that might be brought onto the leasehold from time to time for use in operations. Whether contract rights and other intangibles are covered is less clear.

C. Effect of overlapping mortgages 117/

A recorded general mortgage, such as the mortgage of moveable accessories used in an industrial enterprise, will not prevent recordation of a special mortgage such as a chattel mortgage on a generator for example, from being effective. Nor will a special mortgage defeat the effectiveness of a general mortgage as to other property included under the general mortgage. Similarly a general mortgage under the Mineral Code will take precedence over a general mortgage of industrial property, as to collateral not covered by the mineral code mortgage.

D. Recordation

A real property mortgage must be recorded in the office of the recorder of the parish wherein the property lies in order to be effective against third persons. 118/ If the mortgage covers property in more than one parish, it must be recorded in each parish. 119/

117/ See generally VII Martindale-Hubbell La. Digest, p. 38 (1986).

118/ La. Rev. Stat. Ann. art. 3346 (1952).

119/ La. Rev. Stat. Ann. art. 3347 (1952).

Every chattel (personal property) mortgage must be recorded in the office of the recorder of mortgagers of the parish where the mortgaged property is to be located according to the terms of the mortgage instrument, and also in the office of the recorder of mortgages of the parish of the mortgagor's domicile, if the mortgagor is domiciled in the state. 120/

E. Foreclosure

Non-judicial foreclosure is not allowed under Louisiana law. A mortgage must be foreclosed through either 'ordinary process' or 'executory process.' Ordinary process involves filing a suit, answer by the defendant, trial, and judgment, recognizing the lien of the mortgage. After judgment a writ will be issued and the property sold, and the mortgage creditor is paid from the proceeds of sale.

Executory process is a summary proceeding which can be used if the mortgage is granted in an authentic act executed before a notary and two witnesses in which the obligor declares and acknowledges the obligation, whether then existing or thereafter to arise. 121 Code of Civil Procedure article 2632 provides that "an act evidencing a mortgage. . . imports a confession of judgment when the obligor therein acknowledges the obligation secured thereby, whether then existing or to arise thereafter, and confesses judgment thereon if the obligation is not paid at maturity." 122/

The holder of the mortgage files a petition in court with the mortgage document and other relevant contracts attached. Then, the court will issue an order for issuance of executory process, 123/ and notice of demand will be served upon the debtor. 124/ If payment is not made within three days, a writ of seizure and sale addressed to the sheriff is issued, and the property is seized. Notice of seizure is served on the debtor and three days thereafter the property is advertised for sale, once a week for 30 days. After 30 days property is sold at public auction and the mortgagee is paid from the proceeds of sale. 125/

F. Specific Mortgage Statutes

120/ La. Rev. Stat. Ann. § 9:5353 (West Supp. 1986).

121/ La. Code Civ. Proc. Ann. art. 2631 (West 1961).

122/ La. Code Civ. Proc. Ann. art. 2632 (West 1961).

123/ La. Code Civ. Proc. Ann. art. 2634-2638 (West 1961).

124/ La. Code Civ. Proc. Ann. art. 2639 (West 1961).

125/ La. Code Civ. Proc. Ann. art. 2721-2724 (West 1961).

Louisiana statutes provide that there can be no mortgage except in such instances as authorized by law. Thus, many statutes have been enacted which provide specifically for certain types of mortgages. Mortgages which may be relevant to the oil and gas properties covered by the Operating Agreement include La. Rev. Stat. 9:5101 Mortgage of Mineral Rights, La. Rev. Stat. 30:109 Mortgage of Mineral Leases and Contracts, La. Rev. Stat. 56:429 Mortgage of Leases on State Water Bottoms, La. Rev. Stat. 9:5351-9:5365 Chattel Mortgages, La. Rev. Stat. 9:5102 Interests Under Lease, and La. Rev. Stat. 9:5367 Moveables Used in Commercial and Industrial Property.

VI. SPECIAL CONSIDERATION--FARMOUT AGREEMENTS

A party to an Operating Agreement may have a contractual farmout right to drill on certain property in the Contract Area. This farmout right differs from a mineral interest (working interest) such as an oil and gas lease, and therefore raises special concerns.

A. The Farmout Contract

While there is no typical Farmout Agreement, the following elements or conditions may be the salient features of a Farmout Agreement:

(1) The farmor, the holder of an oil and gas lease or other mineral interest, allows the farmee to drill for oil and/or gas on property in which he owns a mineral right.

(2) The farmee drills a well (test well) within the time limits specified in the farmout contract and otherwise complies with the terms of the contract.

(3) Production begins, and as agreed, the farmor assigns his mineral interest to the farmee, reserving a royalty interest which may be convertible at the farmor's election into a working interest in that well, if and when the farmee recovers his costs of drilling, testing, reworking, completing, equipping, and operating from the production from the well.

(4) The royalty is free of all costs of production, whereas the working interest is subject to a proportionate share of the costs of production. If the farmor converts, he joins in the Operating Agreement as a Non-Operator, and subjects his interest to the liens and security interests of the Operating Agreement which insure his payment of a proportionate share of expense. 126/

B. Problems with Unrecorded or Unassigned Farmout Interests

If a farmor goes bankrupt after the assignment of the mineral interest occurs, and after the assignment has been properly acknowledged and recorded, the transfer is not voidable by creditors of the farmor or a trustee in bankruptcy who have claims arising after the farmor files for bankruptcy. If the assignment is not recorded, or if the assignment has not yet taken place, the trustee in bankruptcy may have the power to void the transfer. This can be devastating for the farmee who has invested substantial resources in the drilling of the well at the time of filing.

1. Powers of a Trustee in Bankruptcy

Section 541 of the bankruptcy code provides in pertinent part:

126/ See generally 2 H. William & C. Meyers, Oil & Gas Law § 432 (1985).

(a) The commencement of a case. . . creates an estate. Such estate is comprised of all the following property, wherever located and by whomever held:

(1) Except as provided in subsections (b) and (c)(2) of this section, all legal equitable interests of the debtor in property as of the commencement of the case.

(b) Property in which the debtor holds, as of the commencement of the case, only legal title and not an equitable interest, . . . becomes property of the estate of the debtor's legal title to such property, but not to the extent of any equitable interest in such property that the debtor does not hold. 127/

Under section 541, standing alone, it can be argued that a farmee holds a present equitable interest in the minerals covered by the contract prior to assignment. 128/ That interest would not become a part of the bankruptcy estate and would entitle the farmee to an assignment of legal title to the minerals once he has performed his obligations to drill. If the assignment has taken place prior to filing for bankruptcy, the assigned property would not become a part of the bankruptcy estate.

However, under section 544 of the bankruptcy code the trustee has the power (commonly referred to as "strong arm powers") to avoid certain transfers made, or to be made, by the debtor after the petition for bankruptcy is filed. 129/

Section 544 provides in pertinent part:

(a) The trustee shall have, as of the commencement of the case, and without regard to any knowledge of the trustee or any creditors, the rights and powers of, or may avoid any transfer of the property of the debtor or any obligation incurred by the debtor that is voidable by -- . . . .

(3) A bona fide purchaser of real property, other than fixtures, from the debtor, against whom applicable law permits such transfer to be perfected, that obtains the status of a bona fide purchaser and has perfected such

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127/ 11 U.S.C. § 541 (1982).

128/ Baker & Schiffman, Effect of Bankruptcy Law on Specific Oil and Gas Insolvency Problems, 35 Sw. Legal Found. Oil & Gas Inst. 187, 193 (1984).

129/ Oil & Gas Subcommittee of the Business Bankruptcy Committee, Texas State Bar, Unrecorded Oil & Gas Interests: A Special Problem for the Unwary at 2 [hereinafter Oil & Gas Subcommittee Report].

transfer at the time of the commencement of the case, whether or not such purchaser exists. 130/

The extent to which the trustee can exercise these powers is governed by state law. 131/ Under the real property laws of most states, a transfer of real property which is not recorded can be avoided by a bona fide purchaser for value (BFP) unless that BFP has knowledge of the transfer. 132/ Similarly, a contractual encumbrance on property, including a contract to assign in the future, can be avoided, even though it may be an obligation which runs with the land, if that contract is not recorded properly. 133/ In the farmout context, 544(a) appears to allow the bankruptcy trustee to avoid both unrecorded assignments of oil and gas interests, and contracts for future assignment of legal title. 134/

2. The Relation Between Section 544 and Section 541

As illustrated above, unrecorded assignments and contracts to assign may be capable of being avoided by the trustee in bankruptcy. Therefore, an argument can be made that the bankrupt estate includes all mineral interests that have not been assigned and recorded. This would be true whether the farmout contract is viewed as a covenant to assign at a future date, or as a present assignment of equitable title to the minerals. On the other hand, under section 541, it would appear that any equitable interests assigned prior to commencement of bankruptcy are not a part of the bankruptcy estate. Very little case law addresses the interrelation of these two statutes and their effect.

The most commonly accepted view is that section 541 was not intended to proscribe the strong arm powers of the bankruptcy trustee under section 544. 135/ Under such an approach, equitable interests assigned prior to bankruptcy will become a part of the bankruptcy estate unless they are recorded in order to prevent the Trustee, as a BFP, from

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130/ 11 U.S.C. § 544 (1982).

131/ In re Gurs, 27 B.R. 163 (Bkrtcy. 9th Cir. 1983); McCannon v. Marston, 679 F.2d B (3rd Cir. 1982); In re Elin, 120 B.R. 1012 (D.C.D.N.I. 1982).

132/ See, e.g., Cal. Civ. Code Ann. 1214 (West 1982). Where the trustee has actual knowledge, it could be persuasively argued that he should not be able to avoid a farmout commitment. This reasoning is especially strong where the farmout is on a drillsite.

133/ Id.

134/ II U.S.C. § 544 (1982).

135/ Oil & Gas Subcommittee Report p.2.

avoiding the transfer or unless the Trustee chooses not to avoid the transfer. 136/

In an opinion by the bankruptcy court of the Southern District of Texas, the court was faced with the issue of whether to grant a preliminary injunction to prevent the Trustee from including certain royalty and leasehold interests in the bankruptcy estate. The court stated:

> Industry practice and good reason exist to warrant the retention of legal title to oil and gas leases by the Operator (such as the Debtor) even though the equitable title in the leases are held by others. For example, it is important for the Debtor-Operator to retain legal title to:
>
> a. efficiently sell the production from the wells;
>
> b. efficiently police defaults by investors;
>
> c. avoid unnecessary filings if the well is not commercially productive;
>
> d.. efficiently enter into pooling and unitization agreements;
>
> e. efficiently pay taxes on the property; and
>
> f. avoid holding up development until all leases are purchased.
>
> Accordingly, section 541(d) applies to the oil and gas industry as regards the questions now before the Court. Pursuant to section 541(d), the equitable interests owned by the individuals and entities listed on Exhibits "1" and "2" are not and shall not become, pursuant to section 544 or otherwise, property of the estate of the Debtor. 137/

Whether the case will ultimately be decided under this 'industry practice' theory, whether the theory would apply in a farmout situation, and whether other courts would follow this approach is not certain.

Courts have generally held that the trustee, under section 544(a), may avoid a transfer of property if such property is voidable by a bona

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136/ Id.

137/ In re Partners Oil Co. Case No. 83-015 787-H3-5 (unpublished opinion).

fide purchaser for value under state law. 138/ A number of courts have entertained the argument that an equitable or constructive trust should be created for the benefit of the unrecorded interest holders. With rare exception, bankruptcy courts, however, have not applied the constructive trust theory, but have held that the trustee's rights under section 544(a) are superior to those of an unrecorded interest holder who has an equitable interest in the property. 139/ The court in In re Fieldcrest Homes 140/ ruled that constructive trusts can be enforced against a bankruptcy trustee, notwithstanding his status as a bona fide purchaser pursuant to section 544(a)(3), and if a constructive trust were to be imposed, the trustee would only hold bare legal title to the property for the benefit of the beneficiaries.

A farmout could be viewed as an offer which is accepted by performance. If the farmee does not drill and fulfill its contractual commitments, it will not earn an interest in the minerals. Unless the farmout explicitly provides that the farmee must commence or complete operations by a specified date, the farmee can walk away from the farmout without incurring any liability. Conversely, under this theory, until the offer is accepted by the farmee's performance, the farmor can withdraw its offer and the farmout will terminate. Until the offer has been accepted by the farmee's commencement of performance, the farmout can be terminated by either the farmor or the farmee. Once the farmee begins performance, the Farmout Agreement becomes an irrevocable offer to assign after full performance has occurred, and the Farmout is no longer an executory contract. However, once the offer has been accepted, the farmout becomes an executory contract and is subject to the section 541/544 conflict.

3. Power of Trustee to Avoid Executory Contracts

Another problem arises because of the bankruptcy trustee's power under section 365 to accept or reject executory contracts. In states where an oil and gas lease does not represent ownership of a real property interest in oil and gas 'in place,' the farmout contract will be viewed as an agreement to assign a personal property interest at some future date. 141/ If performance of the obligations of the farmee is not sufficient to prevent the contract from being classified as executory,

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138/ In re Great Plains Western Ranch Co., 38 B.R. 899 (C.D. Calif. 1984); In re Anderson, 30 B.R. 995 (D.C.M.D. Tenn. 1983). See Oil & Gas Subcommittee Report p3.

139/ In re Minton Group, Inc., 28 B.K. 774 (Bkrtcy. S.D.N.Y. 1983); In re Trotta, 12 B.R. 843 (Bkrtcy. D. Conn. 1981); In re Taylor, 8 B.R. 806 (Bkrtcy. D.D.C. 1981).

140/ 18 B.R. 678 (Bkrtcy. N.D. Ill. (1982). See 4 Collier on Bankruptcy, § 541.13 (15th Ed. 1979).

141/ Baker & Schiffman, supra note 128, at 193.

then the bankruptcy trustee has the power to reject the contract. 142/ If the farmout is rejected as an executory contract, the farmee loses his interest. If a state recognizes ownership of oil and gas in place, however, then section 365(i) may allow the farmee to retain possession after the debtor or trustee rejects the contract, perform his drilling operations, and receive an assignment of legal title. 143/

In the case of In Re: Clark Resources, Inc. 144/ the United States Bankruptcy Court for the Northern District of Oklahoma held that an oil and gas lease is not an unexpired lease or an executory contract under section 365 of the Bankruptcy Code and may not be voided. Although the case addressed whether an oil and gas lease could be rejected and not a farmout agreement, the case is instructive. In Re: Clark Resources, Inc. is significant because in Oklahoma the interest created by an oil and gas lease is not an interest in real property and conveys no interest in land itself. It is rather considered a chattel real, an incorporeal hereditament, and a profit a 'prendre which is in the nature of a license to explore by drilling and permits the lessee to capture oil and gas which is treated as personalty. 145/ The court in In Re: Clark Resources, Inc. reached the proper decision. Hopefully, other courts will follow this rationale when addressing whether oil and gas leases or farmout agreements are executory contracts and voidable under section 365. However, due to the uncertainty of the law in regard to classification of a farmout agreement and the operation of section 544, a farmee under appropriate circumstances should consider placing of the farmout or a notice of the farmout of record.

C. Notice of Farmout in the Memorandum

The following language can be inserted on Exhibit A to the Memorandum in order to provide notice that land within the Contract Area is subject to a farmout contract:

> *On _______________, 19_____, ________________ (farmor) entered into a Farmout Agreement entitling ___________________ (farmee), a party to the Memorandum of Operating Agreement, to a present equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: ____.

The area covered by the farmout is described with sufficient definiteness to put any party reading the Memorandum on notice, and should obligate

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142/ Id.

143/ Id.

144/ In re: Clark Resources, Inc., No. 86-00463, Slip Op. (N.D. Okla. December 24, 1986).

145/ Id. at p.3.

him to inquire into the particular terms of farmout contracts which his assignor may have granted. This notice recites that the farmout was considered by the parties to be a present assignment of equitable title and, consequently, the contract should not be subjected to being avoided by the bankruptcy trustee. The trustee has constructive notice and should not be able to avoid the farmout by claiming it did not have notice and under its powers of a BFP it can avoid the farmout. In addition, the farmout contract may be less likely to be viewed as an executory contract if the record notice states that the farmee has been given "a present equitable interest. . . with legal title to be assigned at a later date."

VII. SPECIAL CONSIDERATION--STATE AND FEDERAL LEASES

1. Offshore

Filing a Memorandum to record liens and perfect security interests in offshore properties may be more academic than practical given that historically most parties to such operations have been financially stable, and given that bonding and other security measures are taken by the parties to such an operation before beginning work. However, should the parties wish to file a Memorandum the place of filing will depend largely upon whether the lease involved is on federal or state lands.

2. Federal Lease/Financing Statement

The UCC as adopted by the states governs perfection of security interests in fixtures and personal property on an offshore lease. Article 9 provisions would be pre-empted if federal law regulated the entire field of liens and security interests in a given class of property. 146/ The Mineral Leasing Act and OCS programs, which address only operations, safety, and title considerations of federal leases, do not regulate the perfection of liens and security interests. The filing provisions of the UCC would be inapplicable if federal law provided for a comprehensive system of filing on a national basis. 147/ Since the Mineral Lands Leasing Act (MLLA), the Outer Continental Shelf Leasing Program (OCS), and the rules and regulations implementing those programs, do not provide for a comprehensive system of securing liens and security interests, a secured party should take the precaution of filing as required by the UCC and as allowed in the Federal files. 148/

A. Place of Filing Under UCC

Many states provide for filing in the county where a mortgage on the real estate would be filed. Because offshore leases do not fall within county boundaries, it has become customary among Operators who file Operating Agreements to file in the county adjacent to the coastal area where the Contract Area is located. The same approach can be followed when filing the Memorandum. In the on-shore context, the Memorandum should be recorded in the county or counties where the Contract Area is located. In addition, the Memorandum should be filed in the office of the Secretary of State or other centralized filing location specified in the UCC. 149/

B. Place of Filing Under MLLA and OCS

146/ See 69 Am. Jur. 2d § 353 (1973).

147/ U.C.C. § 9-302(3)(a); U.C.C. 9-302(4) (1972).

148/ Feldman v. Philadelphia Nat'l Bank, 408 F. Supp. 24 (E.D. Pa. 1976).

149/ See Appendix 5 for a listing of filing locations in each state.

The MLLA requires filing of certain interest in Federal Oil & Gas Leases with the Federal Bureau of Land Management. No uniform procedures for filing of security agreements, financing statements, mortgages, or deeds of trust have been specified by the Bureau. 150/ The regulations address only assignment of leaseholds and production payments. 151/ Nevertheless, some BLM offices will accept security instruments for filing, and filing, when allowed, would be a good practice to follow given that the lease and Operating Agreement will be on file with the BLM state office with jurisdiction over the leased lands. 152/ BLM offices are open to the public with a few enumerated exceptions based upon confidentiality of the information on file. 153/

Under the OCS Program, filings must be made with the Mineral Management Service (MMS) regarding operations. 154/ Some MMS offices might be willing to accept security instruments for filing, even if they are not 'recognized' as far as the government is concerned.

3. Federal Lease/Real Property Notice

150/ Law of Federal Oil & Gas Leases, Rocky Mtn. Min. Inst. § 10.67(7) (1986).

151/ 43 C.F.R. § 3106.1(a), 3106.4-2 (1984). See also Genina Marine Services, Inc. v. ARCO Oil Gas Co., 499 So. 2d 257 (La. App. 1st Cir. 1987) and C-Craft Marine Services, Inc. v. Llog Exploration Co., 470 So. 2d 241 (La. App. 4th Cir. 1985), writ den., 472 So. 2d 921 (La. 1985), where the courts held that the Louisiana Oil Well Lien Act is applicable to oil wells located on the Outer Continental Shelf. But see St. Mary Iron Works, Inc. v. McMoran Exploration Co., 802 F. 2d 809 (5th Cir. 1986).

152/ 43 C.F.R. § 3000.0-5(f) (identifying the proper BLM office), § 1821.2-1 (identifying location and jurisdiction of the various BLM offices) (1984). See also Hawley, Federal Oil and Gas Leases--The Sole Party In Interest Debacle, 27B Rocky Mtn. Min. L. Inst. 987, 1011 (1981); Law of Federal Oil & Gas Leases § 10.07[1], n.59 (Rocky Mtn. Min. L. Found. 1985) (Some BLM offices may not accept security instruments. Others will require separate assignments for each lease, while others will accept a blanket assignment for several leases, placing a copy in the case file of each lease if sufficient copies are provided by the filing party).

153/ 43 C.F.R. Subtitle A § 220 (1985).

154/ 30 C.F.R. ch. 11, § 212.50 (1985).

Farmout Agreements, Operating Agreements, and other agreements which contain language immediately conveying record title, operating rights, overriding royalties, production payments, or some other interest in the lease constitute an 'assignment' and must be filed with the BLM and/or MMS offices, 155/ on approved forms. 156/

MLLA regulations give bona fide purchasers for value special protection, but whether filings in the BLM and MMS offices constitute notice is unsettled.

The Wyoming Supreme Court, in Dame v. Mileski 157/ held that filing of an assignment of an overriding royalty with the land office was not constructive notice when it was not recorded in the office of the register of deeds of the county. Similarly, the 10th Circuit, in Bolack v. Underwood 158/ decided that when the New Mexico statute provided for recording of Federal Oil & Gas Leases in the county clerk's office, filing in the BLM office was not notice of a prior assignment of a federal lease.

In Page v. Fees-Krey, Inc., 159/ however, the Colorado Supreme Court distinguished Dame and Bolack 160/ holding that where the Assignor has no interest of record in the federal lease in the county records, no reasonable reliance could be founded upon the state of title as reflected in the county records, so that the assignee is put on inquiry notice of assignments recorded in the BLM files.

To insure that notice is effective, the Memorandum should be filed in the office where the mortgage on the real estate would be filed under state law.

4. State Lease/Real Property Notice

State 'Public Lands' statutes govern the filing of leases and assignments of leases of state land in the offshore area. By way of illustration, consider the Texas public land statutes. The Texas Natural Resources Code, Sections 52.011-52.034 provide for lease of submerged

155/ 30 U.S.C. § 187a (1982); 43 C.F.R. § 3106.4-1 (1984).

156/ 43 C.F.R. § 3106.4-1 (Form 3106-14 for operating rights; Form 3106-5 for assignments of record title).

157/ 80 Wyo. 156, 340 P.2d 205 (1959).

158/ 340 F.2d 816 (10th Cir. 1965).

159/ 617 P.2d 1188 (Colo. 1980).

160/ Id. at 1194, n.12.

lands of the Gulf of Mexico within the jurisdiction of Texas, for oil and gas operations. 161/

Section 31.011 provides that there shall be one General Land Office, which shall be located in Austin and which shall register all land titles emanating from the State. 162/ Section 31.052 states that documents relating to land titles shall be kept in the General Land Office in Austin. 163/ Section 52.026, however, mandates that the transfer of a lease shall be recorded in the county in which all or a part of the lease area is located and within 90 days after the execution of the transfer, the recorded transfer or a certified copy of the recorded transfer in the General Land Office. 164/

Given the requirements of Section 52.026, the Memorandum would probably be ineffective as notice to third parties if filed only in the General Land Office. The Memorandum must be filed in the county records as well. The statutes will vary from state to state and must be consulted before filing the Memorandum.

5. State Lease/Financing Statement

Perfecting security interests in property on a leasehold from the state involves filing a financing statement as required by article 9-401. Financing statements concerning interests in minerals and fixtures must be filed in the office of the Secretary of State or other centralized location provided for by the statute. The statement must also be filed in the office where a mortgage on the real estate would be filed. It may also be possible/desirable to file in the office where leases from the state are recorded (such as the General Land Office in Texas). Call the state leasing office for information on whether they accept such documents for filing.

CONCLUSION

Although the A.A.P.L. 610-1982 Operating Agreement provides that all executing parties grant one another liens and security interests to secure payment of the parties' proportionate share of expenses, without recording these liens and security interests, they may well be worthless. The same holds true for API Unit Operating Agreements, Federal Unit

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161/ V.T.C.A., Natural Resources Code § 52.011-52.034 (1983). See also Louisiana Material Co. Inc. v. Atlantic Richfield Company, 486 So. 2d 776 (La. App. 4th Cir. 1986), rev'd on other grounds, 493 So. 2d 1141 (La. 1986), where the court held that a lien created pursuant to the Louisiana Oil Well Lien Act, if timely filed in the proper parish, would apply to offshore operations in state waters.

162/ V.T.C.A., Natural Resources Code § 30.011 (1977).

163/ V.T.C.A., Natural Resources Code § 30.052 (1977).

164/ V.T.C.A., Natural Resources Code, § 52.026 (1983).

Operating Agreements, and many Offshore Operating Agreements that provide for the granting of liens and security interests to the Operator. The recording of a Memorandum will secure and perfect the lien and security interest. And if a brief mention of a farmout is included in the Memorandum, a farmee may be able to protect its farmout rights. If employed, this relatively simple and inexpensive procedure can positively affect the sleep habits of working interest owners.

MEMORANDUM OF OPERATING AGREEMENT AND FINANCING STATEMENT

1.0 This Memorandum of Operating Agreement and Financing Statement (hereinafter called "Memorandum") shall be effective when the Operating Agreement referred to in Paragraph 2.0 below becomes effective, that being ____________________________, 19_____.

2.0 The parties hereto have entered into an Operating Agreement, providing for the development and production of crude oil, natural gas and associated substances from the lands described in Exhibit A attached hereto (hereinafter called the "Contract Area"), and designating ____________________________ as Operator to conduct such operations.

3.0 The Operating Agreement provides for certain liens and/or security interests to secure payment by the parties of their respective share of costs under the Operating Agreement. The Operating Agreement contains an Accounting Procedure along with other provisions which supplement the lien and/or security interest provisions, including non-consent clauses which provide that parties who elect not to participate in certain operations shall be deemed to have relinquished their interest until the consenting parties are able to recover their costs of such operations plus a specified amount. Should any person or firm desire additional information regarding the Operating Agreement or wish to inspect a copy of the Operating Agreement, said person or firm should contact the Operator.

4.0 The purpose of this Memorandum is to more fully describe and implement liens and/or security interests provided for in the Operating Agreement, and to place third parties on notice thereof.

5.0 In consideration of the mutual rights and obligations of the parties hereunder, the parties hereto agree as follows:

5.1. The Operator shall conduct and direct and have full control of all Operations on the Contract Area as permitted and required by, and within the limits of the Operating Agreement.

5.2. The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations and shall be liable only for its proportionate share of costs.

5.3. Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in the Accounting Procedure referred to in Paragraph 3.0 above. To the extent that Operator has a security interest under the Uniform Commercial Code of the state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the rights or security interest for the payment thereof.

5.4. If any Non-Operator fails to pay its share of costs when due, Operator may require other Non-Operators to pay their proportionate part of the unpaid share, whereupon the other Non-Operators shall be subrogated to Operator's lien and security interest.

5.5. The Operator grants to Non-Operators a lien and security interest equivalent to that granted to Operator as described in Paragraph 5.3 above, to secure payment by Operator of its own share of costs when due.

6.0 For purposes of protecting said liens and security interest, the parties hereto agree that this Memorandum shall cover all right, title and interest of the debtor(s) in:

6.1 <u>Property Subject to Security Interests</u>

(A) All personal property located upon or used in connection with the Contract Area.

(B) All fixtures on the Contract Area.

(C) All oil, gas and associated substances of value in, on or under the Contract Area which may be extracted therefrom.

(D) All accounts resulting from the sale of the items described in subparagraph (C) at the wellhead of every well located on the Contract Area or on lands pooled therewith.

(E) All items used, useful, or purchased for the production, treatment, storage, transportation, manufacture, or sale of the items described in subparagraph (C).

(F) All accounts, contract rights, rights under any gas balancing agreement, general intangibles, equipment, inventory, farmout rights, option farmout rights, acreage and or cash contributions, and conversion rights, whether now owned or existing or hereafter acquired or arising, including but not limited to all interest in any partnership, limited partnership, association, joint venture, or other entity or enterprise that holds, owns, or controls any interest in the Contract Area or in any property encumbered by this Memorandum.

(G) All severed and extracted oil, gas, and associated substances now or hereafter produced from or attributable to the Contract Area, including without limitation oil, gas and associated substances in tanks or pipelines or otherwise held for treatment, transportation, manufacture, processing or sale.

(H) All the proceeds and products of the items described in the foregoing paragraphs now existing or hereafter arising, and all substitutions therefor, replacements thereof, or accessions thereto.

(I) All personal property and fixtures now and hereafter acquired in furtherance of the purposes of this Operating Agreement. Certain of the above-described items are or are to become fixtures on the Contract Area.

(J) The proceeds and products of collateral are also covered.

6.2 <u>Property Subject to Liens</u>

(A) All real property within the Contract Area, including all oil, gas and associated substances of value in, on or under the Contract Area which may be extracted therefrom.

(B) All fixtures within the Contract Area.

(C) All real property and fixtures now and hereafter acquired in furtherance of the purposes of this Operating Agreement.

7.0 The above items will be financed at the wellhead of the well or wells located on the Contract Area, and this Memorandum is to be filed for record in the real estate records of the county or counties in which the Contract Area is located, and in the Uniform Commercial Code records. All parties who have executed the Operating Agreement and all farmors and option farmors who have granted support within the Contract Area are identified on Exhibit A.

8.0 On default of any covenant or condition of the Operating Agreement, in addition to any other remedy afforded by law or the practice of this state, each party to the agreement and any successor to such party by assignment, operation of law, or otherwise, shall have, and is hereby given and vested with, the power and authority to take possession of and sell any interest which the defaulting party has in the subject lands and to foreclose this lien in the manner provided by law.

9.0 Upon expiration of the subject Operating Agreement and the satisfaction of all debts, the Operator shall file of record a release and termination on behalf of all parties concerned. Upon the filing of such release and termination, all benefits and obligations under this Memorandum shall terminate as to all parties who have executed or ratified this Memorandum. In addition, the Operator shall have the right to file a continuation statement on behalf of all parties who have executed or ratified this Memorandum.

10.0 It is understood and agreed by the parties hereto that if any part, term, or provision of this Memorandum is by the courts held to be illegal or in conflict with any law of the state where made, the validity of the remaining portions or provisions shall not be affected, and the rights and obligations of the parties shall be construed and enforced as if the Memorandum did not contain the particular part, term or provision held to be invalid.

11.0 This Memorandum shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns. The failure of one or more persons owning an interest in the Contract Area to execute this Memorandum shall not in any manner affect the validity of the Memorandum as to those persons who have executed this Memorandum.

12.0 A party having an interest in the Contract Area can ratify this Memorandum by execution and delivery of an instrument of ratification, adopting and entering into this Memorandum, and such ratification shall have the same effect as if the ratifying party had executed this Memorandum or a counterpart thereof. By execution or ratification of this Memorandum, such party hereby consents to its ratification and adoption by any party who may have or may acquire any interest in the Contract Area.

13.0 This Memorandum may be executed or ratified in one or more counterparts and all of the executed or ratified counterparts shall together constitute one instrument. For purposes of recording, only one copy of this Memorandum with individual signature pages attached thereto needs to be filed of record.

NAME AND ADDRESS

By: ______________________________
(Signature)

Name: ______________________________
(Type or print signatory's name)

Title: ______________________________

NAME AND ADDRESS

By: ______________________________
(Signature)

Name: ______________________________
(Type or print signatory's name)

Title: ______________________________

(Insert proper state acknowledgment below)

Counterpart Signature Page

By the following execution, the signatory party hereby commits itself to that specific Memorandum of Operating Agreement and Financing Statement dated ________________________________, 19_____.

NAME AND ADDRESS

By: ____
(Signature)

Name: ____
(Type or print signatory's name)

Title: ____

(Insert proper state acknowledgment below)

EXHIBIT A TO MEMORANDUM OF OPERATING AGREEMENT AND FINANCING STATEMENT

CONTRACT AREA: ____

____

____

RECORD TITLE OWNERS

PARTIES TO THE OPERATING AGREEMENT: ______________________, ______________________,

______________________, ______________________, ______________________,

______________________, ______________________, ______________________,

FARMORS AND OPTION FARMORS: (1) ______________________, (2) ______________________,

(3)______________________, (4) ______________________, (5)______________________,

(6) ______________________, (7) ______________________, (8) ______________________,

FARMOUT AND OPTION FARMOUT SUMMARIES:

(1) On ______________, 19_____, ______________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(2) On ______________, 19_____, ______________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(3) On ______________, 19_____, ______________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(4) On ______________, 19_____, ______________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(5) On ______________, 19_____, ______________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(6) On ______________, 19_____, ______________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(7) On ______________, 19_____, ______________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(8) On ______________, 19_____, ______________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

SUPPLEMENTAL LIST OF FARMOUT AND OPTION FARMOUT SUMMARIES

FARMORS AND OPTION FARMORS: (9) ______________________, (10) ______________________,

(11) ______________________, (12) ______________________, (13) ______________________,

(14) ______________________, (15) ______________________, (16) ______________________,

(17) ______________________, (18) ______________________, (19) ______________________

FARMOUT AND OPTION FARMOUT SUMMARIES:

(9) On ______________, 19____, ______________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(10) On ______________, 19____, ______________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(11) On ______________, 19____, ______________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(12) On ______________, 19____, ______________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(13) On ______________, 19____, ______________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(14) On ______________, 19____, ______________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(15) On ______________, 19____, ______________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(16) On ______________, 19____, ______________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(17) On ______________, 19____, ______________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(18) On ______________, 19____, ______________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

MEMORANDUM OF OPERATING AGREEMENT AND FINANCING STATEMENT

1.0 This Memorandum of Operating Agreement and Financing Statement (hereinafter called "Memorandum") shall be effective when the Operating Agreement referred to in Paragraph 2.0 below becomes effective, that being ______________________, 19____.

2.0 The parties hereto have entered into an Operating Agreement, providing for the development and production of crude oil, natural gas and associated substances from the lands described in Exhibit A attached hereto (hereinafter called the "Contract Area"), and designating ______________________ as Operator to conduct such operations.

3.0 The Operating Agreement provides for certain liens and/or security interests to secure payment by the parties of their respective share of costs under the Operating Agreement. The Operating Agreement contains an Accounting Procedure along with other provisions which supplement the lien and/or security interest provisions, including non-consent clauses which provide that parties who elect not to participate in certain operations shall be deemed to have relinquished their interest until the consenting parties are able to recover their costs of such operations plus a specified amount. Should any person or firm desire additional information regarding the Operating Agreement or wish to inspect a copy of the Operating Agreement, said person or firm should contact the Operator.

4.0 The purpose of this Memorandum is to more fully describe and implement the liens and/or security interests provided for in the Operating Agreement, and to place third parties on notice thereof.

5.0 In consideration of the mutual rights and obligations of the parties hereunder, the parties hereto agree as follows:

5.1. The Operator shall conduct and direct and have full control of all Operations on the Contract Area as permitted and required by, and within the limits of the Operating Agreement.

5.2. The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations and shall be liable only for its proportionate share of costs.

5.3. Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in the Accounting Procedure referred to in Paragraph 3.0 above. To the extent that Operator has a security interest under the Uniform Commercial Code of the state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the rights or security interest for the payment thereof.

5.4. If any Non-Operator fails to pay its share of costs when due, Operator may require other Non-Operators to pay their proportionate part of the unpaid share, whereupon the other Non-Operators shall be subrogated to Operator's lien and security interest.

5.5. The Operator grants to Non-Operators a lien and security interest equivalent to that granted to Operator as described in Paragraph 5.3 above, to secure payment by Operator of its own share of costs when due.

6.0 For purposes of protecting said liens and security interest, the parties hereto agree that this Memorandum shall cover all right, title and interest of the debtor(s) in:

6.1 Property Subject to Security Interests

(A) All personal property located upon or used in connection with the Contract Area.

(B) All fixtures on the Contract Area.

(C) All oil, gas and associated substances of value in, on or under the Contract Area which may be extracted therefrom.

(D) All accounts resulting from the sale of the items described in subparagraph (C) at the wellhead of every well located on the Contract Area or on lands pooled therewith.

(E) All items used, useful, or purchased for the production, treatment, storage, transportation, manufacture, or sale of the items described in subparagraph (C).

(F) All accounts, contract rights, rights under any gas balancing agreement, general intangibles, equipment, inventory, farmout rights, option farmout rights, acreage and or cash contributions, and conversion rights, whether now owned or existing or hereafter acquired or arising, including but not limited to all interest in any partnership, limited partnership, association, joint venture, or other entity or enterprise that holds, owns, or controls any interest in the Contract Area or in any property encumbered by this Memorandum.

(G) All severed and extracted oil, gas, and associated substances now or hereafter produced from or attributable to the Contract Area, including without limitation oil, gas and associated substances in tanks or pipelines or otherwise held for treatment, transportation, manufacture, processing or sale.

(H) All the proceeds and products of the items described in the foregoing paragraphs now existing or hereafter arising, and all substitutions therefor, replacements thereof, or accessions thereto.

(I) All personal property and fixtures now and hereafter acquired in furtherance of the purposes of this Operating Agreement. Certain of the above-described items are or are to become fixtures on the Contract Area.

(J) The proceeds and products of collateral are also covered.

6.2 Property Subject to Liens

(A) All real property within the Contract Area, including all oil, gas and associated substances of value in, on or under the Contract Area which may be extracted therefrom.

(B) All fixtures within the Contract Area.

(C) All real property and fixtures now and hereafter acquired in furtherance of the purposes of this Operating Agreement.

7.0 The above items will be financed at the wellhead of the well or wells located on the Contract Area, and this Memorandum is to be cross-indexed in the real estate mortgage records of the county or counties in which the Contract Area is located, and in the Uniform Commercial Code records. All parties who have executed the Operating Agreement and all farmors and option farmors who have granted support within the Contract Area are identified on Exhibit A.

8.0 On default of any covenant or condition of the Operating Agreement, in addition to any other remedy afforded by law or the practice of this state, each party to the agreement and any successor to such party by assignment, operation of law, or otherwise, shall have, and is hereby given and vested with, the power and authority to take possession of and sell any interest which the defaulting party has in the subject lands and to foreclose this lien in the manner provided by law.

9.0 Upon expiration of the subject Operating Agreement and the satisfaction of all debts, the Operator shall file of record a release and termination on behalf of all parties concerned. Upon the filing of such release end termination, all benefits and obligations under this Memorandum shall terminate as to all parties who have executed or ratified this Memorandum. In addition, the Operator shall have the right to file a continuation statement on behalf of all parties who have executed or ratified this Memorandum.

10.0 It is understood and agreed by the parties hereto that if any part, term, or provision of this Memorandum is by the courts held to be illegal or in conflict with any law of the state where made, the validity of the remaining portions or provisions shall not be affected, and the rights and obligations of the parties shall be construed and enforced as if the Memorandum did not contain the particular part, term or provision held to be invalid.

11.0 This Memorandum shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns. The failure of one or more persons owning an interest in the Contract Area to execute this Memorandum shall not in any manner affect the validity of the Memorandum as to those persons who have executed this Memorandum.

12.0 A party having an interest in the Contract Area can ratify this Memorandum by execution and delivery of an instrument of ratification, adopting and entering into this Memorandum, and such ratification shall have the same effect as if the ratifying party had executed this Memorandum or a counterpart thereof. By execution or ratification of this Memorandum, such party hereby consents to its ratification and adoption by any party who may have or may acquire any interest in the Contract Area.

13.0 This Memorandum may be executed or ratified in one or more counterparts and all of the executed or ratified counterparts shall together constitute one instrument. For purposes of recording, only one copy of this Memorandum with individual signature pages attached thereto needs to be filed of record.

NAME AND ADDRESS

By: ______________________________
(Signature)

Name: ______________________________
(Type or print signatory's name)

Title: ______________________________

NAME AND ADDRESS

By: ______________________________
(Signature)

Name: ______________________________
(Type or print signatory's name)

Title: ______________________________

This form prepared by:

____
Name

____
Address

____
Address

____
Signature

(Insert proper state acknowledgment below)

Counterpart Signature Page

By the following execution, the signatory party hereby commits itself to that specific Memorandum of Operating Agreement and Financing Statement dated ________________________________, 19_____.

NAME AND ADDRESS

By: ____

(Signature)

Name: ____

(Type or print signatory's name)

Title: ____

(Insert proper state acknowledgment below)

EXHIBIT A TO MEMORANDUM OF OPERATING AGREEMENT AND FINANCING STATEMENT

CONTRACT AREA: ____

____

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RECORD TITLE OWNERS

PARTIES TO THE OPERATING AGREEMENT: ____________________, ____________________,

____________________, ____________________, ____________________,

____________________, ____________________, ____________________,

FARMORS AND OPTION FARMORS: (1) ____________________, (2) ____________________,

(3) ____________________, (4) ____________________, (5) ____________________,

(6) ____________________, (7)____________________, (8) ____________________,

FARMOUT AND OPTION FARMOUT SUMMARIES:

(1) On ____________________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

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(2) On ____________________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(3) On ____________________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(4) On ____________________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(5) On ____________________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(6) On ____________________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(7) On ____________________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(8) On ____________________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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SUPPLEMENTAL LIST OF FARMOUT AND OPTION FARMOUT SUMMARIES

FARMORS AND OPTION FARMORS: (9) ____________________, (10) ____________________,

(11) ____________________, (12)____________________, (13) ____________________,

(14) ____________________, (15) ____________________, (16) ____________________,

(17) ____________________, (18)____________________, (19) ____________________

FARMOUT AND OPTION FARMOUT SUMMARIES:

(9) On ____________________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(10) On ____________________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(11) On ____________________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________(Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(12) On ____________________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(13) On ____________________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(14) On ____________________ 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(15) On____________________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(16) On ____________________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(17) On ____________________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(18) On ____________________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

MEMORANDUM OF OPERATING AGREEMENT AND FINANCING STATEMENT

1.0 This Memorandum of Operating Agreement and Financing Statement (hereinafter called "Memorandum") shall be effective when the Operating Agreement referred to in Paragraph 2.0 below) becomes effective, that being ____________________________, 19_____.

2.0 The parties hereto have entered into an Operating Agreement, providing for the development and production of crude oil, natural gas and associated substances from the lands described in Exhibit A attached hereto (hereinafter called the "Contract Area"), and designating ____________________________ as Operator to conduct such operations.

3.0 The Operating Agreement provides for certain liens and/or security interests to secure payment by the parties of their respective share of costs under the Operating Agreement. The Operating Agreement contains an Accounting Procedure along with other provisions which supplement the lien and/or security interest provisions, including non-consent clauses which provide that parties who elect not to participate in certain operations shall be deemed to have relinquished their interest until the consenting parties are able to recover their costs of such operations plus a specified amount. Should any person or firm desire additional information regarding the Operating Agreement or wish to inspect a copy of the Operating Agreement, said person or firm should contact the Operator.

4.0 The purpose of this Memorandum is to more fully describe and implement the liens and/or security interests provided for in the Operating Agreement, and to place third parties on notice thereof.

5.0 In consideration of the mutual rights and obligations of the parties hereunder, the parties hereto agree as follows:

5.1. The Operator shall conduct and direct and have full control of all Operations on the Contract Area as permitted and required by, and within the limits of the Operating Agreement.

5.2. The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations and shall be liable only for its proportionate share of costs.

5.3. Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in the Accounting Procedure referred to in Paragraph 3.0 above. To the extent that Operator has a security interest under the Uniform Commercial Code of the state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the rights or security interest for the payment thereof.

5.4. If any Non-Operator fails to pay its share of costs when due, Operator may require other Non-Operators to pay their proportionate part of the unpaid share, whereupon the other Non-Operators shall be subrogated to Operator's lien and security interest.

5.5. The Operator grants to Non-Operators a lien and security interest equivalent to that granted to Operator as described in Paragraph 5.3 above, to secure payment by Operator of its own share of costs when due.

6.0 For purposes of protecting said liens and security interest, the parties hereto agree that this Memorandum shall cover all right, title and interest of the debtor(s) in:

6.1 Property Subject to Security Interests

(A) All personal property located upon or used in connection with the Contract Area.

(B) All fixtures on the Contract Area.

(C) All oil, gas and associated substances of value in, on or under the Contract Area which may be extracted therefrom.

(D) All accounts resulting from the sale of the items described in subparagraph (C) at the wellhead of every well located on the Contract Area or on lands pooled therewith.

(E) All items used, useful, or purchased for the production, treatment, storage, transportation, manufacture, or sale of the items described in subparagraph (C).

(F) All accounts, contract rights, rights under any gas balancing agreement, general intangibles, equipment, inventory, farmout rights, option farmout rights, acreage and or cash contributions, and conversion rights, whether now owned or existing or hereafter acquired or arising, including but not limited to all interest in any partnership, limited partnership, association, joint venture, or other entity or enterprise that holds, owns, or controls any interest in the Contract Area or in any property encumbered by this Memorandum.

(G) All severed and extracted oil, gas, and associated substances now or hereafter produced from or attributable to the Contract Area, including without limitation oil, gas and associated substances in tanks or pipelines or otherwise held for treatment, transportation, manufacture, processing or sale.

(H) All the proceeds and products of the items described in the foregoing paragraphs now existing or hereafter arising, and all substitutions therefor, replacements thereof, or accessions thereto.

(I) All personal property and fixtures now and hereafter acquired in furtherance of the purposes of this Operating Agreement. Certain of the above-described items are or are to become fixtures on the Contract Area.

(J) The proceeds and products of collateral are also covered.

6.2 Property Subject to Liens

(A) All real property within the Contract Area, including all oil, gas and associated substances of value in, on or under the Contract Area which may be extracted therefrom.

(B) All fixtures within the Contract Area.

(C) All real property and fixtures now and hereafter acquired in furtherance of the purposes of this Operating Agreement.

7.0 The above items will be financed at the wellhead of the well or wells located on the Contract Area, and this Memorandum is to be filed for record in the real estate records of the county or counties in which the Contract Area is located, and in the Uniform Commercial Code records. All parties who have executed the Operating Agreement and all farmors and option farmors who have granted support within the Contract Area are identified on Exhibit A.

8.0 On default of any covenant or condition of the Operating Agreement, in addition to any other remedy afforded by law or the practice of this state, each party to the agreement and any successor to such party by assignment, operation of law, or otherwise, shall have, and is hereby given and vested with, the power and authority to take possession of and sell any interest which the defaulting party has in the subject lands and to foreclose this lien in the manner provided by law.

9.0 Upon expiration of the subject Operating Agreement and the satisfaction of all debts, the Operator shall file of record a release and termination on behalf of all parties concerned. Upon the filing of such release and termination, all benefits and obligations under this Memorandum shall terminate as to all parties who have executed or ratified this Memorandum. In addition, the Operator shall have the right to file a continuation statement on behalf of all parties who have executed or ratified this Memorandum.

10.0 It is understood and agreed by the parties hereto that if any part, term, or provision of this Memorandum is by the courts held to be illegal or in conflict with any law of the state where made, the validity of the remaining portions or provisions shall not be affected, and the rights and obligations of the parties shall be construed and enforced as if the Memorandum did not contain the particular part, term or provision held to be invalid.

11.0 This Memorandum shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns. The failure of one or more persons owning an interest in the Contract Area to execute this Memorandum shall not in any manner affect the validity of the Memorandum as to those persons who have executed this Memorandum.

12.0 A party having an interest in the Contract Area can ratify this Memorandum by execution and delivery of an instrument of ratification, adopting and entering into this Memorandum, and such ratification shall have the same effect as if the ratifying party had executed this Memorandum or a counterpart thereof. By execution or ratification of this Memorandum, such party hereby consents to its ratification and adoption by any party who may have or may acquire any interest in the Contract Area.

13.0 This Memorandum may be executed or ratified in one or more counterparts and all of the executed or ratified counterparts shall together constitute one instrument. For purposes of recording, only one copy of this Memorandum with individual signature pages attached thereto needs to be filed of record.

WITNESSES:

____

____

NAME AND ADDRESS

By: ____________________________
(Signature)

Name: ____________________________
(Type or print signatory's name)

Title: ____________________________

WITNESSES:

____

____

NAME AND ADDRESS

By: ____________________________
(Signature)

Name: ____________________________
(Type or print signatory's name)

Title: ____________________________

This form prepared by:

____
Name

____
Address

____
Address

____
Signature

(Insert proper state acknowledgment below)

Counterpart Signature Page

By the following execution, the signatory party hereby commits itself to that specific Memorandum of Operating Agreement and Financing Statement dated ________________________________, 19_____.

WITNESSES:

____

____

NAME AND ADDRESS

By: ____
(Signature)

Name: ____
(Type or print signatory's name)

Title: ____

(Insert proper state acknowledgment below)

EXHIBIT A TO MEMORANDUM OF OPERATING AGREEMENT AND FINANCING STATEMENT

CONTRACT AREA: ____

____

____

RECORD TITLE OWNERS

PARTIES TO THE OPEKATING AGREEMENT: ____________________, ____________________,

____________________, ____________________, ____________________,

____________________, ____________________, ____________________,

FARMORS AND OPTION FARMORS: (1) ____________________, (2) ____________________,

(3) ____________________, (4) ____________________, (5) ____________________,

(6) ____________________, (7) ____________________, (8) ____________________,

FARMOUT AND OPTION FARMOUT SUMMARIES:

(1) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(2) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(3) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(4) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(5) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(6) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(7) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(8) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

SUPPLEMENTAL LIST OF FARMOUT AND OPTION FARMOUT SUMMARIES

FARMORS AND OPTION FARMORS: (9) ________________, (10) ________________,

(11) ________________, (12) ________________, (13)________________,

(14) ________________, (15) ________________, (16) ________________,

(17) ________________, (18) ________________, (19) ________________,

FARMOUT AND OPTION FARMOUT SUMMARIES:

(9) On ________________, 19_____, ________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(10) On ________________, 19_____, ________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(11) On ________________, 19_____, ________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(12) On ________________, 19_____, ________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(13) On ________________, 19_____, ________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(14) On ________________, 19_____, ________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(15) On ________________, 19_____, ________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(16) On ________________, 19_____, ________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(17) On ________________, 19_____, ________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(18) On ________________, 19_____, ________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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MEMORANOUM OF OPERATING AGREEMENT AND FINANCING STATEMENT

1.0 This Memorandum of Operating Agreement and Financing Statement (hereinafter called "Memorandum") shall be effective when the Operating Agreement referred to in Paragraph 2.0 below becomes effective, that being ____________________________, 19_____.

2.0 The parties hereto have entered into an Operating Agreement, providing for the development and production of crude oil, natural gas and associated substances from the lands described in Exhibit A attached hereto (hereinafter called the "Contract Area"), and designating ____________________________ as Operator to conduct such operations.

3.0 The Operating Agreement provides for certain liens and/or security interests to secure payment by the parties of their respective share of costs under the Operating Agreement. The Operating Agreement contains an Accounting Procedure along with other provisions which supplement the lien and/or security interest provisions, including non-consent clauses which provide that parties who elect not to participate in certain operations shall be deemed to have relinquished their interest until the contenting parties are able to recover their costs of such operations plus a specified amount. Should any person or firm desire additional information regarding the Operating Agreement or wish to inspect a copy of the Operating Agreement, said person or firm should contact the Operator.

4.0 The purpose of this Memorandum is to more fully describe and implement the liens and/or security interests provided for in the Operating Agreement, and to place third parties on notice thereof.

5.0 In consideration of the mutual rights and obligations of the parties hereunder, the parties hereto agree as follows:

5.1. The Operator shall conduct and direct and have full control of all Operations on the Contract Area as permitted and required by, and within the limits of the Operating Agreement.

5.2. The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations and shall be liable only for its proportionate share of costs.

5.3. Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in the Accounting Procedure referred to in Paragraph 3.0 above. To the extent that Operator has a security interest under the Uniform Commercial Code of the state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the rights or security interest for the payment thereof.

5.4. If any Non-Operator fails to pay its share of costs when due, Operator may require other Non-Operators to pay their proportionate part of the unpaid share, whereupon the other Non-Operators shall be subrogated to Operator's lien and security interest.

5.5. The Operator grants to Non-Operators a lien and security interest equivalent to that granted to Operator as described in Paragraph 5.3 above, to secure payment by Operator of its own share of costs when due.

6.0 For purposes of protecting said liens and security interest, the parties hereto agree that this Memorandum shall cover all right, title and interest of the debtor(s) in:

6.1 Property Subject to Security Interest

(A) All personal property located upon or used in connection with the Contract Area.

(B) All fixtures on the Contract Area.

(C) All oil, gas and associated substances of value in, on or under the Contract Area which may be extracted therefrom.

(D) All accounts resulting from the sale of the items described in subparagraph (C) at the wellhead of every well located on the Contract Area or on lands pooled therewith.

(E) All items used, useful, or purchased for the production, treatment, storage, transportation, manufacture, or sale of the items described in subparagraph (C).

(F) All accounts, contract rights, rights under any gas balancing agreement, general intangibles, equipment, inventory, farmout rights, option farmout rights, acreage and or cash contributions, and conversion rights, whether now owned or existing or hereafter acquired or arising, including but not limited to all interest in any partnership, limited partnership, association, joint venture, or other entity or enterprise that holds, owns, or controls any interest in the Contract Area or in any property encumbered by this Memorandum.

(G) All severed and extracted oil, gas, and associated substances now or hereafter produced from or attributable to the Contract Area, including without limitation oil, gas and associated substances in tanks or pipelines or otherwise held for treatment, transportation, manufacture, processing or sale.

(H) All the proceeds and products of the items described in the foregoing paragraphs now existing or hereafter arising, and all substitutions therefor, replacements thereof, or accessions thereto.

(I) All personal property and fixtures now and hereafter acquired in furtherance of the purposes of this Operating Agreement. Certain of the above-described items are or are to become fixtures on the Contract Area.

(J) The proceeds and products of collateral are also covered.

6.2 Property Subject to Liens

(A) All real property within the Contract Area, including all oil, gas and associated substances of value in, on or under the Contract Area which may be extracted therefrom.

(B) All fixtures within the Contract Area.

(C) All real property and fixtures now and hereafter acquired in furtherance of the purposes of this Operating Agreement.

7.0 The above items will be financed at the wellhead of the well or wells located on the Contract Area, and this Memorandum is to be filed for record in the real estate records of the county or counties in which the Contract Area is located, and in the Uniform Commercial Code records. All parties who have executed the Operating Agreement and all farmors and option farmors who have granted support within the Contract Area are identified on Exhibit A.

8.0 On default of any covenant or condition of the Operating Agreement, in addition to any other remedy afforded by law or the practice of this state, each party to the agreement and any successor to such party by assignment, operation of law, or otherwise, shall have, and is hereby given and vested with, the power and authority to take possession of and sell any interest which the defaulting party has in the subject lands and to foreclose this lien in the manner provided by law.

9.0 Upon expiration of the subject Operating Agreement and the satisfaction of all debts, the Operator shall file of record a release and termination on behalf of all parties concerned. Upon the filing of such release and termination, all benefits and obligations under this Memorandum shall terminate as to all parties who have executed or ratified this Memorandum. In addition, the Operator shall have the right to file a continuation statement on behalf of all parties who have executed or ratified this Memorandum.

10.0 It is understood and agreed by the parties hereto that if any part, term, or provision of this Memorandum is by the courts held to be illegal or in conflict with any law of the state where made, the validity of the remaining portions or provisions shall not be affected, and the rights and obligations of the parties shall be construed and enforced as if the Memorandum did not contain the particular part, term or provision held to be invalid.

11.0 This Memorandum shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns. The failure of one or more persons owning an interest in the Contract Area to execute this Memorandum shall not in any manner affect the validity of the Memorandum as to those persons who have executed this Memorandum.

12.0 A party having an interest in the Contract Area can ratify this Memorandum by execution and delivery of an instrument of ratification, adopting and entering into this Memorandum, and such ratification shall have the same effect as if the ratifying party had executed this Memorandum or a counterpart thereof. By execution or ratification of this Memorandum, such party hereby consents to its ratification and adoption by any party who may have or may acquire any interest in the Contract Area.

13.0 This Memorandum may be executed or ratified in one or more counterparts and all of the executed or ratified counterparts shall together constitute one instrument. For purposes of recording, only one copy of this Memorandum with individual signature pages attached thereto needs to be filed of record.

WITNESSES:

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NAME AND ADDRESS

By: ______________________________
(Signature)

Name: ______________________________
(Type or print signatory's name)

Title: ______________________________

WITNESSES:

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NAME AND ADDRESS

By: ______________________________
(Signature)

Name: ______________________________
(Type or print signatory's name)

Title: ______________________________

(Insert proper state acknowledgment below)

Counterpart Signature Page

By the following execution, the signatory party hereby commits itself to that specific Memorandum of Operating Agreement and Financing Statement dated ______________________________, 19_____.

NAME AND ADDRESS

By: ____
(Signature)

Name: ____
(Type or print signatory's name)

Title: ____

(Insert proper state acknowledgment below)

EXHIBIT A TO MEMORANDUM OF OPERATING AGREEMENT AND FINANCING STATEMENT

CONTRACT AREA: ____

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RECORD TITLE OWNERS

PARTIES TO THE OPERATING AGREEMENT: ____________________, ____________________,

____________________, ____________________, ____________________,

____________________, ____________________, ____________________,

FARMORS AND OPTION FARMORS: (1) ____________________, (2) ____________________,

(3) ____________________, (4) ____________________, (5) ____________________,

(6) ____________________, (7) ____________________, (8) ____________________,

FARMOUT AND OPTION FARMOUT SUMMARIES:

(1) On ______________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(2) On ______________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(3) On ______________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(4) On ______________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(5) On ______________, 19____, ____________________(Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(6) On ______________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(7) On ______________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(8) On ______________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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SUPPLEMENTAL LIST OF FARMOUT AND OPTION FARMOUT SUMMARIES

FARMORS AND OPTION FARMORS: (9) ________________________________, (10) ________________________________,

(11) ____________________________, (12) ____________________________, (13) ____________________________,

(14) ____________________________, (15) ____________________________, (16) ____________________________,

(17) ____________________________, (18) ____________________________, (19) ____________________________,

FARMOUT AND OPTION FARMOUT SUMMARIES:

(9) On ____________________, 19____, ________________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(10) On ____________________, 19____, ________________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(11) On ____________________, 19____, ________________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(12) On ____________________, 19____, ________________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(13) On ____________________, 19____, ________________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(14) On ____________________, 19____, ________________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(15) On ____________________, 19____, ________________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(16) On ____________________, 19____, ________________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(17) On ____________________, 19____, ________________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(18) On ____________________, 19____, ________________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

MEMORANDUM OF OPERATING AGREEMENT AND FINANCING STATEMENT

1.0 This Memorandum of Operating Agreement and Financing Statement (hereinafter called "Memorandum") shall be effective when the Operating Agreement referred to in Paragraph 2.0 below becomes effective, that being ____________________________, 19_____.

2.0 The parties hereto have entered into an Operating Agreement, providing for the development and production of crude oil, natural gas and associated substances from the lands described in Exhibit A attached hereto (hereinafter called the "Contract Area"), and designating ____________________________ as Operator to conduct such operations.

3.0 The Operating Agreement provides for certain liens and/or security interests to secure payment by the parties of their respective share of costs under the Operating Agreement. The Operating Agreement contains an Accounting Procedure along with other provisions which supplement the lien and/or security interest provisions, including non-consent clauses which provide that parties who elect not to participate in certain operations shall be deemed to have relinquished their interest until the consenting parties are able to recover their costs of such operations plus a specified amount. Should any person or firm desire additional information regarding the Operating Agreement or wish to inspect a copy of the Operating Agreement, said person or firm should contact the Operator.

4.0 The purpose of this Memorandum is to more fully describe and implement the liens and/or security interests provided for in the Operating Agreement, and to place third parties on notice thereof.

5.0 In consideration of the mutual rights and obligations of the parties hereunder, the parties hereto agree as follows:

5.1. The Operator shall conduct and direct and have full control of all Operations on the Contract Area as permitted and required by, and within the limits of the Operating Agreement.

5.2. The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations and shall be liable only for its proportionate share of costs.

5.3. Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in the Accounting Procedure referred to in Paragraph 3.0 above. To the extent that Operator has a security interest under the Uniform Commercial Code of the state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the rights or security interest for the payment thereof.

5.4. If any Non-Operator fails to pay its share of costs when due, Operator may require other Non-Operators to pay their proportionate part of the unpaid share, whereupon the other Non-Operators shall be subrogated to Operator's lien and security interest.

5.5. The Operator grants to Non-Operators a lien and security interest equivalent to that granted to Operator as described in Paragraph 5.3 above, to secure payment by Operator of its own share of costs when due.

6.0 For purposes of protecting said liens and security interest, the parties hereto agree that this Memorandum shall cover all right, title and interest of the debtor(s) in:

6.1 <u>Property Subject to Security Interests</u>

(A) All personal property located upon or used in connection with the Contract Area.

(B) All fixtures on the Contract Area.

(C) All oil, gas and associated substances of value in, on or under the Contract Area which may be extracted therefrom.

(D) All accounts resulting from the sale of the items described in subparagraph (C) at the wellhead of every well located on the Contract Area or on lands pooled therewith.

(E) All items used, useful, or purchased for the production, treatment, storage, transportation, manufacture, or sale of the items described in subparagraph (C).

(F) All accounts, contract rights, rights under any gas balancing agreement, general intangibles, equipment, inventory, farmout rights, option farmout rights, acreage and or cash contributions, and conversion rights, whether now owned or existing or hereafter acquired or arising, including but not limited to all interest in any partnership, limited partnership, association, joint venture, or other entity or enterprise that holds, owns, or controls any interest in the Contract Area or in any property encumbered by this Memorandum.

(G) All severed and extracted oil, gas, and associated substances now or hereafter produced from or attributable to the Contract Area, including without limitation oil, gas and associated substances in tanks or pipelines or otherwise held for treatment, transportation, manufacture, processing or sale.

(H) All the proceeds and products of the items described in the foregoing paragraphs now existing or hereafter arising, and all substitutions therefor, replacements thereof, or accessions thereto.

(I) All personal property and fixtures now and hereafter acquired in furtherance of the purposes of this Operating Agreement. Certain of the above-described items are or are to become fixtures on the Contract Area.

(J) The proceeds and products of collateral are also covered.

6.2 <u>Property Subject to Liens</u>

(A) All real property within the Contract Area, including all oil, gas and associated substances of value in, on or under the Contract Area which may be extracted therefrom.

(B) All fixtures within the Contract Area.

(C) All real property and fixtures now and hereafter acquired in furtherance of the purposes of this Operating Agreement.

7.0 The above items will be financed at the wellhead of the well or wells located on the Contract Area, and this Memorandum is to be filed for record in the real estate records of the county or counties in which the Contract Area is located, and in the Uniform Commercial Code records. All parties who have executed the Operating Agreement and all farmors and option farmors who have granted support within the Contract Area are identified on Exhibit A.

8.0 On default of any covenant or condition of the Operating Agreement, in addition to any other remedy afforded by law or the practice of this state, each party to the agreement and any successor to such party by assignment, operation of law, or otherwise, shall have, and is hereby given and vested with, the power and authority to take possession of and sell any interest which the defaulting party has in the subject lands and to foreclose this lien in the manner provided by law.

9.0 Upon expiration of the subject Operating Agreement and the satisfaction of all debts, the Operator shall file of record a release and termination on behalf of all parties concerned. Upon the filing of such release and termination, all benefits and obligations under this Memorandum shall terminate as to all parties who have executed or ratified this Memorandum. In addition, the Operator shall have the right to file a continuation statement on behalf of all parties who have executed or ratified this Memorandum.

10.0 It is understood and agreed by the parties hereto that if any part, term, or provision of this Memorandum is by the courts held to be illegal or in conflict with any law of the state where made, the validity of the remaining portions or provisions shall not be affected, and the rights and obligations of the parties shall be construed and enforced as if the Memorandum did not contain the particular part, term or provision held to be invalid.

11.0 This Memorandum shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns. The failure of one or more persons owning an interest in the Contract Area to execute this Memorandum shall not in any manner affect the validity of the Memorandum as to those persons who have executed this Memorandum.

12.0 A party having an interest in the Contract Area can ratify this Memorandum by execution and delivery of an instrument of ratification, adopting and entering into this Memorandum, and such ratification shall have the same effect as if the ratifying party had executed this Memorandum or a counterpart thereof. By execution or ratification of this Memorandum, such party hereby consents to its ratification and adoption by any party who may have or may acquire any interest in the Contract Area.

13.0 This Memorandum may be executed or ratified in one or more counterparts and all of the executed or ratified counterparts shall together constitute one instrument. For purposes of recording, only one copy of this Memorandum with individual signature pages attached thereto needs to be filed of record.

WITNESSES:

____

____

NAME AND ADDRESS

By: ______________________________
(Signature)

Name: ______________________________
(Type or print signatory's name)

Title: ______________________________

WITNESSES:

____

____

NAME AND ADDRESS

By: ______________________________
(Signature)

Name: ______________________________
(Type or print signatory's name)

Title: ______________________________

(State auditor's endorsement)

(Insert proper state acknowledgment below)

Counterpart Signature Page

By the following execution, the signatory party hereby commits itself to that specific Memorandum of Operating Agreement and Financing Statement dated ______________________________, 19_____.

WITNESSES

____

____

NAME AND ADDRESS

By: ______________________________
(Signature)

Name: ______________________________
(Type or print signatory's name)

Title: ______________________________

(Insert proper state acknowledgment below)

EXHIBIT A TO MEMORANDUM OF OPERATING AGREEMENT AND FINANCING STATEMENT

CONTRACT AREA: ____

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____

RECORD TITLE OWNERS

PARTIES TO THE OPERATING AGREEMENT: ____________________, ____________________,

____________________, ____________________, ____________________,

____________________, ____________________, ____________________,

FARMORS AND OPTION FARMORS: (1) ____________________, (2) ____________________,

(3) ____________________, (4) ____________________, (5) ____________________,

(6) ____________________, (7) ____________________, (8) ____________________,

FARMOUT AND OPTION FARMOUT SUMMARIES:

(1) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

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(2) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(3) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(4) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(5) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(6) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(7) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(8) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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SUPPLEMENTAL LIST OF FARMOUT AND OPTION FARMOUT SUMMARIES

FARMORS AND OPTION FARMORS: (9) ______________________________, (10) ______________________________,

(11) ____________________________, (12) ____________________________, (13)____________________________,

(14) ____________________________, (15) ____________________________, (16) ____________________________,

(17) ____________________________, (18) ____________________________, (19) ____________________________,

FARMOUT AND OPTION FARMOUT SUMMARIES:

(9) On __________________, 19_____, ______________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(10) On __________________, 19_____, ______________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(11) On __________________, 19_____, ______________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(12) On __________________, 19_____, ______________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(13) On __________________, 19_____, ______________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(14) On __________________, 19_____, ______________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(15) On __________________, 19_____, ______________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(16) On __________________, 19_____, ______________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(17) On __________________, 19_____, ______________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(18) On __________________, 19_____, ______________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

MEMORANDUM OF OPERATING AGREEMENT AND FINANCING STATEMENT

1.0 This Memorandum of Operating Agreement and Financing Statement (hereinafter called "Memorandum") shall be effective when the Operating Agreement referred to in Paragraph 2.0 below becomes effective, that being ___________________________, 19_____.

2.0 The parties hereto have entered into an Operating Agreement, providing for the development and production of crude oil, natural gas and associated substances from the lands described in Exhibit A attached hereto (hereinafter called the "Contract Area"), and designating ________________________________ as Operator to conduct such operations.

3.0 The Operating Agreement provides for certain liens and/or security interests to secure payment by the parties of their respective share of costs under the Operating Agreement. The Operating Agreement contains an Accounting Procedure along with other provisions which supplement the lien and/or security interest provisions, including non-consent clauses which provide that parties who elect not to participate in certain operations shall be deemed to have relinquished their interest until the consenting parties are able to recover their costs of such operations plus a specified amount. Should any person or firm desire additional information regarding the Operating Agreement or wish to inspect a copy of the Operating Agreement, said person or firm should contact the Operator.

4.0 The purpose of this Memorandum is to more fully describe and implement the liens and/or security interests provided for in the Operating Agreement, and to place third parties on notice thereof.

5.0 In consideration of the mutual rights and obligations of the parties hereunder, the parties hereto agree as follows:

5.1. The Operator shall conduct and direct and have full control of all Operations on the Contract Area as permitted and required by, and within the limits of the Operating Agreement.

5.2. The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations and shall be liable only for its proportionate share of costs.

5.3. Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in the Accounting Procedure referred to in paragraph 3.0 above. To the extent that Operator has a security interest under the Uniform Commercial Code of the state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the rights or security interest for the payment thereof.

5.4. If any Non-Operator fails to pay its share of costs when due, Operator may require other Non-Operators to pay their proportionate part of the unpaid share, whereupon the other Non-Operators shall be subrogated to Operator's lien and security interest.

5.5. The Operator grants to Non-Operators a lien and security interest equivalent to that granted to Operator as described in Paragraph 5.3 above, to secure payment by Operator of its own share of costs when due.

6.0 For purposes of protecting said liens and security interest, the parties hereto agree that this Memorandum shall cover all right, title and interest of the debtor(s) in:

6.1 Property Subject to Security Interests

(A) All personal property located upon or used in connection with the Contract Area.

(B) All fixtures on the Contract Area.

(C) All oil, gas and associated substances of value in, on or under the Contract Area which may be extracted therefrom.

(D) All accounts resulting from the sale of the items described in subparagraph (C) at the wellhead of every well located on the Contract Area or on lands pooled therewith.

(E) All items used, useful, or purchased for the production, treatment, storage, transportation, manufacture, or sale of the items described in subparagraph (C).

(F) All accounts, contract rights, rights under any gas balancing agreement, general intangibles, equipment, inventory, farmout rights, option farmout rights, acreage and or cash contributions, and conversion rights, whether now owned or existing or hereafter acquired or arising, including but not limited to all interest in any partnership, limited partnership, association, joint venture, or other entity or enterprise that holds, owns, or controls any interest in the Contract Area or in any property encumbered by this Memorandum.

(G) All severed and extracted oil, gas, and associated substances now or hereafter produced from or attributable to the Contract Area, including without limitation oil, gas and associated substances in tanks or pipelines or otherwise held for treatment, transportation, manufacture, processing or sale.

(H) All the proceeds and products of the items described in the foregoing paragraphs now existing or hereafter arising, and all substitutions therefor, replacements thereof, or accessions thereto.

(I) All personal property and fixtures now and hereafter acquired in furtherance of the purposes of this Operating Agreement. Certain of the above-described items are or are to become fixtures on the Contract Area.

(J) The proceeds and products of collateral are also covered.

6.2 Property Subject to Liens

(A) All real property within the Contract Area, including all oil, gas and associated substances of value in, on or under the Contract Area which may be extracted therefrom.

(B) All fixtures within the Contract Area.

(C) All real property and fixtures now and hereafter acquired in furtherance of the purposes of this Operating Agreement.

7.0 The above items will be financed at the wellhead of the well or wells located on the Contract Area, and this Memorandum is to be filed for record in the real estate records of the county or counties in which the Contract Area is located, and in the Uniform Commercial Code records. The secured party is not a seller or purchase money lender of the collateral covered by the financing statement. All parties who have executed the Operating Agreement and all farmors and option farmors who have granted support within the Contract Area are identified on Exhibit A.

8.0 On default of any covenant or condition of the Operating Agreement, in addition to any other remedy afforded by law or the practice of this state, each party to the agreement and any successor to such party by assignment, operation of law, or otherwise, shall have, and is hereby given and vested with, the power and authority to take possession of and sell any interest which the defaulting party has in the subject lands and to foreclose this lien in the manner provided by law.

9.0 Upon expiration of the subject Operating Agreement and the satisfaction of all debts, the Operator shall file of record a release and termination on behalf of all parties concerned. Upon the filing of such release and termination, all benefits and obligations under this Memorandum shall terminate as to all parties who have executed or ratified this Memorandum. In addition, the Operator shall have the right to file a continuation statement on behalf of all parties who have executed or ratified this Memorandum.

10.0 It is understood and agreed by the parties hereto that if any part, term, or provision of this Memorandum is by the courts held to be illegal or in conflict with any law of the state where made, the validity of the remaining portions or provisions shall not be affected, and the rights and obligations of the parties shall be construed and enforced as if the Memorandum did not contain the particular part, term or provision held to be invalid.

11.0 This Memorandum of shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns. The failure of one or more persons owning an interest in the Contract Area to execute this Memorandum shall not in any manner affect the validity of the Memorandum as to those persons who have executed this Memorandum.

12.0 A party having an interest in the Contract Area can ratify this Memorandum by execution and delivery of an instrument of ratification, adopting and entering into this Memorandum, and such ratification shall have the same effect as if the ratifying party had executed this Memorandum or a counterpart thereof. By execution or ratification of this Memorandum, such party hereby consents to its ratification and adoption by any party who may have or may acquire any interest in the Contract Area.

13.0 This Memorandum may be executed or ratified in one or more counterparts and all of the executed or ratified counterparts shall together constitute one instrument. For purposes of recording, only one copy of this Memorandum with individual signature pages attached thereto needs to be filed of record.

NAME AND ADDRESS

TAX ID #____

By: ____
(Signature)

Name: ____
(Type or print signatory's name)

Title: ____

NAME AND ADDRESS

TAX ID #____

By: ____
(Signature)

Name: ____
(Type or print signatory's name)

Title: ____

(Insert proper state acknowledgment below)

Counterpart Signature Page

By the following execution, the signatory party hereby commits itself to that specific Memorandum of Operating Agreement and Financing Statement dated ________________________________, 19_____.

NAME AND ADDRESS

TAXPAYER ID #____

By: ____
(Signature)

Name: ____
(Type or print signatory's name)

Title: ____

(Insert proper state acknowledgment below)

EXHIBIT A TO MEMORANDUM OF OPERATING AGREEMENT AND FINANCING STATEMENT

CONTRACT AREA: ____

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RECORD TITLE OWNERS

PARTIES TO THE OPERATING AGREEMENT: ____________________, ____________________,

____________________, ____________________, ____________________,

____________________, ____________________, ____________________,

FARMORS AND OPTION FARMORS: (1) ____________________, (2) ____________________,

(3) ____________________, (4) ____________________, (5) ____________________,

(6) ____________________, (7) ____________________, (8) ____________________,

FARMOUT AND OPTION FARMOUT SUMMARIES:

(1) On ____________________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

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(2) On ____________________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(3) On ____________________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(4) On ____________________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(5) On ____________________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(6) On ____________________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(7) On ____________________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(8) On ____________________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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SUPPLEMENTAL LIST OF FARMOUT AND OPTION FARMOUT SUMMARIES

FARMORS AND OPTION FARMORS: (9) ________________________, (10) ________________________,

(11) ____________________, (12) ____________________, (13) ____________________,

(14) ____________________, (15) ____________________, (16) ____________________,

(17) ____________________, (18) ____________________, (19) ____________________,

FARMOUT AND OPTION FARMOUT SUMMARIES:

(9) On ______________, 19____, __________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ________________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

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(10) On ______________, 19____, __________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ________________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(11) On ______________, 19____, __________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ________________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(12) On ______________, 19____, __________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ________________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(13) On ______________, 19____, __________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ________________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(14) On ______________, 19____, __________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ________________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage

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(15) On ______________, 19____, __________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ________________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(16) On ______________, 19____, __________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ________________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(17) On ______________, 19____, __________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ________________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(18) On ______________, 19____, __________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ________________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

MEMORANDUM OF OPERATING AGREEMENT AND FINANCING STATEMENT

1.0 This Memorandum of Operating Agreement and Financing Statement (hereinafter called "Memorandum") shall be effective when the Operating Agreement referred to in Paragraph 2.0 below becomes effective, that being ____________________________, 19_____.

2.0 The parties hereto have entered into an Operating Agreement, providing for the development and production of crude oil, natural gas and associated substances from the lands described in Exhibit A attached hereto (hereinafter called the "Contract Area"), and designating ____________________________ as Operator to conduct such operations.

3.0 The Operating Agreement provides for certain liens and/or security interests to secure payment by the parties of their respective share of costs under the Operating Agreement. The Operating Agreement contains an Accounting Procedure along with other provisions which supplement the lien and/or security interest provisions, including non-consent clauses which provide that parties who elect not to participate in certain operations shall be deemed to have relinquished their interest until the consenting parties are able to recover their costs of such operations plus a specified amount. Should any person or firm desire additional information regarding the Operating Agreement or wish to inspect a copy of the Operating Agreement, said person or firm should contact the Operator.

4.0 The purpose of this Memorandum is to more fully describe and implement the liens and/or security interests provided for in the Operating Agreement, and to place third parties on notice thereof.

5.0 In consideration of the mutual rights and obligations of the parties hereunder, the parties hereto agree as follows:

5.1. The Operator shall conduct and direct and have full control of all Operations on the Contract Area as permitted and required by, and within the limits of the Operating Agreement.

5.2. The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations and shall be liable only for its proportionate share of costs.

5.3. Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in the Accounting Procedure referred to in Paragraph 3.0 above. To the extent that Operator has a security interest under the Uniform Commercial Code of the state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the rights or security interest for the payment thereof.

5.4. If any Non-Operator fails to pay its share of costs when due, Operator may require other Non-Operators to pay their proportionate part of the unpaid share, whereupon the other Non-Operators shall be subrogated to Operator's lien and security interest.

5.5. The Operator grants to Non-Operators a lien and security interest equivalent to that granted to Operator as described in Paragraph 5.3 above, to secure payment by Operator of its own share of costs when due.

6.0 For purposes of protecting said liens and security interest, the parties hereto agree that this Memorandum shall cover all right, title and interest of the debtor(s) in:

6.1 <u>Property Subject to Security Interests</u>

(A) All personal property located upon or used in connection with the Contract Area.

(B) All fixtures on the Contract Area.

(C) All oil, gas and associated substances of value in, on or under the Contract Area which may be extracted therefrom.

(D) All accounts resulting from the sale of the items described in subparagraph (C) at the wellhead of every well located on the Contract Area or on lands pooled therewith.

(E) All items used, useful, or purchased for the production, treatment, storage, transportation, manufacture, or sale of the items described in subparagraph (C).

(F) All accounts, contract rights, rights under any gas balancing agreement, general intangibles, equipment, inventory, farmout rights, option farmout rights, acreage and or cash contributions, and conversion rights, whether now owned or existing or hereafter acquired or arising, including but not limited to all interest in any partnership, limited partnership, association, joint venture, or other entity or enterprise that holds, owns, or controls any interest in the Contract Area or in any property encumbered by this Memorandum.

(G) All severed and extracted oil, gas, and associated substances now or hereafter produced from or attributable to the Contract Area, including without limitation oil, gas and associated substances in tanks or pipelines or otherwise held for treatment, transportation, manufacture, processing or sale.

(H) All the proceeds and products of the items described in the foregoing paragraphs now existing or hereafter arising, and all substitutions therefor, replacements thereof, or accessions thereto.

(I) All personal property and fixtures now and hereafter acquired in furtherance of the purposes of this Operating Agreement. Certain of the above-described items are or are to become fixtures on the Contract Area.

(J) The proceeds and products of collateral are also covered.

6.2 <u>Property Subject to Liens</u>

(A) All real property within the Contract Area, including all oil, gas and associated substances of value in, on or under the Contract Area which may be extracted therefrom.

(B) All fixtures within the Contract Area.

(C) All real property and fixtures now and hereafter acquired in furtherance of the purposes of this Operating Agreement.

7.0 The above items will be financed at the wellhead of the well or wells located on the Contract Area, and this Memorandum is to be filed for record in the real estate records of the county or counties in which the Contract Area is located, and the Uniform Commercial Code records. All parties who have executed the Operating Agreement and all farmors and option farmors who have granted support within the Contract Area are identified on Exhibit A.

8.0 On default of any covenant or condition of the Operating Agreement, in addition to any other remedy afforded by law or the practice of this state, each party to the agreement and any successor to such party by assignment, operation of law, or otherwise, shall have, and is hereby given and vested with, the power and authority to take possession of and sell any interest which the defaulting party has in the subject lands and to foreclose this lien in the manner provided by law.

9.0 Upon expiration of the subject Operating Agreement and the satisfaction of all debts, the Operator shall file of record a release and termination on behalf of all parties concerned. Upon the filing of such release and termination, all benefits and obligations under this Memorandum shall terminate as to all parties who have executed or ratified this Memorandum. In addition, the Operator shall have the right to file a continuation statement on behalf of all parties who have executed or ratified this Memorandum.

10.0 It is understood and agreed by the parties hereto that if any part, term, or provision of this Memorandum is by the courts held to be illegal or in conflict with any law of the state where made, the validity of the remaining portions or provisions shall not be affected, and the rights and obligations of the parties shall be construed and enforced as if the Memorandum did not contain the particular part, term or provision held to be invalid.

11.0 This Memorandum shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns. The failure of one or more persons owning an interest in the Contract Area to execute this Memorandum shall not in any manner affect the validity of the Memorandum as to those persons who have executed this Memorandum.

12.0 A party having an interest in the Contract Area can ratify this Memorandum by execution and delivery of an instrument of ratification, adopting and entering into this Memorandum, and such ratification shall have the same effect as if the ratifying party had executed this Memorandum or a counterpart thereof. By execution or ratification of this Memorandum, such party hereby consents to its ratification and adoption by any party who may have or may acquire any interest in the Contract Area.

13.0 This Memorandum may be executed or ratified in one or more counterparts and all of the executed or ratified counterparts shall together constitute one instrument. For purposes of recording, only one copy of this Memorandum with individual signature pages attached thereto needs to be filed of record.

NAME AND ADDRESS

TAXPAYER ID #____________________

By: ____________________
(Signature)

Name: ____________________
(Type or print signatory's name)

Title: ____________________

NAME AND ADDRESS

TAXPAYER ID #____________________

By: ____________________
(Signature)

Name: ____________________
(Type or print signatory's name)

Title: ____________________

(Insert proper state acknowledgment below)

Counterpart Signature Page

By the following execution, the signatory party hereby commits itself to that specific Memorandum of Operating Agreement and Financing Statement dated ________________________________, 19_____.

NAME AND ADDRESS

TAXPAYER ID #____

By: ____
(Signature)

Name: ____
(Type or print signatory's name)

Title: ____

(Insert proper state acknowledgment below)

EXHIBIT A TO MEMORANDUM OF OPERATING AGREEMENT AND FINANCING STATEMENT

CONTRACT AREA: ____

____

____

RECORD TITLE OWNERS

PARTIES TO THE OPERATING AGREEMENT: ____________________, ____________________,

____________________, ____________________, ____________________,

____________________, ____________________, ____________________,

FARMORS AND OPTION FARMORS: (1) ____________________, (2) ____________________,

(3) ____________________, (4) ____________________, (5) ____________________,

(6) ____________________, (7) ____________________, (8) ____________________,

FARMOUT AND OPTION FARMOUT SUMMARIES:

(1) On ____________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(2) On ____________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(3) On ____________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

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(4) On ____________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

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(5) On ____________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(6) On ____________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(7) On ____________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(8) On ____________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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SUPPLEMENTAL LIST OF FARMOUT AND OPTION FARMOUT SUMMARIES

FARMORS AND OPTION FARMORS: (9) ____________________, (10) ____________________,

(11) ____________________, (12) ____________________, (13) ____________________,

(14) ____________________, (15) ____________________, (16) ____________________,

(17) ____________________, (18) ____________________, (19) ____________________

FARMOUT AND OPTION FARMOUT SUMMARIES:

(9) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(10) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(11) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(12) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(13) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(14) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(15) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(16) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(17) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(18) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

SECURED PARTY DESIRES THIS FINANCING STATEMENT TO BE INDEXED AGAINST THE REAL ESTATE.

MEMORANDUM OF OPERATING AGREEMENT AND FINANCING STATEMENT

1.0 This Memorandum of Operating Agreement and Financing Statement (hereinafter called "Memorandum") shall be effective when the Operating Agreement referred to in Paragraph 2.0 below becomes effective, that being ____________________________, 19_____.

2.0 The parties hereto have entered into an Operating Agreement, providing for the development and production of crude oil, natural gas and associated substances from the lands described in Exhibit A attached hereto (hereinafter called the "Contract Area"), and designating ____________________________ as Operator to conduct such operations.

3.0 The Operating Agreement provides for certain liens and/or security interests to secure payment by the parties of their respective share of costs under the Operating Agreement. The Operating Agreement contains an Accounting Procedure along with other provisions which supplement the lien and/or security interest provisions, including non-consent clauses which provide that parties who elect not to participate in certain operations shall be deemed to have relinquished their interest until the consenting parties are able to recover their costs of such operations plus a specified amount. Should any person or firm desire additional information regarding the Operating Agreement or wish to inspect a copy of the Operating Agreement, said person or firm should contact the Operator.

4.0 The purpose of this Memorandum is to more fully describe and implement the liens and/or security interests provided for in the Operating Agreement, and to place third parties on notice thereof.

5.0 In consideration of the mutual rights and obligations of the parties hereunder, the parties hereto agree as follows:

5.1. The Operator shall conduct and direct and have full control of all Operations on the Contract Area as permitted and required by, and within the limits of the Operating Agreement.

5.2. The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations and shall be liable only for its proportionate share of costs.

5.3. Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in the Accounting Procedure referred to in Paragraph 3.0 above. To the extent that Operator has a security interest under the Uniform Commercial Code of the state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the rights or security interest for the payment thereof.

5.4. If any Non-Operator fails to pay its share of costs when due, Operator may require other Non-Operators to pay their proportionate part of the unpaid share, whereupon the other Non-Operators shall be subrogated to Operator's lien and security interest.

5.5. The Operator grants to Non-Operators a lien and security interest equivalent to that granted to Operator as described in Paragraph 5.3 above, to secure payment by Operator of its own share of costs when due.

6.0 For purposes of protecting said liens and security interest, the parties hereto agree that this Memorandum shall cover all right, title and interest of the debtor(s) in:

6.1 Property Subject to Security Interests

(A) All personal property located upon or used in connection with the Contract Area.

(B) All fixtures on the Contract Area.

(C) All oil, gas and associated substances of value in, on or under the Contract Area which may be extracted therefrom.

(D) All accounts resulting from the sale of the items described in subparagraph (C) at the wellhead of every well located on the Contract Area or on lands pooled therewith.

(E) All items used, useful, or purchased for the production, treatment, storage, transportation, manufacture, or sale of the items described in subparagraph (C).

(F) All accounts, contract rights, rights under any gas balancing agreement, general intangibles, equipment, inventory, farmout rights, option farmout rights, acreage and or cash contributions, and conversion rights, whether now owned or existing or hereafter acquired or arising, including but not limited to all interest in any partnership, limited partnership, association, joint venture, or other entity or enterprise that holds, owns, or controls any interest in the Contract Area or in any property encumbered by this Memorandum.

(G) All severed and extracted oil, gas, and associated substances now or hereafter produced from or attributable to the Contract Area, including without limitation oil, gas and associated substances in tanks or pipelines or otherwise held for treatment, transportation, manufacture, processing or sale.

(H) All the proceeds and products of the items described in the foregoing paragraphs now existing or hereafter arising, and all substitutions therefor, replacements thereof, or accessions thereto.

(I) All personal property and fixtures now and hereafter acquired in furtherance of the purposes of this Operating Agreement. Certain of the above-described items are or are to become fixtures on the Contract Area.

(J) The proceeds and products of collateral are also covered.

6.2 Property Subject to Liens

(A) All real property within the Contract Area, including all oil, gas and associated substances of value in, on or under the Contract Area which may be extracted therefrom.

(B) All fixtures within the Contract Area.

(C) All real property and fixtures now and hereafter acquired in furtherance of the purposes of this Operating Agreement.

7.0 The above items will be financed at the wellhead of the well or wells located on the Contract Area, and this Memorandum is to be filed for record in the real estate records of the county or counties in which the Contract Area is located, and in the Uniform Commercial Code records. All parties who have executed the Operating Agreement and all farmors and option farmors who have granted support within the Contract Area are identified on Exhibit A.

8.0 On default of any covenant or condition of the Operating Agreement, in addition to any other remedy afforded by law or the practice of this state, each party to the agreement and any successor to such party by assignment, operation of law, or otherwise, shall have, and is hereby given and vested with, the power and authority to take possession of and sell any interest which the defaulting party has in the subject lands and to foreclose this lien in the manner provided by law.

9.0 Upon expiration of the subject Operating Agreement and the satisfaction of all debts, the Operator shall file of record a release and termination on behalf of all parties concerned. Upon the filing of such release and termination, all benefits and obligations under this Memorandum shall terminate as to all parties who have executed or ratified this Memorandum. In addition, the Operator shall have the right to file a continuation statement on behalf of all parties who have executed or ratified this Memorandum.

10.0 It is understood and agreed by the parties hereto that if any part, term, or provision of this Memorandum is by the courts held to be illegal or in conflict with any law of the state where made, the validity of the remaining portions or provisions shall not be affected, and the rights and obligations of the parties shall be construed and enforced as if the Memorandum did not contain the particular part, term or provision held to be invalid.

11.0 This Memorandum shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns. The failure of one or more persons owning an interest in the Contract Area to execute this Memorandum shall not in any manner affect the validity of the Memorandum as to those persons who have executed this Memorandum.

12.0 A party having an interest in the Contract Area can ratify this Memorandum by execution and delivery of an instrument of ratification, adopting and entering into this Memorandum, and such ratification shall have the same effect as if the ratifying party had executed this Memorandum or a counterpart thereof. By execution or ratification of this Memorandum, such party hereby consents to its ratification and adoption by any party who may have or may acquire any interest in the Contract Area.

13.0 This Memorandum may be executed or ratified in one or more counterparts and all of the executed or ratified counterparts shall together constitute one instrument. For purposes of recording, only one copy of this Memorandum with individual signature pages attached thereto needs to be filed of record.

NAME AND ADDRESS

By: ______________________________
(Signature)

Name: ______________________________
(Type or print signatory's name)

Title: ______________________________

NAME AND ADDRESS

By: ______________________________
(Signature)

Name: ______________________________
(Type or print signatory's name)

Title: ______________________________

(Insert proper state acknowledgment below)

Counterpart Signature Page

By the following execution, the signatory party hereby commits itself to that specific Memorandum of Operating Agreement and Financing Statement dated ________________________________, 19_____.

NAME AND ADDRESS

By: ____
(Signature)

Name: ____
(Type or print signatory's name)

Title: ____

(Insert proper state acknowledgment below)

EXHIBIT A TO MEMORANDUM OF OPERATING AGREEMENT AND FINANCING STATEMENT

CONTRACT AREA: ____

____

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RECORD TITLE OWNERS

PARTIES TO THE OPERATING AGREEMENT: ______________________________, ______________________________,

______________________________, ______________________________, ______________________________,

______________________________, ______________________________, ______________________________,

FARMORS AND OPTION FARMORS: (1) ______________________________, (2) ______________________________,

(3) ______________________________, (4) ______________________________, (5) ______________________________,

(6) ______________________________, (7) ______________________________, (8) ______________________________,

FARMOUT AND OPTION FARMOUT SUMMARIES:

(1) On ____________________, 19_____, ______________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(2) On ____________________, 19_____, ______________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(3) On ____________________, 19_____, ______________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(4) On ____________________, 19_____, ______________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(5) On ____________________, 19_____, ______________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(6) On ____________________, 19_____, ______________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(7) On ____________________, 19_____, ______________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(8) On ____________________, 19_____, ______________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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SUPPLEMENTAL LIST OF FARMOUT AND OPTION FARMOUT SUMMARIES

FARMORS AND OPTION FARMORS: (9) ______________________________, (10) ______________________________,

(11) ______________________________, (12) ______________________________, (13) ______________________________,

(14) ______________________________, (15) ______________________________, (16) ______________________________,

(17) ______________________________, (18) ______________________________, (19) ______________________________

FARMOUT AND OPTION FARMOUT SUMMARIES:

(9) On ____________________, 19_____, ______________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

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(10) On ____________________, 19_____, ______________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(11) On ____________________, 19_____, ______________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(14) On ____________________, 19_____, ______________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(15) On ____________________, 19_____, ______________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(16) On ____________________, 19_____, ______________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(17) On ____________________, 19_____, ______________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(18) On ____________________, 19_____, ______________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

MEMORANDUM OF OPERATING AGREEMENT AND FINANCING STATEMENT

1.0 This Memorandum of Operating Agreement and Financing Statement (hereinafter called "Memorandum") shall be effective when the Operating Agreement referred to in Paragraph 2.0 below becomes effective, that being____________________________, 19_____.

2.0 The parties hereto have entered into an Operating Agreement, providing for the development and production of crude oil, natural gas and associated substances from the lands described in Exhibit A attached hereto (hereinafter called the "Contract Area"), and designating ____________________________ as Operator to conduct such operations.

3.0 The Operating Agreement provides for certain liens and/or security interests to secure payment by the parties of their respective share of costs under the Operating Agreement. The Operating Agreement contains an Accounting Procedure along with other provisions which supplement the lien and/or security interest provisions, including non-consent clauses which provide that parties who elect not to participate in certain operations shall be deemed to have relinquished their interest until the consenting parties are able to recover their costs of such operations plus a specified amount. Should any person or firm desire additional information regarding the Operating Agreement or wish to inspect a copy of the Operating Agreement, said person or firm should contact the Operator.

4.0 The purpose of this Memorandum is to more fully describe and implement the liens and/or security interests provided for in the Operating Agreement, and to place third parties on notice thereof.

5.0 In consideration of the mutual rights and obligations of the parties hereunder, the parties hereto agree as follows:

5.1. The Operator shall conduct and direct and have full control of all Operations on the Contract Area as permitted and required by, and within the limits of the Operating Agreement.

5.2. The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations and shall be liable only for its proportionate share of costs.

5.3. Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in the Accounting Procedure referred to in Paragraph 3 above. To the extent that Operator has a security interest under the Uniform Commercial Code of the state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the rights or security interest for the payment thereof.

5.4. If any Non-Operator fails to pay its share of costs when due, Operator may require other Non-Operators to pay their proportionate part of the unpaid share, whereupon the other Non-Operators shall be subrogated to Operator's lien and security interest.

5.5. The Operator grants to Non-Operators a lien and security interest equivalent to that granted to Operator as described in Paragraph 5.3 above, to secure payment by Operator of its own share of costs when due.

6.0 For purposes of protecting said liens and security interest, the parties hereto agree that this Memorandum shall covers all right, title and interest of the debtor(s) in:

6.1 Property Subject to Security Interests

(A) All personal property located upon or used in connection with the Contract Area.

(B) All fixtures on the Contract Area.

(C) All oil, gas and associated substances of value in, on or under the Contract Area which may be extracted therefrom.

(D) All accounts resulting from the sale of the items described in subparagraph (C) at the wellhead of every well located on the Contract Area or on lands pooled therewith.

(E) All items used, useful, or purchased for the production, treatment, storage, transportation, manufacture, or sale of the items described in subparagraph (C).

(F) All accounts, contract rights, rights under any gas balancing agreement, general intangibles, equipment, inventory, farmout rights, option farmout rights, acreage and or cash contributions, and conversion rights, whether now owned or existing or hereafter acquired or arising, including but not limited to all interest in any partnership, limited partnership, association, joint venture, or other entity or enterprise that holds, owns, or controls any interest in the Contract Area or in any property encumbered by this Memorandum.

(G) All severed and extracted oil, gas, and associated substances now or hereafter produced from or attributable to the Contract Area, including without limitation oil, gas and associated substances in tanks or pipelines or otherwise held for treatment, transportation, manufacture, processing or sale.

(H) All the proceeds and products of the items described in the foregoing paragraphs now existing or hereafter arising, and all substitutions therefor, replacements thereof, or accessions thereto.

(I) All personal property and fixtures now and hereafter acquired in furtherance of the purposes of this Operating Agreement. Certain of the above-described items are or are to become fixtures on the Contract Area.

(J) The proceeds and products of collateral are also covered.

6.2 Property Subject to Liens

(A) All real property within the Contract Area, including all oil, gas and associated substances of value in, on or under the Contract Area which may be extracted therefrom.

(B) All fixtures within the Contract Area.

(C) All real property and fixtures now and hereafter acquired in furtherance of the purposes of this Operating Agreement.

7.0 The above items will be financed at the wellhead of the well or wells located on the Contract Area, and this Memorandum is to be filed for record in the real estate records of the county or counties in which the Contract Area is located, and in the Uniform Commercial Code records. All parties who have executed the Operating Agreement and all farmors and option farmors who have granted support within the Contract Area are identified on Exhibit A.

8.0 On default of any covenant or condition of the Operating Agreement, in addition to any other remedy afforded by law or the practice of this state, each party to the agreement and any successor to such party by assignment, operation of law, or otherwise, shall have, and is hereby given and vested with, the power and authority to take possession of and sell any interest which the defaulting party has in the subject lands and to foreclose this lien in the manner provided by law.

9.0 Upon expiration of the subject Operating Agreement and the satisfaction of all debts, the Operator shall file of record a release and termination on behalf of all parties concerned. Upon the filing of such release and termination, all benefits and obligations under this Memorandum shall terminate as to all parties who have executed or ratified this Memorandum. In addition, the Operator shall have the right to file a continuation statement on behalf of all parties who have executed or ratified this Memorandum.

10.0 It is understood and agreed by the parties hereto that if any part, term, or provision of this Memorandum is by the courts held to be illegal or in conflict with any law of the state where made, the validity of the remaining portions or provisions shall not be affected, and the rights and obligations of the parties shall be construed and enforced as if the Memorandum did not contain the particular part, term or provision held to be invalid.

11.0 This Memorandum shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns. The failure of one or more persons owning an interest in the Contract Area to execute this Memorandum shall not in any manner affect the validity of the Memorandum as to those persons who have executed this Memorandum.

12.0 A party having an interest in the Contract Area can ratify this Memorandum by execution and delivery of an instrument of ratification, adopting and entering into this Memorandum, and such ratification shall have the same effect as if the ratifying party had executed this Memorandum or a counterpart thereof. By execution or ratification of this Memorandum, such party hereby consents to its ratification and adoption by any party who may have or may acquire any interest in the Contract Area.

13.0 This Memorandum may be executed or ratified in one or more counterparts and all of the executed or ratified counterparts shall together constitute one instrument. For purposes of recording, only one copy of this Memorandum with individual signature pages attached thereto needs to be filed of record.

NAME AND ADDRESS

TAXPAYER ID #____________________

By: ____________________
(Signature)

Name: ____________________
(Type or print signatory's name)

Title: ____________________

NAME AND ADDRESS

TAXPAYER ID#____________________

By: ____________________
(Signature)

Name: ____________________
(Type or print signatory's name)

Title: ____________________

This form prepared by:

____
Name

____
Address

____
Address

____
Signature

(Insert proper state acknowledgment below)

Counterpart Signature Page

By the following execution, the signatory party hereby commits itself to that specific Memorandum of Operating Agreement and Financing Statement dated ________________________________, 19_____.

NAME AND ADDRESS

TAXPAYER ID #____

By: ____
(Signature)

Name: ____
(Type or print signatory's name)

Title: ____

(Insert proper state acknowledgment below)

EXHIBIT A TO MEMORANDUM OF OPERATING AGREEMENT AND FINANCING STATEMENT

CONTRACT AREA: ____

____

____

RECORD TITLE OWNERS

PARTIES TO THE OPERATING AGREEMENT: ____________________, ____________________,

____________________, ____________________, ____________________,

____________________, ____________________, ____________________,

FARMORS AND OPTION FARMORS: (1) ____________________, (2) ____________________,

(3) ____________________, (4) ____________________, (5) ____________________,

(6) ____________________, (7) ____________________, (8) ____________________,

FARMOUT AND OPTION FARMOUT SUMMARIES:

(1) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(2) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

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(3) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(4) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(5) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

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(6) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

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(7) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

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(8) On ____________, 19____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

SUPPLEMENTAL LIST OF FARMOUT AND OPTION FARMOUT SUMMARIES

FARMORS AND OPTION FARMORS: (9) ____________________, (10) ____________________,

(11) ____________________, (12) ____________________, (13) ____________________,

(14) ____________________, (15) ____________________, (16) ____________________,

(17) ____________________, (18) ____________________, (19) ____________________

FARMOUT AND OPTION FARMOUT SUMMARIES:

(9) On ______________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

(10) On ______________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

(11) On ______________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

(12) On ______________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

(13) On ______________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

(14) On ______________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

(15) On ______________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

(16) On ______________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

(17) On ______________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

(18) On ______________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

MEMORANDUM OF OPERATING AGREEMENT AND FINANCING STATEMENT

1.0 This Memorandum of Operating Agreement and Financing Statement (hereinafter called "Memorandum") shall be effective when the Operating Agreement referred to in Paragraph 2.0 below becomes effective, that being ____________________________, 19_____.

2.0 The parties hereto have entered into an Operating Agreement, providing for the development and production of crude oil, natural gas and associated substances from the lands described in Exhibit A attached hereto (hereinafter called the "Contract Area"), and designating _____________________________as Operator to conduct such operations.

3.0 The Operating Agreement provides for certain liens and/or security interests to secure payment by the parties of their respective share of costs under the Operating Agreement. The Operating Agreement contains an Accounting Procedure along with other provisions which supplement the lien and/or security interest provisions, including non-consent clauses which provide that parties who elect not to participate in certain operations shall be deemed to have relinquished their interest until the consenting parties are able to recover their costs of such operations plus a specified amount. Should any person or firm desire additional information regarding the Operating Agreement or wish to inspect a copy of the Operating Agreement, said person or firm should contact the Operator.

4.0 The purpose of this Memorandum is to more fully describe and implement the liens and/or security interests provided for in the Operating Agreement, and to place third parties on notice thereof.

5.0 In consideration of the mutual rights and obligations of the parties hereunder, the parties hereto agree as follows:

5.1. The Operator shall conduct and direct and have full control of all Operations on the Contract Area as permitted and required by, and within the limits of the Operating Agreement.

5.2. The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations and shall be liable only for its proportionate share of costs.

5.3. Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in the Accounting Procedure referred to in Paragraph 3.0 above. To the extent that Operator has a security interest under the Uniform Commercial Code of the state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the rights or security interest for the payment thereof.

5.4. If any Non-Operator fails to pay its share of costs when due, Operator may require other Non-Operators to pay their proportionate part of the unpaid share, whereupon the other Non-Operators shall be subrogated to Operator's lien and security interest.

5.5. The Operator grants to Non-Operators a lien and security interest equivalent to that granted to Operator as described in Paragraph 5.3 above, to secure payment by Operator of its own share of costs when due.

6.0 For purposes of protecting said liens and security interest, the parties hereto agree that this Memorandum shall cover all right, title and interest of the debtor(s) in:

6.1 Property Subject to Security Interests

(A) All personal property located upon or used in connection with the Contract Area.

(B) All fixtures on the Contract Area.

(C) All oil, gas and associated substances of value in, on or under the Contract Area which may be extracted therefrom.

(D) All accounts resulting from the sale of the items described in subparagraph (C) at the wellhead of every well located on the Contract Area or on lands pooled therewith.

(E) All items used, useful, or purchased for the production, treatment, storage, transportation, manufacture, or sale of the items described in subparagraph (C).

(F) All accounts, contract rights, rights under any gas balancing agreement, general intangibles, equipment, inventory, farmout rights, option farmout rights, acreage and or cash contributions, and conversion rights, whether now owned or existing or hereafter acquired or arising, including but not limited to all interest in any partnership, limited partnership, association, joint venture, or other entity or enterprise that holds, owns, or controls any interest in the Contract Area or in any property encumbered by this Memorandum.

(G) All severed and extracted oil, gas, and associated substances now or hereafter produced from or attributable to the Contract Area, including without limitation oil, gas and associated substances in tanks or pipelines or otherwise held for treatment, transportation, manufacture, processing or sale.

(H) All the proceeds and products of the items described in the foregoing paragraphs now existing or hereafter arising, and all substitutions therefor, replacements thereof, or accessions thereto.

(I) All personal property and fixtures now and hereafter acquired in furtherance of the purposes of this Operating Agreement. Certain of the above-described items are or are to become fixtures on the Contract Area.

(J) The proceeds and products of collateral are also covered.

6.2 Property Subject to Liens

(A) All real property within the Contract Area, including all oil, gas and associated substances of value in, on or under the Contract Area which may be extracted therefrom.

(B) All fixtures within the Contract Area.

(C) All real property and fixtures now and hereafter acquired in furtherance of the purposes of this Operating Agreement.

7.0 The above items will be financed at the wellhead of the well or wells located on the Contract Area, and this Memorandum is to be filed for record in the real estate records of the county or counties in which the Contract Area is located, and in the Uniform Commercial Code records. All parties who have executed the Operating Agreement and all farmors and option farmors who have granted support within the Contract Area are identified on Exhibit A.

8.0 On default of any covenant or condition of the Operating Agreement, in addition to any other remedy afforded by law or the practice of this state, each party to the agreement and any successor to such party by assignment, operation of law, or otherwise, shall have, and is hereby given and vested with, the power and authority to take possession of and sell any interest which the defaulting party has in the subject lands and to foreclose this lien in the manner provided by law.

9.0 Upon expiration of the subject Operating Agreement and the satisfaction of all debts, the Operator shall file of record a release and termination on behalf of all parties concerned. Upon the filing of such release and termination, all benefits and obligations under this Memorandum shall terminate as to all parties who have executed or ratified this Memorandum. In addition, the Operator shall have the right to file a continuation statement on behalf of all parties who have executed or ratified this Memorandum.

10.0 It is understood and agreed by the parties hereto that if any part, term, or provision of this Memorandum is by the courts held to be illegal or in conflict with any law of the state where made, the validity of the remaining portions or provisions shall not be affected, and the rights and obligations of the parties shall be construed and enforced as if the Memorandum did not contain the particular part, term or provision held to be invalid.

11.0 This Memorandum shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns. The failure of one or more persons owning an interest in the Contract Area to execute this Memorandum shall not in any manner affect the validity of the Memorandum as to those persons who have executed this Memorandum.

12.0 A party having an interest in the Contract Area can ratify this Memorandum by execution and delivery of an instrument of ratification, adopting and entering into this Memorandum, and such ratification shall have the same effect as if the ratifying party had executed this Memorandum or a counterpart thereof. By execution or ratification of this Memorandum, such party hereby consents to its ratification and adoption by any party who may have or may acquire any interest in the Contract Area.

13.0 This Memorandum may be executed or ratified in one or more counterparts and all of the executed or ratified counterparts shall together constitute one instrument. For purposes of recording, only one copy of this Memorandum with individual signature pages attached thereto needs to be filed of record.

NAME AND ADDRESS

By: ______________________________
(Signature)

Name: ______________________________
(Type or print signatory's name)

Title: ______________________________

NAME AND ADDRESS

By: ______________________________
(Signature)

Name: ______________________________
(Type or print signatory's name)

Title: ______________________________

Maturity Date of Obligation: ______________________________

(Insert proper state acknowledgment below)

Counterpart Signature Page

By the following execution, the signatory party hereby commits itself to that specific Memorandum of Operating Agreement and Financing Statement dated ______________________________, 19_____.

NAME AND ADDRESS

By: ____
(Signature)

Name: ____
(Type or print signatory's name)

Title: ____

(Insert proper state acknowledgment below)

EXHIBIT A TO MEMORANDUM OF OPERATING AGREEMENT AND FINANCING STATEMENT

CONTRACT AREA: ____

____

____

RECORD TITLE OWNERS

PARTIES TO THE OPERATING AGREEMENT: ____________________, ____________________,

____________________, ____________________, ____________________,

____________________, ____________________, ____________________,

FARMORS AND OPTION FARMORS: (1) ____________________, (2) ____________________,

(3) ____________________, (4) ____________________, (5) ____________________,

(6) ____________________, (7) ____________________, (8) ____________________,

FARMOUT AND OPTION FARMOUT SUMMARIES:

(1) On ____________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(2) On ____________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(3) On ____________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

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(4) On ____________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(5) On ____________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(6) On ____________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(7) On ____________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(8) On ____________, 19_____, ____________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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SUPPLEMENTAL LIST OF FARMOUT AND OPTION FARMOUT SUMMARIES

FARMORS AND OPTION FARMORS: (9) ________________________, (10) ________________________,

(11) ____________________, (12) ____________________, (13) ____________________,

(14) ____________________, (15) ____________________, (16) ____________________,

(17) ____________________, (18) ____________________, (19) ____________________

FARMOUT AND OPTION FARMOUT SUMMARIES:

(9) On ______________, 19____, ________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(10) On ______________, 19____, ________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(11) On ______________, 19____, ________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(12) On ______________, 19____, ________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(13) On ______________, 19____, ________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(14) On ______________, 19____, ________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(15) On ______________, 19____, ________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(16) On ______________, 19____, ________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(17) On ______________, 19____, ________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

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(18) On ______________, 19____, ________________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ________________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

MEMORANDUM OF OPERATING AGREEMENT AND MORTGAGES

1.0 This Memorandum of Operating Agreement and Mortgages (hereinafter called "Memorandum") shall be effective when the Operating Agreement referred to in Paragraph 2.0 below becomes effective, that being ______________________________, 19_____.

2.0 The parties hereto have entered into an Operating Agreement, providing for the development and production of crude oil, natural gas and associated substances from the lands described in Exhibit A attached hereto (hereinafter called the "Contract Area"), and designating ____________________________ as Operator to conduct such operations.

3.0 The Operating Agreement provides for certain liens and/or security interests to secure payment by the parties of their respective share of costs under the Operating Agreement. The Operating Agreement contains an Accounting Procedure along with other provisions which supplement the lien and/or security interest provisions, including non-consent clauses which provide that parties who elect not to participate in certain operations shall be deemed to have relinquished their interest until the consenting parties are able to recover their costs of such operations plus a specified amount. Should any person or firm desire additional information regarding the Operating Agreement or wish to inspect a copy of the Operating Agreement, said person or firm should contact the Operator.

4.0 This Memorandum is granted pursuant to La.R.S. 9:5101 Mortgage of Mineral Rights, La.R.S. 30:109 Mortgage of Mineral Leases and Contracts, La.R.S. 56:429 Mortgage of Leases on State Water Bottoms, La.R.S. 9:5351-9:5365 Chattel Mortgages, La.R.S. 9:5102 Interests Under Lease, and La.R.S. 9:5367 Moveables Used in Commercial and Industrial Property, in addition to any other applicable mortgage statute under the laws of Louisiana.

5.0 The purpose of this Memorandum is to more fully describe and implement the liens and/or security interests provided for in the Operating Agreement, and to place third parties on notice thereof.

6.0 In consideration of the mutual rights and obligations of the parties hereunder, the parties hereto agree as follows:

6.1. The Operator shall conduct and direct and have full control of all Operations on the Contract Area as permitted and required by, and within the limits of the Operating Agreement.

6.2. The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations and shall be liable only for its proportionate share of the costs of developing and operating the Contract Area.

6.3. Each Non-Operator grants to Operator a lien (mortgage) upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in the Accounting Procedure referred to in Paragraph 3.0 above. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the rights or security interest for the payment thereof. In addition to what is specifically provided for in the Operating Agreement, to the extent that Operator has a security interest under the Mortgage Statutes of Louisiana, Operator shall be entitled to exercise the rights and remedies of a secured party under the Mortgage Statutes.

6.4. If any Non-Operator fails to pay its share of costs when due, Operator may require other Non-Operators to pay their proportionate part of the unpaid share, whereupon the other Non-Operators shall be subrogated to Operator's lien and security interest (mortgage).

6.5. The Operator grants to Non-Operators a lien and security interest (mortgage) equivalent to that granted to Operator as described in Paragraph 6.3 above, to secure payment by Operator of its own share of costs when due.

7.0 For purposes of protecting said mutual mortgages, the parties hereto agree that this Memorandum shall cover all right, title and interest of the debtor(s) in:

7.1. (A) All personal property located upon or used in connection with the Contract Area.

(B) All fixtures on the Contract Area.

(C) All oil, gas and associated substances of value in, on or under the Contract Area which may be extracted therefrom.

(D) All accounts resulting from the sale of the items described in subparagraph (C) at the wellhead of every well located on the Contract Area or on lands pooled therewith.

(E) All items used, useful, or purchased for the production, treatment, storage, transportation, manufacture, or sale of the items described in subparagraph (C).

(F) All accounts, contract rights, rights under any gas balancing agreement, general intangibles, equipment, inventory, chattel paper, farmout rights, option farmout rights, acreage and or cash contributions, and conversion rights, whether now owned or existing or hereafter acquired or arising, including but not limited to all interest in any partnership, limited partnership, association, joint venture, or other entity or enterprise that holds, owns, or controls any interest in the Contract Area or in any property encumbered by this Memorandum.

(G) All severed and extracted oil, gas, and associated substances now or hereafter produced from or attributable to the Contract Area, including without limitation oil, gas and associated substances in tanks or pipelines or otherwise held for treatment, transportation, manufacture, processing or sale.

(H) All the proceeds and products of the items described in the foregoing paragraphs now existing or hereafter arising, and all substitutions therefor, replacements thereof, or accessions thereto.

7.2. Certain of the above-described items are or are to become fixtures on the Contract Area.

7.3. This instrument covers corporeal moveables located from time to time upon the premises for use in the above described operations.

7.4. The proceeds and products of collateral are also covered.

8.0 The above items will be financed at the wellhead of the well or wells located on the Contract Area, and this Memorandum is to be filed for record in the real estate records of the parish or parishes in which the Contract Area is located. All parties who have executed the Operating Agreement and all farmors and option farmors who have granted support within the Contract Area are identified on Exhibit A.

9.0 On default of any covenant or condition of the Operating Agreement, in addition to any other remedy afforded by law or the practice of this state, each party to the agreement and any successor to such party by assignment, operation of law, or otherwise, shall have, and is hereby given and vested with, the power and authority to take possession of and sell any interest which the defaulting party has in the subject lands and to foreclose this mortgage in the manner provided by law, including executory process.

10.0 Upon expiration of the subject Operating Agreement and the satisfaction of all debts, the Operator shall file of record a release and termination of this Memorandum on behalf of all parties concerned. Upon the filing of such release and termination, all benefit and obligations under the Memorandum shall terminate as to all parties who have executed or ratified this Memorandum. In addition, the Operator shall have the right to file a continuation statement on behalf of all parties who have executed or ratified this Memorandum.

11.0 It is understood and agreed by the parties hereto that if any part, term, or provision of this Memorandum is by the courts held to be illegal or in conflict with any law of the state where made, the validity of the remaining portions or provisions shall not be affected, and the rights and obligations of the parties shall be construed and enforced as if the Memorandum did not contain the particular part, term or provision held to be invalid.

12.0 This Memorandum shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns. The failure of one or more persons owning an interest in the Contract Area to execute this Memorandum shall not in any manner affect the validity of the Memorandum as to those persons who have executed this Memorandum.

13.0 A party having an interest in the Contract Area can ratify this Memorandum by execution and delivery of an instrument of ratification, adopting and entering into this Memorandum, and such ratification shall have the same effect as if the ratifying party had executed this Memorandum or a counterpart thereof. By execution or ratification of this Memorandum, such party hereby consents to its ratification and adoption by any party who may have or may acquire any interest in the Contract Area.

14.0 This Memorandum may be executed or ratified in one or more counterparts and all of the executed or ratified counterparts shall together constitute one instrument. For purposes of recording, only one copy of this Memorandum with individual signature pages attached thereto needs to be filed of record.

WITNESSES:

____

____

NAME AND ADDRESS

By: ______________________________
(Signature)

Name: ______________________________
(Type or print signatory's name)

Title: ______________________________

WITNESSES:

____

____

NAME AND ADDRESS

By: ______________________________
(Signature)

Name: ______________________________
(Type or print signatory's name)

Title: ______________________________

(Insert proper state acknowledgment below)

Counterpart Signature Page

By the following execution, the signatory party hereby commits itself to that specific Memorandum of Operating Agreement and Financing Statement dated ______________________________, 19_____.

WITNESSES:

____

____

NAME AND ADDRESS

By: ____
(Signature)

Name: ____
(Type or print signatory's name)

Title: ____

(Insert proper state acknowledgment below)

EXHIBIT A TO MEMORANDUM OF OPERATING AGREEMENT AND FINANCING STATEMENT

CONTRACT AREA: ______________________________

____

____

RECORD TITLE OWNERS

PARTIES TO THE OPERATING AGREEMENT: ______________________, ______________________,

______________________, ______________________, ______________________,

______________________, ______________________, ______________________,

FARMORS AND OPTION FARMORS: (1) ______________________, (2) ______________________,

(3) ______________________, (4) ______________________, (5) ______________________,

(6) ______________________, (7) ______________________, (8) ______________________,

FARMOUT AND OPTION FARMOUT SUMMARIES:

(1) On ______________, 19_____, ______________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(2) On ______________, 19_____, ______________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

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(3) On ______________, 19_____, ______________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

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(4) On ______________, 19_____, ______________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

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(5) On ______________, 19_____, ______________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

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(6) On ______________, 19_____, ______________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

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(7) On ______________, 19_____, ______________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(8) On ______________, 19_____, ______________________ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ______________________ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

SUPPLEMENTAL LIST OF FARMOUT AND OPTION FARMOUT SUMMARIES

FARMORS AND OPTION FARMORS: (9) ____, (10) ____,

(11) ________________________________, (12) ________________________________, (13) ________________________________,

(14) ________________________________, (15) ________________________________, (16) ________________________________,

(17) ________________________________, (18) ________________________________, (19) ________________________________

FARMOUT AND OPTION FARMOUT SUMMARIES:

(9) On ______________________, 19_____, ____ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(10) On ______________________, 19_____, ____ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(11) On ______________________, 19_____, ____ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(12) On ______________________, 19_____, ____ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(13) On ______________________, 19_____, ____ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(14) On ______________________, 19_____, ____ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(15) On ______________________, 19_____, ____ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(16) On ______________________, 19_____, ____ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(17) On ______________________, 19_____, ____ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

(18) On ______________________, 19_____, ____ (Farmor or Option Farmor) entered into a Farmout Agreement (or Option Farmout Agreement) entitling ____ (Farmee) to an equitable interest in oil and gas and associated minerals within the Contract Area described above, with legal title to be assigned at a later date. The Farmout Contract covers the following acreage: (Describe all farmout or option farmout acreage)

____

____

CONTINUATION STATEMENT

MEMORANDUM OF OPERATING AGREEMENT AND FINANCING STATEMENT

Original File No. ______________________________

Continuation File No.(s) ______________________ (If any)

____

Effective ____, the original Memorandum of Operating Agreement and Financing Statement shall continue to be effective as to the parties to this statement.

NAME AND ADDRESS

By: ____
(Signature)

Name: ____
(Type or print signatory's name)

Title: ____

NAME AND ADDRESS

By: ____
(Signature)

Name: ____
(Type or print signatory's name)

Title: ____

NAME AND ADDRESS

By: ____
(Signature)

Name: ____
(Type or print signatory's name)

Title: ____

2L25/1686/2 - (1)

RELEASE OF MEMORANDUM OF OPERATING AGREEMENT
AND TERMINATION OF FINANCING STATEMENT

The undersigned, ________________ (Name, Address, State of Incorporation) ____________________

____

____,

hereby certifies that the Memorandum of Operating Agreement and Financing Statement dated ____________________________, 19_____, executed by ____

____, as Operator, and

____

____

____,

as Non-Operator(s), and recorded ___________________, 19_____, in the office of the ___________________, County of ___________________, State of ___________________, in Book _____, Page _____, and recorded in the Uniform Commercial Code records of the State of ____________________, File No. ______, empowers the Operator to sign a Release and Termination Statement upon expiration of the subject Operating Agreement, to be binding on all parties to the Operating Agreement; and

By virtue of this authority, the undersigned hereby certifies that the subject Operating Agreement has expired and that the Memorandum of Operating Agreement and Financing Statement is hereby fully released and discharged and that the parties to the Operating Agreement no longer claim any security interest under the above mentioned Financing Statement.

IN WITNESS WHEREOF, this Release of Memorandum of Operating Agreement and Termination of Financing Statement is executed as of the _____ day of __________________, 19_____.

NAME AND ADDRESS

By: ____
(Signature)

Name: ____
(Type or print signatory's name)

Title: ____

(Acknowledgment)

2L25/1686/3

FOR USE IN ALABAMA, NORTH CAROLINA, KENTUCKY

RELEASE OF MEMORANDUM OF OPERATING AGREEMENT

AND TERMINATION OF FINANCING STATEMENT

The undersigned, ______________(Name, Address, State of Incorporation)____, hereby certifies that the Memorandum of Operating Agreement and Financing Statement dated ____________________________, 19_____, executed by ____, as Operator, and ____, as Non-Operator(s), and recorded ____________________, 19_____, in the office of the ____________________, County of ____________________, State of ____________________, in Book _____; Page _____, and recorded in the Uniform Commercial Code records of the State of ____________________, File No. ______, empowers the Operator to sign a Release and Termination Statement upon expiration of the subject Operating Agreement, to be binding on all parties to the Operating Agreement; and

By virtue of this authority, the undersigned hereby certifies that the subject Operating Agreement has expired and that the Memorandum of Operating Agreement and Financing Statement is hereby fully released and discharged and that the parties to the Operating Agreement no longer claim any security interest under the above mentioned Financing Statement.

IN WITNESS WHEREOF, this Release of Memorandum of Operating Agreement and Termination of Financing Statement is executed as of the _____ day of __________________, 19_____.

NAME AND ADDRESS

By: ____
(Signature)

Name: ____
(Type or print signatory's name)

Title: ____

(Acknowledgment)

This Instrument Prepared By:

____
Name

____
Address

____
Signature

2L25/1686/3

FOR USE IN FLORIDA AND
MICHIGAN

RELEASE OF MEMORANDUM OF OPERATING AGREEMENT
AND TERMINATION OF FINANCING STATEMENT

The undersigned, ______________ (Name, Address, State of Incorporation) ______________________

____

____,

hereby certifies that the Memorandum of Operating Agreement and Financing Statement dated ____________________________, 19_____, executed by ____

____, as Operator, and

____

____,

as Non-Operator(s), and recorded ___________________, 19_____, in the office of the ___________________, County of ___________________, State of ___________________, in Book _____, Page _____, and recorded in the Uniform Commercial Code records of the State of ____________________, File No. ______, empowers the Operator to sign a Release and Termination Statement upon expiration of the subject Operating Agreement, to be binding on all parties to the Operating Agreement; and

By virtue of this authority, the undersigned hereby certifies that the subject Operating Agreement has expired and that the Memorandum of Operating Agreement and Financing Statement is hereby fully released and discharged and that the parties to the Operating Agreement no longer claim any security interest under the above mentioned Financing Statement.

IN WITNESS WHEREOF, this Release of Memorandum of Operating Agreement and Termination of Financing Statement is executed as of the _____ day of __________________, 19_____.

WITNESSES: NAME AND ADDRESS

________________________________ By: ____
(Signature)

________________________________ Name: ____
(Type or print signatory's name)

Title: ____

(Acknowledgment)

This Instrument Prepared By:

____
Name

____
Address

____
Signature

2L25/1686/3

FOR USE IN OHIO,
CONNECTICUT, VERMONT,
SOUTH CAROLINA

RELEASE OF MEMORANDUM OF OPERATING AGREEMENT

AND TERMINATION OF FINANCING STATEMENT

The undersigned, ______________(Name, Address, State of Incorporation)______________________

____

____,

hereby certifies that the Memorandum of Operating Agreement and Financing Statement dated ____________________________, 19_____, executed by ____

____, as Operator, and

____

____,

as Non-Operator(s), and recorded ___________________, 19_____, in the office of the ___________________, County of ___________________, State of ___________________, in Book _____, Page _____, and recorded in the Uniform Commercial Code records of the State of ___________________, File No. ______, empowers the Operator to sign a Release and Termination Statement upon expiration of the subject Operating Agreement, to be binding on all parties to the Operating Agreement; and

By virtue of this authority, the undersigned hereby certifies that the subject Operating Agreement has expired and that the Memorandum of Operating Agreement and Financing Statement is hereby fully released and discharged and that the parties to the Operating Agreement no longer claim any security interest under the above mentioned Financing Statement.

IN WITNESS WHEREOF, this Release of Memorandum of Operating Agreement and Termination of Financing Statement is executed as of the _____ day of __________________, 19_____.

NAME AND ADDRESS

WITNESSES:

________________________________ By: ____
(Signature)

________________________________ Name: ____
(Type or print signatory's name)

Title: ____

(Acknowledgment)

2L25/1686/3

FOR USE IN UTAH, SOUTH DAKOTA,
MARYLAND AND RHODE ISLAND

RELEASE OF MEMORANDUM OF OPERATING AGREEMENT
AND TERMINATION OF FINANCING STATEMENT

The undersigned, ________________ (Name, Address, State of Incorporation) ____________________

____

____,

hereby certifies that the Memorandum of Operating Agreement and Financing Statement dated ____________________________, 19_____, executed by ____ ____, as Operator, and ____ ____ ____, as Non-Operator(s), and recorded ___________________, 19_____, in the office of the ___________________, County of ___________________, State of ___________________, in Book _____, Page _____, and recorded in the Uniform Commercial Code records of the State of ____________________, File No. ______, empowers the Operator to sign a Release and Termination Statement upon expiration of the subject Operating Agreement, to be binding on all parties to the Operating Agreement; and

By virtue of this authority, the undersigned hereby certifies that the subject Operating Agreement has expired and that the Memorandum of Operating Agreement and Financing Statement is hereby fully released and discharged and that the parties to the Operating Agreement no longer claim any security interest under the above mentioned Financing Statement.

IN WITNESS WHEREOF, this Release of Memorandum of Operating Agreement and Termination of Financing Statement is executed as of the _____ day of __________________, 19_____.

NAME AND ADDRESS
TAXPAYER I.D. NO.____________________________________

By: ____
(Signature)

Name: ____
(Type or print signatory's name)

Title: ____

(Acknowledgment)

ABD 17 - (7)

SECURED PARTY DESIRES THIS FINANCING STATEMENT TO BE INDEXED AGAINST THE REAL ESTATE.

RELEASE OF MEMORANDUM OF OPERATING AGREEMENT
AND TERMINATION OF FINANCING STATEMENT

The undersigned, ________________ (Name, Address, State of Incorporation) ____________________

____

____,

hereby certifies that the Memorandum of Operating Agreement and Financing Statement dated ____________________________, 19_____, executed by ____

____, as Operator, and

____

____

____,

as Non-Operator(s), and recorded ___________________, 19_____, in the office of the ___________________, County of ___________________, State of ___________________, in Book _____, Page _____, and recorded in the Uniform Commercial Code records of the State of ____________________, File No. ______, empowers the Operator to sign a Release and Termination Statement upon expiration of the subject Operating Agreement, to be binding on all parties to the Operating Agreement; and

By virtue of this authority, the undersigned hereby certifies that the subject Operating Agreement has expired and that the Memorandum of Operating Agreement and Financing Statement is hereby fully released and discharged and that the parties to the Operating Agreement no longer claim any security interest under the above mentioned Financing Statement.

IN WITNESS WHEREOF, this Release of Memorandum of Operating Agreement and Termination of Financing Statement is executed as of the _____ day of _________________, 19_____.

NAME AND ADDRESS

By: ____
(Signature)

Name: ____
(Type or print signatory's name)

Title: ____

(Acknowledgment)

2L25/1686/3

RELEASE OF MEMORANDUM OF OPERATING AGREEMENT
AND TERMINATION OF FINANCING STATEMENT

The undersigned, ______________ (Name, Address, State of Incorporation) ______________________

____

____,

hereby certifies that the Memorandum of Operating Agreement and Financing Statement dated ____________________________, 19_____, executed by ____

____, as Operator, and

____

____,

as Non-Operator(s), and recorded ___________________, 19_____, in the office of the ___________________, County of __________________, State of __________________, in Book ________, Page _____, and recorded in the Uniform Commercial Code records of the State of __________________, File No. _____, empowers the Operator to sign a Release and Termination Statement upon expiration of the subject Operating Agreement, to be binding on all parties to the Operating Agreement; and

By virtue of this authority, the undersigned hereby certifies that the subject Operating Agreement has expired and that the Memorandum of Operating Agreement and Financing Statement is hereby fully released and discharged and that the parties to the Operating Agreement no longer claim any security interest under the above mentioned Financing Statement.

IN WITNESS WHEREOF, this Release of Memorandum of Operating Agreement and Termination of Financing Statement is executed as of the _____ day of _________________, 19_____.

NAME AND ADDRESS
TAXPAYER I.D. NO. ____________________________________

By: ____
(Signature)

Name: ____
(Type or print signatory's name)

Title: ____

(Acknowledgment)

This Instrument Prepared By:

____
Name

____
Address

____
Signature

2L25/1686/3

RELEASE OF MEMORANDUM OF MORTGAGES

The undersigned, ______________(Name, Address, State of Incorporation)______________________

____

____,

hereby certifies that the Memorandum of Operating Agreement and Mortgages dated ____________________, 19_____, executed by __________________, as Operator, and ____

____

____,

as Non-Operator(s), and recorded ___________________, 19_____, in the office of the ___________________, Parish of __________________, State of Louisiana, in Book _____, Page _____, empowers the Operator to sign a Release, upon expiration of the subject Operating Agreement, to be binding on all the parties to the Operating Agreement; and

By virtue of this authority, the undersigned hereby certifies that the subject Operating Agreement has expired and the Memorandum of Operating Agreement and Mortgages is hereby fully released and discharged.

IN WITNESS WHEREOF, this Release of Memorandum of Mortgages is executed as of the _______day of __________________, 19_____.

NAME AND ADDRESS

WITNESSES:

________________________________ By: ____
(Signature)

________________________________ Name: ____
(Type or print signatory's name)

Title: ____

(Acknowledgment)

2L25/1686/3

RATIFICATION OF
MEMORANDUM OF OPERATING AGREEMENT AND FINANCING STATEMENT

WHEREAS the undersigned hereby acknowledges receipt of an agreement entitled "Memorandum of Operating Agreement and Financing Statement" (hereinafter Memorandum);

WHEREAS the Memorandum provides for liens and security interests in lands and leases (hereinafter Contract Area), and in tangible and intangible personal property related to the development of such Contract Area;

WHEREAS the Contract Area is located in ____
____
____
_______________, _______________ County, State of __________________________________
(described in detail in the Memorandum Exhibit A);

WHEREAS such Memorandum, effective ______________________, 19_____, is recorded in Book _____, Page _____, (Entry _____) of the records of such County, and in the UCC records, file no. _____ of such State;

AND WHEREAS the parties to the Memorandum agree therein that a person having an interest in the Contract Area can ratify such Memorandum by executing and delivering an instrument of ratification;

NOW THEREFORE, the undersigned, who has an interest in the Contract Area, in consideration of the mutual covenants contained in the Memorandum, does hereby fully ratify, adopt and enter into the Memorandum.

This ratification shall be filed in the real property records of the County, and the UCC records of the State, where the Memorandum is filed, thereby providing notice of the mutual liens and security interests now held by the parties to the Memorandum, including the undersigned.

Effective Date of Ratification ___________________________________.

NAME AND ADDRESS

By: _____________________________________
(Signature)

Name: _____________________________________
(Type or print signatory's name)

Title: _____________________________________

(Acknowledgment)

ABD 18

FOR USE IN OHIO, CONNECTICUT,
VERMONT, SOUTH CAROLINA,
FLORIDA, MICHIGAN

RATIFICATION OF
MEMORANDUM OF OPERATING AGREEMENT AND FINANCING STATEMENT

WHEREAS the undersigned hereby acknowledges receipt of an agreement entitled "Memorandum of Operating Agreement and Financing Statement" (hereinafter Memorandum);

WHEREAS the Memorandum provides for liens and security interests in lands and leases (hereinafter Contract Area), and in tangible and intangible personal property related to the development of such Contract Area;

WHEREAS the Contract Area is located in ____
____
____
________________, ________________ County, State of ___________________________________
(described in detail in the Memorandum Exhibit A);

WHEREAS such Memorandum, effective ________________________, 19______, is recorded in Book ______, Page ______, (Entry ______) of the records of such County, and in the UCC records, file no. ______ of such State;

AND WHEREAS the parties to the Memorandum agree therein that a person having an interest in the Contract Area can ratify such Memorandum by executing and delivering an instrument of ratification;

NOW THEREFORE, the undersigned, who has an interest in the Contract Area, in consideration of the mutual covenants contained in the Memorandum, does hereby fully ratify, adopt and enter into the Memorandum.

This ratification shall be filed in the real property records of the County, and the UCC records of the State, where the Memorandum is filed, thereby providing notice of the mutual liens and security interests now held by the parties to the Memorandum, including the undersigned.

Effective Date of Ratification ______________________________________.

WITNESSES:

____

____

NAME AND ADDRESS

By: ____
(Signature)

Name: ____
(Type or print signatory's name)

Title: ____

(Acknowledgment)

ABD 19

FOR USE IN NEW JERSEY, SOUTH DAKOT, UTAH

RATIFICATION OF
MEMORANDUM OF OPERATING AGREEMENT AND FINANCING STATEMENT

WHEREAS the undersigned hereby acknowledges receipt of an agreement entitled "Memorandum of Operating Agreement and Financing Statement" (hereinafter Memorandum);

WHEREAS the Memorandum provides for liens and security interests in lands and leases (hereinafter Contract Area), and in tangible and intangible personal property related to the development of such Contract Area;

WHEREAS the Contract Area is located in ____
____
____
_______________, _______________ County, State of __________________________________
(described in detail in the Memorandum Exhibit A);

WHEREAS such Memorandum, effective _______________________, 19______, is recorded in Book ______, Page ______, (Entry _____) of the records of such County, and in the UCC records, file no. _____ of such State;

AND WHEREAS the parties to the Memorandum agree therein that a person having an interest in the Contract Area can ratify such Memorandum by executing and delivering an instrument of ratification;

NOW THEREFORE, the undersigned, who has an interest in the Contract Area, in consideration of the mutual covenants contained in the Memorandum, does hereby fully ratify, adopt and enter into the Memorandum.

This ratification shall be filed in the real property records of the County, and the UCC records of the State, where the Memorandum is filed, thereby providing notice of the mutual liens and security interests now held by the parties to the Memorandum, including the undersigned.

Effective Date of Ratification ____________________________________.

NAME AND ADDRESS
TAXPAYER I.D. #__________________________

By: _____________________________________
(Signature)

Name: _____________________________________
(Type or print signatory's name)

Title: _____________________________________

(Acknowledgment)

ABD 20

FOR USE IN LOUISIANA

RATIFICATION OF
MEMORANDUM OF OPERATING AGREEMENT MORTGAGES

WHEREAS the undersigned hereby acknowledges receipt of an agreement entitled "Memorandum of Operating Agreement and Mortgages" (hereinafter Memorandum);

WHEREAS the Memorandum provides for liens and security interests (mortgages) in lands and leases (hereinafter Contract Area), and in tangible and intangible personal property related to the development of such Contract Area;

WHEREAS the Contract Area is located in ____
____
____
_______________, _______________ Parish, State of Louisiana
(described in detail in the Memorandum Exhibit A);

WHEREAS such Memorandum, effective _______________________, 19______, is recorded in Book _____, Page _____, (Entry _____) of the records of such Parish;

AND WHEREAS the parties to the Memorandum agree therein that a person having an interest in the Contract Area can ratify such Memorandum by executing and delivering an instrument of ratification;

NOW THEREFORE, the undersigned, who has an interest in the Contract Area, in consideration of the mutual covenants contained in the Memorandum, does hereby fully ratify, adopt and enter into the Memorandum.

This ratification shall be filed in the real property records of the Parish, where the Memorandum is filed, thereby providing notice of the mutual liens and mortgages now held by the parties to the Memorandum, including the undersigned.

Effective Date of Ratification ___________________________________.

WITNESSES:

____

____

NAME AND ADDRESS

By: ______________________________________
(Signature)

Name: ______________________________________
(Type or print signatory's name)

Title: ______________________________________

(Acknowledgment)

ABD 21

INSTRUCTIONS

The Memorandum of Operating Agreement and Financing Statement ("Memorandum") should be completed, executed and recorded to secure and perfect the lien (mortgage) and security interest created by the Operating Agreement. There are three advantages to utilizing such a Memorandum.

First, the filing of the Memorandum acts to place third parties on notice of the Operating Agreement, thereby eliminating the need to record the entire lengthy Operating Agreement.

Second, the Memorandum also acts as a lien (mortgage) and a financing statement which, once properly recorded, secures and perfects the lien and security interest in the leasehold, hydrocarbons, equipment, etc. The Memorandum can be used by the Operator to secure the debts of Non-Operators or by a Non-Operator to secure the debts of the Operator and/or other Non-Operators. The securing and perfection of this type of lien and security interest gives the secured party priority over certain other creditors should any of the Non-Operators or the Operator become bankrupt.

Third, by putting third parties on notice of a farmout or option farmout, a party may protect themselves from having a farmout or an option farmout invalidated by a bankruptcy court as an executory contract.

The instructions for the proper completion and handling of the Memorandum are discussed below.

1. Proper Form of the Memorandum and Other Related Documents
   State law varies with regard to the form of a lien or security interest and documents relating thereto. To accommodate these variations, separate forms of the Memorandum and related documents have been prepared. The model form should be used unless a specific form has been prepared.

2. Dating the Memorandum - Blank One
   Insert the effective date of the Operating Agreement.

3. Designating the Operator - Blank Two
   Insert the name of the designated Operator.

4. Preparing Exhibit A
   Exhibit A is referenced in the Memorandum and must be attached thereto. A form of Exhibit A has been prepared for your convenience. The form of Exhibit A is self-explanatory and should be completed and attached to the Memorandum. Exhibit A must contain a legal description of the Contract Area. It is advisable to also include in the Exhibit A the names of the record title owners and a summary of the farmouts and option farmouts that have been acquired. The Parties' addresses should be included on Exhibit A, if they are not provided above the signature line in the Memorandum.

5. Distributing the Agreement for Execution
   If you are Operator, send a copy of the completed and executed Memorandum to the Non-Operators along with the Operating Agreement for the Non-Operators' execution.

If you are a Non-Operator, either request the Operator to disseminate the Memorandum to all Non-Operators for execution along with the Operating Agreement or, if the Operator refuses to cooperate, disseminate the Memorandum to other Non-Operators directly.

6. Verifying that all parties properly executed the Memorandum
Confirm that each party executed and acknowledged the Memorandum and complied with any special requirements of state law. In the event that all parties did not sign the Memorandum, the Memorandum should still be filed of record. The Memorandum is intended to be effective and binding on all executing parties.

7. Filing the Memorandum of Record
In most states, this normally requires filing the Memorandum in the county records to secure the lien and filing the Memorandum in the office of the Secretary of State to perfect the security interest. See "Place of Filing: Exhibit to Instructions" for proper filing locations.

8. Ratification
If the well successfully finds hydrocarbons and at payout the farmor converts its overriding royalty interest to a working interest, the farmor should ratify the Memorandum or execute a new Memorandum and file such ratification or new Memorandum of record. A form of ratification has been prepared.

9. Filing Continuation Statements*
The effectiveness of the Memorandum to perfect a security interest will terminate five years after the filing date unless a Continuation Statement is filed six months before the end of the five year term.

   Complete the form of Continuation Statement provided, indicating the file numbers of the original Memorandum and any subsequent Continuation Statement, the date the Continuation Statement will become effective, and circulate the Continuation Statement for execution by the parties to the Memorandum.

   File the Continuation Statement in the same office (generally the Secretary of State's office) where the Memorandum has been filed. It is not necessary to record a Continuation Statement to perpetuate the lien (mortgage), therefore, the Continuation Statement should not be recorded in the county records.

10. Filing a Release of the Memorandum
When the Operating Agreement expires and all debts have been satisfied, a Release should be recorded in those places where the Memorandum has been recorded. This is good business practice. A form of Release has been prepared.

* Not applicable in Louisiana.

87167 - (2)

PLACE OF FILING: STATE BY STATE

STATE		WHERE TO FILE
Basic Filing Requirements		
* See additional filing requirements below.		
1. Alabama 2. Arizona 3. Arkansas* 4. California 5. Connecticut 6. Delaware 7. Florida 8. Idaho 9. Illinois 10. Indiana 11. Iowa 12. Kansas 13. Maine 14. Massachusetts* 15. Michigan 16. Minnesota 17. Mississippi* 18. Missouri 19. Montana 20. Nebraska	21. Nevada 22. New Jersey 23. New Hampshire* 24. New Mexico 25. New York* 26. North Carolina* 27. North Dakota 28. Ohio* 29. Oregon 30. Pennsylvania* 31. Rhode Island 32. South Carolina 33. South Dakota 34. Tennessee 35. Texas 36. Utah 37. Vermont* 38. Washington 39. West Virginia* 40. Wisconsin	1) In the Mortgage Records ** of the county where the property is located, and 2) In the office of the Secretary of State
41. Alaska		1) In the mortgage records of the county where the property is located, and 2) With the Department of Natural Resources.
42. Colorado		1) Office of the county clerk and recorder of deeds in the county where the real estate is located.
43. District of Columbia		1) Office of the Recorder of Deeds of the district where a mortgage on the real estate would be filed.
44. Georgia		1) In the mortgage records in the county where the property is located, and 2) In the office of the clerk of the Superior Court in the county of the debtor's principle place of business in the state.
45. Hawaii		1) In the Office of the Registrar of Conveyances, Bureau of Conveyances.

**Note: Filing offices may keep one set of records for real estate, fixture and mineral interests, and another for personal property. It will be necessary to file two copies of the Memorandum in such an office. Contact your local filing office to determine their requirements.

2L25/1686/5

STATE	WHERE TO FILE
46. Kentucky	1) In the mortgage records in the county where the mortgage on the property is located. 2) If the debtor is a resident, in the office of the county clerk of the county where the debtor resides. If the debtor is a non-resident, but has a principal place of business in the state, in the county of his principal place of business. Otherwise, with the Secretary of State.
47. Louisiana	1) In the office of recorder of mortgages or register of conveyances in the parish where the property is situated.
48. Oklahoma	1) In the Mortgage Records of the county where the property is located. 2) In the office of the county clerk of Oklahoma County.
49. Maryland*	1) In the mortgage records of the county where the property is located. 2) In the State Department of Assessments and Taxation.
50. Virginia*	1) In the mortgage records of the county where the property is located. 2) Office of the State Corporation Commission.
51. Wyoming	1) In the mortgage records of the county where the property is located. 2) In the office of the county clerk for the county in which the debtor has his principal place of business, if any; otherwise, his residence. But if the debtor is not a resident of this state, in the office of the Secretary of State.

Additional Filing Requirements

If the debtor has a place of business in only one county (town) of the state, or if the debtor has no place of business in the state but resides in the state:

STATE	WHERE TO FILE
Arkansas	3) Office of the clerk of circuit court and ex-officio recorder of such county.
Maryland	3) Office of the clerk of the circuit court in such county.
Mississippi	3) Office of the chancery clerk of such county.
Massachusetts New Hampshire Vermont	3) Office of the clerk of such town.
Missouri North Carolina Ohio	3) Office of the recorder of deeds in such county.
New York	3) Office of filing officer of such county.
Pennsylvania	3) Office of prethorotary of such county.
West Virginia Virginia	3) Office of the county clerk of such county.

UNIFORM COMMERCIAL CODE FILING OFFICES
ADDRESSES: STATE BY STATE

ALABAMA
Office of the Secretary of State
State Capitol
Montgomery, Alabama 36130

ALASKA
Department of Natural Resources
Pouch M
400 Willoughby Center, 5th Floor
Juneau, Alaska 99811

ARIZONA
Office of the Secretary of State
Capitol West Wing
Phoenix, Arizona 85007

ARKANSAS
Office of the Secretary of State
State Capitol
Little Rock, Arkansas 77201

CALIFORNIA
1230 J Street
Sacramento, California 95814

CONNECTICUT
Office of the Secretary of State
Room 129, 30 Trinity Street
Hartford, Connecticut 06106

DELAWARE
Office of the Secretary of State
Department of State
Townsend Building
P.O. Box 1401
Dover, Delaware 19903

FLORIDA
Office of the Secretary of State
The Capitol
Tallahassee, Florida 32301

HAWAII
Bureau of Conveyances
P.O. Box 2867
Honolulu, Hawaii 96803

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IDAHO
Office of the Secretary of State
Room 203 Statehouse
Boise, Idaho 83720

ILLINOIS
Office of the Secretary of State
Room 213 Capitol Building
Springfield, Illinois 62704

INDIANA
Office of the Secretary of State
201 State House
Indianapolis, Indiana 46204

IOWA
Corporation/Uniform Commercial Code
Office of the Secretary of State
Hoover State Office Building
Des Moines, Iowa 50319

KANSAS
Office of the Secretary of State
State Capitol Building
Topeka, Kansas 66612

KENTUCKY
Office of the Secretary of State
State Capitol
Frankfort, Kentucky 40601

MAINE
Office of the Secretary of State
State House Station 101
Augusta, Maine 04333

MARYLAND
State Department of Assessments and Taxation
301 West Preston Street
Baltimore, Maryland 21201

MASSACHUSETTS
Secretary of the Commonwealth
State House
Boston, Massachusetts 02133

MICHIGAN
Office of the Secretary of State
P.O. Box 30045
Lansing, Michigan 48918

MINNESOTA
Office of the Secretary of State
180 State Office Building
St. Paul, Minnesota 55155

MISSISSIPPI
Office of the Secretary of State
Heber Ladner Bldg.
P.O. Box 136
Jackson, Mississippi 39205

MISSOURI
Office of the Secretary of State
Room 209 State Capitol Building
Jefferson City, Missouri 65102

MONTANA
Office of the Secretary of State
State Capitol
Helena, Montana 59620

NEBRASKA
Office of the Secretary of State
Room 23300 State Capitol Building
Lincoln, Nebraska 68509

NEVADA
Office of the Secretary of State
Capitol Bldg.
Capitol Complex
Carson City, Nevada 89710

NEW HAMPSHIRE
Office of the Secretary of State
Room 204 State House
Concord, New Hampshire 03301

NEW JERSEY
Office of the Secretary of State
State House, CN-300
Trenton, New Jersey 08625

NEW MEXICO
Office of the Secretary of State
State Capitol, Room 400
Santa Fe, New Mexico 87503

NEW YORK
Department of State
Office of the Secretary of State
162 Washington Avenue
Albany, New York 12231

NORTH CAROLINA
Department of the Secretary of State
302 Legislative Office Building
300 North Salisbury Street
Raleigh, North Carolina 27611

NORTH DAKOTA
Office of the Secretary of State
State Capitol
Bismark, North Dakota 58505

OHIO
Office of the Secretary of State
14th Floor State Office Tower
30 East Broad Street
Columbus, Ohio 43216

OKLAHOMA
Office of the Secretary of State
Room 101 State Capitol
Oklahoma City, Oklahoma 73105

OREGON
Office of the Secretary of State
136 State Capitol
Salem, Oregon 97310

PENNSYLVANIA
Office of the Secretary of State
302 North Office Building
Harrisburg, Pennsylvania 17120

RHODE ISLAND
Office of the Secretary of State
217 State House
Providence, Rhode Island 02903

SOUTH CAROLINA
Office of the Secretary of State
Wade Hampton State Office Building
Columbia, South Carolina 29201

SOUTH DAKOTA
Office of the Secretary of State
Capitol Building
Pierre, South Dakota 57501

TENNESSEE
Office of the Secretary of State
State Capitol
Nashville, Tennessee 37219

TEXAS
Office of the Secretary of State
Capitol Building, Room 127
Austin, Texas 78701

UTAH
Commercial Code Department
UCC Division
P.O. Box 45801
Salt Lake City, Utah 84145-0801

VERMONT
Office of the Secretary of State
109 State Street
Montpelier, Vermont 05602

VIRGINIA
State Corporation Commission
1220 Bank Street
Richmond, Virginia 23219

WASHINGTON
Office of the Secretary of State
Legislative Building
Olympia, Washington 98504

WEST VIRGINIA
Office of the Secretary of State
Room W-157 State Capitol Bldg. No. 1
Charleston, West Virginia 25305

WISCONSIN
Office of the Secretary of State
Room 271, 201 East Washington Ave.
Madison, Wisconsin 53702

WYOMING
Office of the Secretary of State
Capitol Building
Cheyenne, Wyoming 82002

SAMPLE LETTER: FILING INSTRUCTIONS TO CLERK (COUNTY RECORDS)

(Date)

(County Clerk)
(Address)
(Address)

Dear Sir:

Enclosed are two copies of the Memorandum of Operating Agreement and Financing Statement ("Memorandum"). The Memorandum includes both a memorandum of liens on real property and a financing statement covering fixtures and personal property. The document should be filed as follows:

1 copy - Real Property Records (lien) [Where an oil and gas lease or an assignment would be filed.]
1 copy - Fixture, Chattel or Personal Property Record (financing statement)

Be advised that pursuant to the terms of the Memorandum, <u>EACH PARTY TO THE MEMORANDUM IS A DEBTOR</u> as to each other party for filing purposes.

A property description and the names of the record owners of real estate interests are included on Exhibit A to the Memorandum. Enclosed is Sun Check No. ____________ for payment of your services.

Sincerely,

Contract and Lease Administration

Enclosures
Check No. _________

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SAMPLE LETTER: FILING INSTRUCTIONS TO SECRETARY OF STATE'S OFFICE

(Date)

(Filing Officer)
Office of the Secretary of State
(Address)
(Address)

Dear Sir:

Enclosed is a Memorandum of Operating Agreement and Financing Statement ("Memorandum"). Please file the Memorandum in your financing statement records.

Please be advised that pursuant to the terms of the Memorandum, <u>EACH PARTY TO THE MEMORANDUM IS A DEBTOR</u> for filing purposes.

Enclosed is Sun Check No. ________ for payment of your services.

Sincerely,

Contract and Lease Administration

Enclosures
Check No. _________

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GUIDELINES ON COMPLETING FILING INSTRUCTION LETTER:

1. In some filing offices separate records are not maintained for fixtures, real property and personal property. Contact the filing office to determine their procedures, and choose the appropriate bracketed information to include in the letter. Emphasize to the clerk that you want to secure interests in REAL PROPERTY, FIXTURES, and PERSONAL PROPERTY.

2. Fill in the date, name, address, greeting line, and check number.

3. Sign the letter and send the documents for filing.

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