

SUN EXPLORATION AND PRODUCTION COMPANY

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ATTN DONALD E. SCHERER & LA
P.O. BOX 2880
DALLAS, TX 75221-2880

MEMORANDUM OF OPERATING AGREEMENT AND FINANCING STATEMENT

ORIGINAL PAPERS

This Memorandum of Operating Agreement and Financing Statement shall be effective when the Operating Agreement becomes effective, that being January 9, 1987.

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 and leases (hereinafter called the "Contract Area") described in Exhibit A attached hereto, and designating FORELAND CORPORATION, as Operator to conduct such operations.

The Operating Agreement contains an Accounting Procedure, along with provisions giving the parties hereto mutual liens and security interests where one or more parties hereto become Debtors to one or more other parties hereto. This Memorandum of Operating Agreement and Financing Statement incorporates by reference all of the terms and conditions of the Operating Agreement, including but not limited to the lien and security interest provisions and herein grants mutual liens and security interest to the parties hereto.

The purpose of this Memorandum of Operating Agreement and Financing Statement is to place third parties on notice of the Operating Agreement, and to secure and perfect the mutual liens and security interests of the parties hereto.

The Operating Agreement specifically provides that:

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.
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.
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. 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.
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. The Operator grants to Non-Operators a lien and security interest equivalent to that granted to Operator as described in Paragraph 3 above, to secure payment by Operator of its own share of costs when due.

The Operating Agreement contains other provisions which do not conflict but supplement the above described provisions, including non-consent provisions 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.

21/07/87

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DC-20057

For purposes of protecting said liens and security interest, the undersigned parties agree that this Memorandum of Operating Agreement and Financing Statement covers all right, title and interest of the Debtor(s) in:

Security Interests

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, farmout rights, cotton 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 of Operating Agreement and Financing Statement.
(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.
2. Certain of the above-described items are or are to become fixtures on the Contract Area.
3. The proceeds and products of collateral are also covered.

Lien Property

- (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.

The above items will be financed at the wellhead of the well or wells located on the Contract Area, and this Memorandum of Operating Agreement and Financing Statement 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 subject Operating Agreement and all farmers and option

farmers who have granted support within the Contract Area are identified on Exhibit A.

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.

Upon expiration of the subject Operating Agreement and the satisfaction of all debts, the Operator shall file of record a Release of this Memorandum of Operating Agreement and Financing Statement on behalf of all parties concerned.

It is understood and agreed by the parties hereto that if any part, term, or provision of this Memorandum of Operating Agreement and Financing Statement 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 of Operating Agreement and Financing Statement did not contain the particular part, term or provision held to be invalid.

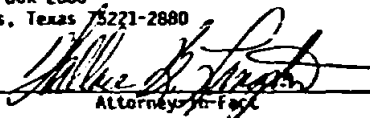
This Memorandum of Operating Agreement and Financing Statement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns. The failure of one or more persons owning an interest in the Contract Area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

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

This Memorandum of Operating Agreement and Financing Statement 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 of Operating Agreement and Financing Statement with individual signature pages attached thereto needs to be filed of record.

SUN OPERATING LIMITED PARTNERSHIP
BY SUN EXPLORATION AND PRODUCTION COMPANY
Its Managing General Partner
P. O. Box 2680
Dallas, Texas 75221-2880

By:


Attorney-in-Fact

FORELAND CORPORATION
2801 Youngfield Street, Suite 150
Golden, Colorado 80401

By: [Signature]
Its: [Signature]

READING & BATES PETROLEUM CO.
3200 Mid-Continent Tower
Tulsa, Oklahoma 74103

By: [Signature]
Its: DRAKE H. SMILEY
ATTORNEY-IN-FACT

STATE OF Texas)
COUNTY OF Lubbock)

On this the 9 day of January, 1987, personally appeared before me, a Notary Public in and for the State of Texas, Thelma D. Springer, known to me to be the person whose name is subscribed to the within instrument as Attorney-in-Fact of Sun Exploration and Production Company, as Managing General Partner on behalf of SUN OPERATING LIMITED PARTNERSHIP, and acknowledged to me that he subscribed the name of said partnership thereto as Managing General Partner, and his own name as Attorney in Fact, freely and voluntarily and for the uses and purposes therein mentioned.

SEAL
AFFIXED

My Commission Expires: 10-1-90

[Signature]
Notary Public
MICHELE HANROW
Notary Public, State of Texas
Commission Expires 10-01-90

STATE OF Colorado
COUNTY OF Denver

BEFORE ME, the undersigned Notary Public, on this day personally appeared [Signature], known to me to be the person whose name is subscribed to the foregoing instrument, and known to me to be the President of FORELAND CORPORATION, a corporation, and acknowledged to me that he/she executed said instrument for the purposes and consideration therein expressed, and as the act of said corporation.

GIVEN under my hand and seal of office this 22 day of May, 1987.

My Commission Expires: July 10, 1987

[Signature]
Notary Public

NOTARY PUBLIC IN AND FOR
DENVER COUNTY COLORADO

SEAL
AFFIXED

STATE OF Oklahoma

COUNTY OF Tulsa

BEFORE ME, the undersigned Notary Public, on this day personally appeared Donald D. Smith, known to me to be the person whose name is subscribed to the foregoing instrument, and known to me to be the owner of READING & BATES PETROLEUM CO., a corporation, and acknowledged to me that he/she executed said instrument for the purposes and consideration therein expressed, and as the act of said corporation.

GIVEN under my hand and seal of office this 2 day of January, 1937.

My Commission Expires: 7-25-88

Sallie M. Fuller
Notary Public



EXHIBIT A -1
TO
MEMORANDUM OF OPERATING AGREEMENT AND FINANCING STATEMENT
BETWEEN
SUN OPERATING LIMITED PARTNERSHIP,
FORELAND CORPORATION
AND
READING & BATES PETROLEUM CO.

<u>Lease #</u>	<u>Sun Lease #</u>	<u>Description of Requested Lands</u>	<u>Acreage</u>
05900	724491	<u>T30N-R52E</u>	
		Section 15: NE1	160.00
		Section 21: NE1	160.00
		Section 23: All	640.00
		Section 25: All	640.00
		Section 27: NE1	160.00
05907	724490	<u>T30N-R52E</u>	
		Section 3: Lots 1,2, S1NE1	161.56
		Section 5: NE1	160.00
		Section 9: NE1	160.00
		Section 11: All	640.00
05906	724489	<u>T29N-R52E</u>	
		Section 3: All	647.91
		Section 9: NE1	160.00
		Section 11: W1	320.00
		Section 15: Lots 1,2,3,4, W1E1, W1	655.80
		<u>T30N-R52E</u>	
		Section 33: NE1	160.00
		Section 35: All	<u>640.00</u>
		TOTAL	5,465.27

EXHIBIT "A-2"

MEMORANDUM OF OPERATING AGREEMENT

<u>Option Farmout Lands</u>			
<u>Sum Lease #</u>	<u>SPLC Lease #</u>	<u>Description of Requested Lands</u>	<u>Acreage W/L</u>
724489	5906	<u>T29N-R52E</u>	
		Section 19: NE1	160.00
		Section 21: NE1	160.00
724488	5905	<u>T29N-R52E</u>	
		Section 23: W1	320.00
		Section 27: A11	640.00
		Section 29: NE1	160.00
		Section 31: NE1	160.00
		Section 33: NE1	160.00
		Section 35: A11	640.00
		<u>T28N-R52E</u>	
		Section 1: W1	320.00
		Section 3: NE1	160.00
		Section 5: NE1	160.00
		Section 7: NE1	160.00
		Section 9: NE1	160.00
		Section 11: NE1	160.00
TOTAL			3,520.00

ALL LANDS LOCATED IN THE MOUNT DIABLO MERIDIAN, EUREKA AND ELKO COUNTIES,
NEVADA

EXHIBIT "A-3"
MEMORANDUM OF OPERATING
AGREEMENT
SCHEDULE OF OIL AND GAS LEASES

Sun Lease No.: 724488
Lessor: Southern Pacific Land Company
Lessee: Reading & Bates Petroleum Co. and
Sun Exploration and Production Company
Date: December 1, 1982
Recorded: Book 422, Page 130 of the Records of Elko County, &
Book 111, Page 068 of the Records of Eureka County,
State of Nevada
Description: INSOFAR ONLY as that acreage described
on Exhibit A-2

Sun Lease No.: 724489
Lessor: Southern Pacific Land Company
Lessee: Reading & Bates Petroleum Co., and
Sun Exploration and Production Company
Date: December 1, 1982
Recorded: Book 422, Page 137 of the Records of Elko County, &
Book 111, Page 082 of the Records of Eureka County,
State of Nevada
Description: INSOFAR ONLY as that acreage described
on Exhibit A-1 and A-2, as set forth therein.

Sun Lease No.: 724490
Lessor: Southern Pacific Land Company
Lessee: Reading & Bates Petroleum Co., and
Sun Exploration and Production Company
Date: December 1, 1982
Recorded: Book 435, Page 626 of the Records of Elko County, &
Book 115, Page 188 of the Records of Eureka County,
State of Nevada
Description: INSOFAR ONLY as that acreage described
on Exhibit A-1

Sun Lease No.: 724491
Lessor: Southern Pacific Land Company
Lessee: Reading & Bates Petroleum Co., and
Sun Exploration and Production Company
Date: December 1, 1982
Recorded: Book 422, Page 145 of the Records of Elko County, &
Book 111, Page 083 of the Records of Eureka County,
State of Nevada
Description: INSOFAR ONLY as that acreage described
on Exhibit A-1

RECORDED AT THE REQUEST OF
Sun Exploration & Production Co.
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Sun Exploration & Production Co.

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JERRY B. HARRIS
ELKO CO. REC'D

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