

UNIT OPERATING AGREEMENT
TAMANO (BSSC) UNIT
Eddy COUNTY, NEW MEXICO

BEFORE ENGINEER STOGNER
Oil and Gas Division
Marathon 45
10341

UNIT OPERATING AGREEMENT
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EDDY COUNTY, NEW MEXICO

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UNIT OPERATING AGREEMENT
TAMANO (BSSC) UNIT
EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the ____ day of _____, 1991, by the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof;

W I T N E S S E T H ;

WHEREAS, the parties hereto as Working Interest Owners have executed, an agreement entitled, "Unit Agreement, Tamano (BSSC) Unit, Eddy County, New Mexico," herein referred to as "Unit Agreement", which, among other things, provides for a separate agreement to be entered into by and between Working Interest Owners to provide for Unit Operations as therein defined;

NOW THEREFORE, in consideration of the mutual agreements herein set forth, it is agreed as follows:

ARTICLE I

CONFIRMATION OF UNIT AGREEMENT AND ADOPTION OF DEFINITIONS

1.1 Confirmation of Unit Agreement. The Unit Agreement and all exhibits attached thereto or any revisions thereof are hereby confirmed and by reference made a part of this Agreement. If there is any conflict between the Unit Agreement and this Agreement, the Unit Agreement shall govern.

1.2 Adoption of Definitions. The definitions in the Unit Agreement are adopted for all purposes of this Agreement.

ARTICLE 2

EXHIBITS

2.1 Exhibits. The following exhibits are incorporated herein by reference:

2.1.1 Exhibits "A" and "B" of the Unit Agreement.

2.1.2 Exhibit "C", attached hereto, which is a summary showing each Working Interest Owner's Working Interest in each Tract, the percentage of total Unit Participation attributable to each such interest, and the total Unit Participation of each Working Interest Owner. Exhibit "C", or a revision thereof, shall not be conclusive as to the information therein, however it may be relied on as to the Unit Participation of Working Interest Owners for purposes of this Agreement until shown to be in error or revised as herein authorized.

2.1.3 Exhibit "D", attached hereto, which is the Accounting Procedure applicable to Unit Operations. If there is any conflict between this Agreement and Exhibit "D", this Agreement shall govern.

2.1.4 Exhibit "E", attached hereto, which contains the insurance provisions applicable to Unit Operations.

2.1.5 Exhibit "F", attached hereto, which is the Gas Balancing Agreement applicable to Unit Operations.

2.1.6 Exhibit "G", attached hereto, which is the Notice of Unit Operating Agreement Lien.

2.1.7 Exhibit "H", attached hereto, which is a list of the wells included in the Unit.

2.2 Revision of Exhibits. Whenever Exhibit "A" or Exhibit "B" is revised, Exhibit "C" shall be revised accordingly and shall be effective as of the same date. Unit Operator shall also revise Exhibit "C" from time to time as required to conform to changes in ownership of which Unit Operator has been notified as provided in the Unit Agreement.

2.3 Reference to Exhibits. When reference is made herein to an exhibit,

it is to the exhibit as originally attached or, if revised, to the last revision.

ARTICLE 3

SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

3.1 Overall Supervision. Subject to the other terms and provisions of this Agreement and of the Unit Agreement, Working Interest Owners shall exercise overall supervision and control of all matters pertaining to Unit Operations pursuant to this Agreement and the Unit Agreement. In the exercise of such authority, each Working Interest Owner shall act solely in its own behalf in the capacity of an individual owner and not on behalf of the owners as an entirety.

3.2 Particular Powers and Duties. The Working Interest Owners, using the voting procedures given in Article 4.3, unless otherwise specifically provided in this Agreement or in the Unit Agreement, shall decide matters pertaining to Unit Operations which include, but are not limited, to the following:

3.2.1. Method of Operation. The method of operation, including any type of pressure maintenance, secondary recovery, or other recovery program to be employed.

3.2.2. Drilling of Wells. The drilling, deepening, or sidetracking of any well whether for production of Unitized Substances, for use as an injection well, or for other purposes.

3.2.3 Well Workovers and Conversion of Wells. The reworking, recompleting or repairing of any well for the purpose of production of Unitized Substances reasonably estimated to require an expenditure in excess of the expenditure limitation specified in Section 3.2.4 hereinbelow and the abandonment or conversion of the use of any well from one purpose to another or the use of any such well for injection or any other purpose other than production. Unit Operator shall have

the right to shut-in, temporarily abandon, or reactivate a well which was shut-in or temporarily abandoned to its former use, without notification to the Working Interest Owners if doing so is reasonably estimated to require an expenditure not in excess of the expenditure limitation specified in Article 3.2.4 hereinbelow.

3.2.4 Expenditures. The making of any single expenditure in excess of Fifty Thousand Dollars (\$50,000.00), subject, however, to the provisions of Article 7.9 hereof; provided, that approval by Working Interest Owners of the drilling, sidetracking, reworking, deepening, or plugging back of any well shall include approval of all necessary expenditures required therefore, and for completing, testing and equipping the same, including necessary flow lines, separators and lease tankage.

3.2.5 Disposition of Surplus Unit Equipment. The Unit Operator shall have the right to sell or otherwise dispose of any item of surplus Unit Equipment, according to the provisions of Exhibit "D".

3.2.6 Appearance Before a Court or Regulatory Agency. The designation of a representative to appear before any court or regulatory agency in matters pertaining to Unit Operations; provided, however, that such designation shall not prevent any Working Interest Owner from appearing in person or from designating another representative in its own behalf.

3.2.7 Audits. The auditing of the accounts of Unit Operator pertaining to Unit Operations hereunder according to the provisions of Exhibit "D"; provided that, the audits shall:

(a) not be conducted more than once each year except upon the

resignation or removal of Unit Operator and;

- (b) be made upon the approval of the Owner or Owners of a majority of Working Interest other than that of Unit Operator, at the expense of all Working Interest Owners other than Unit Operator, or;
- (c) be made at the expense of those Working Interest Owners requesting such audit if owners of less than a majority of Working Interest, other than that of Unit Operator, request such audit, and;
- (d) be made upon not less than thirty (30) days written notice to Unit Operator.

3.2.8 Inventories. The taking of periodic inventories under the terms of Exhibit "D".

3.2.9 Technical Services. The authorizing of charges to the Joint Account for services by consultants or Unit Operator's technical personnel in excess of \$20,000.00.

3.2.10 Assignments to Committees. The appointment of committees to study any problems in connection with Unit Operations.

3.2.11 The removal of Unit Operator and the selection of a successor.

3.2.12 The enlargement of the Unit Area.

3.2.13 The adjustment and readjustment of investments.

3.2.14 The termination of the Unit Agreement.

3.2.15 The authorization of Border Agreements.

3.2.16 Amendment of Overhead Rates. The amendment of overhead rates as provided for in Section III of Exhibit "D".

ARTICLE 4

MANNER OF EXERCISING SUPERVISION

4.1 Designation of Representatives. Not later than thirty (30) days after the effective date hereof, each Working Interest Owner shall inform Unit Operator in writing of the names and addresses of the representative and alternate who are authorized to represent and bind such Working Interest Owner with respect to Unit Operations. The representative or alternate may be changed from time to time by written notice to Unit Operator.

4.2 Meetings. All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of two (2) or more Working Interest Owners having a total Unit Participation of not less than ten percent (10%). No meeting shall be called on less than fourteen (14) days advance written notice, and an agenda for the meeting shall be attached. In absence of protest by any qualified member at the meeting Working Interest Owners who attend the meeting may amend items included in the agenda and may act upon an amended item or other items presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.

4.3 Voting Procedure. Working Interest Owners shall decide all matters coming before them as follows:

4.3.1 Voting Interest. Each Working Interest Owner shall have a voting interest equal to its Unit Participation in effect at the time of the vote.

4.3.2 Vote Required - Generally. Unless otherwise provided herein or in the Unit Agreement, all matters shall be decided by an affirmative vote of at least three Working Interest Owners having in the aggregate eighty percent (80%) or more total Unit Participation. Such

affirmative vote shall be binding upon all parties.

4.3.3 Vote at Meeting by Nonattending Working Interest Owner. Any Working Interest Owner who is not represented at a meeting may vote on any agenda item by letter or telegram addressed to the representative of the Unit Operator if its vote is received prior to the actual vote at the meeting. Such vote shall not be counted with respect to any item on the agenda which is amended at the meeting.

4.3.4 Poll Votes. Working Interest Owners may vote on and decide, by letter or telegram, any matter submitted in writing to Working Interest Owners. If a meeting is not requested, as provided in Article 4.2, within seven (7) days after a written proposal is sent to Working Interest Owners, the vote taken by letter or telegram shall become final. If a Working Interest Owner fails to respond to a matter submitted in writing within 30 days of the proposal being sent, such

non-response shall constitute an affirmative vote for the proposal. Unit Operator will give prompt notice of the results of such vote to all Working Interest Owners.

ARTICLE 5

INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

5.1 Reservation of Rights. Working Interest Owners severally reserve to themselves all their rights, except as otherwise provided in this Agreement and the Unit Agreement.

5.2 Specific Rights. Each Working Interest Owner shall have, among others, the following specific rights:

5.2.1 Access to Unit Area. Access to the Unit Area at all reasonable times to inspect Unit Operations, all wells, and the records and data pertaining thereto.

5.2.2 Reports. The right to receive from Unit Operator, upon written request, copies of all reports to any governmental agency, reports of crude oil runs and stocks, inventory reports, and all other information pertaining to Unit Operations. The cost of gathering and furnishing information not ordinarily furnished by Unit Operator to all Working Interest Owners shall be charged to the Working Interest Owner who requests the information.

ARTICLE 6

UNIT OPERATOR

6.1 Initial Unit Operator. Marathon Oil Company is hereby designated as Unit Operator.

6.2 Resignation or Removal and Selection of Successor. Unit Operator may

resign at any time. The resignation or removal of Unit Operator and the selection of a successor shall be governed by the provisions of the Unit Agreement.

ARTICLE 7

AUTHORITIES AND DUTIES OF UNIT OPERATOR

7.1 Exclusive Right to Operate Unit. Subject to the provisions of this Agreement and to the orders, directions and limitations rightfully given or imposed by Working interest Owners, Unit Operator shall have the exclusive right and shall be obligated to conduct Unit Operations.

7.2 Workmanlike Conduct. Unit Operator shall conduct Unit Operations in a good and workmanlike manner as would a prudent operator under the same or similar circumstances. Unit Operator shall freely consult with Working Interest Owners and keep them informed of all matters which Unit Operator, in the exercise of its best judgement, considers important. Unit Operator shall not be liable to Working Interest Owners for damages, unless such damages result from its gross negligence or willful misconduct.

7.3 Liens and Encumbrances. Unit Operator shall endeavor to keep the lands and leases in the Unit Area and the Unit Equipment free from all liens and encumbrances occasioned by Unit Operations, except the lien and security interest of Unit Operator and Working Interest Owners granted hereunder.

7.4 Employees. The number of employees used by Unit Operator in conducting Unit Operations, their selection, hours of labor and compensation shall be determined by Unit Operator. Such employees shall be employees of Unit Operator.

7.5 Records. Unit Operator shall keep correct books, accounts and records of Unit Operations.

7.6 Reports to Working Interest Owners. Unit Operator shall furnish to

Working Interest Owners periodic reports of Unit Operations.

7.7 Reports of Governmental Authorities. Unit Operator shall make all reports to governmental authorities that it has the duty to make as Unit Operator.

7.8 Engineering and Geological Information. Unit Operator shall furnish to each Working Interest Owner, upon its written request, a copy of all logs and other engineering and geological data pertaining to wells drilled for Unit Operations.

7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of Fifty Thousand Dollars (\$50,000.00) without prior approval of Working Interest Owners. If an emergency occurs, Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the emergency and the action taken.

7.10 Wells Drilled by Unit Operator. All wells drilled by Unit Operator shall be at the usual rates prevailing in the area. Unit Operator may employ its own tools and equipment, but the charge therefor shall not exceed the usual prevailing rate in the area, and the work shall be performed by Unit Operator under the same terms and conditions as are usual in the area in contracts of independent contractors doing work of a similar nature.

7.11 Border Agreements. The Unit Operator, after approval by Working Interest Owners, may enter into a border protection agreement or agreements with working interest owners of the adjacent lands along the exterior boundary of the Unit area with respect to any cooperative operations in the border area for the proper protection of the parties and interests.

ARTICLE 8

TAXES

8.1 Ad Valorem Taxes. Beginning with the first calendar year after the Effective Date hereof, Unit Operator shall make and file all necessary ad valorem tax renditions and returns with the proper taxing authorities with respect to all property of each Working Interest Owner used or held by Unit Operator for Unit Operations. Unit Operator shall settle assessments arising therefrom. All such ad valorem taxes shall be paid by Unit Operator and charged to the Joint Account; however, if the interest of a Working Interest Owner is subject to a separately assessed overriding royalty interest, production payment, or other interest in excess of one-eighth (1/8) royalty, such Working Interest Owner shall notify Unit Operator of such interest prior to the rendition date and shall be given credit for the reduction in taxes paid resulting therefrom. Any Working Interest Owner dissatisfied with any assessment of its interest in real or personal property shall have the right, at its own expense, and after due notice to Unit Operator, to protest and resist any such assessment. If the ad valorem taxes are based in whole or in part upon separate valuation of each party's Working Interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the percentage of tax value generated by each party's Working Interest.

8.2 Other Taxes. Each Working Interest Owner shall pay or cause to be paid all production, severance, gathering, and other taxes and assessments imposed upon or in respect of the production or handling of its share of Unitized Substances.

ARTICLE 9

INSURANCE

9.1 Insurance. Unit Operator, with respect to Unit Operations and at Unit Expense, shall do the following:

9.1.1 Comply with the Workman's Compensation Act of the State of New Mexico.

9.1.2 Carry Employer's Liability and other insurance as required by the laws of the State of New Mexico.

9.1.3 Provide insurance as set forth in Exhibit "E".

ARTICLE 10

ADJUSTMENT OF INVESTMENTS

10.1 Personal Property Taken Over. Upon the effective date hereof, Working Interest Owners shall deliver to Unit Operator the following:

10.1.1 Wells. All wells completed in the Unitized Formation.

10.1.2 Well and Lease Equipment. The casing and tubing in each such well, all subsurface equipment therein including sucker rods and pumps, the wellhead connections thereon, and all other well and lease equipment that is used in the operation of such wells which Unit Operator determines is necessary or desirable for conducting Unit Operations. Unit Operator shall have up to six (6) months after the effective date in which to make such determination, and all such property that is determined to be surplus shall be returned in the same condition less usual depreciation to each Tract Operator who was responsible for delivery of same to Unit Operator. There shall be no charge to the Unit for the use of any such surplus property during this six (6) month period. The individual Operators shall have ninety

(90) days from the date of notification in which to remove the surplus property returned to them. Surplus property shall then be disposed of by each Tract Operator in accordance with the respective Joint Operating Agreement which governs each Tract. If the surplus property has not been removed from the Unit Area within the ninety (90) day period, then Unit Operator shall have the right to dispose of the property in a good and workmanlike manner as would a prudent operator under the same or similar circumstances. Any proceeds received upon disposition in excess of removal or cleanup costs will be credited to the Working Interest Owners in the specific Tract. Any costs in excess of the proceeds credited to the Working Interest Owners will be charged to the Working Interest Owners in the specific Tract.

10.1.3 Records. A copy of all production and well records that pertain to such wells.

10.2 Inventory and Evaluation of Personal Property. The Working Interest Owners shall appoint an inventory committee which shall, as of the Effective Date or as soon thereafter as feasible, cause to be taken under the supervision of the Unit Operator at Unit Expense, joint physical inventories of lease and well equipment within the Unit Area, which inventories shall be used as a basis for determining the controllable items of equipment to be taken over by the Unit Operator hereunder. In the absence of an inventory committee, Unit Operator shall engage at Unit Expense a qualified independent firm to serve in place of an inventory committee. Such inventories shall include and be limited to those items of equipment normally considered controllable by operators of oil and gas properties except that certain items of equipment normally considered noncontrollable, such as sucker rods, subsurface pumps and other items as

determined by the Working Interest Owners may be included in the inventories in order to insure a more equitable adjustment of investment. All other noncontrol- lable items of lease and well equipment installed within the Unit Area, although excluded from the inventories, which the Unit Operator decides are necessary and usable in Unit Operations, shall nevertheless be taken over by the Unit Operator. After the determination by Unit Operator as to surplus property, such inventories covering equipment taken over by the Unit Operator under Article 10.1.2 and retained for Unit Operations, shall be priced in accordance with the provision of Exhibit "D", Accounting Procedure. Casing shall be included in the inventory for record purposes but shall be excluded from pricing and investment adjustment. After completion of the inventory and evaluation of property Unit Operator shall submit to each Working Interest Owner a copy of the inventory and valuations thereon together with a letter ballot for approval of such inventory and valuations.

10.3 Investment Adjustment. As soon as practicable after approval by Working Interest Owners of the inventory and evaluation, each Working Interest Owner shall be credited with the value, as determined in accordance with Article 10.2 above, of its interest in all personal property taken over by Unit Operator under Article 10.1.2, and charged with an amount equal to that obtained by multiplying the total value of all such personal property taken over by Unit Operator under Article 10.1.2 by such Working Interest Owner's Unit Participation, as shown on Exhibit "C". If the charge against any Working Interest Owner is greater than the amount credited to such Working Interest Owner, the resulting net charge shall be paid and in all other respects be treated as any other item of Unit Expense chargeable against such Working Interest Owner. If the credit to any Working Interest Owner is greater than the

amount charged against such Working Interest Owner, the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above.

10.4 General Facilities. The acquisition of general facilities which service more than one lease and which are necessary for Unit Operations shall be by negotiation between the owners thereof and Unit Operator, subject to the approval of Working Interest Owners. There shall be no adjustment for lease roads or appurtenances thereto. General facilities which are owned one-hundred percent (100%) by the Unit Operator shall be acquired by negotiation between the Unit Operator and the Working Interest Owners.

10.5 Exchange of Interest in and Ownership of Personal Property and Facilities. Each Working Interest Owner hereby exchanges, and agrees to exchange, its interest in all of the personal property and facilities described in Article 10.1.2 above for its proportionate interest, as shown on Exhibit C, from and after the time the same may hereafter become effective, in all such personal property and facilities described in Article 10.1.2. Each Working Interest Owner, individually, shall by virtue hereof own an undivided interest in all personal property and facilities taken over or otherwise acquired by Unit Operator pursuant to this agreement equal to its Unit Participation.

ARTICLE 11

DEVELOPMENT AND OPERATING COSTS

11.1 Basis of Charge to Working Interest Owners. Unit Operator initially shall pay and discharge all Unit Expense including all preunitization expenses required for organization and/or formation of the unit. Each Working Interest Owner shall reimburse Unit Operator for its share of Unit Expense in proportion to the respective Unit Participation of the parties hereto. All charges,

credits, and accounting for Unit Expense shall be in accordance with Exhibit "D", Accounting Procedure.

11.2 Budgets. Before or as soon as practical after the Effective Date hereof, Unit Operator shall prepare a budget of estimated Unit Expense for the remainder of the calendar year, and, on or before, the first day of each September thereafter, shall prepare such a budget for the ensuing calendar year. A budget shall set forth the estimated Unit Expense by quarterly periods. Budgets shall be estimates only, and shall be adjusted or corrected whenever an adjustment or correction is proper. A copy of each budget and adjusted budget shall promptly be furnished to each Working Interest Owner.

11.3 Advance Billings. Unit Operator shall have the right without prejudice to any other rights or remedies, at its option, to require Working Interest Owners to advance their respective proportions of Unit Expense by submitting to Working Interest Owners, on or before the 15th day of any month, an itemized estimate of Unit Expense for the succeeding month with a request for payment in advance. If such advance is requested as to operating costs and expenses, the Working Interest Owner's proportionate shares thereof shall be deemed to be the same as for the preceding month, with an adjustment to be made on the basis of their actual proportionate shares thereof as determined at the end of the period for which such advance was requested. Within fifteen (15) days of receipt of said itemized estimate, each Working Interest Owner shall pay to Unit Operator its proportionate part of such estimate. Adjustment between estimates and the actual costs shall be made by Unit Operator at the close of each calendar month, and the accounts of the Working Interest Owners shall be adjusted accordingly.

11.4 Commingling of Funds. No funds received by Unit Operator under this agreement need be segregated or maintained by it as separate funds, but may be commingled with its own funds.

11.5 Lien of Unit Operator. Each Working Interest Owner grants to Unit Operator a lien upon its Oil and Gas Rights in each Tract, and a security interest in its share of Unitized Substances when produced, and its interest in all Unit Equipment, as security for payment of its share of Unit Expense to the full extent allowed by State and Federal Statutes, together with interest thereon at the prime rate charged by Chase Manhattan Bank during the period that such payment remains due, plus one percent (1%) per annum, or the maximum contract rate permitted by the applicable usury laws of the State of New Mexico, whichever is the lesser, plus attorney's fees, court costs and other costs in connection with the collection of unpaid amounts. To the extent that Unit Operator has a security interest under the Uniform Commercial Code, Unit 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 Unit Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Working Interest Owner in the payment of its share of Unit Expense, Unit Operator shall have the right without prejudice to other rights and remedies, to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest as aforesaid, has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of any default. Unit Operator grants a like lien and security interest to the Working Interest Owners.

11.6 Unpaid Unit Expense. If any Working Interest Owner fails to pay its share of Unit Expense within sixty (60) days after rendition of a statement therefor by Unit Operator, the non-defaulting Interest Owners, shall, upon request by Unit Operator, pay their proportionate part of the unpaid share of Unit Expense of the defaulting Working Interest Owner. The non-defaulting Working Interest Owners that pay their share of Unit Expense of a defaulting Working Interest Owner shall be reimbursed by the Unit Operator for the amount so paid, plus any interest collected thereon, upon receipt by Unit Operator of any past due amount collected from the defaulting Working Interest Owner. Any non-defaulting Working Interest Owner so paying a defaulting Working Interest Owner's share of Unit Expense shall be subrogated to the lien and rights herein granted Unit Operator. A defaulting Working Interest Owner shall lose its voting interest (as defined in Section 4.3.1) during its period of default. Its voting rights shall be shared proportionately and exercised by each of the non-defaulting Working Interest Owner paying their share of the defaulting Working Interest Owner's share of Unit Expense.

11.7 Carved-out Interest. If any working Interest Owner shall, after executing this Agreement, create an overriding royalty, production payment, net profits, or carried interest, or any other interest out of its Working Interest then subject to this Agreement, such carved-out interest shall be subject to the terms and provisions of this Agreement, specifically including, but without limitation, Article 11.5 hereof. If the Working Interest Owner creating such carved-out interest (i) fails to pay any Unit Expense chargeable to such Working Interest Owner under this Agreement and the production of Unitized Substances accruing to the credit of such Working Interest Owner is insufficient for that purpose, or (ii) withdraws from this Agreement under the terms and provisions of

Article 17 hereof, the carved-out interest shall be chargeable with a pro-rata portion of all Unit Expense incurred hereunder and Unit Operator shall have the right to enforce against such carved-out interest the lien and all other rights granted in said Article 11.5 for the purpose of collecting the Unit Expense chargeable to said carved-out interest.

11.8 Rentals and Minimum Royalties. The Working Interest Owner in each Tract shall, at its own expense, pay any and all rentals required to continue its lease in force, and any and all minimum royalties payable thereunder. Upon request of Unit Operator, each such Working Interest Owner shall furnish Unit Operator satisfactory evidence as to the payment of such rentals not less than thirty (30) days prior to the rental payment date and as to the payment of such minimum royalty payments when same are due. Unit Operator shall have the right, but shall be under no obligation, to pay any and all such rentals and minimum royalties on behalf of each Working Interest Owner, and any and all amounts so paid by Unit Operator shall be charged solely to the account of such Working Interest Owner. In the event the Working Interest Owner in any Tract fails to pay any rental required to continue its lease in force as to such Tract or any minimum royalties payable under such lease and as a result said lease terminates or is cancelled as to such Tract, the termination or cancellation of said lease as to such Tract shall be considered for all purposes of this agreement and the Unit Agreement to be a failure of title to said lease for reasons other than Unit Operations.

ARTICLE 12

OPERATION OF NON-UNITIZED FORMATIONS

12.1 Right to Operate in Non-Unitized Formations. Any Working Interest Owner that now has, or hereafter acquires the right to drill for and produce oil,

gas or other minerals, from a formation underlying the Unit Area other than the Unitized Formation, shall have the right to do so notwithstanding this Agreement or the Unit Agreement. In exercising said right, however, such Working Interest Owner shall exercise every reasonable precaution to prevent unreasonable interference with Unit Operations hereunder. No Working Interest Owner (other than Unit Operator) shall produce Unitized Substances through any well drilled or operated by it. If any Working Interest Owner drills any well into or through the Unitized Formation, the Unitized Formation shall be protected during drilling operations in a manner satisfactory to Unit Operator, and following drilling operations, the Unitized Formation shall be protected by cement or by casing and cement and shall otherwise be protected in such a manner that the Unitized Formation and the production of Unitized Substances will not be adversely affected.

12.2 Multiple Completions. No well now or hereafter completed in Unitized Formation shall ever be completed as a multiple completion in any other formation or formations unless such multiple completion and the subsequent handling of the multiple completion is approved by Working Interest Owners in accordance with Article 4.3 of this Agreement.

ARTICLE 13

TITLES

13.1 Warranty and Indemnity. Each Working Interest Owner represents and warrants that it is the owner of the respective working interests set forth opposite its name in Exhibit "B" of the Unit Agreement and hereby agrees to indemnify and hold harmless the other Working Interest Owners from any loss due to failure, in whole or in part, of its title to any such interest, except failure of title arising out of Unit Operations; provided that, such indemnity

shall be limited to an amount equal to the net value that has been received from the sale or receipt of Unitized Substances attributed to the Interest as to which title failed. Each failure of title will be deemed to be effective, insofar as this Agreement is concerned, as of 7:00 a.m. the first day of the calendar month in which such failure is finally determined, and there shall be no retroactive adjustment of Unit Expense, or retroactive allocation of Unitized Substances or the proceeds therefrom, as a result of title failure.

13.2 Failure of Title Because of Unit Operations. The failure of title to any Working Interest in any Tract because of Unit Operations, including nonproduction from such Tract, shall not change the Unit Participation of the Working Interest Owner whose title failed in relation to the Unit Participations of the other Working Interest Owners at the time of the title failure.

ARTICLE 14

LIABILITY, CLAIMS AND SUITS

14.1 Individual Liability. The duties, obligations and liabilities of Working Interest Owners shall be several and not joint or collective; and nothing herein contained shall ever be construed as creating a partnership of any kind, joint venture, association or trust among Working Interest Owners.

14.2 Settlements. Unit Operator may settle any single damage claim or suit involving Unit Operations if the expenditure does not exceed Twenty-five Thousand Dollars (\$25,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above specified amount, Unit Operator shall notify Working Interest Owners and shall continue handling the claim or suit unless such authority is expressly denied by Working Interest Owners after notification. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit Expense.

If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator by this Agreement and the Unit Agreement, the Working Interest Owner shall immediately notify the Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

ARTICLE 15

INTERNAL REVENUE PROVISION

15.1 Internal Revenue Provision. Notwithstanding any provisions herein that the rights and liabilities of the parties hereunder are several and not joint or collective or that this Agreement and the operations hereunder shall not constitute a partnership, if for Federal income tax purposes this Agreement and the operations hereunder are regarded as a partnership, then each of the parties hereto hereby elects to be excluded from the application of all of the the provisions of Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1986, as permitted and authorized by Section 761 of said Code and the regulations promulgated thereunder. Unit Operator is hereby authorized and directed to execute on behalf of each of the parties hereto such evidence of this election as may be required by the Secretary of the Treasury of the United States or by the Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements and the data required by the Internal Revenue Service or as may be necessary to evidence this election. Should there be any requirement that each Party hereto give further evidence of this election, each such Party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary

to evidence this election. Each party hereto further agrees not to give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the State in which the property covered by this Agreement is located, or any future income tax laws of the United States, contain, or shall hereafter contain, provisions similar to those contained in Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1986, under which an election similar to that provided by Section 761 of said Subchapter K is permitted, each of the parties hereto hereby makes such election or agrees to make such election as may be permitted or required by such laws. In making this election, each of the parties hereto hereby states that the income derived by it from the operations under this Agreement can be adequately determined without the computation of partnership taxable income.

ARTICLE 16

NOTICES

16.1 Notices. All notices required hereunder shall be in writing and shall be deemed to have been properly served when sent by certified mail ("return receipt requested") or telegram or telefax to the address of the representative of each Working Interest Owner as furnished to Unit Operator in accordance with Article 4.

ARTICLE 17

WITHDRAWAL OF WORKING INTEREST OWNER

17.1 Withdrawal. A Working Interest Owner may withdraw from this Agreement by transferring, without warranty of title, either express or implied, to the other Working Interest Owners, ("transferees"), all its Oil and Gas Rights, exclusive of Royalty Interests, together with its interest in all Unit Equipment and in all wells used in Unit Operations. The instrument of transfer shall be

delivered to Unit Operator for the transferees. Such transfer shall not relieve the Working Interest Owner from any obligation or liability incurred prior to the date of the delivery of the instrument of transfer. The tender must be accepted unless Working Interest Owners decide within ninety (90) days of tender to terminate the Unit. The interest transferred shall be owned by the transferees in proportion to their respective Unit Participations then in effect. The transferees, in proportion to the respective interest so acquired, shall pay transferor for its interest in Unit Equipment the net salvage value thereof less its share of the estimated cost of salvaging same and of plugging and abandoning all wells then being used or held for Unit Operations and of restoring the surface of the Unit Area upon Unit abandonment, as determined by Working Interest Owners. In the event such withdrawing party's interest in the aforesaid salvage value is less than the withdrawing party's share of the estimated costs, the withdrawing party, as a condition precedent to its withdrawal, shall pay the Unit Operator, for the benefit of Working Interest Owners succeeding to its interest, a sum equal to the deficiency.

Within sixty (60) days after receiving delivery of the transfer, Unit Operator shall render a final statement to the withdrawing owner for its share of Unit Expense, including any deficiency in salvage value, as determined by Working Interest Owners, incurred as of the first day of the month following the date of receipt of the transfer. Provided all Unit Expense, including any deficiency hereunder, due from the withdrawing owner has been paid in full within thirty (30) days after the rendering of such final statement by Unit Operator, the transfer shall be effective the first day of the month following its receipt by Unit Operator and, as of such effective date, the withdrawing Working Interest Owner shall be relieved from all further obligations and liabilities hereunder

and under the Unit Agreement, and the rights of the withdrawing Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred.

17.2 Limitation on Withdrawal. Notwithstanding anything set forth in Article 17.1, Working Interest Owners may refuse to permit the withdrawal of a Working Interest Owner if its Working Interest is burdened by any royalties, overriding royalties, production payments, net proceeds interest, carried interest, or any other interest created out of the Working Interest in excess of one-eighth (1/8) lessor's royalty, unless the other Working Interest Owners willing to accept the assignment agree to accept the Working Interest subject to such burdens.

ARTICLE 18

ABANDONMENT OF WELLS

18.1 Rights of Former Owners. If Working Interest Owners decide to abandon permanently any well completed in the Unitized Formation within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice thereof to the Working Interest Owners of the Tract on which the well is located, and they shall have the option for a period of ninety (90) days after the sending of such notice to notify Unit Operator in writing of their election to take over and own the well and to deepen or plug back the well to a formation other than the Unitized Formation. Such deepening or plugging back operations shall be governed by the applicable operating agreement(s) affecting such Tract. Within ten (10) days after the Working Interest Owners of the Tract have notified Unit Operator of their election to take over the well, they shall pay Unit Operator, for credit to the Joint Account, the amount estimated by Working Interest Owners to be the salvage value of the equipment in and on the well,

except casing and other equipment originally contributed at no cost less salvage costs. The Working Interest Owners of the Tract, by taking over the well, agree to seal off effectively and protect the Unitized Formation, in a manner satisfactory to Working Interest Owners, and upon abandonment to plug the well in compliance with applicable laws and regulations.

18.2 Plugging. If the Working Interest Owners of a Tract do not elect to take over a well located thereon that is proposed for abandonment, Unit Operator shall plug and abandon the well at Unit expense in compliance with applicable laws and regulations.

ARTICLE 19

EFFECTIVE DATE AND TERM

19.1 Effective Date. This agreement shall be binding on each party who executes or ratifies the same as of the date of execution or ratification by such party, but shall not become effective for the purpose of conducting Unit Operations hereunder until the effective date of the Unit Agreement.

19.2 Term. This Agreement shall continue in full force and effect so long as the Unit Agreement remains in force and effect, and thereafter until (a) all Unit Wells have been abandoned and plugged or turned over to the Working Interest Owners in accordance with Article 18, (b) all Unit Equipment and real property acquired for the Joint Account have been disposed of by the Unit Operator in accordance with the instructions of the Working Interest Owners, and (c) there has been a final accounting.

ARTICLE 20

ABANDONMENT OF OPERATIONS

20.1 Termination. Upon termination of the Unit Agreement, the following will occur:

20.1.1 Oil and Gas Rights. The Oil and Gas Rights in and to each separate Tract shall no longer be affected by this Agreement, and thereafter the parties shall be governed by the terms and provisions of the leases, contracts, and other instruments affecting the separate Tracts.

20.1.2 Right to Operate. Working Interest Owners of any Tract that desire to take over and continue to operate wells located thereon may do so by paying Unit Operator, for credit to the Joint Account, the net salvage value of the casing and equipment in and on the wells taken over, except the casing therein if contributed by such Working Interest Owners under Article 10.1.1 less salvage costs as estimated by Working Interest Owners, and by agreeing upon abandonment to plug each well in compliance with applicable laws and regulations.

20.1.3 Salvaging Wells. Unit Operator shall salvage as much of the casing and equipment in or on wells not taken over by Working Interest Owners of separate Tracts as can economically and reasonably be salvaged, and shall cause the wells to be plugged and abandoned in compliance with applicable laws and regulations.

20.1.4 Cost of Salvaging & Distribution of Assets. Working Interest Owners shall share the cost of salvaging and abandonment, as well as distribution of assets and properties used in Unit Operation, in proportion to their respective Unit Participations.

ARTICLE 21

EXECUTION

21.1 Execution by Separate Counterparts or Ratifications. This Agreement may be executed in any number of counterparts, and each executed counterpart shall have the same force and effect as an original instrument and as if all parties to the aggregate counterparts had signed the same instrument, or may be ratified by a separate instrument in writing referring to this Agreement, each such ratification having the force and effect of an executed counterpart hereof and in effect incorporating by reference all of the provisions hereof.

ARTICLE 22

SUCCESSORS AND ASSIGNS

22.1 Successors and Assigns. This Agreement shall constitute a covenant running with the lands and leases covered hereby, and shall be binding upon and inure to the benefit of the heirs, devisees, legal representatives, successors and assigns of the parties hereto, respectively. Each assignment or other transfer of Working Interest by any party hereof shall be made expressly subject to this Agreement and shall provide expressly that the transferee shall assume and be bound by all obligations accruing hereunder in respect to the Working Interest transferred from and after the assignment or other transfer.

22.2 Notice of Transfer. An assignment or other transfer of Working Interest that is subject to this Agreement shall not be binding upon Unit Operator and shall not relieve the transferor of obligations accruing hereunder, until the first day of the calendar month next succeeding receipt by Unit Operator of written notice of such assignment or transfer accompanied by certified copy of the recorded instrument evidencing the transfer.

ARTICLE 23

GOVERNMENTAL REGULATIONS

23.1 Governmental Regulations. Working Interest Owners agree to release Unit Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to, or resulting directly or indirectly from Unit Operator's interpretation or application of rules, regulations, or orders of any governmental agency or predecessor agencies to the extent Unit Operator's interpretation or application of such rules, rulings, regulations, or orders were made in good faith. Working Interest Owners further agree to reimburse Unit Operator for their proportionate share of any amounts Unit Operator may be required to refund, rebate or pay as a result of an incorrect interpretation or application of the above noted rules, rulings, regulations, or orders, together with their proportionate part of interest and penalties owed by Unit Operator as a result of such incorrect interpretation or application of such rules, ruling, regulations or orders.

23.2 Equal Employment Opportunity. Unless this Agreement is within one of the exemptions provided for in Executive Order 11246, effective September 24, 1965, as amended by Executive Order 11375 signed October 13, 1967, each of the parties hereto shall comply with paragraphs (1) through (7) of Section 202 of Executive Order 11246 (as amended) which are incorporated herein by reference.

IN WITNESS WHEREOF, the parties hereto have executed this agreement on the dates opposite their respective signatures.

MARATHON OIL COMPANY

Date of Execution:

10/21/91

By: 
A. R. Kukla
Attorney-in-Fact

Date of Execution:

Pennzoil Exploration & Producing
Company

By: _____

Date of Execution:

Wainoco Oil & Gas Company

By: _____

Date of Execution:

Francis H. Hudson

Date of Execution:

Delmar H. Lewis

Date of Execution:

Edward R. Hudson, Jr., & William
A. Hudson, II, Trustees U/W
Edward R. Hudson

By: _____
Edward R. Hudson, Jr.

William A. Hudson, II

Date of Execution:

Moore & Shelton Co., Ltd.

By: _____

Date of Execution:

James H. Yates, Inc.

By: _____

Date of Execution:

Colkelan Corp.

By: _____

Date of Execution:

Explorers Petroleum Corp.

By: _____

Date of Execution:

Exby, Ltd.

By: _____

Date of Execution:

Heyco Employees Ltd.

By: _____

Date of Execution:

Spiral, Inc.

By: _____

Date of Execution:

Yates Energy Corp.

By: _____

Date of Execution:

Heyco Development Corp.

By: _____

Date of Execution:

ARCO Oil & Gas Co.

By: _____

Date of Execution:

Laurelind Corporation

By: _____

Date of Execution:

Tom Stephens

Date of Execution:

Rogers Aston

Date of Execution:

Bearing Services

By: _____

Date of Execution:

Manzano Oil Corp.

By: _____

Date of Execution:

James Guy

Date of Execution:

Loy Fletcher

Date of Execution:

J. T. Jackson

Date of Execution:

Kerr-McGee Corp.

By: _____

State of Texas §
 § ss.
County of Midland §

The "Unit Operating Agreement, Tamano (BSSC) Unit, Eddy County, New Mexico"

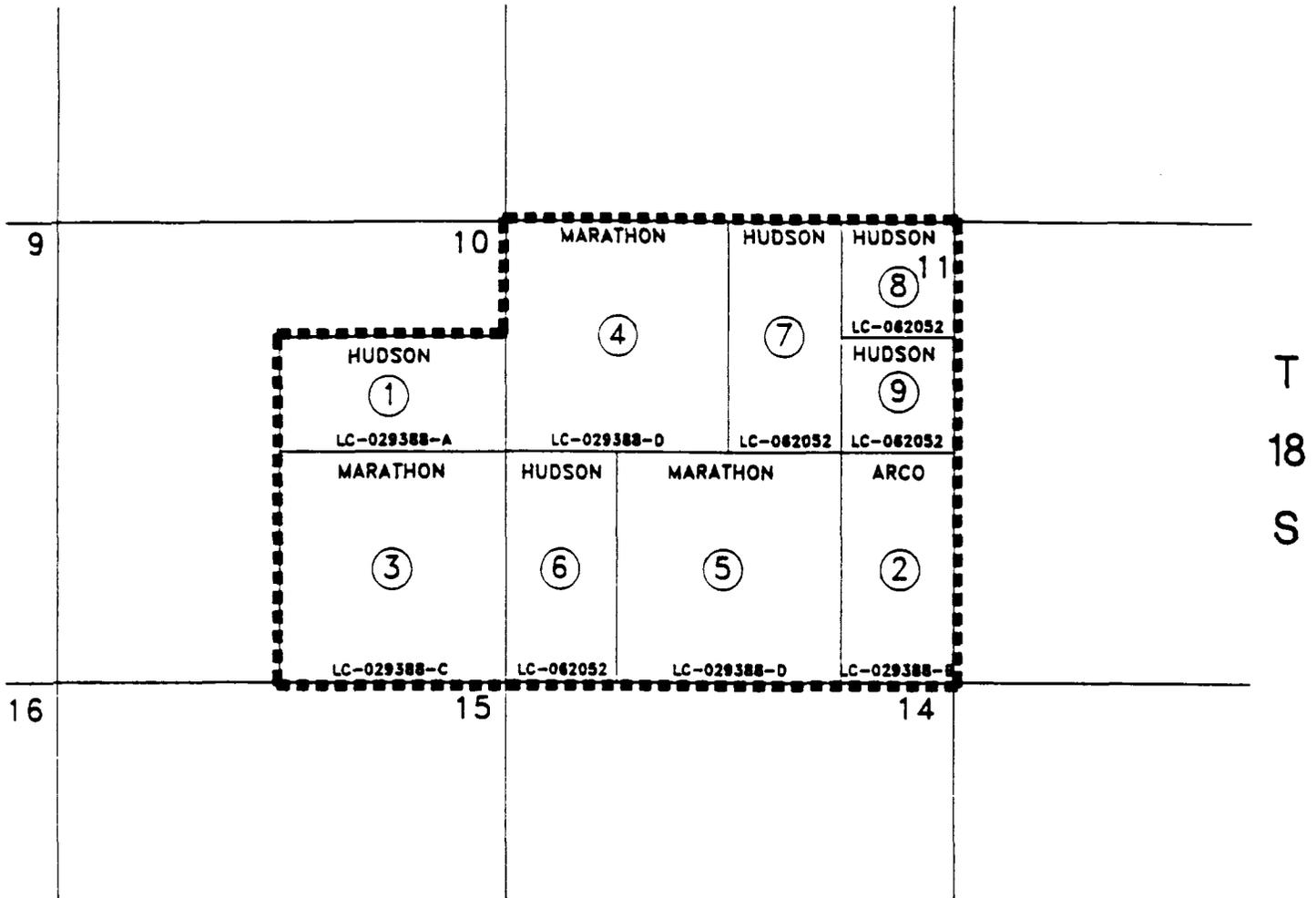
was acknowledge before me by A. R. Kukla, Attorney-in-Fact for Marathon Oil
Company, this 21st day of June 1991.

Witness my hand and official seal.

Mike A. Kuntel
Notary Public

My commission expires: 4-27-93

R - 31 - E



LEGEND

----- UNIT BOUNDARY

① TRACT NUMBER

EXHIBIT "A"
TAMANO (BSSC) UNIT
EDDY COUNTY, NEW MEXICO

UNIT AREA - 880.00 ACRES
(ALL FEDERAL LANDS)

SCALE: 1" = 2000'

EXHIBIT 'B'
 SCHEDULE SHOWING THE PERCENTAGE AND KIND OF OWNERSHIP OF
 OIL AND GAS INTERESTS IN ACCORDANCE WITH THE PARTICIPATION FORMULA
 FOR THE UNITIZED FORMATION FOR THE TAMMO (BSSC) UNIT
 EDDY COUNTY, NEW MEXICO

Tract No. & Tract Name	Description of Land	Acres	Serial No. & Eff. Date	Basic Royalty Owner and Percentage	Lessee of Record	Overriding Royalty Owner and Percentage	Working Interest Owner and Percentage	Percentage Participation of Tract in Unit	
1	S/2NE/4 Section 10 T-18-S, R-31-E	80	LC-029368-A 12-15-39	USA 12.5	Francis W. Hudson Delmar H. Lewis Edward R. Hudson, Jr., & William A. Hudson, II, Trustee U/W Edward R. Hudson	John W. Wiggins First Interstate Bank of Roswell, Trustee U/W Geraldine O. Johnson S. P. Johnson, III & Patricia J. Cooper Trustee U/W of S. P. Johnson, Jr. Lodwick Energy, Inc. Richard B. Lodwick Laura Patricia Lodwick John Widney Lodwick Laura B. Lodwick Spindletop Exploration Co. Mary Elizabeth Beish Katherine Mary Scott Betty Beish Strohmeyer Margaret Baish Masters Ralph A. Shugart, Jr. San Diego Trust & Savings Bank, Trustee U/A dated 5/26/83 for Ralph A. Shugart Margaret Jane Johnson MCNB Tr. Nat'l Bank & C. R. Mallison, Trustees of the Selma E. Andrews Trust dated 5/8/69 Braille Institute of America Karen Elizabeth Charles	Marathon Oil Company Pennzoil Exploration & Production Company Union Oil & Gas Co. Francis W. Hudson Delmar H. Lewis Edward R. Hudson, Jr., & William A. Hudson, II, Trustees U/W Edward R. Hudson Moore & Shelton Co., Ltd.	25.000000 29.208760 20.791240 5.312500 5.312500 10.625000 3.750000	1.74951

EXHIBIT 'B'
 SCHEDULE SHOWING THE PERCENTAGE AND KIND OF OWNERSHIP OF
 OIL AND GAS INTERESTS IN ACCORDANCE WITH THE PARTICIPATION FORMULA
 FOR THE UNITIZED FORMATION FOR THE TAMANO (BSSC) UNIT
 EDDY COUNTY, NEW MEXICO

Tract No. & Tract Name	Description of Land	Acres	Serial No. & Eff. Date	Basic Royalty Owner and Percentage	Lessee of Record	Overriding Royalty Owner and Percentage	Working Interest Owner and Percentage	Percentage Participation of Tract in Unit	
2 A. J. 11 Fed.	E/2SE/4 Section 11 1-10-S, R-31-E	80	LC-029388-B 12-15-39	USA (sliding scale)	ARCO Oil & Gas Co.	Evelyn Jackson Edwards Floyd Gentry Karen Gentry Schurig Janice Gentry Middlebrooks Mary C. Fulton Charles Kyle Clark	James H. Yates, Inc. Cotkelan Corp. Explorers Pat. Corp. Exby, Ltd. Keyco Employees Ltd. Spiral, Inc. Yates Energy Corp. Keyco Dev. Corp. ARCO Oil & Gas Co.	.035000 .035000 2.469375 1.250000 1.265000 3.719375 15.785486 25.420766 50.000000	2.68945

EXHIBIT 'B'
 SCHEDULE SHOWING THE PERCENTAGE AND KIND OF OWNERSHIP OF
 OIL AND GAS INTERESTS IN ACCORDANCE WITH THE PARTICIPATION FORMULA
 FOR THE UNITIZED FORMATION FOR THE TAMANO (BSSC) UNIT
 EDDY COUNTY, NEW MEXICO

Tract No. Tract Name	Description of Land	Acres	Serial No. & Eff. Date	Basic Royalty Owner and Percentage	Lessee of Record	Overriding Royalty Owner and Percentage	Working Interest Owner and Percentage	Percentage Participation of Tract in Unit
3	SE/4 Section 10 T-18-S, R-31-E	160	LC-029388-C 12-28-39	USA 12.5	Marathon Oil Company	John W. Higgins 1.125000 Patricia J. Cooper, Trustee of the PJC Revocable Trust U/A dated 12/30/89 1.062500 S. P. Johnson, III, and Barbara Jo Johnson, Trustee of the S. P. Johnson, III and Barbara Jo Johnson Trust U/A dated 1/26/85 1.062500 S. P. Johnson, III, and Patricia J. Cooper, Trustees U/W S. P. Johnson Jr. 2.125000 Lodwick Energy, Inc. .083333 Richard B. Lodwick .125000 Laura Patricia Lodwick .208333 John Widney Lodwick .208334 Laura B. Lodwick .625000 Spindletop Exploration Co. .500000 Mary Elizabeth Balah .016666 Katherine Mary Scott .016667 Betty Balah Strohmyer .050000 Margaret Balah Masters .400000 San Diego Trust & Savings Bank Trustee U/A dated 5/26/83 for Ralph A. Shugart .250000 Margaret Jane Johnston MCM Tr. Nat'l Bank & C.R. Mallison, Trustees of the Selma E. Andrews Trust dated 5/8/69 .268525 Braille Institute of America .231475 Karen Elizabeth Charles .016666	Marathon Oil Company 25.000000 Pennroll Exploration & Production Co. 29.208760 Mainoco Oil & Gas Co. 20.791240 Francis M. Hudson 5.312500 Delmar M. Lewis 5.312500 Edward E. Hudson, Jr. & William A. Hudson, II, Trustees U/W Edward R. Hudson 10.625000 Moore & Shelton Co. Ltd. 3.750000	30.91362

EXHIBIT 'B'
SCHEDULE SHOWING THE PERCENTAGE AND KIND OF OWNERSHIP OF
OIL AND GAS INTERESTS IN ACCORDANCE WITH THE PARTICIPATION FORMULA
FOR THE UNITIZED FORMATION FOR THE TAMAMO (BSSC) UNIT
EDDY COUNTY, NEW MEXICO

Tract No. & Tract Name	Description of Land	Acres	Serial No. & Eff. Date	Basic Royalty Owner and Percentage	Lessee of Record	Overriding Royalty Owner and Percentage	Working Interest Owner and Percentage	Percentage Participation of Tract in Unit
4 Johnson B. Fed. Acct. #1	NW/4 Section 11 T-18-S, R-31-E	160	LC-029308-0 12-28-39	USA 12.5	Marathon Oil Company	None	Marathon Oil Company 100.0	22.49964

EXHIBIT 'B'
 SCHEDULE SHOWING THE PERCENTAGE AND KIND OF OWNERSHIP OF
 OIL AND GAS INTERESTS IN ACCORDANCE WITH THE PARTICIPATION FORMULA
 FOR THE UNITIZED FORMATION FOR THE TAMMO (BSSC) UNIT
 EDDY COUNTY, NEW MEXICO

Tract No. Tract Name	Description of Land	Acres	Serial No. & Eff. Date	Basic Royalty Owner and Percentage	Lessee of Record	Overriding Royalty Owner and Percentage	Working Interest Owner and Percentage	Percentage Participation of Tract in Unit
5 Anson B Geral	E/2SW/4, W/2SE/4 Section 11 T-18-S, R-31-E	160	LC-029388-0 12-28-39	USA 12.5	Marathon Oil Company	None	Marathon Oil Company 66.666667 Francis N. Hudson 7.083334 Delmar H. Lewis 7.083333 Edward R. Hudson, Jr. & William A. Hudson, II, Trustees U.W. Edward R. Hudson 14.166667 Moore & Shelton Co. Ltd. 4.999999	23.05599

EXHIBIT 'B'
SCHEDULE SHOWING THE PERCENTAGE AND KIND OF OWNERSHIP OF
OIL AND GAS INTERESTS IN ACCORDANCE WITH THE PARTICIPATION FORMULA
FOR THE UNITIZED FORMATION FOR THE TABAMO (BSSC) UNIT
EDDY COUNTY, NEW MEXICO

Tract No. & Tract Name	Description of Land	Acres	Serial No. & Eff. Date	Basic Royalty Owner and Percentage	Lessee of Record	Overriding Royalty Owner and Percentage	Working Interest Owner and Percentage	Percentage Participation of Tract in Unit	
7 Hudson 11 Fed. #3 & 4	M/2NE/4 Section 11 T-10-S, R-31-E	80	LC-062052 12-15-39 Exchange 12-1-59	USA 12.5	Francis W. Hudson Delmar N. Lewis Edward R. Hudson, Jr., & William A. Hudson, II, Trustees U/M Edward R. Hudson	Margaret Baish Masters Betty Baish Strohmeyer Karen Elizabeth Charles Katherine Mary Scott Mary Elizabeth Baish Margaret Jane Johnson San Diego Trust & Savings Bank, Trustee U/A dated 5/26/83 for Ralph A. Shugart Francis W. Hudson Delmar N. Lewis Edward R. Hudson, Jr., & William A. Hudson, III, Trustees U/M Edward R. Hudson, Deceased Moore & Shelton Co., Ltd. Sally Header-Roberts O. E. Groves	Explorers Petroleum Corp. Exby, Ltd. Laurelind Corporation Meyco Employees Ltd. Spiral, Inc. James W. Yates, Inc. Colketan Corporation Kerr-McGee Corp. Yates Energy Corp. Tom Stephens Rogers Aston Bearing Services Manzano Oil Corp. Meyco Development Corp. James Guy Loy Fletcher J. I. Jackson	4.188750 1.250000 2.000000 2.570000 5.038750 .070000 .070000 20.000000 17.820989 2.500000 2.500000 2.625000 1.750000 33.241531 1.750000 .875000 1.750000	4.03210

EXHIBIT 'B'
 SCHEDULE SHOWING THE PERCENTAGE AND KIND OF OWNERSHIP OF
 OIL AND GAS INTERESTS IN ACCORDANCE WITH THE PARTICIPATION FORMULA
 FOR THE UNITIZED FORMATION FOR THE TAMAMO (BSSC) UNIT
 EDDY COUNTY, NEW MEXICO

Tract No. & Tract Name	Description of Land	Acres	Serial No. & Eff. Date	Basic Royalty Owner and Percentage	Lessee of Record	Overriding Royalty Owner and Percentage	Working Interest Owner and Percentage	Percentage Participation of Tract in Unit	
8 Hudson 11 Fed. #5	NE/4NE/4 Section 11 T-18-S, R-31-E	40	LC-062052 12-15-39 Exchange 12-1-59	USA 12.5	Francis W. Hudson Delmar H. Lewis Edward R. Hudson, Jr., & William A. Hudson, II, Trustees U/W Edward R. Hudson	Margaret Balsh Masters Betty Balsh Strohmeyer Karen Elizabeth Charies Katherine Mary Scott Mary Elizabeth Balsh Margaret Jane Johnson San Diego Trust & Savings Bank, Trustee U/A dated 5/26/83 for Ralph A. Shagert Francis W. Hudson Delmar H. Lewis Edward R. Hudson, Jr. & William A. Hudson, II, Trustees U/W Edward R. Hudson	James H. Yates, Inc. Colkelan Corp. Explorers Pet. Corp. Enby, Ltd. Heyco Employees Ltd. Spiral, Inc. Yates Energy Corp. Heyco Dev. Corp. ARCO Oil & Gas Co.	.035000 .035000 2.469375 1.250000 1.285000 3.719375 15.785484 25.420766 50.000000	1.44914
						2.000000 .250000 .083334 .083333 .083333 1.250000 1.250000 1.593750 1.593750 3.187500 1.125000 .250000 .250000 .024344 .012500 .012500 .036844 .157855 .247207 .008750			

EXHIBIT "C"
 WORKING INTEREST OWNER SUMMARY - TAMANO (BCCS) UNIT
 EDDY COUNTY, NEW MEXICO

<u>Working Interest Owner</u>	<u>Tract</u>	<u>Unit Participation</u>
ARCO Oil & Gas Company	2	1.344725
	8	.724570
	9	<u>.541175</u>
	Total	2.610470
Rogers Aston	7	.100802
Bearing Services		.105843
Colkelan Corp.	2	.000941
	7	.002822
	8	.000507
	9	<u>.000379</u>
	Total	.004649
Exby, Ltd.	2	.033618
	7	.050402
	8	.018115
	9	<u>.013529</u>
	Total	.115664
Explorers Pet. Corp.	2	.066413
	7	.168895
	8	.035785
	9	<u>.026727</u>
	Total	.297820
Loy Fletcher	7	.035281
James Guy	7	.070562
HEYCO Development Corp.	2	.683679
	7	1.340332
	8	.368382
	9	<u>.275142</u>
	Total	2.667535
HEYCO Employees Ltd.	2	.034559
	7	.103625
	8	.018621
	9	<u>.013908</u>
	Total	.170713

EXHIBIT "C"
 WORKING INTEREST OWNER SUMMARY - TAMANO (BCCS) UNIT
 EDDY COUNTY, NEW MEXICO

<u>Working Interest Owner</u>	<u>Tract</u>	<u>Unit Participation</u>
Edward R. Hudson, Jr., & William A. Hudson, II, Trustees U/W Edward R. Hudson	1 3 5 6	.185885 3.284572 3.266265 <u>1.774828</u>
	Total	8.511550
Francis H. Hudson	1 3 5 6	.092943 1.642286 1.633133 <u>.887415</u>
	Total	4.255777
J. T. Jackson	7	.070562
James H. Yates, Inc.	2 7 8 9	.000941 .002822 .000507 <u>.000379</u>
	Total	.004649
Kerr-McGee Corp.	7	.806420
Laurelind Corp.	7	.080642
Delmar H. Lewis	1 3 5 6	.092943 1.642286 1.633133 <u>.887415</u>
	Total	4.255777
Manzano Oil Corp.	7	.070562
Marathon Oil Co.	1 3 4 5 6	.437377 7.728405 22.499640 15.370660 <u>8.352133</u>
	Total	54.388215
Moore & Shelton Co., Ltd.	1 3 5 6	.065607 1.159261 1.152799 <u>.626409</u>
	Total	3.004076

EXHIBIT "C"
 WORKING INTEREST OWNER SUMMARY - TAMANO (BCCS) UNIT
 EDDY COUNTY, NEW MEXICO

<u>Working Interest Owner</u>	<u>Tract</u>	<u>Unit Participation</u>
Pennzoil Exploration & Production Co.	1	.511010
	3	<u>9.029485</u>
	Total	9.540495
Spiral, Inc.	2	.100031
	7	.203167
	8	.053899
	9	<u>.040257</u>
	Total	.397354
Tom Stephens	7	.100802
Wainoco Oil & Gas Co.	1	.363745
	3	<u>6.427325</u>
	Total	6.791070
Yates Energy Corp.	2	.424543
	7	.718559
	8	.228754
	9	<u>.170854</u>
	Total	1.542710

EXHIBIT " D "

Attached to and made a part of the Unit Operating Agreement, Tamano (BSSC) Unit, Eddy County, New Mexico.

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

- "Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.
- "Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.
- "Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.
- "Operator" shall mean the party designated to conduct the Joint Operations.
- "Non-Operators" shall mean the Parties to this agreement other than the Operator.
- "Parties" shall mean Operator and Non-Operators.
- "First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.
- "Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.
- "Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.
- "Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.
- "Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies.

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

- A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation within fifteen (15) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.
- B. Each Non-Operator shall pay its proportion of all bills within ~~thirty (30)~~ thirty (30) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at Chase Manhattan Bank-New York on the first day of the month in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

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

5. Audits

- A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.
- B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

6. Approval By Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Ecological and Environmental

Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or archaeological nature and pollution control procedures as required by applicable laws and regulations.

2. Rentals and Royalties

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

3. Labor

- A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
- (2) Salaries of First Level Supervisors in the field.
- (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the overhead rates.
- (4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from the overhead rates.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II. Such costs under this Paragraph 3B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 3A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.

4. Employee Benefits

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies.

5. Material

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

6. Transportation

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

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store where like material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.

- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store where like material is normally available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

7. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

8. Equipment and Facilities Furnished By Operator

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed _____ ten _____ percent (____%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

9. Damages and Losses to Joint Property

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

10. Legal Expense

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgements and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

11. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties hereto in accordance with the tax value generated by each party's working interest.

12. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Worker's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

13. Abandonment and Reclamation

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

14. Communications

Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.

15. Other Expenditures

Any other expenditure not covered or dealt with in the foregoing provisions of this Section II, or in Section III and which is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

I. Overhead - Drilling and Producing Operations

- i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

Fixed Rate Basis, Paragraph 1A, or
 Percentage Basis, Paragraph 1B

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 3A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

- ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property:

shall be covered by the overhead rates, or
 shall not be covered by the overhead rates.

- iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property:

shall be covered by the overhead rates, ~~or~~ but may be charged if approved under Section 3.2.9 of the Unit Operating Agreement.
 shall not be covered by the overhead rates.

A. Overhead - Fixed Rate Basis

- (1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate \$ 5,494.00

(Prorated for less than a full month)

Producing Well Rate \$ 556.00

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

(a) Drilling Well Rate

- (1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.
- (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig or other units used in workover, commence through date of rig or other unit release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.

(b) Producing Well Rates

- (1) An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- (2) Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- (4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.
- (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.
- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

B. Overhead - Percentage Basis

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

(a) Development

_____ Percent (_____ %) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 10 of Section II and all salvage credits.

(b) Operating

_____ Percent (_____ %) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

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

For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, re-drilling, deepening, or any remedial operations on any or all wells involving the use of drilling rig and crew capable of drilling to the producing interval on the Joint Property; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as operating.

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for overhead based on the following rates for any Major Construction project in excess of \$ _____.

- A. 5 % of first \$100,000 or total cost if less, plus
- B. 3 % of costs in excess of \$100,000 but less than \$1,000,000, plus
- C. 2 % of costs in excess of \$1,000,000.

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

3. Catastrophe Overhead

To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account for overhead based on the following rates:

- A. 5 % of total costs through \$100,000; plus
- B. 3 % of total costs in excess of \$100,000 but less than \$1,000,000; plus
- C. 2 % of total costs in excess of \$1,000,000.

Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead provisions of this Section III shall apply.

4. Amendment of Rates

The overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all Material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

1. Purchases

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reasons, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following basis exclusive of cash discounts:

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

- (a) Tubular goods, sized 2 $\frac{1}{4}$ inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 30,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 30,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.
- (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate truck rate shall be used.
- (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.
- (d) Macaroni tubing (size less than 2 $\frac{1}{4}$ inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

(2) Line Pipe

- (a) Line pipe movements (except size 24 inch OD and larger with walls $\frac{1}{4}$ inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
 - (b) Line pipe movements (except size 24 inch OD and larger with walls $\frac{1}{4}$ inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
 - (c) Line pipe 24 inch OD and over and $\frac{1}{4}$ inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.
 - (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.
- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.
- (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2 A (1) and (2).

B. Good Used Material (Condition B)

Material in sound and serviceable condition and suitable for reuse without reconditioning:

(1) Material moved to the Joint Property

At seventy-five percent (75%) of current new price, as determined by Paragraph A.

(2) Material used on and moved from the Joint Property

- (a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as new Material or
- (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as used Material.

(3) Material not used on and moved from the Joint Property

At seventy-five percent (75%) of current new price as determined by Paragraph A.

The cost of reconditioning, if any, shall be absorbed by the transferring property.

C. Other Used Material

(1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material under procedures normally used by Operator without prior approval of Non-Operators.

- (a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.
- (b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

(3) Condition E

Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally utilized by Operator without prior approval of Non-Operators.

D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

E. Pricing Conditions

- (1) Loading or unloading costs may be charged to the Joint Account at the rate of ~~thirty~~ ^{thirty percent} (30%) per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph 1.A(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.
- (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

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

4. Warranty of Material Furnished By Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

4. Expense of Conducting Inventories

- A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.
- B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

EXHIBIT "E"

ATTACHED TO AND MADE A PART OF THAT CERTAIN
UNIT OPERATING AGREEMENT
TAMANO (BSSC) UNIT
EDDY COUNTY, NEW MEXICO

INSURANCE REQUIREMENTS

1. Operator shall carry insurance as follows for the benefit and protection of the Parties to this Agreement:
 - a) Workers' Compensation Insurance in accordance with laws of governmental bodies having jurisdiction and Employers' Liability Insurance. Employers' Liability Insurance shall provide coverage of not less than \$100,000 per accident.
 - b) Operator may include the aforesaid risks under its qualified self-insurance program provided Operator complies with applicable laws, and in such event Operator shall charge to the Joint Account, a premium determined by applying manual insurance rates to the payroll.
2. Operator shall not be obligated or authorized to obtain or carry on behalf of the Joint Account any additional insurance covering the Parties or the operations to be conducted hereunder without the consent and agreement of all Parties. Each Party individually may acquire at its own expense such insurance or may self-insure as it deems proper to protect itself against claims, losses, or damages arising out of the joint operations, and any such insurance policy or self insurance program shall inure solely to the benefit of such Party; provided that such insurance shall include a waiver of subrogation against the other Parties in respect of their interests hereunder. All losses not covered by the insurance carried under 1 above and all damages to jointly owned property shall be borne by the Parties in proportion to their respective interests.
3. Operator shall require all contractors engaged in operations under this Agreement to comply with the applicable Workers' Compensation laws and to maintain such other insurance and in such amounts as Operator deems necessary.

EXHIBIT "F"

ATTACHED TO AND MADE A PART OF THAT CERTAIN
UNIT OPERATING AGREEMENT
TAMANO (BSSC) UNIT
EDDY COUNTY, NEW MEXICO

GAS BALANCING AGREEMENT

I. OWNERSHIP OF GAS

The parties to the Unit Operating Agreement to which this Gas Balancing Agreement "(Agreement)" is attached own the working interest in the gas rights underlying the Unit Area covered by the Unit Operating Agreement in accordance with the percentages of participation as set forth in Exhibit "C" to the Unit Operating Agreement.

In accordance with the terms of the Unit Agreement for the Tamano (BSSC) Unit, each party shall take in kind its share of gas produced from the Unitized Formation underlying the Unit Area or separately dispose of the same. In the event any party fails to take or market its share of gas or has contracted to sell its share of gas produced from the Unitized Formation underlying the Unit Area to a purchaser which fails to take the full share of gas attributable to the interest of such party, the terms of this Agreement shall automatically become effective.

II. SOURCE OF PRODUCTION

This Agreement shall apply separately to each vintage gas produced from the Unitized Formation underlying the Unit Area and any gas imbalance for any particular vintage gas shall not be used to offset a gas imbalance on any other vintage gas. The term "vintage" as used in this Agreement refers to each separate maximum lawful price category provided for by the Natural Gas Policy Act (NGPA) of 1978, or any amendment thereto, or any subsequent law or regulation which prescribes maximum lawful prices, and the terms of this Agreement shall apply separately to each such pricing category provided by the NGPA. Any gas that is deregulated shall be deemed a separate vintage and all deregulated gas shall constitute one vintage.

III. SALE OF PRODUCTION

During the period or periods when any party hereto fails to market or otherwise take its share of gas produced from the Unitized Formation underlying the Unit Area, the other parties shall have the right and option, but not the obligation to collectively produce each month in addition to their own respective shares of production, that portion of such other party's share which that party fails to market or otherwise take and shall be entitled to take and deliver to their respective purchasers their respective pro rata share of such gas production. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by conventional lease separation equipment in accordance with their

respective interests and subject to the Unit Operating Agreement to which this Agreement is attached, but each party taking such gas shall own all of the gas delivered to its purchaser.

IV. STORAGE

On a cumulative basis, each party not taking or marketing its full share of the gas produced shall be credited with gas in storage equal to its full share of the gas produced under this agreement, less its share of gas used in Unit operations or vented or lost, and less that portion such party took or delivered to its purchaser.

V. STATEMENTS

Each party taking gas shall furnish, or cause to be furnished, to Operator a monthly statement of gas sold for that party's account. Operator will furnish all parties hereto and their purchasers monthly statements showing the total quantity of gas produced, the amount used in Unit operations or vented or lost, the total quantity of gas delivered for sale, the total quantity of liquid hydrocarbons recovered therefrom, and the monthly and cumulative over and under account of each party.

VI. VOLUMETRIC BALANCING

To allow for makeup of underproduced gas and to balance the gas account between the parties in accordance with their respective interests, any underproduced party shall, by giving written notice to the Operator fifteen (15) days prior to the beginning of a calendar month, be entitled to take, in addition to its proportional share of gas, an additional fifty percent (50%) of the "offpeak" monthly volume or twenty percent (20%) of the "peak" monthly volume of gas attributable to the working interest of the overproduced party or parties, until it has brought its gas account into balance. During peak months an overproduced party, at its sole option, may make available to underproduced party or parties, gas in excess of such twenty percent (20%). For the purposes of this Agreement, "peak" months are January, February, July, August, November and December; "offpeak" months are March, April, May, June, September and October. The recovery of makeup gas by an underproduced party shall be in the order of accrual in storage (i.e., first-in, first-out basis). In the event that there is more than one underproduced party, each underproduced party's share of makeup gas shall be in the ratio that the underproduction of such underproduced party bears to the total underproduction of all such taking underproduced parties, unless otherwise mutually agreed.

VII. PAYMENT OF ROYALTY

Each party hereto shall be solely responsible for settlement with the respective royalty owners to whom it is accountable for royalties, overriding royalties, production payments and similar interest due on the gas so taken or delivered. Each party hereto agrees to hold each other party harmless from any and all claims for royalty payments asserted by royalty owners to whom such party is accountable.

VIII. REGULATION OF PRODUCTION

Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser the full Unit stream for a period not to exceed seventy two (72) hours to meet the deliverability tests required by its purchaser. Operator may also overproduce in any other situation, providing that such overproducing is consistent with prudent operations. Each party hereto shall at all times use its best efforts to regulate its takes and deliveries from the Unit Area, so that no well thereon shall be shut in for overproducing the allowable, if any, assigned thereto by the regulatory authority having jurisdiction.

IX. PRODUCTION AND SEVERANCE TAXES

Each party shall pay, or cause to be paid, all production, excise, and severance taxes due on all volumes of gas actually utilized or sold for its own account.

X. CASH SETTLEMENT

A cash settlement of any imbalance of gas production shall be made among the underproduced and overproduced parties whenever gas production from a vintage gas is depleted, or any overproduced party shall sell, assign or otherwise dispose of any portion of its interest (excluding mergers and reorganizations). Within ninety (90) days of the permanent cessation of production or receipt of notice of transfer of interest, Operator shall prepare and furnish to each party a statement of production, which details the allocation of overproduced gas to the underproduced parties on a month by month basis.

Within sixty (60) days after receipt of the Operator's prepared volume statement, each overproduced party pursuant to the conditions established hereinabove, shall be responsible for the valuation of its respective overproduced volumes and shall pay the appropriate underproduced party or parties a cash sum equal to the value of such corresponding cumulative overproduction. If payment is not made within such time, the unpaid balance shall bear interest at a rate not to exceed the lessor of: (a) the prime rate in effect at the Chase Manhattan Bank plus one percent (1%), or (b) the maximum interest rate allowed by law, until paid. The price to be paid for such cash settlement shall be the actual price received for the overproduction by the overproduced party, or parties, less appropriate deductions for taxes and royalties paid on such production by the overproduced party. The price basis shall be the rate collected from time to time, which is not subject to possible refund, as provided by the Federal Energy Regulatory Commission (FERC) pursuant to final order or settlement applicable to the gas sold from such vintage, plus any additional collected amount which is not ultimately required by said Commission to be refunded, such determination is made with respect thereto. In no event shall the overproduced party or parties be required to pay a sum for such makeup gas greater than the maximum lawful price established by FERC or its successor regulatory authority. Gas used off the premises by a party or sold to an affiliate shall be considered gas taken and sold by such party and for the purposes hereof the price to be paid for such adjustment shall be the higher of the price actually received or the weighted

average price received by all other parties for sales to non-affiliates during the period of such overproduction. If from time to time no other parties are making sales to non-affiliates, then the value received shall be deemed to be the greater of the value actually received by the overproduced party or the price upon which the overproduced party remits to its royalty owners.

XI. OPERATING COSTS AND LIABILITIES

Nothing herein shall change or affect each party's obligation to pay its proportionate share of all costs and liabilities incurred, as its share thereof is set forth in the Unit Operating Agreement, irrespective of whether all parties are selling or using gas or whether the sales and use of each are in proportion to ownership. Nothing herein shall obligate Operator, or any Non-Operator, to negotiate, consummate or in any way market the production of other parties to this Agreement.

XII. EFFECTIVE DATE, SUCCESSORS & ASSIGNS

This Agreement shall become effective in accordance with its terms and shall remain in force and effect as long as the Unit Operating Agreement to which it is attached remains in effect, and thereafter until the gas balance accounts among the parties are settled in full, and shall inure to the benefit of and be binding upon the parties hereto, their heirs, successors, legal representatives and assigns. The parties hereto agree to give notice of the existence of this agreement to any successor in interest and make any transfer of any interest in the Unit or part thereof subject to the terms of this agreement.

XIII. INDEMNITY

Each party hereto hereby indemnifies the other parties hereto against all liability for and agrees to defend said other parties against all claims which may be asserted by third parties purchasing gas from the Unit Area who now or hereafter have a contractual relationship with such indemnifying party which arise out of the operation of this Agreement or activities authorized to be conducted by any party under its provisions; and further agrees to save the other parties hereto harmless from all judgments or damages sustained and costs incurred in connection therewith.

EXHIBIT "C"

Attached to and made a part of Unit Operating Agreement, Tamano (BSSC) Unit, Eddy County, New Mexico.

NOTICE OF UNIT OPERATING AGREEMENT - NOTICE OF LIENS
AND NON-STANDARD FORM FINANCING STATEMENT

This Notice of Unit Operating Agreement - Notice of Liens and Non-Standard Form Financing Statement, ("Notice") is to evidence that the parties hereto executed a Unit Operating Agreement dated _____, 1991, ("Operating Agreement") by and between Marathon Oil Company, as Unit Operator and Pennzoil Exploration and Production Company, et al, as Working Interest Owners, both Unit Operator and Working Interest Owners sometimes singly referred to as "party", and collectively as "parties", with COPAS Accounting Procedure attached thereto as Exhibit "D" governing oil and gas exploration and development operations on the following described lands ("Unit Area"):

Township 18 South-Range 31 East
Section 10: S/2NE/4, SE/4
Section 11: All
containing 880.00 acres, more or less

WHEREAS, the Unit Operating Agreement provides in part that the designated Unit Operator and Working Interest Owners under said agreement shall be granted like lien priorities in the Unit Area, together with interest thereon at a rate specified therein, to wit;

Section 11.5. Lien of Unit Operator

"Each Working Interest Owner grants to Unit Operator a lien upon its Oil and Gas Rights in each Tract, and a security interest in its share of Unitized Substances when produced, and its interest in all Unit Equipment, as security for payment of its share of Unit Expense to the full extent allowed by State and Federal Statutes, together with interest thereon at the prime rate charged by Chase Manhattan Bank during the period that such payment remains due, plus one percent (1%) per annum, or the maximum contract rate permitted by the applicable usury laws of the State of New Mexico, whichever is the lesser, plus attorney's fees, court costs and other costs in connection with the collection of unpaid amounts. To the extent that Unit Operator has a security interest under the Uniform Commercial Code, Unit 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 a judgment by Unit Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for payment thereof. In addition, upon default by any Working Interest Owner in the payment of its share of Unit Expense, Unit Operator shall have the right without prejudice to other rights and remedies, to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest as aforesaid, has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of

any default. Unit Operator grants a like lien and security interest to the Working Interest Owners."

WHEREAS, the parties to the Operating Agreement hereby elect to perfect their security interests in the Operating Agreement and to provide notice to all interested third parties of their lien upon and security interest in the Unit Area.

NOW THEREFORE, this Notice is executed and filed with the appropriate authorities and it is hereby noted that this Notice shall apply to the following types of property:

A. All rights, titles, interests and estates now owned or hereafter acquired by each of the parties in and to the oil, hydrocarbons, gaseous hydrocarbons and all products refined therefrom in and under and which may be produced and saved from or attributable to each party's interest in the Unit Area, including all oil in tanks and all profits, proceeds, products, revenues and other income from or attributable to each party's interest in the Unit Area.

B. All rights, titles, interests and estates now owned or hereafter acquired by each party in and to any oil or gas leases covering any or all of the Unit Area or any properties now or hereafter unitized with the Unit Area; all existing or future agreements created thereby (including without limitation all units created under orders, rules or other official acts of any governmental agency having jurisdiction) which may affect all or any portion of the Unit Area; all operating agreements, farmout agreements, contracts and other agreements entered into by any of the parties which relate to any portion of the Unitized Formation of the Unit Area or to the production, sale, purchase, exchange or processing of hydrocarbons from or attributable to the Unit Area.

C. All personal property now owned or hereafter acquired and situated upon, used, held for use, or useful in connection with Unit Operations, including without limitation any and all oil wells, gas wells, injection wells or other wells, buildings, structures, field separators, liquid extraction plants, plant compressors, pumps, pumping units, field gathering systems, tanks and tank batteries, fixtures, valves, fittings, machinery and parts, engines, boilers, meters, apparatus, equipment appliances, tools, implements, cables, wires, towers, casing, tubing and rods, rights-of-ways, easements and servitudes together with all additional, substitution, replacements, accessions and attachments to any and all of the foregoing properties within the Unit Area.

This Notice covers oil, gas and associated minerals in and under the Unit Area, plus proceeds from the sale of oil, gas and associated minerals, plus personal property equipment which are or may become fixtures on the Unit Area. This Notice is to be recorded in the real estate records of the County Recorder for the County in which the Unit Area is located. The record owners of the Unit Area may include parties other than the parties signing below; but for the purposes of this Notice the parties signing below shall be deemed to be the record owners of the collateral relating to the Unit Area which is covered by this Notice.

To the extent the parties have a security interest under the Uniform Commercial

Code of the State ("Code"), parties shall be entitled to exercise the rights and remedies of a secured party under the Code.

In addition to constituting a Notice for the security interest granted by the Operating Agreement, this Notice constitutes a notice of a lien granted to the parties named above, under the terms of the Operating Agreement. The lien granted under the Operating Agreement applies to all the interests of each party in the Unit Area as set forth in subparagraphs (A) (B) and (C) hereof.

The subject Operating Agreement is available for review by any party having a vested interest in the Unit Area at Operator's offices.

This Notice is intended to constitute a notice that a lien exists under the Operating Agreement for operations conducted thereunder, effective as of the date operations benefiting the Unit Area were begun; and that Operator has performed services and furnished materials and labor for the development of the Unit Area, and is continuing to do so on an open account and as part of a continuing contract. Any claim for a lien under the Operating Agreement relates back to, and has priority as of the date the first services, materials or labor benefiting the Unit Area were provided.

This Notice shall remain in full force and effect as long as the Operating Agreement applicable to same is in force. It is agreed, however, that the termination of this Notice shall not relieve any party hereto from any liabilities which have accrued or attached to prior to the date of such termination. A carbon, photographic or other reproduction of this Notice shall be sufficient as a financing statement.

This Notice may be executed in counterparts, no one of which needs to be executed by all parties hereto, and shall be binding upon each party executing same and effective as to the interest of such party, their heirs, successors and assigns with the same force and effect as if all such parties had signed the same document.

IN WITNESS WHEREOF, this Notice of Operating Agreement, Notice of Liens and Non-Standard Form Financing Statement is executed as of this ____ day of _____ 19__, but effective between the parties as of the date of the Operating Agreement referred to in Paragraph 1 hereof.

SECURED PARTIES:

Exhibit "H"
 TAMANO (BSSC) UNIT
 Tamano (Bone Spring) Field
 Eddy County, New Mexico
 Page 1

Tract No.	Well No.	Original Well Name & No.	Original Operator	Well Location
1	102	Stetco "10" Federal No. 2	Marathon Oil Company	2310' FNL & 660' FEL (H) Section 10-18S-31E
2	201	A. J. "11" Federal No. 1	Harvey E. Yates Co.	560' FSL & 990' FEL (P) Section 11-18S-31E
2	202	A. J. "11" Federal No. 2	Harvey E. Yates Co.	1650' FSL & 660' FEL (I) Section 11-18S-31E
3	301	Stetco "10" Federal No. 1	Marathon Oil Company	1950' FSL & 410' FEL (I) Section 10-18S-31E
3	303	Stetco "10" Federal No. 3	Marathon Oil Company	1980' FSL & 1650' FEL (J) Section 10-18S-31E
4	403	Johnson "B" Fed. A/C 1 No. 3	Marathon Oil Company	660' FNL & 1980' FWL (C) Section 11-18S-31E
4	407	Johnson "B" Fed. A/C 1 No. 7	Marathon Oil Company	2310' FNL & 2160' FWL (F) Section 11-18S-31E
4	409	Johnson "B" Fed. A/C 1 No. 9	Marathon Oil Company	2310' FNL & 600' FWL (E) Section 11-18S-31E
4	410	Johnson "B" Fed. A/C 1 No. 10	Marathon Oil Company	990' FNL & 450' FWL (D) Section 11-18S-31E
5	504	Johnson "B" Fed. No. 4	Marathon Oil Company	1980' FSL & 1980' FWL (K) Section 11-18S-31E
5	505	Johnson "B" Fed. No. 5	Marathon Oil Company	2260' FSL & 1980' FEL (J) Section 11-18S-31E
5	506	Johnson "B" Fed. No. 6	Marathon Oil Company	660' FSL & 1980' FWL (N) Section 11-18S-31E
5	508	Johnson "B" Fed. No. 8	Marathon Oil Company	510' FSL & 2030' FEL (O) Section 11-18S-31E
6	601	Marathon-Shugart "B" No. 1	Marathon Oil Company	660' FWL & 470' FSL (M) Section 11-18S-31E
6	602	Marathon-Shugart "B" No. 2	Marathon Oil Company	1800' FSL & 760' FWL (L) Section 11-18S-31E

Exhibit "H"
TAMANO (BSSC) UNIT
Tamano (Bone Spring) Field
Eddy County, New Mexico
Page 2

Tract No.	Well No.	Original Well Name & No.	Original Operator	Well Location
7	703	Hudson "11" Federal No. 3	Harvey E. Yates Co.	990' FNL & 1980' FEL (B) Section 11-18S-31E
7	704	Hudson "11" Federal No. 4	Harvey E. Yates Co.	2310' FNL & 2310' FEL (G) Section 11-18S-31E
8	805	Hudson "11" Federal No. 5	Harvey E. Yates Co.	990' FNL & 760' FEL (A) Section 11-18S-31E
9	902	Hudson "11" Federal No. 2	Harvey E. Yates Co.	1930' FNL & 660' FEL (H) Section 11-18S-31E