

**RHODES AREA COOPERATIVE LEASE LINE AGREEMENT**

THIS AGREEMENT, is entered into as of the 1st day of July, 1993, between Texaco Exploration and Production Inc. ("TEPI") and Amerada Hess Corporation ("Amerada") as working interest owners in the W. H. Rhodes "A" and "B" Leases, and TEPI, Amerada, States, Inc. ("States") and Stirling Oil and Gas Company ("Stirling"), as working interest owners in the Rhodes Yates Unit. TEPI, Amerada, States and Stirling are hereinafter collectively referred to as the "Parties" and in the singular as a "Party."

**WITNESSETH:**

WHEREAS, each of the Parties hereto represents that the W. H. Rhodes "A" and "B" Leases and the Rhodes Yates Unit, as shown on Exhibit "A" attached hereto and made a part hereof, are currently producing oil from the Rhodes Yates Seven Rivers formation in Lea County, New Mexico; and

WHEREAS, in the interest of more properly producing and conserving the oil and associated hydrocarbons from the lands and leases, the Parties hereto desire to enter into and operate a cooperative program in order to obtain the maximum economic recovery of such substances from said producing formation;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements hereinafter contained, the Parties hereto agree as follows:

**I.**

TEPI, as Operator of the W. H. Rhodes "A" and "B" Leases and the Rhodes Yates Unit, will drill and equip the wells listed below for the purpose of oil production from the Rhodes Yates Seven Rivers formation:

~~W. H. Rhodes "B" NCT-1 Well No. 22, to be located 1572 feet FSL, 2375 feet FEL of Section 27, T26S, R37E.~~

~~W. H. Rhodes "B" NCT-1 Well No. 26, to be located 2310 feet FNL, 2310 feet FEL of Section 27, T26S, R37E.~~

~~W. H. Rhodes "B" NCT-1 Well No. 27, to be located 1155 feet FNL, 2376 feet FEL of Section 27, T26S, R37E.~~

Rhodes Yates Unit Well No. 18, to be located 2551 feet FNL, 44 feet FWL of Section 27, T26S, R37E.

Rhodes Yates Unit Well No. 19, to be located 1360 feet FSL, 50 feet FWL of Section 27, T26S, R37E.

Rhodes Yates Unit Well No. 20, to be located 1430 feet FSL, 10 feet FEL of Section 21, T26S, R37E.

Rhodes Yates Unit Well No. 21, to be located 10 feet FWL, 130 feet FNL of Section 27, T26S, R37E.

**BEFORE THE  
OIL CONSERVATION DIVISION  
Santa Fe, New Mexico**

Case No. 10864 Exhibit No. 5

Submitted by: Texaco Exploration and  
Production Inc.

Hearing Date: November 18, 1993

Rhodes Yates Unit Well No. 22, to be located 130 feet FNL, 1310 feet FWL of Section 27, T26S, R37E.

Rhodes Yates Unit Well No. 23, to be located 130 feet FNL, 2588 feet FWL of Section 27, T26S, R37E.

All of the above wells are located in Lea County, New Mexico as shown on the map attached hereto as Exhibit "B". Locations may be moved up to 100 feet in any direction in case of surface restrictions.

## II.

Except as otherwise provided herein, all operations hereunder will be governed by the applicable terms of the Operating Agreement for the Rhodes Yates Unit, attached hereto as Exhibit "C" and incorporated herein by reference. All costs to drill, equip, operate, plug and abandon the wells and all production therefrom will be allocated and the wells owned on the following basis:

W. H. Rhodes "B" NCT-1 Well No. 22	50% W. H. Rhodes "B" Lease 50% Rhodes Yates Unit
W. H. Rhodes "B" NCT-1 Well No. 26	50% W. H. Rhodes "B" Lease 50% Rhodes Yates Unit
W. H. Rhodes "B" NCT-1 Well No. 27	50% W. H. Rhodes "B" Lease 50% Rhodes Yates Unit
Rhodes Yates Unit Well No. 18	75% Rhodes Yates Unit 25% W. H. Rhodes "B" Lease
Rhodes Yates Unit Well No. 19	50% Rhodes Yates Unit 50% W. H. Rhodes "B" Lease
Rhodes Yates Unit Well No. 20	50% Rhodes Yates Unit 50% W. H. Rhodes "A" Lease
Rhodes Yates Unit Well No. 21	75% Rhodes Yates Unit 25% W. H. Rhodes "A" Lease
Rhodes Yates Unit Well No. 22	50% Rhodes Yates Unit 50% W. H. Rhodes "A" Lease
Rhodes Yates Unit Well No. 23	25% Rhodes Yates Unit 50% W. H. Rhodes "A" Lease 25% W. H. Rhodes "B" Lease

### III.

Royalties, overriding royalties, production payments and similar burdens for the wells set forth in Article II shall be borne by the owner of the lease or unit to which the production is allocated pursuant to Article II.

To the extent that a Party's interest in the wells set forth in Article II are burdened by a royalty interest, overriding royalty interest, production payment or similar interest, such Party shall defend, protect, indemnify and hold harmless any other Party from any liability, claim, demand, action, cause of action or lawsuit (including, without limitation, court costs and attorneys' fees) resulting from or arising out of the allocation of production, payment of proceeds from production, or drainage brought by or on behalf of said Party's royalty or other interest owner.

### IV.

This agreement is effective July 1, 1993 and shall remain in full force and effect for as long as there is production from any of the wells provided for in Article II.

### V.

All costs, liabilities, claims and demands arising from operation on any well drilled pursuant to this Agreement, except as provided in Article III, shall be borne by the Parties on the same basis as their participation in the wells described in Article II. Each Party so obligated agrees to defend, protect, indemnify and hold harmless any other Party from any liability, claim, demand, cause of action or lawsuit (including court costs and attorneys' fees) arising out of or resulting from such operations in accordance with the Article V.

### VI.

The Parties hereto agree that the drilling of the above described wells to produce from the aforesaid Rhodes Yates Seven Rivers formation will facilitate protection of their correlative rights and increase the ultimate recovery of oil from the properties.

### VII.

This Agreement shall in no way affect the obligation of any Party hereto to produce the oil from its other wells or its right to own such production, and each Party shall be entitled to all production from its other wells and leases. The duties, liabilities and obligations of the Parties hereto are intended to be several and not joint or collective, and nothing contained herein shall ever be construed to impose a partnership obligation or liability with regard to any Party hereto.

VIII.

All obligations of any Party hereto shall be suspended while said Party is prevented from complying therewith, in whole or in part, by strikes, fire, war, civil disturbance, acts of God, federal, state or municipal laws, orders or regulations, inability to secure water or materials or other causes beyond the reasonable control of said Party; provided, however, that performance shall be resumed within a reasonable time after such cause has been removed; and provided further that no Party shall be required against its will to adjust or settle any labor dispute. This Agreement shall not be terminated by reason of suspension of operations due to the aforesaid causes.

IX.

The terms and provisions of this agreement shall inure to the benefit of and be binding upon the Parties hereto, their successors and assigns.

X.

This Agreement may be executed in any number of counterparts, no one of which needs to be executed by all Parties.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of July 1, 1993.

TEXACO EXPLORATION AND PRODUCTION INC.

R. R. [Signature]  
Attorney-in-Fact

AMERADA HESS CORPORATION

\_\_\_\_\_  
Title: \_\_\_\_\_

STATES, INC.

\_\_\_\_\_  
Title: \_\_\_\_\_

STIRLING OIL AND GAS COMPANY

\_\_\_\_\_  
Title: \_\_\_\_\_

VIII.

All obligations of any Party hereto shall be suspended while said Party is prevented from complying therewith, in whole or in part, by strikes, fire, war, civil disturbance, acts of God, federal, state or municipal laws, orders or regulations, inability to secure water or materials or other causes beyond the reasonable control of said Party; provided, however, that performance shall be resumed within a reasonable time after such cause has been removed; and provided further that no Party shall be required against its will to adjust or settle any labor dispute. This Agreement shall not be terminated by reason of suspension of operations due to the aforesaid causes.

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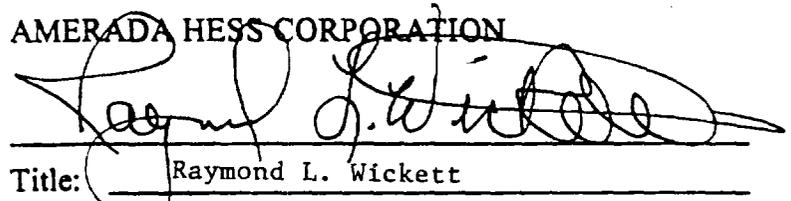
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TEXACO EXPLORATION AND PRODUCTION INC.

\_\_\_\_\_  
Attorney-in-Fact

AMERADA HESS CORPORATION

  
\_\_\_\_\_  
Title: Raymond L. Wickett  
Attorney-in-Fact

STATES, INC.

\_\_\_\_\_  
Title: \_\_\_\_\_

STIRLING OIL AND GAS COMPANY

\_\_\_\_\_  
Title: \_\_\_\_\_

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TEXACO EXPLORATION AND PRODUCTION INC.

\_\_\_\_\_  
Attorney-in-Fact

AMERADA HESS CORPORATION

\_\_\_\_\_  
Title: \_\_\_\_\_

STATES, INC.

\_\_\_\_\_  
Title: Hires.

STIRLING OIL AND GAS COMPANY

\_\_\_\_\_  
Title: \_\_\_\_\_

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\_\_\_\_\_  
Attorney-in-Fact

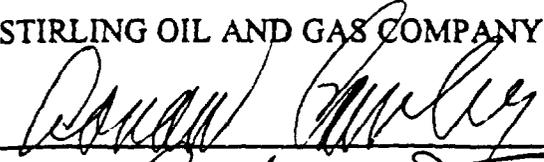
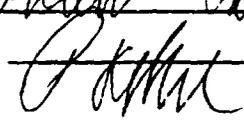
AMERADA HESS CORPORATION

\_\_\_\_\_  
Title: \_\_\_\_\_

STATES, INC.

\_\_\_\_\_  
Title: \_\_\_\_\_

STIRLING OIL AND GAS COMPANY

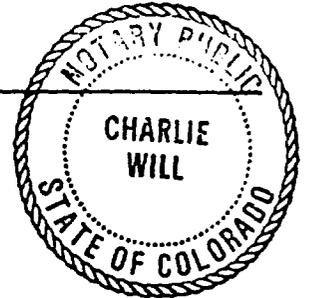
  
\_\_\_\_\_  
Title: 

STATE OF COLORADO  
COUNTY OF DENVER

The foregoing instrument was acknowledged before me this 9<sup>th</sup> day of August, 1993, by R.R. O'Dwyer, Attorney-in-Fact of Texaco Exploration and Production Inc., a Delaware corporation.

My commission expires:  
10-25-93

Charlie Will  
Notary Public



STATE OF OKLAHOMA  
COUNTY OF TULSA

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1993, by \_\_\_\_\_ of Amerada Hess Corporation, a \_\_\_\_\_ corporation.

\_\_\_\_\_  
Notary Public

STATE OF TEXAS  
COUNTY OF \_\_\_\_\_

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1993, by \_\_\_\_\_ of States, Inc., a \_\_\_\_\_ corporation.

\_\_\_\_\_  
Notary Public

STATE OF TEXAS  
COUNTY OF \_\_\_\_\_

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1993, by \_\_\_\_\_ of Stirling Oil and Gas Company, a \_\_\_\_\_ corporation.

\_\_\_\_\_  
Notary Public

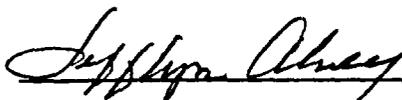
STATE OF COLORADO  
COUNTY OF DENVER

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1993, by \_\_\_\_\_, Attorney-in-Fact of Texaco Exploration and Production Inc., a Delaware corporation.

\_\_\_\_\_  
Notary Public

STATE OF OKLAHOMA  
COUNTY OF TULSA

The foregoing instrument was acknowledged before me this 6th day of August, 1993, by Raymond L. Wickert, Attorney-in-Fact of Amerada Hess Corporation, a Delaware corporation.

  
Notary Public *COM EXPIRES 3/29/97*

STATE OF TEXAS  
COUNTY OF \_\_\_\_\_

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1993, by \_\_\_\_\_ of \_\_\_\_\_ States, Inc., a \_\_\_\_\_ corporation.

\_\_\_\_\_  
Notary Public

STATE OF TEXAS  
COUNTY OF \_\_\_\_\_

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1993, by \_\_\_\_\_ of Stirling Oil and Gas Company, a \_\_\_\_\_ corporation.

\_\_\_\_\_  
Notary Public

STATE OF COLORADO  
COUNTY OF DENVER

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1993, by \_\_\_\_\_, Attorney-in-Fact of Texaco Exploration and Production Inc., a Delaware corporation.

\_\_\_\_\_  
Notary Public

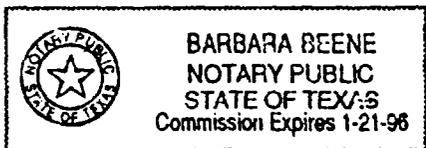
STATE OF OKLAHOMA  
COUNTY OF TULSA

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1993, by \_\_\_\_\_ of Amerada Hess Corporation, a \_\_\_\_\_ corporation.

\_\_\_\_\_  
Notary Public

STATE OF TEXAS  
COUNTY OF Stephens

The foregoing instrument was acknowledged before me this 14th day of July, 1993, by John H. Connally, President of Amstar States, Inc., a Delaware corporation.



Barbara Beene  
Notary Public

STATE OF TEXAS  
COUNTY OF \_\_\_\_\_

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1993, by \_\_\_\_\_ of Stirling Oil and Gas Company, a \_\_\_\_\_ corporation.

\_\_\_\_\_  
Notary Public

STATE OF COLORADO  
COUNTY OF DENVER

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1993, by \_\_\_\_\_, Attorney-in-Fact of Texaco Exploration and Production Inc., a Delaware corporation.

\_\_\_\_\_  
Notary Public

STATE OF OKLAHOMA  
COUNTY OF TULSA

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1993, by \_\_\_\_\_ of Amerada Hess Corporation, a \_\_\_\_\_ corporation.

\_\_\_\_\_  
Notary Public

STATE OF TEXAS  
COUNTY OF \_\_\_\_\_

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 1993, by \_\_\_\_\_ of States, Inc., a \_\_\_\_\_ corporation.

\_\_\_\_\_  
Notary Public

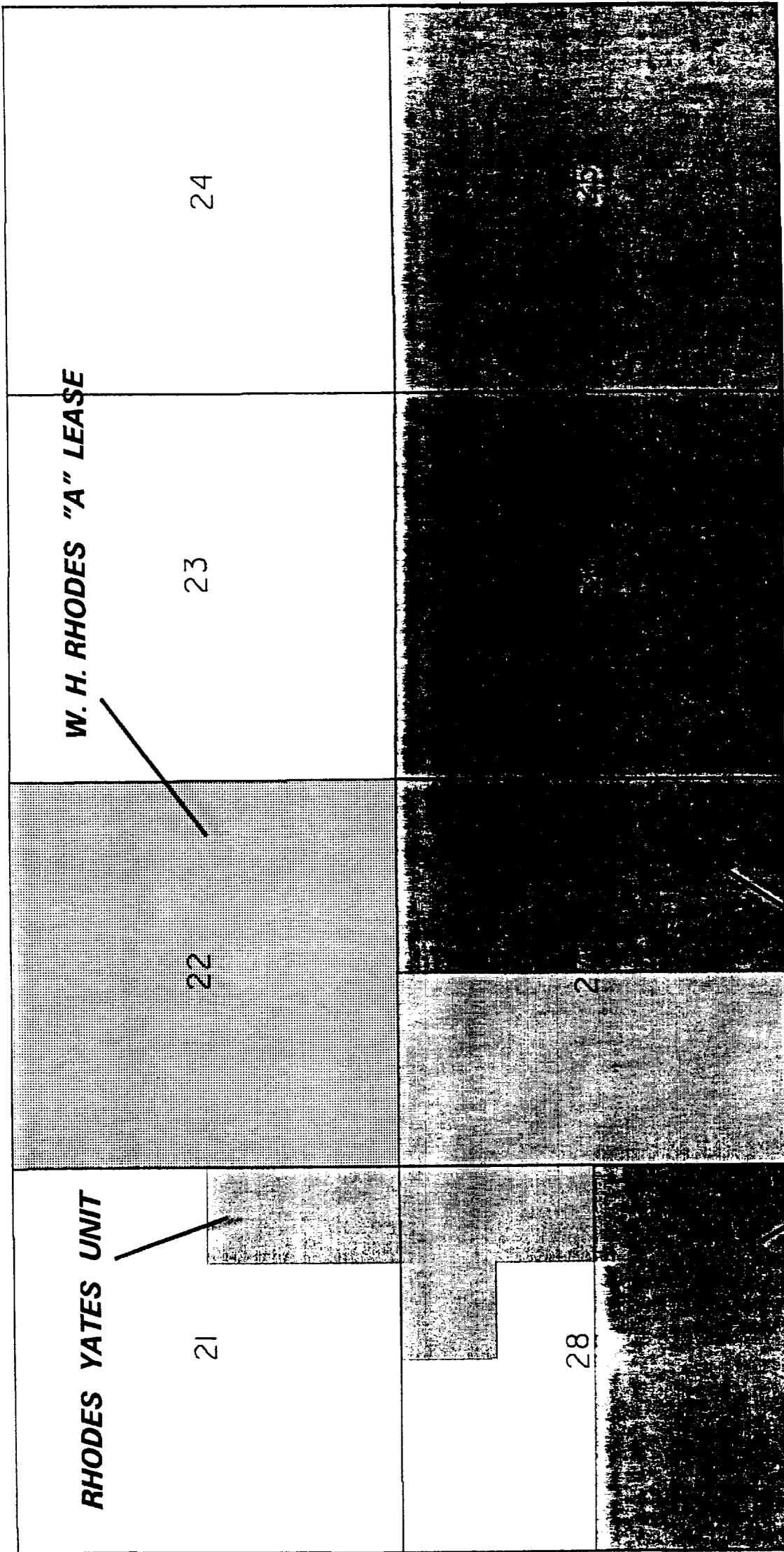
STATE OF TEXAS  
COUNTY OF Tarrant

The foregoing instrument was acknowledged before me this 6<sup>th</sup> day of July, 1993, by Hanna Cawley, Partner of Stirling Oil and Gas Company, a Partnership corporation.

Robin D. Wilson  
Notary Public

EXHIBIT "A"

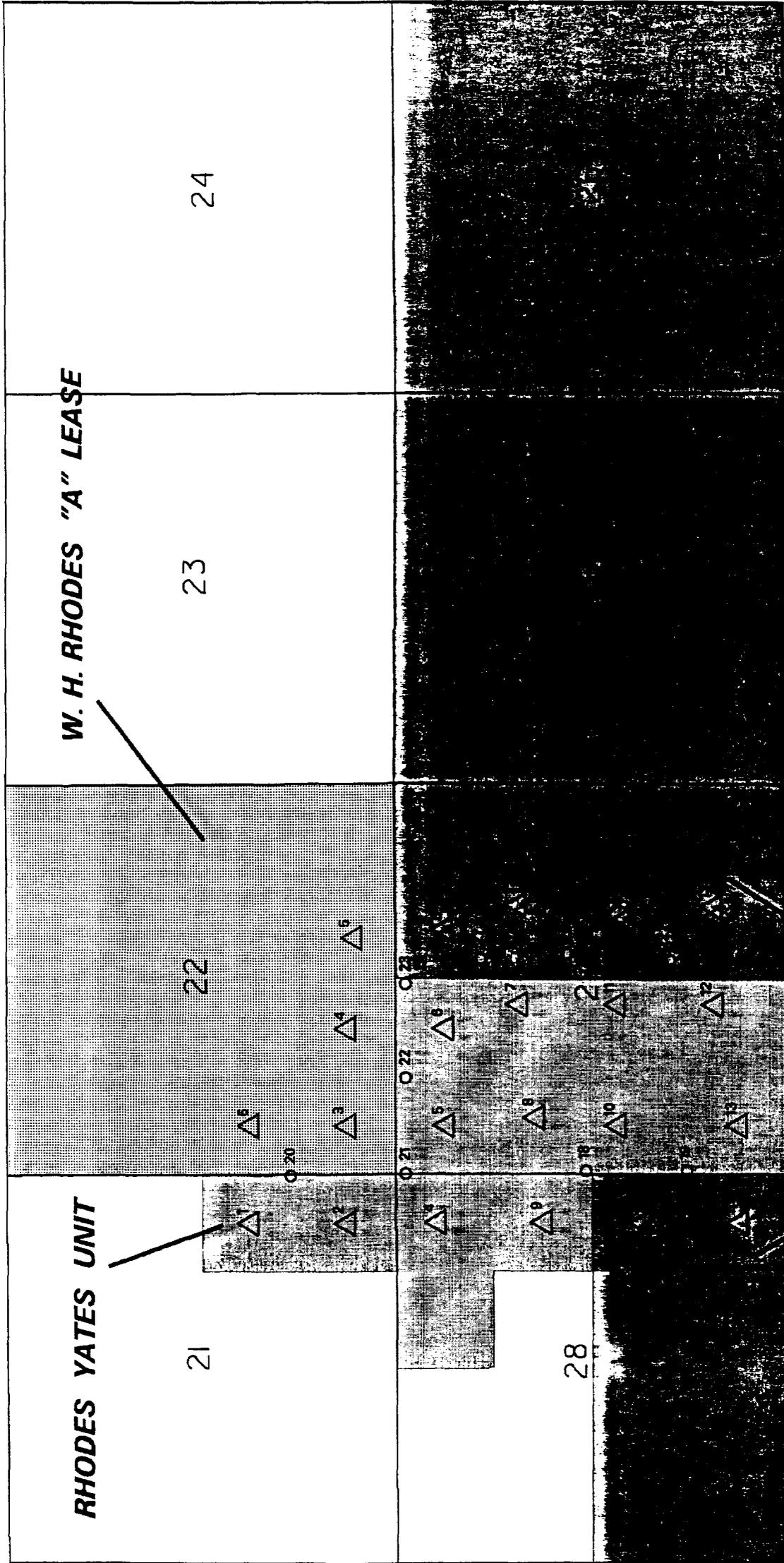
T-26-S, R-37-E  
LEA COUNTY, NEW MEXICO



ILLEGIBLE

T-26-S, R-37-E  
LEA COUNTY, NEW MEXICO

EXHIBIT "B"



**LEGEND**  
○<sup>18</sup> LEASE LINE WELL LOCATIONS  
△<sup>10</sup> INJECTORS

ILLEGIBLE

# EXHIBIT "C"

UNIT OPERATING AGREEMENT  
FOR THE DEVELOPMENT AND OPERATIONS  
OF THE  
RHODES-YATES UNIT  
RHODES YATES FIELD, COUNTY OF LEA,  
STATE OF NEW MEXICO

254790 - B

UNIT OPERATING AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
RHODES-YATES UNIT  
RHODES YATES FIELD, COUNTY OF LEA  
STATE OF NEW MEXICO

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254790-B

UNIT OPERATING AGREEMENT  
RHODES-YATES UNIT  
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 15th day of December, 1972, 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;

WITNESSETH:

WHEREAS, The parties hereto as Working Interest Owners have executed, as of the date hereof, an agreement entitled, "Unit Agreement, Rhodes-Yates Unit, Lea County, New Mexico," herein referred to as "Unit Agreement," which, among other things, provides for a separate agreement to be entered into by Working Interest Owners to provide for the development and operation of the Unit Area as therein defined;

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

ARTICLE 1  
CONFIRMATION OF UNIT AGREEMENT

1.1 Confirmation of Unit Agreement. The Unit Agreement is hereby confirmed and by reference made a part of this agreement. The definitions in the Unit Agreement are adopted for all purposes of this agreement. If there is any conflict between the Unit Agreement and this agreement, the Unit Agreement shall govern.

ARTICLE 2  
EXHIBITS

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

2.1.1 Exhibits A, B and C of the Unit Agreement.

2.1.2 Exhibit D, attached hereto, which is a schedule showing the Working Interest of each Working Interest Owner 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 D, or a revision thereof, shall not be conclusive as to the information therein, except it may be used as showing the Unit Participations of the Working Interest Owners for purposes of this agreement until shown to be in error or is revised as herein authorized.

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

2.1.4 Exhibit F, attached hereto, which contains insurance provisions applicable to Unit Operations.

2.2 Revision of Exhibits. Whenever Exhibits A and B are revised, Exhibit D shall be revised accordingly and be effective as of the same date. Unit Operator shall also revise Exhibit D 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.

254790-B

ARTICLE 3  
SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

3.1 Overall Supervision. 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 Specific Authorities and Duties. The matters with respect to which the Working Interest Owners shall decide and take action shall include but not be 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 of any well whether for production of Unitized Substances, for use as an injection well, or for other purposes.

3.2.3 Well Recompletions and Change of Status. The recompletion, deepening, abandonment, or change of status of any well, or the use of any well for injection or other purposes.

3.2.4 Expenditures. The making of any single expenditure in excess of Ten Thousand Dollars (\$10,000.00); provided that, approval by Working Interest Owners of the drilling, reworking, deepening, or plugging back of any well shall include approval of all necessary expenditures required therefor, and for completing, testing, and equipping the same, including necessary flow lines, separators, and lease tankage.

3.2.5 Disposition of Unit Equipment. The selling or otherwise disposing of any major item of surplus Unit Equipment, if the current list price of new equipment similar thereto is Three Thousand Five Hundred Dollars (\$3,500.00) or more.

3.2.6 Appearance Before a Court or Regulatory Agency. The designating of a representative to appear before any court or regulatory agency in matters pertaining to Unit Operations; provided that, such designation shall not prevent any Working Interest Owner at its own expense 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; provided that, the audits shall

- (a) not be conducted more than once each year except upon the resignation or removal of Unit Operator,
- (b) be made at the expense of all Working Interest Owners other than the Working Interest Owner designated as Unit Operator, and
- (c) 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 E.

254790-B

3.2.9 Technical Services. The authorizing of charges to the joint account for services by consultants or Unit Operator's technical personnel not covered by the overhead charges provided by Exhibit E.

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.

ARTICLE 4  
MANNER OF EXERCISING SUPERVISION

4.1 Designation of Representatives. Each Working Interest Owner shall in writing inform Unit Operator 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 one or more Working Interest Owners having a total Unit Participation of not less than ten per cent (10%). No meeting shall be called on less than fourteen (14) days' advance written notice, with agenda for the meeting attached. Working Interest Owners who attend the meeting shall not be prevented from amending items included in the agenda or from deciding the 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.

4.3.2 Vote Required -- Generally. Unless otherwise provided herein or in the Unit Agreement, all matters shall be decided by the affirmative vote of two or more Working Interest Owners having a combined interest of at least seventy-five percent (75%); however, should any one Working Interest Owner have more than twenty-five percent (25%) voting interest, its negative vote or failure to vote shall not defeat a motion, and such motion shall pass if approved by Working Interest Owners having a majority voting interest, unless two or more Working Interest Owners having a combined voting interest of at least forty percent (40%) vote against the motion or fail to vote.

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

4.3.4 Pool Votes. Working Interest Owners may vote on and decide, by letter or telegram, any matter submitted in writing to Working Interest Owners if no meeting is requested, as provided in Section 4.2, within fourteen (14) days after the proposal is sent to Working Interest Owners. Unit Operator will give prompt notice of the result of the voting 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. TEXACO Inc. is hereby designated as the initial Unit Operator.

ARTICLE 7  
AUTHORITIES AND DUTIES OF UNIT OPERATOR

7.1 Exclusive Right to Operate Unit. Subject to the provisions of this agreement and to instructions from Working Interest Owners, Unit Operator shall have the exclusive right and 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 judgment, 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 free from all liens and encumbrances occasioned by Unit Operations, except the lien of Unit Operator 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 the 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 to 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 a Working Interest Owner, upon written request, a copy of the log and other engineering and geological data pertaining to wells drilled for Unit Operations; provided, however, that Unit Operator may, when reasonable, charge the cost of gathering and furnishing such data to the Working Interest Owner requesting such information.

7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of Ten Thousand Dollars (\$10,000.00) 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 under terms and conditions approved by the Working Interest Owners.

#### 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 covering all real and personal property of each Working Interest Owner used or held by Unit Operator in 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; provided that, 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 a one-eighth (1/8) royalty, such Working Interest Owner shall be given credit for the reduction in taxes paid resulting therefrom. Any Working Interest Owner dissatisfied with any proposed rendition or assessment of its interest in real or personal property shall have the right, at its own expense, to protest.

8.2 Other Taxes. Each Working Interest Owner shall pay or cause to be paid all production, severance, gathering, and other taxes 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, shall do the following:

9.1.1 Comply with the Workmen's Compensation Law 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 Carry other insurance as set forth in Exhibit F.

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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, the wellhead connections thereon, and all other lease and operating equipment that is used in the operation of such wells which Working Interest Owners determine is necessary or desirable for conducting Unit Operations.

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. Working Interest Owners shall at Unit Expense inventory and evaluate the personal property taken over in accordance with the provisions of Exhibit "E" or as otherwise agreed upon by the Working Interest Owners. Such inventories shall include and be limited to those items of equipment indicated to be controllable in Bulletin No. 6, Material Classification Manual - 1967 recommended by the Council of Petroleum Accountants Societies of North America.

10.3 Investment Adjustment. Upon approval by Working Interest Owners of the inventory and evaluation, each Working Interest Owner shall be credited with the value of its interest in all personal property taken over under Section 10.1.2, and shall be charged with an amount equal to that obtained by multiplying the total value of all personal property taken over under Section 10.1.2 by such Working Interest Owner's Unit Participation. 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 an 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 warehouses, warehouse stocks, lease houses, camps, facility systems, and office buildings necessary for Unit Operations shall be by negotiation by the owners thereof and Unit Operator, subject to the approval of Working Interest Owners.

10.5 Ownership of Personal Property and Facilities. Each Working Interest Owner, individually, shall be virtue hereof own an undivided interest, equal to its Unit Participation, in all personal property and facilities taken over or otherwise acquired by Unit Operator pursuant to this agreement.

10.6 Adjustment for Nonusable Wells. All wells from which production was credited in calculating Unit Tract Participations shall be in usable physical condition on the effective date hereof. If within ninety (90) days after the effective date the Working Interest Owners determine that a well is in nonusable physical condition, such well shall be deemed to have been in nonusable physical condition on the effective date. If within said ninety (90) day period the Working Interest Owners determine that a well was in nonusable physical condition on the effective date, the Working Interest Owners contributing said well to the unit shall alone bear the cost of placing such

well in usable physical condition provided that such cost may not exceed Twenty-Five Thousand Dollars (\$25,000.00). The amount of such charge in excess of \$25,000.00 shall in all respects be treated as any other item of Unit Expense chargeable against all Working Interest Owners in the Unit in accordance with Participation.

## ARTICLE 11 UNIT EXPENSE

11.1 Basis of Charge to Working Interest Owners. Unit Operator initially shall pay all Unit Expense. Each Working Interest Owner shall reimburse Unit Operator for its share of Unit Expense on the basis set forth in Sections 11.1.1 and 11.1.2 hereof. All charges, credits, and accounting for Unit Expense shall be in accordance with Exhibit "E".

11.1.1 Operating Costs and Expenses. Operating Costs and expenses incurred from month to month during Unit Operations shall be shared and borne by Working Interest Owners on the basis of the Unit Participation.

11.1.2 Capital Expenditures. All capital expenditures shall be shared and borne by Working Interest Owners in proportion to their Unit Participation.

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 July 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 by Working Interest Owners and Unit Operator 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 to require Working Interest Owners to advance their respective share of estimated Unit Expense by submitting to Working Interest Owners, on or before the 15th day of any month, an itemized estimate thereof for the succeeding month, with a request for payment in advance. Within fifteen (15) days after receipt thereof, each Working Interest Owner shall pay to Unit Operator its share of such estimate. Adjustments between estimated and actual Unit Expense shall be made by Unit Operator at the close of each calendar month, and the accounts of 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 a separate fund, but may be commingled with its own funds.

11.5 Lien of Unit Operator and Working Interest Owners. Each Working Interest Owner grants to Unit Operator a lien upon its Oil and Gas Rights in each Tract, its share of Unitized Substances when produced, and its interest in all Unit Equipment, as security for payment of its share of Unit Expense, together with interest thereon at the rate of ten per cent (10%) per annum. Unit Operator shall have the right to bring suit to enforce collection of such indebtedness with or without seeking foreclosure of the lien. In addition, upon default by any Working Interest Owner in the payment of its share of Unit Expense, Unit Operator shall have the right 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. The Operator grants a like lien 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, each Working Interest Owner agrees, upon request by Unit Operator, to pay its proportionate part of the unpaid share of Unit Expense of the defaulting Working Interest Owner. The Working Interest Owners that pay the 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 Working Interest Owner so paying a defaulting Working Interest Owner's share of Unit Expenses shall be subrogated to the lien and rights herein granted Unit Operator.

11.7 Uncommitted Royalty. Should an owner of a Royalty Interest in any Tract fail to become a party to the Unit Agreement, and, as a result thereof, the actual Royalty Interest payments with respect to such Tract are more or less than the Royalty Interest payments computed on the basis of the Unitized Substances that are allocated to such Tract under the Unit Agreement, the difference shall be borne by or inure to the benefit of Working Interest Owners, in proportion to their respective Unit Participations in effect at the time such burden or benefit due to uncommitted royalty as described herein, is incurred; however, the difference to be borne by or inure to the benefit of Working Interest Owners shall not exceed an amount computed on the basis of one eighth (1/8) of the difference between the Unitized Substances allocated to the Tract and the Unitized Substances produced from the Tract. Such adjustments shall be made by charges and credits to the joint account.

11.8 Rentals. The Working Interest Owner in each tract, shall, at its own expense, pay any and all rentals required to continue its lease in force as to such tract and upon request of Unit Operator, each such Working Interest Owner shall furnish Unit Operator satisfactory evidence as to the payment of each such rental not less than thirty (30) days prior to the rental payment date. Unit Operator shall have the right, but shall be under no obligation whatever, to pay any and all such rentals on behalf of each such Working Interest Owner and any and all rentals 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, the termination 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 NON-UNITIZED FORMATION

12.1 Right to Operate. Any Working Interest Owner that now has or hereafter acquires the right to drill for and produce oil, gas, or other minerals, from other than the Unitized Formation, shall have the right to do so notwithstanding this agreement or the Unit Agreement. In exercising the right, however, the Working Interest Owner shall exercise reasonable precaution to prevent unreasonable interference with Unit Operations. No Working Interest Owner 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 in a manner satisfactory to Working Interest Owners so that the production of Unitized Substances will not adversely be affected.

#### 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 D, 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 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 Because of Unit Operations. The failure of title to any Working Interest in any Tract by reason of Unit Operations, including non-production 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 but not involving an expenditure in excess of Three Thousand Five Hundred Dollars (\$3,500) provided the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above specified amount, Working Interest Owners shall assume and take over the further handling of the claim or suit unless such authority is expressly delegated to Unit Operator. 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 and 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. Each Working Interest Owner hereby elects that it and the operations covered by this agreement be excluded from the application of Subchapter K of Chapter 1 of Sub-title A of the Internal Revenue Code of 1954, or such portion thereof as the Secretary of the Treasury of the United States or his delegate shall permit by election to be excluded therefrom. Unit Operator is hereby authorized and directed to execute on behalf of each Working Interest Owner such additional or further evidence of the election as may be required by regulations issued under said Subchapter K. Should the regulations require each party to execute such further evidence, each Working Interest Owner agrees to execute or join in the execution thereof. The election hereby made and the other provisions of this paragraph shall apply in like manner to applicable state laws, regulations, and rulings now in effect or hereafter enacted that have an effect similar to the federal provisions referred to herein.

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 mail or telegram 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 who do not desire to withdraw, all its Oil and Gas Rights together with its interest in all Unit Equipment and in all wells used in Unit Operations. Such transfer shall not relieve said Working Interest Owner from any obligation or liability incurred prior to the date of the delivery of the transfer, which delivery may be made to Unit Operator as Agent for the transferees. The interest transferred shall be owned by the transferees in proportion to their respective Unit Participations. The transferees, in proportion to the respective interests so acquired, shall pay transferor, for its interest in Unit Equipment, the fair salvage value thereof as estimated and fixed by Working Interest Owners. After the date of delivery of the transfer, the withdrawing Working Interest Owner shall be relieved from all further obligations and liability hereunder and under the Unit Agreement, and the rights of such Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred.

ARTICLE 18  
ABANDONMENT OF WELLS

18.1 Rights of Former Owners. If Working Interest Owners decide to abandon permanently any well 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. 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 net salvage value of the casing and equipment in and on the well. The Working Interest Owners of the Tract, by taking over the well, agree to seal off effectively and protect the Unitized Formation, 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 which is proposed for abandonment, Unit Operator shall plug and abandon the well in compliance with applicable laws and regulations.

ARTICLE 19  
EFFECTIVE DATE AND TERM

19.1 Effective Date. This agreement shall become effective on the date and at the time that the Unit Agreement becomes effective.

19.2 Term. This agreement shall continue in effect so long as the Unit Agreement remains in effect, and thereafter until (a) all unit wells have been abandoned and plugged or turned

over to Working Interest Owners in accordance with Article 20, (b) all Unit Equipment and real property acquired for the joint account have been disposed of by Unit Operator in accordance with instructions of 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. 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, as estimated by Working Interest Owners, and by agreeing to plug properly each well at such time as it is abandoned.

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 properly.

20.1.4 Cost of Salvaging. Working Interest Owners shall share the cost of salvaging, liquidation or other distribution of assets and properties used in Unit Operation in proportion to their respective Unit Participations.

ARTICLE 21  
EXECUTION

21.1 Original Counterpart, or Other Instrument. A party may become a party to this agreement by signing the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof. The signing of any such instrument shall have the same effect as if all the parties had signed the same instrument.

ARTICLE 22  
SUCCESSORS AND ASSIGNS

22.1 Successors and Assigns. The provisions hereof shall be covenants running with the lands, leases, and interests covered hereby, and shall be binding upon and inure to the benefit of the respective heirs, devisees, legal representatives, successors, and assigns of the parties hereto.

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

DATE: January 31, 1973

TEXACO Inc.

APPROVED AS TO  
wds  
Terms  
Form  
Acctg. [Signature]

By [Signature]  
Its Attorney-in-Fact  
Unit Operator and  
Working Interest Owner

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STATE OF  
COUNTY OF



The foregoing instrument was acknowledged before me this \_\_\_  
day of \_\_\_\_\_, 19\_\_\_, by \_\_\_\_\_  
Attorney-in-Fact for TEXACO Inc., a Delaware corporation, on behalf  
of said corporation.

\_\_\_\_\_  
Notary Public in and for  
County, \_\_\_\_\_

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EXHIBIT "D"  
RHODES-YATES UNIT  
LEA COUNTY, NEW MEXICO

TRACT NO.	WORKING INTEREST OWNERS	PERCENT WORKING INTEREST IN TRACT	UNIT PARTICIPATION
1	✓ Texas Pacific Oil Company, Inc. ✓ Allied Chemical Corporation	58.33333% <u>41.66667%</u> 100.00000%	- 18.64968% <u>13.32114%</u> 31.97082%
2	✓ Texaco Inc.	100.00000%	- 2.40995%
3	✓ Amerada Hess Corporation	100.00000%	41.36917%
4	✓ Texas Pacific Oil Company, Inc. ✓ Allied Chemical Corporation	16.66667% <u>83.33333%</u> 100.00000%	- 1.34694% <u>6.73448%</u> 8.08142%
5	✓ Texaco Inc.	100.00000%	- 13.78965%
6	✓ Texaco Inc.	100.00000%	- 2.37899%
TOTAL			<u>100.00000%</u>

EXHIBIT " E "

Attached to and made a part of UNIT OPERATING AGREEMENT  
RHODES-YATES UNIT  
RHODES YATES FIELD  
LEA 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.

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the nonoperating parties, whether one or more.

"Joint Account" shall mean the account showing the charges and credits accruing because of the Joint Operations and which are to be shared by the Parties.

"Parties" shall mean Operator and Non-Operators.

"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 of North America.

2. Conflict with Agreement

In the event of a conflict between the provisions of this Accounting Procedure and the provisions of the agreement to which this Accounting Procedure is attached, the provisions of the agreement shall control.

3. Collective Action by Non-Operators

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

4. Statements and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of costs and expenses, for the preceding month. Such bills will be accompanied by statements reflecting the total charges and credits as set forth under Subparagraph C below:

A. Statement in detail of all charges and credits to the Joint Account.

B. Statement of all charges and credits to the Joint Account, summarized by appropriate classifications indicative of the nature thereof.

C. Statement of all charges and credits to the Joint Account summarized by appropriate classifications indicative of the nature thereof, except that items of Controllable Material and unusual charges and credits shall be detailed.

5. Payment and Advances by Non-Operators

Each Non-Operator shall pay its proportion of all such bills within fifteen (15) days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest at the rate of ~~SIX PERCENT (6%) PER ANNUM~~ ten percent (10%) per annum until paid.

6. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operators 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 the Joint Property as provided for in Section VII.

7. Audits

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 accounting hereunder 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 adjustment of accounts as provided for in Paragraph 6 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator.

II. DIRECT CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

Delay or other rentals and royalties when such rentals and royalties are paid by Operator for the Joint Account of the Parties.

2. Labor

A. Salaries and wages of Operator's employees directly engaged on the Joint Property in the conduct of the Joint Operations, and salaries or wages of technical employees who are temporarily assigned to and directly employed on the Joint Property.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to the employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III; except that in the case of those employees only a pro rata portion of whose salaries and wages are chargeable to the Joint Account under Paragraph 1 of Section III, not more than the same pro rata portion of the benefits and allowances herein provided for shall be charged to the Joint Account. Cost under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III. 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 labor cost of salaries and wages chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.

D. Reasonable personal expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and for which expenses the employees are reimbursed under Operator's usual practice.

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3. **Employee Benefits**  
Operator's current cost 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; provided however, the total of such charges shall not exceed ~~100%~~ <sup>percent (25%)</sup> of Operator's labor costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III. \* ~~15%~~ <sup>20%</sup> Sec 11.
4. **Material**  
Material purchased or furnished by Operator for use on the Joint Property: So far as it is reasonably practical and consistent with efficient and economical operation, only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use; and the accumulation of surplus stocks shall be avoided.
5. **Transportation**  
Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:
  - A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where like material is available, except by agreement with Non-Operators.
  - 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 or railway receiving point, except by agreement with Non-Operators. No charge shall be made to Joint Account for moving Material to other properties belonging to Operator, except by agreement with Non-Operators.
  - C. In the application of subparagraphs A and B above, there shall be no equalization of actual gross trucking costs of \$100 or less.
6. **Services**
  - A. The cost of contract services and utilities procured from outside sources other than services covered by Paragraph 8 of this Section II and Paragraph 2 of Section III.
  - B. Use and service of equipment and facilities furnished by Operator as provided in Paragraph 5 of Section IV.
7. **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 any other cause, except to the extent that the damage or loss could have been avoided through the exercise of reasonable diligence on the part of Operator. Operator shall furnish Non-Operators written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.
8. **Legal Expense**  
All costs and expenses of handling, investigating and settling litigation or claims arising by reason of the Joint Operations or necessary to protect or recover the Joint Property, including, but not limited to, attorneys' fees, court costs, cost of investigation or procuring evidence and amounts paid in settlement or satisfaction of any such litigation or claims; provided, (a) no charge shall be made for the services of Operator's legal staff or other regularly employed personnel (such services being considered to be Administrative Overhead under Section III), except by agreement with Non-Operators, and (b) no charge shall be made for the fees and expenses of outside attorneys unless the employment of such attorneys is agreed to by Operator and Non-Operators.
9. **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.
10. **Insurance Premiums**  
Premiums paid for insurance required to be carried on the Joint Property for the protection of the Parties.
11. **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 incurred by the Operator for the necessary and proper conduct of the Joint Operations.

**III. INDIRECT CHARGES**

Operator may charge the Joint Account for indirect costs either by use of an allocation of district expense items plus a fixed rate for administrative overhead, and plus the warehousing charges, all as provided for in Paragraphs 1, 2, and 3 of this Section III OR by combining all three of said items under the fixed rate provided for in Paragraph 4 of this Section III, as indicated next below:

**OPERATOR SHALL CHARGE THE JOINT ACCOUNT UNDER THE TERMS OF:**

- Paragraphs 1, 2 and 3. (Allocation of district expense plus fixed rate for administrative overhead plus warehousing.)
- Paragraph 4. (Combined fixed rate)

**1. District Expense**

Operator shall charge the Joint Account with a pro rata portion of the salaries, wages and expenses of Operator's production superintendent and other employees serving the Joint Property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's ..... office located at or near ..... (or a comparable office if location changed), and necessary sub-offices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in connection with the operations of the Joint Property and other properties in the same operating area. The expense of, less any revenue from, such facilities may, at the option of Operator, include depreciation of investment or a fair monthly rental in lieu of depreciation. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.

**2. Administrative Overhead**

Operator shall charge administrative overhead to the Joint Account at the following rates, which charge shall be in lieu of the cost and expense of all offices of the Operator not covered by Paragraph 1 of this Section III, including salaries, wages and expenses of personnel assigned to such offices. Such charges shall be in addition to the salaries, wages and expenses of employees of Operator authorized to be charged as direct charges as provided in Paragraphs 2 and 8 of Section II.

**WELL BASIS (RATE PER WELL PER MONTH)**

Well Depth	DRILLING WELL RATE (Use Total Depth)		PRODUCING WELL RATE (Use Current Producing Depth)		
	Each Well		First Five	Next Five	All Wells Over Ten
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting, or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in this Paragraph 2 of Section III, unless such cost and expense are agreed upon between Operator and Non-Operators as a direct charge to the Joint Account.

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3. Operator's Fully Owned Warehouse Operating and Maintenance Expense  
(Describe fully the agreed procedure to be followed by the Operator.)

4. Combined Fixed Rates

Operator shall charge the Joint Account for the services covered by Paragraph 1, 2 and 3 of this Section III, the following fixed per well rates:

WELL BASIS (RATE PER WELL PER MONTH)

Well Depth	DRILLING WELL RATE (Use Total Depth)	ALL WELLS Rate XXXX	PRODUCING WELL RATE (Use Current Producing Depth)	
	Each Well		Half Five	All Wells Over Ten
All depths	\$750.00	\$100.00		

Said fixed rate (shall) (XXXXXX) include salaries and expenses of production foremen.

5. Application of Administrative Overhead or Combined Fixed Rates

The following limitations, instructions and charges shall apply in the application of the per well rates as provided under either Paragraph 2 or Paragraph 4 of this Section III:

- A. Charges for drilling wells shall begin on the date each well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.
  - B. The status of wells shall be as follows:
    - (1) Producing gas wells, injection wells for recovery operations, water supply wells utilized for water flooding operations and salt water disposal wells shall be considered the same as producing wells.
    - (2) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the well schedule at the time the shutdown is effected. When such a well is plugged a charge shall be made at the producing well rates.
    - (3) Wells being plugged back, drilled deeper, converted to a source or input well, or which are undergoing any type of workover that requires the use of a drilling or workover rig shall be considered the same as drilling wells.
    - (4) Temporarily shut-down wells, which are not produced or worked upon for a period of a full calendar month, shall not be included in the well schedule, provided however, wells shut in by governmental regulatory body shall be included in the well schedule only in the event the allowable production is transferred to some other well or wells on the Joint Property. In the event of a unit allowable, all wells capable of producing will be counted in determining the charge.
    - (5) Gas wells shall be included in the well schedule if directly connected to a permanent sales outlet even though temporarily shut in due to overproduction or failure of purchaser to take the allowed production.
    - (6) Wells completed in multiple horizons, in which the production is not commingled down hole, shall be considered as a producing well for each separately producing horizon.
  - C. The well rates shall apply to the total number of wells being drilled or operated under the agreement to which this Accounting Procedure is attached, irrespective of individual leases.
  - D. The well rates shall be adjusted on the first day of April of 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 preceding calendar year 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. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.
6. For the construction of compressor plants, water stations, secondary recovery systems, salt water disposal facilities, and other such projects, as distinguished from the more usual drilling and producing operations, Operator in addition to the Administrative Overhead or Combined Fixed Rates provided for in Paragraph 2 and 4 of this Section III, shall charge the Joint Account with an additional overhead charge as follows:
- A. Total cost less than \$25,000, no charge.
  - B. Total cost more than \$25,000 but less than \$100,000, 3 % of total cost.
  - C. Total cost of \$100,000 or more, 3 % of the first \$100,000 plus 2 % of all over \$100,000 of total cost.
- Total cost shall mean the total 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 wells shall be excluded.
7. The specific rates provided for in this Section III may be amended from time to time by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

IV. BASIS OF CHARGES TO JOINT ACCOUNT

Subject to the further provisions of this Section IV, Operator will procure all Material and services for the Joint Property. At the Operator's option, Non-Operator may supply Material or services for the Joint Property.

1. Purchases

Material purchased and service procured shall be charged at the price paid by Operator after deduction of all discounts actually received.

2. Material furnished from Operator's Warehouse or Other Properties

A. New Material (Condition "A")

- (1) Tubular goods, two inch (2") and over, shall be priced on Eastern Mill base (i. e. Youngstown, Ohio; Lorain, Ohio; and Indiana Harbor, Indiana) on a minimum carload basis effective at date of movement and f. o. b. railway receiving point nearest the Joint Property, regardless of quantity. In equalized hauling charges, Operator is permitted to include ten cents (10c) per hundred-weight on all tubular goods furnished from his stocks in lieu of loading and unloading costs sustained.
- (2) Other Material shall be priced at the current replacement cost of the same kind of Material, effective at date of movement and f. o. b. the supply store or railway receiving point nearest the Joint Property where Material of the same kind is available.
- (3) The Joint Account shall not be credited with cash discounts applicable to prices provided for in this Paragraph 2 of Section IV.

B. Used Material (Condition "B" and "C")

- (1) Material in sound and serviceable condition and suitable for reuse without reconditioning, shall be classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material.
- (2) Material which cannot be classified as Condition "B" but which,
  - (a) After reconditioning will be further serviceable for original function as good secondhand Material (Condition "B"), or
  - (b) Is serviceable for original function but substantially not suitable for reconditioning, shall be classified as Condition "C" and priced at fifty per cent (50%) of current new price.
- (3) Obsolete Material or Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use. Material no longer suitable for its original purpose but usable for

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some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose.

- (4) 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 prices specified in Paragraphs 1 and 3 of this Section IV 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 procuring such Material, in making it suitable for use, and in moving it to the Joint Property, provided, that 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 10 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.

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

A. Operator shall charge the Joint Account for use of equipment and facilities at rates commensurate with cost of ownership and operation. Such rates shall include cost of maintenance, repairs, other operating expense, insurance, taxes, depreciation and interest on investment not to exceed **ten (10%)** per cent (10%) per annum, provided such rates shall not exceed those currently prevailing in the immediate area within which the Joint Property is located. Rates for automotive equipment shall generally be in line with the schedule of rates adopted by the Petroleum Motor Transport Association, or some other recognized organization, as recommended uniform charges against Joint Property operations. Rates for laboratory services shall not exceed those currently prevailing if performed by outside service laboratories. Rates for trucks, tractors and well service units may include wages and expenses of operator.

B. Whenever requested, Operator shall inform Non-Operators in advance of the rates it proposes to charge.

C. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

**V. DISPOSAL OF MATERIAL**

The Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus Condition "A" or "B" Material. The disposition of surplus Controllable Material, not purchased by Operator, shall be subject to agreement between Operator and Non-Operators, provided Operator shall dispose of normal accumulations of junk and scrap Material either by transfer or sale from the Joint Property.

**1. Material Purchased by the Operator or Non-Operators**

Material purchased by either the Operator or Non-Operators shall be credited by the Operator to the Joint Account for the month in which the Material is removed by the purchaser.

**2. Division in Kind**

Division of Material in kind, if made between Operator and Non-Operators, shall be in proportion to the respective interests in such Material. The Parties will thereupon be charged individually with the value of the Material received or receivable. Proper credits shall be made by the Operator in the monthly statement of operations.

**3. Sales to Outsiders**

Sales to outsiders of Material from the Joint Property shall be credited by Operator to the Joint Account at the net amount collected by Operator from vendee. Any claim by vendee related to such sale shall be charged back to the Joint Account if and when paid by Operator.

**VI. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT**

Material purchased by either Operator or Non-Operators or divided in kind, unless otherwise agreed to between Operator and Non-Operators shall be priced on the following basis:

**1. New Price Defined**

New price as used in this Section VI shall be the price specified for New Material in Section IV.

**2. New Material**

New Material (Condition "A"), being new Material procured for the Joint Property but never used, at one hundred per cent (100%) of current new price (plus sales tax if any).

**3. Good Used Material**

Good used Material (Condition "B"), being used Material in sound and serviceable condition, suitable for reuse without reconditioning:

A. At seventy-five per cent (75%) of current new price if Material was charged to Joint Account as new, or

B. At sixty-five per cent (65%) of current new price if Material was originally charged to the Joint Account as secondhand at seventy-five percent (75%) of new price.

**4. Other Used Material**

Used Material (Condition "C"), at fifty per cent (50%) of current new price, being used Material which:

A. Is not in sound and serviceable condition but suitable for reuse after reconditioning, or

B. Is serviceable for original function but not suitable for reconditioning.

**5. Bad-Order Material**

Material (Condition "D"), no longer suitable for its original purpose without excessive repair cost but usable for some other purpose at a price comparable with that of items normally used for such other purpose.

**6. Junk Material**

Junk Material (Condition "E"), being obsolete and scrap Material, at prevailing prices.

**7. Temporarily Used Material**

When the use of Material is temporary and its service to the Joint Property does not justify the reduction in price as provided for in Paragraph 3 B of this Section VI, such Material shall be priced on a basis that will leave a net charge to the Joint Account consistent with the value of the service rendered.

**VII. INVENTORIES**

The Operator shall maintain detailed records of Material generally considered controllable by the Industry.

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

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Material, which shall include all such Material as is ordinarily considered controllable. 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, who shall in that event furnish Non-Operators with a copy thereof.

**2. Reconciliation and Adjustment of Inventories**

Reconciliation of inventory with charges to the Joint Account shall be made, and a list of overages and shortages shall be jointly determined by Operator and Non-Operators. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable to Non-Operator only for shortages due to lack of reasonable diligence.

**3. Special Inventories**

Special inventories may be taken whenever there is any sale or change of interest 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.

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EXHIBIT "B"

Attached to Unit Operating Agreement

RHODES-YATES UNIT  
IEA COUNTY, NEW MEXICO

INSURANCE PROVISIONS

Unit Operator shall carry the following insurance with respect to Unit Operations:

- (1) Public liability and property damage insurance with limits of \$100,000.00 for injuries to or death of one person and \$300,000.00 for injuries or deaths in one accident, and \$100,000.00 for property damage in one accident.
- (2) Automobile public liability and property damage insurance with limits of \$100,000.00 for injuries to or death of one person and \$300,000.00 for injuries or deaths in one accident, and \$100,000.00 for property damage in one accident.

All insurance coverage required hereby shall be carried at the joint expense and for the benefit of the Working Interest Owners. Premiums for automobile public liability and property damage insurance on Unit Operator's fully owned equipment shall not be charged directly to the joint account, but will be covered by the flat rate charge assessed for the use of such equipment. Unit Operator will not carry fire, windstorm or explosion insurance covering Unit Operations or Unit Equipment.

Contractors and subcontractors will be required to carry insurance of the same types as hereinabove specified and in such amounts as deemed necessary by Working Interest Owners.

If the parties hereto or any of them shall insure their respective risks beyond the specific limits of insurance required hereunder to be carried by the Unit Operator, the benefits of such insurance shall inure to the parties procuring and maintaining the same, respectively, and the cost of such insurance shall be borne by such parties, respectively, without reimbursement one from the other and without entering into any accounting hereunder.

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IT. OPERATIONS ACCTG.

PRODUCING DEPARTMENT  
CENTRAL UNITED STATES  
MIDLAND DIVISION

PETROLEUM PRODUCTS

November 18, 1975

TEXACO INC.  
P. O. BOX 3109  
MIDLAND, TEXAS 79701

AMENDMENT OF ACCOUNTING PROCEDURE OF  
OPERATING AGREEMENTS: EMPLOYE BENEFITS

255448 - DAMSITE UNIT  
LOVING COUNTY, TEXAS

254790 - RHODES-YATES UNIT  
LEA COUNTY, NEW MEXICO

T-26-S; R-37-E

Allied Chemical Corporation  
1300 Wilco Bldg.  
Midland, Texas 79701

Gentlemen:

Texaco is Operator under the joint operating agreement(s) identified above in which you are a working interest owner. The above agreement(s) contain(s) a provision limiting charges for employe benefits to 15% of labor costs, or some lesser percentage. Our experience is that these old limits are no longer representative of actual cost; therefore, the limitation should be increased to 20%.

This Letter Agreement, upon your acceptance and return of one copy to this office, will amend the Operating Agreement(s) referred to above, to provide for the following:

"Operator's current cost of established plans for employes' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost; provided however, the total of such charges shall not exceed twenty percent (20%) of such labor costs charged to the joint account."

Texaco will approve similar amendments if requested by you as Operator of joint properties in which we have an interest. ●

Yours very truly,

Darrell Smith  
Division Manager

BY M. W. Kennedy  
M. W. Kennedy  
Assistant to Division Manager

GJG-PR

UNION TEXAS PETROLEUM, a Division of  
Allied Chemical Corporation

ACCEPTED:

BY:

DATE:

C. D. Gaines  
Feb. 24, 1976

This is recycled paper

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REC'D. MGRL.

JAN 28 1975



Midland Division

PETROLEUM PRODUCTS

PRODUCING DEPARTMENT  
CENTRAL UNITED STATES  
MIDLAND DIVISION

November 3, 1975

TEXACO INC.  
P. O. BOX 3108  
MIDLAND, TEXAS 79701

AMENDMENT OF ACCOUNTING PROCEDURE OF  
OPERATING AGREEMENTS: EMPLOYEE BENEFITS

(See Attached Page)

Amerada Hess Corporation  
P. O. Box 2040  
Tulsa, Oklahoma 74102

Gentlemen:

Texaco is Operator under the joint operating agreement(s) identified above in which you are a working interest owner. The above agreement(s) contain(s) a provision limiting charges for employee benefits to 15% of labor costs, or some lesser percentage. Our experience is that these old limits are no longer representative of actual cost; therefore, the limitation should be increased to 20%.

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Texaco will approve similar amendments if requested by you as Operator of joint properties in which we have an interest.

Yours very truly,

Darrell Smith  
Division Manager

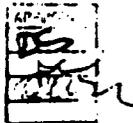
By M. W. Kennedy  
M. W. Kennedy  
Assistant to Division Manager

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ACCEPTED: AMERADA HESS CORPORATION

BY: J. A. Strublin This is recycled paper

DATE: December 1, 1975



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- 41666 - H. G. MOERLY "A"  
LEA COUNTY, NEW MEXICO  
Sec. 8 except SW/4 SW/4; T-26-8; R-37-E
- 41652 - W. H. RHODES "A"  
LEA COUNTY, NEW MEXICO  
Sec. 22; T-26-8; R-37-E
- 41652 - W. H. RHODES "B"  
LEA COUNTY, NEW MEXICO  
1280a. in Sec. 26-28; T-26-8; R-37-E
- 41667 - G. W. SHEPHERD "A"  
LEA COUNTY, NEW MEXICO  
480a. in Sec. 1 & 6; T-26-8; R-36 & 37-E
- 254790 - RHODES-YATES UNIT  
LEA COUNTY, NEW MEXICO  
520a. in Sec. 21, 27, & 28; T-26-8; R-37-E
- 230900 - WEST JORDAN UNIT  
CRANE & ECTOR COUNTY, TEXAS
- 230690 - JO MILL UNIT  
BORDEN AND DANSON COUNTIES, TEXAS

ILLEGIBLE



PETROLEUM PRODUCTS

PRODUCING DEPARTMENT  
CENTRAL UNITED STATES  
MIDLAND DIVISION

November 20, 1975

TEXACO INC.  
P. O. BOX 3109  
MIDLAND, TEXAS 79701

AMENDMENT OF ACCOUNTING PROCEDURE OF  
OPERATING AGREEMENTS: EMPLOYE BENEFITS  
254950 - WHARTON UNIT  
GAINES COUNTY, TEXAS

254790 - RHODES-YATES UNIT  
LEA COUNTY, NEW MEXICO  
520a. Sec. 27; T-26-S; R-37-E

Texas Pacific Oil Company, Inc.  
1700 One Main Place  
Dallas, Texas 75250

Gentlemen:

Texaco is Operator under the joint operating agreement(s) identified above in which you are a working interest owner. The above agreement(s) contain(s) a provision limiting charges for employe benefits to 15% of labor costs, or some lesser percentage. Our experience is that these old limits are no longer representative of actual cost; therefore, the limitation should be increased to 20%.

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Texaco will approve similar amendments if requested by you as Operator of joint properties in which we have an interest.

Yours very truly,

Darrell Smith  
Division Manager

By M. W. Kennedy  
M. W. Kennedy  
Assistant to Division Manager

GJG-PR

ACCEPTED: TEXAS PACIFIC OIL CO., INC.

BY: Jack Clark  
VICE PRESIDENT

DATE: \_\_\_\_\_ This is recycled paper

DEC 5 1975

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