

Union Oil and Gas Division: Central Region

Union Oil Company of California
500 North Marienfeld, Midland, Texas 79701
P.O. Box 671, Midland, Texas 79702
Telephone (915) 682-9731



Robert V. Lockhart
District Land Manager
Midland District

July 16, 1984

Oil Conservation Division
Energy and Minerals Division
P. O. Box 2088
Santa Fe, New Mexico

Attn: Mr. Joe Ramey, Director

Gentlemen:

Brown State Unit
Case No. 8173
Order No. R-7531
Lea County, New Mexico

Pursuant to above referenced order, please find enclosed a Brown State Unit Agreement executed by Union with attached Exhibits A and B. Also attached are Ratifications from the other record title owners of the leases, other working interest owners and the one overriding royalty owner under Tract 2. Also attached is the Commissioner of Public Land's approval effective 7-13-84.

Union submitted a copy of its proposed operating agreement to the OCD during our hearing for this Unit. Since that time, we have made several revisions. Enclosed for your file are revised pages 1 and 9 plus a revised page 4 of Exhibit C and an added Exhibit E.

Sincerely,

UNION OIL COMPANY OF CALIFORNIA

A handwritten signature in cursive script, appearing to read "Linda H. Hicks".

Linda H. Hicks
Landman

LHH:njd

Enclosures



NEW MEXICO STATE LAND OFFICE

CERTIFICATE OF APPROVAL

COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO

UNION OIL COMPANY OF CALIFORNIA-BROWN STATE UNIT

LEA COUNTY, NEW MEXICO

There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, the attached Agreement for the development and operation of acreage which is described within the attached Agreement, dated May 4, 1984, which said Agreement has been executed by parties owning and holding oil and gas leases and royalty interests in and under the property described, and upon examination of said Agreement, the Commissioner finds:

- (a) That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy in said area.
- (b) That under the proposed agreement, the State of New Mexico will receive its fair share of the recoverable oil or gas in place under its lands in the area.
- (c) That each beneficiary Institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the area.
- (d) That such agreement is in other respects for the best interests of the state, with respect to state lands.

NOW, THEREFORE, by virtue of the authority conferred upon me under Sections 19-10-45, 19-10-46, 19-10-47, New Mexico Statutes Annotated, 1978 Compilation, I, the undersigned Commissioner of Public Lands of the State of New Mexico, do hereby consent to and approve the said Agreement, however, such consent and approval being limited and restricted to such lands within the Unit Area, which are effectively committed to the Unit Agreement as of this date, and, further, that leases insofar as the lands covered thereby committed to this Unit Agreement shall be and the same are hereby amended to conform with the terms of such Unit Agreement, and said leases shall remain in full force and effect in accordance with the terms and conditions of said Agreement. This approval is subject to all of the provisions and requirements of the aforesaid statutes.

IN WITNESS WHEREOF, this Certificate of Approval is executed, with seal affixed, this 13th day of July, 1984.

COMMISSIONER OF PUBLIC LANDS
of the State of New Mexico

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE

BROWN-STATE UNIT AREA
LEA COUNTY, NEW MEXICO
NO. _____

00020

THIS AGREEMENT, entered into as of the 4th day of May
1984 by and between the parties subscribing, ratifying or consenting hereto, and
herein referred to as the "parties hereto";

WITNESSETH:

WHEREAS, the parties hereto are the owners of working, royalty, or other
oil or gas interests in the unit area subject to this agreement; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is
authorized by an Act of the Legislature (Sec 3, Chap. 88, Laws 1943) as amended
by Dec. 1 of Chapter 162, Laws of 1951, (Chap. 19, Art. 10, Sec. 45, N. M. Statutes
1978 Annot.), to consent to and approve the development or operation of State Lands
under agreements made by lessees of State Land jointly or severally with other lessees
where such agreements provide for the unit operation or development of part of or all
of any oil or gas pool, field, or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is
authorized by an Act of the Legislature (Sec. 1, Chap. 162), (Laws of 1951, Chap.
19, Art. 10, Sec. 47, N.M. Statutes 1978 Annotated) to amend with the approval of
lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil
and gas lease embracing State Lands so that the length of the term of said lease may
coincide with the term of such agreements for the unit operation and development of
part or all of any oil or gas pool, field, or area; and

WHEREAS, the Oil Conservation Division of the Energy and Minerals Depart-
ment of the State of New Mexico (hereinafter referred to as the "Division"), is
authorized by an Act of the Legislature (Chap. 72, Laws 1935, as amended, being
Section 70-2-1 et seq. New Mexico Statutes Annotated, 1978 Compilation) to approve
this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the BROWN-STATE
Unit Area covering the land hereinafter described to give reasonably
effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent waste and secure other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions and limitations herein set forth;

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the below defined unit area, and agree severally among themselves as follows:

1. UNIT AREA: The following described land is hereby designated and recognized as constituting the unit area:

Township 15 South, Range 32 East N.M.P.M.

Sections: 28

Containing 640.00 acres, more or less,

Lea County, New Mexico

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the unit operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the unit operator the acreage, percentage and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown on said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the unit operator whenever changes in ownership in the unit area render such revisions necessary or when requested by the Commissioner of Public Lands, hereinafter referred to as "Commissioner" or the Oil Conservation Division, hereinafter referred to as the "Division".

All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement".

2. UNITIZED SUBSTANCES: All oil, gas, natural gasoline, and associated fluid hydrocarbons in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

3. UNIT OPERATOR: UNION OIL COMPANY OF CALIFORNIA, whose address is P. O. Box 3100, Midland, Texas 79702 Is hereby designated as unit operator and by signature hereto commits to this agreement all interest in unitized substances vested in it as set forth in Exhibit "B", and agrees and consents to accept the duties and obligations of unit operator for the discovery, development and production of unitized substances as herein provided. Whenever reference is made herein to the unit operator, such reference means the unit operator acting in that capacity and not as an

owner of interests in unitized substances, and the term "working interest owner" when used herein shall include or refer to unit operator as the owner of a working interest when such an interest is owned by it.

4. RESIGNATION OR REMOVAL OF UNIT OPERATOR: Unit operator shall have the right to resign at any time but such resignation shall not become effective until a successor unit operator has been selected and approved in the manner provided for in Section 5 of this agreement. The resignation of the unit operator shall not release the unit operator from any liability or any default by it hereunder occurring prior to the effective date of its resignation.

Unit operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the same percentage vote of the owners of working interests determined in like manner as herein provided for the selection of a new unit operator. Such removal shall be effective upon notice thereof to the Commissioner and the Division.

The resignation or removal of the unit operator under this agreement shall not terminate his right, title or interest as the owner of a working interest or other interest in unitized substances, but upon the resignation or removal of unit operator becoming effective, such unit operator shall deliver possession of all equipment, materials, and appurtenances used in conducting the unit operations and owned by the working interest owners to the new duly qualified successor unit operator, or to the owners thereof if no such new unit operator is elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of wells.

5. SUCCESSOR UNIT OPERATOR: Whenever the unit operator shall resign as unit operator or shall be removed as hereinabove provided, the owners of the working interests according to their respective acreage interests in all unitized land shall by a majority vote select a successor unit operator; provided that, if a majority but less than seventy five percent (75%) of the working interests qualified to vote is owned by one party to this agreement, a concurring vote of sufficient additional parties, so as to constitute in the aggregate not less than seventy-five percent (75%) of the total working interests, shall be required to select a new operator. Such selection shall not become effective until (a) a unit operator so selected shall accept in writing the duties and responsibilities of unit operator, and (b) the selection shall have been approved by the Commissioner. If no successor unit operator is selected and qualified as herein provided, the Commissioner at his election, with notice to the Division, may declare this unit agreement terminated.

6. ACCOUNTING PROVISIONS: The unit operator shall pay in the first instance all costs and expenses incurred in conducting unit operations hereunder, and such costs and expenses and the working interest benefits accruing hereunder shall be apportioned, among the owners of the unitized working interests in accordance with an operating agreement entered into by and between the unit operator and the owners of such interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the unit operator as provided in this section whether one or more, are herein referred to as the "Operating Agreement". No such agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the unit operator of any right or obligation established under this unit agreement and in case of any inconsistencies or conflict between this unit agreement and the operating agreement, this unit agreement shall prevail.

7. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR: Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating and distributing the unitized substances are hereby delegated to and shall be exercised by the unit operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said unit operator and, together with this agreement, shall constitute and define the rights, privileges and obligations of unit operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the unit operator, in its capacity as unit operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

8. DRILLING TO DISCOVERY: The unit operator shall, within sixty (60) days after the effective date of this agreement, commence operations upon an adequate test well for oil and gas upon some part of the lands embraced within the unit area and shall drill said well with due diligence to a depth sufficient to attain the top of the _____ Morrow formation or to such a depth as unitized substances shall be discovered in paying quantities at a lesser depth or until it shall, in the opinion of unit operator, be determined that the further drilling of said well shall be unwarranted or impracticable; provided, however, that unit operator shall not, in any event, be required to drill said well to a depth in excess of 12,500 feet. Until a discovery of a deposit of unitized substances capable of being produced in paying quantities (to wit: quantities sufficient to repay the costs of drilling and producing operations with a reasonable profit) unit operator shall continue drilling diligently, one well at a time, allowing not more than six months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances

in paying quantities is completed to the satisfaction of the Commissioner or until it is reasonably proven to the satisfaction of the unit operator that the unitized land is incapable of producing unitized substances in paying quantities in the formation drilled hereunder.

Any well commenced prior to the effective date of this agreement upon the unit area and drilled to the depth provided herein for the drilling of an initial test well shall be considered as complying with the drilling requirements hereof with respect to the initial well. The Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when in his opinion such action is warranted. Upon failure to comply with the drilling provisions of this article the Commissioner may, after reasonable notice to the unit operator and each working interest owner, lessee and lessor at their last known addresses, declare this unit agreement terminated, and all rights, privileges and obligations granted and assumed by this unit agreement shall cease and terminate as of such date.

9. OBLIGATIONS OF UNIT OPERATOR AFTER DISCOVERY OF UNITIZED SUBSTANCES:

Should unitized substances in paying quantities be discovered upon the unit area, the unit operator shall on or before six months from the time of the completion of the initial discovery well and within thirty days after the expiration of each twelve months period thereafter, file a report with the Commissioner and Division of the status of the development of the unit area and the development contemplated for the following twelve months period.

It is understood that one of the main considerations for the approval of this agreement by the Commissioner of Public Lands is to secure the orderly development of the unitized lands in accordance with good conservation practices so as to obtain the greatest ultimate recovery of unitized substances.

After discovery of unitized substances in paying quantities, unit operator shall proceed with diligence to reasonably develop the unitized area as a reasonably prudent operator would develop such area under the same or similar circumstances.

If the unit operator should fail to comply with the above covenant for reasonable development this agreement may be terminated by the Commissioner as to all lands of the State of New Mexico embracing undeveloped regular well spacing or proration units, but in such event, the basis of participation by the working interest owners shall remain the same as if this agreement had not been terminated as to such lands; provided, however, the Commissioner shall give notice to the unit operator and the lessees of record in the manner prescribed by (Sec. 19-10-20 N.M. Statutes 1978 Annotated,) of intention to cancel on account of any alleged breach of said covenant for reasonable development and an

decision entered thereunder shall be subject to appeal in the manner prescribed by (Sec. 19-10-23 N.M. Statutes 1978 Annotated), and, provided further, in any event the unit operator shall be given a reasonable opportunity after a final determination within which to remedy any default, failing in which this agreement shall be terminated as to all lands of the State of New Mexico embracing undeveloped regular well spacing or proration units.

Notwithstanding any of the provisions of this Agreement to the contrary, all undeveloped regular well spacing or proration unit tracts within the unit boundaries embracing lands of the State of New Mexico shall be automatically eliminated from this Agreement and shall no longer be a part of the unit or be further subject to the terms of this Agreement unless at the expiration of five years (5) after the first day of the month following the effective date of this Agreement diligent drilling operations are in progress on said tracts.

10. PARTICIPATION AFTER DISCOVERY: Upon completion of a well capable of producing unitized substances in paying quantities, the owners of working interests shall participate in the production therefrom and in all other producing wells which may be drilled pursuant hereto in the proportions that their respective leasehold interests covered hereby on an acreage basis bears to the total number of acres committed to this unit agreement, and such unitized substances shall be deemed to have been produced from the respective leasehold interests participating therein. For the purpose of determining any benefits accruing under this agreement and the distribution of the royalties payable to the State of New Mexico and other lessors, each separate lease shall have allocated to it such percentage of said production as the number of acres in each lease respectively committed to this agreement bears to the total number of acres committed hereto.

Notwithstanding any provisions contained herein to the contrary, each working interest owner shall have the right to take such owner's proportionate share of the unitized substances in kind or to personally sell or dispose of the same, and nothing herein contained shall be construed as giving or granting to the unit operator the right to sell or otherwise dispose of the proportionate share of any working interest owner without specific authorization from time to time so to do.

11. ALLOCATION OF PRODUCTION: All unitized substances produced from each tract in the unitized area established under this agreement, except any part thereof used for production or development purposes hereunder, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of the unitized land, and for the purpose of determining any benefits that accrue on an acreage basis, each such tract shall have allocated to it such percentage of said production as its area bears to

the entire unitized area. It is hereby agreed that production of unitized substances from the unitized area shall be allocated as provided herein, regardless of whether any wells are drilled on any particular tracts of said unitized area.

12. PAYMENT OF RENTALS, ROYALTIES AND OVERRIDING ROYALTIES:

All rentals due the State of New Mexico shall be paid by the respective lease owners in accordance with the terms of their leases.

All royalties due to the State of New Mexico under the terms of the leases committed to this agreement shall be computed and paid on the basis of all unitized substances allocated to the respective leases committed hereto; provided, however, the State shall be entitled to take in kind its share of the unitized substances allocated to the respective leases, and in such case the unit operator shall make deliveries of such royalty oil in accordance with the terms of the respective leases.

All rentals, if any, due under any leases embracing lands other than the State of New Mexico, shall be paid by the respective lease owners in accordance with the terms of their leases and all royalties due under the terms of any such leases shall be paid on the basis of all unitized substances allocated to the respective leases committed hereto.

If the unit operator introduces gas obtained from sources other than the unitized substances into any producing formation for the purpose of repressuring, stimulating or increasing the ultimate recovery of unitized substances therefrom, a like amount of gas, if available, with due allowance for loss or depletion from any cause may be withdrawn from the formation into which the gas was introduced royalty free as to dry gas but not as to the products extracted therefrom; provided, that such withdrawal shall be at such time as may be provided in a plan of operation consented to by the Commissioner and approved by the Division as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

If any lease committed hereto is burdened with an overriding royalty, payment out of production or other charge in addition to the usual royalty, the owner of each such lease shall bear and assume the same out of the unitized substances allocated to the lands embraced in each such lease as provided herein.

13. LEASES AND CONTRACTS CONFORMED AND EXTENDED INSOFAR AS THEY APPLY TO LANDS WITHIN THE UNITIZED AREA:

The terms, conditions and provisions of all leases, subleases, operating agreements and other contracts relating to the exploration, drilling development or operation for oil or gas of the lands committed to this agreement, shall as of the effective date hereof, be and the same are hereby expressly modified and amended insofar as they apply to lands within the unitized area to the extent necessary to make the same con-

conform to the provisions hereof and so that the respective terms of said leases and agreements will be extended insofar as necessary to coincide with the terms of this agreement and the approval of this agreement by the Commissioner and the respective lessors and lessees shall be effective to conform the provisions and extend the terms of each such lease as to lands within the unitized area to the provisions and terms of this agreement; but otherwise to remain in full force and effect. Each lease committed to this agreement, insofar as it applies to lands within the unitized area, shall continue in force beyond the term provided therein as long as this agreement remains in effect, provided, drilling operations upon the initial test well provided for herein shall have been commenced or said well is in the process of being drilled by the unit operator prior to the expiration of the shortest term lease committed to this agreement. Termination of this agreement shall not affect any lease which pursuant to the terms thereof or any applicable laws would continue in full force and effect thereafter. The commencement, completion, continued operation or production on each of the leasehold interests committed to this agreement and operations or production pursuant to this agreement shall be deemed to be operations upon and production from each leasehold interest committed hereto and there shall be no obligation on the part of the unit operator or any of the owners of the respective leasehold interests committed hereto to drill offset to wells as between the leasehold interests committed to this agreement, except as provided in Section 9 hereof.

Any lease embracing lands of the State of New Mexico of which only a portion is committed hereto shall be segregated as to the portion committed and as to the portion not committed and the terms of such leases shall apply separately as two separate leases as to such segregated portions, commencing as of the effective date hereof. Notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced within the unitized area and committed to this agreement, in accordance with the terms of this agreement. If oil and gas, or either of them, are discovered and are being produced in paying quantities from some part of the lands embraced in such lease which part is committed to this agreement at the expiration of the secondary term of such lease, such production shall not be considered as production from lands embraced in such lease which are not within the unitized area, and which are not committed thereto, and drilling or reworking operations upon some part of the lands embraced within the unitized area and committed to this agreement shall be considered as drilling and reworking operations only as to lands embraced within the unit agreement and not as to lands embraced within the lease and not committed to this unit agreement; provided, however, as to any lease embracing lands of the State of New Mexico having only a portion of its lands

committed hereto upon which oil and gas, or either of them, has been discovered is discovered upon that portion of such lands not committed to this agreement, and are being produced in paying quantities prior to the expiration of the primary term of such lease, such production in paying quantities shall serve to continue such lease in full force and effect in accordance with its terms as to all of the lands embraced in said lease.

14. CONSERVATION: Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to State laws or regulations.

15. DRAINAGE: In the event a well or wells producing oil or gas in paying quantities should be brought in on land adjacent to the unit area draining unitized substances from the lands embraced therein, unit operator shall drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances.

16. COVENANTS RUN WITH LAND: The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder to the grantee, transferee or other successor in interest. No assignment or transfer or any working, royalty, or other interest subject hereto shall be binding upon unit operator until the first day of the calendar month after the unit operator is furnished with the original, photostatic, or certified copy of the instrument of transfer.

17. EFFECTIVE DATE AND TERM: This agreement shall become effective upon approval by the Commissioner and the Division and shall terminate in two (2) years after such date unless (a) such date of expiration is extended by the Commissioner, or (b) a valuable discovery of unitized substances has been made on unitized land during said initial term or any extension thereof in which case this agreement shall remain in effect so long as unitized substances are being produced in paying quantities from the unitized land and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered are being produced as aforesaid. This agreement may be terminated at any time by not less than seventy-five percent (75%) on an acreage basis of the owners of the working interests, signatory hereto, with the approval of the Commissioner and with notice to Division. Likewise, the failure to comply with the

drilling requirements of Section 8 hereof, may subject this agreement to termination as provided in said section.

18. RATE OF PRODUCTION: All production and the disposal thereof shall be in conformity with allocations, allotments, and quotas made or fixed by the Commission, and in conformity with all applicable laws and lawful regulations.

19. APPERANCES: Unit operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby, before the Commissioner of Public Lands and the Division, and to appeal from orders issued under the regulations of the Commissioner or Division, or to apply for relief from any of said regulations or in any proceedings on its own behalf relative to operations pending before the Commissioner or Division; provided, however, that any other interest party shall also have the right at his own expense to appear and to participate in any such proceeding.

20. NOTICES: All notices, demands, or statements required hereunder to be given or rendered to the parties hereto, shall be deemed fully given, if given in writing and sent by postpaid registered mail, addressed to such party or parties at their respective addresses, set forth in connection with the signatures hereto or to the ratification or consent hereof, or to such other address as any such party may have furnished in writing to party sending the notice, demand, or statement.

21. UNAVOIDABLE DELAY: All obligations under this agreement requiring the unit operator to commence or continue drilling or to operate on or produce unitized substances from any of the lands covered by this agreement, shall be suspended while, but only so long as, the unit operator, despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, war, act of God, Federal, State, or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary material in open market, or other matters beyond the reasonable control of the unit operator, whether similar to matters herein enumerated or not.

22. LOSS OF TITLE: In the event title to any tract of unitized land or substantial interest therein shall fail, and the true owner cannot be induced to join the unit agreement so that such tract is not committed to this agreement, or the operation thereof hereunder becomes impracticable as a result thereof, such tract may be eliminated from the unitized area, and the interest of the parties readjusted as a result of such tract being eliminated from the unitized area. In the event of a dispute as to the title to any royalty, working, or other interest subject hereto, the unit operator may withhold payment or delivery of the allocated portion of the unitized

substances involved on account thereof, without liability for interest until the dispute is finally settled, provided that no payments of funds due the State of New Mexico shall be withheld. Unit Operator, as such, is relieved from any responsibility for any defect or failure of any title hereunder.

23. SUBSEQUENT JOINDER: Any oil or gas interest in lands within the unit area not committed hereto, prior to the submission of the agreement for final approval by the Commissioner and the Division, may be committed hereto by the owner or owners of such rights, subscribing or consenting to this agreement, or executing a ratification thereof, and if such owner is also a working interest owner, by subscribing to the operating agreement providing for the allocation of costs of exploration, development, and operation. A subsequent joinder shall be effective as of the first day of the month following the approval by the Commissioner and the filing with the Division of duly executed counterparts of the instrument or instruments committing the interest of such owner to this agreement, but such joining party or parties, before participating in any benefits hereunder, shall be required to assume and pay to unit operator, their proportionate share of the unit expenses incurred prior to such party's or parties joinder in the unit agreement, and the unit operator shall make appropriate adjustments caused by such joinder, without any retroactive adjustment or revenue.

24. COUNTERPARTS: This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument in writing specifically referring hereto, and shall be binding upon all those parties who have executed such a counterpart, ratification, or consent hereto with the same force and effect as if all such parties had signed the same document, and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described unit area.

IN WITNESS WHEREOF, the undersigned parties hereto have caused this agreement to be executed as of the respective dates set forth opposite their signatures.

UNIT OPERATOR AND WORKING INTEREST OWNER

UNION OIL COMPANY OF CALIFORNIA
OPERATOR

DATE: _____

By Samuel C. Terry
Attorney-in-Fact

OTHER WORKING INTEREST OWNERS

Company

DATE: _____

BY: _____

STATE OF TEXAS, I
 I
COUNTY OF MIDLAND. I

The foregoing instrument was acknowledged before me this 7th day of May, 1984, by SAMUEL C. TERRY, Attorney-in-Fact of UNION OIL COMPANY OF CALIFORNIA, a corporation, on behalf of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year above written.

My Commission Expires:
11-30-84

MAVIS JONES
Notary Public
MAVIS JONES
Notary Public
Midland Co. Texas

STATE OF _____, I
 I
COUNTY OF _____. I

The foregoing instrument was acknowledged before me this _____ day of _____, 1984, by _____, _____ of _____, a corporation, on behalf of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year above written.

My Commission Expires: _____
Notary Public

STATE OF _____, I
 I
COUNTY OF _____. I

The foregoing instrument was acknowledged before me this _____ day of _____, 1984, by _____.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year above written.

My Commission Expires: _____
Notary Public

SEC. 28, T-15-S, R-32-E

**UNIT
OUTLINE** →

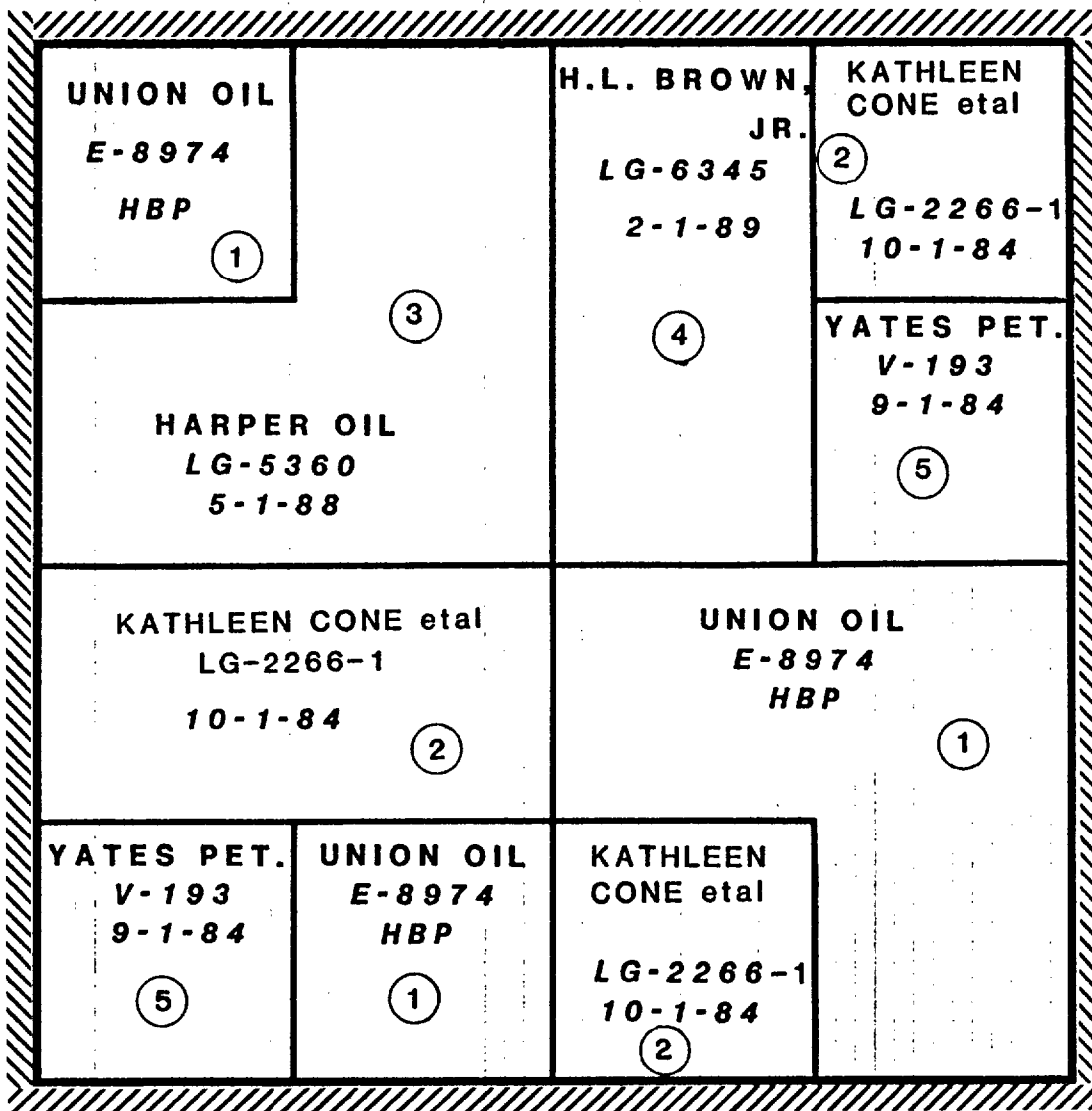
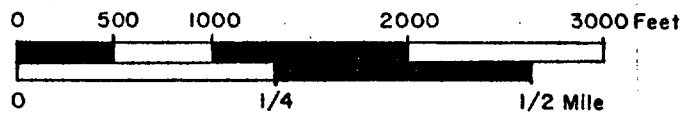


EXHIBIT "A"

**BROWN STATE UNIT
LEA COUNTY, NEW MEXICO**



(1) TRACT NUMBER-EXHIBIT "B"

EXHIBIT "B" -- BROWN STATE UNIT, LEA COUNTY, NEW MEXICO, SEC. 28, T-15-S, R-32-E

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SER. NO. & EXP. DATE OF LEASE	BASIC ROYALTY AND OWNERSHIP PERCENTAGE	LESSEE OF RECORD	OVERRIDING		WORKING INTEREST AND PERCENTAGE
						ROYALTY AND PERCENTAGE		
STATE LANDS								
	<u>NW/4NW/4, SE/4SW/4, N/2SE/4, SE/4SE/4</u>	200.00	E-8974 HBP	1/8 (12.5%)	Union Oil Company of California	None		Union Oil Company of California 100%
	<u>NE/4NE/4, SW/4SE/4, N/2SW/4</u>	160.00	LG-2266-1 10-1-84	1/8 (12.5%)	Kathleen Cone (50%) Douglas L. Cone (10%) Clifford Cone (10%) Tom R. Cone (10%) Kenneth G. Cone (10%) Cathie Cone Auvenshine (10%)	Jay H. Moore 2%		Kathleen Cone 50% Douglas L. Cone 10% Clifford Cone 10% Tom R. Cone 10% Kenneth G. Cone 10% Cathie Cone Auvenshine 10%
	<u>S/2NW/4, NE/4NW/4</u>	120.00	LG-5360 5-1-88	1/8 (12.5%)	Harper Oil Company	None		Harper Oil Company 100%
	<u>W/2NE/4</u>	80.00	LG-6345 2-1-89	1/8 (12.5%)	H. L. Brown, Jr.	None		H. L. Brown, Jr. 100%
	<u>SE/4NE/4, SW/4SW/4</u>	80.00	V-193 9-1-84	1/6 (16.67%)	Yates Petroleum Corporation	None		Yates Petroleum Corporation 40% Abo Petroleum Corporation 20% Yates Drilling Company 20% Martin Yates III 20%

STATE TRACTS TOTALING 640.00 ACRES - 100% UNIT AREA

CONSENT AND RATIFICATION
BROWN-STATE UNIT AGREEMENT
LEA COUNTY, NEW MEXICO

The undersigned (whether one or more), hereby acknowledges receipt of a copy of the Unit Agreement for the development and operation of the BROWN-STATE UNIT AREA embracing lands situated in Lea County, New Mexico, which said Agreement is dated the 4th day of May, 1984, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

Kathleen Cone

STATE OF TEXAS, I
COUNTY OF LUBBOCK. I

INDIVIDUAL

The foregoing instrument was acknowledged before me this 11th day of May, 1984, by KATHLEEN CONE.

My Commission Expires: 5/26/88

Aida Rummel
Notary Public

STATE OF _____, I
COUNTY OF _____. I

CORPORATE

The foregoing instrument was acknowledged before me this _____ day of _____, 198____, by _____, of _____, a _____ corporation, on behalf of said corporation.

My Commission Expires: _____

Notary Public

CONSENT AND RATIFICATION
BROWN-STATE UNIT AGREEMENT
LEA COUNTY, NEW MEXICO

The undersigned (whether one or more), hereby acknowledges receipt of a copy of the Unit Agreement for the development and operation of the BROWN-STATE UNIT AREA embracing lands situated in Lea County, New Mexico, which said Agreement is dated the 4th day of May, 1984, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

Douglas L. Cone

STATE OF TEXAS, I
COUNTY OF LUBBOCK. I

INDIVIDUAL

The foregoing instrument was acknowledged before me this 4th day of June, 1984, by DOUGLAS L. CONE.

My Commission Expires:
08/10/84

Nancy Flenniken
Notary Public Nancy Flenniken

STATE OF _____, I
COUNTY OF _____. I

CORPORATE

The foregoing instrument was acknowledged before me this _____ day of _____, 198____, by _____, of _____, a _____ corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

CONSENT AND RATIFICATION
BROWN-STATE UNIT AGREEMENT
LEA COUNTY, NEW MEXICO

The undersigned (whether one or more), hereby acknowledges receipt of a copy of the Unit Agreement for the development and operation of the BROWN-STATE UNIT AREA embracing lands situated in Lea County, New Mexico, which said Agreement is dated the 4th day of May, 1984, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

Clifford Cone

STATE OF TEXAS, I
COUNTY OF LUBBOCK. I
INDIVIDUAL

The foregoing instrument was acknowledged before me this 9th day of MAY, 1984, by CLIFFORD CONE.

My Commission Expires: 5/26/88
Ada Rummel
Notary Public in and for Lubbock
County, Texas

STATE OF _____, I
COUNTY OF _____. I
CORPORATE

The foregoing instrument was acknowledged before me this _____ day of _____, 198____, by _____, of _____, a _____ corporation, on behalf of said corporation.

My Commission Expires: _____
Notary Public

CONSENT AND RATIFICATION
BROWN-STATE UNIT AGREEMENT
LEA COUNTY, NEW MEXICO

The undersigned (whether one or more), hereby acknowledges receipt of a copy of the Unit Agreement for the development and operation of the BROWN-STATE UNIT AREA embracing lands situated in Lea County, New Mexico, which said Agreement is dated the 4th day of May, 1984, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

May 14, 1984

Tom R. Cone

INDIVIDUAL

STATE OF Missouri, I
COUNTY OF McDonald. I

The foregoing instrument was acknowledged before me this 14th day of May, 1984, by Tom R. Cone.

My Commission Expires:
3-10-88

Notary Public, Sue Ray
State of Missouri, County of Mc Donald

CORPORATE

STATE OF _____, I
COUNTY OF _____. I

The foregoing instrument was acknowledged before me this _____ day of _____, 198____, by _____, of _____, a _____ corporation, on behalf of said corporation.

My Commission Expires:

Notary Public

CONSENT AND RATIFICATION
BROWN-STATE UNIT AGREEMENT
LEA COUNTY, NEW MEXICO

The undersigned (whether one or more), hereby acknowledges receipt of a copy of the Unit Agreement for the development and operation of the BROWN-STATE UNIT AREA embracing lands situated in Lea County, New Mexico, which said Agreement is dated the 4th day of May, 1984, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

Kenneth A. Cone

STATE OF TEXAS, I
COUNTY OF MIDLAND. I

INDIVIDUAL

The foregoing instrument was acknowledged before me this 8 day of JUNE, 1984, by _____.

My Commission Expires: _____

Beverly S. Liscum
Notary Public

BEVERLY S. LISCUM
My Commission Expires 4-6-85

STATE OF _____, I
COUNTY OF _____. I

CORPORATE

The foregoing instrument was acknowledged before me this _____ day of _____, 198____, by _____, of _____, a _____ corporation, on behalf of said corporation.

My Commission Expires: _____

Notary Public

CONSENT AND RATIFICATION
BROWN-STATE UNIT AGREEMENT
LEA COUNTY, NEW MEXICO

The undersigned (whether one or more), hereby acknowledges receipt of a copy of the Unit Agreement for the development and operation of the BROWN-STATE UNIT AREA embracing lands situated in Lea County, New Mexico, which said Agreement is dated the 4th day of May, 1984, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

_____ Cathie Cone Auvenshine

STATE OF Texas, I
COUNTY OF Travis. I

INDIVIDUAL

The foregoing instrument was acknowledged before me this 25th day of June, 1984, by Cathie Cone Auvenshine.

My Commission Expires: 11-22-86

_____ Officer Wilson
Notary Public

STATE OF _____, I
COUNTY OF _____. I

CORPORATE

The foregoing instrument was acknowledged before me this _____ day of _____, 198____, by _____, of _____, a _____ corporation, on behalf of said corporation.

My Commission Expires: _____

_____ Notary Public

CONSENT AND RATIFICATION
BROWN-STATE UNIT AGREEMENT
LEA COUNTY, NEW MEXICO

The undersigned (whether one or more), hereby acknowledges receipt of a copy of the Unit Agreement for the development and operation of the BROWN-STATE UNIT AREA embracing lands situated in Lea County, New Mexico, which said Agreement is dated the 4th day of May, 1984, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

Rodney J. Edd
Asst Sec

HARPER OIL COMPANY
By: [Signature]
Vice President

INDIVIDUAL

STATE OF _____, I
COUNTY OF _____, I

The foregoing instrument was acknowledged before me this _____ day of _____, 198____, by _____.

My Commission Expires: _____

Notary Public

CORPORATE

STATE OF OKLAHOMA, I
COUNTY OF OKLAHOMA, I

The foregoing instrument was acknowledged before me this 9th day of July, 1984, by E. A. Boydston, Vice President of HARPER OIL COMPANY, a corporation, on behalf of said corporation.

My Commission Expires: _____

Debbie L. Lickenger
Notary Public in and for Oklahoma
County, Oklahoma

CONSENT AND RATIFICATION
BROWN-STATE UNIT AGREEMENT
LEA COUNTY, NEW MEXICO

The undersigned (whether one or more), hereby acknowledges receipt of a copy of the Unit Agreement for the development and operation of the BROWN-STATE UNIT AREA embracing lands situated in Lea County, New Mexico, which said Agreement is dated the 4th day of May, 1984, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

H. L. BROWN, JR. *0/3*

INDIVIDUAL

STATE OF TEXAS, I
COUNTY OF MIDLAND. I

The foregoing instrument was acknowledged before me this 8th day of JUNE, 1984, by H. L. BROWN, JR.

My Commission Expires:
9-8-84

Theresa R. Graham
Notary Public in and for the State of Texas
Theresa R. Graham

CORPORATE

STATE OF _____, I
COUNTY OF _____. I

The foregoing instrument was acknowledged before me this _____ day of _____, 198____, by _____, of _____, a _____ corporation, on behalf of said corporation.

My Commission Expires:

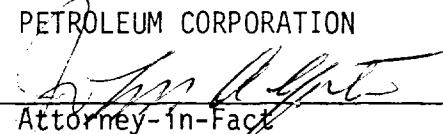
Notary Public

CONSENT AND RATIFICATION
BROWN-STATE UNIT AGREEMENT
LEA COUNTY, NEW MEXICO

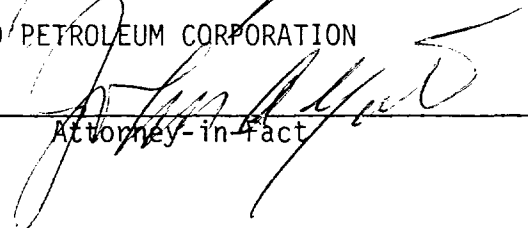
The undersigned (whether one or more), hereby acknowledges receipt of a copy of the Unit Agreement for the development and operation of the BROWN-STATE UNIT AREA embracing lands situated in Lea County, New Mexico, which said Agreement is dated the 4th day of May, 1984, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

YATES PETROLEUM CORPORATION

By 
Attorney-in-Fact

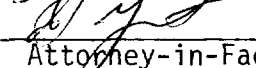
ABO PETROLEUM CORPORATION

By 
Attorney-in-Fact

YATES DRILLING COMPANY

By 
Attorney-in-Fact

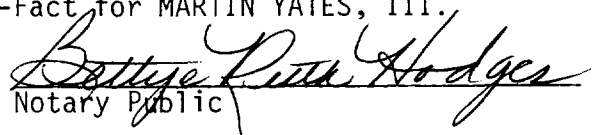
MARTIN YATES, III

By 
Attorney-in-Fact

STATE OF NEW MEXICO)
 : ss
COUNTY OF EDDY)

The foregoing instrument was acknowledged before me this 18th day of June, 1984 by John A. Yates, Attorney-in-Fact for YATES PETROLEUM CORPORATION, by Peyton Yates, Attorney-in-Fact for YATES DRILLING COMPANY, by John A. Yates, Attorney-in-Fact for ABO PETROLEUM CORPORATION, all New Mexico corporations, on behalf of said corporations, and by Frank Yates, Attorney-in-Fact for MARTIN YATES, III.

My commission expires:
June 27, 1984


Notary Public

CONSENT AND RATIFICATION
BROWN-STATE UNIT AGREEMENT
LEA COUNTY, NEW MEXICO

The undersigned (whether one or more), hereby acknowledges receipt of a copy of the Unit Agreement for the development and operation of the BROWN-STATE UNIT AREA embracing lands situated in Lea County, New Mexico, which said Agreement is dated the 4th day of May, 1984, and acknowledge that they have read the same and are familiar with the terms and conditions thereof. The undersigned, also being the owners of the leasehold, royalty, or other interests in the lands or minerals embraced in said Unit Area, as indicated on the schedule attached to said Unit Agreement as Exhibit "B", do hereby consent thereto and ratify all of the terms and provisions thereof, exactly the same as if the undersigned had executed the original of said Unit Agreement or a counterpart thereof.

IN WITNESS WHEREOF, this instrument is executed by the undersigned as of the date set forth in their respective acknowledgments.

Joyce K. Moore

Jay H. Moore
Box 10122 MIDLAND TEX
79702

STATE OF TEXAS, I
COUNTY OF MIDLAND. I

INDIVIDUAL

The foregoing instrument was acknowledged before me this 22nd day of May, 1984, by Jay H. Moore.

My Commission Expires:
12/14/85

Kim E. Preslar
Notary Public



KIM E. PRESLAR
Notary Public, State of Texas
My Commission Expires December 14, 1985

STATE OF NEW MEXICO X
COUNTY OF LINCOLN. X

INDIVIDUAL

The foregoing instrument was acknowledged before me this 7th day of JULY, 1984, by JOYCE K. MOORE.

My Commission Expires:
12-9-87

Dora A. LeFebvre
Notary Public

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between UNION OIL COMPANY OF CALIFORNIA, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators",

WITNESSETH:

WHEREAS, the parties to this agreement are owners of oil and gas leases and/or oil and gas interests in the land identified in Exhibit "A", and the parties hereto have reached an agreement to explore and develop these leases and or oil and gas interests for the production of oil and gas to the extent and as hereinafter provided:

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

As used in this agreement, the following words and terms shall have the meanings here ascribed to them:

A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.

B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.

D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".

E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.

F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.

G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.

H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural includes the singular, and the neuter gender includes the masculine and the feminine.

ARTICLE II.
EXHIBITS

The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

☒ A. Exhibit "A", shall include the following information:

(1) Identification of lands subject to agreement.

(2) Restrictions, if any, as to depths or formations.

(3) Percentages or fractional interests of parties to this agreement.

(4) ~~Oil and gas leases, oil and gas interests, and gas interests, subject to this agreement.~~

(5) Addresses of parties for notice purposes.

~~☐ B. Exhibit "B", Form of Lease.~~

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

☒ E. Exhibit "E", Gas Balancing Agreement.

☒ F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.

If any provision of any exhibit, except Exhibit "E", is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

D. Limitation of Expenditures:

1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened pursuant to the provisions of Article VI.B.2. of this Agreement, it being understood that the consent to the drilling or deepening shall include:

☐ Option No. 1: All necessary expenditures for the drilling or deepening, testing, completing and equipping of the well, including necessary tankage and/or surface facilities.

☒ Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its authorized depth, and all tests have been completed, Operator shall give immediate notice to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion attempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties, elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less than all parties.

who have the right to participate,

2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or plugged back pursuant to the provisions of Article VI.B.2. of this agreement, it being understood that the consent to the reworking or plugging back of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage and/or surface facilities.

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Twenty-Five Thousand & No/100-----Dollars (\$ 25,000.00-----) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish ^{informational} copies of its "Authority for Expenditures" for any single project costing in excess of Fifteen Thousand & No/100-----Dollars (\$ 15,000.00-----), but less than the amount first set forth above in this paragraph.

E. Royalties, Overriding Royalties and Other Payments:

Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of one-eighth (1/8)----- due on its share of production and shall hold the other parties free from any liability therefor. If the interest of any party in any oil and gas lease covered by this agreement is subject to any royalty, overriding royalty, production payment, or other charge over and above the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account for or cause to be accounted for, such interest to the owners thereof.

No party shall ever be responsible, on any price basis higher than the price received by such party, to any other party's lessor or royalty owner; and if any such other party's lessor or royalty owner should demand and receive settlements on a higher price basis, the party contributing such lease shall bear the royalty burden insofar as such higher price is concerned.

F. Rentals, Shut-in Well Payments and Minimum Royalties:

Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the provisions of Article IV.B.2.

Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and holidays), or at the earliest opportunity permitted by circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator to so notify Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments

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 9 of Section II and all salvage credits.

(b) Operating

_____ Percent (%) of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 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, redrilling, deepening or any remedial operations on any or all wells involving the use of drilling crew and equipment; 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 BE NEGOTIATED.

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. _____ % of total costs if such costs are more than \$_____ but less than \$_____; plus

B. _____ % of total costs in excess of \$_____ but less than \$1,000,000; plus

C. _____ % of total 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 shall be excluded.

3. 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 reason, 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 bases exclusive of cash discounts:

A. New Material (Condition A)

(1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.

(2) Line Pipe

(a) Movement of less than 30,000 pounds 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 where such Material is normally available.

(b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

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

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.

(2) Material moved from the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as new Material, or

(c) When the well's current production is equal to or greater than the well allowable:

(1) Each underproduced party shall have the right to take a greater amount of gas than its proportionate share of the well allowable, provided that the right to take such greater amount shall be in proportion that its interest bears to the total interests of all underproduced parties desiring to take more than their proportionate share of the well allowable.

(2) Each overproduced party shall have the right as in subparagraph (a)(2) above.

(d) The Unit Operator, at the request of any party, may produce the entire well stream, if necessary, for a deliverability test not to exceed seventy-two (72) hours duration required under such requesting party's gas sales contract and may overproduce in any other situation provided that such overproducing would be consistent with prudent operations.

4. Each party taking gas shall furnish the Unit Operator a monthly statement of gas taken. After commencement of production, Unit Operator shall furnish a current account monthly of the gas balance between parties hereto including the total quantity of gas produced, the portion thereof used in Unit operations, vented or lost, and the total quantity of gas delivered to a market.

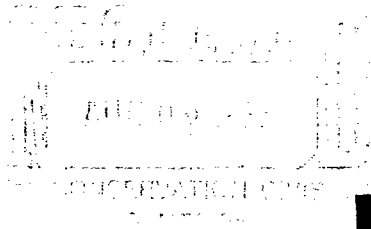
5. Each party producing and/or delivering gas to its purchaser shall pay any and all production taxes due on such gas.

6. The provisions of this agreement shall be separately applicable to each well and each reservoir to the end that production from one reservoir in a gas well may not be utilized for the purpose of balancing underproduction from other reservoirs.

7. When gas sales from a gas well permanently cease, Unit Operator shall make a final determination of the volumes of over and/or underproduction, if any, which have accrued since the last volumetric balance, as of the date of such cessation of sales and the identity of the party or parties who are over or underproduced. A cash balancing adjustment shall be made by the overproduced party, or parties, to the underproduced party, or parties, for the overproduced volumes which have been taken and sold; the price to be paid for such adjustment shall be the actual price received for such overproduction by the overproduced party, or parties, less appropriate deductions for taxes and/or royalties paid on such production by the overproduced party.

8. This agreement may be executed in counterparts but will not be binding on any party unless and until all working interest parties in a gas well have accepted this Gas Balancing Agreement without exception.

9. This shall constitute a separate agreement as to each well and as to each reservoir.



Union Oil and Gas Division: Central Region

Union Oil Company of California
500 North Mariefeld, Midland, Texas 79701
P.O. Box 671, Midland, Texas 79702
Telephone (915) 682-9731



Wayne W. Strong
District Land Manager
Midland District

July 30, 1985

Oil Conservation Division
Energy and Minerals Division
P.O. Box 2088
Santa Fe, New Mexico
Attn: Mr. R. L. Stamets

Gentlemen:

Brown State Unit
Case No. 8173
Order No. R-7531
Lea County, New Mexico
N/Anderson Ranch Prospect (7366)

Please find enclosed a copy of a letter dated July 22, 1985 from the Commissioner's Office. The letter grants Union Oil Company of California, as Operator of the Brown State Unit, an extension of time until November 2, 1985 in which to submit information to enable them to declare the Brown State Unit Well No. 1 a Unit well, or to start a new well.

Should you have any questions, please let me know.

Sincerely yours,

UNION OIL COMPANY OF CALIFORNIA

Linda H. Hicks
Landman

LHH/s
Enclosure

Union Oil Company California
500 North Marienfeld, Midland, Texas 79701
P.O. Box 671, Midland, Texas 79702
Telephone (915) 682-9731



Wayne W. Strong
District Land Manager
Midland District

July 30, 1985

State of New Mexico
Commissioner of Public Lands
P.O. Box 1148
Santa Fe, New Mexico 87504-1148

Attn: Mr. Ray Graham
Director, Oil and Gas Division

Gentlemen:

Brown State Unit Well No. 1
Sec. 28-15S-32E
Lea County, New Mexico

Union Oil Company of California, as Operator of the Brown State Unit, is appreciative of the extension of time in which to submit data concerning the commercial well determination of referenced well.

Enclosed is an inter-office memo with attachments which supports our contention that this Wolfcamp well qualifies as a Unit well under the definition as set forth in the Unit Agreement. The economics presented are based on drilling and completing a Wolfcamp producer similar to the Brown State Unit Well No. 1, not on the actual costs of our well. As you know, we originally drilled to the Morrow and also unsuccessfully tested the Canyon and Cisco formations before successfully completing the well in the Wolfcamp. We believe this to be the most logical approach in determining the Unit well status of our initial well.

If you concur with our evaluation, we will then file with your office a Plan of Development for the remainder of this year.

Should you have any questions or need anything further, please let me know and we will try our best to accommodate you.

Sincerely yours,

UNION OIL COMPANY OF CALIFORNIA

Linda H. Hicks
Landman



Midland District
July 23, 1985

TO: D. L. Watkins

FROM: T. E. Duff

A handwritten signature in dark ink, appearing to read "T. E. Duff".

SUBJECT:

Economic Evaluation
Brown State Unit No. 2
N. Anderson Ranch (Wolfcamp) Pool
Lea County, New Mexico

Attached are the post drilling economics for the Brown State Unit Well No. 1. Originally, the well was drilled to a total depth of 12,500' as a Morrow test which proved uneconomical. Additionally, the well was tested unsuccessfully in the Canyon and Cisco Horizons prior to the present Wolfcamp completion. After a 20,000 gal acid frac, the Brown State Unit No. 1 was potentialed in the Wolfcamp for 40 BOPD + 14 BWPD pumping on April 20, 1985.

The presented economics are based on drilling and completing a Wolfcamp producer similar to the Brown State Unit No. 1. Wolfcamp drilling costs are estimated at \$750,000 (gross). Production is based on the actual production from the Brown State No. 1 for the first four months and declined at 5% thereafter (see attached production curve). This decline is based on the performance of the North Anderson Ranch Unit State 1-33 (Wolfcamp) located about a mile to the south (curve attached). Expenses are actual from Union's experience with similar wells in the area.

Resulting economics show gross oil reserves of 92 MBO (80.5 MBO net) generating a before tax profit of 744 M\$ for the life of the project. It is important to note, however, that the above economics are based on the present perforated interval in the Brown State Unit No. 1 and log analysis of the well indicates additional productive Wolfcamp pay uphole and behind pipe which we will continue to evaluate for recompletion.

TED:ggc
Attachments

A handwritten signature in dark ink, appearing to read "Conan".

LEASE TOTAL

O 1 0 BROWN STATE "20" NO.1
TYPE C JUL 13, 1985 1:34 PM

N MEXICO TED

	TOT GR OIL	TOT NET OIL	GAR	TOTAL EXP	TOTAL INV
1965	4,447	3,191	107,015	19,902	750,000
1966	4,812	4,211	110,799	20,477	
1967	4,572	4,000	110,000	20,024	
1968	4,343	3,500	104,507	19,593	
1969	4,125	3,010	99,282	19,183	
1970-72	69,754	61,035	1,875,445	521,909	
	=====	=====	=====	=====	=====
TOTAL	92,054	80,947	2,215,050	721,095	750,000

TYPE C JUL 18, 1985 1:34 PM

CASH-BT

1965	-662,387
1966	95,321
1967	39,924
1968	84,915
1969	90,096
1970-72	1,056,543
	=====
TOTAL	743,979

ILLEGIBLE

BROWN STATE "28" NO.1

N MEXICO

#FIELD 0 #LEASE 1 #PART 0 #TYPE 0

TEO.

SEQ	LABEL	OPERATION	AMOUNT	DATE
1	T31 OIL	ONCE	672	2 85
2			203	3 85
3			242	4 85
4			401	5 85
5			423	6 85
6		DECLIN	0.05000	7 85
7	GRINT	HOLD	1.00000	2 85
8	NTINT		0.87500	2 85
9	TBRF		327.50000	2 85
10	TBRPR		336.00000	2 85
11	OPRX		3500	2 85
12	INVT	ONCE	3350,000	2 85
13	INVI		3400,000	2 85
14	SIGD	HOLD	0.10000	2 85

LISTING PRINTED: JUL 19. 1985 1:34 PM OSNAME: EPOCH01.PRST

ILLEGIBLE

ANDERSON RANCH, NORTH (WOL-CAMP)

TED

ACID FRAC W/24,000 GAL 20% SGH

16 6090

BO/MD

5% DECLINE

1985

1986

1987

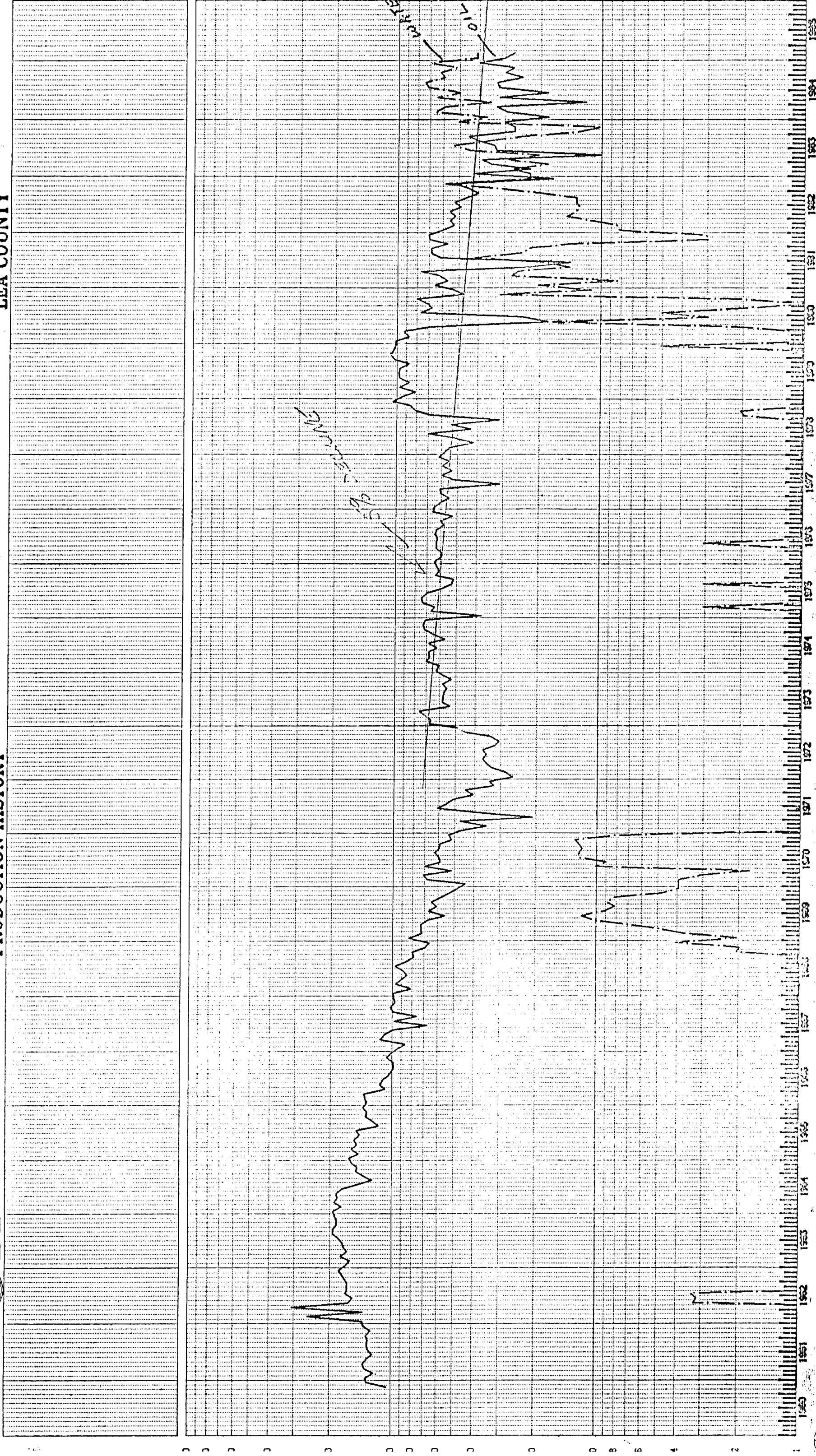
1988

1989



NARU STATE 1-33
N. ANDERSON RANCH FIELD
LEA COUNTY

PRODUCTION HISTORY



Union Oil and Gas Division: Central Region

Union Oil Company of California
500 North Mariefeld, Midland, Texas 79701
P.O. Box 671, Midland, Texas 79702
Telephone (915) 682-9731



Wayne W. Strong
District Land Manager
Midland District

July 31, 1985

Oil Conservation Division
Energy & Minerals Division
P.O. Box 2088
Santa Fe, New Mexico 87504-2088
Attn: Mr. R. L. Stamets

Gentlemen:

Brown State Unit
Case No. 8173
Order No. R-7531
Lea County, New Mexico
N/Anderson Ranch Prospect (7366)

Please find enclosed for your information and file, Union's application to the Commissioner of Public Lands to declare the Brown State Unit Well No. 1 a Unit well.

Although the decision to declare the well a Unit well belongs to the Commissioner's Office, I wanted to keep your office informed of what we are doing.

Should you have any questions, please let me know.

Sincerely yours,

UNION OIL COMPANY OF CALIFORNIA

A handwritten signature in cursive script that reads "Linda H. Hicks".

Linda H. Hicks
Landman

LHH/s
Enclosure

Union Oil and Gas Division: Central Region

Union Oil Company of California
500 North Marienfeld, Midland, Texas 79701
P.O. Box 671, Midland, Texas 79702
Telephone (915) 682-9731



#8173

Wayne W. Strong
District Land Manager
Midland District

September 20, 1985

Oil Conservation Division
Energy & Minerals Division
P.O. Box 2088
Santa Fe, NM. 87504-2088

ATTN: Mr. R.L. Stamets

Initial Plan of Development
Brown State Unit
Case No. 8173
Order No. R-7531
Section 28-15S-32E
Lea County, NM.
N/Anderson Ranch Prospect (7366)

Gentlemen:

By letter dated August 8, 1985, the Commissioner's Office determined that the Brown State Unit Well #1 qualified as a Unit well. This Wolfcamp well is currently producing 10 BOPD, cumulative 2467 barrels through 9-1-85.

For the remainder of 1985, Union Oil Company of California does not plan any additional development drilling. We will, however, continue to monitor and evaluate the Brown State Unit for possible development potential.

Should you have any questions, please advise.

Sincerely yours,

UNION OIL COMPANY OF CALIFORNIA

A handwritten signature in cursive script, appearing to read "Linda H. Hicks".

Linda H. Hicks
Landman

LHH:ss
Enclosure

OK
10-7-85
Roy E. John

Union Oil and Gas Division: Central Region

Union Oil Company of California
500 North Marienfeld, Midland, Texas 79701
P.O. Box 671, Midland, Texas 79702
Telephone (915) 682-9731



September 20, 1985

Wayne W. Strong
District Land Manager
Midland District

Oil Conservation Division
Energy & Minerals Division
P.O. Box 2088
Santa Fe, NM. 87504-2088

ATTN: Mr. R.L. Stamets

Brown State Unit
Case No. 8173
Order No. R-7551
Lea County, New Mexico
N/Anderson Ranch Prospect (7366)

Gentlemen:

Please find enclosed for your file a copy of the Commissioner's letter declaring that the Brown State Unit Well No. 1 qualifies as a commercial well.

Sincerely yours,

UNION OIL COMPANY OF CALIFORNIA

A handwritten signature in cursive script that reads "Linda H. Hicks".

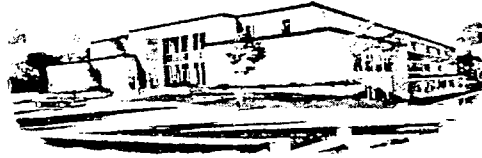
Linda H. Hicks
Landman

LHH:ss
Enclosure

State of New Mexico



JIM BACA
COMMISSIONER



Commissioner of Public Lands

August 8, 1985

Union Oil Company of California
P. O. Box 671
Midland, Texas 79701

P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

Express Mail Delivery Use:
310 Old Santa Fe Trail
Santa Fe, New Mexico 87501

Re: Brown State Unit Well No. 1
Commercial Determination
Lea County, New Mexico

ATTENTION: Ms. Linda H. Hicks ✓

Gentlemen:

This office is in receipt of your letter of July 30, 1985, wherein as operator of the Brown State Unit you have determined the the Unit Well No. 1 is capable of commercial production as set forth in the Unit Agreement.

According to the data submitted the Commissioner of Public Lands concurs with your commercial determination of the Unit Well No. 1. Please file a plan of development for the remainder of this year.

If we may be of further help please do not hesitate to call on us.

Very truly yours,

JIM BACA
COMMISSIONER OF PUBLIC LANDS

BY: *Ray D. Graham*
RAY D. GRAHAM, Director
Oil and Gas Division
AC 505/827-5744

JB/RDG/pm

Union Oil and Gas Division: Central Region

Union Oil Company of California
500 North Marienfeld, Midland, Texas 79701
P.O. Box 671, Midland, Texas 79702
Telephone (915) 682-9731



8173

Wayne W. Strong
District Land Manager
Midland District

January 31, 1986

Oil Conservation Division
Energy and Minerals Division
P.O. Box 2088
Santa Fe, New Mexico 87504-2088

Attn: Mr. R. L. Stamets

1986 Plan of Development
Brown State Unit
Case No. 8173
Order No. R-7531
Section 28-15S-32E
Lea County, New Mexico
N/Anderson Ranch Prospect (7366)

Gentlemen:

The Brown State Unit Well No. 1 was drilled and completed with a potential of 26 BOPD on February 14, 1985. The well produces from the North Anderson Ranch (Wolfcamp) Pool. Cumulative Production for 1985 totals 3263 barrels of oil and currently the well produces 7 BOPD.

At this time, Union Oil Company of California, as Operator, has no plans to drill any new wells in 1986. We will, however, continue to monitor and evaluate The Brown State Unit for possible development potential.

Should you have any questions, please let me know.

Sincerely yours,

UNION OIL COMPANY OF CALIFORNIA

A handwritten signature in cursive script, appearing to read "Linda H. Hicks".
Linda H. Hicks
Landman

LHH/s
Cert.#P220602794

State of New Mexico



JIM BACA
COMMISSIONER

Commissioner of Public Lands

February 13, 1986

P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148
Express Mail Delivery Uses
310 Old Santa Fe Trail
Santa Fe, New Mexico 87501

Union Oil Company of California
P. O. Box 671
Midland, Texas 79702

Re: 1986 Plan of Development
Brown State Unit
Lea County, New Mexico

ATTENTION: Ms. Linda H. Hicks

Gentlemen:

The Commissioner of Public Lands has this date approved your 1986 Plan of Development for the Brown State Unit Area, Lea County, New Mexico. Such plan proposes to continue to monitor and evaluate the unit area for possible development potential. Our approval is subject to like approval by the New Mexico Oil Conservation Division.

Enclosed is an approved copy for your files.

Very truly yours,

JIM BACA
COMMISSIONER OF PUBLIC LANDS

BY: *Floyd O. Prando*
FLOYD O. PRANDO, Director
Oil and Gas Division
AC 505/827-5744

JB/FOP/pm
encls.

cc: OCD-Santa Fe, New Mexico

May 9, 1984

Application of Union
Oil Co. of California
for a Unit Agreement,
Lea County, New Mexico.

Applicant, in the above-captioned
Cause, seeks approval for the
Brown State Unit Agreement comprising
640 acres, more or less, of state
land in Township 15 South
Range - 32E.

(see. 28)

Jim Jennings
622-8432

Collected
2:30
4/16/84

80



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

TONEY ANAYA
GOVERNOR

May 22, 1984

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-5800

Mr. James T. Jennings
Jennings & Christy
Attorneys at Law
Post Office Box 1180
Roswell, New Mexico

Re: CASE NO. 8173
ORDER NO. R-7531

Applicant:

Union Oil Company of California

Dear Sir:

Enclosed herewith are two copies of the above-referenced Division order recently entered in the subject case.

Yours very truly,

JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCD	<u>X</u>
Artesia OCD	<u>X</u>
Aztec OCD	

Other _____

State of New Mexico

8173



W.R. HUMPHRIES
COMMISSIONER



Commissioner of Public Lands

SLO REF NO OG-718

P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

March 24, 1988

Unocal Oil & Gas Division
Attn: Ms. Linda H. Hicks
P. O. Box 671
Midland, Texas 79702

Re: 1988 Plan of Development
Brown State Unit
Lea County, New Mexico

Gentlemen:

The Commissioner of Public Lands has this date approved your 1988 Plan of Development for the above captioned unit area.

Our approval is subject to like approval by all other appropriate agencies.

Enclosed is an approved copy for your files.

If we may be of further help please do not hesitate to call on us.

Very truly yours,

W. R. HUMPHRIES
COMMISSIONER OF PUBLIC LANDS

BY: *Floyd O. Prando*
FLOYD O. PRANDO, Director
Oil and Gas Division
(505) 827-5744

WRH/FOP/pm
encs.
cc: OCD
BLM

Unocal Oil & Gas Division
Unocal Corporation
500 North Marienfeld, P.O. Box 671
Midland, Texas 79702
Telephone (915) 682-9731



March 1, 1988

Midland District

Oil Conservation Division
Energy and Minerals Division
P.O. Box 2088
Santa Fe, New Mexico 87504-2088
Attn: Mr. William J. LeMay, Director

1988 Plan of Development
Brown State Unit
Section 28-15S-32E
Lea County, New Mexico
N/Anderson Ranch Prospect (7366)

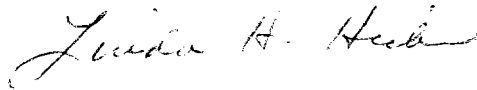
Gentlemen:

Please find enclosed for your approval two copies of Union's 1988 Plan of Development and Operations for the Brown State Unit.

Should you have any questions, please let me know.

Sincerely yours,

UNION OIL COMPANY OF CALIFORNIA



Linda H. Hicks
Landman

LHH/s
Enclosures

RECEIVED
MAR 1 1988
OIL CONSERVATION DIVISION
ENERGY AND MINERALS DIVISION
P.O. BOX 2088
SANTA FE, NM 87504-2088

1988 PLAN OF DEVELOPMENT

BROWN STATE UNIT

LEA COUNTY, NEW MEXICO

TO: Oil Conservation Division
Energy and Minerals Division
P.O. Box 2088
Santa Fe, New Mexico 87504-2088

Attn: William J. LeMay, Director

SUMMARY OF 1987 OPERATIONS:

No new Unit wells were drilled in 1987. The Brown State Unit Well No. 1 produced 1484 B0 and no gas for 1987. Current production rate is 2 BOPD.


1988 PLAN OF DEVELOPMENT:

No development drilling is planned for 1988. Union will continue to monitor and evaluate the Unit for possible development potential.

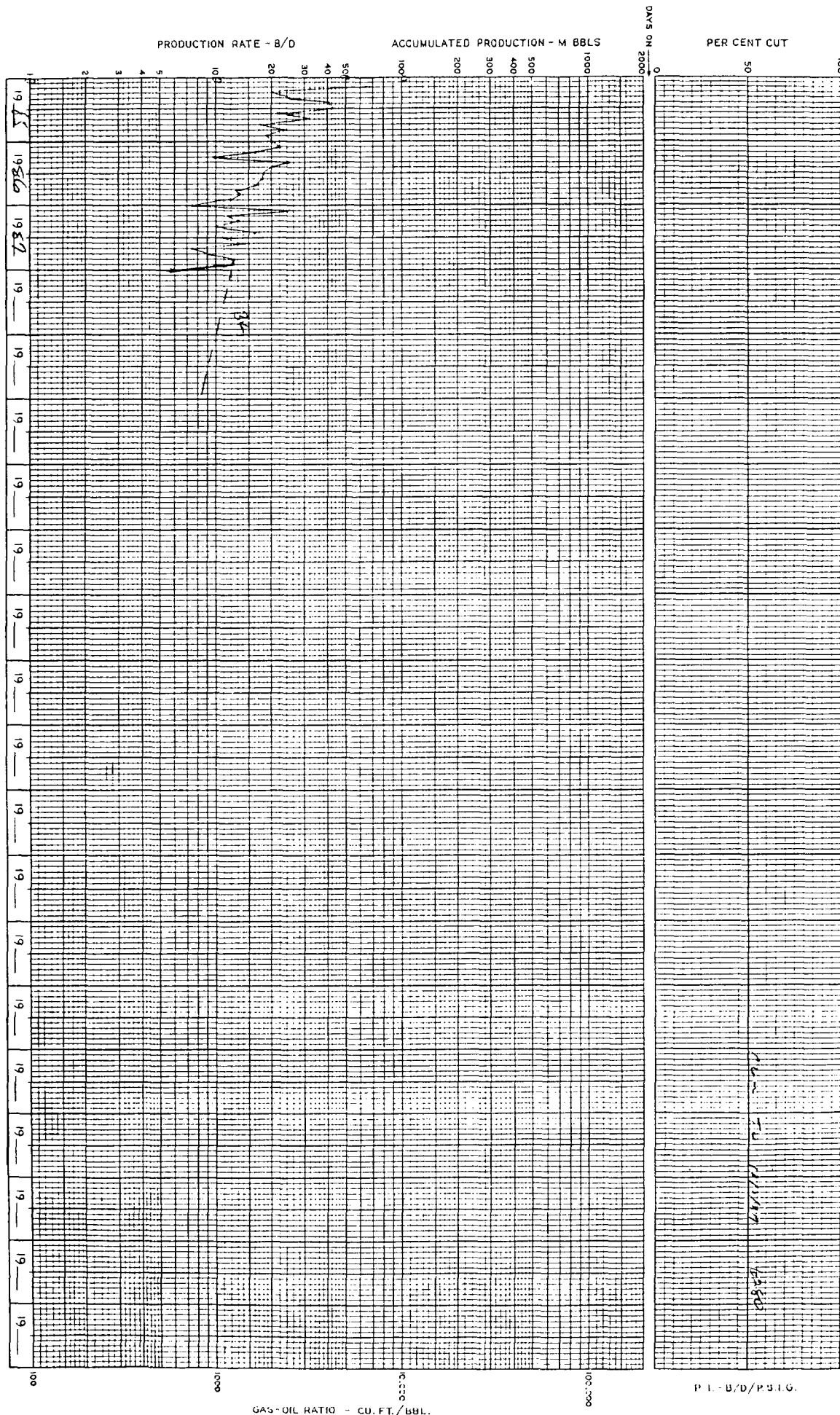
Submitted this 1st day of March, 1988.

Sincerely yours,

UNION OIL COMPANY OF CALIFORNIA


Wayne W. Strong
District Land Manager

WWS/LHH



PERFS. _____
 FIELD ANDERSON KIMM, N
 ZONE WELLSHAMP
 LEASE BECKMAN STATE 28
 WELL NO. _____

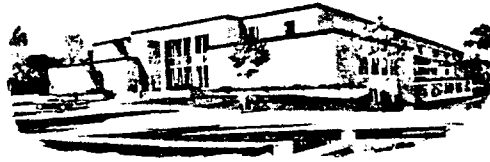
P.L. - B/D/P.S.I.G.
 STATIC M.E.P. - P.S.I.G.

State of New Mexico

#7366



W.R. HUMPHRIES
COMMISSIONER



Commissioner of Public Lands

SLO REF NO. OG-86

P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

April 29, 1987

Unocal Oil and Gas Division
ATTENTION: Ms. Linda H. Hicks
P. O. Box 671
Midland, Texas 79702

Re: 1987 Plan of Development
Brown State Unit
Sec. 28-15S-32E
Lea County, New Mexico

Gentlemen:

The Commissioner of Public Lands has this date approved your 1987 Plan of Development for the Brown State Unit Area, Lea County, New Mexico. Such plan calls for the drilling of no wells.

Our approval is subject to like approval by the New Mexico Oil Conservation Division.

Enclosed is an approved copy for your files.

If we may be of further help please do not hesitate to call on us.

Very truly yours,

W. R. HUMPHRIES
COMMISSIONER OF PUBLIC LANDS

BY: *Floyd O. Prando*
FLOYD O. PRANDO, Director
Oil and Gas Division
(505) 827-5744

WRH/FOP/pm
encls.

cc: OCD-Santa Fe, New Mexico
Gulram, Inc.

ENERGY AND MINERALS DEPARTMENT

OIL CONSERVATION DIVISION



March 4, 1987

SARREY CARRUTHERS
GOVERNOR

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE NEW MEXICO 87501
(505) 827-5800

#7366

Unocal
P. O. Box 671
Midland, Texas 79702

Attention: Linda H. Hicks

Re: 1987 Plan of Development
Brown State Unit
Sec. 28-15S-32E
Lea County, New Mexico
N/Anderson Ranch Prospect (7366)

Gentlemen:

The above-referenced submittal has been approved by the New Mexico Oil Conservation Division effective this date. Such approval is contingent upon like approval by the New Mexico Commissioner of Public Lands and the Bureau of Land Management.

Sincerely, .

A handwritten signature in dark ink, appearing to read "Roy E. Johnson".

ROY E. JOHNSON,
Senior Petroleum Geologist

REJ/dr

cc: Commissioner of Public Lands - Santa Fe
Bureau of Land Management - Albuquerque

Unocal Oil & Gas Division
Unocal Corporation
500 North Marlenfeld, P.O. Box 671
Midland, Texas 79702
Telephone (915) 682-9731



February 25, 1987

Midland District

Oil Conservation Division
Energy and Minerals Division
P.O. Box 2088
Santa Fe, New Mexico 87504-2088
Attn: William J. LeMay

1987 Plan of Development
- Brown State Unit
Sec. 28-15S-32E
Lea County, New Mexico
N/Anderson Ranch Prospect (7366)

Gentlemen:

Please find enclosed two (2) copies of Union's 1987 Plan of Development and Operation for the Brown State Unit. We respectfully request your approval of same.

Sincerely yours,

UNION OIL COMPANY OF CALIFORNIA

Linda H. Hicks
Landman

LHH:gb

Encls.

1987 PLAN OF DEVELOPMENT

BROWN STATE UNIT

LEA COUNTY, NEW MEXICO

To: Oil Conservation Division
Energy and Minerals Division
P.O. Box 2088
Sant Fe, New Mexico 87504-2088

Attn: William J. LeMay

SUMMARY OF 1986 OPERATIONS:

No new Unit wells were drilled in 1986. The Brown State Unit Well No. 1 produced 1934 BO and no gas for 1986.

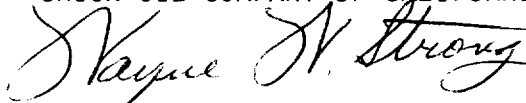
1987 PLAN OF DEVELOPMENT:

No development drilling is planned for 1987. Union will, however, continue to monitor and evaluate the Unit for possible development potential.

Submitted this 25 day of February, 1987.

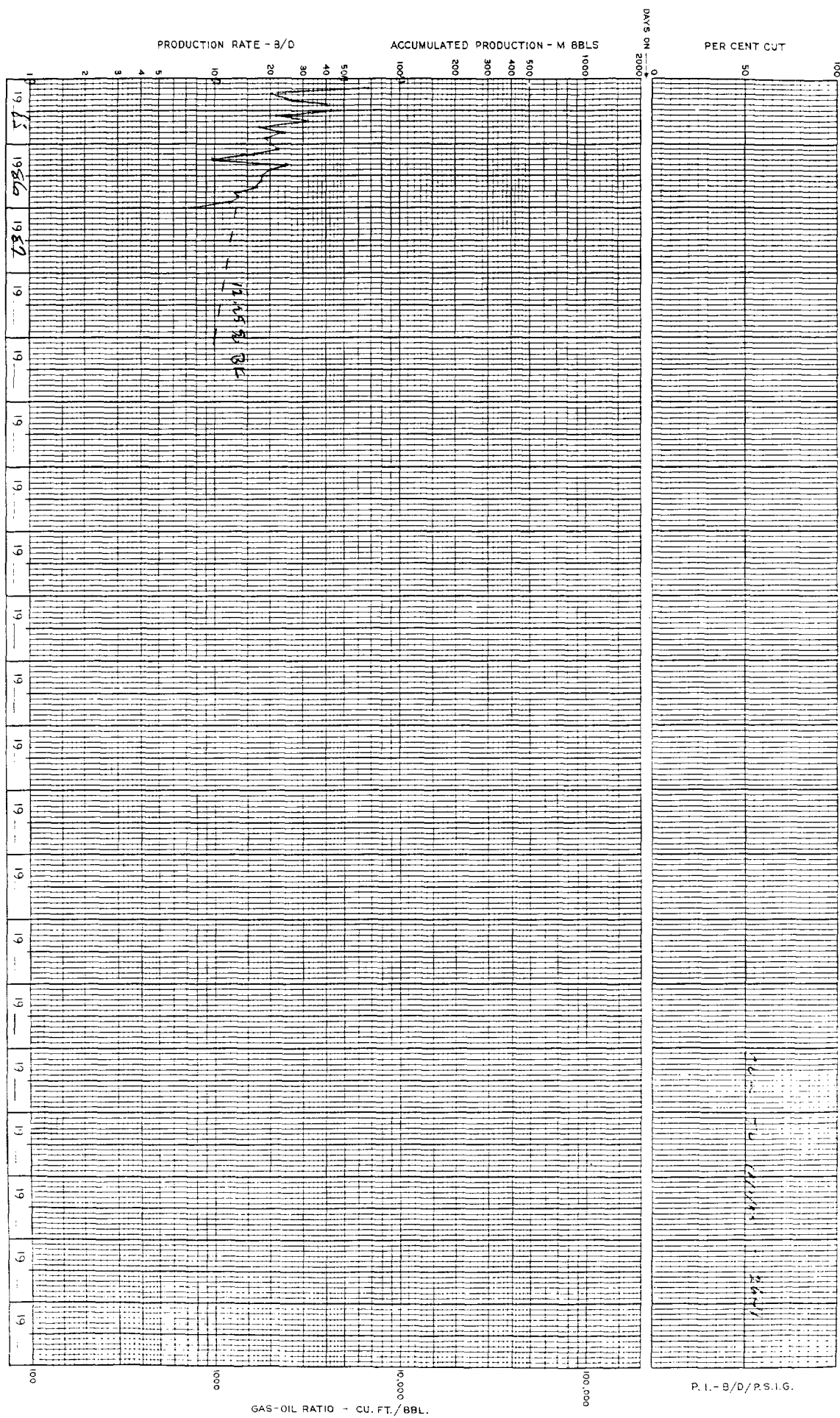
Sincerely yours,

UNION OIL COMPANY OF CALIFORNIA

A handwritten signature in cursive script, reading "Wayne W. Strong".

Wayne W. Strong
District Land Manager

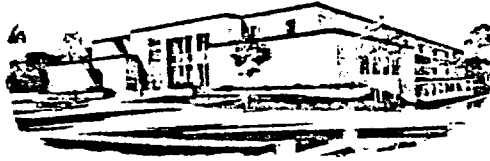
IFASF *Devin Stine 28*
WELL NO.



State of New Mexico



JIM BACA
COMMISSIONER



Commissioner of Public Lands
April 4, 1984

RECEIVED

APR 9 1984

MINISTERIAL FILE

Union Oil Company of California
500 North Marienfeld
Midland, Texas 79702

P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148
Express Mail Delivery Used
310 Old Santa Fe Trail
Santa Fe, New Mexico 87501

Re: Proposed form of unit agreement
Brown State Unit
Lea County, New Mexico

ATTENTION: Mr. Robert V. Lockhart

Gentlemen:

This office has reviewed the unexecuted copy of unit agreement for the proposed Brown State Unit Agreement, Lea County, New Mexico. This agreement meets the general requirements of the Commissioner of Public Lands and has this date granted you preliminary approval as to form and content.

Preliminary approval shall not be construed to mean final approval of this agreement in any way and will not extend any short term leases until final approval and an effective date are given. Also, any well commenced prior to the effective date of this agreement which penetrates its objective horizon prior to said effective date shall not be considered as the Initial Test Well.

When submitting your agreement for final approval, please submit the following:

1. Application for formal approval by the Commissioner setting forth the tracts that have been committed and the tracts that have not been committed.
2. All ratifications from the Lessees of Record and Working Interest Owners. All signatures should be acknowledged before a Notary and one set must contain original signatures.
3. Order of the New Mexico Oil Conservation Division.
4. One copy of the Unit Operating Agreement.

Union Oil Company of California
April 4, 1984
Page 2

5. The filing fee for a unit agreement is Thirty (\$30.00) for every section or partial section thereof.

If we may be of further help please do not hesitate to call on us.

Very truly yours,

JIM BACA
COMMISSIONER OF PUBLIC LANDS

BY: *Ray D. Graham*
RAY D. GRAHAM, Director
Oil and Gas Division
AC 505/827-5744

JB/RDG/pm
encls.

*Copy: John Hansen attn: Contract
Jensen*

RECEIVED

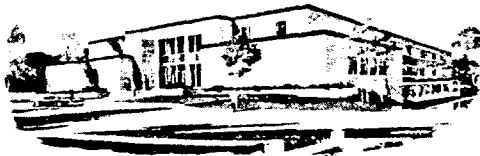
JUL 26 1985

MIDLAND DISTRICT LB



JIM BACA
COMMISSIONER

State of New Mexico



Commissioner of Public Lands

July 22, 1985

Union Oil Company of California
P. O. Box 671
Midland, Texas 79702

P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148
Express Mail Delivery Use:
310 Old Santa Fe Trail
Santa Fe, New Mexico 87501

Re: Brown State Unit Well No. 1
Sec. 28-15S-32E
Lea County, New Mexico

ATTENTION: Ms. Linda H. Hicks ✓

Gentlemen:

This office is in receipt of your letter of July 17, 1985, requesting a three month extension from August 2, 1985 to November 2, 1985 in order to be able to complete your commercial well determination of your initial well. During this period you will either submit the necessary material to allow this well to be a unit well or file a Plan of Development or start a new well.

If we may be of further help please do not hesitate to call on us.

Very truly yours,

JIM BACA
COMMISSIONER OF PUBLIC LANDS

BY: *Ray D. Graham*
RAY D. GRAHAM, Director
Oil and Gas Division.
AC 505/827-5744

JB/RDG/pm

UGD

State of New Mexico



W.R. HUMPHRIES
COMMISSIONER



Commissioner of Public Lands

P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

#8173

September 15, 1989

Union Oil Company of California
P.O. Box 671
Midland, Texas 79702

ATTN: Robert V. Lockhart

RE: Contraction of Brown State Unit
Lea County, New Mexico

Gentlemen:

According to Section 9 of the Brown State Unit Agreement,

"Notwithstanding any of the provisions to the contrary, all undeveloped regular well spacing or proration unit tracts within the unit boundaries embracing lands of the State of New Mexico shall be automatically eliminated from this Agreement and shall no longer be part of the unit or be further subject to the terms of this Agreement unless at the expiration of five years (5) after the first day of the month following the effective date of this Agreement diligent drilling operations are in progress on said tracts".

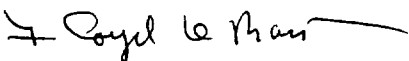
Our records show that the only development in the Brown State Unit area is the Brown State Unit well No. 1. This well is located in the NW/4 NE/4 Section 28, T-15-S, R-32-E, Lea County New Mexico. The Unit has contracted under the provisions of the automatic elimination clause to include only the proration unit assigned to the No. 1 well. The new Unit Area is W/2 NE/4 Section 28, T-15-S, R-32-E which is held in its entirety by State Lease LG-6345.

All other State lands have been eliminated from the Unit except those held in the above described proration unit. This contraction is effective August 1, 1989. Please advise all interested parties.

Please submit revised Exhibits "A" and "B" to the Unit Agreement that reflect the contraction of the Unit Area to this office. If you have any questions, please contact Susan Howarth at (505) 827-5791.

Very truly yours,

W.R. HUMPHRIES
COMMISSIONER OF PUBLIC LANDS

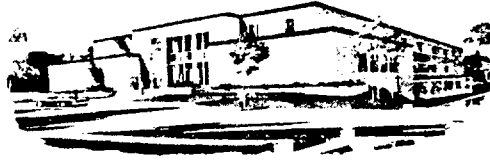
BY: 
FLOYD O. PRANDO, Director
Oil and Gas Division
(505) 827-5749

cc: Unit Correspondence File
OCD- Santa Fe
Royalty Management
Oil and Gas Accounting Division

State of New Mexico



JIM BACA
COMMISSIONER



Commissioner of Public Lands

October 16, 1985

P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148
Express Mail Delivery Uses
310 Old Santa Fe Trail
Santa Fe, New Mexico 87501

Union Oil Company of California
P. O. Box 671
Midland, Texas 79701

Re: Initial Plan of Development
Brown State Unit
Section 28-15S-32E
Lea County, New Mexico

ATTENTION: Ms. Linda H. Hicks

Gentlemen:

The Commissioner of Public Lands has this date approved your Plan of Development for the remainder of 1985. Such plan calls for no additional development drilling but will continue to monitor and evaluate the unit area for possible development potential. Our approval is subject to like approval by the New Mexico Oil Conservation Division.

Enclosed is an approved copy for your files.

If we may be of further help please do not hesitate to call on us.

Very truly yours,

JIM BACA
COMMISSIONER OF PUBLIC LANDS

BY: *Ray D. Graham*
RAY D. GRAHAM, Director
Oil and Gas Division
AC 505/827-5744

JB/RDG/pm
encls.

cc: OCD-Santa Fe, New Mexico

State of New Mexico



W.R. HUMPHRIES
COMMISSIONER



Commissioner of Public Lands

P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

#8173

March 30, 1989

Unocal Oil and Gas Division
P.O. Box 671
Midland, Texas 79702

ATTN: Linda Hicks

RE: 1989 Plan of Development
Brown State Unit
Lea County, New Mexico

Gentlemen:

The Commissioner of Public Lands has this date approved the above captioned 1989 Plan of Development. Our approval is subject to like approval by all other appropriate agencies.

Enclosed is a copy for your files.

If we may be of further help, please do not hesitate to contact us.

Very truly yours,

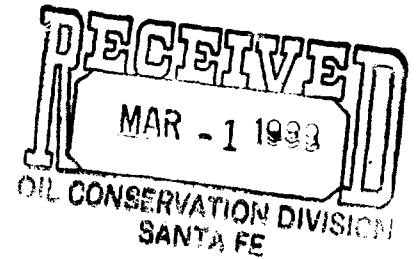
W.R. HUMPHRIES
COMMISSIONER OF PUBLIC LANDS

BY: *Floyd O. Prando*
FLOYD O. PRANDO, Director
Oil and Gas Division
(505) 827-5744

cc:OCD
BLM

Unocal Oil & Gas Division
Unocal Corporation
1004 North Big Spring Street, P.O. Box 671
Midland, Texas 79702
Telephone (915) 682-9731

UNOCAL 



February 23, 1989

Midland District
Central Region

Oil Conservation Division
Energy and Minerals Division
P. O. Box 2088
Santa Fe, New Mexico 87504-2088

Attn: Mr. William J. LeMay,
Director

1989 Plan of Development
Brown State Unit
Section 28-15S-32E
Lea County, New Mexico
N/Anderson Ranch Prospect (7366)

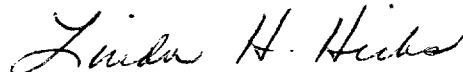
Gentlemen:

Please find enclosed for your approval two copies of Union's 1989 Plan of Development for the Brown State Unit.

Should you have any questions, please let me know.

Sincerely yours,

Union Oil Company of California



Linda H. Hicks
Landman

LHH:jpp

Enclosures

1989 PLAN OF DEVELOPMENT
BROWN STATE UNIT
LEA COUNTY, NEW MEXICO

TO: Oil Conservation Division
Energy and Minerals Division
P. O. Box 2088
Santa Fe, New Mexico 87504-2088

Attn: Mr. William J. LeMay, Director

SUMMARY OF 1988 OPERATIONS:

No new Unit wells were drilled in 1988. An attempt was made to stimulate the Wolfcamp perforations at 9832' to 9838' with 10,000 gal 20% SGA acid. Response was minimal. The Brown State Unit Well #1 produced 1468 BO and no gas for 1988. Current production rate is 5 BOPD.

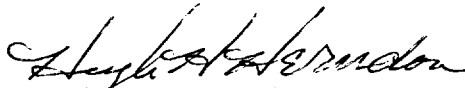
1989 PLAN OF DEVELOPMENT

No development drilling is planned for 1989. Union will continue to monitor and evaluate the Unit for possible development potential.

Submitted this 24 day of February, 1989.

Sincerely yours,

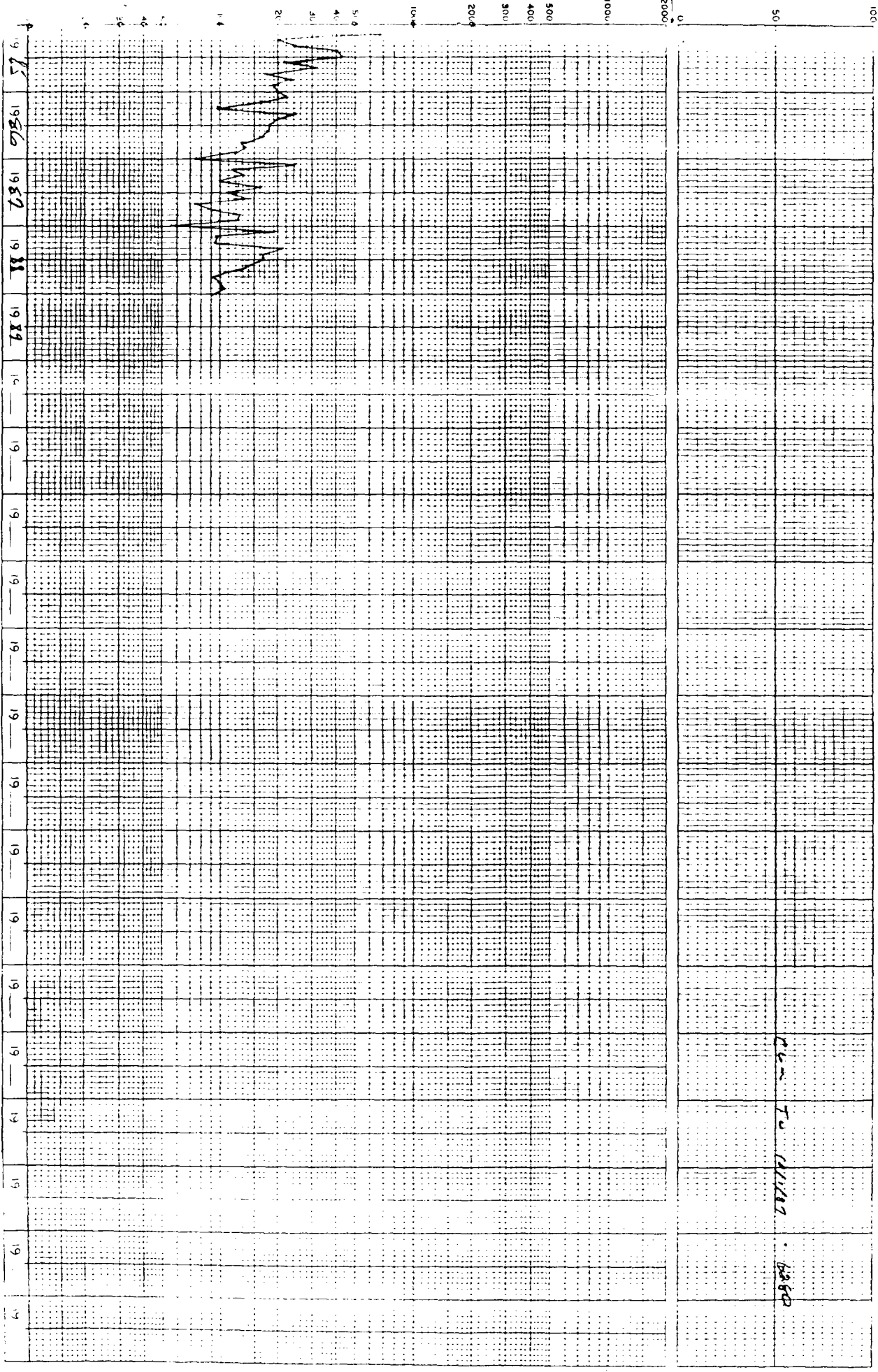
Union Oil Company of California


Hugh H. Herndon
District Land Manager

HHH:LHH:jpp

DEFS
FIELD ANDERSON KAN. N.
ZONE WALCAMP

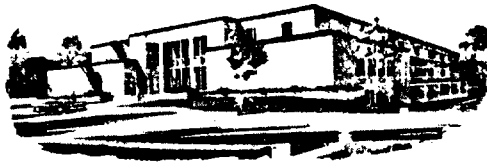
WELL
LITHOLOGY
EXPOSURE 28



State of New Mexico



JIM BACA
COMMISSIONER



Commissioner of Public Lands
July 13, 1984

P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148
Express Mail Delivery Use:
310 Old Santa Fe Trail
Santa Fe, New Mexico 87501

Union Oil Company of California
500 North Marienfeld
Midland, Texas 79702

Re: Brown State Unit
Lea County, New Mexico

ATTENTION: Ms. Linda H. Hicks

Gentlemen:

The Commissioner of Public Lands has this date granted you final approval to the Brown State Unit Agreement, Lea County, New Mexico. The effective date is July 13, 1984 being the same date as our approval.

Enclosed are Five (5) Certificates of Approval.

Your filing fee in the amount of Thirty (\$30.00) Dollars has been received.

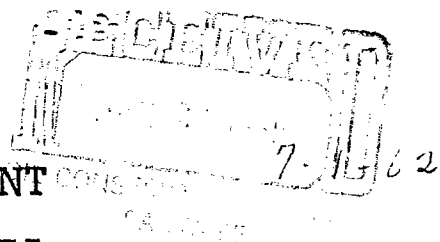
Very truly yours,

JIM BACA
COMMISSIONER OF PUBLIC LANDS

BY:
RAY D. GRAHAM, Director
Oil and Gas Division
AC 505/827-5744

JB/RDG/pm
encls.

cc: OCD-Santa Fe, New Mexico



JOINT OPERATING AGREEMENT

SOUTH BLANCO

AREA

COUNTY OF

RIO ARRIBA

STATE OF

NEW MEXICO

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JOINT OPERATING AGREEMENT

SOUTH BLANCO

AREA

STATE OF NEW MEXICO

COUNTY OF RIO ARRIBA

THIS AGREEMENT, made and entered into as of the 1st day of July, 1962., by and between the following parties: ^{Company} ~~Western Development Co.~~ Caulkins Oil Company; Ernest R. Breech; Ernest Kanzler; Ernest Kanzler; Trustee for Ernest Kanzler, Jr.; Ernest Kanzler, Trustee for Robert Hudson Kanzler; Lorena Mayer Nidorf; George Herbert Zimmerman; George Herbert Zimmerman, Trustee for Georgia Zimmerman; George Herbert Zimmerman, Trustee for Elaine Zimmerman, George H. Zimmerman, Trustee for Doris Zimmerman; George Herbert Zimmerman, Trustee for Jessie Zimmerman Hitchens; Mary H. Zimmerman, Successor Trustee for Helen Zimmerman; and Mary H. Zimmerman, Guardian of the Estate of Louis Zimmerman, a minor.

WITNESSETH:

WHEREAS, the Parties hereto have reached an agreement to explore, develop and operate the hereinafter described Subject Lands for oil and gas as herein provided;

NOW, THEREFORE, in consideration of the mutual agreements herein contained, the Parties hereto agree as follows:

ARTICLE 1 DEFINITIONS

1.1 Definitions.

Wherever the following terms are used in this agreement they shall have the meanings assigned to them in this Article 1.

1.2 "Subject Lands" means the lands described in Part I of Exhibit 1, attached hereto and made a part hereof, but is limited to such formations or depths as are set forth in said Part I of Exhibit 1. ~~Exhibit 2 is a map of the surface boundaries of Subject Lands and, if attached, is made a part hereof.~~

1.3 The "Committed Interest" of a Party means the interest of each Party hereto as shown in Part II of Exhibit 1 to be owned by such Party in the Subject Lands.

1.4 "Committed Substances" shall mean all oil, gas, gaseous and liquid hydrocarbons, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons which under the Committed Interests may be produced.

1.5 "Operator" means Caulkins Oil Company herein designated as Operator, or its duly appointed successor, and acting as Operator under this agreement and not acting as an owner of a Committed Interest.

1.6 "Party" means a Party to this agreement, including the Party acting as Operator ~~when acting as an owner of a Committed Interest.~~

1.7 "Drilling Party" means the Party or Parties who have elected to participate in the Costs incurred in the drilling, completing, deepening or plugging back of a well in accordance with this agreement.

1.8 "Non-Drilling Party" means the Party or Parties who have not elected to participate in the Costs incurred in the drilling, completing, deepening or plugging back of a well under this agreement.

1.9 "Costs" means all expenditures incurred pursuant to this agreement and determined in accordance with the Accounting Procedure attached hereto as Exhibit 3, and made a part hereof, and such other expenditures as are herein made chargeable as Costs.

1.10 "Lease Burdens" means the royalty reserved to the lessor in any oil and gas lease, an overriding royalty, a production payment, or any similar burden, but does not include a carried working interest, a net profits interest or any other interest which is payable out of profits.

1.11 "Salvage Value" of materials and equipment means the value of such materials and equipment determined in accordance with Exhibit 3 less the reasonably estimated Costs of salvaging the same.

1.12 "Available Production" means all Committed Substances produced, saved and sold hereunder, except that portion which is used in the conduct of operations hereunder, and that which is unavoidably lost, and that portion which is delivered in kind to owners of Lease Burdens.

1.13 "Participating Interest" of a Party means that proportion (expressed as a percentage) which the acreage of its Committed Interest or Interests bears to the total acreage of all Committed Interests. For the purposes of this definition, (a) the acreage of the Committed Interest in a tract containing Subject Lands shall be the acreage of such tract as set forth in Part II of Exhibit 1, and (b) if the Committed Interest in a tract is owned by two or more Parties, the acreage of such tract shall be apportioned among them in proportion to their respective Committed Interests therein.

1.14 "Beneficial Interest" means that proportion (expressed as a percentage) which the net acreage of a Party's Committed Interest or Interests bears to the total net acreage of all Committed Interests; for the purposes of this definition the net acreage of the Committed Interest owned by a Party in a tract containing Subject Lands shall be calculated by multiplying the acreage of such tract, as shown in Part II of Exhibit 1, by the percentage of the Committed Substances which, if produced from such tract in the absence of this agreement, would accrue to such Committed Interest after deducting all Lease Burdens (whether payable in cash or in kind) shown on Part II of Exhibit 1 as an encumbrance upon such Committed Interest.

ARTICLE 2

APPORTIONMENT OF COSTS AND OWNERSHIP OF AVAILABLE PRODUCTION AND PROPERTY

2.1 Commitment of Interests. Each Party hereby subjects and commits to this agreement all of its Committed Interests in the Subject Lands.

2.2 Apportionment. Except as otherwise stated in this agreement, the apportionment of Costs and Available Production and the ownership of property shall be as follows:

- A. All Costs incurred by Operator in the conduct of operations under this agreement shall be borne by the Parties in proportion to their respective Participating Interests.
- B. All Available Production shall be owned by the Parties in proportion to their respective Beneficial Interests.
- C. All materials, equipment and other property, whether real or personal, acquired by Operator, and the cost of which is chargeable as Costs hereunder, shall be owned by the Parties in proportion to their respective Participating Interests.

ARTICLE 3

MINIMUM ROYALTIES, DELAY RENTALS, SHUT-IN WELL PAYMENTS AND LEASE BURDENS

3.1 Payment of Minimum Royalties, Delay Rentals and Shut-in Well Payments. Operator shall make diligent effort to properly and timely pay each installment of rental, minimum royalty, shut-in royalty, and shut-in well payments that may become due and payable on the subject lands. All such payments shall be charged to and borne by the Parties in proportion in their respective Participating Interests.

3.2 Failure to Make Proper Payment. Operator shall exercise diligence in respect of such payments when due but shall not be liable to the other Parties for failure in respect thereto provided it acted in good faith.

date on which such a well is placed back on production.

3.4 Payment of Lease Burdens listed on Exhibit 1. Any and all payments accruing to owners of Lease Burdens shown on Exhibit 1, in respect of Committed Substances, shall be made or caused to be made by Operator for the account of the Party liable therefor. All such payments shall be charged to and borne by the Parties in proportion to their respective Beneficial Interests, except that all such payments made in respect of Committed Substances produced from a well owned by less than all the Parties shall be charged to and borne by the Party or Parties owning such well in the proportions that such Parties share in the Available Production therefrom. Operator shall deliver to the owners of Lease Burdens who have the right and who elect to take the same in kind their share of Committed Substances.

3.5 Payment of Lease Burdens Not Listed on Exhibit 1. Any Lease Burden not listed on Exhibit 1 and all carried working interests, net profits interests, and all other interests payable out of profits, shall be paid and borne by the Party whose Committed Interest is burdened thereby.

ARTICLE 4

OPERATOR'S POWERS AND RIGHTS

4.1 In General. Subject to the provisions of this Agreement, Operator shall direct and have control of all operations conducted hereunder and shall have exclusive custody of all materials, equipment and other property owned by the Parties.

4.2 Change of Operator. Operator may resign at any time upon giving three months' written notice to all Parties but such resignation shall not release Operator from any liability for any default by it hereunder occurring prior to the effective date of its resignation. Until a Successor Operator is selected as hereinafter provided, Participating Interest Owners shall be jointly responsible for performance of the duties of Operator, and shall, not later than 30 days before such resignation becomes effective, appoint a common agent to represent them in any action to be taken hereunder. Operator may be removed at any time by 30 days' written notice to Operator given by Parties owning or holding fifty-one per cent (51%) or more of the Participating Interests. Upon resignation or removal of Operator as herein provided, Operator shall deliver possession of all equipment, materials, and appurtenances used in conducting the operations hereunder and owned by the Participating Interest Owners to the newly designated Successor Operator or to such Participating Interests Owners thereof if no such new Successor Operator is elected, to be used for the purpose of conducting operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells.

4.3 Designation of Successor Operator. Should Operator resign or be removed as hereinabove provided, then Parties owning or holding fifty-one per cent (51%) or more of the Participating Interests may select a Successor Operator. Such Successor Operator so selected shall accept in writing the duties and responsibilities of Operator hereunder.

Lands and any other cause (except inability to pay money) whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the Party claiming the suspension.

4.7 Operator's and Party's Lien. As security for the payment of all sums due Operator from each Party, Operator is given a lien on the Committed Interest of each Party, and upon each Party's interest in all material and equipment installed on the Subject Land and upon its interest in all proceeds from the sale of Available Production.

Each Party is given a like lien on the Committed Interest, materials, equipment and proceeds from the sale of Available Production of the Operator as a Committed Interest owner, to secure the payment of all sums due hereunder from Operator to each such Party.

In the event Operator or any Party fails to pay, within the time limited for payment thereof, any sum owing by it for Costs, the Party to whom such sum is due is authorized, at its election and without prejudice to other remedies, to collect the amount owing from the purchaser of Available Production out of the proceeds accruing to the delinquent Party. Each purchaser of Committed Substances is authorized to rely upon Operator's statement as to the amount owing by such Party.

4.8 Advances. Operator, at its election, shall have the right, from time to time, to demand and receive from the Parties payment, in advance, for their respective shares of the estimated amount of Costs to be incurred hereunder during any month, which right may be exercised only by submitting to each Party, between the first and twentieth day of the next preceding month, an itemized statement of such estimated Costs, together with an invoice for its share thereof. Each Party shall pay to Operator its proportionate share of such estimated Costs within 15 days after such statement of estimated Costs and invoice are received. Should any Party fail to pay its share of such estimated Costs within said time, the amount due shall thereafter bear interest at the rate of 6% per annum until paid. Proper adjustment shall be made monthly between advances and actual Costs incurred.

4.9 Drilling Contracts. All wells drilled on the Subject Lands shall be drilled on a competitive contract basis; provided, however, Operator, if it so desires, may employ its own tools and equipment in the drilling, completing, deepening or plugging back of any well, but only in the event its charges, terms and conditions therefor shall have first been agreed to in writing by the Parties before such operations are commenced.

ARTICLE 5

OPERATOR'S DUTIES AND LIMITATIONS

5.1 Specific Duties. In the conduct of operations hereunder, Operator shall:

A. Drilling of Wells. Drill, complete, deepen or plug back a well or wells only in accordance with the provisions of this agreement.

B. Consultation with Parties. Consult freely with the other Parties concerning operations hereunder and keep them advised of all matters arising in operations hereunder which Operator deems important in the exercise of its best judgment.

C. Compliance with Laws and Agreements. Comply with the terms of the oil and gas leases or agreements under which each Committed Interest is held and with all applicable laws and regulations.

D. Keep Property Free from Liens. Keep the Committed Interests and all property acquired or used hereunder free and clear of all liens created by or arising from its operations under this agreement.

E. Payment of Costs. Pay all Costs incurred in operations hereunder promptly as and when due and payable and make proper charges to the Parties for their proportionate shares and should any provision of the Accounting Procedure attached as Exhibit 3 be inconsistent with any provision contained in this agreement, the provision in this agreement shall prevail.

F. Access to Subject Lands and Related Records. Each Party at all reasonable times, but at its sole risk, shall have access to the surface overlying the Subject Lands to inspect or observe operations, and each Party shall have access to all available information pertaining to operations hereunder, including Operator's books and records relating thereto. In addition, and with respect to each well drilled upon Subject Lands, Operator shall, upon request and as soon as available, furnish to each of the Parties the following:

(1) Samples of cores or cuttings to be delivered at the well in containers furnished by the Party requesting same.

(2) A copy of all drilling logs and well surveys, except velocity surveys.

(3) A copy of all core analysis reports.

(4) A copy of all reports of well tests.

(5) A copy of all daily drilling reports.

Regulatory Agencies.

(6) A copy of all Reports and Instruments filed with Governmental

5.2 Insurance. At all times while operations are being conducted hereunder, Operator shall comply with the Workmen's Compensation and Employer's Liability Laws of the state where the operations are being conducted. Operator shall also carry such insurance for the benefit of the joint account of the Parties as specified in Exhibit 5 hereto attached and made a part hereof. Operator shall require all contractors engaged in work on or for the benefit of the Subject Lands, to comply with the Workmen's Compensation and Employer's Liability Laws of the state where the Subject Lands are located, and to maintain such other insurance as Operator may require.

In the event Automobile Public Liability Insurance is specified in Exhibit 5 or is subsequently required to be carried, then, in consideration of the charge to be made by Operator under Exhibit 3 for Operator's fully owned automotive equipment used in operations hereunder (which charge will include such portion of the premiums paid for Automobile Public Liability and Property Damage Insurance on Operator's fully owned automotive equipment as is properly allocable on the basis of use hereunder), no separate charge shall be made by Operator for premiums paid for such insurance.

5.3 Taxes. Any and all ad valorem taxes payable upon the Committed Interests (and upon Lease Burdens which are not payable by the owners thereof), or upon materials, equipment or other property acquired and held by Operator hereunder, and any and all taxes (other than income taxes) upon or measured by Committed Substances produced from the Subject Lands which are not payable by the purchaser

or purchasers thereof or by the owner of Lease Burdens, shall be paid by Operator as and when due and payable and shall be charged and borne as follows:

A. Taxes upon materials, equipment and other property acquired and held by Operator hereunder shall be charged to and borne by the Parties owning the same in proportion to their respective Participating Interests therein.

B. All other taxes paid by Operator shall be charged to and borne by the Parties in proportion to their respective Beneficial Interests, except that in the case of a well owned by less than all the Parties such taxes shall be charged to and borne by the Party or Parties owning such well in the same proportions that they share in the Available Production therefrom. All reimbursements from owners of Lease Burdens, whether obtained in cash or by deduction from Lease Burdens, on account of any taxes paid for such owners shall be paid or credited to the Parties in the same proportions as such taxes were charged to such Parties.

C. Each Party shall promptly furnish Operator with copies of notices, assessments, levies or tax statements received by it pertaining to the taxes paid by Operator. Operator shall make such returns, reports and statements as may be required by law in connection with any taxes above provided to be paid by it and shall furnish copies to the Parties upon request. It shall notify the Parties of any tax which it does not propose to pay before such tax becomes delinquent.

5.4 Nondiscrimination. If any lease committed hereto contains a nondiscrimination clause, then Operator agrees as follows:

(a) In connection with the performance of work under this agreement, Operator shall not discriminate against any employee or applicant for employment because of race, religion, color or national origin. The aforesaid provision shall include, but not be limited to the following: employment, upgrading, demotion or transfer, recruitment, or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship.

(b) Operator agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by Operator setting forth the provisions of the nondiscrimination clause set forth in Section 5.4(a) above.

(c) Operator shall insert said nondiscrimination clause in all subcontracts hereunder except subcontracts for standard commercial supplies or raw materials.

5.5 Limitation on Expenditures. Operator shall not, without the consent of all Parties chargeable with the Costs thereof, undertake any single project reasonably estimated to require an expenditure in excess of Five Thousand Dollars (\$ 5,000.00);

provided that (1) whenever the Parties have authorized the drilling, completing, deepening or plugging back of a well, Operator shall (except as provided in Articles 9 and 10 hereof) be authorized to make all reasonable and necessary expenditures in connection therewith, and (2) in case of emergency, Operator may make such expenditures as, in its opinion, are necessary to safeguard life and property, but Operator shall, as promptly as possible, report the emergency to the Parties.

Operator shall furnish to each Party who makes a timely request therefor, copies of Operator's authorizations for expenditure or itemization of estimated expenditures in excess of \$ 2,000.00.

ARTICLE 6 EXAMINATION AND APPROVAL OF TITLES

6.1 No wells shall be drilled on Subject Lands until after (1) the title to the drilling unit has been examined by a reputable oil and gas attorney and (2) the title has been approved by the examining attorney or the title has been accepted by all of the Parties who are to participate in the drilling of the well.

quirements in such opinions pertaining to its Committed Interests. After an opinion has been rendered, Operator shall notify each Party in writing whether it approves or disapproves the title to each Committed Interest and if it disapproves title to any Committed Interest, it shall state the reasons therefor.

6.2 Approval of Titles. If Operator approves the title to each Committed Interest, then, within fifteen (15) days after receipt of Operator's approval, each Party shall notify Operator in writing whether it approves or disapproves the title to each Committed Interest. If any Party fails to give such notice within the time required, such Party shall be deemed to have approved the title to each Committed Interest. Any Party disapproving title to any Committed Interest shall state the reasons therefor.

6.3 No Drilling Until Title Approved. No well shall be drilled or production facilities erected on Subject Lands until title to all of the Committed Interests has been approved by all Parties in the manner herein provided.

6.4 Termination of Agreement if Title is Disapproved. In the event that title to any Committed Interest is disapproved by Operator or any other Party as herein provided, this agreement shall terminate.

ARTICLE 7 FAILURE OF TITLE

7.1 Should any oil and gas, or interest therein, be lost through failure of title, this agreement shall, nevertheless, continue in force to all remaining leases and interests, and

(1) The Party whose lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other Parties any development or operating costs which it may have theretofore paid, but there shall be no monetary liability on its part to the other Parties hereto by reason of such title failure; and

(2) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has been lost, but the interests of the Parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has occurred, so that the Beneficial Interest of the Party whose lease or interest is affected by the title failure will thereafter be reduced in subject lands by the amount of the interest lost; and

(3) If the Beneficial Interests of the other Parties hereto in any producing well theretofore drilled on subject lands is increased by reason of the title failure, the Party whose title has failed shall receive the proceeds attributable to the increase in such interests (less operating costs attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well; and

(4) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has failed, pay in any manner any part of the cost of operation, development, or equipment, or equipment previously paid under this agreement, such amount shall be proportionately paid to the party or parties hereto who in the first instance paid the costs which are so refunded; and

(5) Any liability to account to a Third Party for prior production of oil and gas which arises by reason of title failure shall be borne by the parties in the same proportions in which they shared in such prior production.

ARTICLE 9

DRILLING, COMPLETING, DEEPENING OR PLUGGING BACK OF WELLS

9.1 Joint Account Wells. ~~Except as may be otherwise provided in Exhibit A attached hereto with respect to the initial test well,~~ No well shall be drilled, completed, deepened or plugged back for the account of all Parties without the approval of all Parties.

9.2 Procedure to Initiate Drilling. Any Party may propose the drilling of a well by giving to all other Parties written notice thereof, stating (a) the location of the well, (b) the objective depth to which the well is to be drilled and whether such objective depth is the total depth specified or such lesser depth at which oil or gas may be discovered in paying quantities, and (c) the estimated cost of the well properly itemized. Each Party shall have the right to participate in the drilling of the proposed well by giving to all other Parties written notice of election so to do within thirty (30) days after receipt of the initial notice. Failure to elect to participate in the drilling of the proposed well within said thirty (30) day period shall be deemed to be an election not to participate therein, provided, however, that any Party who fails to elect or elects not to so participate within said thirty (30) day period may elect to so participate by giving written notice to all other Parties at any time prior to the actual spudding of the well. If all Parties elect to participate, the well shall be drilled for the account of all Parties, but if all Parties do not elect to so participate, the well, if drilled, shall be drilled for the account of the proposing Party and any other Party or Parties that had elected to participate within the required time, provided, however, that the well shall not be drilled for the account of less than all Parties, unless (a) the location of the well conforms to the spacing pattern, if any, then established for the pool by applicable law, order or regulation, or by the spacing then being followed in the field, and (b) operations for the drilling of the well are commenced within sixty (60) days after the giving of notice of proposal to drill the well.

9.3 Drilling by Less than All Parties. If the proposed well is drilled for the account of less than all Parties, the provisions of Article 10 relating to Relinquishment of Interest by Non-Drilling Parties shall apply to the drilling and testing of the well to the objective depth stated in the notice, but the consent to the drilling of such well shall not be deemed consent to the running and setting of the production string of casing therein or to the attempted completion thereof. After oil or gas in paying quantities has been discovered in any zone or formation in the Subject Lands, no additional well drilled for the account of less than all Parties shall be completed in the same zone or formation without the consent of all Parties, unless such additional well conforms to the spacing pattern or well density then prevailing in the pool or established by any state or governmental authority.

9.4 Election at Casing Point. After any well has been drilled to the objective depth stated in the initial notice and appropriate tests have been made, herein referred to as casing point, Operator shall give immediate notice by telegraph or telephone, to be confirmed in writing, to all Drilling Parties setting forth its recommendation with respect to the running and setting of a production string of casing and completing the well. Each such Party shall have a period of 48 hours thereafter within which to notify Operator in like manner whether or not it desires to participate in the running and setting of the production string of casing and the completion of the well. Failure of a Party to so notify Operator within the time required shall be deemed an election not to participate. If all Drilling Parties elect to participate, Operator shall conduct the proposed operation with respect to the running and setting of the production string of casing and completing the well for the account of all such Parties, but if less than all Drilling Parties elect to participate, the provisions of Article 10 relating to Relinquishment of Interest by Non-Drilling Party shall apply to the running and setting of the production string of casing and completing the well to and including flow line connections at the well head. If the running and setting of the production string of casing and the completion operations results in a dry hole, Operator shall plug and abandon the well at the cost of all Drilling Parties who participated in the drilling of the well.

9.5 Deepening or Plugging Back of Drilling Wells. If no Party elects to run a production string of casing and complete a well drilled to its objective depth as provided in Sec. 9.4 dealing with Election at Casing Point, but if Operator in its notice at casing point, or any other Drilling Party in its responsive notice as therein provided, gives notice of election to deepen or plug back the well, such notice shall be immediately transmitted by Operator to all Drilling Parties. Each such Party shall have a period of 24 hours thereafter within which to notify Operator in like manner whether or not it desires to participate in the proposed deepening or plugging back operation. If all Drilling Parties elect to participate, Operator shall conduct the proposed operation for the account of all such Parties, but if less than all Drilling Parties elect to participate, the provisions of Article 10 relating to Relinquishment of Interest by Non-Drilling Party shall apply to the deepening or plugging back operation. If conflicting proposals are made as between deepening or plugging back, the proposal for deepening shall have priority. An election to plug back shall include the running and setting of a production string of casing and the completion of the well at the plugged back depth, but when the well is deepened to its objective depth, the provisions of Sec. 9.4 providing for Election at Casing Point shall again be applicable.

9.6 Deepening or Plugging Back of Abandoned Producing Well. Whenever a well has ceased to produce in paying quantities or when the abandonment of a well that has produced is proposed by any Party owning an interest in the well, any other Party owning an interest in the well may propose the deepening or plugging back of such well by giving Operator written notice thereof, stating the objective depth to be reached, and upon receipt of such notice, or if Operator itself proposes the deepening or plugging back of such well, Operator shall give notice of such proposal to all Parties owning an interest in the well. Each such Party shall have thirty (30) days thereafter within which to give Operator written notice of whether or not it desires to participate in the proposed deepening or plugging back operation. If all Parties owning an interest in the well elect to participate, Operator shall conduct the proposed operation for the account of all such Parties, but if less than all Parties owning an interest in the well elect to participate, then, subject to the prior right of a Non-Abandoning Party to continue production as provided in Sec. 13.2, the provisions of Article 10 relating to Relinquishment of Interest by Non-Drilling Party shall apply to the deepening or plugging back operation. When the well is deepened to its objective depth, the provisions of Sec. 9.4 providing for Election at Casing Point shall be applicable.

9.7 Contributions. In the event any Party proposing the drilling of a well has received an offer, either oral or in writing, for a cash or acreage contribution for the drilling of the well, it shall so state in its initial notice and if any such offer for a cash or acreage contribution is thereafter received before the actual drilling of the well is commenced, such Party shall promptly notify all Non-Drilling Parties by telegram, and all such Non-Drilling Parties shall thereupon have the right, by notifying Operator

before the actual spudding in of the well, to participate as a Drilling Party in the drilling of the well. Any such contribution, when received, shall be apportioned among the Drilling Parties in accordance with their participation in the Cost of the drilling for which the contribution was acquired.

9.8 It is understood that Operator as designated in the preceding Paragraph 1.5 of Article 1 may have the same rights with respect to the proposal of any drilling, completing, deepening or plugging back of wells as set forth in the preceding paragraphs of this Article 9 but in the event at the time of the initiation of such proposal the said Operator is not the owner of any Participating Interest and Beneficial Interest as defined under the terms of this agreement, then the said Operator shall not have the right and privilege to proceed with the proposed drilling, completing, deepening or plugging back of a well unless the same is specifically consented to by one or more of the Participating Interest Owners in conformity with the provisions hereinbefore set forth in this Article, but, further, in the latter event Operator may drill, complete, deepen or plug back the well for the account of the Drilling Party or Parties all in the manner provided for above in this Article.

Costs (after deducting applicable taxes and lease burdens payable by the Operator) shall equal the sum of the following:

(a) 100% of that portion of the operating costs of the well until reversion as herein provided that would have been chargeable to such Non-Drilling Party's Participating Interest had the drilling, completing, deepening or plugging back operation, whichever is applicable, been conducted for the accounts of all Parties; and

(b) If the operation be the drilling of a well, 300% of that portion of the Cost thereof to the objective depth which would have been chargeable to such Non-Drilling Party had all Parties participated in such operation; or

(c) If the operation be the running and setting of a production string of casing and completing the well, 300% of that portion of the Cost thereof, up to and including the flow line connection at the well head, which would have been chargeable to such Non-Drilling Party had all Parties participated in such operation; or

(d) If the operation be the deepening or plugging back of a well, 300% of that portion of the intangible Cost thereof, together with equipment costs only for newly acquired equipment in the well up to and including the flow line connection at the well head which would have been chargeable to such Non-Drilling Party had all Parties participated therein.

From and after such reversion, such Non-Drilling Party shall bear that percentage of all Costs thereafter incurred in the operation of the well that is equal to its Participating Interest and shall own that percentage of Committed Substances that is equal to its Beneficial Interest.

The Cost of any such operation conducted for less than all Parties shall be determined in accordance with Exhibit 3 and a full statement of such Cost thereof shall be furnished by the Operator to all Parties within sixty (60) days after the completion of any such operation; provided, however, that the Operator may, in lieu of such full statement, submit monthly a statement of the Costs incurred during the preceding month. Until Non-Drilling Party's relinquished interest reverts to it, Operator shall furnish to all Parties, once each month, a statement of the Cost of operating the well, such Costs being likewise determined in accordance with Exhibit 3 and also Operator shall furnish monthly to such Parties a statement of the quantity of the Committed Substances produced from the well during the preceding month together with the amount of the proceeds realized from the sale of all available production from the well during the preceding month.

In the event more than one operation is conducted for the account of less than all Parties, then the provisions of this section with respect to the recovery by Drilling Parties and reversion of relinquished interest shall be applied in the inverse order to that in which the operations were conducted until the interest relinquished for each such operation has reverted, provided that recovery of the Costs of any operation under this section shall be only payable out of the production resulting from such operation.

10.3 **Materials and Equipment Used in Non-Joint Operation.** All materials and equipment in or appurtenant to a well in which an operation for drilling a well is conducted for less than all Parties shall be owned by the Parties in proportion to their respective contributions to the cost thereof. In case of an operation for the running and setting of a production string of casing and attempted completion of a well, or in case of a deepening or plugging back operation, any materials or equipment that is in or appurtenant to the well at the time of the commencement of the operation and which is necessary for the conduct of such operation may be used by Drilling Parties so long as necessary, but the ownership thereof shall not change. Upon reversion to a Non-Drilling Party of its relinquished interest, such Non-Drilling Party shall become the owner of that same interest in the materials and equipment acquired for the operation conducted for less than all Parties which such Non-Drilling Party would have owned had such operation been conducted for the account of all Parties. Any amount realized from the sale or disposition of equipment acquired in connection with any operation conducted under this Article 10 which would otherwise be owned by a Non-Drilling Party had it participated therein shall be credited to the total unreturned cost of such operation and the cost of operating the well that is chargeable against the relinquished interest of such Non-Drilling Party as above provided, and the balance, if any, shall be paid to such Non-Drilling Party.

10.4 The above provisions of this Article 10 are subject to the limitation expressed in Paragraph 9.8 of the preceding Article 9 hereof with respect to the right of the said Operator designated in the preceding Paragraph 1.5 of Article 1 to propose the drilling, completing, deepening or plugging back of wells set forth in the said Article 9.

Available Production, and on all purchases or sales, each Party shall execute any division order or contract of sale pertaining to its share of Available Production.

11.2 Failure to Take in Kind. In event any Party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of available Production, Operator shall have the right for the time being, subject always to revocation at will by the Party owning the same, to purchase such Available Production or to sell the same to others at not less than the market price prevailing in the area for production of the same quality and at not less than the price which Operator receives for its own portion of Available Production; provided that all contracts of sale by Operator of Non-Operator's share of Available Production shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year.

ARTICLE 12 TRANSFERS OF INTERESTS

12.1 Assumption of Obligations. No Party shall make any transfer of its Committed Interest without making the transfer expressly subject to this agreement and requiring the transferee, in writing, to assume and to agree to perform all obligations of the transferor under this agreement relating to the interest assigned. No transfer of a Committed Interest shall be effective as between the Parties until the first day of the month following the delivery to the Operator of the original or a certified copy of the instrument of transfer conforming to the requirements of this Section. No such transfer shall relieve the transferring Party of any obligations accrued hereunder prior to such effective date, and any agreement to participate in the drilling, completing, deepening, or plugging back of a well prior to such effective date shall be deemed an accrued obligation as to all costs subsequently incurred in connection therewith.

12.2 Multiple Transferees. If the Committed Interest of any Party is transferred to four or more transferees, Operator may, at its discretion, require such transferees to appoint a single trustee with full authority to receive notices and payments, approve expenditures and pay the share of Costs which is chargeable against such transferees.

ARTICLE 13 ABANDONMENT

13.1 Consent Required. No well that has been completed as a producer shall be plugged and abandoned nor shall the operation of such a well for production, from the formations or zones in which it has been completed, be discontinued without the written consent of all parties then owning the well.

13.2 Election to Continue Production. If any Party proposes the abandonment or discontinuance of production from a well that has been completed as a producer, Operator shall give written notice thereof to all other Parties then owning an interest in the well. Within 30 days after receipt of such notice by the Operator, any Party who objects to the abandonment of the well and desires to attempt to continue to produce the well from the formation or zone in which it is then completed (herein called Non-Abandoning Party) may give written notice thereof to all other Parties (herein called Abandoning Parties) then having an interest in the well, whereupon the Non-Abandoning Party, or Parties, shall pay to the Abandoning Party, or Parties, their respective shares of the Salvage Value of the materials and equipment in or pertinent to the well. If any Party makes a proposal to deepen or plug back the well in accordance with Articles 9 and 10 hereof, the right to continue to produce the well under the provisions of this Article 13 shall have priority.

13.3 Relinquishment of Interest to Non-Abandoning Party. Upon the making of the payment provided for in Section 13.2, the Abandoning Party shall be deemed to have relinquished unto the Non-Abandoning Party, or Parties, all of their operating rights and working interest in the well and the area described for such well by spacing order of state or governmental authority, or if there is no such order, the area established for such well by the spacing pattern then in use in the field, or if there is no such order or spacing pattern, then the 40 acre legal subdivision, or fractional lot or lots, approximating the same, embracing such well, if it be an oil well, or 320 acre legal subdivision or fractional lot or lots approximating or included within the same, if it be a gas well, but only with respect to the formation or zone in which such well is then completed together with all of its interest in the materials and equipment in or pertinent to the well. If there is more than one Non-Abandoning Party, each shall be deemed to have acquired the operating rights and working interest so relinquished in the proportion that the Participating Interest of each such Party immediately prior to such relinquishment then bears to the total Participating Interests of all Non-Abandoning Parties.

13.4 Operation Continued by Non-Abandoning Parties as Segregated Lands. After the relinquishment above provided for in Section 13.3 the tract so relinquished shall be operated by the Non-Abandoning Parties as Segregated Lands in accordance with Article 15 hereof; provided, however, that when the Non-Abandoning Parties desire to ultimately abandon the well, notice shall be given to Operator, and the provisions of Articles 9 and 10 insofar as they relate to the right to deepen or plug back the well shall again be applicable.

If operations for deepening or plugging back are conducted in such well, an adjustment will be made so that the ownership of the well will be vested in the Parties participating in such operations, and the Party owning such equipment before such adjustment shall be reimbursed by the Parties acquiring interests therein in proportion to their share of the new ownership of such equipment based upon its then salvage value in accordance with the Accounting Procedure attached hereto as Exhibit 3.

13.5 Obligations of Non-Abandoning Parties. The Non-Abandoning Parties shall bear the Costs of any additional tankage, flow lines or other facilities needed to measure separately the Committed Substances produced from the well and if the well is not subsequently deepened or plugged back in compliance with the provisions of Articles 9 and 10, all costs of plugging and abandoning the well shall be borne by the Non-Abandoning Parties.

ARTICLE 14 SURRENDER

14.1 Right to Surrender. Except as provided in Section 14.2 hereof, no Committed Interest in the Subject Land shall be surrendered in whole or in part without the consent of all Parties.

14.2 Offer of Assignment by Surrendering Parties. Whenever any Party desires to surrender its

Committed Interest or any portion thereof, it shall give notice thereof in writing to the other Parties. Any Party receiving such notice shall have the right at its election, within 15 days thereafter, to take from the Party desiring to surrender, an assignment without warranty, express or implied, of all of the interest desired to be surrendered by paying to the Party desiring to surrender, its share of the Salvage Value of any salvable materials and equipment then located on the land covered by such Committed Interest. After such assignment, the assigning Party shall be relieved from all obligations thereafter accruing with respect to the Committed Interest so assigned, except that the assigning Party shall remain liable for its portion of any rental payable under such Committed Interest within 30 days after the giving of the notice of intention to surrender. If the assignment is to more than one Party, the interest so assigned shall be apportioned among the assignees in the proportion that the Participating Interest of each (prior to assignment) bears to the Participating Interest of all assignees. If no Party elects to take such assignment within said 15 day period, the Parties desiring to surrender may thereupon surrender their Committed Interest.

14.3 Operation of Assigned Interest as Segregated Lands. Any assignment or surrender made pursuant to the provisions of this Article shall not change the Participating or Beneficial Interests of the Parties, provided that, after such assignment, the lands covered by the Committed Interest so assigned shall be operated as Segregated Lands in accordance with Article 15 hereof.

ARTICLE 15 SEGREGATED LANDS

15.1 Lands Treated as Segregated. In the event of an assignment pursuant to Articles 13 and 14, or in the event of an acreage contribution pursuant to Article 9, the lands covered by such assignment or acreage contribution shall be treated as Segregated Lands under this agreement.

15.2 Operation of Segregated Lands. All operations on Segregated Lands shall be conducted by Operator for the account of and at the expense of the Party or Parties owning Committed Interests therein, provided, however, that if the Party designated as Operator hereunder has no interest in the Segregated Lands, the Parties having Committed Interests then shall designate the Operator for such Segregated Lands who shall, with respect to such Segregated Lands, have all of the rights, powers and duties of Operator under this agreement. Except for the proportion of the Beneficial and Participating Interests of the Parties, the rights and obligations of the Parties with respect to such Segregated Lands shall be the same as if the Parties had entered into an agreement identical with this agreement, but covering only such Segregated Lands.

15.3 Interest of Parties in Segregated Lands. After an assignment creating Segregated Lands, as above provided, has been made, the assigning Parties shall cease to have any interest in the land which become Segregated Lands with respect to the interest assigned, and the Participating Interest and Beneficial Interest therein of the assigning Party shall be deemed to have been transferred to and acquired by the Party or Parties receiving such assignment. In the event two or more Parties are assignees of Committed Interests which become Segregated Lands, the Participating Interest and Beneficial Interest of each shall be apportioned among themselves in the same proportion that their several Participating Interests bear to the total Participating Interest of all assignees. Each of the other Parties retaining an interest in the Segregated Lands shall retain the same Participating Interest and Beneficial Interest therein as it had immediately prior to such assignment.

ARTICLE 16 LIABILITY OF PARTIES AND PARTNERSHIP ELECTION

16.1 Liability of Parties. The liability of the Parties shall be several, not joint or collective. Each Party shall be responsible only for its obligations herein set forth. It is not the intention of the Parties to create a partnership and this agreement shall not be construed so as to render the Parties liable as partners, associates, or joint venturers or as creating a mining or other partnership or association.

16.2 Partnership Election. All of the Parties hereto agree to elect, and do hereby elect, that all operations hereunder, and all Parties hereto with respect to such operations, be excluded from the application of all of the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954 and all amendments thereto. If the income tax laws of the state or states, in which the property covered hereby is located, contain, or hereafter contain, provisions similar to those in the aforesaid Subchapter under which a similar election is permitted, all of the Parties make the same election. Each Party agrees to furnish necessary information and execute such documents to evidence or effectuate the election as may be requested by Operator, and each Party authorizes and directs Operator to execute and file with the proper office or agency whatever documents are required to evidence or effectuate such election.

ARTICLE 17 NOTICES

17.1 Giving and Receipt. Except as otherwise specified herein, any notice provided for or permitted to be given by Operator or by a Party, shall be given in writing, by delivery in person, or by United States mail or by telegraph, properly addressed to each Party to whom given, with postage and charges prepaid. A notice given under any provision hereof shall be deemed given only when received by the Party to whom such notice is directed; except that any notice given by United States registered or certified mail or by telegraph properly addressed to the Party to whom given, with all postage and charges prepaid, shall be deemed given to and received by the Party to whom directed 48 hours after such notice is deposited in the United States mail, or 24 hours after such notice is filed with an operating telegraph company for immediate transmission by telegraph; and except also that a notice to Operator shall not be deemed given until actually received by Operator.

17.2 Proper Addresses. The address of each Party as set forth under or near its signature hereto or in the premises hereof shall be deemed its proper address until such Party gives all other Parties notice of its new address.

ARTICLE 18 HEADINGS FOR CONVENIENCE

18.1 Headings. The headings used in this agreement are inserted for convenience only and shall be disregarded in construing this agreement.

ARTICLE 19
EFFECTIVE DATE AND TERM

19.1 *Effective Date.* This agreement shall become effective as of the date first above mentioned.

19.2 *Term.* This agreement shall remain in force and effect for a period oftwo...(2)....years
..... and so long thereafter as any Committed Interest or any extension or renewal thereof, remains in force; provided, however, that if at any time after said period there shall be no well on Subject Lands capable of producing a Committed Substance in paying quantities and ..six...(6).... months (plus the period of force majeure, if any), shall have elapsed without the conduct of any operations for the drilling, deepening, plugging back or reworking of any well, this agreement shall terminate.

19.3 *Effect of Termination.* Notwithstanding termination of this agreement, the provisions hereof relating to the charging and payment of Costs and the disposition of materials and equipment shall continue in force until all materials and equipment owned by the Parties have been disposed of, and until final accounting between Operator and the Parties has been made. Termination of this agreement shall automatically terminate all rights and interests acquired by virtue of this agreement in the Subject Lands, except such transfers of Committed Interests as have been evidenced by formal written instrument of transfer.

19.4 *Effect of Signature.* This agreement shall not become binding upon any Party signatory hereto unless all Parties named in the premises hereof have executed this agreement or a counterpart hereof.

ARTICLE 20
OTHER PROVISIONS

Other provisions, if any, are:

20.1 *TOCITO UNIT.* The Tocito formation underlying the subject lands is subject to a water flood program, and, accordingly, all Tocito production shall be considered as produced from a Tocito Unit, and not as having been produced from any particular well or wells.

All costs of drilling, equipping, operating, maintaining and re-working Tocito input wells, production wells or wells to supply water for the Tocito water flood (without regard to whether any such well is a success or failure) and all costs of building, equipping, operating and maintaining the water flood plant and flow lines and extensions thereof and additions thereto and all costs of every kind relating to the water flooding of the Tocito formation (without regard to the success thereof) shall be regarded as costs of the Tocito unit and shall not be allocated to or among any particular producing Tocito well or wells. But if a well is projected to be drilled, plugged back or re-worked for use in the Tocito unit and thereafter is deepened, plugged back or otherwise re-worked for a projected use other than for the Tocito unit, only the costs attributable to reaching the point projected for use of the well in the Tocito unit shall be charged as costs of the Tocito unit.

In connection with any project relating to the Tocito unit, the Relinquishment of Interest provision of Section 10.2 of Article 10 shall be modified to provide for recovery by the Drilling Parties of 100% of operating costs, and 200% of all other costs, from all production of the Tocito unit.

The provisions of this Section shall supersede other provisions of the Operating Agreement only insofar as inconsistent therewith.

20.2 *OTHER AGREEMENTS.* This agreement shall hereby supersede and replace any prior operating agreement or amendment or supplement thereto covering subject lands or any part thereof.

IN WITNESS WHEREOF, this agreement has been executed by the undersigned Parties as of the day and year first above written.

Address:
1130 First National Bank Bldg.
Denver 2, Colorado

CAULKINS OIL COMPANY
By: Keith E. Brown
Keith E. Brown, Vice-President
ATTEST: Arnold E. Raether
Arnold E. Raether, Asst. Secretary

Address:
Box 236
Bloomfield Hills, Michigan

Operator
Ernest R. Breech
Ernest R. Breech

Address:
825 Petroleum Club Bldg.
Denver, Colorado

COMPANY
WESTERN DEVELOPMENT CO. OF DELAWARE
By: W. B. Macey
President
ATTEST: J. K. Kowalski
Assistant Secretary

Address:
1700 Club-Exchange Bldg.
Detroit 26, Michigan

Ernest Kanzler
Ernest Kanzler

Address:
1700 Club-Exchange Bldg.
Detroit 26, Michigan

Ernest Kanzler
Ernest Kanzler, Trustee for
Ernest Kanzler, Jr.

Address:
1700 Club-Exchange Bldg.
Detroit 26, Michigan

Ernest Kanzler
Ernest Kanzler, Trustee for
Robert Hudson Kanzler

Address:
197 North Canon Drive
Beverly Hills, California

Lorena Mayer Nidorf
Lorena Mayer Nidorf

Address:
150 Bagley Ave., Suite 1700
Detroit 26, Michigan

George Herbert Zimmerman
George Herbert Zimmerman

Address:
150 Bagley Ave., Suite 1700
Detroit 26, Michigan

George Herbert Zimmerman
George Herbert Zimmerman,
Trustee for Georgia Zimmerman

Address:
150 Bagley Ave., Suite 1700
Detroit 26, Michigan

George Herbert Zimmerman
George Herbert Zimmerman,
Trustee for Elaine Zimmerman

Address:
150 Bagley Ave., Suite 1700
Detroit 26, Michigan

George H. Zimmerman
George H. Zimmerman, Trustee
for Doris Zimmerman

Address:
150 Bagley Ave., Suite 1700
Detroit 26, Michigan

George Herbert Zimmerman
George Herbert Zimmerman,
Trustee for Jessie Zimmerman
Hitchens

Address:
150 Bagley Ave., Suite 1700
Detroit 26, Michigan

Mary H. Zimmerman
Mary H. Zimmerman, Successor
Trustee for Helen Zimmerman

IN WITNESS WHEREOF, this agreement has been executed by the undersigned Parties as of the day and year first above written.

Address:
1130 First National Bank Bldg.
Denver 2, Colorado

CAULKING OIL COMPANY
By: Keith L. Brown
Keith L. Brown, Vice-President
ATTEST: Arnold E. Raether
Arnold E. Raether, Asst. Secretary

Operator

Address:
Box 236
Bloomfield Hills, Michigan

Ernest R. Breech

Address:
825 Petroleum Club Bldg.
Denver, Colorado

COMPANY
WESTERN DEVELOPMENT CO. OF DELAWARE
By W. B. Mace
President
ATTEST: J. V. Kowalski
Assistant Secretary

Address:
1700 Club Exchange
Detroit 26, Michigan

Ernest Kanzler

Address:
1700 Club Exchange
Detroit 26, Michigan

Ernest Kanzler, Trustee for
Ernest Kanzler, Jr.

Address:
1700 Club Exchange
Detroit 26, Michigan

Ernest Kanzler, Trustee for
Robert Hudson Kanzler

Address:
197 North Canon Drive
Beverly Hills, California

Lorena Mayer Nidorf
Lorena Mayer Nidorf

Address:
150 Bagley Ave., Suite 1700
Detroit 26, Michigan

George Herbert Zimmerman

Address:
150 Bagley Ave., Suite 1700
Detroit 26, Michigan

George Herbert Zimmerman,
Trustee for Georgia Zimmerman

Address:
150 Bagley Ave., Suite 1700
Detroit 26, Michigan

George Herbert Zimmerman,
Trustee for Elaine Zimmerman

Address:
150 Bagley Ave., Suite 1700
Detroit 26, Michigan

George H. Zimmerman, Trustee
for Doris Zimmerman

Address:
150 Bagley Ave., Suite 1700
Detroit 26, Michigan

George Herbert Zimmerman,
Trustee for Jessie Zimmerman
Hitchens

Address:
150 Bagley Ave., Suite 1700
Detroit 26, Michigan

Mary H. Zimmerman, Successor
Trustee for Helen Zimmerman

Address:
150 Bagley Ave., Suite 1700
Detroit 26, Michigan

Mary H. Zimmerman
Mary H. Zimmerman, Guardian of the
Estate of Louis Zimmerman, a minor

STATE OF COLORADO)
) SS.
CITY AND COUNTY OF DENVER)

On this 28th day of September, 1962, before me appeared Keith L. Brown, to me personally known, who, being by me duly sworn, did say that he is the Vice-President of Caulkins Oil Company, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its board of directors and said Keith L. Brown acknowledged said instrument to be the free act and deed of said corporation.

Given under my hand and seal the day and year last above written.

My commission expires :

June 20 1963

Eva Pusk
Notary Public

STATE OF Michigan)
) SS.
COUNTY OF Wayne)

Before me, the undersigned, a Notary Public, within and for said County and State, on this 28th day of September, 1962, personally appeared Ernest R. Breech, to me personally known to be the identical person who executed the within and foregoing instrument and acknowledged to me that he executed the same as his free and voluntary act and deed for the uses and purposes therein set forth.

In witness whereof, I have hereunto set my hand and official seal the day and year last above written.

My commission expires :

July 24 1966

Walter E. Rogers
Notary Public

Walter E. Rogers, Notary Public, Wayne County
My Commission Expires July 24, 1966

STATE OF COLORADO)
) SS.
COUNTY OF DENVER)

On this 26 day of September, 1962, before me appeared ^{W.B. Macey} ~~by me~~ duly sworn, did say that he is the President of Western Development Co. of Delaware, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its board of directors and said W.B. Macey acknowledged said instrument to be the free act and deed of said corporation.

In witness whereof, I have hereunto set my hand and official seal the day and year last above written.

My commission expires :

November 25, 1964

Cecil L. Lradis
Notary Public

STATE OF MICHIGAN)
) SS.
COUNTY OF WAYNE)

Before me, the undersigned, a notary public, within and for said County and State, on this 10th day of October, 1962, personally appeared Ernest Kanzler, individually, and Ernest Kanzler, as Trustee for Ernest Kanzler, Jr., and Ernest Kanzler, Trustee for Robert Hudson Kanzler, to me personally known to be the identical person who executed the within and foregoing instrument and acknowledged to me that he executed the same as his free and voluntary act and deed for the uses and purposes therein set forth.

In witness whereof, I have hereunto set my hand and official seal the say and year last above written.

My commission expires: August 16, 1965

Edward M. Burke, Jr.
Notary Public

Notary Public, Wayne County, Mich.
My Commission Expires Aug. 16, 1965

STATE OF _____)
) SS.
COUNTY OF _____)

Before me, the undersigned, a notary public, within and for said County and State, on this _____ day of _____, 1962, personally appeared Lorena Mayer Nidorf, to me personally known to be the identical person who executed the within and foregoing instrument and acknowledged to me that she executed the same as her free and voluntary act and deed for the uses and purposes therein set forth.

In witness whereof, I have hereunto set my hand and official seal the day and year last above written.

My commission expires : _____

Notary Public

STATE OF Michigan)
) SS.
COUNTY OF Wayne)

Before me, the undersigned, a notary public, within and for said County and State, on the 14th day of October, 1962, personally appeared George Herbert Zimmerman, individually, and George Herbert Zimmerman, as Trustee for Georgia Zimmerman, and George Herbert Zimmerman, as Trustee for Elaine Zimmerman, and George H. Zimmerman as Trustee for Doris Zimmerman, and George Herbert Zimmerman, as Trustee for Jessie Zimmerman Hitchens, to me personally known to be the identical person who executed the within and foregoing instrument and acknowledged to me that he executed the same as his free and voluntary act and deed for the uses and purposes therein set forth.

In witness whereof, I have hereunto set my hand and official seal the day and year last above written.

My commission expires: May 21, 1963

Alma M. Navarre
Notary Public

ALMA M. NAVARRE

Notary Public, Wayne Co. Mich.
My Comm. Expires May 21, 1963

STATE OF Michigan)
) SS.
COUNTY OF Wayne)

Before me, the undersigned, a notary public, within and for said County and State, on this 14th day of October, 1962, personally appeared Marv H. Zimmerman, as Successor Trustee for Helen Zimmerman and Mary H. Zimmerman, as Guardian of the Estate of Louis Zimmerman, a minor, to me personally known to be the identical person who executed the within and foregoing instrument and acknowledged to me that she executed the same as her free and voluntary act and deed for the uses and purposes therein set forth.

In witness whereof, I have hereunto set my hand and official seal the day and year last above written.

My commission expires: May 21, 1963

Alma M. Navarre
Notary Public

ALMA M. NAVARRE
Notary Public, Wayne Co. Mich.
My Comm. Expires May 21, 1963

STATE OF _____)
COUNTY OF _____) SS.

Before me, the undersigned, a notary public, within and for said County and State, on this _____ day of _____, 1962, personally appeared Ernest Kanzler, individually, and Ernest Kanzler, as Trustee for Ernest Kanzler, Jr., and Ernest Kanzler, Trustee for Robert Hudson Kanzler, to me personally known to be the identical person who executed the within and foregoing instrument and acknowledged to me that he executed the same as his free and voluntary act and deed for the uses and purposes therein set forth.

In witness whereof, I have hereunto set my hand and official seal the say and year last above written.

My commission expires: _____
Notary Public

STATE OF CALIFORNIA)
COUNTY OF LOS ANGELES) SS.

Before me, the undersigned, a notary public, within and for said County and State, on this 24th day of October, 1962, personally appeared Lorena Mayer Nidorf, to me personally known to be the identical person who executed the within and foregoing instrument and acknowledged to me that she executed the same as her free and voluntary act and deed for the uses and purposes therein set forth.

In witness whereof, I have hereunto set my hand and official seal the day and year last above written.

My commission expires : _____
My Commission Expires Sept. 27, 1963 Notary Public

STATE OF _____)
COUNTY OF _____) SS.

Before me, the undersigned, a notary public, within and for said County and State, on the _____ day of _____, 1962, personally appeared George Herbert Zimmerman, individually, and George Herbert Zimmerman, as Trustee for Georgia Zimmerman, and George Herbert Zimmerman, as Trustee for Elaine Zimmerman, and George H. Zimmerman as Trustee for Doris Zimmerman, and George Herbert Zimmerman, as Trustee for Jessie Zimmerman Hitchens, to me personally known to be the identical person who executed the within and foregoing instrument and acknowledged to me that he executed the same as his free and voluntary act and deed for the uses and purposes therein set forth.

In witness whereof, I have hereunto set my hand and official seal the day and year last above written.

My commission expires: _____
Notary Public

STATE OF _____)
COUNTY OF _____) SS.

Before me, the undersigned, a notary public, within and for said County and State, on this _____ day of _____, 1962, personally appeared Marv H. Zimmerman, as Successor Trustee for Helen Zimmerman and Mary H. Zimmerman, as Guardian of the Estate of Louis Zimmerman, a minor, to me personally known to be the identical person who executed the within and foregoing instrument and acknowledged to me that she executed the same as her free and voluntary act and deed for the uses and purposes therein set forth.

In witness whereof, I have hereunto set my hand and official seal the day and year last above written.

My commission expires: _____
Notary Public

EXHIBIT I
OF JOINT OPERATING AGREEMENT
BETWEEN CAULKINS OIL COMPANY
AND ERNEST R. BREECH,
ET AL.

DATED As Of July 1, 1962

PART I

DESCRIPTION OF SUBJECT LANDS

- Tract 125*
Co. Owners All of Section 18, Township 26 North, Range 6 West, and all of Sections 13 and 23, and the North Half and the Southwest Quarter of Section 24, Township 26 North, Range 7 West; (SF-079034) - (NM-03733)
- Tract 126*
Co. Owners All of Sections 8, 9 and 10, and the North Half and the Southeast Quarter of Sec. 17, Township 26 North, Range 6 West; (SF-079035-A) - (NM-016324)
- Tract 127*
Co. Owners All of Section 7, Township 26 North, Range 6 West, and the North Half and the Southwest Quarter of Section 14, Township 26 North, Range 7 West; (SF-079083) - (NM-03381)
- Tract 128*
Co. Owners All of Sections 12 and 14 and the North Half and the Southeast Quarter of Section 13, Township 26 North, Range 6 West; (SF-079184) - (NM-03554)
- Tract 129*
Co. Owners All of Section 11, and the North Half of Section 15, and the East Half and the Southwest Quarter of Section 22, and the North Half and the Southeast Quarter of Section 21, Township 26 North, Range 6 West; (SF-079185) - (NM-03553)
- Tract 130*
Co. Owners The South Half and the Northeast Quarter of Section 1, all of Sections 3 and 4, and the East Half and the Southwest Quarter of Section 5, Township 26 North, Range 6 West; (SF-079186 - (NM-03551) and
- Tract 131*
Co. Owners All of Sections 33 and 35, and the East Half of Section 34, in Township 27 North, Range 6 West; (SF-079210) - (NM-03547)

PART II

COMMITTED INTERESTS

Ernest R. Breech	Company	5%
Western Development Co. of Delaware		45%
Ernest Kanzler		18%
Ernest Kanzler, Trustee for		
Ernest Kanzler, Jr.		6%
Ernest Kanzler, Trustee for		
Robert Hudson Kanzler		6%
Lorena Mayer Nidorf		10%
George Herbert Zimmerman		1%
George Herbert Zimmerman, Trustee		
for Georgia Zimmerman		1%
George Herbert Zimmerman, Trustee		
for Elaine Zimmerman		2%
George H. Zimmerman, Trustee for		
Doris Zimmerman		2%
George Herbert Zimmerman, Trustee		
for Jessie Zimmerman Hitchens		2%
Mary H. Zimmerman, Successor Trustee		
for Helen Zimmerman		1%
Mary H. Zimmerman, Guardian of the		
Estate of Louis Zimmerman, a		
Minor		1%
Total		100%

EXHIBIT " 3 "

PASO-T-1955-2

Attached to and made a part of JOINT OPERATING AGREEMENT BETWEEN
CAULKINS OIL COMPANY AND ERNEST R. BREECH, ET AL.
 DATED As Of July 1, 1962

ACCOUNTING PROCEDURE

(UNIT AND JOINT LEASE OPERATIONS)

I. GENERAL PROVISIONS

1. Definitions

"Joint property" as herein used shall be construed to mean the subject area covered by the agreement to which this "Accounting Procedure" is attached.

"Operator" as herein used shall be construed to mean the party designated to conduct the development and operation of the subject area for the joint account of the parties hereto.

"Non-Operator" as herein used shall be construed to mean any one or more of the non-operating parties.

2. Statements and Billings

Operator shall bill Non-Operator on or before the last day of each month for its proportionate share of costs and expenditures during the preceding month. Such bills will be accompanied by statements, reflecting the total costs and charges as set forth under Subparagraph A 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. Statements as follows:

(1) Detailed statement of material ordinarily considered controllable by operators of oil and gas properties;

(2) Statement of ordinary charges and credits to the joint account summarized by appropriate classifications indicative of the nature thereof; and

(3) Detailed statement of any other charges and credits.

3. Payments by Non-Operator

Each party 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 per cent (6%) per annum until paid.

4. Adjustments

Payment of any such bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof. Subject to the exception noted in Paragraph 5 of this section I, all statements rendered to Non-Operator 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 Non-Operator takes written exception thereto and makes claim on Operator for adjustment. Failure on the part of Non-Operator to make claim on Operator for adjustment within such period shall establish the correctness thereof and preclude the filing of exceptions thereto or making of claims for adjustment thereon. The provisions of this paragraph shall not prevent adjustments resulting from physical inventory of property as provided for in Section VI, Inventories, hereof.

5. 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, that Non-Operator must take written exception to and make claim upon the Operator for all discrepancies disclosed by said audit within said twenty-four (24) month period. 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. DEVELOPMENT AND OPERATING CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the joint account with the following items:

1. Rentals and Royalties

Delay or other rentals, when such rentals are paid by Operator for the joint account; royalties, when not paid directly to royalty owners by the purchaser of the oil, gas, casinghead gas, or other products.

2. Labor

A. Salaries and wages of Operator's employees directly engaged on the joint property in the development, maintenance, and operation thereof, including salaries or wages paid to geologists and other employees who are temporarily assigned to and directly employed on a drilling well.

B. Operator's cost of holiday, vacation, sickness and disability benefits, and other customary allowances applicable to the salaries and wages chargeable under Subparagraph 2 A and Paragraph 11 of this Section II. Costs under this Subparagraph 2 B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable under Subparagraph 2 A and Paragraph 11 of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Costs of expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's labor cost of salaries and wages as provided under Subparagraphs 2 A, 2 B, and Paragraph 11 of this Section II.

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 that the total of such charges shall not exceed ten per cent (10%) of Operator's labor costs as provided in Subparagraphs A and B of Paragraph 2 of this Section II and in Paragraph 11 of this Section II.

4. Material

Material, equipment, and supplies purchased or furnished by Operator for use of 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, equipment, material, and supplies necessary for the development, maintenance, and operation of the joint property subject to the following limitations:

A. If material is moved to the joint property from vendor's or 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 such material is available, except by special agreement with Non-Operator.

- 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 from the nearest reliable supply store or railway receiving point, except by special agreement with Non-Operator. No charge shall be made to the joint account for moving material to other properties belonging to Operator, except by special agreement with Non-Operator.
- 6. Service**
- A. Outside Services:
The cost of contract services and utilities procured from outside sources.
- B. Use of Operator's Equipment and Facilities:
Use of and service by Operator's exclusively owned equipment and facilities as provided in Paragraph 5 of Section III entitled "Operator's Exclusively Owned Facilities."
- 7. Damages and Losses to Joint Property and Equipment**
- All costs or expenses necessary to replace or repair damages or losses incurred by fire, flood, storm, theft, accident, or any other cause not controllable by Operator through the exercise of reasonable diligence. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after report of the same has been received by Operator.
- 8. Litigation Expense**
- All costs and expenses of litigation, or legal services otherwise necessary or expedient for the protection of the joint interests, including attorneys' fees and expenses as hereinafter provided, together with all judgments obtained against the parties or any of them on account of the joint operations under this agreement, and actual expenses incurred by any party or parties hereto in securing evidence for the purpose of defending against any action or claim prosecuted or urged against the joint account or the subject matter of this agreement.
- A. If a majority of the interests hereunder shall so agree, actions or claims affecting the joint interests hereunder may be handled by the legal staff of one or more of the parties hereto; and a charge commensurate with cost of providing and furnishing such services rendered may be made against the joint account; but no such charge shall be made until approved by the legal departments of or attorneys for the respective parties hereto.
- B. Fees and expenses of outside attorneys shall not be charged to the joint account unless authorized by the majority of the interests hereunder.
- 9. Taxes**
- All taxes of every kind and nature assessed or levied upon or in connection with the properties which are the subject of this agreement, the production therefrom or the operation thereof, and which taxes have been paid by the Operator for the benefit of the parties hereto.
- 10. Insurance and Claims**
- A. Premiums paid for insurance required to be carried for the benefit of the joint account, together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including legal services, not recovered from insurance carrier.
- B. If no insurance is required to be carried, all actual expenditures incurred and paid by Operator in settlement of any and all losses, claims, damages, judgments, and any other expenses, including legal services, shall be charged to the joint account.
- 11. District and Camp Expense (Field Supervision and Camp Expense)**
- ~~A pro rata portion of the salaries 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 (or a comparable office if location changed), and necessary suboffices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in the conduct of the operations on the joint property and other properties operated in the same locality. The expense of, less any revenue from, these facilities should be inclusive of depreciation or a fair monthly rental in lieu of depreciation on the investment. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.~~

Operator shall make a monthly charge of \$100.00 for the operation of the Tacito Gas Compressor Plant and water injection system.

12. Administrative Overhead

Operator shall have the right to assess against the joint property covered hereby the following management and administrative overhead charges, which shall be in lieu of all expenses of all offices of the Operator not covered by Section II, Paragraph 11, above, including salaries and expenses of personnel assigned to such offices, except that salaries of geologists and other employees of Operator who are temporarily assigned to and directly serving on the joint property will be charged as provided in Section II, Paragraph 2, above. Salaries and expenses of other technical employees assigned to such offices will be considered as covered by overhead charges in this paragraph unless charges for such salaries and expenses are agreed upon between Operator and Non-Operator as a direct charge to the joint property.

WELL BASIS (Rate Per Well Per Month)

Well Depth	DRILLING WELL RATE Each Well	PRODUCING WELL RATE (Use Completion Depth)		
		First Five	Next Five	All Wells Over Ten
0-3500	\$250	\$25	\$20	\$20
3500-6000	\$300	\$45	\$35	\$30
6000-8500	\$350	\$65	\$55	\$45
8500+	\$400	\$75	\$60	\$50

- A. Overhead charges for drilling wells shall begin on the date each well is spudded and terminate when it is on production or is plugged, as the case may be, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.
- B. In connection with overhead charges, the status of wells shall be as follows:
- (1) Injection wells for recovery operations, such as for repressure or water flood, shall be included in the overhead schedule the same as producing oil wells. not
 - (2) Water supply wells utilized for water flooding operations shall be included in the overhead schedule ~~the same as producing oil wells.~~
 - (3) Producing gas wells shall be included in the overhead schedule the same as producing oil wells.

- (4) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the overhead schedule at the time the shutdown is effected. When such wells are plugged, overhead shall be charged at the producing well rate during the time required for the plugging operation.
- (5) Wells being plugged back, drilled deeper, or converted to a source or input well shall be included in the overhead schedule the same as drilling wells.
- (6) Temporarily shut-down wells (other than by governmental regulatory body) which are not produced or worked upon for a period of a full calendar month shall not be included in the overhead schedule; however, wells shut in by governmental regulatory body shall be included in the overhead schedule only in the event the allowable production is transferred to other wells on the same property. In the event of a unit allowable, all wells capable of producing will be counted in determining the overhead charge.
- (7) Wells completed in dual or multiple horizons shall be considered as two wells in the producing overhead schedule.
- (8) Lease salt water disposal wells shall not be included in the overhead schedule unless such wells are used in a secondary recovery program on the joint property.
- C. The above overhead schedule for producing wells shall be applied to the total number of wells operated under the Operating Agreement to which this accounting procedure is attached, irrespective of individual leases.
- D. It is specifically understood that the above overhead rates apply only to drilling and producing operations and are not intended to cover the construction or operation of additional facilities such as, but not limited to, gasoline plants, compressor plants, repressuring projects, salt water disposal facilities, and similar installations. If at any time any or all of these become necessary to the operation, a separate agreement will be reached relative to an overhead charge and allocation of district expense.
- E. The above specific overhead rates may be amended from time to time by agreement between Operator and Non-Operator if, in practice, they are found to be insufficient or excessive.

13. Operator's Fully Owned Warehouse Operating and Maintenance Expense

(Describe fully the agreed procedure to be followed by the Operator.)

None

13-A Non-Operator's fully owned warehouse operating and maintenance expense. Upon request Operator will furnish Non-Operators with a monthly record of all materials and equipment transferred in and out of Non-Operator's fully owned warehouse account.

14. Other Expenditures

Any expenditure, other than expenditures which are covered and dealt with by the foregoing provisions of this Section II, incurred by the Operator for the necessary and proper development, maintenance, and operation of the joint property.

III. BASIS OF CHARGES TO JOINT ACCOUNT

1. Purchases

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

2. Material Furnished by Operator

Material required for operations shall be purchased for direct charge to joint account whenever practicable, except that Operator may furnish such material from Operator's stocks under the following conditions:

A. New Material (Condition "A")

- (1) New material transferred from Operator's warehouse or other properties shall be priced f.o.b. the nearest reputable supply store or railway receiving point, where such material is available, at current replacement cost of the same kind of material. This will include material such as tanks, pumping units, sucker rods, engines, and other major equipment. Tubular goods, two-inch (2") and over, shall be priced on car-load basis effective at date of transfer and f.o.b. railway receiving point nearest the joint account operation, regardless of quantity transferred.
- (2) Other material shall be priced on basis of a reputable supply company's preferential price list effective at date of transfer and f.o.b. the store or railway receiving point nearest the joint account operation where such material is available.
- (3) Cash discount shall not be allowed.

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

- (1) Material which is in sound and serviceable condition and is suitable for reuse without reconditioning shall be classed as Condition "B" and priced at seventy-five per cent (75%) of new price.
- (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 classed as Condition "C" and priced at fifty per cent (50%) of new price.
- (3) Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use.
- (4) Tanks, buildings, and other equipment involving erection costs shall be charged at applicable percentage of knocked-down new price.

3. Premium Prices

Whenever materials and equipment are not readily obtainable at the customary supply point and at prices specified in Paragraphs 1 and 2 of this Section III 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 materials on the basis of the Operator's direct cost and expense incurred in procuring such materials, in making it suitable for use, and in moving it to the location, provided, however, that notice in writing is furnished to Non-Operator of the proposed charge prior to billing the Non-Operator for the material and/or equipment acquired pursuant to this provision, whereupon Non-Operator shall have the right, by so electing and notifying Operator within 10 days after receiving notice from the Operator, to furnish in kind, or in tonnage as the parties may agree, at the location, nearest railway receiving point, or Operator's storage point within a comparable distance, all or part of his share of material and/or equipment suitable for use and acceptable to the Operator. Transportation costs on any such material furnished by Non-Operator, at any point other than at the location, shall be borne by such Non-Operator. If, pursuant to the provisions of this paragraph, any Non-Operator furnishes material and/or equipment in kind, the Operator shall make appropriate credits therefor to the account of said Non-Operator.

4. Warranty of Material Furnished by Operator

Operator does not warrant the material furnished beyond or back of the dealer's or manufacturer's guaranty; and in case of defective material, credit shall not be passed until adjustment has been received by Operator from the manufacturers or their agents.

5. Operator's Exclusively Owned Facilities

The following rates shall apply to service rendered to the joint account by facilities owned exclusively by Operator:

- A. Water, fuel, power, compressor and other auxiliary services at rates commensurate with cost of providing and furnishing such service to the joint account but not exceeding rates currently prevailing in the field where the joint property is located.

- B. Automotive equipment at rates commensurate with cost of ownership and operation. Such rates should 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 account operations and revised from time to time. Automotive rates shall include cost of oil, gas, repairs, insurance, and other operating expense and depreciation; and charges shall be based on use in actual service on, or in connection with, the joint account operations. Truck and tractor rates may include wages and expenses of driver.
- C. A fair rate shall be charged for the use of drilling and cleaning-out tools and any other items of Operator's fully owned machinery or equipment which shall be ample to cover maintenance, repairs, depreciation, and the service furnished the joint property; provided that such charges shall not exceed those currently prevailing in the field where the joint property is located. Pulling units shall be charged at hourly rates commensurate with the cost of ownership and operation, which shall include repairs and maintenance, operating supplies, insurance, depreciation, and taxes. Pulling unit rates may include wages and expenses of the operator.
- D. A fair rate shall be charged for laboratory services performed by Operator for the benefit of the joint account, such as gas, water, core, and any other analyses and tests; provided such charges shall not exceed those currently prevailing if performed by outside service laboratories.
- E. Whenever requested, Operator shall inform Non-Operator in advance of the rates it proposes to charge.
- F. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

IV. DISPOSAL OF LEASE EQUIPMENT AND MATERIAL

The Operator shall be under no obligation to purchase interest of Non-Operator in surplus new or secondhand material. The disposition of major items of surplus material, such as derricks, tanks, engines, pumping units, and tubular goods, shall be subject to mutual determination by the parties hereto; provided Operator shall have the right to 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-Operator

Material purchased by either the Operator or Non-Operator 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-Operator, shall be in proportion to their respective interests in such material. Each party will thereupon be charged individually with the value of the material received or receivable by each party, and corresponding credits will be made by the Operator to the joint account. Such credits shall appear 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 claims by vendee for defective material or otherwise shall be charged back to the joint account if and when paid by Operator.

V. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operator or divided in kind, unless otherwise agreed, shall be valued on the following basis:

1. New Price Defined

New price as used in the following paragraphs shall have the same meaning and application as that used above in Section III, "Basis of Charges to Joint Account."

2. New Material

New material (Condition "A"), being new material procured for the joint account but never used thereon, 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 property as secondhand at seventy-five per cent (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. 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.

5. Bad-Order Material

Material and equipment (Condition "D"), which is no longer usable for its original purpose without excessive repair cost but is further usable for some other purpose, shall be priced on a basis comparable with that of items normally used for that purpose.

6. Junk

Junk (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 account does not justify the reduction in price as provided in Paragraph 3 B, above, 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.

VI. INVENTORIES

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 by operators of oil and gas properties.

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-Operator may be represented when any inventory is taken.

Failure of Non-Operator to be represented at an inventory shall bind Non-Operator to accept the inventory taken by Operator, who shall in that event furnish Non-Operator with a copy thereof.

2. Reconciliation and Adjustment of Inventories

Reconciliation of inventory with charges to the joint account shall be made by each party at interest, and a list of overages and shortages shall be jointly determined by Operator and Non-Operator.

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, at the expense of the purchaser, whenever there is any sale or change of interest in the joint property; and it shall be the duty of the party selling to notify all other parties hereto as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be represented and shall be governed by the inventory so taken.

Unit Name BROWN STATE UNIT
Operator Union Oil Company of California
County LEA

DATE	OCC CASE NO.	EFFECTIVE DATE	TOTAL ACREAGE	STATE	FEDERAL	INDIAN-FEE	SEGREGATION CLAUSE	TERM
APPROVED	OCC ORDER NO.							
OCD-May 21, 1984	8173 R-7531	July 13, 1984	640.00	640.00	-0-	-0-	Strict	2 yrs & so
CPL-July 13, 1984								Long as

UNIT AREA

TOWNSHIP 15 SOUTH, RANGE 32 EAST, NMPM

Section 28: ALL

Unit Name BROWN STATE UNIT
Operator Union Oil Company of California
County LEA

STATE TRACT NO.	LEASE NO.	INSTI- TUTION	SEC.	TWP.	RGE.	SUBSECTION	RATIFIED		ACREAGE NOT RATIFIED	LESSEE
							DATE	ACRES		
1	E-8974	C. S.	28	15S	32E	NW $\frac{1}{4}$ NW $\frac{1}{4}$, SE $\frac{1}{4}$ SW $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$, SE $\frac{1}{4}$ SE $\frac{1}{4}$	5/7/84	200.00		Union Oil Co. of Ca.
2	LG-2266-1	C. S.	28	15S	32E	NE $\frac{1}{4}$ NE $\frac{1}{4}$, SW $\frac{1}{4}$ SE $\frac{1}{4}$, N $\frac{1}{2}$ SW $\frac{1}{4}$	5/11/84	160.00		Gordon M. Cone Est.
3	LG-5360	C. S.	28	15S	32E	S $\frac{1}{2}$ NW $\frac{1}{4}$, NE $\frac{1}{4}$ NW $\frac{1}{4}$	7/9/84	120.00		Harper Oil Company
4	LG-6345	C. S.	28	15S	32E	W $\frac{1}{2}$ NE $\frac{1}{4}$	6/8/84	80.00		H. L. Brown Jr.
5	V-193	C. S.	28	15S	32E	SE $\frac{1}{4}$ NE $\frac{1}{4}$, SW $\frac{1}{4}$ SW $\frac{1}{4}$	6/18/84	80.00		Yates Petroleum Corp.

Unit Name BROWN STATE UNIT
Operator Union Oil Company of California
County LEA

REVISED EFFECTIVE: 0-1-00

#8173

DATE	OCC CASE NO.	EFFECTIVE DATE	TOTAL ACREAGE	STATE	FEDERAL	INDIAN-FEE	SEGREGATION CLAUSE	TERM
<u>APPROVED</u>	<u>8173 R-7531</u>							
OCD-May 21, 1984		July 13, 1984	640.00	640.00	-0-	-0-	Strict	2 yrs & so
CPL-July 13, 1984			80.00	80.00				long as

UNIT AREA

TOWNSHIP 15 SOUTH, RANGE 32 EAST, NMPM

Section 28: ~~AtL~~ E/2NE/4

Unit Name BROWN STATE UNIT
Operator Union Oil Company of California
County LEA

REVISED EFFECTIVE 8-1-89

STATE TRACT NO.	LEASE NO.	INSTI-TUTION	SEC.	TWP.	RGE.	SUBSECTION	RATIFIED DATE	ACRES	ACREAGE NOT RATIFIED	LESSEE
1	E-8974	G. S.	28	15S	32E	NW $\frac{1}{4}$ NW $\frac{1}{4}$, SE $\frac{1}{4}$ SW $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$, SE $\frac{1}{4}$ SE $\frac{1}{4}$	5/7/84	200.00	ELIMINATED	Union Oil Co. of Ca.
2	LG-2266-1	G. S.	28	15S	32E	NE $\frac{1}{4}$ NE $\frac{1}{4}$, SW $\frac{1}{4}$ SE $\frac{1}{4}$, N $\frac{1}{2}$ SW $\frac{1}{4}$	5/11/84	160.00	ELIMINATED	Gordon M. Cone Est.
3	LG-5360	G. S.	28	15S	32E	S $\frac{1}{2}$ NW $\frac{1}{4}$, NE $\frac{1}{4}$ NW $\frac{1}{4}$	7/9/84	120.00	ELIMINATED	Harper Oil Company
4	LG-6345	C. S.	28	15S	32E	W $\frac{1}{2}$ NE $\frac{1}{4}$	6/8/84	80.00		H. L. Brown Jr.
5	V-193	C. S.	28	15S	32E	SE $\frac{1}{4}$ NE $\frac{1}{4}$, SW $\frac{1}{4}$ SW $\frac{1}{4}$	6/18/84	80.00	ELIMINATED	Yates Petroleum Corp.

RECAPITULATION: EFFECTIVE 8-1-89, only Tract 4 remains in the Brown State Unit

SEC. 28 T - 15 - S, R - 32 - E

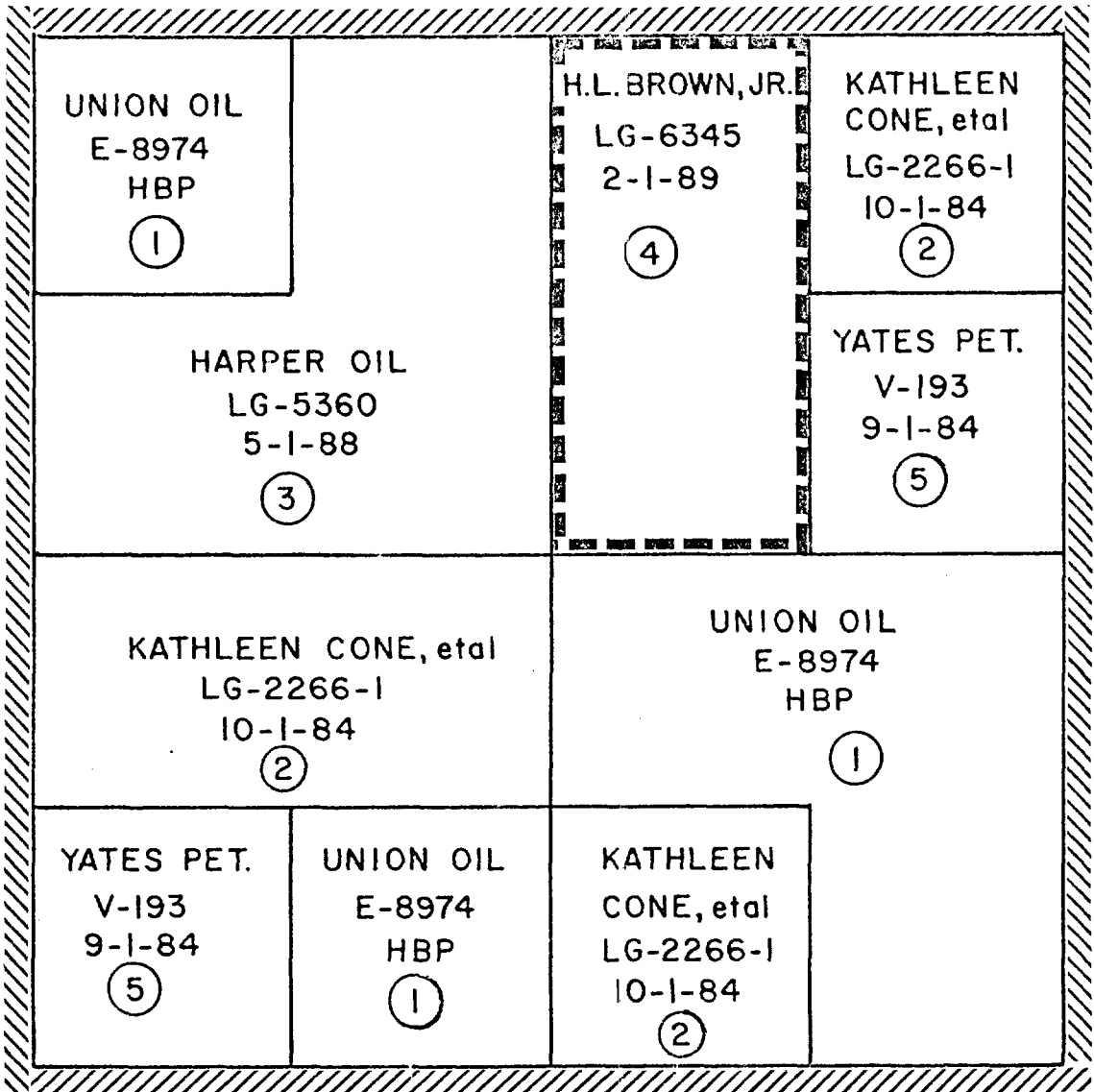
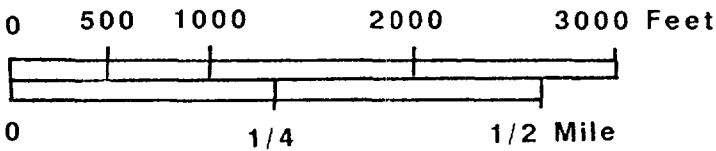


EXHIBIT "A" (REVISED)
BROWN STATE UNIT
(AS CONTRACTED EFFECTIVE AUGUST 1, 1989)
LEA COUNTY, NEW MEXICO



① TRACT NUMBER - EXHIBIT "B"

ORIGINAL UNIT BOUNDARY

REVISED UNIT BOUNDARY AS CONTRACTED
EFFECTIVE AUGUST 1, 1989