

UNIT OPERATING AGREEMENT

CHAVEROO SAN ANDRES UNIT

ROOSEVELT & CHAVES COUNTIES

STATE OF NEW MEXICO

BEFORE EXAMINER STOGNER	
OIL CONSERVATION DIVISION	
<i>El Ran</i>	EXHIBIT NO. <u>3</u>
CASE NO.	<u>9357+9358</u>

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ROOSEVELT COUNTY, NEW MEXICO

INDEX

	Page
Preliminary Recitals	
ARTICLE 1      CONFIRMATION OF UNIT AGREEMENT	
1.1      Confirmation of Unit.....	1
ARTICLE 2      EXHIBITS	
2.1      Exhibits.....	1
2.2      Revision of Exhibits.....	1
2.3      Reference to Exhibits.....	1
ARTICLE 3      SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS	
3.1      Overall Supervision.....	1
3.2      Specific Authorities and Duties.....	1
ARTICLE 4      MANNER OF EXERCISING SUPERVISION	
4.1      Designation of Representatives.....	2
4.2      Meetings.....	2
4.3      Voting Procedure.....	3
ARTICLE 5      INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS	
5.1      Reservation of Rights.....	3
5.2      Specific Rights.....	3
ARTICLE 6      UNIT OPERATOR	
6.1      Unit Operator.....	3
6.2      Resignation or Removal & Selection of Successor...	3
ARTICLE 7      AUTHORITIES AND DUTIES OF UNIT OPERATOR	
7.1      Exclusive Right to Operate Unit.....	3
7.2      Workmanlike Conduct.....	3
7.3      Liens and Encumbrances.....	3
7.4      Employees.....	3
7.5      Records.....	4
7.6      Reports to Working Interest Owners.....	4
7.7      Reports to Governmental Authorities.....	4
7.8      Engineering and Geological Information.....	4
7.9      Expenditures.....	4
7.10      Wells Drilled by Unit Operator.....	4
7.11      Border Agreements.....	4
ARTICLE 8      TAXES	
8.1      Ad Valorem Taxes.....	4
8.2      Other Taxes.....	4
ARTICLE 9      INSURANCE	
9.1      Insurance.....	4
ARTICLE 10     ADJUSTMENT OF INVESTMENTS	
10.1      Personal Property Taken Over.....	4
10.2      Inventory and Evaluation of Personal Property....	5
10.3      General Facilities.....	5
10.4      Ownership of Personal Property & Facilities.....	5

ARTICLE 11	UNIT EXPENSE	
	11.1 Basis of Charges to Working Interest Owners.....	5
	11.2 Budgets.....	5
	11.3 Advance Billings.....	5
	11.4 Commingling of Funds.....	5
	11.5 Lien & Security Interest of Unit Operator and Working Interest Owners.....	5
	11.6 Unpaid Unit Expense.....	5
	11.7 Uncommitted Royalty.....	6
	11.8 Rentals.....	6
	11.9 Carved-out Interests.....	6
ARTICLE 12	NON-UNITIZED FORMATIONS	
	12.1 Right to Operate.....	6
	12.2 Multiple Completions.....	7
ARTICLE 13	TITLES	
	13.1 Warranty and Indemnity.....	7
	13.2 Failure Because of Unit Operations.....	7
ARTICLE 14	LIABILITY, CLAIMS AND SUITS	
	14.1 Individual Liability.....	7
	14.2 Settlements.....	7
ARTICLE 15	LAWS AND REGULATIONS	
	15.1 Internal Revenue Provision.....	7
ARTICLE 16	NOTICES	
	16.1 Notices.....	8
ARTICLE 17	WITHDRAWAL OF WORKING INTEREST OWNER	
	17.1 Withdrawal.....	7
	17.2 Limitation on Withdrawal.....	8
ARTICLE 18	ABANDONMENT OF WELLS	
	18.1 Rights of Former Owners.....	8
	18.2 Plugging.....	9
ARTICLE 19	EFFECTIVE DATE AND TERM	
	19.1 Effective Date.....	9
	19.2 Term.....	9
ARTICLE 20	ABANDONMENT OF OPERATIONS	
	20.1 Termination.....	9
ARTICLE 21	EXCISE TAX PROVISIONS	
	21.1 Crude Oil Excise Tax.....	9
	21.2 Amendment by Working Interest Owners.....	10
ARTICLE 22	EXECUTION	
	22.1 Original, Counterpart, or Other Instruments.....	10
ARTICLE 23	GOVERNMENTAL REGULATIONS	
	23.1 Governmental Regulations.....	10
ARTICLE 24	SUCCESSORS AND ASSIGNS	
	24.1 Successors and Assigns.....	10
	Exhibit "D" (Schedule of Unit Participation)	
	Exhibit "E" (Accounting Procedure)	
	Exhibit "F" (Insurance Provisions)	

UNIT OPERATING AGREEMENT  
CHAVEROO SAN ANDRES UNIT  
ROOSEVELT COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the \_\_\_\_\_ day of \_\_\_\_\_, 1988, by and between the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to become a party hereto.

WITNESSETH

WHEREAS, the parties hereto as Working Interest Owners have executed, as of the date hereof, an Agreement entitled "Unit Agreement, Chaveroo San Andres Unit, Chaves and Roosevelt Counties, New Mexico," herein referred to as "Unit Agreement," which, among other things, provides for a separate agreement to be entered into by Working Interest Owners to provide for Unit Operations as therein defined.

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

ARTICLE 1  
CONFIRMATION OF UNIT AGREEMENT

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

ARTICLE 2  
EXHIBITS

- 2.1 Exhibits. The following exhibits are incorporated herein by reference:
- 2.1.1 Exhibits A, B and C of the Unit Agreement.
  - 2.1.2 Exhibit D attached hereto, is a schedule showing the Unit Participation of each Working Interest Owner. Exhibit D, or a revision thereof, shall not be conclusive as to the information therein, except it may be used as showing the Unit Participations of Working Interest Owners for purposes of this Agreement until shown to be in error or revised as herein authorized.
  - 2.1.3 Exhibit E attached hereto, is the Accounting Procedure applicable to Unit Operations. If there is any conflict between this Agreement and Exhibit E, this Agreement shall govern.
  - 2.1.4 Exhibit F attached hereto, contains insurance provisions applicable to Unit Operations.
- 2.2 Revision of Exhibits. Whenever Exhibit A or B are revised, Exhibit D shall be revised accordingly and be effective as of the same date. Unit Operator shall also revise Exhibit D from time to time as required to conform to changes in ownership of which Unit Operator has been notified as provided in the Unit Agreement.
- 2.3 Reference to Exhibits. When reference is made herein to an exhibit, it is to the exhibit as originally attached or, if revised, to the last revision.

ARTICLE 3  
SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

- 3.1 Overall Supervision. Working Interest Owners shall exercise overall supervision and control of all matters pertaining to Unit Operations pursuant to this Agreement and the Unit Agreement. In the exercise of such authority, each working Interest Owner shall act solely in its own behalf in the capacity of an individual owner and not on behalf of the owners as an entirety.
- 3.2 Specific Authorities and Duties. The matters with respect to which Working Interest Owners shall decide and take action shall include, but not be limited to the following:
- 3.2.1 Method of Operation. The method of operation, including the type or types of pressure maintenance, secondary recovery, or other recovery program to be employed.
  - 3.2.2 Drilling of Wells. The drilling of any well whether for production of Unitized Substances, for use as an injection well, or for other purposes.

- 3.2.3 Well Recompletion and Change of Status. The recompletion, abandonment, or permanent change of status of any well, or the use of any well for injection or other purposes.
- 3.2.4 Expenditures. The making of any single expenditure in excess of Fifteen Thousand Dollars (\$15,000.00); however, approval by Working Interest Owners of the drilling, reworking, deepening or plugging back of any well shall include approval of all necessary expenditures required therefor, and for completing, testing, and equipping the well, including necessary flow lines, separators, and lease tankage.
- 3.2.5 Disposition of Unit Equipment. The selling or otherwise disposing of any major item of surplus Unit Equipment, if the current price of new equipment similar thereto is Five Thousand Dollars (\$5,000.00) or more.
- 3.2.6 Appearance Before a Court or Regulatory Agency. The designating of a representative to appear before any court or regulatory agency in matters pertaining to Unit Operations; however, such designation shall not prevent any Working Interest Owner from appearing in person or from designating another representative on its own behalf.
- 3.2.7 Audits. The auditing of the accounts of Unit Operator pertaining to Unit Operations hereunder; however, the audits shall:
- (a) not be conducted more than once each year except upon the resignation or removal of the Unit Operator, and
  - (b) be made upon the approval of the owner or owners of a majority of Working Interest other than that of Unit Operator, at the expense of all Working Interest Owners other than Unit Operator, or
  - (c) be made at the expense of those Working Interest Owners requesting such audit, if owners of less than a majority of working Interest, other than that of Unit Operator, request such an audit, and
  - (d) be made upon not less than thirty (30) days written notice to Unit Operator.
- 3.2.8 Inventories. The taking of periodic inventories under the terms of Exhibit E.
- 3.2.9 Technical Services. The authorizing of charges to the Joint Account for services by consultants of Unit Operator's technical personnel not covered by the overhead charges provided by Exhibit E.
- 3.2.10 Assignments to Committees. The appointment of committees to study any problems in connection with Unit Operations.
- 3.2.11 The removal of Unit Operator and the selection of successor.
- 3.2.12 The enlargement of the Unit Area.
- 3.2.13 The adjustment and readjustment of investments.
- 3.2.14 The termination of the Unit Agreement.
- 3.2.15 Border Line Agreements.

#### ARTICLE 4 MANNER OF EXERCISING SUPERVISION

- 4.1 Designation of Representatives. Each Working Interest Owner shall inform Unit Operator in writing of the names and addresses of the representative and alternate who are authorized to represent and bind such Working Interest Owner with respect to Unit Operations. The representative or alternate may be changed from time to time by written notice to Unit Operator.
- 4.2 Meetings. All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of two (2) or more Working Interest Owners having a total Unit Participation then in effect of not less than ten percent (10%). No meeting shall be called on less than fourteen (14) days advance written notice, with agenda for the meeting attached. Working Interest Owners who attend the meeting may amend items included in the agenda and may act upon an amended item or other items presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.

- 4.3 Voting Procedure. Working Interest Owners shall decide all matters coming before them as follows:
- 4.3.1 Voting Interest. Each Working Interest Owner shall have a voting interest equal to its Unit Participation in effect at the time of the vote. The votes of the majority shall prevail.
- 4.3.2 Vote at Meeting by Nonattending Working Interest Owner. Any Working Interest Owner who is not represented at a meeting may vote on any agenda item by letter or telegram addressed to the representative of Unit Operator if its vote is received prior to the vote at the meeting, provided the agenda items are not amended.
- 4.3.3 Poll Votes. Working Interest Owners may vote on and decide, by letter or telegram, any matter submitted in writing to Working Interest Owners. If a meeting is not requested, as provided in Section 4.2, within seven (7) days after a written proposal is sent to Working Interest Owners, the vote taken by letter or telegram shall become final. Unit Operator will give prompt notice of the results of such voting to all Working Interest Owners.

ARTICLE 5  
INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

- 5.1 Reservation of Rights. Working Interest Owners severally reserve to themselves all their rights, except as otherwise provided in this Agreement and the Unit Agreement.
- 5.2 Specific Rights. Each Working Interest Owner shall have, among others, the following specific rights:
- 5.2.1 Access to Unit Area. Access to the Unit Area at all reasonable times to inspect Unit Operations, all wells, and the records and data pertaining thereto.
- 5.2.2 Reports. The right to receive from Unit Operator, upon written request, copies of all reports to any governmental agency, reports of crude oil runs and stocks, inventory reports, and all other information pertaining to Unit Operations. The cost of gathering and furnishing information not ordinarily furnished by Unit Operator to all Working Interest Owners shall be charged to the Working Interest Owner that requests the information.

ARTICLE 6  
UNIT OPERATOR

- 6.1 Unit Operator. EL RAN, INC. is hereby designated as the initial Unit Operator.
- 6.2 Resignation or Removal and Selection of Successor. The resignation or removal of Unit Operator and the selection of a successor shall be governed by the provisions of the Unit Agreement.

ARTICLE 7  
AUTHORITIES AND DUTIES OF UNIT OPERATOR

- 7.1 Exclusive Right to Operate Unit. Subject to the provisions of this Agreement and to instructions from Working Interest Owners, Unit Operator shall have the exclusive right and be obligated to conduct Unit Operations.
- 7.2 Workmanlike Conduct. Unit Operator shall conduct Unit Operations in a good and workmanlike manner as would a prudent operator under the same or similar circumstances. Unit Operator shall freely consult with Working Interest Owners and keep them informed of all matters which Unit Operator, in the exercise of its best judgment, considers important. Unit Operator shall not be liable to Working Interest Owners for damages, unless such damages result from its gross negligence or willful misconduct.
- 7.3 Liens and Encumbrances. Unit Operator shall endeavor to keep the lands and leases in the Unit Area and Unit Equipment free from all liens and encumbrances occasioned by Unit Operations, except the lien and security interest of Unit Operator and Working Interest Owners granted hereunder.
- 7.4 Employees. The number of employees used by Unit Operator in conducting Unit Operations, their selection, hours of labor, and reasonable compensation shall be determined by Unit Operator. Such employees shall be the employees of Unit Operator.

- 7.5 Records. Unit Operator shall keep correct books, accounts, and records of Unit Operations.
- 7.6 Reports to Working Interest Owners. Unit Operator shall furnish Working Interest Owners periodic reports of Unit Operations.
- 7.7 Reports to Governmental Authorities. Unit Operator shall make all reports to governmental authorities that it has the duty to make as Unit Operator.
- 7.8 Engineering and Geological Information. Unit Operator shall furnish to a Working Interest Owner, upon written request, a copy of all logs and other engineering and geological data pertaining to wells drilled for Unit Operations.
- 7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of Fifteen Thousand Dollars (\$15,000.00) without prior approval of Working Interest Owners. If an emergency occurs, Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the emergency and the action taken.
- 7.10 Wells Drilled by Unit Operator. All wells drilled by Unit Operator shall be at the usual rates prevailing in the area. Unit Operator may employ its own tools and equipment, but the charge therefor shall not exceed the usual rates prevailing in the area, and the work shall be performed by Unit Operator under the same terms and conditions as are usual in the area in contracts of independent contractors doing work of a similar nature.
- 7.11 Border Agreements. Unit Operator may, after approval by Working Interest Owners, enter into border agreements with respect to lands adjacent to the Unit Area for the purpose of coordinating operations.

#### ARTICLE 8 TAXES

- 8.1 Ad Valorem Taxes. Beginning with the first calendar year after the Effective Date hereof, Unit Operator shall make and file all necessary ad valorem tax renditions and returns with the proper taxing authorities with respect to all property of each Working Interest Owner used or held by Unit Operator for Unit Operations. Unit Operator shall settle assessments arising therefrom. All such ad valorem taxes shall be paid by Unit Operator and charged to the joint account; however, if the interest of a Working Interest Owner is subject to a separately assessed overriding royalty interest, production payment, or other interest in excess of a one-eighth (1/8) royalty, such Working Interest Owner shall notify Unit Operator of such interest prior to the rendition date and shall be given credit for the reduction in taxes paid resulting therefrom. Any Working Interest Owner dissatisfied with any assessment of its interest in real or personal property shall have the right, at its own expense, and after due notice to the Operator, to protest and resist any such assessment.
- 8.2 Other Taxes. Each Working Interest Owner shall pay or cause to be paid all production, severance, gathering, and other taxes imposed upon or with respect to the production or handling of its share of Unitized Substances.

#### ARTICLE 9 INSURANCE

- 9.1 Insurance. Unit Operator, with respect to Unit Operations, shall: (a) comply with the Workmen's Compensation Laws of the State; (b) carry Employer's Liability and other insurance required by the laws of the State; and (c) provide other insurance as set forth in Exhibit F.

#### ARTICLE 10 ADJUSTMENT OF INVESTMENTS

- 10.1 Personal Property Taken Over. Upon Effective Date, Working Interest Owners shall deliver to Unit Operator the following:
- 10.1.1 Wells. All wells completed in the Unitized Formation.
- 10.1.2 Well and Lease Equipment. The casing and tubing in each such well, the wellhead connections thereon, and all other lease and operating equipment that is used in the operation of such wells which Working Interest Owners determine is necessary or desirable for conducting Unit Operations.

- 10.1.3 Records. A copy of all production and well records for such wells.
- 10.2 Inventory and Evaluation of Personal Property. Working Interest Owners shall at Unit Expense inventory and evaluate, as determined by Working Interest Owners, the personal property taken over by Unit Operator under Section 10.1.2. Such inventory shall include and be limited to those items of equipment considered controllable under Exhibit "E" except, upon determination of Working Interest Owners, items considered uncontrollable may be included in the inventory in order to insure a more equitable adjustment of investment. Casing shall be included in the inventory for record purposes, but shall be excluded from evaluation and investment adjustment.
- 10.3 General Facilities. The acquisition of warehouses, warehouse stocks, lease houses, camps, facility systems, and office buildings necessary for Unit Operations shall be by negotiation by the others thereof and Unit Operator, subject to the approval of Working Interest Owners.
- 10.4 Ownership of Personal Property and Facilities. Each Working Interest Owner, individually, shall by virtue hereof own an undivided interest, equal to its Unit Participation, in all personal property and facilities taken over or otherwise acquired by Unit Operator pursuant to this Agreement.

ARTICLE 11  
UNIT EXPENSE

- 11.1 Basis of Charges to Working Interest Owners. Unit Operator initially shall provide for all Unit Expense in accordance with the provisions of this Article 11. Each Working Interest Owner shall reimburse Unit Operator for its share of Unit Expense in proportion to the respective Unit Participations of the parties hereto. All charges, credits, and accounting for Unit Expense shall be in accordance with Exhibit "E."
- 11.2 Budgets. Before or as soon as practical after the Effective Date, Unit Operator shall prepare a budget of estimated Unit Expense for the remainder of the calendar year, and, on or before the first day of each August thereafter, shall prepare a budget for the ensuing calendar year. A budget shall set forth the estimated Unit Expense by quarterly periods. Budgets shall be estimates only, and shall be adjusted or corrected by Working Interest Owners and Unit Operator whenever an adjustment or correction is proper. A copy of each budget and adjusted budget shall be furnished promptly to each Working Interest Owner.
- 11.3 Advance Billing. Unit Operator shall have the right, without prejudice to other rights or remedies, to require Working Interest Owners to advance their respective shares of estimated Unit Expense by submitting to Working Interest Owners, on or before the 15th day of any month, an itemized estimate thereof for the succeeding one month, with a request for payment in advance. Within fifteen (15) days after receipt of the estimate, each Working Interest Owner shall pay to Unit Operator its share of such estimate. Adjustments between estimated and actual Unit Expense shall be made by Unit Operator at the close of each calendar month, and the accounts of Working Interest Owners shall be adjusted accordingly.
- 11.4 Commingling of Funds. Funds received by Unit Operator under this Agreement need not be segregated or maintained by it as a separate fund, but may be commingled with its own funds.
- 11.5 Lien and Security Interest of Unit Operator and Working Interest Owners. Each Working Interest Owner grants to Unit Operator a lien upon its Oil and Gas Rights in each Tract, and a security interest in its share of Unitized Substances when extracted and its interest in all Unit Equipment, to secure payment of its share of Unit Expense, together with interest thereon at the rate of Prime +2% per annum. To the extent that Unit Operator has a security interest under the Uniform Commercial Code of the State, Unit Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Unit Operator for the secured indebtedness shall not be deemed an election of



remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Working Interest Owner in the payment of its share of Unit Expense, Unit Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of any default. Unit Operator grants a like lien and security interest to the Working Interest Owners.

- 11.6 Unpaid Unit Expense. If any Working Interest Owner fails or is unable to pay its share of Unit Expense within sixty (60) days after rendition of a statement therefor by Unit Operator, the consenting non-defaulting Working Interest Owners shall, upon request by Unit Operator, pay the unpaid amount as if it were Unit Expense in the proportion that the Unit Participation of each Working Interest Owner bears to the Unit Participation of all such Working Interest Owners. Each Working Interest Owner so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in Section 11.5 of this Agreement.
- 11.7 Uncommitted Royalty. Should an owner of a Royalty Interest in any Tract fail to become a party to the Unit Agreement, and, as a result thereof, the actual Royalty Interest payments with respect to such Tract are more or less than the Royalty Interest payments computed on the basis of the Unitized Substances that are allocated to such Tract under the Unit Agreement, the difference shall be borne by or inure to the benefit of Working Interest Owners, in proportion to their respective Unit Participations at the time the Unitized Substances were produced; however, the difference to be borne by or inure to the benefit of the Working Interest Owners shall not exceed an amount computed on the basis of one-eighth (1/8) of the difference between the Unitized Substances allocated to the Tract and the Unitized Substances produced from the Tract. Such adjustments shall be made by charges and credits to the joint account.
- 11.8 Rentals. The Working Interest Owners in each Tract shall pay all rentals, minimum royalty, advance rentals or delay rentals due under the lease thereon and shall concurrently submit to the Unit Operator evidence of payment.
- 11.9 Carved-out Interests. Any overriding royalty, production payment, net proceeds interest, carried interest or any other interest carved out of a Working Interest shall be subject to this Agreement. If a Working Interest Owner does not pay its share of Unit Expense and the proceeds from the sale of Unitized Substances under Article 11.5 are insufficient for that purpose, the security rights provided for therein may be applied against the carved-out interests with which such Working Interest is burdened. In such event, the owner of such carved-out interest shall be subrogated to the security rights granted by Article 11.5.

## ARTICLE 12 NON-UNITIZED FORMATIONS

- 12.1 Right to Operate. Any Working Interest Owner that now has or hereafter acquires the right to drill for and produce oil, gas or other minerals, from a formation underlying the Unit Area other than the Unitized Formation, shall have the right to do so notwithstanding this Agreement or the Unit Agreement. In exercising the right, however, the working Interest Owner shall exercise care to prevent unreasonable interference with Unit Operations. No Working Interest Owner shall produce Unitized Substances through any well drilled or operated by it. If any Working Interest Owner drills any well into or through the Unitized Formation, the Unitized Formation shall be protected in a manner satisfactory to Working Interest Owners so that the production of Unitized Substances will not be affected adversely.

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

ARTICLE 13  
TITLES

- 13.1 Warranty and Indemnity. Each Working Interest Owner represents and warrants that it is the owner of the respective working interest set forth opposite its name in Exhibit "B" of the Unit Agreement, and agrees to indemnify and hold harmless the other Working Interest Owners from any loss due to failure, in whole or in part, of its title to any such interest, except failure of title arising out of Unit Operations; however, such indemnity and any liability for breach of warranty shall be limited to an amount equal to the net value that has been received from the sale or receipt of Unitized Substances attributed to the interest as to which title failed. Each failure of title will be deemed to be effective, insofar as this Agreement is concerned, as of 7:00 A.M. on the first day of the calendar month in which such failure is finally determined, and there shall be no retroactive adjustment of Unit Expense, or retroactive allocation of Unitized Substances or the proceeds therefrom, as a result of title failure.

ARTICLE 14  
LIABILITY, CLAIMS, AND SUITS

- 14.1 Individual Liability. The duties and obligations, and liabilities of Working Interest Owners shall be several and not joint or collective; and nothing herein shall ever be construed as creating a partnership of any kind, joint venture, association, or trust among Working Interest Owners.
- 14.2 Settlements. Unit Operator may settle any single damage claim or suit involving Unit Operations if the expenditure does not exceed Ten Thousand Dollars (\$10,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, Working Interest Owners shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Unit Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit Expense. If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator by this Agreement and the Unit Agreement, the Working Interest Owner shall immediately notify the Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

ARTICLE 15  
LAWS AND REGULATIONS

- 15.1 Internal Revenue Provision. Notwithstanding any provisions herein that the rights and liabilities of the parties hereunder are several and not joint or collective, or that this Agreement and operations hereunder shall not constitute a partnership, if for Federal income tax purposes this Agreement and the operations hereunder are regarded as a partnership, then each of the parties hereto elects to be excluded from the application of all of the provisions of Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Unit Operator is hereby authorized and directed to execute on behalf of each of the parties hereto such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761-1(a). Should there be any requirement that each party hereto further evidence this election, each party hereto agrees to execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. Each party hereto further agrees not to give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Unit Area is

located, or any future income tax law of the United States, contain provisions similar to those in Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is permitted, each of the parties agrees to make election as may be permitted, or required by such laws. In making this election, each of the parties states that the income derived by such party from the operations under this Agreement can be adequately determined without the computation of partnership taxable income.

#### ARTICLE 16 NOTICES

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

#### ARTICLE 17 WITHDRAWAL OF WORKING INTEREST OWNER

- 17.1 Withdrawal. A Working Interest Owner may withdraw from this Agreement by transferring, without warranty of title, either express or implied, to the other Working Interest Owners, all its Oil and Gas Rights, exclusive of Royalty Interests, together with its interest in all Unit Equipment and in all wells used in Unit Operations. The instrument of transfer may be delivered to Unit Operator for the transferees. Such transfer shall not relieve the Working Interest Owner from any obligation or liability incurred prior to the date of the delivery of the instrument of transfer; however, the tender has to be accepted unless Working Interest Owners decide within ninety (90) days to terminate the Unit. The interest transferred shall be owned by the transferees in proportion to their respective Unit Participations in effect. The transferees, in proportion to the respective interest so acquired, shall pay transferor, for its interest in Unit Equipment, the net salvage value thereof as determined by Working Interest Owners. In the event such withdrawing party's interest in the aforesaid fair salvage value after deducting the estimated cost of salvaging same is less than the withdrawing party's share of estimated cost of plugging and abandoning the wells then being used or held for Unit Operations, then the withdrawing party, as condition precedent to withdrawal, shall pay in cash to the party or parties succeeding to its interest a sum equal to the deficiency. Within sixty (60) days after receiving delivery of the transfer, Unit Operator shall render a final statement to the withdrawing owner for its share of Unit Expense, including any deficiency in salvage value, as determined by Working Interest Owners, incurred as of the first day of the month following the date of receipt of the transfer. Provided all Unit Expense, including any deficiency hereunder, due from the withdrawing owner has been paid in full within thirty (30) days after the rendering of such final statement by the unit Operator, the transfer shall be effective the first day of the month following its receipt by Unit Operator and, as of such effective date, withdrawing owner shall be relieved from all further obligations and liabilities hereunder and under the Unit Agreement, and the rights of the withdrawing Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred.
- 17.2 Limitation on Withdrawal. Notwithstanding anything set forth in Section 17.1, Working Interest Owners may refuse to permit the withdrawal of a Working Interest Owner if its Working Interest is burdened by any royalties, overriding royalties, production payments, net proceeds interest, carried interest, or any other interest created out of the Working Interest in excess of one-eighth (1/8) lessor's royalty, unless the other Working Interest Owners willing to accept the assignment agree to accept the Working Interest subject to such burdens.

#### ARTICLE 18 ABANDONMENT OF WELLS

- 18.1 Rights of Former Owners. If Working Interest Owners decide to permanently abandon any well within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice thereof to the working Interest Owners of the tract on which the well is

located, and they shall have the option for a period of ninety (90) days after the sending of such notice to notify the Unit Operator in writing of their election to take over and own the well. Within ten (10) days after the Working Interest Owners of the Tract have notified the Unit Operator of their election to take over the well, they shall pay Unit Operator, for credit to the joint account, the amount determined by Working Interest Owners to be the net salvage value of the casing and equipment in and on the well. The Working Interest Owners of the Tract, by taking over the well, agree to seal off the Unitized Formation, and upon abandonment to plug the well in compliance with applicable laws and regulations.

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

#### ARTICLE 19 EFFECTIVE DATE AND TERM

- 19.1 Effective Date. This Agreement shall become effective when the Unit Agreement becomes effective.
- 19.2 Term. This Agreement shall continue in effect so long as the Unit Agreement remains in effect, and thereafter until (a) all unit wells have been plugged and abandoned or turned over to Working Interest Owners in accordance with Article 20; (b) all Unit Equipment and real property acquired for the joint account have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners; and (c) there has been a final accounting.

#### ARTICLE 20 ABANDONMENT OF OPERATIONS

- 20.1 Termination. Upon termination of the Unit Agreement, the following will occur:
- 20.1.1 Oil and Gas Rights. Oil and Gas Rights in and to each separate Tract shall no longer be affected by this Agreement, and thereafter the parties shall be governed by the terms and provisions of the leases, contracts and other instruments affecting the separate Tracts.
- 20.1.2 Right to Operate. Working Interest Owners of any Tract that desire to take over and continue to operate wells located thereon may do so by paying Unit Operator, for credit to the joint account, the net salvage values, as determined by Working Interest Owners, of the casing and equipment in and on the wells taken over and by agreeing upon abandonment to plug each well in compliance with applicable laws and regulations.
- 20.1.3 Salvaging Wells. Unit Operator shall salvage as much of the casing and equipment in or on wells not taken over by Working Interest Owners of separate Tracts as can economically and reasonably be salvaged, and shall cause the wells to be plugged and abandoned in compliance with applicable laws and regulations.
- 20.1.4 Cost of Abandonment. The cost of abandonment of Unit Operations shall be Unit Expense.
- 20.1.5 Distribution of Assets. Working Interest Owners shall share in the distribution of Unit Equipment, or the proceeds thereof, in proportion to their Unit Participations.

#### ARTICLE 21 EXCISE TAX PROVISIONS

- 21.1 Crude Oil Excise Tax. For the period during which excise taxes are payable under the Crude Oil Windfall Profit Tax Act of 1980 on any party's Unitized Substances, the first crude oil allocated to any Tract after distribution of any incremental tertiary crude as hereinafter provided shall be the tax tier type of crude oil actually produced or considered to have been produced during the base period under I.R.C. regulations but not to exceed its Tract Participation share or the amount of such tax tier type of crude oil currently available. Any excess of a tax tier type of crude oil existing after the foregoing specific identification allocation shall be allocated to the remaining Tracts in the unit which have an underallocation of crude oil in proportion to the amount of their relative underallocations of crude oil. Anything hereinabove notwithstanding, any incremental tertiary oil as defined under I.R.C. Section 4993 shall be allocated to each

Tract in accordance with its Tract Participation prior to any other allocation of tax tier type of crude oil under this Article 21.1. In no case shall the sum of the different tax tier types of crude oil allocated to any Tract exceed the total amount of crude oil allocable under its Tract Participation.

- 21.2 Amendment by Working Interest Owners. This Article 21 may be amended or deleted by vote of the Working Interest Owners using the voting procedure set out in Article 4.3 of this Operating Agreement if in the opinion of the working Interest Owners (a) application of Article 21 as written becomes unworkable or inequitable as a result of changes in laws or regulations of any governmental agency, or (b) amendment or deletion of this Article 21 is necessary to comply with applicable laws, rules, regulations or orders of any governmental agency having jurisdiction.

#### ARTICLE 22 EXECUTION

- 22.1 Original, Counterpart, or Other Instruments. An owner of a Working Interest may become a party to this Agreement by signing the original of this instrument, a counterpart thereof, or other instrument agreeing to become a party hereto. The signing of such instrument shall have the same effect as if all parties had signed the same instrument.

#### ARTICLE 23 GOVERNMENTAL REGULATIONS

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

#### ARTICLE 24 SUCCESSORS AND ASSIGNS

- 24.1 Successors and Assigns. This Agreement shall extend to, be binding upon, and inure to the benefit of the parties hereto and their respective heirs, devisees, legal representatives, successors and assigns, and shall constitute a covenant running with the lands, leases and interests covered hereby.

EXECUTED this 1st day of February, 1988.

ATTEST:

"UNIT OPERATOR"

EL RAN, INC.

\_\_\_\_\_  
Robert R. Ranck

By: \_\_\_\_\_  
William W. Ranck

WORKING INTEREST OWNERS

_____	_____
_____	_____
_____	_____
_____	_____

THE STATE OF \_\_\_\_\_

COUNTY OF \_\_\_\_\_

This instrument was acknowledged before me on the \_\_\_\_\_  
day of \_\_\_\_\_, 1988, by \_\_\_\_\_.

\_\_\_\_\_  
Notary Public, State of Texas

My Commission Expires \_\_\_\_\_

THE STATE OF \_\_\_\_\_

COUNTY OF \_\_\_\_\_

This instrument was acknowledged before me on the \_\_\_\_\_  
day of \_\_\_\_\_, 1988, by \_\_\_\_\_,  
\_\_\_\_\_, of \_\_\_\_\_, a  
\_\_\_\_\_ corporation, on behalf of said corporation.

\_\_\_\_\_  
Notary Public, State of Texas

My Commission Expires \_\_\_\_\_

## EXHIBIT " E "

Attached to and made a part of Unit Operating Agreement  
Chaveroo San Andres Unit  
Counties of Roosevelt & Chaves  
State of New Mexico dated January 1, 1987

# ACCOUNTING PROCEDURE JOINT OPERATIONS

## I. GENERAL PROVISIONS

### 1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

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

"Non-Operators" shall mean the parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

### 2. Statement and Billings

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

### 3. Advances and Payments by Non-Operators

Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

### 4. Adjustments

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

### 5. Audits

A. Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

### 6. Approval by Non-Operators

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

## II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

### 1. Rentals and Royalties

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

### 2. Labor

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

### 3. Employee Benefits

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty per cent (20%).

### 4. Material

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

### 5. Transportation

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

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by the Parties.
- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of \$200 or less excluding accessorial charges.

### 6. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraph 1. ii of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the Overhead rates. ~~The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.~~

### 7. Equipment and Facilities Furnished by Operator

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

### 8. Damages and Losses to Joint Property

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

### 9. Legal Expense

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



**10. Taxes**

All taxes of every kind and nature assessed or levied upon or in connection with the Joint Property, the operation thereof, or the production therefrom, and which taxes have been paid by the Operator for the benefit of the Parties.

**11. Insurance**

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

**12. Other Expenditures**

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

**III. OVERHEAD****1. Overhead - Drilling and Producing Operations**

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

- ( ☒ ) Fixed Rate Basis, Paragraph 1A, or  
(     ) Percentage Basis, Paragraph 1B.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 2A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the Overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

- ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall (     ) shall not (     ) be covered by the Overhead rates.

**A. Overhead - Fixed Rate Basis**

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

Drilling Well Rate \$	3,000
Producing Well Rate \$	300

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

**(a) Drilling Well Rate**

- [1] Charges for onshore drilling wells shall begin on the date the well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days.
- [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

**(b) Producing Well Rates**

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- [4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
- [5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

- (3) The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

~~B. Overhead - Percentage Basis~~

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

(a) Development

\_\_\_\_\_ Percent ( %) of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 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 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 \$ 100,000 :

- A. 4 % of total costs if such costs are more than \$ 100,000 but less than \$ 200,000 ; plus  
 B. 2 % of total costs in excess of \$ 250,000 but less than \$1,000,000; plus  
 C. 1 % 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) <sup>no more than</sup> 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

- (b) at sixty-five percent (65%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as good used Material at seventy-five percent (75%) of current new price.

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

**C. Other Used Material (Condition C and D)**

**(1) Condition C**

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced ~~at fifty percent (50%)~~ <sup>market</sup> of current new price as determined by Paragraph 2A of this Section IV. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

**(2) Condition D**

All other Material, including junk, shall be priced at a value commensurate with its use or at prevailing prices. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose. Operator may dispose of Condition D Material under procedures normally utilized by the Operator without prior approval of Non-Operators.

**D. Obsolete Material**

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

**E. Pricing Conditions**

- (1) Loading and unloading costs may be charged to the Joint Account ~~at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.~~
- (2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

**3. Premium Prices**

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

**4. Warranty of Material Furnished by Operator**

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

## V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

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

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

**2. Reconciliation and Adjustment of Inventories**

Reconciliation of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six months following the taking of the inventory. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable only for shortages due to lack of reasonable diligence.

**3. Special Inventories**

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

**4. Expense of Conducting Periodic Inventories**

The expense of conducting periodic Inventories shall not be charged to the Joint Account unless agreed to by the Parties.

EXHIBIT F

UNIT OPERATING AGREEMENT

CHAVEROO SAN ANDRES UNIT  
Chaveroo Field  
Roosevelt & Chaves Counties, New Mexico

Insurance

The OPERATOR shall carry the following minimum insurance to cover the risks of accident and/or damages to persons and/or property which may occur in the course of operations conducted under this agreement. A proportionate part of the premiums on such insurance, determined on some equitable basis consistent with OPERATOR'S accounting practice, shall be charged to the Joint Account:

1. a) Workers' Compensation - in accordance with the laws of the state or states where such operation contemplated by this agreement are conducted.  
b) Employer's Liability - \$100,000 each accident

2. Comprehensive General Liability -

Bodily Injury - \$300,000 each occurrence  
annual - \$300,000 aggregate (where applicable)  
Property Damage - \$100,000 each occurrence  
- \$100,000 aggregate (where applicable)

This insurance shall provide coverage for the Joint Account created by this agreement, broad form blanket contractual liability, personal injury, inclusion of various working interests as additional insured; blanket waiver of subrogation as required by written contract; independent contractors; products/completed operations; underground resources and equipment; saline hazard; explosion, collapse and underground; and blowout and cratering.

3. Automobile Liability -

Bodily Injury - \$250,000 each person  
\$500,000 each occurrence  
Property Damage - \$100,000 each occurrence

4. Umbrella Liability - with a minimum of not less than \$1,000,000 each occurrence and \$1,000,000 in the aggregate (where applicable).

5. El Ran will supply copies of insurance and will provide updated copies when changing carriers and also provide 30 days prior written notice. El Ran will also furnish advance notification of loss of insurance.

EXHIBIT "D"/UNIT OPERATING AGREEMENT: EL RAN, INC. CHAVERO SAN  
ANDRES UNIT, LOCATED IN CHAVES & ROOSEVELT COUNTY, NEW MEXICO

PROPOSED CHAYEROO FIELD WATERFLOOD PARTICIPATION FACTORS							
FEBRUARY 1, 1988	CUMULATIVE	PERCENTAGE PER LEASE	REMAINING PRIMARY	PERCENTAGE PER LEASE	ULTIMATE PRIMARY	PERCENTAGE PER LEASE	TOTAL PARTICIPATION FACTOR PER LEASE
	9-1-87		9-1-87				
<b>TRACT:</b>	<b>LEASE:</b>						
1	Dachner	92,565	0.09556123	0.00000000	92,565	0.09456998	160 0.14285715
1a	Federal	136,079	0.14048373	0.00000000	136,079	0.13905591	160 0.14285714
2	U.S.	26,124	0.02696961	0.00000000	26,124	0.02669550	80 0.07142857
3	Byron	278,351	0.28736091	1,900	0.19103157	0.28638186	160 0.14285715
4	Carroll	64,644	0.06673645	.	64,644	0.06605617	80 0.07142857
5	Griffin	31,816	0.03264585	8,046	0.80896843	0.04073404	80 0.07142857
6	Roberts	196,913	0.20328666		196,913	0.20122073	160 0.14285714
7	Sarah	45,913	0.04739915		45,913	0.04691741	80 0.07142857
8	Yeager	96,241	0.09935621		96,241	0.09834640	160 0.14285714
	TOTALS	966,646	1.00000000	9,946	1.00000000	976,592	1.00000000 1,120 1.00000000
ALLOCATED PERCENTAGES PER FACTOR:						0.80000000	0.20000000

EXHIBIT "D"/UNIT OPERATING AGREEMENT: EL RAM, INC. CHAVERO SAN  
ANDRES UNIT, LOCATED IN CHAVES & ROOSEVELT COUNTY, NEW MEXICO

PROPOSED CHAVERO FIELD WATERFLOOD PARTICIPATION FACTORS FEBRUARY 1, 1988		CUMULATIVE 9-1-87 PERCENTAGE PER LEASE		9-1-87 REMAINING PRIMARY PERCENTAGE PER LEASE		REMAINING PRIMARY 9-1-87 PERCENTAGE PER LEASE		ULTIMATE PRIMARY PERCENTAGE PER LEASE		ULTIMATE PRIMARY PERCENTAGE PER LEASE		AREA PERCENTAGE PER LEASE		TOTAL PARTICIPATION FACTOR PER LEASE	
1	Dachner	0.00000000		0.00000000		0.00000000		0.07567198		0.02857143		0.10424341		0.10424341	
1a	Federal	0.00000000		0.00000000		0.00000000		0.11124473		0.02857143		0.13981616		0.13981616	
2	U.S.	0.00000000		0.00000000		0.00000000		0.02135640		0.01428571		0.03564211		0.03564211	
3	Byron	0.00000000		0.00000000		0.00000000		0.22910549		0.02857143		0.25767692		0.25767692	
4	Carroll	0.00000000		0.00000000		0.00000000		0.05284654		0.01428571		0.06713225		0.06713225	
5	Griffin	0.00000000		0.00000000		0.00000000		0.03258723		0.01428572		0.04687295		0.04687295	
6	Roberts	0.00000000		0.00000000		0.00000000		0.16097658		0.02857143		0.18954801		0.18954801	
7	Sarah	0.00000000		0.00000000		0.00000000		0.03753393		0.01428571		0.05181964		0.05181964	
8	Yeager	0.00000000		0.00000000		0.00000000		0.07867712		0.02857143		0.10724855		0.10724855	
TOTALS		0.00000000		0.00000000		0.00000000		0.80000000		0.20000000		1.00000000		1.00000000	

EXHIBIT "D"/UNIT OPERATING AGREEMENT: EL RAN, INC. CHAVEROO SAN  
ANDRES UNIT, LOCATED IN CHAVES & ROOSEVELT COUNTY, NEW MEXICO

EL RAN, INC.	TRACT 1	TRACT 1
CHAVEROO SAN ANDRES UNIT		NET REVENUE
PARTICIPATION FACTORS	DACHNER LEASE	INTERESTS

INVESTORS/WORKING INTEREST:

ARTHUR RANPY	0.03125000	0.00265495
BARBARA EDWARDS	0.01562500	0.00132747
C. H. ELKINS ESTATE	0.37500000	0.03185939
CLYDE ELKINS	0.09375000	0.00796485
CRAIG MC DONALD	0.03125000	0.00265495
DR. W. H. GORDON, SR.	0.03125000	0.00265495
I. W. BRISCOE	0.03125000	0.00265495
JAMES G. MORRIS	0.18750000	0.01592970
JAMES M. EVANS	0.03125000	0.00265495
JOE A. RUDBERG	0.03125000	0.00265495
JOE W. GRAY	0.01562500	0.00132747
JOE J. REYNOLDS	0.03125000	0.00265495
L. D. PRATER	0.03125000	0.00265495
ROBERT RANCK	0.03125000	0.00265495
ROBERT W. ROSE	0.03125000	0.00265495

TOTAL	1.00000000	0.08495638
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EXHIBIT "D"/UNIT OPERATING AGREEMENT: EL RAN, INC. CHAVERO SAN  
ANDRES UNIT, LOCATED IN CHAVES & ROOSEVELT COUNTY, NEW MEXICO

EL RAN, INC. CHAVERO SAN ANDRES UNIT PARTICIPATION FACTORS	TRACT 1 DACHNER LEASE	TRACT 1 NET REVENUE INTERESTS

RI & ORRI INTEREST OWNERS:

MILDRED F. DACHNER/ORRI	0.00250000	0.00020061
SUSAN DAWSON/ORRI	0.04750000	0.00495156
ROBERT R. RANCK/ORRI	0.01000000	0.00104243
UNITED STATES/MINERALS MGMT.	0.12500000	0.01303043

TOTAL RI & ORRI OWNERS	0.18500000	0.01928503
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GRAND TOTAL VI & RI OWNERS		0.10424341
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EXHIBIT "D"/UNIT OPERATING AGREEMENT: EL RAN, INC. CHAVEROO SAN  
ANDRES UNIT, LOCATED IN CHAVES & ROOSEVELT COUNTY, NEW MEXICO

EL RAN, INC.	TRACT 1a	TRACT 1a
CHAVEROO SAN ANDRES UNIT		NET REVENUE
PARTICIPATION FACTORS	FEDERAL LEASE	INTERESTS

INVESTORS/WORKING INTEREST:

C. C. RANCK TRUST	0.01269531	0.00138451
DICK R. WEGENER	0.01523437	0.00166141
GILES W. FORBESS	0.23437500	0.02556014
NELLE JANE BAYLESS	0.03046675	0.00332282
R. C. RANCK TRUST	0.01269531	0.00138451
ROBERT RANCK	0.06250000	0.00681604
RUTH BAUNGARDNER TRUST	0.02539063	0.00276901
RUTH S. TERRELL	0.03125000	0.00340802
RUTH SAMUEL	0.20312500	0.0215212
SUSAN WOLF	0.01523437	0.00166141
W. W. RANCK	0.25976563	0.02832915
W. W. RANCK, JR.	0.05664063	0.00617704
WEGENER ENTERPRISES	0.04062500	0.00443042
TOTAL	1.00000000	0.10905660

EXHIBIT "D"/UNIT OPERATING AGREEMENT: EL RAM, INC. CHAVEROO SAN  
ANDRES UNIT, LOCATED IN CHAVES & ROOSEVELT COUNTY, NEW MEXICO

EL RAM, INC. CHAVEROO SAN ANDRES UNIT PARTICIPATION FACTORS	TRACT 1a FEDERAL LEASE	TRACT 1a NET REVENUE INTERESTS

RI & ORRI INTEREST OWNERS:

MILDRED F. DACHNER/ORRI	0.00250000	0.00034954
SUSAN DAWSON/ORRI	0.04750000	0.00664127
ROBERT R. RANCK/ORRI	0.02500000	0.00349541
W. W. RANCK, JR.	0.01000000	0.00139816
RANCK TRUST	0.01000000	0.00139816
UNITED STATES/MINERALS MGMT.	0.12500000	0.01747702

TOTAL RI & ORRI OWNERS	0.22000000	0.03075956
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GRAND TOTAL WI & RI OWNERS		0.13981616
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EXHIBIT "D"/UNIT OPERATING AGREEMENT: EL RAN, INC. CHAVERO SAN  
ANDRES UNIT, LOCATED IN CHAVES & ROOSEVELT COUNTY, NEW MEXICO

EL RAN, INC. CHAVERO SAN ANDRES UNIT PARTICIPATION FACTORS	TRACT 2 U. S. LEASE	TRACT 2 NET REVENUE INTERESTS
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INVESTORS/WORKING INTEREST:

BENTON OIL	0.06250000	0.00167072
C. C. RANCK TRUST	0.01074218	0.00028715
C. H. ELKINS ESTATE	0.25000000	0.00668290
CLYDE ELKINS	0.06250000	0.00167072
DICK R. WEGENER	0.01289063	0.00034459
GORDON ROSE	0.03125000	0.00083537
JAMES G. MORRIS	0.12500000	0.00334145
JEROME SHARPE	0.03125000	0.00083537
MELLE JANE BAYLESS	0.02578124	0.00066918
R. C. RANCK TRUST	0.01074218	0.00028715
ROBERT RANCK	0.01562500	0.00041768
RUTH BAUNGARDNER TRUST	0.02148438	0.00057431
RUTH SAMUEL	0.06250000	0.00167072
SUSAN WOLF	0.01289063	0.00034459
W. K. RANCK	0.20890438	0.00558648
W. W. RANCK, JR.	0.02148438	0.00057431
WEGENER ENTERPRISES	0.03437500	0.00091890

TOTAL	1.00000000	0.02673159
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EXHIBIT 'D'/UNIT OPERATING AGREEMENT: EL RAM, INC. CHAVERO SAN  
ANDRES UNIT, LOCATED IN CHAVES & ROOSEVELT COUNTY, NEW MEXICO

EL RAM, INC.	TRACT 2	TRACT 2
CHAVERO SAN ANDRES UNIT		NET REVENUE
PARTICIPATION FACTORS	U. S. LEASE	INTERESTS

RI & ORRI INTEREST OWNERS:

CELSTIUS ENERGY CO./ORRI	0.09500000	0.00338600
MITCHELL ENERGY CORP./ORRI	0.02000000	0.00071284
HOWELL SPEAR/ORRI	0.01000000	0.00035642
UNITED STATES/MINERALS MGMT.	0.12500000	0.00445526
TOTAL RI & ORRI OWNERS	0.25000000	0.00891052

GRAND TOTAL RI & RI OWNERS	0.03564211
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EXHIBIT "D"/UNIT OPERATING AGREEMENT: EL RAM, INC. CHAVEROO SAN  
ANDRES UNIT, LOCATED IN CHAVES & ROOSEVELT COUNTY, NEW MEXICO

EL RAM, INC. CHAVEROO SAN ANDRES UNIT PARTICIPATION FACTORS	TRACT 3 BYRON LEASE	TRACT 3 NET REVENUE INTERESTS
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INVESTORS/WORKING INTEREST:

C. C. RANCK TRUST	0.00390825	0.00079517
C. H. ELKINS ESTATE	0.48875000	0.09542099
CLYDE ELKINS	0.14848000	0.02981817
DICK R. WEGENER	0.00468750	0.00095421
JAMES G. MORRIS	0.23438000	0.04771151
KLR ASSOC.	0.08789000	0.01789130
NELLE JANE BAYLESS	0.00937500	0.00190842
R. C. RANCK TRUST	0.00390625	0.00079517
RUTH BAUMGARDNER TRUST	0.00781250	0.00155035
SUSAN WOLF	0.00468750	0.00095421
W. W. RANCK	0.00781250	0.00159035
W. W. RANCK, JR.	0.00781250	0.00159035
WEGENER ENTERPRISES	0.01250000	0.00254456

TOTAL	1.00000000	0.20356476
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RI & ORRI INTEREST OWNERS:

ROY G. BARTON, JR./RI	0.01983333	0.00511059
ROY G. BARTON, JR./ORRI	0.00187500	0.00048315
NORMA J. BARTON/RI	0.01275000	0.00328538
REBECCA J. BENSON	0.01888890	0.00488723
ROBERT P. BYRON/RI	0.02125005	0.00547565
ROBERT P. BYRON/ORRI	0.00375000	0.00096629
NORMA J. CHANLEY/RI	0.00708332	0.00182521
NORMA J. CHANLEY/ORRI	0.00187500	0.00048315

EXHIBIT "D"/UNIT OPERATING AGREEMENT: EL RAM, INC. CHAVEROO SAN  
ANDRES UNIT, LOCATED IN CHAVES & ROOSEVELT COUNTY, NEW MEXICO

EL RAM, INC. CHAVEROO SAN ANDRES UNIT PARTICIPATION FACTORS	TRACT 3	TRACT 3
	BYRON LEASE	NET REVENUE INTERESTS
MICHAEL S. CITY	0.00141670	0.00036505
DCM OIL & GAS CO.	0.00944445	0.00243362
HORSESHOE OIL & GAS	0.00944445	0.00243362
E. L. LATHAM, JR.	0.01133330	0.00292032
JAMES D. MC LEAN/ORRI	0.02000000	0.00515354
WILLIAM G. MC PHERON	0.01133330	0.00292033
FRED G. MIDDLETON	0.01888890	0.00486723
ELBA MIKOSZ	0.01000000	0.00257677
ROBERT R. RANCK/ORRI	0.01000000	0.00257677
DURWOOD A. TERRILL	0.02083330	0.00536826
TOTAL RI & ORRI OWNERS	0.21000000	0.05411216
GRAND TOTAL WI & RI OWNERS		0.25767692

EXHIBIT "D" UNIT OPERATING AGREEMENT: EL RAM, INC. CHAVERO SAN  
ANDRES UNIT, LOCATED IN CHAVES & ROOSEVELT COUNTY, NEW MEXICO

EL RAM, INC. CHAVERO SAN ANDRES UNIT PARTICIPATION FACTORS	TRACT 4 CARROLL LEASE	TRACT 4 NET REVENUE INTERESTS
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INVESTORS/WORKING INTEREST:		
C. H. ELKINS ESTATE	0.50000000	0.02753472
CLYDE ELKINS	0.12500000	0.00666368
GORDON ROSE	0.09375000	0.00516276
JAMES G. MORRIS	0.25000000	0.01376735
ROBERT RANCK	0.03125000	0.00172092
TOTAL	1.00000000	0.05506943
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RI & ORRI INTEREST OWNERS:		
ROY G. BARTON, JR./RI	0.02041668	0.00137062
NORMA J. BARTON/RI	0.01312500	0.00086111
REBECCA J. BENSON	0.01944440	0.00130535
ROBERT P. BYRON/RI	0.02167505	0.00146852
H. D. CARROLL AND ...	0.01562500	0.00104894
NORMA J. CHANLEY/RI	0.00729168	0.00048950
MICHAEL S. CITY	0.00145830	0.00009790
HORSESHOE OIL & GAS	0.01944440	0.00130535
E. L. LATHAM, JR.	0.01166670	0.00078321
WILLIAM G. MC PHERON	0.01166670	0.00078321
FRED G. MIDDLETON	0.01944440	0.00130535
DURWOOD A. TERRILL	0.01822920	0.00122376
TOTAL RI & ORRI OWNERS	0.17968751	0.01206282
=====	=====	=====
GRAND TOTAL RI & RI OWNERS		0.06713225
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EXHIBIT "D" UNIT OPERATING AGREEMENT: EL RAN, INC. CHAVEROO SAN ANDRES UNIT, LOCATED IN CHAVES & ROOSEVELT COUNTY, NEW MEXICO

EL RAN, INC. CHAVEROO SAN ANDRES UNIT PARTICIPATION FACTORS	TRACT 5	TRACT 5
	GRILFFIN LEASE	NET REVENUE INTERESTS
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INVESTORS/WORKING INTEREST:		
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ARTHUR RAMPY	0.03125000	0.00109859
C. C. RANCK TRUST	0.00781250	0.00027464
CLYDE ELKINS	0.06250000	0.00219717
DICK R. WEGENER	0.00937500	0.00032957
GILES W. FORBESS	0.03125000	0.00109859
GORDON ROSE	0.03125000	0.00109859
JAMES G. MORRIS	0.12500000	0.00439434
JEROME SHARPE	0.06250000	0.00219717
KEENEY ROYALTY TRUST	0.03125000	0.00109859
NELLE JANE BAYLESS	0.01875000	0.00065915
R. C. RANCK TRUST	0.00781250	0.00027464
ROBERT RANCK	0.06250000	0.00219717
RUTH BAUMGARDNER TRUST	0.01562500	0.00054929
RUTH S. TERRELL	0.12500000	0.00439434
RUTH SAMUEL	0.18750000	0.00659151
SUSAN WOLF	0.00937500	0.00032957
W. W. RANCK	0.14062500	0.00494363
W. W. RANCK, JR.	0.01562500	0.00054929
WEGENER ENTERPRISES	0.02500000	0.00087887
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TOTAL	1.00000000	0.03515471
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EXHIBIT "D"/UNIT OPERATING AGREEMENT: EL RAM, INC. CHAVERO SAN  
ANDRES UNIT, LOCATED IN CHAVES & ROOSEVELT COUNTY, NEW MEXICO

EL RAM, INC.		TRACT 5	TRACT 5
CHAVERO SAN ANDRES UNIT			NET REVENUE
PARTICIPATION FACTORS	GRIFFIN LEASE		INTERESTS
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RI & ORRI INTEREST OWNERS:			
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CHAMPLIN PETROLEUM	0.07500000		0.00351547
MARY VIRGINIA GRIFFIN	0.08750000		0.00410138
ALFRED W. MITCHELL	0.02187500		0.00102535
KATHRYN MITCHELL	0.04375000		0.00205069
ROBERT L. MITCHELL	0.02187500		0.00102535
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TOTAL RI & ORRI OWNERS	0.25000000		0.01171824
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GRAND TOTAL WI & RI OWNERS			0.04687295
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EXHIBIT "D"/UNIT OPERATING AGREEMENT: EL RAM, INC. CHAVEROO SAN  
ANDRES UNIT, LOCATED IN CHAVES & ROOSEVELT COUNTY, NEW MEXICO

EL RAM, INC.	TRACT 6	TRACT 6
CHAVEROO SAN ANDRES UNIT		NET REVENUE
PARTICIPATION FACTORS	ROBERTS LEASE	INTERESTS

INVESTORS/WORKING INTEREST:

C. C. RANCK TRUST	0.01464843	0.00216161
DICK R. WEGENER	0.01737813	0.00233934
GILES W. FORBESS	0.25000000	0.03689152
MELE JANE BAYLESS	0.03515624	0.00518787
R. C. RANCK TRUST	0.01464843	0.00216161
ROBERT RANCK	0.03125000	0.00461144
RUTH BAUGARDNER TRUST	0.02929688	0.00432323
RUTH S. TERRELL	0.02500000	0.00366915
RUTH SAMUEL	0.22500000	0.03320237
SUSAN WOLF	0.01737813	0.00233934
W. W. RANCK	0.26367188	0.03890903
W. W. RANCK, JR.	0.02929688	0.00432323
WEGENER ENTERPRISES	0.04687500	0.00691716

TOTAL	1.00000000	0.14756610
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RT & ORRI INTEREST OWNERS:

ADOBE RESOURCES CORP.	0.02466140	0.00467452
J. E. BOOTHIE	0.00520830	0.00098722
TAMMIE B. BOOTHIE	0.00520830	0.00098722
ESTATE/C. H. ELKINS	0.00325520	0.00061702
HENUS, INC.	0.00520830	0.00096722
CHARLES HORTON	0.00520830	0.00096722
PAUL & WILLIENE JONES	0.02083330	0.00394691
JAMES D. MC LEAN/ORRI	0.01906260	0.00361328

EXHIBIT "D"/UNIT OPERATING AGREEMENT: EL RAN, INC. CHAYERO SAN  
ANDRES UNIT, LOCATED IN CHAVES & ROOSEVELT COUNTY, NEW MEXICO

EL RAN, INC. CHAYERO SAN ANDRES UNIT PARTICIPATION FACTORS	TRACT 6	
	ROBERTS LEASE	TRACT 6
		NET REVENUE INTERESTS
ELBA MIKOSZ	0.00953120	0.00180662
BETTY T. RANCK	0.00325520	0.00061702
ROBERT R. RANCK/ORRI	0.02500000	0.00473870
ROBERT R. RANCK/RI	0.00651040	0.00123403
REPUBLIC NAT'L BANK	0.07291670	0.01382122
RAMONA CURRY ROBERTS	0.00781250	0.00148085
PATRICIA MARIE SANCHEZ	0.00260420	0.00049362
CHERIE SUMMERS WALCOT	0.00260420	0.00049362
THEODORE SUMMERS	0.00260420	0.00049362
TOTAL RI & ORRI OWNERS	0.22148430	0.04198191
GRAND TOTAL W/ & RI OWNERS		0.18954801

EXHIBIT "D"/UNIT OPERATING AGREEMENT: EL RAN, INC. CHAVEROO SAN  
ANDRES UNIT, LOCATED IN CHAVES & ROOSEVELT COUNTY, NEW MEXICO

EL RAN, INC. CHAVEROO SAN ANDRES UNIT PARTICIPATION FACTORS	TRACT 7 SARAH LEASE	TRACT 7 NET REVENUE INTERESTS
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INVESTORS/WORKING INTEREST:

C. C. RANCK TRUST	0.01269530	0.00051992
DICK POLLARD	0.03125000	0.00127980
DICK R. WEGENER	0.01523438	0.00082390
GILES W. FORBESS	0.12500000	0.00511922
NELLE JANE BAYLESS	0.03046875	0.00124761
R. C. RANCK TRUST	0.01269530	0.00051992
ROBERT RANCK	0.12500000	0.00511922
RUTH BAUMGARDNER TRUST	0.02539063	0.00103984
RUTH SAMUEL	0.12500000	0.00511922
SUSAN WOLF	0.01523438	0.00082390
W. W. RANCK	0.33789063	0.01383788
W. W. RANCK, JR.	0.10351563	0.00423935
WEGENER ENTERPRISES	0.04082500	0.00166374

TOTAL	1.00000000	0.04095372
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RI & ORRI INTEREST OWNERS:

ROY G. BARTON, JR./RI	0.02041668	0.00105799
NORMA J. BARTON/RI	0.01312500	0.00088013
REBECCA J. BENSON	0.01944440	0.00100760
ROBERT P. BYRON/RI	0.02187495	0.00113355
H. O. CARROLL AND ...	0.01562500	0.00080968
NORMA J. CHANLEY/RI	0.00729168	0.00037785
MICHAEL S. CITTY	0.00145830	0.00007557
HORSESHOE OIL & GAS	0.01944440	0.00100760

EXHIBIT "D"/UNIT OPERATING AGREEMENT: EL RAM, INC. CHAVEROO SAN  
ANDRES UNIT, LOCATED IN CHAVES & ROOSEVELT COUNTY, NEW MEXICO

EL RAM, INC. CHAVEROO SAN ANDRES UNIT PARTICIPATION FACTORS	TRACT 7	TRACT 7
	SARAH LEASE	NET REVENUE INTERESTS
E. L. LATHAM, JR.	0.01166660	0.00060456
WILLIAM G. MC PHERON	0.01166670	0.00060456
FRED G. MIDDLETON	0.01944440	0.00100760
ROBERT R. RANCK/ORRI	0.01000000	0.00051820
W. W. RANCK, JR.	0.01000000	0.00051820
RANCK TRUST	0.01000000	0.00051820
DURWOOD A. TERRILL	0.01822920	0.00094463
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TOTAL RI & ORRI OWNERS	0.20968731	0.01086592
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GRAND TOTAL WI & RI OWNERS		0.05181964
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EXHIBIT 'D'/UNIT OPERATING AGREEMENT: EL RAN, INC. CHAVEROO SAN  
ANDRES UNIT, LOCATED IN CHAVES & ROOSEVELT COUNTY, NEW MEXICO

EL RAN, INC. CHAVEROO SAN ANDRES UNIT PARTICIPATION FACTORS	TRACT 8 YEAGER LEASE	TRACT 8 NET REVENUE INTERESTS
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INVESTORS/WORKING INTEREST:

C. C. RANCK TRUST	0.01195477	0.00101288
C. H. ELKINS ESTATE	0.48437500	0.04103933
DALBY ESTATE	0.32434880	0.02748089
DICK R. WEGENER	0.00234374	0.00019857
JEWEL DALBY BENTON TRUST	0.01600262	0.00135585
NELLE JANE BAYLESS	0.00468750	0.00039716
R. C. RANCK TRUST	0.01195477	0.00101288
ROBERT RANCK	0.02000327	0.00169480
RUTH BAUNGARDNER TRUST	0.00390625	0.00033097
RUTH SAMUEL	0.04000655	0.00338961
SUSAN WOLF	0.00234375	0.00019857
W. W. RANCK	0.05991542	0.00507641
W. W. RANCK, JR.	0.01190756	0.00100889
WEGENER ENTERPRISES	0.00625000	0.00052954

TOTAL	1.00000000	0.08472635
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RI & ORRI INTEREST OWNERS:

CLEM E. GEORGE/ORRI	0.02687500	0.00288230
JOHN W. LODENICK	0.01041660	0.00111717
LAURA B. LODENICK	0.03125000	0.00335152
LARUA PATRICIA LODENICK	0.01041670	0.00111718
RICHARD B. LODENICK	0.01041670	0.00111718
W. W. RANCK/ORRI	0.02687500	0.00288230
W. A. & PATSY YEAGER	0.09375000	0.01005455

EXHIBIT 'D' UNIT OPERATING AGREEMENT: EL RAM, INC. CHAVEROO SAN  
ANDRES UNIT, LOCATED IN CHAVES & ROOSEVELT COUNTY, NEW MEXICO

EL RAM, INC. CHAVEROO SAN ANDRES UNIT PARTICIPATION FACTORS	TRACT 8	TRACT 8
	YEAGER LEASE	NET REVENUE
	INTERESTS	
TOTAL RI & ORRI OWNERS	0.2100000	0.0252220
GRAND TOTAL RI & RI OWNERS		0.10724855

EXHIBIT "D"/UNIT OPERATING AGREEMENT: EL RAN, INC. CHAVEROO SAN ANDRES UNIT, LOCATED IN CHAVES & ROOSEVELT COUNTY, NEW MEXICO

EL RAN, INC. CHAVEROO SAN ANDRES UNIT PARTICIPATION FACTORS	TOTAL WATERFLOOD PARTICIPATION FOR ALL INTERESTS
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INVESTORS/WORKING INTEREST:	
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ARTHUR RANPY	0.00375354
BARBARA EDWARDS	0.00132747
BENTON OIL	0.00167072
C. C. RANCK TRUST	0.00643588
C. H. ELKINS ESTATE	0.20253733
CLYDE ELKINS	0.04853459
CRAIG MC DONALD	0.00265495
DALBY ESTATE	0.02748089
DICK POLLARD	0.00127980
DICK R. WEGENER	0.00670619
DR. W. H. GORDON, SR.	0.00265495
GILES M. FORBESS	0.06866947
GORDON ROSE	0.00709672
I. W. BRISCOE	0.00265495
JAMES G. MORRIS	0.08514435
JAMES M. EVANS	0.00265495
JEROME SHARPE	0.00303254
JENEL DALBY BENTON TRUST	0.00135585
JOE A. RUDBERG	0.00265495
JOE W. GRAY	0.00132747
JOE J. REYNOLDS	0.00265495
KEENEY ROYALTY TRUST	0.00109859
KLR ASSOC.	0.01789130
L. D. PRATER	0.00265495
NELLE JANE BAYLESS	0.01341241
R. C. RANCK TRUST	0.00643588
ROBERT RANCK	0.02523222



EXHIBIT "D"/UNIT OPERATING AGREEMENT: EL RAM, INC. CHAVEROO SAN ANDRES UNIT, LOCATED IN CHAVES & ROOSEVELT COUNTY, NEW MEXICO

EL RAM, INC. CHAVEROO SAN ANDRES UNIT PARTICIPATION FACTORS	TOTAL WATERFLOOD PARTICIPATION FOR ALL INTERESTS
ROBERT W. ROSE	0.00266495
RUTH BAUMGARDNER TRUST	0.01117700
RUTH S. TERRELL	0.01149151
RUTH SAMUEL	0.07212555
SUSAN WOLF	0.00670619
M. W. RAMCK	0.09827293
M. W. RAMCK, JR.	0.01846246
WEGENER ENTERPRISES	0.01786319
TOTAL	0.78778164

RI & ORRI INTEREST OWNERS:	
ADORE RESOURCES CORP.	0.00467452
ROY G. BARTON, JR./RI	0.00753920
ROY G. BARTON, JR./ORRI	0.00048315
NORMA J. BARTON/RI	0.00484662
REBECCA J. BENSON	0.00718018
J. E. BOOTHE	0.00098722
TAMMIE B. BOOTHE	0.00098722
ROBERT P. BYRON/RI	0.00807772
ROBERT P. BYRON/ORRI	0.00098629
H. D. CARROLL AND ...	0.00165862
CELSIUS ENERGY CO./ORRI	0.00338600
CHARPLIN PETROLEUM	0.00351547
NORMA J. CHANLEY/RI	0.00269256
NORMA J. CHANLEY/ORRI	0.00048315
MICHAEL S. CITTY	0.00053852
MILDRED F. DACHNER/ORRI	0.00061015
SUSAN DAWSON/ORRI	0.01159283

EXHIBIT 'D' UNIT OPERATING AGREEMENT: EL RAN, INC. CHAVEROO SAN  
ANDRES UNIT, LOCATED IN CHAVES & ROOSEVELT COUNTY, NEW MEXICO

EL RAN, INC. CHAVEROO SAN ANDRES UNIT PARTICIPATION FACTORS	TOTAL WATERFLOOD PARTICIPATION FOR ALL INTERESTS
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DCM OIL & GAS CO.	0.00243362
ESTATE/C. H. ELKINS	0.00061702
CLEM E. GEORGE/ORRI	0.00288230
MARY VIRGINIA GRIFFIN	0.00410138
HEMUS, INC.	0.00098722
HORSESHOE OIL & GAS	0.00474657
CHARLES HORTON	0.00098722
PAUL & WILLINE JONES	0.00394891
E. L. LATHAN, JR.	0.00430809
JOHN W. LODENICK	0.00111717
LAURA B. LODENICK	0.00335152
LARUA PATRICIA LODENICK	0.00111718
RICHARD B. LODENICK	0.00111718
JAMES D. MC LEAN/ORRI	0.00816882
WILLIAM G. MC PHERON	0.00430810
FRED G. MIDDLETON	0.00718018
ELBA MIKOSZ	0.00438339
MITCHELL ENERGY CORP./ORRI	0.00071284
ALFRED W. MITCHELL	0.00102535
KATHRYN MITCHELL	0.00205089
ROBERT L. MITCHELL	0.00102535
BETTY T. RANCK	0.00061702
ROBERT R. RANCK/ORRI	0.01237151
ROBERT R. RANCK/RI	0.00123403
W. W. RANCK/ORRI	0.00288230
W. W. RANCK, JR.	0.00191636
RANCK TRUST	0.00191636
REPUBLIC NAT'L BANK	0.01382122
RAMONA CURRY ROBERTS	0.00148085
PATRICIA MARIE SANCHEZ	0.00049362
HOWELL SPEAR/ORRI	0.00035642

EXHIBIT "D"/UNIT OPERATING AGREEMENT: EL RAN, INC. CHAVERO SAN  
ANDRES UNIT, LOCATED IN CHAVES & ROOSEVELT COUNTY, NEW MEXICO

EL RAN, INC. CHAVERO SAN ANDRES UNIT PARTICIPATION FACTORS	TOTAL WATERFLOOD PARTICIPATION FOR ALL INTERESTS
DURWOOD A. TERRILL	0.00753665
UNITED STATES/MINERALS MGMT.	0.03496271
CHERIE SUMMERS WALCOT	0.00049362
THEODORE SUMMERS	0.00049362
W. A. & PATSY YEAGER	0.01005455
TOTAL RI & ORRI OWNERS	0.21221836
GRAND TOTAL WI & RI OWNERS	1.00000000