

UNIT OPERATING AGREEMENT

RED LAKE PREMIER SAND UNIT

EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, made and entered into as of the _____ day of _____, 195_, by and between the undersigned owners of certain oil, gas and mineral leases or other operating rights covering lands in the Red Lake Field, Eddy County, New Mexico, and all other parties who subsequently ratify this agreement (all hereinafter sometimes being referred to collectively as "working interest owners").

WITNESSETH: That,

WHEREAS, the parties hereto have executed and delivered, as of the date hereof, that certain "Unitization Agreement" creating the Red Lake Unit in Eddy County, New Mexico, (hereinafter referred to as "Unitization Agreement"); and

WHEREAS, said Unitization Agreement provides, among other things, for a separate agreement to be made and entered into by and between the working interest owners, covering certain matters and things pertaining to the development and operation of said unit created by said agreement; and

WHEREAS, Harold Kersey, d/b/a Kersey & Company hereinafter is designated and sometimes referred to herein and in said Unitization Agreement as "Unit Operator"; and the remaining working interest owners hereinafter and in Exhibit "A", attached hereto, sometimes are referred to collectively as "non-operators";

NOW, THEREFORE, in consideration of the premises and of the mutual promises and covenants hereinafter set forth to be kept and performed by the parties hereto, it is hereby stipulated and agreed by and between the parties hereto as follows:

I. UNITIZATION AGREEMENT CONFIRMED

1. "Unit Area" as used herein shall mean the area outlined in Exhibit "A" of the Unitization Agreement. Said Unitization Agreement and all exhibits attached thereto are hereby confirmed and incorporated herein by reference and made a part of this agreement. Reference to said exhibits herein shall include the same and any revisions thereof. In the event of any conflict between said Unitization Agreement and the provisions of this agreement with respect to the operation and development of the respective unit areas, the provisions of said Unitization Agreement shall prevail.

II. UNIT OPERATOR

2. The parties hereto hereby designate Harold Kersey, d/t/a Kersey & Company as Operator of the Unit area; and, subject to the provisions hereof and to the orders, directions and limitations rightfully given or imposed by the working interest owners as herein provided, Kersey & Company, as Unit Operator, shall have the exclusive control, management, development and operation of the unit area and of the wells located therein for the production and handling of unitized substances therefrom, and for the conducting of pressure maintenance or secondary recovery operations within said unit area. The judgment and discretion of the Unit Operator, exercised in good faith, shall be the limit of its liability to non-operators for any acts done or omitted in the performance of this agreement. The number of employees used by the Unit Operator in conducting operations hereunder, the selection of such employees, the hours of labor and the compensation for services to be paid any and all such employees shall be determined by the Unit Operator. Such employees shall be the employees of the Unit Operator.

3. The Unit Operator may be discharged and its powers, rights and duties terminated if the Unit Operator shall:

- (a) Fail or refuse to operate the unit area in accordance with the provisions of this agreement,
- (b) Tender its written resignation as Unit Operator to each of the parties hereto,
- (c) Become insolvent or,
- (d) Receive a majority vote from non-operators that he be removed.

4. Neither the Unit Operator nor any successor Unit Operator hereunder shall be released from the powers, rights and duties of Unit Operator for a period of three (3) months after its discharge, unless a successor Unit Operator shall have been designated by the working interest owners and shall have taken over the powers, rights and duties of Unit Operator hereunder prior to the expiration of said period.

III. MANAGEMENT AND CONTROL

5. In conducting the operation and development of the unit area hereunder, including, but not limited to, pressure maintenance and secondary recovery operations, the Unit Operator shall:

- (a) Conduct such operations in a good and workmanlike manner and in accordance with its best judgment of what a prudent operator would do under the same or similar circumstances.
- (b) Consult freely with the non-operators concerning unit operations and keep them advised of all important matters arising in connection therewith.
- (c) Keep true and correct books, accounts and records of its operations hereunder and permit at all reasonable times the inspection and examination thereof by any party hereto.
- (d) Furnish to each non-operator monthly statements of all unitized substances produced and a report of the development and operation of the unit area.
- (e) Furnish to each non-operator, upon written request, a copy of the log of any well drilled by the Unit Operator and copies of engineering and geological data pertaining to wells drilled by the Unit Operator in the unit area.
- (f) Keep the lands and leases in the unit area free from all liens and encumbrances of outside persons occasioned by its operations hereunder.
- (g) Submit to the working interest owners, within thirty (30) days after the effective date of this agreement, a budget for the remainder of the calendar year and, on or before December 1st of such year and each year thereafter, a budget for the succeeding calendar year. Each such budget shall set forth the Unit Operator's estimate of the costs and expenses required for the development and operation of the unit area during the four-month periods beginning on the first day of January, the first day of May and the first day of September. All budgets submitted shall be for information only. The Unit Operator shall correct said budget, or any part thereof; such budget, or the disapproved portion thereof, shall be revised by the Unit Operator in accordance with the directions of the working interest owners. Within fifteen (15) days after such budget revision is approved by the working interest owners, a copy thereof shall be furnished to each non-operator.
- (h) Accord each non-operator, at all reasonable times, access to the unit area and the right to inspect all operations conducted therein by the Unit Operator.

6. In conducting the operation and development of the unit area hereunder, including, but not limited to, pressure maintenance and secondary recovery operations, before performing any of the following acts and things, the Unit Operator shall first obtain the consent, approval and authority of the working interest owners, in the manner provided in Paragraph nine (9) hereof:

- (a) Recomplete in a different reservoir, abandon or change the status of any well in the unit area.
- (b) Drill any additional well within the unit area either for production of unitized substances or for use as an injection well or waterflood source well.
- (c) Determine the method or methods of pressure maintenance or secondary recovery operation to be employed from time to time in the unit area, the substances to be injected and the wells through which such injection is to be made.
- (d) Make any single expenditure in excess of One Thousand Five Hundred Dollars (\$1,500.00), provided, that the approval by the working interest owners of the drilling, reworking, drilling deeper or plugging back of any well shall include approval of all necessary expenditures required therefor and for completing, testing and equipping the same, including necessary flow lines, separators and lease tankage.
- (e) Sell or otherwise dispose of any major items of surplus equipment the current market price at the nearest railway supply point of new equipment similar thereto being Fifteen Hundred Dollars (\$1,500.00) or more. Any such item of equipment shall be considered a major item for the purposes of this contract.
- (f) Make arrangements for the enlargement or contraction of the unit area or for the revision of the exhibits to said Unitization Agreement required by any enlargement or contraction of the unit area.
- (g) Designate a representative for working interest owners to appear before any court or regulatory body in matters pertaining to unit operations; provided, however, that the authorization by the working interest owners of the designation of any such representative shall not prevent any working interest owner from appearing in person or by another representative in its own behalf.
- (h) Appoint, and designate the purposes of, committees and sub-committees necessary for the study of any problem in connection with unit operations.

7. The working interest owners severally reserve to themselves all right, power, authority and privileges necessary for the carrying out of the purposes of this agreement, except the rights, powers, authority and privileges herein delegated to the Unit Operator.

8. Within ten (10) days after the effective date hereof, each working interest owner shall advise the Unit Operator in writing of the name and address of its agent who is authorized to represent and bind it at all meetings of the working interest owners and for the purposes of considering and acting upon any matters pertaining to the development and operation of the unit area hereunder. Such representatives may be changed from time to time by written notice to the Unit Operator. The representative of the Unit Operator shall be chairman of each meeting. The working interest owners shall establish rules of procedure, including therein provisions with respect to meetings and such other procedural matters as may be considered advisable; provided, that no meeting may be called on less than ten (10) days advance written notice given prior to the date said meeting is to be called with an agenda for the meeting attached, unless all parties agree to the call of a meeting on shorter notice.

The Unit Operator may call a meeting of the Operators Committee once each month, or a meeting of the Operators Committee may be called by the written request of any two non-operators.

9. In voting on any matters coming before the working interest owners, each working interest owner in the unit shall have a voting interest equal to its percentage of participation in the unitized substances therein as set out in Exhibit "B" of the Unitization Agreement. Unless specifically herein otherwise provided, the working interest owners in the unit shall act upon and determine all matters coming before them hereunder by the affirmative vote of working interest owners or their representatives, owning at the time the vote is taken ninety-five percent (95%) or more of the voting interest or, if agreement on any proposition is not reached on this basis then in accordance with the following voting procedures:

- (a) By the concurring affirmative vote of at least three (3) working interest owners, or their representatives, having at the time the vote is taken a combined voting interest of sixty percent (60%) or more in the unit, and such concurring affirmative vote shall be binding on all parties; provided, however, that if any one working interest owner at the time of voting owns an interest in the unit of sixty percent (60%) or more, its vote shall not serve to carry or approve any proposition unless said vote is supported by two (2) or more other working interest owners having at the time of voting combined interest in said unit of ten percent (10%) or more.
- (b) Abstention from voting within a ten-day period after receipt of notice by any working interest owner shall be considered as approval of the consideration.

10. Each representative shall have only such powers as are conferred upon him by his principal; provided, however, that any limitation on the authority of any representative shall be in writing and shall be filed with the Unit Operator.

IV. CONFORMANCE OF INVESTMENTS

11. Working interest owners have each individually heretofore placed in or on their wells and in or on lands and leases affected by this agreement various items of personal property which is lease and well equipment as to all of which the working interest owners have the contractual right to remove such property from the premises and all of which installations by working interest owners were made with the intention and understanding that all of the same would be and remain personal property and no part thereof would be or become a part of the realty. The working interest owners executing this agreement have made separate agreements with respect to all such personal property (hereinafter referred to as "lease and well equipment") as distinguished from the provisions of said Unitization Agreement pertaining to the realty, leasehold estates and the oil, gas and other minerals underlying the tracts or leases committed by them to unit area. Accordingly, the working interest owners have heretofore severed and do hereby sever, from the realty, for all purposes, all such lease and well equipment which may be or which may hereafter become located in or on the leases or in the wells on the land affected hereby.

12. With respect to all of such lease and well equipment, each working interest owner, subject to the other provisions of this Article IV, hereby exchanges title to its interest in the lease and well equipment pertaining to tracts or leases committed by it to the unit area for title to an undivided interest in all the lease and well equipment taken over by the Unit Operator for operations upon the unit hereunder equal to such working interest owner's percentage of participation as set out in the Exhibit "B" to the Unitization Agreement.

13. On the effective date of this agreement the Unit Operator shall take over the possession and use of the respective unit area, all the lease and well equipment determined as hereinafter provided to be necessary for operations upon the unit hereunder, and all the wells located in said unit area.

14. Subject to the other applicable provisions of the Article IV and to the end that the respective investments of the working interest owners in and to all of the lease and well equipment required for unit operations upon said unit, as hereinafter provided, shall be conformed to their respective interests in the unitized substances, as shown in Exhibit "B" respectively of said Unitization Agreement, the investment of each working interest owner in said lease and well equipment, as of the effective date hereof, and the basis of which adjustment therefor shall be made by and between the working interest owners in the unit are hereby declared to be the value of said lease and well equipment determined and computed as follows:

- (a) The value of all lease and well equipment taken over by the Unit Operator hereunder shall be determined on the price basis prescribed for "second-hand materials (Condition "B")" in Section III, Paragraph 2(b), of Exhibit "A", attached hereto, the applicable condition thereof to be indicated on the joint physical inventories provided for in subparagraph (b) of this Paragraph fourteen (14); provided, however, that equipment determined to be of other condition or value shall not be taken over by the Unit Operator except by specific agreement between the working interest owner or owners of such equipment and the other working interest owners in the unit.
- (b) As soon as possible after the effective date hereof, or before such date if the working interest owners so agree, the working interest owners in the unit shall appoint an inventory committee which shall take or cause to be taken, under the supervision of the Unit Operator, joint physical inventories of all lease and well equipment within the unit area, which inventories shall be used as a basis for determining the items of said equipment to be taken over by the Unit Operator for operations in the unit. The Unit Operator shall notify each working interest owner within each separate tract at least five (5) days prior to the taking of said inventories with respect to said tract, so that each of said working interest owners may be represented at the taking thereof. Said inventories shall not include lease surface fittings under two (2) inches or small pipe under two (2) inches in diameter, but all said fittings, valves, pipe and equipment shall nevertheless be taken over by the Unit Operator for operations hereunder. Said inventories shall be taken as of the effective date of this agreement. Said inventory committees shall be responsible for the pricing of all said equipment, under the supervision of the Unit Operator and in conjunction with the respective working interest owners insofar as said inventories apply to their respective tracts. Said inventories shall not include casing or liner in said wells below a depth of thirty (30) feet below the base of the particular reservoir involved.
- (c) Said inventories, together with statements showing the items of lease and well equipment (exclusive of fittings, valves and pipe specifically excluded in subparagraph (b) above) to be taken over by the Unit Operator as to the unit and the value thereof, determined as above provided, within ninety (90) days after the completion of said joint inventories, shall be submitted by the Unit Operator to the working interest owners in the unit for their approval.

- (d) Within one hundred eighty (180) days after the working interest owners have approved the statement of the Unit Operator, mentioned in subparagraph (c) above, the Unit Operator shall furnish to each working interest owner a statement as to the unit (itemized on a lease basis), showing:
- (i) All lease and well equipment which the Unit Operator will retain for operation of the unit, together with the value of all said equipment, said value to be in accordance with provisions of subparagraph (a) of this Paragraph fourteen (14);
 - (ii) The value, determined as above provided, of the portion of said equipment which was delivered by each working interest owner to the Unit Operator (each working interest owner being entitled to credit for the value so determined with respect to it); and
 - (iii) The proportionate part of the total value of all said lease and well equipment that is chargeable to each working interest owner in the unit, which shall be determined by multiplying the percentage set opposite the name of each working interest owner in Exhibit "B" to said Unitization Agreement by the value of all said equipment.
- (e) Within fifteen (15) days after the receipt of the Unit Operator's statements, last above mentioned, each working interest owner, with respect to which the amount chargeable to it with respect to the unit, as provided in subparagraph (d) (iii) above, exceeds the amount of the total credit to which it is entitled in the unit, as provided in subparagraph (d) (ii) above, shall pay to the Unit Operator an amount of money equal to the difference between said charge and credit. Within fifteen (15) days after all of said payments have been made with respect to the unit, the Unit Operator shall pay to each working interest owner in the unit the amount by which the total credit to which it is entitled, as provided in subparagraph (d) (ii) above, exceeds the amount chargeable to it, as provided in subparagraph (d) (iii) above.
- (f) Lease and well equipment and other personal property within the unit area prior to the effective date hereof not taken over by the Unit Operator, as hereinabove provided, shall remain the property of the original owner or owners and shall be removed from the unit area or disposed of by such owner or owners as soon as practicable.

15. There shall be no adjustment or payment hereunder for the intangible costs for:

- (a) The installation of equipment,
- (b) The drilling, completing, testing, repairing, plugging back, drilling deeper, working over or any other intangible costs in, on or with respect to any well, or
- (c) For lease roads or other easements taken over by the Unit Operator for the operation of the unit.

16. Should there be any contraction, enlargement or enlargements of the unit area the investment in lease and well equipment shall be conformed to the respective interests of the working interest owners in the unitized substances produced from such contracted or enlarged unit area or areas as shown by the revised applicable Exhibit "B" to the Unitization Agreement in such manner as shall be determined by the working interest owners.

V. COSTS AND EXPENSES

17. The Unit Operator initially shall advance and pay all costs and expenses for the development and operation of the respective unit areas, for the production of unitized substances therefrom, and for the conducting of pressure maintenance or secondary recovery operations therein for the joint account of the parties hereto in the proportions in which said parties participate in the unitized substances, as set out in Exhibit "B" of said Unitization Agreement; and the Unit Operator shall charge costs and expenses to the working interest owners in said proportions. Each working interest owner shall bear and pay, and shall reimburse the Unit Operator for, its proportionate share in the unit of all said costs and expenses, the proportionate share of each working interest owner being equal to its percentage of participation in the unitized substances in the unit as set out in Exhibit "B" of said Unitization Agreement.

18. All such costs, expenses, credits and related matters, and the method of handling the accounting with respect thereto, shall be in accordance with the schedule of Joint Accounting Procedure attached hereto and marked Exhibit "A", provided, however:

- (a) That the Unit Operator shall not apportion any part of the salaries and expenses of its division superintendent; of other general division employees or of division office expenses to the joint account as provided in Paragraph twelve (12) (a) of Section II of said Exhibit "A", and the monthly per well overhead rates set forth under Paragraph twelve (12) (a) of Section II of said Exhibit "A" shall be in lieu of any charges for any part of the compensation or salaries paid to the Unit Operator's division superintendent and to other general division employees and shall be in lieu of any charges for division office expenses as well as the Unit Operator's principal business office expenses, but said overhead rates shall not be in lieu of any charges for any part of the compensation or salaries paid to the Unit Operator's waterflood engineer; and
- (b) That, whenever the Unit Operator is compelled to furnish from its warehouse or other properties material acquired or purchased at values or prices in excess of those determined in accordance with the provisions of Exhibit "A", the Unit Operator shall attach to its Authorization for Expenditures Request at the time it is forwarded to each working interest owner for approval, as required by Exhibit "A", a notification to that effect; then, unless a working interest owner informs the Unit Operator of its election, within ten (10) days after the date of said Authorization for Expenditures Request, to furnish in kind at the location, or at the railway receiving point nearest thereto, its proportionate part of any such material of like grade and quality, and forthwith delivers the same, the Unit Operator shall furnish all such material to the joint account and shall charge each working interest owner for its proportionate part thereof on the basis of the Unit Operator's direct cost and expense (not including any overhead charges) incurred in acquiring and shipping said material and transporting it to the location.

19. As to the work so done by the Unit Operator in performing the obligation contained in the plan of development as submitted to U. S. G. S., it is understood and agreed that the Unit Operator is hereby authorized to proceed with such work at the direction of the operating committee and that the non-operators shall bear their proportionate part of all costs, material, labor and services incurred in carrying out the operations called for in said plan of development.

The Unit Operator shall render to non-operators a statement of all such costs as soon as is reasonably convenient. If, within ninety (90) days after the delivery of such statements to the non-operator, the Unit Operator has not been paid for same, then Unit Operator shall be entitled to recover a sum equal to double the amount of all such unpaid statements out of the defaulting non-operators' interest in the first oil and gas produced thereafter.

For the purposes of assuring the Unit Operator of recovery of expenditures made in accordance with plan of development, non-operators shall grant to Unit Operator liens upon their interest in the jointly owned leases and materials, the oil and gas produced from said leases and the proceeds of such oil and gas to secure payment of non-operators' share of cost and expenses incurred for the joint account, which lien may be enforced as a mortgage lien or in any other manner now or hereafter permitted by the law. Whenever any non-operator defaults in payment of his share of such costs and expenses, the Unit Operator is hereby authorized to collect the proceeds of oil and gas accruing to the interest of the defaulting non-operator in the jointly owned leases direct from the purchaser or purchasers thereof until the amount collected equals double the amount owing by the defaulting non-operator; and each such purchaser shall be fully protected in making payment to Unit Operator on the basis of double the amount of Unit Operator's written statement of the amount owing by such defaulting non-operators.

An affidavit duly executed by Unit Operator to the effect that certain amounts are due and unpaid under the provisions of this paragraph shall be sufficient notice to the pipe line gatherer to enable it to make payment direct to the Unit Operator until he has received the amount recoverable under the terms and provisions of such paragraph or until such time as he shall have notified the pipe line gatherer that such amount has been settled with defaulted non-operator.

20. If the Unit Operator forecloses the lien provided for in this agreement and acquires the property and interest subject thereto at foreclosure sale, the Unit Operator, within thirty (30) days after so acquiring title thereto, shall offer to transfer and convey to each of the remaining working interest owners in the unit in which such interest was foreclosed (exclusive of the Unit Operator and the party whose property and interest were foreclosed) a proportionate undivided interest in and to said property and interest so acquired, and shall within ten (10) days after payment of each working interest owner's proportionate part of Unit Operator's acquisition costs (including the amount of indebtedness for which foreclosure was instituted) convey to each working interest owner such proportionate undivided interest. The proportionate undivided interest of each working interest owner in and to said property and interest and each working interest owner's proportionate part of said acquisition costs shall be in the ratio that its percentage of participation in the unitized substances in the subject unit bears to the total of the percentages of participation in unitized substances in said unit of all working interest owners (including the Unit Operator) other than the working interest owner whose property and interest were foreclosed.

VI. WELLS DRILLING ON EFFECTIVE DATE AND SUBSEQUENT WELLS

21. Any well being drilled by a working interest owner on land in the unit area on the effective date hereof shall be drilled, completed, equipped and tested by such working interest owner at its sole cost, expense and risk. In the event that such well is completed after the effective date hereof as a producer of unitized substances in paying quantities, such well and the equipment used, had and obtained in connection therewith and required for operation thereof hereunder shall be taken over by the Unit Operator as of the date of such completion and the investment of said working interest owner in said lease and well equipment shall be adjusted by and between all of the working interest owners herein on the same basis, in the same manner and with the same effect as if said well had been drilled,

completed, equipped and tested prior to the effective date of this agreement, subject, however, to such revisions as may be provided for as a result of the inclusion thereof.

VII. WELLS DRILLED AND OTHER WORK DONE BY UNIT OPERATOR.

22. All wells drilled by the Unit Operator hereunder shall be drilled on a competitive contract basis. Unit Operator, if it so desires, may employ its own or rented tools and equipment in the drilling or reworking of wells or doing other work in the unit area, but in such event such work shall be performed by the Unit Operator under same terms and conditions as are customary and usual in the immediate area of the Red Lake Field in contracts of independent contractors who are doing work of a similar nature.

23. Regardless of the ownership of the lease or leases on, or other operating rights in, a particular tract of land within the unit area on which a well may be commenced and drilled after the effective date hereof for the joint account of the working interest owners, the equipment, casing and other personal property used, had and obtained in connection with each such well shall be owned by the working interest owners in proportion to their respective interests in the unitized substances, as shown in Exhibit "B" to the Unitization Agreement.

VIII. OIL IN LEASE TANKAGE ON EFFECTIVE DATE

24. The Unit Operator shall make a proper and timely gauge of all lease and other tanks within the unit area in order to ascertain the amount of merchantable oil and condensate and other liquid hydrocarbons above pipe line connection in such tanks as of 7:00 A. M. on the effective date hereof. All such oil which has been produced legally shall be and remain the property of the parties entitled thereto the same as if the unit had not been formed, and such parties shall promptly remove said oil from the unit area. Any such oil not so removed shall be sold by the Unit Operator for the account of such owner or owners, subject to the payment of all royalty and royalty owners under the terms and provisions of the applicable lease or leases and other contracts.

IX. TAKING IN KIND

25. Each working interest owner shall own and shall take and receive in kind, or separately dispose of, its proportionate part of all unitized substances produced and saved from the unit area, the proportionate part of each working interest owner being set opposite its name in Exhibit "B" to the Unitization Agreement.

26. If any working interest owner should fail to take or adequately provide for the disposition of any part of its share of the unitized substances from the unit area the operation of which is provided for herein, the Unit Operator shall have the right, revocable at will, to dispose of such unitized substances for periods of not longer than one day, and such working interest owner, upon such disposition shall be considered as having received the same; provided however, that any proceeds received by the Unit Operator from such disposal shall, subject to payment of royalties, overriding royalties and other payments out of production, be credited and paid to such working interest owner and the Unit Operator shall bill such working interest owner for the reasonable costs and expenses incurred in making such disposition.

X. PAYMENT OF ROYALTIES

27. The Unit Operator shall (as provided for in Paragraph eleven (11) of the Unitization Agreement) pay, or cause to be paid, all royalties, overriding interest and other payments out of production due and payable to the royalty owners in such tract, on account of the unitized substances produced from or allocated to such tract in accordance with the lease or leases and other contracts

covering such tract, as modified by the Unitization Agreement. Should there be unsigned royalty interests not in excess of twenty-five percent (25%) in any tract in the respective unit and the royalty payments due to such unsigned royalty interest owner on actual production are more or less than the royalty payments on production of unitized substances allocated to such unsigned royalty interests in such tract or tracts, the difference shall be borne by or inure to the benefit of the working interest owners in accordance with their participating percentages within the respective unit as shown by the applicable Exhibit "B" to the Unitization Agreement.

XI. RIGHT OF WITHDRAWAL

28. If any party which has executed or ratified this agreement desires to withdraw herefrom as to the unit to be operated hereunder, it may do so by transferring, assigning and conveying, without covenants of warranty, either expressed or implied, all of its interest in said unit to all other working interest owners which have executed or ratified this agreement as to such unit and which do not desire to withdraw from said unit, together with the withdrawing party's interest in all wells, pipe lines, casing, injection equipment and facilities and other personal property within the unit from which withdrawal is desired or used in connection therewith; provided, that such transfer, assignment or conveyance shall not relieve said party from any obligation or liability which accrued or was incurred prior to the date of the execution and delivery thereof. The interest so transferred, assigned and conveyed shall be taken and owned by the assignees in the ratio of their respective interests in the unitized substances produced from the subject unit. After the execution and delivery of such transfer, assignment or conveyance, the withdrawing party shall be relieved from all further obligation and liability hereunder as to the particular unit from which withdrawal is effected and under the Unitization Agreement; and the right of such party to any benefits subsequently accruing hereunder and under said Unitization Agreement shall cease; provided that, upon the delivery of said transfer, assignment or conveyance, the assignees, in the ratio of their respective interests so acquired, shall pay to the assignor for its interest in all jointly owned equipment, casing and other personal property the value thereof, determined in accordance with the provisions of Exhibit "A", less the cost of salvaging the same, as estimated and fixed by the working interest owners in the unit.

XII. ABANDONMENT OF OPERATIONS

Upon the termination of the Unitization Agreement as to the unit created hereby, however accomplished, the parties hereto shall thereafter be governed by the respective leases and contracts affecting the separately owned tracts contained within the unit area as to which this contract has terminated. If the Unitization Agreement should terminate as to the unit created hereby for any reason hereof, or otherwise, from and after 7:00 A. M. on the date of such termination unit operations shall cease as to the unit to which this agreement is terminated, and thereafter, as to the unit, all operations, development and accounting on or with respect to said leases and other operating rights shall be on a lease basis in accordance with the respective leases and other contracts pertaining thereto; provided, however, that all unitized substances produced, used, sold or stored and any costs and expenses of Unit Operator incurred, prior to such termination as to the unit shall be paid or accounted for, or otherwise handled, as provided herein or in said Unit Operating Agreement except as herein or in said Unit Operating Agreement otherwise provided, all rights, titles and interests of royalty owners and of working interest owners covered hereby shall be released and discharged from this agreement and from said Unit Operating Agreement as to the unit. No lease, or other operating rights, covering land within the unit area as to which this unit is so terminated shall be forfeited, or otherwise terminated, if the owner or owners thereof resume the payment of delay rentals on the next rental payment date, if any; continue production of oil, gas or other minerals within sixty (60) days after such termination; or if such owner or owners have the right so to do under their respective leases, commence,

within sixty (60) days after such termination, and prosecute with due diligence drilling or reworking operations thereon, and if, as a result of such operations, oil, gas or other minerals should be found in paying quantities, said lease or other operating rights shall remain in full force and effect so long thereafter as said oil, gas or other minerals are produced in paying quantities. In addition the following conditions shall apply separately to the unit:

- (a) If termination occurs prior to the abandonment mentioned in subparagraph (b) of this Paragraph twenty-nine (29), the following provisions shall apply to the unit:
 - (i) All unitized substances in storage within the unit area at the time of said termination shall be disposed of and removed from the unit area within thirty (30) days after said termination and accounted for in accordance with the applicable provisions hereof and of the Unitization Agreement.
 - (ii) Title to all remaining equipment taken over by the Unit Operator hereunder and title to all equipment purchased for unit operations by the Unit Operator shall, subject to adjustment of investment as provided in subparagraph (a) (iv), below, vest in the owner or owners of the respective leases and other operating rights on or in which said equipment is located; provided, that, as to each piece or portion of said equipment which is serving more than one lease, first priority shall be given to the working interest owners served by such equipment. As to all such equipment which was included in the unit area upon the effective date hereof by one or more of the working interest owners and which is identifiable as such, second priority shall be given to the owner or owners on whose lease it was located prior to unitization. As to such equipment which is not so identifiable or was purchased by the Unit Operator for unit operations after the effective date hereof, second priority shall be given to the owner or owners on whose lease or leases such equipment is situated upon the termination date hereof.
 - (iii) The vesting or revesting of title to any then existing warehouses, warehouse stocks, lease houses, camps, facility systems which may then be unit property, shall be determined by the working interest owners on an equitable basis, with priorities between the respective working interest owners being the same as provided in subparagraph (a) (ii), above, with respect to equipment serving more than one lease.
 - (iv) The investment in said equipment and property mentioned above in this subparagraph (a) shall be readjusted by and between the working interest owners on the basis and in amounts determined by them. The salvaging, liquidation or division in kind of all jointly-owned property not taken over by the respective working interest owners, as provided above in this subparagraph (a), and the final adjustment of accounts by and between the parties hereto, shall be in the manner determined by the working interest owners.
- (b) If said termination occurs on the abandonment of unit operations after it has been determined that unitized substances no longer can be produced from the unit area in paying quantities, the following provisions shall apply:

- (i) The owner or owners of the lease or leases on, or other operating rights in, any separate tract within the unit area on which a unit well or wells are located shall have the right to take over and to continue to operate such well or wells by paying to the Unit Operator the value of the equipment, casing and other personal property used in connection with the operation of said well or wells, determined in accordance with the provisions of Exhibit "A", attached hereto, less the cost of salvaging the same as estimated and fixed by the working interest owners and by agreeing properly to plug said well or wells at the time of abandonment; provided, that the provisions of this subparagraph (b) (i) shall not prevent the salvaging or other disposition of the pipe lines and other equipment and facilities used exclusively for injection operations.
- (ii) With respect to each well not taken over by the owner or owners mentioned in subparagraph (b) (i), above, the Unit Operator shall salvage so much of the equipment, casing and other personal property used in connection therewith as can economically and reasonably be salvaged and shall cause such well to be properly plugged and abandoned.
- (iii) The salvaging and liquidation of all jointly owned property used in the operation of the unit area, including, but not limited to, pipe lines and other equipment and facilities used exclusively for injection operations, and the final adjustment of accounts by and between the parties hereto shall be in a manner determined by the working interest owners; and the money and other assets, including money received by the Unit Operator under subparagraph (b) (i), above, shall be distributed to all the working interest owners in the ratio of their respective interests in the unitized substances, as shown in the applicable Exhibit "B" to the Unitization Agreement.

30. If the Unit Operator, with the approval of the working interest owners should decide permanently to abandon any well within the unit area prior to the termination of the Unitization Agreement, the Unit Operator shall give to the working interest owner or owners of the tract on which such well is located written notice of such fact, and said owner or owners shall have the right and option for a period of thirty (30) days after receipt of such notice to notify the Unit Operator of its or their election to take over said well and to deepen or plug back said well to a formation other than the unitized reservoirs. Within ten (10) days after said owner or owners have so notified the Unit Operator, said owner or owners shall pay to the Unit Operator for credit to the joint account of the working interest owners in the particular unit the value of the casing in said well and of the other equipment thereon, as determined in accordance with the provisions of Exhibit "A", attached hereto, less the cost of salvaging the same as estimated and fixed by the working interest owners of the particular unit, and at the same time shall agree by letter addressed to the Unit Operator (a) to case or seal off in an efficient and workmanlike manner the particular reservoir in which said well was completed; (b) to produce said well, if the same is produced, from some formation other than the unitized reservoirs; and (c) on ultimate abandonment of said well, to plug and abandon it in a workmanlike manner in accordance with the laws of the State of New Mexico and the rules, regulations and orders of the Oil Conservation Commission of the State of New Mexico.

XIII. INSURANCE AND TAXES

31. As to all operations hereunder, Unit Operator shall carry for the benefit and protection of the parties hereto Workmen's Compensation Insurance in accordance with the laws of the State of New Mexico. The Unit Operator shall not be required to carry any other insurance for any of the joint accounts. The liability, if any, of the parties hereto in damages for claims growing out of personal injury

to or death of third persons or injury or destruction of property of third persons resulting from the operation and development of the respective units shall be borne by the parties hereto in the proportions of their respective interests in the unitized substances in the respective units, and each party individually may acquire such insurance as it deems proper to protect itself against such claims.

32. Unit Operator shall pay or cause to be paid all production, severance, gathering and other direct taxes imposed upon or on account of the production of unitized substances from the unit area and any and all other taxes imposed upon operation of the unit area. Unit Operator shall make and file for ad valorem tax purposes all necessary assessments, renditions and returns with the proper taxing authorities or governmental subdivisions covering all real and personal property of each working interest owner within the unit area and used in connection with operations thereon; provided, that, if any working interest owner is dissatisfied with any proposed rendition or assessment of its interest in real or personal property, it shall have the right at its own expense, to protest and resist the same. All ad valorem taxes due and payable on account of real and personal property of each working interest owner located within the unit area and used in connection with operations thereon shall be paid by Unit Operator for the respective joint accounts in the same manner as other costs and expenses; provided, however, that the obligation of the Unit Operator to make and file the necessary assessments, renditions, and returns or to pay the ad valorem taxes upon unit property shall not be effective until the first day of the calendar year next succeeding the effective date of this agreement. Each working interest owner shall be liable for its share of such taxes in proportion to its interest in the unitized substances in the respective units, regardless of the location in the particular unit of the land or leases contributed by it, and each such working interest owner shall reimburse Unit Operator for its proportionate part of all payments so made.

XIV. RULES AND REGULATIONS AND FORCE MAJEURE

33. This agreement and all operations hereunder shall be subject to the conservation laws of the State of New Mexico, to the applicable valid rules, regulations and orders of the Oil Conservation Commission of said State and to all other applicable state and Federal laws, rules, regulations and orders.

34. All obligations of each party hereto, except for the payment of money, shall be suspended while, but only so long as, said party is prevented from complying with such obligations, in whole or in part, by strike, fire, flood, tornado, lightning, explosion, concussion, radiation, Acts of God or the public enemy, state or Federal regulations, uncontrollable delay in transportation, inability to obtain necessary materials in open market, inadequate facilities for the transportation of materials, or other causes beyond the reasonable control of said party, whether similar to the causes herein specifically enumerated or not; provided, however, that performance shall be resumed within a reasonable time after such cause has been removed; and provided, further, that no party hereto shall be required against its will to adjust or settle any labor dispute.

XV. NOTICES

35. All notices provided for herein shall be mailed or sent as follows:

- (a) To Unit Operator at P. O. Box 305, Artesia, New Mexico, and to non-operators as follows:

Olen F. Featherstone
P. O. Box 1088
Roswell, New Mexico

Franklin, Aston & Fair, Inc.
P. O. Box 769
Roswell, New Mexico

The Ibex Company
P. O. Box 752
Breckenridge, Texas

J. O. Miller

E. E. Scannell
517 Staley Building
Wichita Falls, Texas

Staley Oil Company
Staley Building
Wichita Falls, Texas

Stanolind Oil & Gas Co.
P. O. Box 899
Roswell, New Mexico

Martin Yates III, Harvey E. Yates and S. P. Yates
Carper Building
Artesia, New Mexico

S. P. Yates
Carper Building
Artesia, New Mexico

- (b) Any person, firm or corporation which after the effective date hereof becomes bound hereby, within ten (10) days after becoming so bound, shall notify in writing the Unit Operator and the other parties hereto of its address for receiving notices hereunder and of the name and address of its agent who is authorized to represent and bind it hereunder. Any party hereto may change its agent or address for the purposes of this Paragraph thirty-five (35) by giving to the other parties bound hereby written notice of such changes.

XVI. EFFECTIVE DATE, DURATION AND TERMINATION

36. This agreement shall become effective on the date and at the time the Unitization Agreement becomes effective; shall run concurrently with the Unitization Agreement and shall terminate on the date and at the time said Unitization Agreement terminates, or on such other date as may be determined by the working interest owners hereunder.

XVII. RELATIONSHIP OF THE PARTIES

37. The duties, obligations and liabilities of the parties hereto shall be several and not joint or collective; and nothing herein contained shall ever be construed as creating a partnership of any kind, joint venture, an association or a trust or as imposing upon any one or more of the working interest owners any partnership duty, obligation or liability. Each party hereto shall be individually responsible only for its obligations, as set out herein, and shall be liable only for its proportionate share of the costs and expenses, as herein stipulated.

38. Whenever in this agreement reference is made to operations for the joint accounts of any of the parties hereto or to charges or credits to said accounts of the parties hereto, or whenever similar language is used, such language is used merely as a convenient method of referring to the accounting necessary between them; and such phraseology shall never be construed as creating any joint liability upon the part of the parties hereto for any obligation incurred under this agreement or as setting apart or creating any fund or jointly owned property for the satisfaction of any such obligation or as creating a common fund for any other purpose. No funds received by the Unit Operator under this agreement, whether received as advances or as payments on account of costs or expenses, or otherwise, need be segregated by the Unit Operator or maintained by it as a joint fund, but may be commingled with its own funds and used or handled by the Unit Operator as provided for in this agreement.

39. Unit Operator shall not be liable for any errors of judgment or for the loss or damage to any jointly owned property or equipment of the parties hereto not resulting from the gross negligence or willful misconduct of the Unit Operator or its employees.

40. If for any reason other than as a result of the unit operations or nonproduction, any lease or interest therein subject hereto be lost, forfeited, released or cancelled, or any lease expire, or should the title to any land subject hereto be lost during the term of this agreement, the participating percentage of the party representing itself to be the owner thereof shall be reduced proportionately and the participating interests of all parties shall be adjusted as herein provided. Each working interest owner shall be responsible to the other parties hereto for the title to each tract contributed hereto by such working interest owner; provided, however, that each and all those separate tracts as to which the working interest owners owning one hundred percent (100%) of the working interest in said tract have signed or ratified this agreement and royalty owners owning less than seventy-five percent (75%) of the royalty interest in said tract have signed or ratified this agreement; and in which the working interest owners in said tract have agreed (such agreement to be at their option and not an obligation) to indemnify and hold harmless all other parties hereto against any and all claims or demands that may be made by the non-joining royalty owners in said tract on account of the inclusion of said tract in the unit area and the operation of the unit area on the basis herein provided, but such indemnity shall not extend to production from such tract in excess of the participation percentage allocated to said tract, and shall not extend to loss or damages resulting from unit operations, and shall not extend to more than seventy-five percent (75%) of the royalty interest in said separate tract. In the event of loss, forfeiture, release, cancellation, expiration or failure of title for any reason other than as the result of the unit operation or non-production, either in whole or in part, such loss, forfeiture, release, cancellation, expiration or failure of title shall be borne entirely by the working interest owner who contributed such tract, and any necessary adjustments shall be made with such working interest owner and all other parties hereto as to investments incurred prior to the date of the loss. Any such losses, forfeitures, releases, cancellations, expirations or failure of title and any liability for damages that are incurred as a result of the unit operation or non-production shall be borne by all of the parties hereto in proportion to their respective participation percentages in each of the units created hereby. Any land or leases, or interests therein, the title to which is lost in whole or in part, shall be excluded from the unit area or areas of which it is a part as of 7:00 A. M. on the date on which said loss of title is finally determined, unless the new owner or owners thereof join in this agreement; and the percentages of participation of the land and leases, or interests therein, thereafter remaining in the unit area or areas shall, if necessary, be recomputed, readjusted and revised, and the applicable Exhibits "A" and "B": to the Unitization Agreement revised accordingly.

XVIII. JOINDER, RATIFICATION AND COUNTERPARTS

41. This agreement may be signed or ratified by any person owning a lease or leases on, or other operating rights in, lands being added to the unit area. Execution of this agreement may be in any number of counterparts, and each counterpart so executed shall have the same force and effect as an original instrument and as if all the parties to the aggregate counterparts had signed the same document. Ratification of this agreement must be by separate instrument in writing, specifically referring to this agreement.

XIX GENERAL

42. The non-operators shall, within thirty days after the complete Unit Agreement is filed for record, furnish to Unit Operator copies of logs of all wells, production reports, well tests and all other pertinent data relative to the performance of wells drilled by them respectively in the unit area.

EXHIBIT " A "

PASO-T-1955-2

Attached to and made a part of Unit Operating Agreement,
Red Lake Premier Sand Unit, Eddy County, New Mexico

ACCOUNTING PROCEDURE

(UNIT AND JOINT LEASE OPERATIONS)

I. GENERAL PROVISIONS

1. Definitions

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

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

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

2. Statements and Billing

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

A. Statement in detail of all charges and credits to the joint account.

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

C. Statements as follows:

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

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

and

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

3. Payments by Non-Operator

Each party shall pay its proportion of all such bills within fifteen (15) days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest at the rate of six per cent (6%) per annum until paid.

4. Adjustments

Payment of any such bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof. Subject to the exception noted in Paragraph 5 of this section I, all statements rendered to Non-Operator by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period Non-Operator takes written exception thereto and makes claim on Operator for adjustment. Failure on the part of Non-Operator to make claim on Operator for adjustment within such period shall establish the correctness thereof and preclude the filing of exceptions thereto or making of claims for adjustment thereon. The provisions of this paragraph shall not prevent adjustments resulting from physical inventory of property as provided for in Section VI, Inventories, hereof.

5. Audits

A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the accounting hereunder for any calendar year within the twenty-four (24) month period following the end of such calendar year, provided, however, that Non-Operator must take written exception to and make claim upon the Operator for all discrepancies disclosed by said audit within said twenty-four (24) month period. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator.

II. DEVELOPMENT AND OPERATING CHARGES

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

1. Rentals and Royalties

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

2. Labor

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

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

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

3. Employee Benefits

Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost, provided that the total of such charges shall not exceed ten per cent (10%) of Operator's labor costs as provided in Subparagraphs A and B of Paragraph 2 of this Section II and in Paragraph 11 of this Section II.

4. Material

Material, equipment, and supplies purchased or furnished by Operator for use of the joint property. So far as it is reasonably practical and consistent with efficient and economical operation, only such material shall be purchased for or transferred to the joint property as may be required for immediate use; and the accumulation of surplus stocks shall be avoided.

5. Transportation

Transportation of employees, equipment, material, and supplies necessary for the development, maintenance, and operation of the joint property subject to the following limitations:

A. If material is moved to the joint property from vendor's or from the Operator's warehouse or other properties, no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where such material is available, except by special agreement with Non-Operator.

B. If surplus material is moved to Operator's warehouse or other storage point, no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point, except by special agreement with Non-Operator. No charge shall be made to the joint account for moving material to other properties belonging to Operator, except by special agreement with Non-Operator.

6. Service

A. Outside Services:

The cost of contract services and utilities procured from outside sources.

B. Use of Operator's Equipment and Facilities:

Use of and service by Operator's exclusively owned equipment and facilities as provided in Paragraph 5 of Section III entitled "Operator's Exclusively Owned Facilities."

7. Damages and Losses to Joint Property and Equipment

All costs or expenses necessary to replace or repair damages or losses incurred by fire, flood, storm, theft, accident, or any other cause not controllable by Operator through the exercise of reasonable diligence. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after report of the same has been received by Operator.

8. Litigation Expense

All costs and expenses of litigation, or legal services otherwise necessary or expedient for the protection of the joint interests, including attorneys' fees and expenses as hereinafter provided, together with all judgments obtained against the parties or any of them on account of the joint operations under this agreement, and actual expenses incurred by any party or parties hereto in securing evidence for the purpose of defending against any action or claim prosecuted or urged against the joint account or the subject matter of this agreement.

A. If a majority of the interests hereunder shall so agree, actions or claims affecting the joint interests hereunder may be handled by the legal staff of one or more of the parties hereto; and a charge commensurate with cost of providing and furnishing such services rendered may be made against the joint account; but no such charge shall be made until approved by the legal departments of or attorneys for the respective parties hereto.

B. Fees and expenses of outside attorneys shall not be charged to the joint account unless authorized by the majority of the interests hereunder.

9. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the properties which are the subject of this agreement, the production therefrom or the operation thereof, and which taxes have been paid by the Operator for the benefit of the parties hereto.

10. Insurance and Claims

A. Premiums paid for insurance required to be carried for the benefit of the joint account, together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including legal services, not recovered from insurance carrier.

B. If no insurance is required to be carried, all actual expenditures incurred and paid by Operator in settlement of any and all losses, claims, damages, judgments, and any other expenses, including legal services, shall be charged to the joint account.

11. District and Camp Expense (Field Supervision and Camp Expense)

A pro rata portion of the salaries and expenses of Operator's production superintendent and other employees serving the joint property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's.....

office located at or near (or a comparable office if location changed), and necessary suboffices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in the conduct of the operations on the joint property and other properties operated in the same locality. The expense of, less any revenue from, these facilities should be inclusive of depreciation or a fair monthly rental in lieu of depreciation on the investment. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.

12. Administrative Overhead

Operator shall have the right to assess against the joint property covered hereby the following management and administrative overhead charges, which shall be in lieu of all expenses of all offices of the Operator not covered by Section II, Paragraph 11, above, including salaries and expenses of personnel assigned to such offices, except that salaries of geologists and other employees of Operator who are temporarily assigned to and directly serving on the joint property shall be charged as provided in Section II, Paragraph 2, above. Salaries and expenses of other selected employees as

- \$ 50.00 per day for Waterflood Engineer in office
- \$ 50.00 per day for Waterflood Engineer in field
- \$ 10.00 per well per month (including injection wells)
- \$ 10.00 per water plant per month
- \$175.00 per well per month on drilling and reworking wells
- One-half of District Superintendent's salary

A. Overhead charges for drilling wells shall begin on the date each well is spudded and terminate when it is on production or is plugged, as the case may be, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.

B. In connection with overhead charges, the status of wells shall be as follows:

- (1) Injection wells for recovery operations, such as for repressure or water flood, shall be included in the overhead schedule the same as producing oil wells.
- (2) Water supply wells utilized for water flooding operations shall be included in the overhead schedule the same as producing oil wells.
- (3) Producing gas wells shall be included in the overhead schedule the same as producing oil wells.

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

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

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

14. Other Expenditures

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

III. BASIS OF CHARGES TO JOINT ACCOUNT

1. Purchases

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

2. Material Furnished by Operator

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

A. New Material (Condition "A")

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

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

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

3. Premium Prices

Whenever materials and equipment are not readily obtainable at the customary supply point and at prices specified in Paragraphs 1 and 2 of this Section III because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the joint account for the required materials on the basis of the Operator's direct cost and expense incurred in procuring such materials, in making it suitable for use, and in moving it to the location, provided, however, that notice in writing is furnished to Non-Operator of the proposed charge prior to billing the Non-Operator for the material and/or equipment acquired pursuant to this provision, whereupon Non-Operator shall have the right, by so electing and notifying Operator within 10 days after receiving notice from the Operator, to furnish in kind, or in tonnage as the parties may agree, at the location, nearest railway receiving point, or Operator's storage point within a comparable distance, all or part of his share of material and/or equipment suitable for use and acceptable to the Operator. Transportation costs on any such material furnished by Non-Operator, at any point other than at the location, shall be borne by such Non-Operator. If, pursuant to the provisions of this paragraph, any Non-Operator furnishes material and/or equipment in kind, the Operator shall make appropriate credits therefor to the account of said Non-Operator.

4. Warranty of Material Furnished by Operator

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

5. Operator's Exclusively Owned Facilities

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

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

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

IV. DISPOSAL OF LEASE EQUIPMENT AND MATERIAL

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

1. Material Purchased by the Operator or Non-Operator

Material purchased by either the Operator or Non-Operator shall be credited by the Operator to the joint account for the month in which the material is removed by the purchaser.

2. Division in Kind

Division of material in kind, if made between Operator and Non-Operator, shall be in proportion to their respective interests in such material. Each party will thereupon be charged individually with the value of the material received or receivable by each party, and corresponding credits will be made by the Operator to the joint account. Such credits shall appear in the monthly statement of operations.

3. Sales to Outsiders

Sales to outsiders of material from the joint property shall be credited by Operator to the joint account at the net amount collected by Operator from vendee. Any claims by vendee for defective material or otherwise shall be charged back to the joint account if and when paid by Operator.

V. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

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

1. New Price Defined

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

2. New Material

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

3. Good Used Material

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

- A. At seventy-five per cent (75%) of current new price if material was charged to joint account as new, or
- B. At sixty-five per cent (65%) of current new price if material was originally charged to the joint property as secondhand at seventy-five per cent (75%) of new price.

4. Other Used Material

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

- A. After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or
- B. Is serviceable for original function but substantially not suitable for reconditioning.

5. Bad-Order Material

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

6. Junk

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

7. Temporarily Used Material

When the use of material is temporary and its service to the joint account does not justify the reduction in price as provided in Paragraph 3 B, above, such material shall be priced on a basis that will leave a net charge to the joint account consistent with the value of the service rendered.

VI. INVENTORIES

1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the joint account material, which shall include all such material as is ordinarily considered controllable by operators of oil and gas properties.

Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operator may be represented when any inventory is taken.

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

2. Reconciliation and Adjustment of Inventories

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

Inventory adjustments shall be made by Operator with the joint account for overages and shortages, but Operator shall be held accountable to Non-Operator only for shortages due to lack of reasonable diligence.

3. Special Inventories

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

File
Case 1184

RATIFICATION AND JOINDER OF UNIT AGREEMENT

In consideration of the execution of the Unit Agreement for the Development and Operation of the Red Lake Premier Sand Unit Area located within the County of Eddy, State of New Mexico, in form approved on behalf of the Secretary of the Interior, the undersigned owners of lands or leases, or interests therein or royalties presently held or which may arise under existing option agreements, or other interests in production covered by said Unit Agreement hereby severally, each to the extent of his or her particular ownership or interest, as may appear, consent to the inclusion of said lands within the Unit Area therein defined, ratify, approve and adopt the terms of said Unit Agreement and any modifications thereof approved by the Secretary of the Interior or his duly authorized representative as applicable to said several lands and interests, agree that the term of any lease given by the undersigned or under which the undersigned claims an interest herein is extended and modified to the extent necessary to make the same conform to the terms of said Unit Agreement, agree that the drilling, development and producing requirements of all leases and other contracts in which their several rights and interests are created or defined shall be deemed fully performed by performance of the provisions of said Unit Agreement, and agree that payment for or delivery of (whichever may be required under prior agreements) oil and gas duly made at contract rates applied to the production allocated under said Unit Agreement to the particular lands to which such rights or interests do or shall apply, regardless of actual production therefrom, shall constitute full performance of all such obligations to the undersigned existing under such leases or other contracts.

This Ratification and Joinder of Unit Agreement may be executed in any number of counterparts with the same force and effect as if all parties had signed the same document and shall be binding upon all those who execute a counterpart hereof, regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands affected hereby, and when so executed shall be binding upon the undersigned, his or her assigns or successors in interest.

ADDRESS

SIGNATURE

P. O. Box 1410
Ft. Worth, Texas

PAN AMERICAN PETROLEUM CORPORATION

By- *[Signature]*
Attorney in Fact



Date _____

ATTEST:
[Signature]
Assistant Secretary

Date _____

Date _____

STATE OF TEXAS)

COUNTY OF TARRANT)

On this 17th day of Feb. 1958, before me personally appeared

E. V. HEWITT to me personally known, who being by

me duly sworn did say that he is the ^{ATTORNEY - IN - FACT} President of _____

PAN AMERICAN PETROLEUM CORPORATION

and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and E. V. HEWITT acknowledged said instrument to be the free act and deed of said corporation.

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

My Commission Expires:

6-1-59

Norothy E. Pickens
Notary Public

STATE OF _____)

COUNTY OF _____)

On this _____ day of _____ 195 , before me personally appeared

_____ to me personally known, who being by

me duly sworn did say that he is the _____ President of _____

and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors, and _____ acknowledged said instrument to be the free act and deed of said corporation.

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

My Commission Expires:

Notary Public

RATIFICATION AND JOINDER OF UNIT AGREEMENT

In consideration of the execution of the Unit Agreement for the Development and Operation of the Red Lake Premier Sand Unit Area located within the County of Eddy, State of New Mexico, in form approved on behalf of the Secretary of the Interior, the undersigned owners of lands or leases, or interests therein or royalties presently held or which may arise under existing option agreements, or other interests in production covered by said Unit Agreement hereby severally, each to the extent of his or her particular ownership or interest, as may appear, consent to the inclusion of said lands within the Unit Area therein defined, ratify, approve and adopt the terms of said Unit Agreement and any modifications thereof approved by the Secretary of the Interior or his duly authorized representative as applicable to said several lands and interests, agree that the term of any lease given by the undersigned or under which the undersigned claims an interest herein is extended and modified to the extent necessary to make the same conform to the terms of said Unit Agreement, agree that the drilling, development and producing requirements of all leases and other contracts in which their several rights and interests are created or defined shall be deemed fully performed by performance of the provisions of said Unit Agreement, and agree that payment for or delivery of (whichever may be required under prior agreements) oil and gas duly made at contract rates applied to the production allocated under said Unit Agreement to the particular lands to which such rights or interests do or shall apply, regardless of actual production therefrom, shall constitute full performance of all such obligations to the undersigned existing under such leases or other contracts.

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ADDRESS

SIGNATURE

P. O. Box 1410

Fort Worth, Texas

Date _____

Date _____

Date _____

PAN AMERICAN PETROLEUM CORPORATION

By- *[Signature]*
Attorney in Fact

APPROVED
[Signature]

ATTEST:
Karl R. Gadsden
Assistant Secretary

STATE OF TEXAS)

COUNTY OF TARRANT)

On this 17th day of Feb. 1958, before me personally appeared

E. V. Hewitt to me personally known, who being by
Attorney in Fact
me duly sworn did say that he is the / President of _____
PAN AMERICAN PETROLEUM CORPORATION, a corporation,

and that the seal affixed to said instrument is the corporate seal of
said corporation, and that said instrument was signed and sealed in behalf
of said corporation by authority of its Board of Directors, and E. V. Hewitt
acknowledged said instrument to be the free act and deed of said corporation.

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

My Commission Expires:
6-1-59

Dorothy E. Pickens
Notary Public
In and For Tarrant County, Texas

STATE OF _____)

COUNTY OF _____)

On this _____ day of _____ 195 , before me personally appeared
_____ to me personally known, who being by
me duly sworn did say that he is the _____ President of _____

and that the seal affixed to said instrument is the corporate seal of said
corporation, and that said instrument was signed and sealed in behalf of
said corporation by authority of its Board of Directors, and _____
acknowledged said instrument to be the free act and deed of said corporation.

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

My Commission Expires:

Notary Public

RATIFICATION AND JOINDER OF UNIT AGREEMENT

In consideration of the execution of the Unit Agreement for the Development and Operation of the Red Lake Premier Sand Unit Area located within the County of Eddy, State of New Mexico, in form approved on behalf of the Secretary of the Interior, the undersigned owners of lands or leases, or interests therein or royalties presently held or which may arise under existing option agreements, or other interests in production covered by said Unit Agreement hereby severally, each to the extent of his or her particular ownership or interest, as may appear, consent to the inclusion of said lands within the Unit Area therein defined, ratify, approve and adopt the terms of said Unit Agreement and any modifications thereof approved by the Secretary of the Interior or his duly authorized representative as applicable to said several lands and interests, agree that the term of any lease given by the undersigned or under which the undersigned claims an interest herein is extended and modified to the extent necessary to make the same conform to the terms of said Unit Agreement, agree that the drilling, development and producing requirements of all leases and other contracts in which their several rights and interests are created or defined shall be deemed fully performed by performance of the provisions of said Unit Agreement, and agree that payment for or delivery of (whichever may be required under prior agreements) oil and gas duly made at contract rates applied to the production allocated under said Unit Agreement to the particular lands to which such rights or interests do or shall apply, regardless of actual production therefrom, shall constitute full performance of all such obligations to the undersigned existing under such leases or other contracts.

This Ratification and Joinder of Unit Agreement may be executed in any number of counterparts with the same force and effect as if all parties had signed the same document and shall be binding upon all those who execute a counterpart hereof, regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands affected hereby, and when so executed shall be binding upon the undersigned, his or her assigns or successors in interest.

ADDRESS

SIGNATURE

P. O. Box 1410

Ft. Worth, Texas

Date _____

Date _____

Date _____

PAN AMERICAN PETROLEUM CORPORATION
By *[Signature]*
Attorney in Fact



ATTEST:
Karl R. Goldsmith
Assistant Secretary

STATE OF TEXAS)
)
COUNTY OF TARRANT)

On this 17th day of Feb. 1958, before me personally appeared

E. V. Hewitt to me personally known, who being by
Attorney in Fact
me duly sworn did say that he is the President of _____

PAN AMERICAN PETROLEUM CORPORATION, a corporation,

and that the seal affixed to said instrument is the corporate seal of
said corporation, and that said instrument was signed and sealed in behalf
of said corporation by authority of its Board of Directors, and E. V. Hewitt
acknowledged said instrument to be the free act and deed of said corporation.

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

My Commission Expires:

6-1-59

Anthony E. Tucker
Notary Public
In and For Tarrant County, Texas

STATE OF _____)
)
COUNTY OF _____)

On this _____ day of _____ 195_, before me personally appeared

_____ to me personally known, who being by
me duly sworn did say that he is the _____ President of _____

and that the seal affixed to said instrument is the corporate seal of said
corporation, and that said instrument was signed and sealed in behalf of
said corporation by authority of its Board of Directors, and _____
acknowledged said instrument to be the free act and deed of said corporation.

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

My Commission Expires:

Notary Public

RATIFICATION AND JOINDER OF UNIT AGREEMENT

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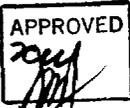
This Ratification and Joinder of Unit Agreement may be executed in any number of counterparts with the same force and effect as if all parties had signed the same document and shall be binding upon all those who execute a counterpart hereof, regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands affected hereby, and when so executed shall be binding upon the undersigned, his or her assigns or successors in interest.

ADDRESS
<u>P. O. Box 1410</u>
<u>Fort Worth, Texas</u>
Date _____

Date _____

Date _____

SIGNATURE
<u>PAN AMERICAN PETROLEUM CORPORATION</u>
By <u><i>[Signature]</i></u> Attorney in Fact
ATTEST:
<u><i>Karl R. Galsworthy</i></u> Assistant Secretary



STATE OF TEXAS)

COUNTY OF TARRANT)

On this 17th day of Feb. 1958, before me personally appeared

E. V. Hewitt to me personally known, who being by
Attorney in Fact of
me duly sworn did say that he is the / ~~President~~ of _____

PAN AMERICAN PETROLEUM CORPORATION, a corporation,

and that the seal affixed to said instrument is the corporate seal of
said corporation, and that said instrument was signed and sealed in behalf
of said corporation by authority of its Board of Directors, and E. V. Hewitt
acknowledged said instrument to be the free act and deed of said corporation.

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

My Commission Expires:

6-1-59

Herold J. Gierke
Notary Public

In and For Tarrant County, Texas

STATE OF _____)

COUNTY OF _____)

On this _____ day of _____ 195_, before me personally appeared

_____ to me personally known, who being by
me duly sworn did say that he is the _____ President of _____

and that the seal affixed to said instrument is the corporate seal of said
corporation, and that said instrument was signed and sealed in behalf of
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IN WITNESS WHEREOF, I have hereunto set my hand and affixed my
official seal on this the day and year last above written.

Notary Public

My Commission Expires:

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ADDRESS

SIGNATURE

P. O. Box 1410

PAN AMERICAN PETROLEUM CORPORATION

Fort Worth, Texas

By- *[Signature]*

Attorney in Fact

Date _____

ATTEST:

[Signature]

Assistant Secretary

Date _____

Date _____



STATE OF TEXAS)
)
COUNTY OF TARRANT)

On this 17th day of Feb. 1958, before me personally appeared
E. V. Hewitt to me personally known, who being by
Attorney in Fact of
me duly sworn did say that he is the / ~~President~~ _____
PAN AMERICAN PETROLEUM CORPORATION, a corporation,

and that the seal affixed to said instrument is the corporate seal of
said corporation, and that said instrument was signed and sealed in behalf
of said corporation by authority of its Board of Directors, and E. V. Hewitt
acknowledged said instrument to be the free act and deed of said corporation.

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

My Commission Expires:

6-1-59

Sarah E. Dickerson
Notary Public
In and For Tarrant County, Texas

STATE OF _____)
)
COUNTY OF _____)

On this _____ day of _____ 195_, before me personally appeared
_____ to me personally known, who being by
me duly sworn did say that he is the _____ President of _____

and that the seal affixed to said instrument is the corporate seal of said
corporation, and that said instrument was signed and sealed in behalf of
said corporation by authority of its Board of Directors, and _____
acknowledged said instrument to be the free act and deed of said corporation.

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

Notary Public

My Commission Expires:

RATIFICATION AND JOINDER OF UNIT AGREEMENT

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ADDRESS

SIGNATURE

P. O. Box 1410

PAN AMERICAN PETROLEUM CORPORATION

Fort Worth, Texas

By- *[Signature]*



Attorney in Fact

Date _____

ATTEST: _____

Karl R. Goolsmith

Assistant Secretary

Date _____

Date _____

STATE OF TEXAS)

COUNTY OF TARRANT)

On this 17th day of Jan. 1958, before me personally appeared

E.V. Hewitt to me personally known, who being by
Attorney in Fact

me duly sworn did say that he is the / ~~President~~ of _____

PAN AMERICAN PETROLEUM CORPORATION, a corporation,

and that the seal affixed to said instrument is the corporate seal of
said corporation, and that said instrument was signed and sealed in behalf
of said corporation by authority of its Board of Directors, and E.V. Hewitt
acknowledged said instrument to be the free act and deed of said corporation.

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

My Commission Expires:

6-1-59

Brooklyn E. Jackson
Notary Public

STATE OF _____)

COUNTY OF _____)

On this _____ day of _____ 195_, before me personally appeared

_____ to me personally known, who being by

me duly sworn did say that he is the _____ President of _____

and that the seal affixed to said instrument is the corporate seal of said
corporation, and that said instrument was signed and sealed in behalf of
said corporation by authority of its Board of Directors, and _____
acknowledged said instrument to be the free act and deed of said corporation.

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

Notary Public

My Commission Expires:

EXHIBIT "B"
Part II

RED LAKE PREMIER SAND UNIT

Recap Showing Total of Each Working Interest Owner
in All Tracts of the Unit Area

Working Interest Owner	Tract No.	Fractional Participation in Tract	Total
Featherstone, Olen F.	1	.00807500	
"	5	.00888325	
"	8	.00458425	
"	11	.00409900	
"	13	.00235650	
"	14	.01866900	
"	16	.01258925	
"	17	.00617500	
"	20	.01422325	
"	22	.00238175	
"	23	<u>.01698975</u>	.09902600
Franklin, Aston & Fair, Inc.	19	.00568200	.00568200
Ibex Co., The	1	.01615000	
"	2	.04105900	
"	3	.12191900	
"	4	.02604400	
"	4-A	.00568200	
"	5	.01776650	
"	6	.01136300	
"	7	.10596000	
"	8	.00916850	
"	9	.01577700	
"	10	.05081700	
"	10-A	.00568200	
"	11	.00819800	
"	12	.06739600	
"	13	.00471300	
"	14	.03733800	
"	15	.11655700	
"	16	.02517850	
"	17	.01235000	
"	18	.01555400	
"	20	.04266975	
"	22	.00476350	
"	23	<u>.03397950</u>	.79608525
Kersey, Harold	1	.00807500	
"	5	.00888325	
"	8	.00458425	
"	11	.00409900	
"	13	.00235650	
"	14	.01866900	
"	16	.01258925	
"	17	.00617500	
"	22	.00238175	
"	23	<u>.01698975</u>	.08480275
Miller, J. O.	24	.00011350	.00011350
Scannell, E. E.	21	.00218050	.00218050
Staley Oil Co.	21	.00654150	.00654150

<u>Working Interest Owner</u>	<u>Tract No.</u>	<u>Fractional Participation in Tract</u>	<u>Total</u>
Stanolind Oil and Gas Co.	24	.00426150	.00426150
Yates, Martin III, Harvey E., & S. P., Jointly	24	.00051300	.00051300
Yates, S. P.	24	.00079400	.00079400

EXHIBIT "g"

RED LAKE UNIT AREA
Township 17 South
Range 28 East
Eddy County, New Mexico

Tract No.	Description	No. of Acres	Serial No. and Lease Date	Landowner Percentage of Royalty	Record Owner of Lease	Overriding Royalty Owner and Percentage	Working Interest and Operating Agreement Owners and Percentage of Interest		
1	<u>FEDERAL LANDS</u> <u>T-17-S, R-28-E</u>	40	LC-028456-A 12-30-38	U.S.A. (5) 5% All	Geo. L. Stephens (Unapproved Assgt. to Delhi-Taylor Oil Corp.)	Delhi-Taylor (1)	.10750000	The Ihex Co. Harold Kersey Olen F. Featherstone .7525	.50 .25 .25
						Lucretia E. Conlon	.01250000		
					Mary L. Hamilton	.00500000			
					Mina Henderson	.00500000			
					Louis J. Root	.00500000			
					Anna Stephens	.01750000			
					W. A. Scott Est.	.01000000			
					The Ihex Co.	.01750000			
					Harold Kersey	.00875000			
					Olen F. Featherstone	.00875000			
2	Sec. 20: SE/4 NE/4	40	LC-028456-A 12-30-38	U.S.A. 5% All	Delhi-Taylor	Nell Hill Gillespie (2)	.06340200	The Ihex Co. .75	1.00
						Van P. Welch, Jr. (2)	.01145800		
						Margorie Nell Welch (2)	.01145800		
						Robert Hill Welch (2)	.01145800		
						Marian C. Welch (2)	.00611200		
						V. S. Welch (2)	.00611200		
						The Ihex Co. (2)	.01750000		
						Harold Kersey	.00875000		
						Olen F. Featherstone	.00875000		
						Louis J. Root	.00500000		
						W. A. Scott Est.	.01000000		
						Mary L. Hamilton	.00500000		
Mina Henderson	.00500000								
Lucretia E. Conlon	.01250000								
Est. of Wade Hampton Stephens	.01750000								
						.20000000			

Tract No.	Description	No. of Acres	Serial No. and Lease Date	Landowner Percentage of Royalty	Record Owner of Lease	Overriding Royalty Owner and Percentage	Working Interest and Operating Agreement Owners and Percentage of Interest
3	FEDERAL LANDS (Cont.) Sec. 21: SW/4 NW/4	40	LC-046250-A 4-11-38	U.S.A. 5% All	Nell Hill Gillespie (5/8) Marjorie Nell Welch, Van P. Welch, Jr. & Robert Hill Welch, Minors (3/8)	Nell Hill Gillespie (2) Van P. Welch, Jr. (2) Marjorie Nell Welch (2) Robert Hill Welch (2) Marian C. Welch (2) V. S. Welch (2) H. B. Wright Mary E. Nellis Margaret Nellis Dunn James W. Nellis, Jr. E. C. Donahue Myrtle B. Wright 20000000	The Ibx Co. .75
4	Sec. 29: SE/4 NW/4 SW/4 NE/4	80	LC-046250-B 4-12-38	U.S.A. (4) 12 1/2% All	Nell Hill Gillespie (5/8) Marjorie Nell Welch, Van P. Welch, Jr. & Robert Hill Welch, Minors (3/8)	Nell Hill Gillespie (2) Van P. Welch, Jr. (2) Marjorie Nell Welch (2) Robert Hill Welch (2) Marian C. Welch (2) V. S. Welch (2) 00694400 00694400 12500000	The Ibx Co. .75
4-A	Sec. 29: SW/4 NW/4	40	LC-046250-B 4-12-38	U.S.A. (4) 12 1/2% All	Nell Hill Gillespie (5/8) Marjorie Nell Welch, Van P. Welch, Jr. & Robert Hill Welch, Minors (3/8)	Nell Hill Gillespie (3) Van P. Welch, Jr. (3) Marjorie Nell Welch (3) Robert Hill Welch (3) 01562500 01562500 12500000	The Ibx Co. .75
5	Sec. 20: SE/4 NW/4 NW/4 NE/4	80	LC-048479 9-20-39	U.S.A. 5% All	Delhi-Taylor	Delhi-Taylor (1) 11875000	The Ibx Co. Harold Kersey Olen F. Featherstone .83125

Tract No.	Description	No. of Acres	Serial No. and Lease Date	Landowner Percentage of Royalty	Record Owner of Lease	Overriding Royalty Owner and Percentage	Working Interest and Operating Agreement Owners and Percentage of Interest
<u>STATE LANDS (Cont.)</u>							
10-A	Sec. 28: NW/4 NE/4	40	B-1111 8-10-32	State of New Mexico 12 3/4% All	The Ibex Co.	Nell Hill Gillespie (3) Van P. Welch, Jr. (3) Marjorie Nell Welch (3) Robert Hill Welch (3) 1.2500000	The Ibex Co. .75 1.00
11	Sec. 21: NE/4 SW/4	40	B-1969 6-10-33	State of New Mexico 12 3/4% All	Delhi-Taylor	Delhi-Taylor (1) 1.0937500	The Ibex Co. Harold Kersey Olen F. Featherstone .765625 .25
12	Sec. 21: NW/4 SW/4 S/2 SW/4 SW/4 SE/4	160	B-1969 6-10-33	State of New Mexico 12 3/4% All	The Ibex Co.	Nell Hill Gillespie (2) Van P. Welch, Jr. (2) Marjorie Nell Welch (2) Robert Hill Welch (2) Marian C. Welch (2) V. S. Welch (2) 1.2500000	The Ibex Co. .75 1.00
13	Sec. 21: NW/4 SE/4	40	B-1936 6-10-33	State of New Mexico 12 3/4% All	Buffalo Oil Co. & Stanolind O & G Co.	Paton Bros. (6) .06250000	The Ibex Co. Harold Kersey Olen F. Featherstone .8125 .25
14	Sec. 20: SW/4	160	B-2178 10-10-33	State of New Mexico 12 3/4% All	Wilson Oil Corp.	Delhi-Taylor (1) .10937500	The Ibex Co. Harold Kersey Olen F. Featherstone .765625 .25
15	Sec. 20: N/2 SE/4	80	B-3149 8-16-34	State of New Mexico 12 3/4% All	The Ibex Co.	Nell Hill Gillespie (2) Van P. Welch, Jr. (2) Marjorie Nell Welch (2) Robert Hill Welch (2) Marian C. Welch (2) V. S. Welch (2) 1.2500000	The Ibex Co. .75 1.00

Tract No.	Description	No. of Acres	Serial No. and Lease Date	Landowner Percentage of Royalty	Record Owner of Lease	Overriding Royalty Owner and Percentage	Working Interest and Operating Agreement Owners and Percentage of Interest
<u>STATE LANDS (Cont.)</u>							
22	Sec. 30: SW/4 NE/4	40	B-11538 10-10-44	State of New Mexico 12½% All	Delhi-Taylor	Delhi-Taylor (1) .10937500	The IbeX Co. Harold Kersey Olen F. Featherstone .765625
23	Sec. 29: NE/4 NW/4 NW/4 NE/4	80	B-11538 10-10-44	State of New Mexico 12½% All	Wilson Oil Co.	Delhi-Taylor (1) .10937500	The IbeX Co. Harold Kersey Olen F. Featherstone .765625
24	Sec. 29: SE/4 NE/4	40	E-6945 2-10-53	State of New Mexico 12½% All	Stanolind O & G Co.	None	Stanolind O & G Co. S. P. Yates J. O. Miller Martin Yates III, Harvey E. Yates & S. P. Yates, Jointly .875

- (1) Delhi-Taylor, \$40,000.00 oil payment, which will be converted to O&GRI after liquidation: If average daily production per well for any calendar month is less than 15 barrels, 1/32 of net working interest; if more than 15 barrels but less than 30 barrels, 1/16 of net working interest; if 30 barrels or more but less than 45 barrels, 3/32 of net working interest; 45 barrels or more, 1/8 of net working interest, such charge to be attributed pro rata to each working interest owner affected according to the respective interest in the tract.
- (2) Welch Oil Payment #1, until \$360,000.00 is paid.
- (3) Welch Oil Payment #2, until \$340,000.00 is paid.
- (4) If production exceeds average of 20 barrels per day for calendar month, royalty will be increased, such increase to be attributed to working interest owner in tracts.
- (5) Royalty subject to increase upon renewal of lease, such increase to be attributed to working interest owner in tract.

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- (6) Oil payment of \$14,000.00; after liquidation, Stanolind Oil and Gas Co. and Buffalo Oil Co. will jointly have 1/16 of 8/8 ORRI.
- (7) If average daily production per well per calendar month exceeds 35 barrels, increase to 1/8 of 8/8, to be attributed pro rata to each working interest owner according to the interest in the tract.
- (8) When Scannell and Staley have received \$1,400.00, this interest to be paid to Edith A. Hover on Oil Payment of \$1,700.00.
- (9) Oil payment of \$800.00.
- (10) Oil payment of \$600.00.

Tracts Nos. 1, 5, 8, 11, 14, 16, 17, 22 and 23:
Proportionate part of production payment of \$15,830.00 to Olen F. Featherstone payable out of 1/8 of net working interest, payment to begin after partners have recovered all costs of development of waterflood project.

EXHIBIT "B"

RED LAKE PREMIER SAND UNIT

SCHEDULE OF TRACT PARTICIPATION

<u>Tract No.</u>	<u>Tract Description</u>	<u>Tract Participa- tion in Unit</u>
1	Section 19: SE/4 SE/4	03.2300
2	Section 20: SE/4 NE/4	04.1059
3	Section 21: SW/4 NW/4	12.1919
4	Section 29: SE/4 NW/4 SW/4 NE/4	02.6044
4-A	Section 29: SW/4 NW/4	00.5682
5	Section 20: SE/4 NW/4 NW/4 NE/4	03.5533
6	Section 20: SW/4 NW/4 NE/4 NW/4	01.1363
7	Section 20: SW/4 NE/4 NE/4 NE/4	10.5960
8	Section 29: NW/4 NW/4	01.8337
9	Section 28: NW/4 SW/4	01.5777
10	Section 28: NW/4	05.0817
10-A	Section 28: NW/4 NE/4	00.5682
11	Section 21: NE/4 SW/4	01.6396
12	Section 21: NW/4 SW/4 S/2 SW/4 SW/4 SE/4	06.7396
13	Section 21: NW/4 SE/4	00.9426
14	Section 20: SW/4	07.4676
15	Section 20: N/2 SE/4	11.6557
16	Section 19: N/2 SE/4 SW/4 SE/4	05.0357
17	Section 29: NE/4 NE/4	02.4700
18	Section 30: NE/4 NE/4	01.5554
19	Section 30: NW/4 NE/4	00.5682
20	Section 20: S/2 SE/4	05.6893
21	Section 30: SE/4 NE/4	00.8722
22	Section 30: SW/4 NE/4	00.9527
23	Section 29: NE/4 NW/4 NW/4 NE/4	06.7959
24	Section 29: SE/4 NE/4	00.5682

RATIFICATION AND JOINDER OF UNIT AGREEMENT

In consideration of the execution of the Unit Agreement for the Development and Operation of the Red Lake Premier Sand Unit Area located within the County of Eddy, State of New Mexico, in form approved on behalf of the Secretary of the Interior, the undersigned owners of lands or leases, or interests therein or royalties presently held or which may arise under existing option agreements, or other interests in production covered by said Unit Agreement hereby severally, each to the extent of his or her particular ownership or interest, as may appear, consent to the inclusion of said lands within the Unit Area therein defined, ratify, approve and adopt the terms of said Unit Agreement and any modifications thereof approved by the Secretary of the Interior or his duly authorized representative as applicable to said several lands and interests, agree that the term of any lease given by the undersigned or under which the undersigned claims an interest herein is extended and modified to the extent necessary to make the same conform to the terms of said Unit Agreement, agree that the drilling, development and producing requirements of all leases and other contracts in which their several rights and interests are created or defined shall be deemed fully performed by performance of the provisions of said Unit Agreement, and agree that payment for or delivery of (whichever may be required under prior agreements) oil and gas duly made at contract rates applied to the production allocated under said Unit Agreement to the particular lands to which such rights or interests do or shall apply, regardless of actual production therefrom, shall constitute full performance of all such obligations to the undersigned existing under such leases or other contracts.

This Ratification and Joinder of Unit Agreement may be executed in any number of counterparts with the same force and effect as if all parties had signed the same document and shall be binding upon all those who execute a counterpart hereof, regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands affected hereby, and when so executed shall be binding upon the undersigned, his or her assigns or successors in interest.

ADDRESS

SIGNATURE

Date _____

Date _____

Date _____

UNIT OPERATING AGREEMENT

RED LAKE PREMIER SAND UNIT

EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, made and entered into as of the _____ day of _____, 195_, by and between the undersigned owners of certain oil, gas and mineral leases or other operating rights covering lands in the Red Lake Field, Eddy County, New Mexico, and all other parties who subsequently ratify this agreement (all hereinafter sometimes being referred to collectively as "working interest owners"),

WITNESSETH: That,

WHEREAS, the parties hereto have executed and delivered, as of the date hereof, that certain "Unitization Agreement" creating the Red Lake Unit in Eddy County, New Mexico, (hereinafter referred to as "Unitization Agreement"); and

WHEREAS, said Unitization Agreement provides, among other things, for a separate agreement to be made and entered into by and between the working interest owners, covering certain matters and things pertaining to the development and operation of said unit created by said agreement; and

WHEREAS, Harold Kersey, d/b/a Kersey & Company hereinafter is designated and sometimes referred to herein and in said Unitization Agreement as "Unit Operator"; and the remaining working interest owners hereinafter and in Exhibit "A", attached hereto, sometimes are referred to collectively as "non-operators";

NOW, THEREFORE, in consideration of the premises and of the mutual promises and covenants hereinafter set forth to be kept and performed by the parties hereto, it is hereby stipulated and agreed by and between the parties hereto as follows:

I. UNITIZATION AGREEMENT CONFIRMED

1. "Unit Area" as used herein shall mean the area outlined in Exhibit "A" of the Unitization Agreement. Said Unitization Agreement and all exhibits attached thereto are hereby confirmed and incorporated herein by reference and made a part of this agreement. Reference to said exhibits herein shall include the same and any revisions thereof. In the event of any conflict between said Unitization Agreement and the provisions of this agreement with respect to the operation and development of the respective unit areas, the provisions of said Unitization Agreement shall prevail.

II. UNIT OPERATOR

2. The parties hereto hereby designate Harold Kersey, d/b/a Kersey & Company as Operator of the Unit area; and, subject to the provisions hereof and to the orders, directions and limitations rightfully given or imposed by the working interest owners as herein provided, Kersey & Company, as Unit Operator, shall have the exclusive control, management, development and operation of the unit area and of the wells located therein for the production and handling of unitized substances therefrom, and for the conducting of pressure maintenance or secondary recovery operations within said unit area. The judgment and discretion of the Unit Operator, exercised in good faith, shall be the limit of its liability to non-operators for any acts done or omitted in the performance of this agreement. The number of employees used by the Unit Operator in conducting operations hereunder, the selection of such employees, the hours of labor and the compensation for services to be paid any and all such employees shall be determined by the Unit Operator. Such employees shall be the employees of the Unit Operator.

3. The Unit Operator may be discharged and its powers, rights and duties terminated if the Unit Operator shall:

- (a) Fail or refuse to operate the unit area in accordance with the provisions of this agreement,
- (b) Tender its written resignation as Unit Operator to each of the parties hereto,
- (c) Become insolvent or,
- (d) Receive a majority vote from non-operators that he be removed.

4. Neither the Unit Operator nor any successor Unit Operator hereunder shall be released from the powers, rights and duties of Unit Operator for a period of three (3) months after its discharge, unless a successor Unit Operator shall have been designated by the working interest owners and shall have taken over the powers, rights and duties of Unit Operator hereunder prior to the expiration of said period.

III. MANAGEMENT AND CONTROL

5. In conducting the operation and development of the unit area hereunder, including, but not limited to, pressure maintenance and secondary recovery operations, the Unit Operator shall:

- (a) Conduct such operations in a good and workmanlike manner and in accordance with its best judgment of what a prudent operator would do under the same or similar circumstances.
- (b) Consult freely with the non-operators concerning unit operations and keep them advised of all important matters arising in connection therewith.
- (c) Keep true and correct books, accounts and records of its operations hereunder and permit at all reasonable times the inspection and examination thereof by any party hereto.
- (d) Furnish to each non-operator monthly statements of all unitized substances produced and a report of the development and operation of the unit area.
- (e) Furnish to each non-operator, upon written request, a copy of the log of any well drilled by the Unit Operator and copies of engineering and geological data pertaining to wells drilled by the Unit Operator in the unit area.
- (f) Keep the lands and leases in the unit area free from all liens and encumbrances of outside persons occasioned by its operations hereunder.
- (g) Submit to the working interest owners, within thirty (30) days after the effective date of this agreement, a budget for the remainder of the calendar year and, on or before December 1st of such year and each year thereafter, a budget for the succeeding calendar year. Each such budget shall set forth the Unit Operator's estimate of the costs and expenses required for the development and operation of the unit area during the four-month periods beginning on the first day of January, the first day of May and the first day of September. All budgets submitted shall be for information only. The Unit Operator shall correct said budget, or any part thereof; such budget, or the disapproved portion thereof, shall be revised by the Unit Operator in accordance with the directions of the working interest owners. Within fifteen (15) days after such budget revision is approved by the working interest owners, a copy thereof shall be furnished to each non-operator.
- (h) Accord each non-operator, at all reasonable times, access to the unit area and the right to inspect all operations conducted therein by the Unit Operator.

6. In conducting the operation and development of the unit area hereunder, including, but not limited to, pressure maintenance and secondary recovery operations, before performing any of the following acts and things, the Unit Operator shall first obtain the consent, approval and authority of the working interest owners, in the manner provided in Paragraph nine (9) hereof:

- (a) Recomplete in a different reservoir, abandon or change the status of any well in the unit area.
- (b) Drill any additional well within the unit area either for production of unitized substances or for use as an injection well or waterflood source well.
- (c) Determine the method or methods of pressure maintenance or secondary recovery operation to be employed from time to time in the unit area, the substances to be injected and the wells through which such injection is to be made.
- (d) Make any single expenditure in excess of One Thousand Five Hundred Dollars (\$1,500.00), provided, that the approval by the working interest owners of the drilling, reworking, drilling deeper or plugging back of any well shall include approval of all necessary expenditures required therefor and for completing, testing and equipping the same, including necessary flow lines, separators and lease tankage.
- (e) Sell or otherwise dispose of any major items of surplus equipment the current market price at the nearest railway supply point of new equipment similar thereto being Fifteen Hundred Dollars (\$1,500.00) or more. Any such item of equipment shall be considered a major item for the purposes of this contract.
- (f) Make arrangements for the enlargement or contraction of the unit area or for the revision of the exhibits to said Unitization Agreement required by any enlargement or contraction of the unit area.
- (g) Designate a representative for working interest owners to appear before any court or regulatory body in matters pertaining to unit operations; provided, however, that the authorization by the working interest owners of the designation of any such representative shall not prevent any working interest owner from appearing in person or by another representative in its own behalf.
- (h) Appoint, and designate the purposes of, committees and sub-committees necessary for the study of any problem in connection with unit operations.

7. The working interest owners severally reserve to themselves all right, power, authority and privileges necessary for the carrying out of the purposes of this agreement, except the rights, powers, authority and privileges herein delegated to the Unit Operator.

8. Within ten (10) days after the effective date hereof, each working interest owner shall advise the Unit Operator in writing of the name and address of its agent who is authorized to represent and bind it at all meetings of the working interest owners and for the purposes of considering and acting upon any matters pertaining to the development and operation of the unit area hereunder. Such representatives may be changed from time to time by written notice to the Unit Operator. The representative of the Unit Operator shall be chairman of each meeting. The working interest owners shall establish rules of procedure, including therein provisions with respect to meetings and such other procedural matters as may be considered advisable; provided, that no meeting may be called on less than ten (10) days advance written notice given prior to the date said meeting is to be called with an agenda for the meeting attached, unless all parties agree to the call of a meeting on shorter notice.

The Unit Operator may call a meeting of the Operators Committee once each month, or a meeting of the Operators Committee may be called by the written request of any two non-operators.

9. In voting on any matters coming before the working interest owners, each working interest owner in the unit shall have a voting interest equal to its percentage of participation in the unitized substances therein as set out in Exhibit "B" of the Unitization Agreement. Unless specifically herein otherwise provided, the working interest owners in the unit shall act upon and determine all matters coming before them hereunder by the affirmative vote of working interest owners or their representatives, owning at the time the vote is taken ninety-five percent (95%) or more of the voting interest or, if agreement on any proposition is not reached on this basis then in accordance with the following voting procedures:

- (a) By the concurring affirmative vote of at least three (3) working interest owners, or their representatives, having at the time the vote is taken a combined voting interest of sixty percent (60%) or more in the unit, and such concurring affirmative vote shall be binding on all parties; provided, however, that if any one working interest owner at the time of voting owns an interest in the unit of sixty percent (60%) or more, its vote shall not serve to carry or approve any proposition unless said vote is supported by two (2) or more other working interest owners having at the time of voting combined interest in said unit of ten percent (10%) or more.
- (b) Abstention from voting within a ten-day period after receipt of notice by any working interest owner shall be considered as approval of the consideration.

10. Each representative shall have only such powers as are conferred upon him by his principal; provided, however, that any limitation on the authority of any representative shall be in writing and shall be filed with the Unit Operator.

IV. CONFORMANCE OF INVESTMENTS

11. Working interest owners have each individually heretofore placed in or on their wells and in or on lands and leases affected by this agreement various items of personal property which is lease and well equipment as to all of which the working interest owners have the contractual right to remove such property from the premises and all of which installations by working interest owners were made with the intention and understanding that all of the same would be and remain personal property and no part thereof would be or become a part of the realty. The working interest owners executing this agreement have made separate agreements with respect to all such personal property (hereinafter referred to as "lease and well equipment") as distinguished from the provisions of said Unitization Agreement pertaining to the realty, leasehold estates and the oil, gas and other minerals underlying the tracts or leases committed by them to unit area. Accordingly, the working interest owners have heretofore severed and do hereby sever, from the realty, for all purposes, all such lease and well equipment which may be or which may hereafter become located in or on the leases or in the wells on the land affected hereby.

12. With respect to all of such lease and well equipment, each working interest owner, subject to the other provisions of this Article IV, hereby exchanges title to its interest in the lease and well equipment pertaining to tracts or leases committed by it to the unit area for title to an undivided interest in all the lease and well equipment taken over by the Unit Operator for operations upon the unit hereunder equal to such working interest owner's percentage of participation as set out in the Exhibit "B" to the Unitization Agreement.

13. On the effective date of this agreement the Unit Operator shall take over the possession and use of the respective unit area, all the lease and well equipment determined as hereinafter provided to be necessary for operations upon the unit hereunder, and all the wells located in said unit area.

14. Subject to the other applicable provisions of the Article IV and to the end that the respective investments of the working interest owners in and to all of the lease and well equipment required for unit operations upon said unit, as hereinafter provided, shall be conformed to their respective interests in the unitized substances, as shown in Exhibit "B" respectively of said Unitization Agreement, the investment of each working interest owner in said lease and well equipment, as of the effective date hereof, and the basis of which adjustment therefor shall be made by and between the working interest owners in the unit are hereby declared to be the value of said lease and well equipment determined and computed as follows:

- (a) The value of all lease and well equipment taken over by the Unit Operator hereunder shall be determined on the price basis prescribed for "second-hand materials (Condition "B")" in Section III, Paragraph 2(b), of Exhibit "A", attached hereto, the applicable condition thereof to be indicated on the joint physical inventories provided for in subparagraph (b) of this Paragraph fourteen (14); provided, however, that equipment determined to be of other condition or value shall not be taken over by the Unit Operator except by specific agreement between the working interest owner or owners of such equipment and the other working interest owners in the unit.
- (b) As soon as possible after the effective date hereof, or before such date if the working interest owners so agree, the working interest owners in the unit shall appoint an inventory committee which shall take or cause to be taken, under the supervision of the Unit Operator, joint physical inventories of all lease and well equipment within the unit area, which inventories shall be used as a basis for determining the items of said equipment to be taken over by the Unit Operator for operations in the unit. The Unit Operator shall notify each working interest owner within each separate tract at least five (5) days prior to the taking of said inventories with respect to said tract, so that each of said working interest owners may be represented at the taking thereof. Said inventories shall not include lease surface fittings under two (2) inches or small pipe under two (2) inches in diameter, but all said fittings, valves, pipe and equipment shall nevertheless be taken over by the Unit Operator for operations hereunder. Said inventories shall be taken as of the effective date of this agreement. Said inventory committees shall be responsible for the pricing of all said equipment, under the supervision of the Unit Operator and in conjunction with the respective working interest owners insofar as said inventories apply to their respective tracts. Said inventories shall not include casing or liner in said wells below a depth of thirty (30) feet below the base of the particular reservoir involved.
- (c) Said inventories, together with statements showing the items of lease and well equipment (exclusive of fittings, valves and pipe specifically excluded in subparagraph (b) above) to be taken over by the Unit Operator as to the unit and the value thereof, determined as above provided, within ninety (90) days after the completion of said joint inventories, shall be submitted by the Unit Operator to the working interest owners in the unit for their approval.

- (d) Within one hundred eighty (180) days after the working interest owners have approved the statement of the Unit Operator, mentioned in subparagraph (c) above, the Unit Operator shall furnish to each working interest owner a statement as to the unit (itemized on a lease basis), showing:
- (i) All lease and well equipment which the Unit Operator will retain for operation of the unit, together with the value of all said equipment, said value to be in accordance with provisions of subparagraph (a) of this Paragraph fourteen (14);
 - (ii) The value, determined as above provided, of the portion of said equipment which was delivered by each working interest owner to the Unit Operator (each working interest owner being entitled to credit for the value so determined with respect to it); and
 - (iii) The proportionate part of the total value of all said lease and well equipment that is chargeable to each working interest owner in the unit, which shall be determined by multiplying the percentage set opposite the name of each working interest owner in Exhibit "B" to said Unitization Agreement by the value of all said equipment.
- (e) Within fifteen (15) days after the receipt of the Unit Operator's statements, last above mentioned, each working interest owner, with respect to which the amount chargeable to it with respect to the unit, as provided in subparagraph (d) (iii) above, exceeds the amount of the total credit to which it is entitled in the unit, as provided in subparagraph (d) (ii) above, shall pay to the Unit Operator an amount of money equal to the difference between said charge and credit. Within fifteen (15) days after all of said payments have been made with respect to the unit, the Unit Operator shall pay to each working interest owner in the unit the amount by which the total credit to which it is entitled, as provided in subparagraph (d) (ii) above, exceeds the amount chargeable to it, as provided in subparagraph (d) (iii) above.
- (f) Lease and well equipment and other personal property within the unit area prior to the effective date hereof not taken over by the Unit Operator, as hereinabove provided, shall remain the property of the original owner or owners and shall be removed from the unit area or disposed of by such owner or owners as soon as practicable.

15. There shall be no adjustment or payment hereunder for the intangible costs for:

- (a) The installation of equipment,
- (b) The drilling, completing, testing, repairing, plugging back, drilling deeper, working over or any other intangible costs in, on or with respect to any well, or
- (c) For lease roads or other easements taken over by the Unit Operator for the operation of the unit.

16. Should there be any contraction, enlargement or enlargements of the unit area the investment in lease and well equipment shall be conformed to the respective interests of the working interest owners in the unitized substances produced from such contracted or enlarged unit area or areas as shown by the revised applicable Exhibit "B" to the Unitization Agreement in such manner as shall be determined by the working interest owners.

V. COSTS AND EXPENSES

17. The Unit Operator initially shall advance and pay all costs and expenses for the development and operation of the respective unit areas, for the production of unitized substances therefrom, and for the conducting of pressure maintenance or secondary recovery operations therein for the joint account of the parties hereto in the proportions in which said parties participate in the unitized substances, as set out in Exhibit "B" of said Unitization Agreement; and the Unit Operator shall charge costs and expenses to the working interest owners in said proportions. Each working interest owner shall bear and pay, and shall reimburse the Unit Operator for, its proportionate share in the unit of all said costs and expenses, the proportionate share of each working interest owner being equal to its percentage of participation in the unitized substances in the unit as set out in Exhibit "B" of said Unitization Agreement.

18. All such costs, expenses, credits and related matters, and the method of handling the accounting with respect thereto, shall be in accordance with the schedule of Joint Accounting Procedure attached hereto and marked Exhibit "A", provided, however:

- (a) That the Unit Operator shall not apportion any part of the salaries and expenses of its division superintendent; of other general division employees or of division office expenses to the joint account as provided in Paragraph twelve (12) (a) of Section II of said Exhibit "A", and the monthly per well overhead rates set forth under Paragraph twelve (12) (a) of Section II of said Exhibit "A" shall be in lieu of any charges for any part of the compensation or salaries paid to the Unit Operator's division superintendent and to other general division employees and shall be in lieu of any charges for division office expenses as well as the Unit Operator's principal business office expenses, but said overhead rates shall not be in lieu of any charges for any part of the compensation or salaries paid to the Unit Operator's waterflood engineer; and
- (b) That, whenever the Unit Operator is compelled to furnish from its warehouse or other properties material acquired or purchased at values or prices in excess of those determined in accordance with the provisions of Exhibit "A", the Unit Operator shall attach to its Authorization for Expenditures Request at the time it is forwarded to each working interest owner for approval, as required by Exhibit "A", a notification to that effect; then, unless a working interest owner informs the Unit Operator of its election, within ten (10) days after the date of said Authorization for Expenditures Request, to furnish in kind at the location, or at the railway receiving point nearest thereto, its proportionate part of any such material of like grade and quality, and forthwith delivers the same, the Unit Operator shall furnish all such material to the joint account and shall charge each working interest owner for its proportionate part thereof on the basis of the Unit Operator's direct cost and expense (not including any overhead charges) incurred in acquiring and shipping said material and transporting it to the location.

19. As to the work so done by the Unit Operator in performing the obligation contained in the plan of development as submitted to U. S. G. S., it is understood and agreed that the Unit Operator is hereby authorized to proceed with such work at the direction of the operating committee and that the non-operators shall bear their proportionate part of all costs, material, labor and services incurred in carrying out the operations called for in said plan of development.

The Unit Operator shall render to non-operators a statement of all such costs as soon as is reasonably convenient. If, within ninety (90) days after the delivery of such statements to the non-operator, the Unit Operator has not been paid for same, then Unit Operator shall be entitled to recover a sum equal to double the amount of all such unpaid statements out of the defaulting non-operators' interest in the first oil and gas produced thereafter.

For the purposes of assuring the Unit Operator of recovery of expenditures made in accordance with plan of development, non-operators shall grant to Unit Operator liens upon their interest in the jointly owned leases and materials, the oil and gas produced from said leases and the proceeds of such oil and gas to secure payment of non-operators' share of cost and expenses incurred for the joint account, which lien may be enforced as a mortgage lien or in any other manner now or hereafter permitted by the law. Whenever any non-operator defaults in payment of his share of such costs and expenses, the Unit Operator is hereby authorized to collect the proceeds of oil and gas accruing to the interest of the defaulting non-operator in the jointly owned leases direct from the purchaser or purchasers thereof until the amount collected equals double the amount owing by the defaulting non-operator; and each such purchaser shall be fully protected in making payment to Unit Operator on the basis of double the amount of Unit Operator's written statement of the amount owing by such defaulting non-operators.

An affidavit duly executed by Unit Operator to the effect that certain amounts are due and unpaid under the provisions of this paragraph shall be sufficient notice to the pipe line gatherer to enable it to make payment direct to the Unit Operator until he has received the amount recoverable under the terms and provisions of such paragraph or until such time as he shall have notified the pipe line gatherer that such amount has been settled with defaulted non-operator.

20. If the Unit Operator forecloses the lien provided for in this agreement and acquires the property and interest subject thereto at foreclosure sale, the Unit Operator, within thirty (30) days after so acquiring title thereto, shall offer to transfer and convey to each of the remaining working interest owners in the unit in which such interest was foreclosed (exclusive of the Unit Operator and the party whose property and interest were foreclosed) a proportionate undivided interest in and to said property and interest so acquired, and shall within ten (10) days after payment of each working interest owner's proportionate part of Unit Operator's acquisition costs (including the amount of indebtedness for which foreclosure was instituted) convey to each working interest owner such proportionate undivided interest. The proportionate undivided interest of each working interest owner in and to said property and interest and each working interest owner's proportionate part of said acquisition costs shall be in the ratio that its percentage of participation in the unitized substances in the subject unit bears to the total of the percentages of participation in unitized substances in said unit of all working interest owners (including the Unit Operator) other than the working interest owner whose property and interest were foreclosed.

VI. WELLS DRILLING ON EFFECTIVE DATE AND SUBSEQUENT WELLS

21. Any well being drilled by a working interest owner on land in the unit area on the effective date hereof shall be drilled, completed, equipped and tested by such working interest owner at its sole cost, expense and risk. In the event that such well is completed after the effective date hereof as a producer of unitized substances in paying quantities, such well and the equipment used, had and obtained in connection therewith and required for operation thereof hereunder shall be taken over by the Unit Operator as of the date of such completion and the investment of said working interest owner in said lease and well equipment shall be adjusted by and between all of the working interest owners herein on the same basis, in the same manner and with the same effect as if said well had been drilled,

completed, equipped and tested prior to the effective date of this agreement, subject, however, to such revisions as may be provided for as a result of the inclusion thereof.

VII. WELLS DRILLED AND OTHER WORK DONE BY UNIT OPERATOR.

22. All wells drilled by the Unit Operator hereunder shall be drilled on a competitive contract basis. Unit Operator, if it so desires, may employ its own or rented tools and equipment in the drilling or reworking of wells or doing other work in the unit area, but in such event such work shall be performed by the Unit Operator under same terms and conditions as are customary and usual in the immediate area of the Red Lake Field in contracts of independent contractors who are doing work of a similar nature.

23. Regardless of the ownership of the lease or leases on, or other operating rights in, a particular tract of land within the unit area on which a well may be commenced and drilled after the effective date hereof for the joint account of the working interest owners, the equipment, casing and other personal property used, had and obtained in connection with each such well shall be owned by the working interest owners in proportion to their respective interests in the unitized substances, as shown in Exhibit "B" to the Unitization Agreement.

VIII. OIL IN LEASE TANKAGE ON EFFECTIVE DATE

24. The Unit Operator shall make a proper and timely gauge of all lease and other tanks within the unit area in order to ascertain the amount of merchantable oil and condensate and other liquid hydrocarbons above pipe line connection in such tanks as of 7:00 A. M. on the effective date hereof. All such oil which has been produced legally shall be and remain the property of the parties entitled thereto the same as if the unit had not been formed, and such parties shall promptly remove said oil from the unit area. Any such oil not so removed shall be sold by the Unit Operator for the account of such owner or owners, subject to the payment of all royalty and royalty owners under the terms and provisions of the applicable lease or leases and other contracts.

IX. TAKING IN KIND

25. Each working interest owner shall own and shall take and receive in kind, or separately dispose of, its proportionate part of all unitized substances produced and saved from the unit area, the proportionate part of each working interest owner being set opposite its name in Exhibit "B" to the Unitization Agreement.

26. If any working interest owner should fail to take or adequately provide for the disposition of any part of its share of the unitized substances from the unit area the operation of which is provided for herein, the Unit Operator shall have the right, revocable at will, to dispose of such unitized substances for periods of not longer than one day, and such working interest owner, upon such disposition shall be considered as having received the same; provided however, that any proceeds received by the Unit Operator from such disposal shall, subject to payment of royalties, overriding royalties and other payments out of production, be credited and paid to such working interest owner and the Unit Operator shall bill such working interest owner for the reasonable costs and expenses incurred in making such disposition.

X. PAYMENT OF ROYALTIES

27. The Unit Operator shall (as provided for in Paragraph eleven (11) of the Unitization Agreement) pay, or cause to be paid, all royalties, overriding interest and other payments out of production due and payable to the royalty owners in such tract, on account of the unitized substances produced from or allocated to such tract in accordance with the lease or leases and other contracts

covering such tract, as modified by the Unitization Agreement. Should there be unsigned royalty interests not in excess of twenty-five percent (25%) in any tract in the respective unit and the royalty payments due to such unsigned royalty interest owner on actual production are more or less than the royalty payments on production of unitized substances allocated to such unsigned royalty interests in such tract or tracts, the difference shall be borne by or inure to the benefit of the working interest owners in accordance with their participating percentages within the respective unit as shown by the applicable Exhibit "B" to the Unitization Agreement.

XI. RIGHT OF WITHDRAWAL

28. If any party which has executed or ratified this agreement desires to withdraw herefrom as to the unit to be operated hereunder, it may do so by transferring, assigning and conveying, without covenants of warranty, either expressed or implied, all of its interest in said unit to all other working interest owners which have executed or ratified this agreement as to such unit and which do not desire to withdraw from said unit, together with the withdrawing party's interest in all wells, pipe lines, casing, injection equipment and facilities and other personal property within the unit from which withdrawal is desired or used in connection therewith; provided, that such transfer, assignment or conveyance shall not relieve said party from any obligation or liability which accrued or was incurred prior to the date of the execution and delivery thereof. The interest so transferred, assigned and conveyed shall be taken and owned by the assignees in the ratio of their respective interests in the unitized substances produced from the subject unit. After the execution and delivery of such transfer, assignment or conveyance, the withdrawing party shall be relieved from all further obligation and liability hereunder as to the particular unit from which withdrawal is effected and under the Unitization Agreement; and the right of such party to any benefits subsequently accruing hereunder and under said Unitization Agreement shall cease; provided that, upon the delivery of said transfer, assignment or conveyance, the assignees, in the ratio of their respective interests so acquired, shall pay to the assignor for its interest in all jointly owned equipment, casing and other personal property the value thereof, determined in accordance with the provisions of Exhibit "A", less the cost of salvaging the same, as estimated and fixed by the working interest owners in the unit.

XII. ABANDONMENT OF OPERATIONS

Upon the termination of the Unitization Agreement as to the unit created hereby, however accomplished, the parties hereto shall thereafter be governed by the respective leases and contracts affecting the separately owned tracts contained within the unit area as to which this contract has terminated. If the Unitization Agreement should terminate as to the unit created hereby for any reason hereof, or otherwise, from and after 7:00 A. M. on the date of such termination unit operations shall cease as to the unit to which this agreement is terminated, and thereafter, as to the unit, all operations, development and accounting on or with respect to said leases and other operating rights shall be on a lease basis in accordance with the respective leases and other contracts pertaining thereto; provided, however, that all unitized substances produced, used, sold or stored and any costs and expenses of Unit Operator incurred, prior to such termination as to the unit shall be paid or accounted for, or otherwise handled, as provided herein or in said Unit Operating Agreement except as herein or in said Unit Operating Agreement otherwise provided, all rights, titles and interests of royalty owners and of working interest owners covered hereby shall be released and discharged from this agreement and from said Unit Operating Agreement as to the unit. No lease, or other operating rights, covering land within the unit area as to which this unit is so terminated shall be forfeited, or otherwise terminated, if the owner or owners thereof resume the payment of delay rentals on the next rental payment date, if any; continue production of oil, gas or other minerals within sixty (60) days after such termination; or if such owner or owners have the right so to do under their respective leases, commence,

within sixty (60) days after such termination, and prosecute with due diligence drilling or reworking operations thereon, and if, as a result of such operations, oil, gas or other minerals should be found in paying quantities, said lease or other operating rights shall remain in full force and effect so long thereafter as said oil, gas or other minerals are produced in paying quantities. In addition the following conditions shall apply separately to the unit:

- (a) If termination occurs prior to the abandonment mentioned in subparagraph (b) of this Paragraph twenty-nine (29), the following provisions shall apply to the unit:
 - (i) All unitized substances in storage within the unit area at the time of said termination shall be disposed of and removed from the unit area within thirty (30) days after said termination and accounted for in accordance with the applicable provisions hereof and of the Unitization Agreement.
 - (ii) Title to all remaining equipment taken over by the Unit Operator hereunder and title to all equipment purchased for unit operations by the Unit Operator shall, subject to adjustment of investment as provided in subparagraph (a) (iv), below, vest in the owner or owners of the respective leases and other operating rights on or in which said equipment is located; provided, that, as to each piece or portion of said equipment which is serving more than one lease, first priority shall be given to the working interest owners served by such equipment. As to all such equipment which was included in the unit area upon the effective date hereof by one or more of the working interest owners and which is identifiable as such, second priority shall be given to the owner or owners on whose lease it was located prior to unitization. As to such equipment which is not so identifiable or was purchased by the Unit Operator for unit operations after the effective date hereof, second priority shall be given to the owner or owners on whose lease or leases such equipment is situated upon the termination date hereof.
 - (iii) The vesting or revesting of title to any then existing warehouses, warehouse stocks, lease houses, camps, facility systems which may then be unit property, shall be determined by the working interest owners on an equitable basis, with priorities between the respective working interest owners being the same as provided in subparagraph (a) (ii), above, with respect to equipment serving more than one lease.
 - (iv) The investment in said equipment and property mentioned above in this subparagraph (a) shall be readjusted by and between the working interest owners on the basis and in amounts determined by them. The salvaging, liquidation or division in kind of all jointly-owned property not taken over by the respective working interest owners, as provided above in this subparagraph (a), and the final adjustment of accounts by and between the parties hereto, shall be in the manner determined by the working interest owners.
- (b) If said termination occurs on the abandonment of unit operations after it has been determined that unitized substances no longer can be produced from the unit area in paying quantities, the following provisions shall apply:

- (i) The owner or owners of the lease or leases on, or other operating rights in, any separate tract within the unit area on which a unit well or wells are located shall have the right to take over and to continue to operate such well or wells by paying to the Unit Operator the value of the equipment, casing and other personal property used in connection with the operation of said well or wells, determined in accordance with the provisions of Exhibit "A", attached hereto, less the cost of salvaging the same as estimated and fixed by the working interest owners and by agreeing properly to plug said well or wells at the time of abandonment; provided, that the provisions of this subparagraph (b) (i) shall not prevent the salvaging or other disposition of the pipe lines and other equipment and facilities used exclusively for injection operations.
- (ii) With respect to each well not taken over by the owner or owners mentioned in subparagraph (b) (i), above, the Unit Operator shall salvage so much of the equipment, casing and other personal property used in connection therewith as can economically and reasonably be salvaged and shall cause such well to be properly plugged and abandoned.
- (iii) The salvaging and liquidation of all jointly owned property used in the operation of the unit area, including, but not limited to, pipe lines and other equipment and facilities used exclusively for injection operations, and the final adjustment of accounts by and between the parties hereto shall be in a manner determined by the working interest owners; and the money and other assets, including money received by the Unit Operator under subparagraph (b) (i), above, shall be distributed to all the working interest owners in the ratio of their respective interests in the unitized substances, as shown in the applicable Exhibit "B" to the Unitization Agreement.

30. If the Unit Operator, with the approval of the working interest owners should decide permanently to abandon any well within the unit area prior to the termination of the Unitization Agreement, the Unit Operator shall give to the working interest owner or owners of the tract on which such well is located written notice of such fact, and said owner or owners shall have the right and option for a period of thirty (30) days after receipt of such notice to notify the Unit Operator of its or their election to take over said well and to deepen or plug back said well to a formation other than the unitized reservoirs. Within ten (10) days after said owner or owners have so notified the Unit Operator, said owner or owners shall pay to the Unit Operator for credit to the joint account of the working interest owners in the particular unit the value of the casing in said well and of the other equipment thereon, as determined in accordance with the provisions of Exhibit "A" attached hereto, less the cost of salvaging the same as estimated and fixed by the working interest owners of the particular unit, and at the same time shall agree by letter addressed to the Unit Operator (a) to case or seal off in an efficient and workmanlike manner the particular reservoir in which said well was completed; (b) to produce said well, if the same is produced, from some formation other than the unitized reservoirs; and (c) on ultimate abandonment of said well, to plug and abandon it in a workmanlike manner in accordance with the laws of the State of New Mexico and the rules, regulations and orders of the Oil Conservation Commission of the State of New Mexico.

XIII. INSURANCE AND TAXES

31. As to all operations hereunder, Unit Operator shall carry for the benefit and protection of the parties hereto Workmen's Compensation Insurance in accordance with the laws of the State of New Mexico. The Unit Operator shall not be required to carry any other insurance for any of the joint accounts. The liability, if any, of the parties hereto in damages for claims growing out of personal injury

to or death of third persons or injury or destruction of property of third persons resulting from the operation and development of the respective units shall be borne by the parties hereto in the proportions of their respective interests in the unitized substances in the respective units, and each party individually may acquire such insurance as it deems proper to protect itself against such claims.

32. Unit Operator shall pay or cause to be paid all production, severance, gathering and other direct taxes imposed upon or on account of the production of unitized substances from the unit area and any and all other taxes imposed upon operation of the unit area. Unit Operator shall make and file for ad valorem tax purposes all necessary assessments, renditions and returns with the proper taxing authorities or governmental subdivisions covering all real and personal property of each working interest owner within the unit area and used in connection with operations thereon; provided, that, if any working interest owner is dissatisfied with any proposed rendition or assessment of its interest in real or personal property, it shall have the right at its own expense, to protest and resist the same. All ad valorem taxes due and payable on account of real and personal property of each working interest owner located within the unit area and used in connection with operations thereon shall be paid by Unit Operator for the respective joint accounts in the same manner as other costs and expenses; provided, however, that the obligation of the Unit Operator to make and file the necessary assessments, renditions, and returns or to pay the ad valorem taxes upon unit property shall not be effective until the first day of the calendar year next succeeding the effective date of this agreement. Each working interest owner shall be liable for its share of such taxes in proportion to its interest in the unitized substances in the respective units, regardless of the location in the particular unit of the land or leases contributed by it, and each such working interest owner shall reimburse Unit Operator for its proportionate part of all payments so made.

XIV. RULES AND REGULATIONS AND FORCE MAJEURE

33. This agreement and all operations hereunder shall be subject to the conservation laws of the State of New Mexico, to the applicable valid rules, regulations and orders of the Oil Conservation Commission of said State and to all other applicable state and Federal laws, rules, regulations and orders.

34. All obligations of each party hereto, except for the payment of money, shall be suspended while, but only so long as, said party is prevented from complying with such obligations, in whole or in part, by strike, fire, flood, tornado, lightning, explosion, concussion, radiation, Acts of God or the public enemy, state or Federal regulations, uncontrollable delay in transportation, inability to obtain necessary materials in open market, inadequate facilities for the transportation of materials, or other causes beyond the reasonable control of said party, whether similar to the causes herein specifically enumerated or not; provided, however, that performance shall be resumed within a reasonable time after such cause has been removed; and provided, further, that no party hereto shall be required against its will to adjust or settle any labor dispute.

XV. NOTICES

35. All notices provided for herein shall be mailed or sent as follows:

- (a) To Unit Operator at P. O. Box 305, Artesia, New Mexico, and to non-operators as follows:

Olen F. Featherstone
P. O. Box 1088
Roswell, New Mexico

Franklin, Aston & Fair, Inc.
P. O. Box 769
Roswell, New Mexico

The Ibex Company
P. O. Box 752
Breckenridge, Texas

J. O. Miller

E. E. Scannell
517 Staley Building
Wichita Falls, Texas

Staley Oil Company
Staley Building
Wichita Falls, Texas

Stanolind Oil & Gas Co.
P. O. Box 899
Roswell, New Mexico

Martin Yates III, Harvey E. Yates and S. P. Yates
Carper Building
Artesia, New Mexico

S. P. Yates
Carper Building
Artesia, New Mexico

- (b) Any person, firm or corporation which after the effective date hereof becomes bound hereby, within ten (10) days after becoming so bound, shall notify in writing the Unit Operator and the other parties hereto of its address for receiving notices hereunder and of the name and address of its agent who is authorized to represent and bind it hereunder. Any party hereto may change its agent or address for the purposes of this Paragraph thirty-five (35) by giving to the other parties bound hereby written notice of such changes.

XVI. EFFECTIVE DATE, DURATION AND TERMINATION

36. This agreement shall become effective on the date and at the time the Unitization Agreement becomes effective; shall run concurrently with the Unitization Agreement and shall terminate on the date and at the time said Unitization Agreement terminates, or on such other date as may be determined by the working interest owners hereunder.

XVII. RELATIONSHIP OF THE PARTIES

37. The duties, obligations and liabilities of the parties hereto shall be several and not joint or collective; and nothing herein contained shall ever be construed as creating a partnership of any kind, joint venture, an association or a trust or as imposing upon any one or more of the working interest owners any partnership duty, obligation or liability. Each party hereto shall be individually responsible only for its obligations, as set out herein, and shall be liable only for its proportionate share of the costs and expenses, as herein stipulated.

38. Whenever in this agreement reference is made to operations for the joint accounts of any of the parties hereto or to charges or credits to said accounts of the parties hereto, or whenever similar language is used, such language is used merely as a convenient method of referring to the accounting necessary between them; and such phraseology shall never be construed as creating any joint liability upon the part of the parties hereto for any obligation incurred under this agreement or as setting apart or creating any fund or jointly owned property for the satisfaction of any such obligation or as creating a common fund for any other purpose. No funds received by the Unit Operator under this agreement, whether received as advances or as payments on account of costs or expenses, or otherwise, need be segregated by the Unit Operator or maintained by it as a joint fund, but may be commingled with its own funds and used or handled by the Unit Operator as provided for in this agreement.

39. Unit Operator shall not be liable for any errors of judgment or for the loss or damage to any jointly owned property or equipment of the parties hereto not resulting from the gross negligence or willful misconduct of the Unit Operator or its employees.

40. If for any reason other than as a result of the unit operations or nonproduction, any lease or interest therein subject hereto be lost, forfeited, released or cancelled, or any lease expire, or should the title to any land subject hereto be lost during the term of this agreement, the participating percentage of the party representing itself to be the owner thereof shall be reduced proportionately and the participating interests of all parties shall be adjusted as herein provided. Each working interest owner shall be responsible to the other parties hereto for the title to each tract contributed hereto by such working interest owner; provided, however, that each and all those separate tracts as to which the working interest owners owning one hundred percent (100%) of the working interest in said tract have signed or ratified this agreement and royalty owners owning less than seventy-five percent (75%) of the royalty interest in said tract have signed or ratified this agreement; and in which the working interest owners in said tract have agreed (such agreement to be at their option and not an obligation) to indemnify and hold harmless all other parties hereto against any and all claims or demands that may be made by the non-joining royalty owners in said tract on account of the inclusion of said tract in the unit area and the operation of the unit area on the basis herein provided, but such indemnity shall not extend to production from such tract in excess of the participation percentage allocated to said tract, and shall not extend to loss or damages resulting from unit operations, and shall not extend to more than seventy-five percent (75%) of the royalty interest in said separate tract. In the event of loss, forfeiture, release, cancellation, expiration or failure of title for any reason other than as the result of the unit operation or non-production, either in whole or in part, such loss, forfeiture, release, cancellation, expiration or failure of title shall be borne entirely by the working interest owner who contributed such tract, and any necessary adjustments shall be made with such working interest owner and all other parties hereto as to investments incurred prior to the date of the loss. Any such losses, forfeitures, releases, cancellations, expirations or failure of title and any liability for damages that are incurred as a result of the unit operation or non-production shall be borne by all of the parties hereto in proportion to their respective participation percentages in each of the units created hereby. Any land or leases, or interests therein, the title to which is lost in whole or in part, shall be excluded from the unit area or areas of which it is a part as of 7:00 A. M. on the date on which said loss of title is finally determined, unless the new owner or owners thereof join in this agreement; and the percentages of participation of the land and leases, or interests therein, thereafter remaining in the unit area or areas shall, if necessary, be recomputed, readjusted and revised, and the applicable Exhibits "A" and "B": to the Unitization Agreement revised accordingly.

XVIII. JOINDER, RATIFICATION AND COUNTERPARTS

41. This agreement may be signed or ratified by any person owning a lease or leases on, or other operating rights in, lands being added to the unit area. Execution of this agreement may be in any number of counterparts, and each counterpart so executed shall have the same force and effect as an original instrument and as if all the parties to the aggregate counterparts had signed the same document. Ratification of this agreement must be by separate instrument in writing, specifically referring to this agreement.

XIX GENERAL

42. The non-operators shall, within thirty days after the complete Unit Agreement is filed for record, furnish to Unit Operator copies of logs of all wells, production reports, well tests and all other pertinent data relative to the performance of wells drilled by them respectively in the unit area.

EXHIBIT "A"

PASO-T-1955-2

Attached to and made a part of Unit Operating Agreement,
Red Lake Premier Sand Unit, Eddy County, New Mexico

ACCOUNTING PROCEDURE

(UNIT AND JOINT LEASE OPERATIONS)

I. GENERAL PROVISIONS

1. Definitions

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

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

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

A. Statement in detail of all charges and credits to the joint account.

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

C. Statements as follows:

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

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

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

3. Payments by Non-Operator

Each party shall pay its proportion of all such bills within fifteen (15) days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest at the rate of six per cent (6%) per annum until paid.

4. Adjustments

Payment of any such bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof. Subject to the exception noted in Paragraph 5 of this section I, all statements rendered to Non-Operator by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period Non-Operator takes written exception thereto and makes claim on Operator for adjustment. Failure on the part of Non-Operator to make claim on Operator for adjustment within such period shall establish the correctness thereof and preclude the filing of exceptions thereto or making of claims for adjustment thereon. The provisions of this paragraph shall not prevent adjustments resulting from physical inventory of property as provided for in Section VI, Inventories, hereof.

5. Audits

A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the accounting hereunder for any calendar year within the twenty-four (24) month period following the end of such calendar year, provided, however, that Non-Operator must take written exception to and make claim upon the Operator for all discrepancies disclosed by said audit within said twenty-four (24) month period. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator.

II. DEVELOPMENT AND OPERATING CHARGES

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

1. Rentals and Royalties

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

2. Labor

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

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

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

3. Employee Benefits

Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost, provided that the total of such charges shall not exceed ten per cent (10%) of Operator's labor costs as provided in Subparagraphs A and B of Paragraph 2 of this Section II and in Paragraph 11 of this Section II.

4. Material

Material, equipment, and supplies purchased or furnished by Operator for use of the joint property. So far as it is reasonably practical and consistent with efficient and economical operation, only such material shall be purchased for or transferred to the joint property as may be required for immediate use; and the accumulation of surplus stocks shall be avoided.

5. Transportation

Transportation of employees, equipment, material, and supplies necessary for the development, maintenance, and operation of the joint property subject to the following limitations:

A. If material is moved to the joint property from vendor's or from the Operator's warehouse or other properties, no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where such material is available, except by special agreement with Non-Operator.

B. If surplus material is moved to Operator's warehouse or other storage point, no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point, except by special agreement with Non-Operator. No charge shall be made to the joint account for moving material to other properties belonging to Operator, except by special agreement with Non-Operator.

6. Service

A. Outside Services:

The cost of contract services and utilities procured from outside sources.

B. Use of Operator's Equipment and Facilities:

Use of and service by Operator's exclusively owned equipment and facilities as provided in Paragraph 5 of Section III entitled "Operator's Exclusively Owned Facilities."

7. Damages and Losses to Joint Property and Equipment

All costs or expenses necessary to replace or repair damages or losses incurred by fire, flood, storm, theft, accident, or any other cause not controllable by Operator through the exercise of reasonable diligence. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after report of the same has been received by Operator.

8. Litigation Expense

All costs and expenses of litigation, or legal services otherwise necessary or expedient for the protection of the joint interests, including attorneys' fees and expenses as hereinafter provided, together with all judgments obtained against the parties or any of them on account of the joint operations under this agreement, and actual expenses incurred by any party or parties hereto in securing evidence for the purpose of defending against any action or claim prosecuted or urged against the joint account or the subject matter of this agreement.

A. If a majority of the interests hereunder shall so agree, actions or claims affecting the joint interests hereunder may be handled by the legal staff of one or more of the parties hereto; and a charge commensurate with cost of providing and furnishing such services rendered may be made against the joint account; but no such charge shall be made until approved by the legal departments of or attorneys for the respective parties hereto.

B. Fees and expenses of outside attorneys shall not be charged to the joint account unless authorized by the majority of the interests hereunder.

9. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the properties which are the subject of this agreement, the production therefrom or the operation thereof, and which taxes have been paid by the Operator for the benefit of the parties hereto.

10. Insurance and Claims

A. Premiums paid for insurance required to be carried for the benefit of the joint account, together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including legal services, not recovered from insurance carrier.

B. If no insurance is required to be carried, all actual expenditures incurred and paid by Operator in settlement of any and all losses, claims, damages, judgments, and any other expenses, including legal services, shall be charged to the joint account.

11. District and Camp Expense (Field Supervision and Camp Expense)

A pro rata portion of the salaries and expenses of Operator's production superintendent and other employees serving the joint property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's.....

office located at or near (or a comparable office if location changed), and necessary suboffices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in the conduct of the operations on the joint property and other properties operated in the same locality. The expense of, less any revenue from, these facilities should be inclusive of depreciation or a fair monthly rental in lieu of depreciation on the investment. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.

12. Administrative Overhead

Operator shall have the right to assess against the joint property covered hereby the following management and administrative overhead charges, which shall be in lieu of all expenses of all offices of the Operator not covered by Section II, Paragraph 11, above, including salaries and expenses of personnel assigned to such offices, ~~except that salaries of geologists and other employees of Operator who are temporarily assigned to and directly~~

- \$ 40.00 per day for Waterflood Engineer in office
- \$ 50.00 per day for Waterflood Engineer in field
- \$ 10.00 per well per month (including injection wells)
- \$ 10.00 per water plant per month
- \$175.00 per well per month on drilling and reworking wells
- One-half of District Superintendent's salary

A. Overhead charges for drilling wells shall begin on the date each well is spudded and terminate when it is on production or is plugged, as the case may be, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.

B. In connection with overhead charges, the status of wells shall be as follows:

- (1) Injection wells for recovery operations, such as for repressure or water flood, shall be included in the overhead schedule the same as producing oil wells.
- (2) Water supply wells utilized for water flooding operations shall be included in the overhead schedule the same as producing oil wells.
- (3) Producing gas wells shall be included in the overhead schedule the same as producing oil wells.

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

IV. DISPOSAL OF LEASE EQUIPMENT AND MATERIAL

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

1. Material Purchased by the Operator or Non-Operator

Material purchased by either the Operator or Non-Operator shall be credited by the Operator to the joint account for the month in which the material is removed by the purchaser.

2. Division in Kind

Division of material in kind, if made between Operator and Non-Operator, shall be in proportion to their respective interests in such material. Each party will thereupon be charged individually with the value of the material received or receivable by each party, and corresponding credits will be made by the Operator to the joint account. Such credits shall appear in the monthly statement of operations.

3. Sales to Outsiders

Sales to outsiders of material from the joint property shall be credited by Operator to the joint account at the net amount collected by Operator from vendee. Any claims by vendee for defective material or otherwise shall be charged back to the joint account if and when paid by Operator.

V. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

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

1. New Price Defined

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

2. New Material

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

3. Good Used Material

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

- A. At seventy-five per cent (75%) of current new price if material was charged to joint account as new, or
- B. At sixty-five per cent (65%) of current new price if material was originally charged to the joint property as secondhand at seventy-five per cent (75%) of new price.

4. Other Used Material

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

- A. After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or
- B. Is serviceable for original function but substantially not suitable for reconditioning.

5. Bad-Order Material

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

6. Junk

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

7. Temporarily Used Material

When the use of material is temporary and its service to the joint account does not justify the reduction in price as provided in Paragraph 3 B, above, such material shall be priced on a basis that will leave a net charge to the joint account consistent with the value of the service rendered.

VI. INVENTORIES

1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the joint account material, which shall include all such material as is ordinarily considered controllable by operators of oil and gas properties.

Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operator may be represented when any inventory is taken.

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

2. Reconciliation and Adjustment of Inventories

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

Inventory adjustments shall be made by Operator with the joint account for overages and shortages, but Operator shall be held accountable to Non-Operator only for shortages due to lack of reasonable diligence.

3. Special Inventories

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

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

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

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

14. Other Expenditures

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

III. BASIS OF CHARGES TO JOINT ACCOUNT

1. Purchases

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

2. Material Furnished by Operator

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

A. New Material (Condition "A")

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

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

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

3. Premium Prices

Whenever materials and equipment are not readily obtainable at the customary supply point and at prices specified in Paragraphs 1 and 2 of this Section III because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the joint account for the required materials on the basis of the Operator's direct cost and expense incurred in procuring such materials, in making it suitable for use, and in moving it to the location, provided, however, that notice in writing is furnished to Non-Operator of the proposed charge prior to billing the Non-Operator for the material and/or equipment acquired pursuant to this provision, whereupon Non-Operator shall have the right, by so electing and notifying Operator within 10 days after receiving notice from the Operator, to furnish in kind, or in tonnage as the parties may agree, at the location, nearest railway receiving point, or Operator's storage point within a comparable distance, all or part of his share of material and/or equipment suitable for use and acceptable to the Operator. Transportation costs on any such material furnished by Non-Operator, at any point other than at the location, shall be borne by such Non-Operator. If, pursuant to the provisions of this paragraph, any Non-Operator furnishes material and/or equipment in kind, the Operator shall make appropriate credits therefor to the account of said Non-Operator.

4. Warranty of Material Furnished by Operator

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

5. Operator's Exclusively Owned Facilities

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

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

RED LAKE PREMIER SAND UNIT

Participation of Owners in Total Unit Area

Interest Owner		Tract No.	Participation in Unit Production	Totals
Aston, Bert	ORR	18	.0015554	.0015554
Brown, Ralph D.	OP	21 (9)	.0002180	.0002180
Conlon, Lucretia E.	ORR	1	.0004038	
"	ORR	2	<u>.0005132</u>	.0009170
Delhi-Tyalor Oil Corp.	OP	1 (1)	.0034723	
"	OP	5 (1)	.0042195	
"	OP	6 (1)	.0012428	
"	OP	8 (1)	.0020056	
"	OP	11 (1)	.0017933	
"	OP	14 (1)	.0081677	
"	OP	16 (1)	.0055078	
"	OP	17 (1)	.0026244	
"	OP	22 (1)	.0010420	
"	OP	23 (1)	<u>.0074330</u>	.0375084
Donahue, E. C.	ORR	3	.0018288	.0018288
Dunn, Margaret Nellis	ORR	3	.0001143	.0001143
Featherstone, Olen F.	ORR	1	.0002826	
"	ORR	2	<u>.0003592</u>	.0006418
Featherstone, Olen F.	WI	1	.0060764	
"	WI	5	.0073842	
"	WI	8	.0035098	
"	WI	11	.0031383	
"	WI	13	.0019146	
"	WI	14	.0142935	
"	WI	16	.0096386	
"	WI	17	.0045926	
"	WI	20	.0107785	
"	WI	22	.0018235	
"	WI	23	<u>.0130078</u>	.0761578
Franklin, Aston & Fair, Inc.	WI	19	.0049717	.0049717
Gillespie, Nell Hill	OP	2 (2)	.0026032	
"	OP	3 (2)	.0087842	
"	OP	4 (2)	.0018764	
"	OP	7 (2)	.0076343	
"	OP	9 (2)	.0011367	
"	OP	10 (2)	.0036613	
"	OP	12 (2)	.0048558	
"	OP	15 (2)	<u>.0083978</u>	.0389497
Gillespie, Nell Hill	OP	4-A (3)	.0004439	
"	OP	10-A (3)	<u>.0004439</u>	.0008878
Hamilton, Mary L.	ORR	1	.0001615	
"	ORR	2	<u>.0002053</u>	.0003668

Interest Owner	Tract No.	Participa- tion in Unit Production	Totals
Henderson, Mina	ORR 1	.0001615	
"	ORR 2	<u>.0002053</u>	.0003668
Hover, Edith A.	ORR 17	.0006175	
"	ORR 21	<u>.0002181</u>	.0008356
Ibex Co., The	ORR 1	.0005652	
"	ORR 2	<u>.0007185</u>	.0012837
Ibex Co., The	WI 1	.0121529	
"	WI 2	.0307942	
"	WI 3	.0914392	
"	WI 4	.0195330	
"	WI 4-A	.0042615	
"	WI 5	.0147684	
"	WI 6	.0086998	
"	WI 7	.0794700	
"	WI 8	.0070197	
"	WI 9	.0118328	
"	WI 10	.0381127	
"	WI 10-A	.0042615	
"	WI 11	.0062766	
"	WI 12	.0505470	
"	WI 13	.0038293	
"	WI 14	.0285869	
"	WI 15	.0874178	
"	WI 16	.0192773	
"	WI 17	.0091854	
"	WI 18	.0120544	
"	WI 20	.0323357	
"	WI 22	.0036471	
"	WI 23	<u>.0260155</u>	.6015187
Kersey, Harold	ORR 1	.0002826	
"	ORR 2	<u>.0003592</u>	.0006418
Kersey, Harold	WI 1	.0060764	
"	WI 5	.0073842	
"	WI 8	.0035098	
"	WI 11	.0031383	
"	WI 13	.0019147	
"	WI 14	.0142934	
"	WI 16	.0096387	
"	WI 17	.0045926	
"	WI 22	.0018235	
"	WI 23	<u>.0130078</u>	.0653794
Miller, J. O.	WI 24	.0000993	.0000993
Nellis, Mary E.	ORR 3	.0003810	.0003810
Nellis, James W. Jr.	ORR 3	.0001143	.0001143
Paton Bros.	OP 13 (6)	.0005891	.0005891
Ports, W. W.	ORR 20	.0015557	.0015557
Root, Louis J.	ORR 1	.0001615	
"	ORR 2	<u>.0002053</u>	.0003668
Scannell, E. E.	ORR 20	.0015557	.0015557

Interest Owner	Tract No.	Participation in Unit Production	Totals
Scannell, E. E.	WI 21	.0015945	.0015945
Scannell, E. E.	OP 21 (8)	.0001090	.0001090
Scannell, E. E.	OP 21 (10)	.0001635	.0001635
Scott, Est. of W. A.	ORR 1	.0003230	
"	ORR 2	<u>.0004106</u>	.0007336
Shell Canadian Exploration Co.	ORR 20 (7)	.0035558	.0035558
Shuffleberger, F. D.	ORR 21	.0002181	.0002181
Southern Union Gas Co.	ORR 7	.0079470	.0079470
Staley Oil Co.	WI 21	.0047835	.0047835
Staley Oil Co.	OP 21 (8)	.0003271	.0003271
Stanolind Oil & Gas Co.	WI 24	.0037288	.0037288
State of New Mexico	R 8	.0022921	
"	R 9	.0019721	
"	R 10	.0063521	
"	R 10-A	.0007102	
"	R 11	.0020495	
"	R 12	.0084245	
"	R 13	.0011783	
"	R 14	.0093345	
"	R 15	.0145696	
"	R 16	.0062946	
"	R 17	.0030875	
"	R 18	.0019442	
"	R 19	.0007103	
"	R 20	.0071116	
"	R 21	.0010902	
"	R 22	.0011909	
"	R 23	.0084949	
"	R 24	<u>.0007103</u>	.0775174
Stephens, Anna	ORR 1	.0005653	.0005653
Stephens, Est. of Wade Hampton	ORR 2	.0007185	.0007185
U. S. A.	R 1 (5)	.0016150	
"	R 2	.0020530	
"	R 3	.0060959	
"	R 4 (4)	.0032555	
"	R 4-A (4)	.0007102	
"	R 5 (5)	.0017767	
"	R 6	.0014204	
"	R 7 (5)	<u>.0052980</u>	.0222247
Welch, Marian C.	OP 2 (2)	.0002510	
"	OP 3 (2)	.0008466	
"	OP 4 (2)	.0001809	
"	OP 7 (2)	.0007358	
"	OP 9 (2)	.0001096	
"	OP 10 (2)	.0003529	
"	OP 12 (2)	.0004680	
"	OP 15 (2)	<u>.0008094</u>	.0037542

Interest Owner	Tract No.	Participation in Unit Production	Totals
Welch, Marjorie Nell	OP 2 (2)	.0004705	
"	OP 3 (2)	.0015875	
"	OP 4 (2)	.0003391	
"	OP 7 (2)	.0013797	
"	OP 9 (2)	.0002054	
"	OP 10 (2)	.0006617	
"	OP 12 (2)	.0008776	
"	OP 15 (2)	<u>.0015177</u>	.0070392
Welch, Marjorie Nell	OP 4-A (3)	.0000888	
"	OP 10-A (3)	<u>.0000888</u>	.0001776
Welch, Robert Hill	OP 2 (2)	.0004705	
"	OP 3 (2)	.0015875	
"	OP 4 (2)	.0003391	
"	OP 7 (2)	.0013797	
"	OP 9 (2)	.0002054	
"	OP 10 (2)	.0006617	
"	OP 12 (2)	.0008775	
"	OP 15 (2)	<u>.0015177</u>	.0070391
Welch, Robert Hill	OP 4-A (3)	.0000888	
"	OP 10-A (3)	<u>.0000888</u>	.0001776
Welch, Van P. Jr.	OP 2 (2)	.0004705	
"	OP 3 (2)	.0015875	
"	OP 4 (2)	.0003391	
"	OP 7 (2)	.0013797	
"	OP 9 (2)	.0002054	
"	OP 10 (2)	.0006617	
"	OP 12 (2)	.0008776	
"	OP 15 (2)	<u>.0015177</u>	.0070392
Welch, Van P. Jr.	OP 4-A (3)	.0000888	
"	OP 10-A (3)	<u>.0000888</u>	.0001776
Welch, V. S.	OP 2 (2)	.0002510	
"	OP 3 (2)	.0008466	
"	OP 4 (2)	.0001809	
"	OP 7 (2)	.0007358	
"	OP 9 (2)	.0001096	
"	OP 10 (2)	.0003529	
"	OP 12 (2)	.0004680	
"	OP 15 (2)	<u>.0008093</u>	.0037541
Wright, H. B.	ORR 3	.0039624	.0039624
Wright, Myrtle B.	ORR 3	.0027432	.0027432
Yates, S. P.	WI 24	.0006948	.0006948
Yates, Martin III, Harvey E. and S. P., Jointly	WI 24	.0004488	<u>.0004488</u>
		TOTAL	1.0000000

- (1) Delhi-Taylor, \$40,000.00 oil payment, which will be converted to ORRI after liquidation: If average daily production per well for any calendar month is less than 15 barrels, 1/32 of net working interest; if more than 15 barrels but less than 30 barrels, 1/16 of net working interest; if 30 barrels or more but less than 45 barrels, 3/32 of net working interest; 45 barrels or more, 1/8 of net working interest, such charge to be attributed pro rata to each working interest owner affected according to the respective interest in this tract.
- (2) Welch Oil Payment #1, until \$360,000.00 is paid.
- (3) Welch Oil Payment #2, until \$340,000.00 is paid.
- (4) If production exceeds average of 20 barrels per day for calendar month, royalty will be increased, such increase to be attributed to working interest owner in tracts.
- (5) Royalty subject to increase upon renewal of lease, such increase to be attributed to working interest owner in tract.
- (6) Oil payment of \$14,000.00; after liquidation, Stanolind Oil and Gas Co. and Buffalo Oil Co. will jointly have 1/16 of 8/8 ORRI.
- (7) If average daily production per well per calendar month exceeds 35 barrels, increase to 1/8 of 8/8, to be attributed pro rata to each working interest owner according to the interest in the tract.
- (8) When Scannell and Staley have received \$1,400.00, this interest to be paid to Edith A. Hover on oil payment of \$1,700.00
- (9) Oil payment of \$800.00.
- (10) Oil payment of \$600.00.

Tracts Nos. 1, 5, 8, 11, 14, 16, 17, 22 and 23:

Proportionate part of production payment of \$15,830.00 to Olen F. Featherstone payable out of 1/8 of net working interest, payment to begin after partners have recovered all costs of development of water-flood project.

New Unit Agreement

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
RED LAKE PREMIER SAND UNIT AREA
EDDY COUNTY, NEW MEXICO

No. _____

THIS AGREEMENT, entered into as of the _____ day of _____, 1956, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as "parties hereto",

WITNESSETH:

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

WHEREAS, the Mineral Leasing Act of February 25, 1920, 41 Stat. 437, as amended, 30 U.S.C. Secs. 181 et seq., authorizes Federal lessees and their representatives to unite with each other, or jointly or separately with others, in collectively adopting and operating under a cooperative or unit plan of development or operation of any oil or gas pool, field, or like area, or any part thereof, for the purpose of more properly conserving the natural resources thereof whenever determined and certified by the Secretary of the Interior to be necessary or advisable in the public interest; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Chap. 88, Laws 1943) to consent to or approve this agreement on behalf of the State of New Mexico, insofar as it covers and includes lands and mineral interests of the State of New Mexico; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico is authorized by law (Chap. 72, Laws of 1935, as amended by Chap. 193, Laws of 1937, Chap. 166, Laws of 1941, and Chap. 168, Laws of 1949) to approve this agreement, and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the Red Lake Premier Sand Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto, to enable institution and consummation of secondary recovery operations, to conserve natural resources, prevent waste, and secure other benefits obtainable

through development and operation of the area subject to this agreement under the terms, conditions and limitations herein set forth:

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

1. ENABLING ACT AND REGULATIONS: The Mineral Leasing Act of February 25, 1920, as amended, supra, and all valid pertinent regulations, including operating and unit plan regulations, heretofore issued thereunder are accepted and made a part of this agreement as to Federal lands, provided such regulations are not inconsistent with the terms of this agreement; and as to non-Federal lands, the oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations, not inconsistent with the terms hereof or the laws of the State in which the non-Federal land is located, are hereby accepted and made a part of this agreement.

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

NEW MEXICO PRINCIPAL MERIDIAN, NEW MEXICO

T. 17 S., R. 28 E.

Sec. 19: SE/4
20: NE/4 NW/4, S/2 NW/4, NE/4, S/2
21: SW/4 NW/4, SW/4, W/2 SE/4
28: NW/4, NW/4 NE/4, NW/4 SW/4
29: N/2
30: NE/4

Situated in Eddy County, New Mexico, containing 1,760 acres, more or less.

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage comprising each tract, percentage ownership of each working interest owner in each tract, the percentage of participation each tract has in the Unit Area, and a recap showing total of each working interest owner in all tracts of the Unit Area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the

ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the Unit Area render such revision necessary, or when requested by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor", or the Commissioner of Public Lands, hereinafter referred to as "Commissioner", and not less than six copies of the revised exhibits shall be filed with the Supervisor, and at least one copy shall be filed with the Commissioner and one copy with the New Mexico Oil Conservation Commission, hereinafter referred to as "Commission".

EXPANSION: The above described Unit Area shall when practicable be expanded to include therein any additional tract or tracts regarded as reasonably necessary or advisable for the purpose of this agreement, whenever such expansion is necessary or advisable to conform with the purposes of this agreement. Such expansion shall be effected in the following manner:

(a) Unit Operator, on its own motion or on demand of the Director of the Geological Survey, hereinafter referred to as "Director", or on demand of the Commissioner, shall prepare, after preliminary concurrence by the Director, a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reasons therefor, and the proposed effective date thereof, preferably the first day of a month subsequent to the date of notice.

(b) Said notice shall be delivered to the Supervisor and the Commissioner and copies thereof mailed to the last known address of each working interest owner, lessee and lessor whose interests are affected, advising that 30 days will be allowed for submission to the Unit Operator of any objections.

(c) Upon expiration of the 30-day period provided in the preceding item (b) hereof, Unit Operator shall file with the Supervisor and Commissioner evidence of mailing of the notice of expansion and a copy of any objections thereto which have been filed with the Unit Operator, together with an application for approval of such expansion, and with appropriate joinders.

(d) After due consideration of all pertinent information, the expansion shall, upon approval by the Director and Commissioner, become effective as of the date prescribed in the notice thereof.

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

3. UNITIZED LAND AND UNITIZED SUBSTANCES: All oil and gas in all of the hereinabove described and subsequently admitted lands effectively committed to this agreement, only as to the "Premier Sand", together with the surface rights of ingress and egress, are unitized under the terms of this agreement and herein are called "unitized substances", and said land shall constitute land referred to herein as "unitized land" or "land subject to this agreement". The Premier Sand or formation as used herein shall be construed to mean that heretofore established underground reservoir in the basal member of the Grayburg formation in the Red Lake field lying immediately above the San Andres dolomite, the top of which is found at a depth of 1755 feet above sea level in the Kersey & Company No. 5 Thompson well located in the NW/4 SE/4 SW/4 of Section 20, T. 17 S., R. 28 E., N.M.P.M., Eddy County, New Mexico.

4. UNIT OPERATOR: Harold Kersey, d/b/a Kersey and Company, of Artesia, New Mexico, is hereby designated as Unit Operator and by signature hereto as Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interests in unitized substances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

The term "working interest owner" as used herein and in other contracts relating to the unitized land, shall mean the owner of such an interest committed hereto as may be obligated to bear or share either in cash or out of production (other than by permitting the use of unitized substances or development, production or pressure maintenance

purposes), a portion or all of the costs or expenses of drilling, developing, producing and operating the unitized land under this agreement and the Unit Operating Agreement.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR: Unit Operator shall have the right to resign at any time prior to the establishment of a participating area or areas hereunder, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six months after notice of intention to resign has been served by Unit Operator on all working interest owners, the Director and Commissioner, and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandonment, whichever is required by the Supervisor as to Federal lands, the Commission and the Commissioner as to State and privately-owned lands, unless a new Unit Operator shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period. Unit Operator shall have the right to resign in like manner and subject to like limitations as above provided at any time a participating area established hereunder is in existence, but until a successor Unit Operator is selected and approved as hereinafter provided, the working interest owners shall be jointly responsible for performance of the duties of Unit Operator, and shall not later than 30 days before such resignation becomes effective appoint a common agent to represent them in any action to be taken hereunder.

The resignation of Unit Operator shall not release Unit Operator from any liability for any default by it hereunder occurring prior to the effective date of its resignation.

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

In all such instances of resignation or removal, until a successor Unit Operator is selected and approved as hereinafter provided, the

working interest owners shall be jointly responsible for the performance of the duties of Unit Operator and shall, not later than 30 days before such resignation or removal becomes effective, appoint a common agent to represent them in any action to be taken hereunder.

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

6. SUCCESSOR UNIT OPERATOR: Whenever the Unit Operator shall tender his or its resignation as Unit Operator or shall be removed as hereinabove provided, the owners of the working interests in the participating area or areas according to their respective acreage interests in such participating area or areas, or, until a participating area shall have been established, the owners of the working interests according to their respective acreage interests in all unitized land, shall by majority vote select a successor Unit Operator; provided, that if a majority but less than 75 per cent of the working interests qualified to vote are owned by one party to this agreement, a concurring vote of one or more additional working interest owners shall be required to select a new operator. Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Director and Commissioner. If no successor Unit Operator is selected and qualified as herein provided, the Director and Commissioner at their election may declare this unit agreement terminated.

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT: If the Unit Operator is not the sole owner of working interests, costs and

expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the Unit Operator as provided in this section, whether one or more, are herein referred to as the "Unit Operating Agreement". Such Unit Operating Agreement shall also provide the manner in which the working interest owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases or other independent contracts and such other rights and obligations as between Unit Operator and the working interests as may be agreed upon by the Unit Operator and the working interest owners; however, no such Unit Operating Agreement shall be deemed either to modify any of the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this Unit Agreement, and in case of any inconsistency or conflict between the Unit Agreement and the Unit Operating Agreement, this Unit Agreement shall prevail. Three true copies of any Unit Operating Agreement executed pursuant to this section should be filed with the Supervisor and two true copies with the Commissioner, prior to approval of this agreement.

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

the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

9. PLAN OF OPERATION: It is recognized and agreed by the parties hereto that all of the land subject to this agreement is reasonably proved to be productive of unitized substances in paying quantities and that the object and purpose of this Unit Agreement is to formulate and to put into effect a secondary recovery project in order to effect the greatest recovery of unitized substances, prevent waste and conserve natural resources. The parties hereto agree that the Unit Operator may, subject to the consent and approval of the working interest owners and in accordance with a plan of operation approved by the Supervisor, the Commission and the Commissioner, inject into the Red Lake Premier Sand Pool, through any well or wells completed therein, brine, water, air, gas, oil and any one or more other substances whether produced from the Red Lake Premier Sand Pool or not, and that the location of input wells and the rates of injection therein and the rates of production shall be governed by standards of good geologic and petroleum engineering practices and approved conservation methods.

Unit Operator agrees to submit to the Supervisor and Commissioner not later than 30 days after the effective date of this agreement, a plan of operation for the unitized land and, upon approval thereof by the Supervisor and Commissioner, it shall constitute the operating obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for the approval of the Supervisor and Commissioner a plan for an additional specified period for the operation of the unitized land and said plan or plans shall be modified or supplemented when necessary to meet changed conditions. Reasonable diligence shall be exercised in complying with the obligations of any approved plan of operation.

Any plan submitted pursuant to this section shall be as complete and adequate as the Supervisor and Commissioner may determine to be necessary for timely, diligent operation and proper conservation of the oil

and gas resources of the unitized land and shall (a) specify the number and location of any wells to be drilled, if any, and the proposed order and time for such drilling, (b) specify the number and location of any well to be selected for injection, and (c) specify all pertinent operating practices to be employed in the interest of all parties to this agreement. No operations, except such as may be necessary to afford protection against operations not under this agreement or such as may be specifically approved by the Supervisor and Commissioner, shall be performed except in accordance with a plan of operations approved as herein provided.

Notwithstanding anything else herein to the contrary, if any, in event of failure to commence secondary-recovery operations within six months after the effective date of this Unit Agreement or any extension thereof approved by the Director, then this Unit Agreement shall terminate automatically, in which event, the Unit Operator shall so notify all interested principals.

10. PARTICIPATION AND ALLOCATION OF PRODUCTION: In Exhibit "B" attached hereto, there are listed and numbered the various tracts within the Unit Area and set forth opposite each tract is a figure which represents the percentage participation of each tract in the Unit Area. The percentage participation of each tract was determined as follows:

$$\begin{array}{l} \text{Percentage Participation} \\ \text{of each tract} \end{array} = 25\% \frac{(\text{Tract Acreage})}{(\text{Total Unit Acreage})} \text{ plus } 75\% \frac{(\text{Cumulative Tract Production})}{(\text{Cumulative Unit Production as of June 1, 1955})}$$

If, on the effective date of this agreement, there is any tract or tracts which have not been committed or made subject to this agreement, then such tract or tracts shall not be entitled to participate hereunder. Unit Operator shall, when submitting this agreement for final approval by the Director and Commissioner, file therewith a schedule of those tracts which have been committed and made subject to this agreement. Said schedule shall set forth opposite each such committed tract the percentage participation of such tract which shall be determined by dividing the percentage participation listed in Exhibit "B" for such tract by the total of the percentage participations listed in Exhibit "B" for all of the tracts

committed to the agreement. This schedule shall be part of Exhibit "B", and, upon approval thereof by the Director and Commissioner, shall become a part of this agreement and shall govern the allocation of production until a new schedule is filed and approved by the Director and Commissioner. Nevertheless, allocation under the Unit Agreement shall not commence until the first day of the month after commencement of secondary-recovery operations pursuant to Section 9 hereof.

If, after the effective date of this agreement, there is any tract or tracts in the Unit Area which are subsequently committed hereto, under the provisions of Section 25, NON-JOINDER AND SUBSEQUENT JOINDER, then the percentage participation assigned to such tract or tracts shall be subtracted from the percentage participations of the then committed tracts and each then committed tract shall contribute to the percentage participation assigned to the new tract or tracts an amount determined by multiplying (a) the percentage participation assigned to the new tract or tracts by (b) the percentage participation of each of the then committed tracts, so that the new total of all effectively committed tracts equals 100%.

Whenever a tract or group of tracts within the Unit Area is added, as herein provided, or is excluded as provided for in Section 24, LOSS OF TITLE, the schedule of Participation, Exhibit "B", shall be revised to show the new percentage participations of all the then committed tracts and the revised Exhibit "B" shall govern the allocation of production from and after the effective date thereof until a new schedule is filed and approved by the Director and Commissioner.

No tract committed to this agreement shall be subsequently excluded from participation hereunder on account of depletion of unitized substances and nothing herein contained shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the joinder of any tract.

For the purpose of determining any and all benefits accruing under this agreement, each tract committed hereto shall have allocated to it that percentage of all unitized substances produced from the unitized land, except any part thereof used in conformity with good operating

practices within the Unit Area for drilling, operating, camp and other production or development purposes and for pressure maintenance in accordance with a plan of operation approved by the Supervisor or unavoidably lost, as is set forth in Exhibit "B" hereof; and the amount of such production allocated to each tract shall be deemed to be produced from such tract. It is hereby agreed that production of unitized substances from any part of the land subject to this agreement shall be allocated as provided herein regardless of whether oil or gas is being produced from any particular tract committed hereto. If the working interests or the royalty interests in any tract are divided with respect to separate parcels or portions of such tract and owned severally by different persons, the percentage participation assigned to such tract shall, in the absence of a recordable instrument among all owners fixing the division of ownership, be divided among such parcels or portions in proportion to the number of surface acres in each.

11. ROYALTY SETTLEMENT: The United States and the State of New Mexico and all royalty owners who, under existing contract, are entitled to take in kind a share of the substances now unitized hereunder produced from any tract, shall hereafter be entitled to the right to take in kind their share of the unitized substances allocated to such tract, and Unit Operator, or in case of the operation of a well by a working interest owner as herein in special cases provided for, such working interest owner, shall make deliveries of such royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for royalty interest not taken in kind shall be made by working interest owners responsible therefor under existing contracts, laws and regulations, on or before the last day of each month for unitized substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any royalties due under their leases.

If gas obtained from lands not subject to this agreement is introduced into any participating area hereunder, for use in repressuring, stimulation of production or increasing ultimate recovery, which shall

be in conformity with a plan first approved by the Supervisor and Commissioner, a like amount of gas, with due allowance for loss or depletion from any cause, may be withdrawn from the formation into which the gas was introduced, royalty free as to dry gas, but not as to the products extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the plan of operations or as may otherwise be consented to by the Supervisor as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this Unit Agreement.

Royalty due the United States shall be computed as provided in the operating regulations and paid in value or delivered in kind as to all unitized substances on the basis of the amounts thereof allocated to unitized Federal land as provided herein at the rates specified in the respective Federal leases, or at such lower rate or rates as may be authorized by law or regulation; provided, that for the committed portion of each Federal lease, or any other Federal lease or portion thereof subsequently committed to this agreement, on which the royalty rate depends upon the daily average production per well, said average production for the committed portion of each such lease shall be determined by the number of producing wells, injection wells and shut-in wells in the Premier Sand on the committed portion of each such lease as of the date each said lease becomes effectively committed to this agreement.

It is expressly understood and agreed that beginning at the end of the respective 20-year terms, or any extension thereof, other than that provided by Sec. 15 (e) hereof, of the Federal leases committed to this agreement which contain provisions for the payment of a 5% rate of royalty to the United States, the royalty rate on said leases shall be the same rate as would be applicable to the renewal leases in the absence of unitization.

Royalty due on account of state and privately-owned lands shall be computed and paid on the basis of all unitized substances allocated to such lands at the rates specified in the respective leases.

12. RENTAL SETTLEMENT: Rentals or minimum royalties due on leases committed hereto shall be paid by working interest owners responsible

therefor under existing contracts, laws and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty in lieu thereof due under their leases. Rental or minimum royalty for lands of the United States subject to this agreement shall be paid at the rate specified in the respective leases from the United States, unless such rental or minimum royalty is waived, suspended or reduced by law or by approval of the Secretary or his duly authorized representative.

13. CONSERVATION: Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to state or Federal law or regulation.

14. DRAINAGE: The Unit Operator shall take appropriate and adequate measures to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement or pursuant to applicable regulations pay for the benefit of unit allocations a fair and reasonable compensatory royalty as determined by the Supervisor and the Commissioner.

15. LEASES AND CONTRACTS CONFORMED AND EXTENDED: The terms, conditions and provisions of all leases, subleases and other contracts relating to exploration, drilling, development or operation for oil or gas of lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect, and the parties hereto hereby consent that the Secretary and the Commissioner, respectively, shall and by their approval hereof, or by the approval hereof by their duly authorized representatives do hereby establish, alter, change or revoke the drilling, producing, rental, minimum royalty and royalty requirements of Federal and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement, and, without limiting the generality of the foregoing, all leases, subleases and contracts are particularly modified in accordance with the following:

(a) The development and operation of lands subject to this agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every part or separately owned tract subject to this agreement, regardless of whether there is any development of any particular part or tract of the Unit Area, notwithstanding anything to the contrary in any lease, operating agreement or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.

(b) Drilling and producing operations performed hereunder upon any tract of unitized lands will be accepted and deemed to be performed upon and for the benefit of each and every tract of unitized land, and no Federal or State lease shall be deemed to expire by reason of failure to drill or produce wells situated on land therein embraced.

(c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the Secretary and the Commissioner, or their duly authorized representatives, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of unitized lands.

(d) Each lease, sublease or contract relating to the exploration, drilling, development or operation for oil and gas of lands other than those of the United States and the State of New Mexico committed to this agreement which by its terms might expire prior to the termination of this agreement, is hereby extended beyond any such term so provided therein, so that it shall be continued in full force and effect for and during the term of this agreement.

(e) Any Federal lease for a fixed term of twenty (20) years or any renewal thereof or any part of such lease which is made subject to this agreement shall continue in force beyond the term provided therein until the termination hereof, subject to the royalty provisions of Section 11 hereof. Any other Federal lease committed hereto shall continue in force beyond the term so provided therein or by law as to the committed land so long as such lease remains committed hereto.

(f) Each sublease or contract relating to the operation and development of unitized substances from lands of the United States

committed to this agreement, which by its terms would expire prior to the time at which the underlying lease, as extended by the immediately preceding paragraph, will expire, is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of the underlying lease as such term is herein extended.

(g) Any lease embracing lands of the State of New Mexico, which is made subject to this agreement, shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof.

(h) Any lease embracing lands of the State of New Mexico having only a divisible portion of its lands fully committed hereto, shall be segregated as to the portion committed and the portion not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the effective date hereof. Provided, however, notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease, if unitized substances are discovered and are capable of being produced in paying quantities from some part of the lands embraced in such lease committed to this agreement at the expiration of the secondary term of such lease; or if, at the expiration of the secondary term, the lessee or the Unit Operator is then engaged in bona fide drilling, reworking operations or secondary recovery operations on some part of the lands embraced in such lease, the same as to all lands embraced therein shall remain in full force and effect so long as such operations are being diligently prosecuted, and if they result in the production of unitized substances, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as unitized substances in paying quantities are being produced from any portion of said lands.

(i) The segregation of any Federal lease committed to this agreement is governed by the following provision in the fourth paragraph of Section 17 (b) of the Mineral Leasing Act, as amended by the Act of

July 29, 1954 (68 Stat. 583, 585): "Any (Federal) lease hereafter committed to any such (unit) plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization: Provided, however, that any such lease as to the nonunitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

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

17. EFFECTIVE DATE AND TERM: This agreement shall become effective on the first day of the month following approval by the Secretary or his duly authorized representative and the Commissioner, and subject to the termination provisions of Section 9, shall remain in effect so long as unitized substances can be produced from the land subject to the agreement in paying quantities, i.e., in this particular instance, in quantities sufficient to pay for the cost of producing same, and should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered can be produced as aforesaid.

This agreement shall remain in effect during any period of suspension approved as provided for in Section 15 (c) hereof.

This agreement may be terminated at any time by not less than ninety (90%) percentum in interest of the owners of working interests signatory hereto, with the approval of the Director and Commissioner, notice of any such approval to be given by Unit Operator to all parties hereto.

18. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION: The Director is hereby vested with authority to alter or modify from time to time in his discretion the quantity and rate of production under this agreement, when such quantity and rate is not fixed pursuant to Federal or State law or does not conform to any statewide voluntary conservation or allocation program, which is established, recognized and generally adhered to by the majority of operators in such State, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification. Without regard to the foregoing, the Director is also hereby vested with authority to alter or modify from time to time in his discretion the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable Federal or State law; provided, however, that no such alteration or modification shall be effective as to any lands of the State of New Mexico as to the rate of prospecting and development in the absence of the specific written approval thereof by the Commissioner and as to any lands of the State of New Mexico or privately-owned lands subject to this agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Commission.

Powers in this section vested in the Director shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than 15 days from notice.

19. APPEARANCES: Unit Operator shall, after notice to other parties affected, have the right to appear for or on behalf of any and all interests affected hereby before the Department of the Interior, the

Commissioner of Public Lands and the New Mexico Oil Conservation Commission and to appeal from orders issued under the regulations of said Department, the Commissioner or Commission, or to apply for relief from any of said regulations or in any proceedings relative to operations before the Department of the Interior, the Commissioner or Commission, or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his own expense to be heard in any such proceeding.

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

21. NO WAIVER OF CERTAIN RIGHTS: Nothing in this agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State wherein said unitized lands are located, or of the United States, or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive.

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

23. FAIR EMPLOYMENT: In connection with the performance of work under this agreement, the operator agrees not to discriminate against any employee or applicant for employment because of race, religion, color or national origin. The aforesaid provision shall include, but not be limited to, the following: employment, upgrading, demotion or transfer; recruitment or recruitment advertising, layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The operator agrees to post hereafter in conspicuous places, available for employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of the nondiscrimination clause.

The operator agrees to insert the foregoing provision in all subcontracts hereunder, except subcontracts for standard commercial supplies or raw materials.

24. LOSS OF TITLE: In the event title to any tract of unitized land shall fail and the true owner cannot be induced to join this Unit Agreement, such tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title as to any royalty, working interest or other interests subject thereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided, that as to Federal and State land or leases, no payments of funds due the United States or the State of New Mexico should be withheld, but such funds shall be deposited as directed by the Supervisor, and with the Commissioner of Public Lands of the State of New Mexico, respectively, to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

Unit Operator as such is relieved from any responsibility for any defect or failure of any title hereunder.

25. NON-JOINDER AND SUBSEQUENT JOINDER: If the owner of any substantial interest in a tract within the Unit Area fails or refuses to subscribe or consent to this agreement, the owner of the working interest

in that tract may withdraw said tract from this agreement by written notice to the Director, prior to the approval of this agreement by the Director and Commissioner. Joinder to the Unit Agreement by a working interest owner, at any time, must be accompanied by appropriate joinder to the Unit Operating Agreement in order for the interest to be regarded as effectively committed to this Unit Agreement. Any oil or gas interests in lands within the Unit Area not committed hereto prior to submission of this agreement for final approval may thereafter be committed hereto up to the effective date hereof and for a period of six months thereafter, on the same basis of participation as is provided for in Section 10, by the owner or owners thereof subscribing or consenting to this agreement and, if the interest is a working interest, by the owner of such interest subscribing also to the Unit Operating Agreement. Joinder by any owner of a non-working interest, at any time, must be accompanied by appropriate joinder by the owner of the corresponding working interest in order for the interest to be regarded as effectively committed hereto.

It is understood and agreed, however, that after six months from the effective date hereof the right of subsequent joinder as provided in this section is subject to such requirements or approvals as may be provided for in the Unit Operating Agreement as to the working interest owner. Such joinder by a working interest owner must be evidenced by his executing or ratifying this Unit Agreement and the Unit Operating Agreement. Such joinder by a non-working interest owner must be evidenced by his executing or ratifying this Unit Agreement and must be consented to in writing by the working interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such owner. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the first day of the month following the filing thereof with the Supervisor and Commissioner, unless objection to such joinder is duly made within sixty days by the Director or Commissioner.

26. COUNTERPARTS: This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties or may be ratified or consented to by separate instrument in writing

specifically referring hereto and shall be binding upon all those parties who have executed such a counterpart, ratification or consent hereto with the same force and effect as if all such parties had signed the same document and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described Unit Area.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed and have set opposite their respective names the date of execution.

Date _____

Address _____

UNIT OPERATOR AND WORKING INTEREST
OWNER

WORKING INTEREST OWNERS

Date _____

Address _____

Date _____

Address _____

Date _____

Address _____

Date _____

Address _____

Date _____

Address _____

Date _____

Address _____

Date _____

Address _____

Date _____

Address _____

Date _____

Address _____

STATE OF _____)
COUNTY OF _____)

On this _____ day of _____, 195_, before me personally appeared _____

_____ to me personally known to be the person__ described in and who executed the foregoing instrument, and acknowledged that __he__ executed the same as _____ free act and deed.

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

Notary Public

My Commission Expires:

STATE OF _____)
COUNTY OF _____)

On this _____ day of _____, 195_, before me personally appeared _____

_____ to me personally known to be the person__ described in and who executed the foregoing instrument, and acknowledged that __he__ executed the same as _____ free act and deed.

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

Notary Public

My Commission Expires:

EXHIBIT "B"

RED LAKE UNIT AREA
Township 17 South
Range 28 East
Eddy County, New Mexico

Tract No.	Description	No of Acres	Serial No. and Lease Date	Landowner Percentage of Royalty	Record Owner of Lease	Overriding Royalty Owner and Percentage	Working Interest and Operating Agreement Owners and Percentage of Interest	
1	FEDERAL LANDS T-17-S, R-3-E	40	LC-028456-A 12-30-38	U.S.A. (5) 5% All	Geo. L. Stephens (Unapproved Assgt. to Delhi-Taylor Oil Corp.)	Delhi-Taylor (1) Lucretia E. Conlon Mary L. Hamilton Mina Henderson Louis J. Root Anna Stephens W. A. Scott Est. The Ibex Co. Harold Kersey Olen F. Featherstone	The Ibex Co. Harold Kersey Olen F. Featherstone .7525	
								<p>5 19.75 75.25 <u>100.00</u></p>
2	Sec. 20: SE/4 NE/4	40	LC-028456-A 12-30-38	U.S.A. 5% All	Delhi-Taylor	Nell Hill Gillespie (2) Van P. Welch, Jr. (2) Marjorie Nell Welch (2) Robert Hill Welch (2) Marian G. Welch (2) V. S. Welch (2) The Ibex Co. Harold Kersey Olen F. Featherstone Louis J. Root W. A. Scott Est. Mary L. Hamilton Mina Henderson Lucretia E. Conlon Est. of Wade Hampton Stephens	The Ibex Co. .75 1.00	
								5.00
								20.00
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								.06340200
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<u>.01750000</u>								
.20000000								

Tract No.	Description	No. of Acres	Serial No. and Lease Date	L.R. Owner Percentage of Royalty	Record Owner of Lease	Overriding Royalty Owner and Percentage	Working Interest and Operating Agreement Owners and Percentage of Interest
3	FEDERAL LANDS (Cont.) Sec. 21: SW/4 NW/4	40	LC-046250-A 4-12-38	U.S.A. 5% All	Nell Hill Gillespie (5/8) Marjorie Nell Welch, Van P. Welch, Jr. & Robert Hill Welch, Minors (3/8)	Nell Hill Gillespie (2) Van P. Welch, Jr. (2) Marjorie Nell Welch (2) Robert Hill Welch (2) Marian C. Welch (2) V. S. Welch (2) H. B. Wright Mary E. Nellis Margaret Nellis Dunn James W. Nellis, Jr. E. C. Donahue Myrtle B. Wright 200000000	The Ibox Co. .75
		20.00 75.00 <u>100.00</u>					
4	Sec. 29: SE/4 NW/4 SW/4 NE/4	80	LC-046250-B 4-12-38	U.S.A. (4) 12 1/2% All	Nell Hill Gillespie (5/8) Marjorie Nell Welch, Van P. Welch, Jr. & Robert Hill Welch, Minors (3/8)	Nell Hill Gillespie (2) Van P. Welch, Jr. (2) Marjorie Nell Welch (2) Robert Hill Welch (2) Marian C. Welch (2) V. S. Welch (2) 125000000	The Ibox Co. .75
		12.5 12.5 75.0 <u>100.0</u>					
4-A	Sec. 29: SW/4 NW/4	40	LC-046250-B 4-12-38	U.S.A. (4) 12 1/2% All	Nell Hill Gillespie (5/8) Marjorie Nell Welch, Van P. Welch, Jr. & Robert Hill Welch, Minors (3/8)	Nell Hill Gillespie (3) Van P. Welch, Jr. (3) Marjorie Nell Welch (3) Robert Hill Welch (3) 125000000	The Ibox Co. .75
		12.5 12.5 75.0 <u>100.0</u>					
5	Sec. 20: SE/4 NW/4 NW/4 NE/4	30	LC-048479 9-10-39	U.S.A. 3% All	Delhi-Taylor	Delhi-Taylor (1) 118750000	The Ibox Co. Harold Kersey Olen F. Featherstone .83125
		5.00 11.875 83.125 <u>100.000</u>					

Tract No.	Description	No of Acres	Serial No. and Lease Date	Landowner Percentage of Royalty	Record Owner of Lease	Overriding Royalty and Percentage	Working Interest and Operating Agreement Owners and Percentage of Interest	
<u>FEDERAL LANDS (Cont.)</u>								
6	Sec. 20: SW/4 NW/4 NE/4 NW/4	80	LC-048479 (b) 9-20-38	U.S.A. 1 2/3% All	Delhi-Taylor <i>12.5% 10,937.50 765625</i>	Delhi-Taylor (1)	The Ibx Co. .765625	1.00
7	Sec. 20: SW/4 NE/4 NE/4 NE/4	80	LC-065729 (Out of LC-048479-A) 9-20-39	U.S.A. (5) 5% All	Nell Welch Gillespie <i>5,000 20,000 75,000 104,000</i>	Nell Hill Gillespie (2) (5/8) Van P. Welch, Jr. Marjorie Nell Welch Robert Hill Welch & Robert Hill Welch, Minors (3/8) Southern Union Gas Co.	The Ibx Co. .75	1.00
<u>STATE LANDS</u>								
8	Sec. 29: NW/4 NW/4	40	647-315 9-25-22	State of New Mexico 12 2/3% All	Stanolind O & G Co. & Delhi-Taylor <i>12.5% 10,937.50 765625</i>	Delhi-Taylor (1)	The Ibx Co. Harold Kersey Olen F. Featherstone .765625	.50 .25 .25
9	Sec. 28: NW/4 SW/4	40	B-636 8-1-32	State of New Mexico 12 2/3% All	The Ibx Co. <i>12.5% 10,937.50 765625</i>	Nell Hill Gillespie (2) Van P. Welch, Jr. (2) Marjorie Nell Welch (2) Robert Hill Welch (2) Marian C. Welch (2) V. S. Welch (2)	The Ibx Co. .75	1.00
10	Sec. 28: NW/4	160	B-1111 8-10-32	State of New Mexico 12 2/3% All	The Ibx Co. <i>12.5% 10,937.50 765625</i>	Nell Hill Gillespie (2) Van P. Welch, Jr. (2) Marjorie Nell Welch (2) Robert Hill Welch (2) Marian C. Welch (2) V. S. Welch (2)	The Ibx Co. .75	1.00

Tract No.	Description	No. of Acres	Serial No. and Lease Date	Landowner Percentage of Royalty	Record Owner of Lease	Overriding Royalty Owner and Percentage	Working Interest and Operating Agreement Owners and Percentage of Interest
10-A	STATE LANDS (Cont.) Sec. 28: NW/4 NE/4	40	B-1111 8-10-32	State of New Mexico 12 1/2% All	The Ibex Co. 12.5 12.5 75.0	Nell Hill Gillespie (3) Van P. Welch, Jr. (3) Marjorie Nell Welch (3) Robert Hill Welch (3)	The Ibex Co. .75 1.00
11	Sec. 21: NE/4 SW/4	40	B-1969 6-10-33	State of New Mexico 12 1/2% All	Delhi-Taylor 79.0 12.5 10.9 76.5 100.0	Delhi-Taylor (1) Nell Hill Gillespie (2) Van P. Welch, Jr. (2) Marjorie Nell Welch (2) Robert Hill Welch (2) Marian C. Welch (2) V. S. Welch (2)	The Ibex Co. .50 Harold Kersey .25 Olen F. Featherstone .25
12	Sec. 21: NW/4 SW/4 S/2 SW/4 SW/4 SE/4	160	B-1969 6-10-33	State of New Mexico 12 1/2% All	The Ibex Co. 17.5 18.5 75.0 100.0	Nell Hill Gillespie (2) Van P. Welch, Jr. (2) Marjorie Nell Welch (2) Robert Hill Welch (2) Marian C. Welch (2) V. S. Welch (2)	The Ibex Co. 1.00 .75
13	Sec. 21: NW/4 SE/4	40	B-1936 6-10-33	State of New Mexico 12 1/2% All	Buffalo Oil Co. & Stanolind O & G Co. 12.5 8.25 100.0	Paton Bros. (6)	The Ibex Co. .50 Harold Kersey .25 Olen F. Featherstone .25
14	Sec. 20: SW/4	160	B-2178 10-10-33	State of New Mexico 12 1/2% All	Wilson Corp. 12.5 10.9 76.5 100.0	Delhi-Taylor (1)	The Ibex Co. .50 Harold Kersey .25 Olen F. Featherstone .25
15	Sec. 20: N/2 SE/4	80	B-3149 8-16-34	State of New Mexico 12 1/2% All	The Ibex Co. 12.5 12.5 75.0 100.0	Nell Hill Gillespie (2) Van P. Welch, Jr. (2) Marjorie Nell Welch (2) Robert Hill Welch (2) Marian C. Welch (2) V. S. Welch (2)	The Ibex Co. 1.00 .75

Tract No.	Description	No. of Acres	Serial No. and Lease Date	Landowner Percentage of Royalty	Record Owner of Lease	Overriding Royalty Owner and Percentage	Working Interest and Operating Agreement Owners and Percentage of Interest
STATE LANDS (Cont.)							
16	Sec. 19: N/2 SE/4 SW/4 SE/4	120	B-4456 6-10-35	State of New Mexico 12 1/2% All	Wilson Oil Corp. <i>12.5</i> <i>109375</i> <i>765625</i>	Delhi-Taylor (1)	The Ibex Co. Harold Kersey Olen F. Featherstone .765625
17	Sec. 29: NE/4 NE/4	40	E-5084-119 10-10-35	State of New Mexico 12 1/2% All	<i>1000800</i> Wilson Oil Corp. <i>12.5</i> <i>131250</i> <i>74375</i>	Delhi-Taylor (1) Edith A. Hover	The Ibex Co. Harold Kersey Olen F. Featherstone .74375
18	Sec. 30: NE/4 NE/4	40	B-5084 10-10-35	State of New Mexico 12 1/2% All	<i>1000800</i> Stanford O & G Co. <i>12.5</i> <i>10</i>	Bert Aston	The Ibex Co. .775
19	Sec. 30: NW/4 NE/4	40	B-5084 10-10-35	State of New Mexico 12 1/2% All	<i>12.5</i> <i>89.5</i> <i>77.5</i> Stanford O & G Co. <i>1000800</i>	None	Franklin, Aston & Fair .875
20	Sec. 20: S/2 SE/4	80	B-8435 12-11-39	State of New Mexico 12 1/2% All	The Ibex Co. <i>12.5</i> <i>1178125</i> <i>7578125</i> <i>1000800</i>	E. E. Scannell W. W. Ports Shell Canadian Exploration Co. (7)	The Ibex Co. Olen F. Featherstone .7578125
21	Sec. 30: SE/4 NE/4	40	B-8814 9-10-40	State of New Mexico 12 1/2% All	Staley Oil Co. <i>12.5</i> <i>141375</i> <i>73125</i> <i>1000800</i>	Edith A. Hover F. D. Shufflebarger Staley Oil Co. (8) E. E. Scannell (8) Ralph Brown (9) E. E. Scannell (10)	Staley Oil Co. E. E. Scannell .73125
							<i>.02500000</i> <i>.02500000</i> <i>.03750000</i> <i>.01250000</i> <i>.02500000</i> <i>.01875000</i> <i>.14375000</i>

- (6) Oil payment of \$14,000.00; after liquidation, Stanolind Oil and Gas Co. and Buffalo Oil Co. will jointly have 1/16 of 8/8 ORRI.
- (7) If average daily production per well per calendar month exceeds 35 barrels, increase to 1/8 of 8/8, to be attributed pro rata to each working interest owner according to the interest in the tract.
- (8) When Scannell and Staley have received \$1,400.00, this interest to be paid to Edith A. Hover on Oil Payment of \$1,700.00.
- (9) Oil payment of \$800.00.
- (10) Oil payment of \$600.00.

Tracts Nos 1, 5, 8, 11, 14, 16, 17, 22 and 23:
Proportionate part of production payment of \$15,830.00 to Olen F. Featherstone payable out of 1/8 of net working interest, payment to begin after partners have recovered all costs of development of waterflood project.

Tract No.	Description	No. of Acres	Serial No. and Lease Date	Landowner Percentage of Royalty	Record Owner of Lease	Overriding Royalty Owner and Percentage	Working Interest and Operating Agreement Owners and Percentage of Interest
STATE LANDS (Cont.)							
22	Sec. 30: SW/4 NE/4	40	B-11538 10-10-44	State of New Mexico 12 3/4% All	Delhi-Taylor <i>12.5</i> <i>10,937,500</i> <i>765625</i>	Delhi-Taylor (1)	The Ibex Co. Harold Kersey Olen F. Featherstone .765625
23	Sec. 29: NE/4 NW/4 NW/4 NE/4	80	B-11538 10-10-44	State of New Mexico 12 3/4% All	Wilson Oil Co. <i>12.5</i> <i>10,937,500</i> <i>765625</i>	Delhi-Taylor (1)	The Ibex Co. Harold Kersey Olen F. Featherstone .765625
24	Sec. 29: SE/4 NE/4	40	E-6945 2-10-53	State of New Mexico 12 3/4% All	Stanolind O & G Co. <i>12.5</i> <i>871.5</i> <i>700.0</i>	None	Stanolind O & G Co. S. P. Yates J. O. Miller Martin Yates III, Harvey E. Yates & S. P. Yates, jointly .875

(1) Delhi-Taylor, \$40,000.00 oil payment, which will be converted to ORRI after liquidation: If average daily production per well for any calendar month is less than 15 barrels, 1/32 of net working interest; if more than 15 barrels but less than 30 barrels, 1/16 of net working interest; if 30 barrels or more but less than 45 barrels, 3/32 of net working interest; 45 barrels or more, 1/8 of net working interest, such charge to be attributed pro rata to each working interest owner affected according to the respective interest in the tract.

(2) Welch Oil Payment #1, until \$360,000.00 is paid.

(3) Welch Oil Payment #2, until \$340,000.00 is paid.

(4) If production exceeds average of 20 barrels per day for calendar month, royalty will be increased, such increase to be attributed to working interest owner in tracts.

(5) Royalty subject to increase upon renewal of lease, such increase to be attributed to working interest owner in tract.

.50
.25
.25
.75
.139756
.019965
.090278

EXHIBIT "B"

RED LAKE PREMIER SAND UNIT

SCHEDULE OF TRACT PARTICIPATION

<u>Tract No.</u>	<u>Tract Description</u>	<u>Tract Participa- tion in Unit</u>
1	Section 19: SE/4 SE/4	03.2300
2	Section 20: SE/4 NE/4	04.1059
3	Section 21: SW/4 NW/4	12.1919
4	Section 29: SE/4 NW/4 SW/4 NE/4	02.6044
4-A	Section 29: SW/4 NW/4	00.5682
5	Section 20: SE/4 NW/4 NW/4 NE/4	03.5533
6	Section 20: SW/4 NW/4 NE/4 NW/4	01.1363
7	Section 20: SW/4 NE/4 NE/4 NE/4	10.5960
8	Section 29: NW/4 NW/4	01.8337
9	Section 28: NW/4 SW/4	01.5777
10	Section 28: NW/4	05.0817
10-A	Section 28: NW/4 NE/4	00.5682
11	Section 21: NE/4 SW/4	01.6396
12	Section 21: NW/4 SW/4 S/2 SW/4 SW/4 SE/4	06.7396
13	Section 21: NW/4 SE/4	00.9426
14	Section 20: SW/4	07.4676
15	Section 20: N/2 SE/4	11.6557
16	Section 19: N/2 SE/4 SW/4 SE/4	05.0357
17	Section 29: NE/4 NE/4	02.4700
18	Section 30: NE/4 NE/4	01.5554
19	Section 30: NW/4 NE/4	00.5682
20	Section 20: S/2 SE/4	05.6893
21	Section 30: SE/4 NE/4	00.8722
22	Section 30: SW/4 NE/4	00.9527
23	Section 29: NE/4 NW/4 NW/4 NE/4	06.7959
24	Section 29: SE/4 NE/4	00.5682