

**UNIT AGREEMENT
and
UNIT OPERATING AGREEMENT**

**BALLARD
GRAYBURG SAN ANDRES
UNIT**

EDDY COUNTY, NEW MEXICO

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| BEFORE EXAMINER UTZ OIL CONSERVATION COMMISSION <i>anadarko</i> EXHIBIT NO. <u>1</u> CASE NO. <u>4911 - 4912</u> Submitted by <u>Paul Tucker</u> Hearing Date <u>February 28, 1973</u> |
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BALIARD GRAYBURG SAN ANDRES UNIT
EDDY COUNTY, NEW MEXICO
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EXHIBIT A (MAP OF UNIT AREA)

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EXHIBIT C (SCHEDULE OF TRACT PARTICIPATIONS)

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
BALLARD GRAYBURG SAN ANDRES UNIT
EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of May, 1972,
by and between the parties subscribing, ratifying or consenting hereto, and
herein referred to as "parties hereto":

WITNESSETH: That,

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 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, Chap. 168, Laws of 1949, and Chap. 65,
Art. 3, Sec. 14, N.M.S., 1953 anno) to approve this Agreement, and the con-
servation provisions hereof; and

WHEREAS, the Mineral Leasing Act of February 25, 1920, 41 Stat. 437,
as amended, 30 U.S.C. Sections 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 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 there-
of whenever determined and certified by the Secretary of the Interior to be
necessary or advisable in the public interest; and

WHEREAS, the parties hereto hold sufficient interests in the Ballard Grayburg San Andres Unit Area covering the land hereinafter described to give reasonably effective control of operation therein; and

WHEREAS, it is the purpose of the parties hereto, to enable institution and consummation of secondary recovery operations, conserve natural resources, prevent waste and secure the 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, the mutual agreements, and the promises herein contained, the parties hereto commit to this Agreement their entire respective interests in the below-defined Unit Area, and agree severally among themselves as follows:

SECTION 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 and valid, pertinent and reasonable regulations hereafter 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 of New Mexico, are hereby accepted and made a part of this Agreement.

SECTION 2. UNIT AREA AND DEFINITIONS. The area described by Tracts in Exhibit B and depicted on Exhibit A attached hereto is hereby designated and recognized as constituting the Unit Area containing 2580.59 acres, more or less, in Eddy County, New Mexico. Said land is described as follows:

EDDY COUNTY, NEW MEXICO

T-18-S, R-29-E, NMPM

Section 4: W/2 W/2

Section 5: All

Section 6: E/2, and SE/4 SW/4

Section 7: Lots 1 & 2, E/2 NW/4, NE/4, E/2 SE/4, and NW/4 SE/4

Section 8: All

Section 9: NW/4 NW/4

Section 17: NE/4 NE/4, W/2 NE/4, and NW/4

Section 18: NE/4 NE/4

For the purpose of this Agreement, the following terms and expressions as used herein shall mean:

- (a) "Commission" is defined as the Oil Conservation Commission of the State of New Mexico.
- (b) "Director" is defined as the Director of the United States Geological Survey.
- (c) "Secretary" is defined as the Secretary of the Interior of the United States of America, or his duly authorized delegate.
- (d) "Department" is defined as the Department of the Interior of the United States of America.
- (e) "Supervisor" is defined as the Oil and Gas Supervisor of the United States Geological Survey for the area in which the Unitized Land is situated.

- (f) "Unitized Formation" is defined as that interval from a depth of twenty (20) feet below the base of the Loco Hills Sand (Zone 4 Grayburg) to a depth of Four Hundred Fifty (450) feet below the top of the San Andres formation. This interval is found between the depths of 2388 feet and 3116 feet below the surface of the land on the Schlumberger Gamma Ray-Neutron log of Anadarko Production Company's Ballard "B" Well No. 4 located 1980 feet from the South Line and 1980 feet from the West Line of Section 8, Township 18 South, Range 29 East, NMPM. Eddy County, New Mexico. Said log was measured from a derrick floor elevation of 3522 feet above sea level.
- (g) "Unitized Substances" is defined as all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons produced from the Unitized Formation underlying Unitized Land.
- (h) "Tract" is defined as each parcel of land shown as such and given a Tract number in Exhibit A, and as described in Exhibit B.
- (i) "Tract Participation" is defined as that percentage of participation, as shown on Exhibit C, to be used to allocate Unitized Substances to a Tract committed to this Agreement.
- (j) "Unit Participation" of each Working Interest Owner, is defined as the sum of the percentages obtained by multiplying such Working Interest Owner's fractional Working Interest in each Tract by the Tract Participation of such Tract.
- (k) "Working Interest" is defined as the right to search for, produce, and acquire Unitized Substances whether held as an incident of ownership of mineral fee simple title, under an oil and gas lease, or otherwise, where such interest is chargeable with and obligated to pay or bear, either in cash or out of production, or otherwise, all or a portion of the cost of drilling, developing and producing Unitized Substances from the Unitized Formation, and operating therefor hereunder.
- (l) "Working Interest Owner" is defined as and shall mean any party hereto owning a Working Interest, including a carried working interest, whether by virtue of a lease, operating agreement, fee title or otherwise.
- (m) "Royalty Interest" or "Royalty" is defined as an interest other than a Working Interest in or right to receive a portion of the Unitized Substances or the proceeds thereof and includes the royalty interest reserved to a lessor by an oil and gas lease and any overriding royalty interest, oil payment interest, or any other payment or burden which does not carry with it the right to search for and produce Unitized Substances. "Basic Royalty Interest"

is defined as the Royalty Interest reserved by the Lessor by an oil and gas lease.

- (n) "Royalty Owner" is defined as and shall mean the owner of a Royalty Interest.
- (o) "Lessee of Record" is defined as the Holder of Record title under a U. S. oil and gas lease.
- (p) "Unit Operating Agreement" is defined as and shall mean any agreement or agreements (whether one or more) entered into (separately or collectively) by and between the Unit Operator and the Working Interest Owners as provided in Section 9 (ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT), infra, and shall be styled "Unit Operating Agreement Ballard Grayburg San Andres Unit, Eddy County, New Mexico."
- (q) "Paying Quantities" is defined as production of Unitized Substances in quantities sufficient to pay for the cost of producing same from wells on the Unitized Land.
- (r) "Unit Operator" is defined as the party approved by the supervisor and designated by the Working Interest Owners to develop and operate the Unitized Formation, acting as Operator and not as a Working Interest Owner.
- (s) "Unit Manager" is defined as the person or corporation appointed by the Working Interest Owners to perform the duties of the Unit Operator until the selection and qualification of a Successor Unit Operator as provided for in Section 8 hereof.
- (t) "Tract Current Rate" is defined as the total number of barrels of oil produced from tract wells completed in Formations unitized hereunder during the period from July 1, 1970, through January 31, 1971, as officially reported to the Commission.
- (u) "Unit Current Rate" is defined as the total Tract Current Rate of all tracts that are qualified under this Agreement in accordance with the provisions hereof.
- (v) "Tract Ultimate Primary Recovery" is defined as the total cumulative number of barrels of oil produced from tract wells completed in the Formations unitized hereunder, prior to January 1, 1971, as officially reported to the Commission.
- (w) "Unit Ultimate Primary Recovery" is defined as the total Tract Ultimate Primary Recovery of all Tracts that are qualified under this Agreement in accordance with the provisions hereof.

- (x) "Tract Surface Acres" is defined as the total number of acres within a Tract.
- (y) "Unit Surface Acres" is defined as the total Tract Surface Acres of all Tracts that are qualified under this Agreement in accordance with the terms hereof.
- (z) "Tract Usable Wells" is defined as the number of wells on the Tract which are producing from any portion of the Unitized Formation as of the date of unitization, plus the number of shut-in or temporarily abandoned wells which formerly produced from any portion of the Unitized Formation and which, as of the date of unitization have production casing (which may include a liner) extending from the surface to any point within the Unitized Formation.
- (aa) "Unit Usable Wells" is defined as the total Tract Usable Wells of all Tracts that are qualified under this Agreement in accordance with the terms hereof.

SECTION 3. EXHIBITS. Exhibit A attached hereto is a map showing the Unit Area, and, to the extent known to the Unit Operator, the boundaries and identity of Tracts and leases in said Unit Area. Exhibit B attached hereto is a schedule showing, to the extent known to the Unit Operator, the acreage comprising each Tract, land description, and the percentage and kind of ownership of oil and gas interests in each Tract in the Unit Area. Exhibit C, attached hereto, is a schedule showing the Tract Participation assigned to each Tract. However, nothing herein or in said schedules or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown on said map or schedules as owned by such party.

Exhibits A, B, and C shall be revised by the Unit Operator whenever changes render such revision necessary, or when requested by the Supervisor and not less than four copies thereof shall be filed with the Supervisor, and one copy thereof shall be filed in the county records of Eddy County, New Mexico.

SECTION 4. EXPANSION. The above-described Unit Area may when practicable be expanded to include therein any additional Tract or Tracts regarded as reasonably necessary or advisable for the purposes of this Agreement. Such expansion shall be effected in the following manner:

Unit Operator shall circulate a notice of the proposed expansion to each Working Interest Owner in the Unit and in the Tract or Tracts proposed to be included in the Unit, setting out the basis for admission, the proposed participation to be assigned to each such Tract, and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise), if 90 percent (90%) of the Working Interest Owners (on the basis of Unit Participation) have agreed to the addition of such Tract or Tracts, then Unit Operator shall, after preliminary concurrence by the Director:

- (a) Prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefor, the basis for admission of the additional Tract or Tracts, the Tract participation to be assigned each such Tract and the proposed effective date thereof, preferably the first day of a month subsequent to the date of notice; and
- (b) Furnish copies of said notice to the Supervisor, each Working Interest Owner, lessee, and lessor whose interests are affected and advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objections to such proposed expansion; and
- (c) File, upon the expiration of said thirty (30) day period as set out in (b) immediately above, with the Supervisor, the following:
 - (1) Evidence of mailing said notice of expansion.
 - (2) An application for such expansion in sufficient number for appropriate approval and distribution.
 - (3) An instrument containing the appropriate joinders in compliance with the participation requirements

of Section 14 (TRACTS QUALIFIED FOR PARTICIPATION) and Section 32 (NON-JOINDER AND SUBSEQUENT JOINDER), *infra*.

- (4) A copy of any objections received, along with the Operator's response thereto.

The expansion shall, after due consideration of all pertinent information and upon approval by the Supervisor and the Commission, become effective as of the date prescribed in the notice thereof or on such other appropriate date as may be set by the Supervisor and the Commission in the order or instrument approving such expansion. The revised Tract Participation of the respective Tracts committed to this Agreement prior to any such expansion shall remain in the same ratio one to the other.

SECTION 5. UNITIZED LAND AND UNITIZED SUBSTANCES. All land committed to this Agreement as to the Unitized Formation shall constitute land referred to herein as "Unitized Land" or "Land Subject to this Agreement". All oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate, and all associated and constituent liquid or liquefiable hydrocarbons produced from the Unitized Formation underlying Unitized Land are unitized under the terms of this Agreement and herein are called "Unitized Substances".

SECTION 6. UNIT OPERATOR. Anadarko Production Company, a Delaware Corporation, is hereby designated as Unit Operator, and, by signing this instrument as Unit Operator, it agrees and consents to accept the duties and obligations of Unit Operator for the operation, 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.

Unit Operator shall have a lien upon the interests of the owners of Working Interests in the Unitized Land to the extent provided in the Unit Operating Agreement.

SECTION 7. RESIGNATION OR REMOVAL OF UNIT OPERATOR.

Unit Operator shall have the right to resign at any time, 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 (6) months after written notice of intention to resign has been given by Unit Operator to all Working Interest Owners and the Supervisor, and until all Unit wells are placed in a condition satisfactory for suspension, abandonment, or operations, whichever is required by the Supervisor, 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.

The Unit Operator shall, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by parties owning

not less than sixty-five (65) percent of the committed Working Interest (on the basis of Unit Participation) exclusive of any Working Interest owned by the Unit Operator. Such removal shall be effective upon notice thereof to the Supervisor.

In all such instances of resignation or removal, until a successor to Unit Operator is selected and approved as hereinafter provided, the Working Interest Owners shall be jointly responsible for the performance of the duties of the Unit Operator and shall, not later than thirty (30) days before such resignation or removal become effective, appoint a Unit Manager 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 wells, equipment, books and records, materials, appurtenances and any other assets used in conducting the Unit Operations and owned by the Working Interest Owners (including any and all data and information which it might have gained or assembled by reason of its operation of the Unitized Land) to the new duly qualified successor Unit Operator or to the Unit Manager 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. Nothing herein contained shall be construed to relieve or discharge any Unit Operator who resigns or is removed hereunder for any liability or duties accruing or performable by it prior to the effective date of such resignation or removal.

SECTION 8. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owners shall select a successor Unit Operator by a majority vote of the Working Interest Owners (on the basis of Unit Participation); provided no Working Interest Owner who has been removed as Unit Operator may vote for self-succession. 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 Supervisor. If no successor Unit Operator is selected and qualified as herein provided, the Director, at his election, may declare this Agreement terminated.

SECTION 9. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. Costs and expenses incurred by Unit Operator in conducting Unit Operations hereunder shall be paid, apportioned among, and borne by the Working Interest Owners in accordance with the Unit Operating Agreement; however, no such Unit Operating Agreement shall be deemed either to modify any of the terms and conditions of this Agreement or to relieve the Unit Operator of

any right or obligation established under this Agreement, and in case of any inconsistency or conflict between this Agreement and the Unit Operating Agreement, this Agreement shall prevail. Three true copies of any Unit Operating Agreement executed pursuant to this Section shall be filed with the Supervisor prior to approval of this Agreement.

SECTION 10. 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. The parties hereto, to the extent they have the right to do so, grant to Unit Operator the use of brine or water, or both, from any formation in and under the Unitized Land for injection into the Unitized Formation. Upon request, 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.

SECTION 11. USE OF SURFACE AND USE OF WATER

(a) The parties hereto, to the extent of their rights and interests, hereby grant to Working Interest Owners the right to use as much of the surface of the Unitized Land as may reasonably be necessary for Unit Operations and the removal of Unitized Substances therefrom; provided that nothing herein shall be construed as leasing or otherwise conveying to Working Interest Owners a site for a water, gas injection, processing or other plant, or camp site.

(b) Working Interest Owners shall have and are hereby granted free use of water from the Unitized Land for Unit Operations, except water from any well, lake, pond, or irrigation ditch of a Royalty Owner.

(c) Working Interest Owners shall pay the owner for damages to growing crops, timber, fences, improvements, and structures on the Unit Area that result from Unit Operations.

SECTION 12. 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 Agreement is to formulate and put into effect a secondary recovery project in order to effect the greatest recovery of Unitized Substances, prevent waste and conserve natural resources consistent with good engineering practices expected of a prudent operator. The parties hereto agree that the Unit Operator may, subject to the consent

and approval of a plan of operation by the Working Interest Owners, the Supervisor, and the Commission inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, liquid petroleum gases, and any one or more other substances or combination thereof whether produced from the Unitized Formation or not, and that the location of input wells and the rates of injection therein and the rate of production shall be governed by standards of good geologic and petroleum engineering practices and conservation methods. After commencement of secondary operations, Unit Operator shall furnish the Commission and the Supervisor monthly injection and production reports for each Unit well. The Working Interest Owners, the Supervisor, and the Commission shall be furnished periodic reports on the progress of the plan of operation. Any revision of the plan of operation involving a deviation from the approved plan of operation shall be subject to prior consent and approval of the Working Interest Owners, the Supervisor, and the Commission.

The initial plan of operation shall be filed with the Supervisor and the Commission concurrently with the filing of this Agreement for final approval. Said initial plan of operation and all revisions thereof shall be as complete and adequate as the Supervisor and the Commission may determine to be necessary for timely operation consistent herewith. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for like approval a plan for an additional specified

period of operation. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of operation.

Notwithstanding anything to the contrary herein contained, if Unit Operator fails to commence Unit Operations for the secondary recovery of Unitized Substances from the Unit Area within six (6) months after the effective date of this Agreement or any extension thereof approved by the Supervisor, this Agreement shall terminate automatically upon the expiration of said six (6) month period. After such operations are commenced, Unit Operator shall carry on such operations as would a reasonably prudent operator under the same or similar circumstances.

SECTION 13. TRACT PARTICIPATION. In Exhibit C attached hereto, there are listed and numbered the various Tracts within the Unit Area, and set forth opposite each Tract are figures which represent the Tract Participation percentages allocated to that Tract, calculated on the basis of all Tracts within the Unit Area being committed to this Agreement as of the effective date hereof. The Tract Participations of each Tract within the Unit Area as set forth in Exhibit C shall govern the allocation of Unitized Substances produced from the Unit Area from and after the effective date hereof, subject to any revision or revisions of the Unit Area or the Exhibits to this Agreement in accordance with the provisions hereof.

The Tract Participations set forth in Exhibit C have been calculated and determined in accordance with the following factors and formula:

| | | | | |
|--------------------------------|-------|---|--|------|
| Tract Participation Percentage | = 20% | X | <u>Tract Usable Wells</u> Unit Usable Wells | Plus |
| | 20% | X | <u>Tract Surface Acres</u> Unit Surface Acres | Plus |
| | 40% | X | <u>Tract Ultimate Primary Recovery</u> Unit Ultimate Primary Recovery | Plus |
| | 20% | X | <u>Tract Current Rate</u> Unit Current Rate | |

In the event less than all of the Tracts within the Unit Area are qualified for participation on the effective date hereof, Unit Operator shall promptly prepare a revised Exhibit C setting forth opposite each of the qualified Tracts (as determined from SECTION 14 , TRACTS QUALIFIED FOR PARTICIPATION), the revised Tract Participation which shall be calculated and determined by using the factors and formula set forth above. Unit Operator shall promptly file copies of such revised Exhibit C with the Supervisor; and, upon approval thereof by the Supervisor, the revised Exhibit C shall be effective as of the effective date of this Agreement and shall thereafter govern the allocation of all Unitized Substances, subject, however, to any further revision or revisions of Exhibit C in accordance with the provisions hereof (SECTIONS 3, 4, 31 and 32).

SECTION 14. TRACTS QUALIFIED FOR PARTICIPATION. On and after the effective date hereof the Tracts within the Unit Area which shall be entitled to participate in the production of Unitized Substances shall be those Tracts more particularly described in Exhibit B that corner or have a common boundary (Tracts separated only by a public highway or a railroad right of way shall be considered to have a common boundary) and that otherwise

qualify as follows:

- (a) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest therein have become parties to this Agreement and as to which Royalty Owners owning seventy-five percent (75%) or more of the Basic Royalty Interest therein have become parties to this Agreement.
- (b) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest therein have become parties to this Agreement, and as to which Royalty Owners owning less than seventy-five percent (75%) of the Basic Royalty Interest therein have become parties to this Agreement, and as to which: (i) All Working Interest Owners in any such Tract have joined in a request for the inclusion of such Tract in Unit Participation on the basis of such commitment, and as to which (ii) Seventy-five percent (75%) of the combined voting interests of Working Interest Owners in all Tracts that meet the requirements of Section 14 (a) have voted in favor of the acceptance of such Tract, as qualified for participation.

For the purpose of this Section 14 (b), the voting interest of a Working Interest Owner shall be equal to the ratio expressed as a percentage that its Unit Participation in all Tracts that qualify under Section 14 (a) above bears to the total Unit Participation of all Working Interest Owners in all Tracts, that qualify under Section 14 (a).

- (c) Each Tract as to which Working Interest Owners owning less than one hundred percent (100%) of the Working Interest therein have become parties to this Agreement, regardless of the percentage of Basic Royalty Interest that is committed hereto; and as to which: (i) The Working Interest Owner who operates the Tract and all of the other Working Interest Owners in such Tract who have become parties to this Agreement have joined in a request for inclusion of such Tract, and have executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless the other Working Interest Owners that are parties hereto, their successors and assigns, against all claims and demands that may be made by the owners of Working Interests in such Tract who are not parties to this Agreement, and which arise out of the acceptance of the Tract as qualified for participation under this Agreement; and as to which (ii) Seventy-five percent (75%) of the combined voting interest of Working interest Owners in all Tracts that meet the requirement of Sections 14 (a) and 14 (b) above have voted in favor of the qualification of such Tract and to accept the indemnity agreement.

For the purpose of this Section 14 (c), the voting interest of each Working Interest Owner shall be equal to the ratio expressed as a percentage that its Unit Participation in all Tracts that qualify under Sections 14 (a) and 14 (b) above bears to the total Unit Participation of all Working Interest Owners in all Tracts that qualify under Sections 14 (a) and 14 (b). Upon the inclusion of such a Tract as qualified for participation under this Agreement, the Unit Participation that would have been attributed to the non-subscribing owners of the Working Interest in such Tract had they become parties to this Agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such Tract who have become parties to such Agreements, in proportion to their respective Working Interest in the Tract.

As the objective of this Agreement is to have the lands within the Unit Area operated and entitled to participation under the terms hereof, it is agreed that, notwithstanding anything else herein contained, no joinder shall be considered a commitment to this Agreement unless the Tract involved is qualified pursuant to this Section. The lessee of record shall supplant the Royalty Interest as to Federal lands for qualification purposes under this Section.

SECTION 15. ALLOCATION OF UNITIZED SUBSTANCES. All Unitized Substances produced and saved (less, save and except any part of such Unitized Substances unavoidably lost or used in conformity with good operating practices on Unitized Land for drilling, operating, camp, and other production or development purposes and for pressure maintenance) shall be apportioned among and allocated to the qualified Tracts in accordance with the respective Tract Participation effective hereunder during the

respective periods in which such Unitized Substances were produced, as set forth in the then effective schedule of participation in Exhibit C or any revision thereof. The amount of Unitized Substances so allocated to each Tract, and only that amount (regardless of whether it be more or less than the amount of actual production of Unitized Substances from the well or wells, if any, on such Tract), shall, for all intents, uses and purposes, be deemed to have been produced from such Tract.

The Unitized Substances allocated to each Tract shall be distributed among, or accounted for to, the parties executing, consenting to, or ratifying this Agreement entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions as they would have participated and shared in the production from such Tract, or in the proceeds thereof, had this Agreement not been entered into, and with the same legal force and effect.

No Tract committed to this Agreement and qualified for participation as above provided shall be subsequently excluded from participation hereunder on account of depletion of Unitized Substances; and nothing herein contained, except as provided in Section 33 hereof, shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the joinder of any Tract.

If the Working Interest or the Royalty Interest in any Tract, as of the effective date hereof, or thereafter becomes divided with respect to separate parcels or portions of such Tract, the percentages of Tract Participation assigned to such Tract shall, in the absence of a recordable instrument executed by all owners and fixing the division of ownership, be divided among the owners of such parcels or portions in proportion to the number of surface acres in each parcel or portion.

Subject to the provisions of Section 16 (ROYALTY SETTLEMENT), the Unitized Substances allocated to each Tract shall be delivered in kind to the respective Working Interest Owners and parties entitled thereto by virtue of the ownership of oil and gas rights therein. Each Working Interest Owner and the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same as it sees fit. Each such party shall have the right to construct, maintain, and operate all necessary facilities for that purpose on Unitized Land, provided the same are so constructed, maintained, and operated as not to interfere with operations carried on pursuant hereto. Any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party responsible for the

payment of such expense.

In the event any party hereto shall fail to take in kind or separately dispose of its proportionate share of the Unitized Substances, then so long as such conditions continue, Unit Operator, for the account and at the expense of such party, and in order to avoid curtailing the operation of the Unit Area, may sell or otherwise dispose of such production to itself or others on a day-to-day basis at not less than the prevailing market price in the area for like production; and the account of such party shall be charged therewith as having received such production. Unit Operator shall not make a sale into interstate commerce of any other party's share of gas production without first giving such other party sixty (60) days notice of such intended sale.

Any Working Interest Owner receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any Tract, or receiving the proceeds therefrom if the same is sold or purchased by Unit Operator, shall be responsible for the payment of all Royalty on the lease or leases affected; and each such party shall hold each other party hereto harmless against all claims, demands, and causes of action for the payment of such Royalty.

If, after the effective date of this Agreement, there is any Tract or Tracts

subsequently committed hereto, as provided in Section 4 (EXPANSION) hereof, or if any Tract or Tracts within the Unit Area not qualified hereunder as of the effective date hereof are subsequently qualified for participation under the provisions of Section 14 (TRACTS QUALIFIED FOR PARTICIPATION) and Section 32 (NON-JOINDER AND SUBSEQUENT JOINDER), or if any Tract is excluded from this Agreement as provided for in Section 31 (LOSS OF TITLE), the schedule of participation as shown in the current Exhibit C shall be revised by the Unit Operator and distributed to the Working Interest Owners and the Supervisor to show the new Tract Participations of all the then qualified Tracts; and the revised Exhibit C, upon approval by the Supervisor, shall govern the allocation of Unitized Substances produced on and after the effective date thereof until the effective date of a new schedule so approved by the Supervisor. In any such revision of Exhibit C pursuant to this paragraph the Tract Participations of the previously qualified Tracts shall remain in the same ratio one to the other.

SECTION 16. ROYALTY SETTLEMENT. The United States of America and all Royalty Owners who, under an existing contract, are entitled to take in kind a share of the Unitized Substances produced from any Tract unitized hereunder, shall continue to be entitled to such right to take in kind their share of the Unitized Substances allocated to such Tract; and the Unit Operator 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 Royalty due under their leases, except that such Royalty shall be computed in accordance with the terms of this Agreement.

If gas obtained from lands or formations not subject to this Agreement is introduced into the Unitized Formation for use in repressuring, stimulation of production, or increasing ultimate recovery in conformity with a plan approved pursuant to Section 12 (PLAN OF OPERATION), a like amount of gas, less appropriate deduction for loss from any cause, may be withdrawn from the Unitized Formation royalty free as to dry gas but not as to products extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved plan of operation or as otherwise may be consented to by the Supervisor as conforming to good petroleum engineering practices. If liquid petroleum gases obtained from lands or formations not subject to this Agreement are introduced into the Unitized Formation for the purpose and under the conditions set forth in the preceding sentence, then part or all of such liquid petroleum gases may be withdrawn royalty free pursuant to such conditions and formulas as may be prescribed or approved by the Supervisor. The right of withdrawal contained in this Section shall terminate as of the effective date of termination of this Agreement.

All royalty due the Royalty Owners hereunder other than the United States of America shall be computed and paid on the basis of all Unitized Substances allocated to the respective Tract or Tracts of Unitized Land in lieu of actual

production from such Tract or Tracts.

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 leases on which the royalty rate depends on the daily average production per well, said average production shall be determined in accordance with the operating regulations as though the Unitized Land were a single consolidated lease.

Each Royalty Owner (other than the United States of America) that executes this Agreement represents and warrants that it is the owner of a Royalty Interest in a Tract or Tracts within the Unit Area as its interest appears in Exhibit B attached hereto. If any Royalty Interest in a Tract or Tracts should be lost by title failure or otherwise in whole or in part, during the term of this Agreement, then the Royalty Interest of the party representing himself to be the owner thereof shall be reduced proportionately and the interest of all parties in the affected Tract or Tracts shall be adjusted accordingly .

SECTION 17. 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 of America subject to this Agreement shall be paid at the rate specified in the respective leases from the United States of America, unless rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

SECTION 18. 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 Federal and State laws and regulations.

SECTION 19. 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.

SECTION 20. 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 on 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 shall, and by his approval hereof, or by the approval hereof by his duly authorized representative does hereby establish, alter, change or revoke the drilling, producing, rental, minimum royalty and royalty requirements of Federal leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this Agreement.

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, producing or secondary recovery operations performed hereunder upon any Tract of Unitized Land shall be accepted and deemed to be performed upon and for the benefit of each and every Tract of Unitized Land; and no 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 any or all of the Unitized Land pursuant to direction or consent of the Secretary or his duly authorized representative shall be deemed to constitute such suspension pursuant to such direction or consent as to each Tract of Unitized Land, specified in the suspension order.

(d) Each lease, sublease, or contract relating to the exploration, drilling, development or operation for oil and gas, 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) Termination of this Agreement shall not affect any lease which, pursuant to the terms thereof or any applicable laws, shall continue in force and effect thereafter.

(f) The segregation of any Federal lease committed to this Agreement is governed by the following provisions in the fourth paragraph of Section 17 (j) of the Mineral Leasing Act, as amended by the Act of September 2, 1960 (74 Stat. 781-784): "Any (Federal) lease heretofore or 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 to the effective date of unitization: Provided, however, that any such lease as of 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."

SECTION 21. MATHEMATICAL ERRORS. It is hereby agreed by all parties to this Agreement that Unit Operator is empowered to correct any

mathematical or clerical errors which might exist in the pertinent exhibits to this Agreement upon approval of such changes by the Supervisor.

SECTION 22. 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, or acceptable photostatic or certified copy, of the recorded instrument of transfer; and no assignment or transfer of any Royalty Interest subject hereto shall be binding upon the Working Interest Owner responsible therefor until the first day of the calendar month after said Working Interest Owner is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument of transfer.

SECTION 23. EFFECTIVE DATE AND TERM. This Agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party and shall become effective as of the first day of the month next following:

(a) The execution or ratification of this Agreement and Unit Operating Agreement by Working Interest Owners owning a combined Unit

Participation of at least eighty-five percent (85%), and the execution or ratification of this Agreement by Royalty Owners owning a combined interest of at least seventy-five percent (75%) of the Royalty Interest, in said Unit Area; and,

(b) The approval of this Agreement by the Secretary or his duly authorized representative, and the Commission; and, provided further, that if (a) and (b) above are not accomplished on or before January 1, 1974, this Agreement shall ipso facto expire on said date (hereinafter called "expiration date") and thereafter be of no further force or effect, unless prior thereto this Agreement has been executed or ratified by Working Interest Owners owning a combined Unit Participation of at least eighty-five percent (85%) and such Working Interest Owners have decided to extend said expiration date for a period not to exceed six (6) months (hereinafter called "extended expiration date"). If said expiration date is so extended and (a) and (b) are not accomplished on or before said extended expiration date, this Agreement shall ipso facto expire on said extended expiration date and thereafter be of no further force or effect. For the purpose of this Section, ownership shall be computed on the basis of Unit Participation as determined from Exhibit C attached hereto.

(c) Unit Operator shall, within thirty (30) days after the effective date of this Agreement, file for record in the office where a counterpart of this Agreement is recorded, a certificate to the effect that this Agreement has become effective according to its terms and stating further the effective date.

The term of this Agreement shall be for and during the time that Unitized Substances are or can be produced in paying quantities from Unitized Land and as long thereafter as drilling, reworking or other operations (including secondary recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days and, if production is restored, so long thereafter as Unitized Substances can be produced as aforesaid, unless sooner terminated by Working Interest Owners in the manner here and after provided.

This Agreement may be terminated at any other time and for any other reason by the Working Interest Owners owning an aggregate of ninety percent (90%) or more of Unit Participation with the approval of the

Supervisor. Notice of any such termination shall be given by the Unit Operator to all parties hereto within thirty (30) days after the effective date of termination.

Upon termination of this Agreement, the parties hereto shall be governed by the terms and provisions of the leases and contracts affecting the separate Tracts.

Unit Operator shall within thirty (30) days after the termination date of this Agreement, file for record in the office where a counterpart of this Agreement is recorded, a certificate to the effect that this Agreement has terminated according to its terms and stating further the termination date.

If not otherwise covered by the leases unitized under this Agreement, Royalty Owners hereby grant Working Interest Owners a period of six (6) months after termination of this Agreement in which to salvage, sell, distribute, or otherwise dispose of the personal property and facilities used in connection with Unit Operations.

SECTION 24. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION. The Director is hereby vested with the 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 of production under this Agreement 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.

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 fifteen (15) days from notice.

SECTION 25. NON-DISCRIMINATION. In connection with the performance of work under this Agreement, the Unit Operator agrees to comply with all of the provisions of Section 202 (1) to (7) inclusive of Executive Order 11246 (30 F.R. 12319), which are hereby incorporated by reference in this Agreement.

SECTION 26. APPEARANCES. Unit Operator shall have the right to appear for or on behalf of any and all interests affected hereby before the Department, and to appeal from any order issued under the

rules and regulations of the Department, or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Department or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceeding.

SECTION 27. NOTICES. All notices, demands, objections or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if made in writing and personally delivered to the party or parties or sent by postpaid certified 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 or parties may have furnished in writing to the party sending the notice, demand or statement.

SECTION 28. 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 rules 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.

SECTION 29. EQUIPMENT AND FACILITIES - FIXTURES ATTACHED TO REALTY. Each Working Interest Owner has placed and used on its

Tract or Tracts committed to this Agreement various well and lease equipment and other property, equipment and facilities. It is also recognized that additional equipment and facilities may hereafter be placed and used upon the Unitized Land as now or hereafter constituted. Therefore, for all purposes of this Agreement, any and all such equipment shall be considered to be personal property and not fixtures attached to realty. Accordingly, said well and lease equipment and personal property is hereby severed from the mineral estates affected by this Agreement, and it is agreed that any and all such equipment and personal property shall be and remain personal property for all purposes.

SECTION 30. UNAVOIDABLE DELAY. All obligations under this Agreement requiring the Unit Operator to commence or continue secondary recovery operations 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 agency, 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.

SECTION 31. LOSS OF TITLE. In the event title to any Tract of Unitized Land shall fail so as to render the Tract inoperable under this

Agreement and the true owner cannot be induced to join this Agreement, such Tract shall be automatically regarded as not committed hereto effective as of the first day after such title failure is determined; and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In such event, Unit Operator shall recompute the Tract Participations of each of the Tracts remaining subject to this Agreement and shall revise Exhibit C accordingly. The revised Exhibit C shall be effective as of the first day of the calendar month in which such failure of title is finally determined. The participation percentages so recomputed for the qualified Tracts shall remain the same ratio one to the other as before the loss of title was determined. If title to a Working Interest fails, the rights and obligations of Working Interest Owners by reason of failure of title shall be governed by the Unit Operating Agreement. If title to a Royalty Interest fails, but the Tract to which it relates remains qualified, the parties whose title failed shall not be entitled to share hereunder with respect to such interest. In the event of a dispute as to title as to any Royalty, Working Interest or other interest subject hereto, payment or delivery on account thereof may be withheld without liability or interest until the dispute is finally settled; provided that, as to Federal land or leases, no payments of funds due the United States of America shall be withheld, but such funds shall be deposited as directed by the Supervisor 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.

SECTION 32. NON JOINDER AND SUBSEQUENT JOINDER. If the owner of any interest in a Tract within the Unit Area fails or refuses to subscribe, ratify, or consent in writing to this Agreement, any Working Interest Owner in that Tract who has executed or ratified this Agreement may retract such joinder or ratification, with respect to said Tract, by written notice to the Supervisor and Unit Operator prior to the effective date of this Agreement. Joinder by any Royalty Owner, at any time, must be accompanied by appropriate joinder of the corresponding Working Interest Owner in order for the interest of such Royalty Owner to be regarded as effectively committed. Joinder to this Agreement by a Working Interest Owner, at any time, must be accompanied by appropriate joinder to the Unit Operating Agreement in order for such interest to be regarded as effectively committed to this Agreement.

Any oil or gas interest in Unitized Substances not committed hereto prior to submission of this Agreement to the Supervisor for final approval may thereafter be committed hereto upon compliance with the applicable provisions of this Section and of Section 14 (TRACTS QUALIFIED FOR PARTICIPATION) hereof, at any time up to the effective date hereof and for a period of and including six (6) months thereafter, on the same basis of participation as provided in said Section 13, by the owner or owners thereof subscribing, ratifying, or consenting in writing to this Agreement and, if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

It is understood and agreed, however, that from and after six (6) months

from the effective date hereof the right of subsequent joinder as provided in this Section shall be subject to such requirements or approvals and on such basis as may be agreed upon by Working Interest Owners having a combined Unit Participation of ninety percent (90%) or more with the approval of the Supervisor. Such joinder by a proposed Working Interest Owner must be evidenced by his execution or ratification of this Agreement and the Unit Operating Agreement. Such joinder by a proposed Royalty Owner at any time must be evidenced by his execution, ratification or consent of this Agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such proposed Royalty Owner. Except as may be otherwise herein provided, subsequent joinders to this Agreement shall be effective as of the first day of the month following the filing with the Supervisor of duly executed counterparts of any and all documents necessary to establish effective commitment of any Tract or interest to this Agreement, unless objection to such joinder by the Supervisor is duly made within sixty (60) days after such filing.

SECTION 33. OIL IN LEASE TANKAGE ON EFFECTIVE DATE.

Unit Operator shall make a proper and timely gauge of all lease and other tanks on Unitized Land in order to ascertain the amount of merchantable oil or other liquid hydrocarbons above the pipeline connection in such tanks as of 7:00 A.M. on the effective date hereof. Any such production which has been produced legally as part of the prior allowable of the well or wells from which produced shall be and remain the property of the Interest Owner

entitled thereto the same as if the Unit had not been formed; and the Operator of said well or wells shall promptly remove said oil from Unitized Land. Any such oil not promptly removed shall be sold by Unit Operator for the account of such Operator of said well or wells who shall pay all royalty, overriding royalties, production payments, and all other payments under the terms and provisions of the applicable lease or leases and other contracts. All such oil as is in excess of the prior allowable of the well or wells from which the same was produced shall be regarded and treated the same as Unitized Substances produced after the effective date hereof. If, as of the effective date hereof, any Tract is overproduced with respect to the allowable of the well or wells on that Tract and the amount of such overproduction has been sold or otherwise disposed of, such overproduction shall be regarded and included as a part of the Unitized Substances produced after the effective date hereof.

SECTION 34. COUNTERPARTS. This Agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties and 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 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.

SECTION 35. TAXES. Each party hereto shall for its own account, render and pay its share of any taxes levied against or measured by the amount or value of the Unitized Substances produced from the Unitized Land; provided, however, that, if it is required or if it be determined that the Unit Operator or the several Working Interest Owners must pay or advance said taxes for the account of the parties hereto, it is hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed therefor by the parties hereto, including Royalty Owners, who may be responsible for the taxes on their respective allocated share of said Unitized Substances. No taxes shall be charged to the United States, nor to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

SECTION 36. CONFLICT OF SUPERVISION. Neither the Unit Operator nor the Working Interest Owners, nor any of them, shall be subject to any forfeiture, termination or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability on account of delay or failure in whole or in part to comply with any applicable provisions thereof to the extent that the said Unit Operator or the Working Interest Owners, or any of them, are hindered, delayed or prevented from complying therewith by reason of failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the United States and of the State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained.

SECTION 37. NO PARTNERSHIP. It is expressly agreed that the relation of the parties hereto is that of independent contractors and nothing in this Agreement contained, expressed or implied, or any operations conducted hereunder, shall create or be deemed to have created a partnership or association between the parties hereto or any of them.

SECTION 38. BORDER AGREEMENTS. Subject to the approval of the Supervisor, the Unit Operator with concurrence of seventy percent (70%) of the Working Interest Owners (based on Unit Participation), may enter into a border-protection agreement or agreements with the Working Interest Owners of adjacent lands along the exterior boundary of the Unit Area with respect to the operations in the border area for the maximum ultimate recovery, conservation purposes and proper protection of the parties and interests.

SECTION 39. POTASH PROTECTION. No wells will be drilled for oil or gas at a location within the Unit Area which, in the opinion of the Supervisor, would result in undue waste of potash deposits or constitute a hazard to or unduly interfere with mining operations being conducted for the extraction of potash deposits.

The drilling or the abandonment of any well within the Unit Area shall be done in accordance with the applicable oil and gas operating regulations including such requirements as the Supervisor may prescribe as necessary to prevent the infiltration of oil, gas, or water into formations containing potash deposits or into mines or workings being utilized in the extraction of such deposits.

Well records and survey plats that an oil and gas lessee or Unit Operator must file pursuant to applicable operating regulations (30 CFR Part 221), shall be available for inspection at the office of the Supervisor by any party holding a potash permit or lease on the land on which a well is situated insofar as such records are pertinent to the mining and protection of potash deposits.

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

ATTEST:

ANADARKO PRODUCTION COMPANY

Assistant Secretary

By _____
Vice-President

Date:_____

UNIT OPERATOR AND WORKING
INTEREST OWNER

STATE OF TEXAS

COUNTY OF TARRANT

The foregoing instrument was acknowledged before me this _____ day of _____ 1972 by _____, Vice President of Anadarko Production Company, a Delaware Corporation, on behalf of said Corporation.

My Commission Expires:

Notary Public in and for Tarrant
County, Texas

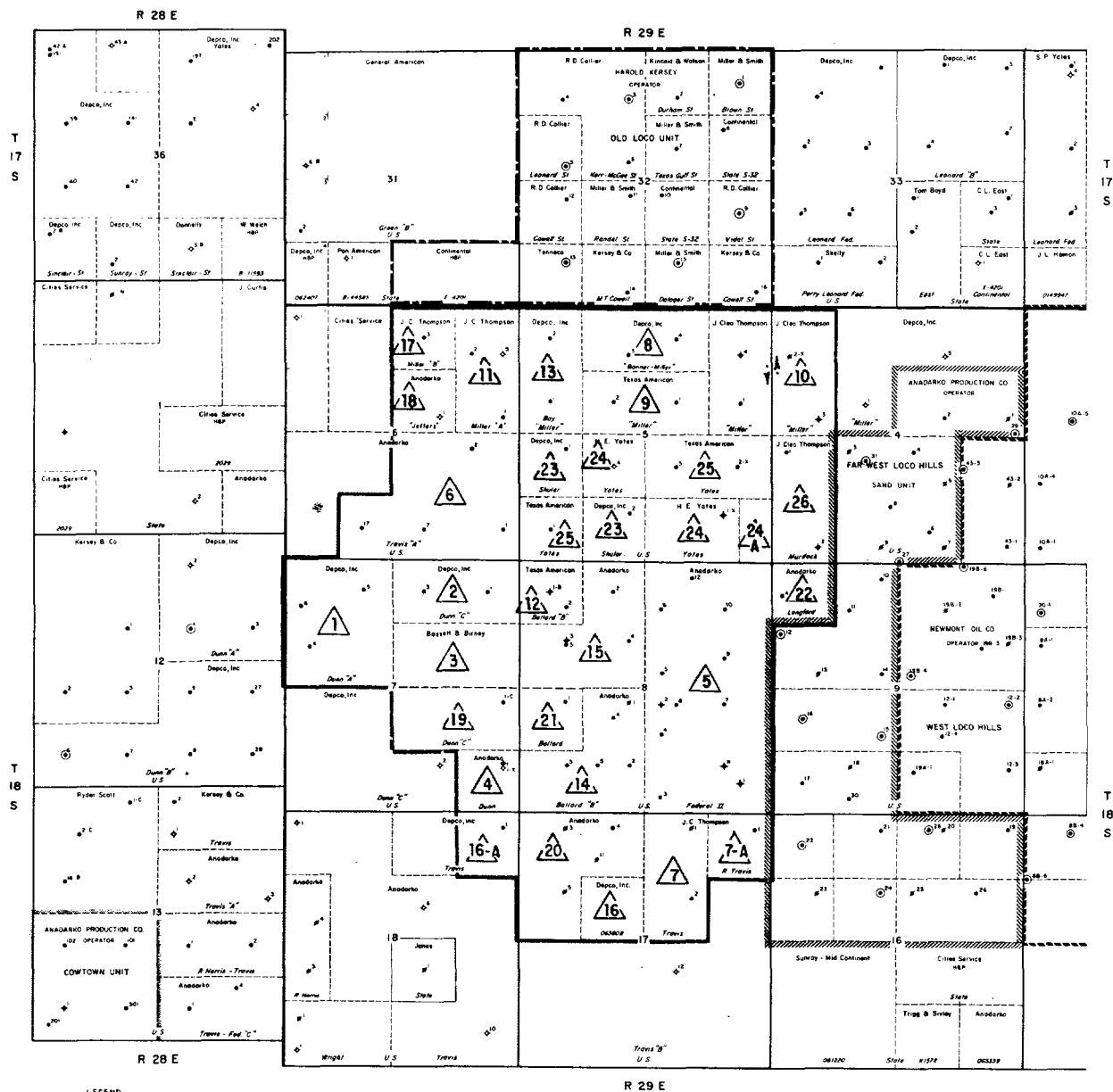


EXHIBIT "A"
to
UNIT AGREEMENT
Ballard Grayburg San Andres Unit
Loco Hills Grayburg San Andres Field
Eddy County, New Mexico

EXHIBIT B TO UNIT AGREEMENT
BALLARD GRAYBURG SAN ANDRES UNIT
EDDY COUNTY, NEW MEXICO

| TRACT NO. | DESCRIPTION OF LAND | NUMBER OF ACRES | SERIAL NO. & EXPIRATION DATE | BASIC ROYALTY AND PERCENTAGE | RECORD LESSEE | OVERRIDING ROYALTY OWNERSHIP | WORKING INTEREST OWNERSHIP AND PERCENTAGE |
|-----------|---|-----------------|------------------------------|---|--|------------------------------|--|
| 1 | T-18S, R-29E, N.M.P.M. Section 7: Lots 1 and 2 and E/2 NW/4 | 140.59 | LC-028772-A HBP | U.S.A. All 12.5 to 33-1/3% oil 12.5 to 16-2/3% gas | DEPCO, Inc. Husky Oil Company Yates Petroleum Corporation Hondo Oil and Gas Company | Appendix Note 1 | Surface to 500' below Top of San Andres Formation DEPCO, Inc. 32.98611% Husky Oil Company 32.98611% Yates Petroleum Corporation 34.02778% |
| 2 | T-18S, R-29E, N.M.P.M. Section 7: N/2 NE/4 | 80.00 | LC-028772-C HBP | U.S.A. All 12.5% to 33-1/3% oil 12.5 to 16-2/3% gas | DEPCO, Inc. Husky Oil Company | Appendix Note 2 | To 4,000' DEPCO, Inc. 50% Husky Oil Company 50% |
| 3 | T-18S, R-29E, N.M.P.M. Section 7: S/2 NE/4 | 90.00 | LC-028772-D HBP | U.S.A. All (Schedule C) | Bassett-Birney Oil Corporation | Appendix Note 3 | Bassett-Birney Oil Corporation 100% |
| 4 | T-18S, R-29E, N.M.P.M. Section 7: SE/4 SE/4 | 40.00 | LC-028772-E 5-31-79 | U.S.A. All (Schedule C) | Anadarko Production Company Southland Royalty Company | Appendix Note 4 | To 3,300' Anadarko Production Company 50% Southland Royalty Company 50% |
| 5 | T-18S, R-29E, N.M.P.M. Section 8: E/2 | 320.00 | LC-050906 HBP | U.S.A. All 12.5% to 32% oil 12.5% to 16-2/3% gas | Harvey E. Yates Martin Yates III S. P. Yates John Ashby Yates | Appendix Note 5 | To 3,300' Anadarko Production Company 100% |
| 6 | T-18S, R-29E, N.M.P.M. Section 6: SE/4 and SE/4 SW/4 | 200.00 | LC-058126 HBP | U.S.A. All 12.5% to 32% oil 12.5% to 16-2/3% gas | Anadarko Production Company Southland Royalty Company | Appendix Note 6 | To 3,300' Anadarko Production Company 50% Southland Royalty Company 50% |

EXHIBIT B TO UNIT AGREEMENT
BALLARD GRAYBURG SAN ANDRES UNIT
EDDY COUNTY, NEW MEXICO

| TRACT NO. | DESCRIPTION OF LAND | NUMBER OF ACRES | SERIAL NO. & EXPIRATION DATE | BASIC ROYALTY AND PERCENTAGE | RECORD LESSEE | OVERRIDING ROYALTY OWNERSHIP | WORKING INTEREST OWNERSHIP AND PERCENTAGE |
|-----------|---|-----------------|------------------------------|---|---------------------------------------|------------------------------|--|
| 7 | T-18S, R-29E, N.M.P.M., Section 17: W/2 NE/4 | 80.00 | LC-058127 HBP | U.S.A. 12.5% | All J. Cleo Thompson | Appendix Note 7 | J. Cleo Thompson & James Cleo Thompson, Jr. I & L Development Company Sam Lett 66.6667% 16.6666% 16.6667% |
| 7A | T-18S, R-29E, N.M.P.M., Section 17: NE/4 NE/4 | 40.00 | LC-058127 HBP | U.S.A. 12.5% | All J. Cleo Thompson | Appendix Note 7A | J. Cleo Thompson & James Cleo Thompson, Jr. I & L Development Company Sam Lett 66.6667% 16.6666% 16.6667% |
| 8 | T-18S, R-29E, N.M.P.M., Section 5: NW/4 NE/4 & NE/4 NW/4 | 80.00 | NM-9011 HBP | U.S.A. 12.5% to 32% oil 12.5% to 16-2/3% gas | All DEPCO, Inc. Husky Oil Company | None | DEPCO, Inc. Husky Oil Company 50% 50% |
| 9 | T-18S, R-29E, N.M.P.M., Section 5: SE/4 NW/4 & SW/4 NE/4 | 80.00 | LC-058580 HBP | U.S.A. 12.5% to 32% oil 12.5% to 16-2/3% gas | All Texas American Oil Corporation | Appendix Note 8 | Texas American Oil Corporation 100% |
| 10 | T-18S, R-29E, N.M.P.M., Section 4: W/2 NW/4 Section 5: E/2 NE/4 | 160.00 | LC-058581 HBP | U.S.A. 12.5% | All J. Cleo Thompson | Appendix Note 9 | J. Cleo Thompson & James Cleo Thompson, Jr. I & L Development Company Sam Lett 66.6667% 16.6666% 16.6667% |

EXHIBIT B TO UNIT AGREEMENT
BALLARD GRAYBURG SAN ANDRES UNIT
EDDY COUNTY, NEW MEXICO

| TRACT NO. | DESCRIPTION OF LAND | NUMBER OF ACRES | SERIAL NO. & EXPIRATION DATE | BASIC ROYALTY AND PERCENTAGE | RECORD LESSEE | OVERRIDING ROYALTY OWNERSHIP | WORKING INTEREST OWNERSHIP AND PERCENTAGE |
|--------------|--|-----------------------|------------------------------------|---|--|------------------------------------|---|
| 11 | T-18S, R-29E, N.M.P.M. Section 6: E/2 NE/4 | 80.00 | LC-058582 HBP | U.S.A. 12.5% | All J. Cleo Thompson | Appendix Note 10 | J. Cleo Thompson & James Cleo Thompson, Jr. Frank Darden I & L Development Company Sam Lett 63.3334% 5.0000% 15.8333% 15.8333% |
| 12 | T-18S, R-29E, N.M.P.M. Section 8: NW/4 NW/4 | 40.00 | LC-058603 HBP | U.S.A. 12.5% | All Texas American Oil Corporation | Appendix Note 11 | Texas American Oil Corporation 100% |
| 13 | T-18S, R-29E, N.M.P.M. Section 5: W/2 NW/4 | 80.00 | LC-060888 HBP | U.S.A. 12.5% to 32% oil 12.5% to 16-2/3% gas | All DEPCO, Inc. Husky Oil Company | Mary Ann Berliner 1.875% | To 4,000' DEPCO, Inc. Husky Oil Company 50% 50% |
| 14 | T-18S, R-29E, N.M.P.M. Section 8: E/2 SW/4 and SW/4 SW/4 | 120.00 | LC-061701 HBP | U.S.A. (Schedule D) | All Anadarko Production Company Southland Royalty Company | None | To 3,300' Anadarko Production Company Southland Royalty Company 50% 50% |
| 15 | T-18S, R-29E, N.M.P.M. Section 8: E/2 NW/4 SW/4 NW/4 | 120.00 | LC-061702 HBP | U.S.A. (Schedule D) | All Anadarko Production Company | None | To 4,000' Anadarko Production Company 100% |
| 16 | T-18S, R-29E, N.M.P.M. Section 17: SE/4 NW/4 | 40.00 | LC-063808 HBP | U.S.A. 12.5% to 32% oil 12.5% to 16-2/3% gas | All DEPCO, Inc. Husky Oil Company | Appendix Note 12 | To 4,000' DEPCO, Inc. Husky Oil Company 50% 50% |

EXHIBIT B TO UNIT AGREEMENT
BALLARD GRAYBURG SAN ANDRES UNIT
EDDY COUNTY, NEW MEXICO

| TRACT NO. | DESCRIPTION OF LAND | NUMBER OF ACRES | SERIAL NO. & EXPIRATION DATE | BASIC ROYALTY AND PERCENTAGE | RECORD LESSEE | OVERRIDING ROYALTY OWNERSHIP | WORKING INTEREST OWNERSHIP AND PERCENTAGE |
|-----------|--|-----------------|------------------------------|--|---|------------------------------|--|
| 16A | T-18S, R-29E, N.M.P.M., Section 18: NE/4 NE/4 | 40.00 | LC-063808 HBP | U.S.A. 12.5% to 32% oil 12.5% to 16-2/3% gas | All DEPCO, Inc. Husky Oil Company | Appendix Note 13 | To 4,000' DEPCO, Inc. Husky Oil Company 50% 50% |
| 17 | T-18S, R-29E, N.M.P.M., Section 6: NW/4 NE/4 | 40.00 | LC-065374A HBP | U.S.A. 12.5% | All J. Cleo Thompson | Appendix Note 14 | J. Cleo Thompson & James Cleo Thompson, Jr. Frank Darden I & I. Development Company Sam Lett 63.3334% 5.0000% 15.8333% 15.8334% |
| 18 | T-18S, R-29E, N.M.P.M., Section 6: SW/4 NE/4 | 40.00 | NM-9026 4-30-74 | U.S.A. (Schedule B) | All Anadarko Production Company | None | To 3,300' Anadarko Production Company 100% |
| 19 | T-18S, R-29E, N.M.P.M., Section 7: N/2 SE/4 | 80.00 | NM 14842 HBP | U.S.A. (Schedule C) | All Bassett-Birney Oil Corporation | Appendix Note 15 | Bassett-Birney Oil Corporation 100% |
| 20 | T-18S, R-29E, N.M.P.M., Section 17: N/2 NW/4 and SW/4 NW/4 | 120.00 | NM 14843 HBP | U.S.A. 12.5% to 32% oil 12.5% to 16-2/3% gas | All Anadarko Production Company Southland Royalty Company | Appendix Note 16 | To 3,300' Anadarko Production Company Southland Royalty Company 50% 50% |
| 21 | T-18S, R-29E, N.M.P.M., Section 8: NW/4 SW/4 | 40.00 | NM 14844 HBP | U.S.A. (Schedule D) | All Anadarko Production Company | None | To 4,000' Anadarko Production Company 100% |

21 Federal Tracts - 2,140.59 acres (82.95%)

EXHIBIT B TO UNIT AGREEMENT
EALLARD GRAYBURG SAN ANDRES UNIT
EDDY COUNTY, NEW MEXICO

| TRACT NO. | DESCRIPTION OF LAND | NUMBER OF ACRES | SERIAL NO. & EXPIRATION DATE | BASIC ROYALTY AND PERCENTAGE | | RECORD LESSEE | OVERRIDING ROYALTY OWNERSHIP | WORKING INTEREST OWNERSHIP AND PERCENTAGE | |
|-----------|--|-----------------|------------------------------|--|--|----------------------------------|------------------------------|---|----------------------------------|
| | | | | PERCENTAGE | FEES LANDS | | | | |
| 22 | T-18S, R-29E, N.M.P.M., Section 9: NW/4 NW/4 | 40.00 | Fee Land HBP | Gordon M. Cone J. Cleo Thompson & James Cleo Thompson, Jr. Sam Lett & I & L Development Company C. R. Baldwin Anadarko Production Company | 2.734375% 1.822917% 0.911458% 1.562500% 5.468750 | Anadarko Production Company | Appendix Note 17 | To 3,300' Anadarko Production Company | 100% |
| 23 | T-18S, R-29E, N.M.P.M., Section 5: NW/4 SW/4 SE/4 SW/4 | 80.00 | Fee Land HBP | Appendix Note 18 | | DEPCO, Inc. Husky Oil Company | None | To 4,000' DEPCO, Inc. Husky Oil Company | 50% 50% |
| 24 | T-18S, R-29E, N.M.P.M., Section 5: NE/4 SW/4, SW/4 SE/4, W/2 SE/4 SE/4 | 100.00 | Fee Land HBP | Appendix Note 19 | | Texas American Oil Corporation | Appendix Note 19 | Texas American Oil Corporation | 100% |
| 24A | T-18S, R-29E, N.M.P.M., Section 5: E/2 SE/4 SE/4 | 20.00 | Fee Land HBP | Appendix Note 20 | | Texas American Oil Corporation | Appendix Note 20 | Texas American Oil Corporation | 100% |
| 25 | T-18S, R-29E, N.M.P.M., Section 5: N/2 SE/4 & SW/4 SW/4 | 120.00 | Fee Land HBP | Appendix Note 21 | | Texas American Oil Corporation | Appendix Note 21 | Texas American Oil Corporation | 100% |
| 26 | T-18S, R-29E, N.M.P.M., Section 4: W/2 SW/4 | 80.00 | Fee Land HBP | Appendix Note 22 | | J. Cleo Thompson | Appendix Note 23 | J. Cleo Thompson & James Cleo Thompson, Jr. I & L Development Company Sam Lett | 66.6667% 16.6666% 16.6667% |

6 Fee Tracts 440.00 acres 17.05%

27 Unit Tracts 2,580.59 acres

APPENDIX TO EXHIBIT B TO UNIT AGREEMENT
BALLARD GRAYBURG SAN ANDRES UNIT
EDDY COUNTY, NEW MEXICO

NOTE 1 OVERRIDING ROYALTY AND PRODUCTION PAYMENT OWNERSHIP
UNDER TRACT 1

| | |
|---|-----------|
| Barbara Davidson | 0.234370% |
| Majorie Meyer | 0.234370% |
| Conrad Garst Keyes | 0.234380% |
| Robert Grant Keyes | 0.234380% |
| Olga M. Atwood | 0.937500% |
| Jerry Curtis | 2.812500% |
| Ruby M. Dunn, Executrix of the Estate of Calvin Preston Dunn | 1.687500% |
| John Dunn | 0.281250% |
| H. D. Dunn | 0.281250% |
| Ruth Thigpen Dunn | 0.056250% |
| Ben Lee Dunn, Jr. | 0.056250% |
| John Paul Dunn | 0.056250% |
| Robert Preston Dunn | 0.056250% |
| Alice Lucille Dunn Francis | 0.281250% |
| Hondo Oil & Gas Company | 3.125000% |
| Howard W. Jennings | 1.367190% |
| Janet Ruth Dunn Phillips | 0.056250% |
| B. R. Polk, Jr. | 1.367190% |
| Yates Brothers | 4.253470% |

NOTE 2 OVERRIDING ROYALTY AND PRODUCTION PAYMENT OWNERSHIP
UNDER TRACT 2

| | |
|---|-----------|
| Roy G. Barton | 1.596680% |
| Eva I. Cernich | 0.087890% |
| Lester F. Colby, Laverne W. Colby & Dorothy A. Colby Feltz | 0.395510% |
| W. E. Flint, Deceased | 3.046880% |
| H. Dillard Schenck | 2.109370% |
| John D. Simon | 0.263670% |

NOTE 3 OVERRIDING ROYALTY AND PRODUCTION PAYMENT OWNERSHIP
UNDER TRACT 3

| | |
|---|-----------|
| H. Dillard Schenck | 2.109375% |
| W. E. Flint, Deceased | 3.046875% |
| Roy G. Barton | 1.596680% |
| John D. Simon | 0.263672% |
| Eva I. Cernich | 0.087890% |
| Lester F. Colby, Laverne W. Colby and Dorothy A. Colby Feltz | 0.395508% |

APPENDIX TO EXHIBIT B TO UNIT AGREEMENT
BALLARD GRAYBURG SAN ANDRES UNIT

NOTE 4 OVERRIDING ROYALTY AND PRODUCTION PAYMENT OWNERSHIP
UNDER TRACT 4

| | |
|------------------------|-----------|
| W. E. Flint, Deceased | 3.046875% |
| H. Dillard Schenck | 2.109375% |
| John D. Simon | 0.087890% |
| Roy G. Barton | 1.772461% |
| Eva I. Cernich | 0.087891% |
| Lester F. Colby | 0.131836% |
| Laverne F. Colby | 0.131836% |
| Dorothy A. Colby Feltz | 0.131836% |

NOTE 5 OVERRIDING ROYALTY AND PRODUCTION PAYMENT OWNERSHIP
UNDER TRACT 5

| | |
|--------------------------|-----------|
| Yates Brothers | 0.250000% |
| Featherstone Farms, Ltd. | 0.500000% |
| James C. Hawley | 0.125000% |
| Frank E. Hawley | 0.125000% |
| Eudora Hawley Heilman | 0.250000% |
| Nettie Brooks Travis | 0.250000% |
| Robert F. Travis, Jr. | 0.416670% |
| John Lucas | 0.083330% |
| Harvey E. Yates | 1.000000% |
| Martin Yates III | 1.000000% |
| S. P. Yates | 1.000000% |
| John A. Yates | 1.000000% |

\$136,320.00 Production Payment payable out of 3.0% of gross production reserved by V. S. Welch in Operating Agreement dated 7-24-64 to Cima Capitan Incorporated and Harold C. Porter recorded in Oil and Gas Book 145 page 523 owned by Marion C. Welch.

1/64th of 78.5% overriding royalty now owned by Cima Capitan Incorporated (NSL) reserved by Harold C. Porter and Cima Capitan Incorporated (NSL) in Assignment of Operating Rights dated 8-7-64 to Ambassador Oil Corporation

APPENDIX TO EXHIBIT B TO UNIT AGREEMENT
BALLARD GRAYBURG SAN ANDRES UNIT
EDDY COUNTY, NEW MEXICO

NOTE 6 OVERRIDING ROYALTY AND PRODUCTION PAYMENT OWNERSHIP
 UNDER TRACT 6

| | |
|--------------------------|-----------|
| Featherstone Farms, Ltd. | 0.500000% |
| James C. Hawley | 0.125000% |
| Frank E. Hawley | 0.125000% |
| Eudora Hawley Heilman | 0.250000% |
| Dolores Ponton | 0.083330% |
| Robert F. Travis, Jr. | 0.416670% |
| Nettie Brooks Travis | 0.250000% |
| Yates Brothers | 0.250000% |

NOTE 7 OVERRIDING ROYALTY AND PRODUCTION PAYMENT OWNERSHIP
 UNDER TRACT 7

| | |
|---|------------|
| Claudine Brady | 3.125000% |
| W. F. Catlett | 3.124990% |
| Featherstone Farms Ltd. | 0.500000% |
| Harry Flackman Estate | 18.750000% |
| James C. Hawley | 0.031250% |
| Frank E. Hawley | 0.031250% |
| Eudora Hawley Heilman | 0.062500% |
| John Lucas | 0.083330% |
| Thelma M. Sanders, Individually and Executrix San Sanders Estate | 6.250000% |
| Robert F. Travis, Jr. | 0.104160% |
| Nettie Brooks Travis | 0.062500% |
| Yates Brothers | 0.250000% |

NOTE 7A OVERRIDING ROYALTY AND PRODUCTION PAYMENT OWNERSHIP
 UNDER TRACT 7A

| | |
|-------------------------|-----------|
| Lester Alston | 2.187500% |
| Beatrice I. Anderson | 4.375000% |
| Roy G. Barton | 2.625000% |
| Featherstone Farms Ltd. | 0.031250% |
| James C. Hawley | 0.031250% |
| Frank E. Hawley | 0.031250% |
| Eudora Hawley Heilman | 0.062500% |
| John Lucas | 0.083330% |
| Mary Lee Reese | 0.123050% |
| Thelma Sanders | 0.109370% |
| Virginia Lee Saunders | 0.410160% |

APPENDIX TO EXHIBIT B TO UNIT AGREEMENT
BALLARD GRAYBURG SAN ANDRES UNIT
EDDY COUNTY, NEW MEXICO

NOTE 7A OVERRIDING ROYALTY AND PRODUCTION PAYMENT OWNERSHIP
UNDER TRACT 7A (CONT'D)

| | |
|------------------------|-----------|
| Woodlan Perry Saunders | 0.123050% |
| Arnold P. Scharbauer | 1.093750% |
| J. E. Taylor | 0.437500% |
| Robert F. Travis, Jr. | 0.062500% |
| Nettie Brooks Travis | 0.104160% |

NOTE 8 OVERRIDING ROYALTY AND PRODUCTION PAYMENT OWNERSHIP
UNDER TRACT 9

| | |
|---------------------|-----------|
| Alma Walsh Mallison | 1.875000% |
| Dora M. Johnson | 0.625000% |
| Mary Anne Berliner | 1.875000% |

NOTE 9 OVERRIDING ROYALTY AND PRODUCTION PAYMENT OWNERSHIP
UNDER TRACT 10

| | |
|------------------------|-----------|
| Betty Flint Webb | 1.365460% |
| W. E. Flint, Deceased | 1.002110% |
| Anna M. Flint Estate | 6.265320% |
| Sue Flint Floore | 1.393200% |
| Kitty Flint Livingston | 1.393210% |
| Leah B. Waltrip | 1.393200% |

NOTE 10 OVERRIDING ROYALTY AND PRODUCTION PAYMENT OWNERSHIP
UNDER TRACT 11

| | |
|---|------------|
| Mary Anne Berliner | 1.875000% |
| W. I. Ivey and Mercer T. Ivey and wife, Alline T. Ivey | 9.062500% |
| Kennedy Oil Company | 10.000000% |

NOTE 11 OVERRIDING ROYALTY AND PRODUCTION PAYMENT OWNERSHIP
UNDER TRACT 12

| | |
|---------------------|-----------|
| Alma Walsh Mallison | 1.875000% |
| Dora M. Johnson | 0.625000% |

APPENDIX TO EXHIBIT B TO UNIT AGREEMENT
BALLARD GRAYBURG SAN ANDRES UNIT
EDDY COUNTY, NEW MEXICO

NOTE 12 OVERRIDING ROYALTY AND PRODUCTION PAYMENT OWNERSHIP
UNDER TRACT 16

| | |
|--------------------------|-----------|
| Featherstone Farms, Ltd. | 0.500000% |
| James C. Hawley | 0.125000% |
| Frank E. Hawley | 0.125000% |
| Eudora Hawley Heilman | 0.250000% |
| John Lucas | 0.083330% |
| Robert F. Travis, Jr. | 0.416670% |
| Nettie Brooks Travis | 0.250000% |
| Yates Brothers | 0.250000% |

NOTE 13 OVERRIDING ROYALTY AND PRODUCTION PAYMENT OWNERSHIP
UNDER TRACT 16A

| | |
|--------------------------|-----------|
| Featherstone Farms, Ltd. | 0.500000% |
| James C. Hawley | 0.125000% |
| Frank E. Hawley | 0.125000% |
| Eudora Hawley Heilman | 0.250000% |
| John Lucas | 0.083330% |
| Robert F. Travis, Jr. | 0.416670% |
| Nettie Brooks Travis | 0.250000% |
| Yates Brothers | 0.250000% |

NOTE 14 OVERRIDING ROYALTY AND PRODUCTION PAYMENT OWNERSHIP
UNDER TRACT 17

| | |
|------------------------|------------|
| Betty Flint Webb | 0.532860% |
| W. E. Flint, Deceased | 0.391070% |
| Anna M. Flint Estate | 2.445000% |
| Sue Flint Floore | 0.543690% |
| Kennedy Oil Company | 10.000000% |
| Kitty Flint Livingston | 0.543690% |
| Leah B. Waltrip | 0.543690% |

NOTE 15 OVERRIDING ROYALTY AND PRODUCTION PAYMENT OWNERSHIP
UNDER TRACT 19

| | |
|--|-----------|
| H. Dillard Schenck | 2.109375% |
| W. E. Flint, Deceased | 3.046875% |
| Roy G. Barton | 1.596680% |
| John D. Simon | 0.263672% |
| Eva I. Cernich | 0.087890% |
| Lester F. Colby, Lavern W. Colby and Dorothy A. Colby Feltz | 0.395508% |

APPENDIX TO EXHIBIT B TO UNIT AGREEMENT
BALLARD GRABURG SAN ANDRES UNIT
EDDY COUNTY, NEW MEXICO

NOTE 16 OVERRIDING ROYALTY AND PRODUCTION PAYMENT OWNERSHIP
UNDER TRACT 20

| | |
|--------------------------|-----------|
| Featherstone Farms, Ltd. | 0.500000% |
| James C. Hawley | 0.125000% |
| Frank E. Hawley | 0.125000% |
| Eudora Hawley Heilman | 0.250000% |
| Dolores Ponton | 0.083330% |
| Robert F. Travis, Jr. | 0.416670% |
| Nettie Brooks Travis | 0.250000% |
| Yates Brothers | 0.250000% |

NOTE 17 OVERRIDING ROYALTY AND PRODUCTION PAYMENT OWNERSHIP
UNDER TRACT 22

| | |
|------------------|-----------|
| Harvey E. Yates | 1.000000% |
| Martin Yates III | 1.000000% |
| S. P. Yates | 1.000000% |
| John A. Yates | 1.000000% |

\$136,320.00 Production Payment payable out of 3.0% of gross production reserved by V. S. Welch in Operating Agreement dated 7-24-64 to Cima Capitan Incorporated and Harold C. Porter recorded in Oil and Gas Book 145 page 523 owned by Marion C. Welch.

1/64th of 80.5% overriding royalty, now owned by Cima Capitan Incorporated (NSL), reserved by Harold C. Porter and Cima Capitan, Incorporated (NSL) in Assignment of Operating Rights dated 8-7-64 to Ambassador Oil Corporation.

APPENDIX TO EXHIBIT B TO UNIT AGREEMENT
BALLARD GRAYBURG SAN ANDRES UNIT
EDDY COUNTY, NEW MEXICO

NOTE 18 ROYALTY OWNERSHIP UNDER TRACT 23

| | |
|--|-----------|
| Anna Auriemma | 0.416670% |
| J. C. Burleson | 0.197910% |
| J. R. Cone | 0.625000% |
| George L. Dahl | 0.346360% |
| Olen F. Featherstone | 0.416670% |
| Harvey E. Yates | 0.041660% |
| M. A. Genard | 0.346350% |
| Vera H. Herren, Anc. Executrix of the Estate of Harry H. Herren | 1.145830% |
| Don E. McInturff | 0.020830% |
| Midland National Bank Trustee Acct. 0339-01-6 | 0.020830% |
| Omaha National Bank Trustee | 0.416670% |
| Donald M. Phillips | 0.083330% |
| Ross M. Phillips | 0.083330% |
| Laurence C. Phillips | 0.083330% |
| Paul M. Phillips | 0.083340% |
| John W. Phillips | 0.083340% |
| Rabinowitz Agencies | 0.346350% |
| George L. Reese, Jr. | 0.572910% |
| Holly C. Shuler | 1.562500% |
| Leona L. Stagner | 0.572920% |
| R. G. Storey and Sons | 0.346360% |
| George Howell Williams | 0.488290% |
| Julia M. Williams | 0.488290% |
| Yates Brothers | 3.710930% |

APPENDIX TO EXHIBIT B TO UNIT AGREEMENT
BALLARD GRAYBURG SAN ANDRES UNIT
EDDY COUNTY, NEW MEXICO

NOTE 19 ROYALTY OWNERSHIP UNDER TRACT 24

| | |
|---|-----------|
| Anna Auriemma | 0.416670% |
| J. C. Burleson | 0.197910% |
| J. R. Cone | 0.625000% |
| George L. Dahl | 0.346360% |
| Olen F. Featherstone | 0.416670% |
| M. A. Genaro | 0.346350% |
| Vera H. Herren, Anc. Executrix of the Estate of | |
| Harry H. Herren | 1.145830% |
| Don E. McInturff | 0.020840% |
| Midland National Bank, Trustee Acct. 0339-01-6 | 0.020830% |
| The Omaha National Bank Trust | 0.416670% |
| Mildred L. Otte | 0.041670% |
| Donald M. Phillips | 0.083330% |
| Ross M. Phillips | 0.083330% |
| Laurence G. Phillips | 0.083330% |
| Paul M. Phillips | 0.083340% |
| John W. Phillips | 0.083340% |
| Rabinowitz Agencies | 0.346350% |
| George L. Reese, Jr. | 0.572910% |
| Holly C. Shuler and wife, Mariel Shuler | 1.562500% |
| Leona L. Stagner | 0.572920% |
| R. G. Storey and Sons | 0.346360% |
| George Howell Williams | 0.488280% |
| Julia M. Williams | 0.488280% |
| Yates Brothers | 3.710930% |

OVERRIDING ROYALTY UNDER TRACT 24

| | |
|-----------------|-----------|
| Harvey E. Yates | 6.250000% |
|-----------------|-----------|

NOTE 20 ROYALTY OWNERSHIP UNDER TRACT 24A

| | |
|----------------------------------|-----------|
| Holly C. Shuler and wife, Mariel | 6.250000% |
| George H. Williams | 0.488280% |
| Julia M. Williams | 0.488280% |
| Yates Brothers | 5.273440% |

OVERRIDING ROYALTY UNDER TRACT 24A

| | |
|-----------------|-----------|
| Harvey E. Yates | 6.250000% |
|-----------------|-----------|

APPENDIX TO EXHIBIT B TO UNIT AGREEMENT
BALLARD GRAYBURG SAN ANDRES UNIT
EDDY COUNTY, NEW MEXICO

NOTE 21 ROYALTY OWNERSHIP UNDER TRACT 25

| | |
|---|-----------|
| Anna Auriemma | 0.416670% |
| J. C. Burleson | 0.197910% |
| J. R. Cone | 0.625000% |
| George L. Dahl | 0.346360% |
| Olen F. Featherstone | 0.416670% |
| M. A. Genaro | 0.346350% |
| Vera H. Herren, Anc. Executrix of the Estate of | |
| Harry H. Herren | 1.145830% |
| Don E. McInturff | 0.020840% |
| Midland National Bank, Trustee Acct. 0339-01-6 | 0.020830% |
| The Omaha National Bank Trust | 0.416670% |
| Mildred L. Otte | 0.041670% |
| Donald M. Phillips | 0.083330% |
| Ross M. Phillips | 0.083330% |
| Laurence G. Phillips | 0.083330% |
| Paul M. Phillips | 0.083340% |
| John W. Phillips | 0.083340% |
| Rabinowitz Agencies | 0.346350% |
| George L. Reese, Jr. | 0.572910% |
| Holly C. Shuler and wife, Mariel Shuler | 1.562500% |
| Leona L. Stagner | 0.572920% |
| R. G. Storey and Sons | 0.346360% |
| George Howell Williams | 0.488280% |
| Julia M. Williams | 0.488280% |
| Yates Brothers | 3.710930% |

OVERRIDING ROYALTY UNDER TRACT 25

| | |
|---------------------|-----------|
| Dora M. Johnson | 0.625000% |
| Alma Walsh Mallison | 1.875000% |

NOTE 22 ROYALTY OWNERSHIP UNDER TRACT 26

| | |
|--------------------------------|-----------|
| Suspense | 3.125000% |
| A. L. Cone | 1.822920% |
| J. R. Cone | 1.302080% |
| Vera H. Herren, Executrix Est. | |
| Harry H. Herren | 1.562500% |
| George L. Reese, Jr. | 0.781250% |
| Oliver H. Smith | 3.125000% |
| Leona L. Stagner | 0.781250% |

APPENDIX TO EXHIBIT B TO UNIT AGREEMENT
BALLARD GRAYBURG SAN ANDRES UNIT
EDDY COUNTY, NEW MEXICO

NOTE 23 OVERRIDING ROYALTY AND PRODUCTION PAYMENT OWNERSHIP
UNDER TRACT 26

| | |
|--|-----------|
| Betty Flint Webb | 0.999100% |
| The First National Bank of Dona Ana County, Trustee W. E. and Elaine B. Flint | 0.733260% |
| Anna M. Flint Estate | 4.584380% |
| Sue Flint Floore | 1.019420% |
| Kitty Flint Livingston | 1.019420% |
| J. F. Maddox | 7.250000% |
| The Omaha National Bank, Trustee | 7.250000% |
| Leah B. Waltrip | 1.019420% |
| H. G. Watson | 3.125000% |

EXHIBIT C
TO
UNIT AGREEMENT
BALLARD GRAYBURG SAN ANDRES UNIT
EDDY COUNTY, NEW MEXICO

| <u>Tract Number</u> | <u>Tract Description</u> | <u>Tract Participation</u> |
|--|--|----------------------------|
| <u>All Township 18 South - Range 29 East</u> | | |
| 1 | Section 7: Lots 1 and 2 and E/2 NW/4 | 3.63256 |
| 2 | Section 7: N/2 NE/4 | 3.14842 |
| 3 | Section 7: S/2 NE/4 | 0.62002 |
| 4 | Section 7: SE/4 SE/4 | 0.57200 |
| 5 | Section 8: E/2 | 16.25966 |
| 6 | Section 6: SE/4 and SE/4 SW/4 | 6.39784 |
| 7 | Section 17: W/2 NE/4 | 2.32506 |
| 7A | Section 17: NE/4 NE/4 | 1.09600 |
| 8 | Section 5: NW/4 NE/4 and NE/4 NW/4 | 4.02334 |
| 9 | Section 5: SE/4 NW/4 and SW/4 NE/4 | 4.46098 |
| 10 | Section 4: W/2 NW/4 Section 5: E/2 NE/4 | 4.17660 |
| 11 | Section 6: E/2 NE/4 | 3.93478 |
| 12 | Section 8: NW/4 NW/4 | 1.55230 |
| 13 | Section 5: W/2 NW/4 | 3.41974 |
| 14 | Section 8: E/2 SW/4 and SW/4 SW/4 | 14.05924 |
| 15 | Section 8: E/2 NW/4 and SW/4 NW/4 | 6.88186 |

EXHIBIT C
TO
UNIT AGREEMENT
BALLARD GRAYBURG SAN ANDRES UNIT
EDDY COUNTY, NEW MEXICO

| <u>Tract Number</u> | <u>Tract Description</u> | <u>Tract Participation</u> |
|--|---|----------------------------|
| <u>All Township 18 South - Range 29 East</u> | | |
| 16 | Section 17: SE/4 NW/4 | 0.31000 |
| 16A | Section 18: NE/4 NE/4 | 1.32736 |
| 17 | Section 6: NW/4 NE/4 | 1.07534 |
| 18 | Section 6: SW/4 NE/4 | 0.31000 |
| 19 | Section 7: N/2 SE/4 | 1.90266 |
| 20 | Section 17: N/2 NW/4 and SW/4 NW/4 | 3.92388 |
| 21 | Section 8: NW/4 SW/4 | 2.30388 |
| 22 | Section 9: NW/4 NW/4 | 0.85100 |
| 23 | Section 5: NW/4 SW/4 and SE/4 SW/4 | 3.24982 |
| 24 | Section 5: NE/4 SW/4, SW/4 SE/4, and W/2 SE/4 SE/4 | 0.77502 |
| 24A | Section 5: E/2 SE/4 SE/4 | 0.15500 |
| 25 | Section 5: N/2 SE/4 and SW/4 SW/4 | 6.03448 |
| 26 | Section 4: W/2 SW/4 | 1.22116 |
| Total | | <hr/> 100.00000 |

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UNIT OPERATING AGREEMENT
BALLARD GRAYBURG SAN ANDRES UNIT
EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of May, 1972
by and between the parties who execute or ratify this Agreement;

WITNESSETH

THAT, WHEREAS, the parties hereto as Working Interest Owners
have executed as of the date hereof, that certain Unit Agreement for the
development and operation of the Ballard Grayburg San Andres Unit, Eddy
County, New Mexico, hereinafter referred to as "Unit Agreement", and which,
among other things, provides for a separate agreement to be made and entered
into by and between Working Interest Owners pertaining to the development
and operation of the Unit Area therein defined:

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

ARTICLE 1

CONFIRMATION OF UNIT AGREEMENT

1.1 Confirmation of Unit Agreement. The Unit Agreement is
hereby confirmed and incorporated herein by reference and made a part of
this Agreement. The definitions in the Unit Agreement are adopted for all
purposes of this Agreement. In the event that there is any conflict between
the Unit Agreement and this Agreement, the Unit Agreement shall prevail.

ARTICLE 2

EXHIBITS

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

- 2.1.1 Exhibits A, B, and C of the Unit Agreement .
- 2.1.2 Exhibit D attached hereto, is a schedule showing the total Unit Participation of each Working Interest Owner .
- 2.1.3 Exhibit E , attached hereto, is the Accounting Procedure applicable to development and operation of the Unit Area . In the event of conflict between this Agreement and Exhibit E , this Agreement shall prevail.
- 2.1.4 Exhibit F , attached hereto, contains insurance provisions applicable to the development and operation of the Unit Area .

2.2 Revision of Exhibits . Whenever Exhibits A, B, and C are revised, Exhibit D shall be revised accordingly, such revisions to be effective as of the effective date of revised Exhibits A , B , and C .

ARTICLE 3

SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

3.1 Overall Supervision . Working Interest Owners shall exercise overall supervision and control of all matters pertaining to the development and operations of the Unit Area pursuant to this Agreement and the Unit

Agreement. In the exercise of such power each Working Interest Owner shall act solely in its own behalf in the capacity of an individual owner and not on behalf of the owners as an entirety.

3.2 Particular Powers and Duties. The matters to be passed upon and decided by Working Interest Owners shall include, but not be limited to the following:

- 3.2.1 Method of Operation. The kind, character and method of operation, including any type of pressure maintenance or secondary recovery program to be employed.
- 3.2.2 Drilling of Wells. The drilling of any wells within the Unit Area either for production of Unitized Substances, for use as an injection well, or for other purposes.
- 3.2.3 Well Workovers and Change of Status. The workover, recompletion, repair, abandonment, or change of status of any well in the Unit Area or use of any such well for injection or other purposes. The Unit Operator shall be responsible for performing such work and such work shall be done at Unit Expense.
- 3.2.4 Expenditures. Making of any expenditure in excess of Ten Thousand dollars (\$10,000.00); provided that approval by 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; provided, however, that in case of blowout, explosion, fire, flood or other sudden emergencies, Unit Operator may take steps and incur such expenses as in its opinion are required to deal with the emergency and to safeguard life or property, but that Unit Operator shall, as promptly as possible, report the emergency to the Working Interest Owners.

3.2.5 Disposition of Surplus Facilities: Selling or otherwise disposing of any major item of surplus material or equipment, the current list price of new equipment similar thereto being Two Thousand dollars (\$2,000.00) or more.

3.2.6 Appearance Before a Court or Regulatory Body. The designation of a representative to appear before any court or regulatory body in all matters pertaining to Unit operations; provided, however, such designation by Working Interest Owners shall not prevent any Working Interest Owner from appearing in person at

its own expense or from designating another representative in its own behalf.

3.2.7 Audits. The making of proper audits of the accounts of Unit Operator pertaining to operations hereunder; provided that such audits shall:

- (a) not be conducted more than once each year except upon the resignation or removal of Unit Operator;
- (b) be made at the expense of all Working Interest Owners other than the Working Interest Owner designated as Unit Operator, unless such audit is conducted at the specific instance and request of Unit Operator, in which latter event the same shall be made at the expense of all Working Interest Owners including the Working Interest Owner designated as Unit Operator; and
- (c) be upon not less than thirty (30) days written notice to Unit Operator.

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

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

3.2.10 Appointment of Committees. The appointment or designation of committees or subcommittees necessary for the study of any problem in connection with Unit operations.

- 3.2.11 The Removal of Unit Operator and the Selection
of a Successor in accordance with Article 6.2
hereof.
- 3.2.12 The Enlargement of the Unit Area .
- 3.2.13 The Adjustment and Readjustment of Investments
as required.
- 3.2.14 The Termination of the Unit Agreement.

ARTICLE 4

MANNER OF EXERCISING SUPERVISION

4.1 Designation of Representatives. Each Working Interest Owner shall advise Unit Operator in writing the names and addresses of its representative and alternate representative authorized to represent and bind it in respect to any matter pertaining to the development and operation of the Unit Area . Such representative or alternate representative may be changed from time to time by written notice to Unit Operator.

4.2 Meetings. All meetings of Working Interest Owners for the purpose of considering and acting upon any matter pertaining to the development and operation of the Unit Area shall be called by the Unit Operator upon its own motion or at the request of two (2) or more Working Interest Owners . No meeting shall be called on less than fourteen (14) days' advance written notice , with agenda for the meeting attached. In the absence of protest by

any qualified member of the meeting, the Working Interest Owners attending such meeting shall not be prevented from amending items included in the agenda or from deciding on such amended item or from deciding other items presented at such meeting. The representative of Unit Operator shall be chairman of each meeting.

4.3 Voting Procedure. Working Interest Owners shall act upon and determine all matters coming before them as follows:

4.3.1 Voting Interest. In voting on any matter each Working Interest Owner shall have a voting interest equal to its percentage Unit Participation, as shown in Exhibit "D", and such revisions thereof as may hereafter be made in accordance with the terms of this Agreement.

4.3.2 Vote Required. Unless otherwise provided herein or in the Unit Agreement, Working Interest Owners shall act upon and determine all matters coming before them by the affirmative vote of three (3) or more Working Interest Owners owning sixty-five percent (65%) or more voting interest, and such affirmative vote shall be binding on all parties, provided that should any one Working Interest Owner own more than thirty-five percent (35%), its negative vote shall not defeat a motion and such motion shall pass if approved by a majority interest, unless such Working Interest Owner's vote is supported by the vote of two (2) or more other Working Interest Owners having a combined

voting interest of at least five percent (5%), and such affirmative vote shall be controlling on all parties.

4.3.3 Vote at Meeting by Non-attending Working Interest Owner. Any Working Interest Owner not represented at a meeting may vote on any item included in the agenda of the meeting by letter or telegram addressed to the Chairman of the meeting, provided such vote is received prior to the submission of such item to vote.

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

ARTICLE 5

INDIVIDUAL RIGHTS AND PRIVILEGES OF WORKING INTEREST OWNERS

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

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

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

5.2.2 Reports by Request. The right to receive from Unit Operator, upon written request, copies of all reports to any governmental agency, reports of crude oil runs and stocks, inventory reports and all other data not ordinarily furnished by Unit Operator to all Working Interest Owners; the cost of preparing copies of said reports shall be charged solely to the Working Interest Owner requesting the same.

5.3 Undrilled Locations. Any well drilled after the Effective Date of this Unit Operating Agreement on Tracts committed to the Unit Area shall be drilled by the Unit Operator at Unit Expense.

ARTICLE 6

UNIT OPERATOR

6.1 Initial Unit Operator. Anadarko Production Company, a Delaware corporation, is hereby designated as Initial Unit Operator.

6.2 Resignation or Removal and Selection of Successor. The resignation or removal of Unit Operator, and the selection of a successor shall be governed by the provisions of the Unit Agreement.

ARTICLE 7

POWERS AND DUTIES OF UNIT OPERATOR

7.1 Exclusive Right to Operate Unit. Subject to the provisions of this Agreement and to the orders, directions and limitations rightfully given

or imposed by Working Interest Owners, Unit Operator shall have the exclusive right and duty to develop and operate the Unit Area for the production of Unitized Substances.

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

7.3 Liens and Encumbrances. Unit Operator shall keep the lands and leases in the Unit Area free from all liens and encumbrances occasioned by its operations hereunder, except the lien of Unit Operator granted hereunder.

7.4 Employees. The number of employees used by 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 Unit Operator. Such employees shall be the employees of Unit Operator.

7.5 Records. Unit Operator shall keep true and correct books,

accounts, and records of its operation hereunder.

7.6 Reports to Working Interest Owners. Unit Operator shall furnish to each Working Interest Owner monthly, injection and production reports for each well in the Unit, as well as monthly reports of the development and operation of the Unit Area.

7.7 Reports to Governmental Authorities. Unit Operator shall make all necessary reports to governmental authorities.

7.8 Engineering and Geological Information. Unit Operator shall furnish to each Working Interest Owner, upon written request, a copy of the log of, and copies of engineering and geological data pertaining to, wells drilled by Unit Operator.

7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of Ten Thousand dollars (\$10,000.00) without prior approval of Working Interest Owners; provided, however, that nothing in this Article (nor in Article 3.2.4) shall be deemed to prevent Unit Operator from making an expenditure in excess of said amount if such expenditure becomes necessary because of a sudden emergency which may otherwise cause loss of life, title or extensive damage to property. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the emergency and the action taken.

7.10 Nondiscrimination. In connection with the performance of work under this Agreement, the Unit Operator agrees to comply with all provisions of Section 202 (1) to (7) inclusive, of Executive Order 11246 (30 F.R. 12319), which are hereby incorporated by reference in this Agreement.

7.11 Mathematical Errors. Unit Operator is empowered to correct any mathematical errors which might exist in the pertinent exhibits to this Agreement upon approval of the Director.

7.12 Border Agreements. Subject to the provisions and conditions contained in the Unit Agreement, Unit Operator shall have the right and authority to enter into border protection agreements.

ARTICLE 8

TAXES

8.1 Ad Valorem Taxes. Beginning with the first of the calendar year after the effective date hereof, Unit Operator after consulting with Working Interest Owners, shall make and file for ad valorem tax purposes all necessary renditions and returns with the proper taxing authorities of governmental subdivisions covering all property of each Working Interest Owner within the Unit Area and used in connection with the development and operation of the Unit Area. Any Working Interest Owner dissatisfied with any proposed rendition or assessment of its interest in property shall have the right, at its own expense, to protest and resist the same. All such 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 Unit operations shall be paid by the Unit Operator for the joint account in the same manner as other costs and expenses of Unit operations; provided that, if the interest of a Working Interest Owner is subject to a separately assessed overriding royalty interest, production payment, or other interest in excess of a 1/8 royalty, such Working Interest Owner shall be given credit for the reduction in taxes paid resulting therefrom.

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

ARTICLE 9

INSURANCE

9.1 Insurance. Unit Operator shall carry, with respect to Unit operations subject to this Agreement:

9.1.1 Insurance as set forth in Exhibit "F".

ARTICLE 10

ADJUSTMENT OF INVESTMENTS

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

10.1.1 Wells . All wells within the Unit Area completed in the Unitized Formation.

10.1.2 Well and Lease Equipment. The casing, tubing and rods in each such well, together with the wellhead connections thereon, and all other lease and operating equipment used in the operation of such wells which Working Interest Owners determine is necessary or desirable for conducting Unit operations; and

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

10.2 Inventory and Evaluation of Personal Property. Working Interest Owners shall (at the expense of the joint account, and as of the effective date) inventory and evaluate all well and lease equipment delivered to the Unit Operator as provided in Article 10.1.1 and 10.1.2, except that casing shall be given no value. The inventory will include all tangible property classified as controllable equipment. For the purpose of inventory and adjustment of investment, sucker rods and tubing under 2 inches in the well will also be considered as controllable but will not be considered controllable in future accounting. Non-controllable equipment except items listed above will not be included on the inventory but may nevertheless be taken over by the Unit if in use on the property. The distinction between controllable and non-controllable equipment will be based on the latest material classification manual published by the Council of Petroleum Accountants Society of North America. The condition of the equipment will be indicated on the inventory and priced in accordance

with the basis prescribed in Section IV of Exhibit "E" attached, or at an appraised value as determined by the Working Interest Owners. The inventory and evaluation will be presented to the Working Interest Owners within ninety (90) days after the taking of the inventory. Upon approval by the Working Interest Owners of the inventory and evaluation of the equipment and personal property, the Unit Operator will furnish each Working Interest Owner a copy thereof showing only those items which it has been decided to retain and the value of each item.

10.3 Investment Adjustment. Upon approval of such inventory and evaluation by Working Interest Owners, each Working Interest Owner shall be credited with the value of its interest in all personal property so taken over by Unit Operator under Article 10.1.2 and charged with an amount equal to that obtained by multiplying the total value of all such personal property so taken over by Unit Operator under Article 10.1.2 by such Working Interest Owner's Unit Participation as shown in Exhibit "D". If the charge against any Working Interest Owner is greater than the amount credited to such Working Interest Owner, the resulting net charge shall be paid and in all other respects be treated as any other item of Unit expense chargeable against such Working Interest Owner. If the credit to any Working Interest Owner is greater than the amount charged against such Working Interest Owner, the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above.

10.4 General Facilities. The acquisition of warehouses, warehouse stocks, lease houses, camps, facility systems, and office buildings

necessary for operations hereunder shall be by negotiation by and between the owners thereof and Unit Operator, subject to the approval of Working Interest Owners.

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

ARTICLE 11

DEVELOPMENT AND OPERATING COSTS

11.1 Basis of Charges to Working Interest Owners. Unit Operator initially shall pay all Unit Expense. Each Working Interest Owner shall reimburse Unit Operator for its share of Unit Expense. Each Working Interest Owner's share of all Unit expense, including Indirect Charges (Article III Exhibit E), shall be the same as its Unit Participation. Each Working Interest Owner's share of all investment expenditures shall be the same as its Unit Participation. All charges, credits, and accounting for Unit Expense shall be in accordance with Exhibit E.

11.2 Budgets. Before or as soon as practical after the effective date hereof, Unit Operator shall prepare a budget of estimated costs and expenses for the remainder of the calendar year, and on or before the first day of each November thereafter shall prepare a budget of estimated

costs and expenses for the ensuing calendar year. Such budget shall set forth the estimated costs and expenses by quarterly periods. Unless otherwise specified in the budget, it shall be presumed for the purpose of advance billings that the estimated costs and expenses for each month of a quarterly period shall be one-third ($1/3$) of the estimate for the quarterly period.

Budgets so prepared shall be estimates only and shall be subject to adjustment and correction by Working Interest Owners and Unit Operator from time to time wherever it shall appear that an adjustment or correction is proper. A copy of each such budget and adjusted budget shall be promptly furnished each Working Interest Owner.

11.3 Advance Billing. Unit Operator shall have the right at its option to require Working Interest Owners to advance their respective proportion of such costs and expenses by submitting to Working Interest Owners, on or before the 15th day of any month, an itemized estimate of such costs and expenses for the succeeding month with a request for payment in advance. Within fifteen (15) days thereafter, each Working Interest Owner shall pay to Unit Operator its proportionate part of such estimate. Adjustment between estimates and the actual costs shall be made by Unit Operator at the close of each calendar month, and the accounts of the Working Interest Owners shall be adjusted accordingly.

11.4 Commingling of Funds. No funds received by Unit Operator under this Agreement need be segregated by Unit Operator or maintained by

it as a joint fund, but may be commingled with its own funds.

11.5 Lien and Security Interest of Unit Operator. Each Working Interest Owner grants to Unit Operator a lien upon its Oil and Gas Rights in each tract, and a security interest in its share of Unitized Substances when extracted, and in its interest in all Unit Equipment, to secure payment of its share of Unit Expense, together with interest thereon at the rate of ten percent (10%) per annum. To the extent that Unit Operator has a security interest under the Uniform Commercial Code of the State, Unit Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by the Unit Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Working Interest Owner in the payment of its share of Unit Expense, Unit Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest, has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of any default.

11.6 Unpaid Unit Expense. If any Working Interest Owner fails to pay its share of Unit Expense within sixty (60) days after rendition of a statement therefor by Unit Operator, each Working Interest Owner agrees, upon request by Unit Operator, to pay its proportionate part of the unpaid share of Unit Expense of the defaulting Working Interest Owner. The Working Interest Owners that pay the share of Unit Expense of a

defaulting Working Interest Owner shall be reimbursed by the Unit Operator for the amount so paid, plus any interest collected thereon, upon receipt by Unit Operator of any past due amount collected from the defaulting Working Interest Owner. Any Working Interest Owner so paying a defaulting Working Interest Owner's share of Unit Expenses shall be subrogated to the lien and rights herein granted Unit Operator.

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

11.8 Uncommitted Royalty. Should an owner of a Royalty Interest in any Tract fail to become a party to the Unit Agreement, and, as a result thereof, the actual Royalty Interest payments with respect to such Tract are more or less than the Royalty Interest payments computed on the basis of the Unitized Substances that are allocated to such Tract under the Unit Agreement to the extent provided below, the difference shall be borne by or inure to the benefit of Working Interest Owners, in proportion to their respective Unit Participation; however, the difference to be borne by or inure to the benefit of Working Interest Owners shall not exceed an amount

computed on the basis of one-eighth (1/8) of the difference between the Unitized Substances allocated to the Tract and the Unitized Substances produced from the Tract. Such adjustments shall be made by charges and credits to the joint account.

11.9 Carved-Out Interest. If any Working Interest Owner shall, after executing this Agreement, create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its Working Interest, such carved-out interest shall be subject to the terms and provisions of this Agreement, specifically including, but without limitation, Section 11.5 hereof entitled "Lien and Security Interest of Unit Operator". If the Working Interest Owner creating such carved-out interest (a) fails to pay any Unit expense chargeable to such Working Interest Owner under this Agreement, and the production of Unitized Substances accruing to the credit of such Working Interest Owner is insufficient for that purpose, or (b) withdraws from this Agreement under the terms and provisions of Article 17 hereof, the carved-out interest shall be chargeable with a prorata portion of all Unit Expense incurred hereunder, the same as though such carved-out interest were a Working Interest, and Unit Operator shall have the right to enforce against such carved-out interest the lien and

all other rights granted in Section 11.5 for the purpose of collecting the Unit Expense chargeable to the carved-out interest.

ARTICLE 12

OPERATION OF NON-UNITIZED FORMATIONS

12.1 Right to Operate in Non-Unitized Formations. Any Working Interest Owner now having, or hereafter acquiring, the right to drill for and produce oil, gas or other minerals, other than Unitized Substances, within the Unit Area shall have the full right to do so notwithstanding this Agreement. In exercising said right, however, such Working Interest Owner shall exercise every reasonable precaution to prevent unreasonable interference with operations hereunder. No Working Interest Owner, other than Unit Operator, shall produce Unitized Substances through any well drilled or operated by it. If any such other Working Interest Owner drills any well into or through the Unitized Formation, the Unitized Formation shall be cased or otherwise protected in such a manner that the Unitized Formation and the production of Unitized Substances will not be adversely affected.

ARTICLE 13

TITLES

13.1 Warranty and Indemnity. Each Working Interest Owner represents and warrants that it is the owner of the respective Working

Interest set forth opposite its name in Exhibit B of the Unit Agreement and hereby agrees to indemnify and hold harmless the other Working Interest Owners from any loss and liability for damages due to failure (in whole or in part) of its title to any such interests, except failure of title arising out of operations hereunder; provided that such warranty and indemnity shall be limited to an amount equal to the net value that has been received from the sale of Unitized Substances attributed to the interest as to which title failed. In the event of such title failure, the interest of the parties hereto shall be revised to reflect the true Unit Participation. Each failure of title shall be effective, insofar as this Agreement is concerned, as of 7:00 A.M. on the first day after such title failure is determined and there shall be no retroactive adjustment of development and operating expenses, Unitized Substances or the proceeds therefrom, as a result of title failure.

13.2 Failure Because of Unit Operations. The failure of title to any Working Interest in any Tract by reason of Unit operations, including non-production from such Tract, shall not change the Unit Participation of the Working Interest Owner whose title failed, in relation to the Unit Participation of the the other Working Interest Owners at the time of the title failure.

ARTICLE 14

LIABILITY, CLAIMS AND SUITS

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

14.2 Settlements. In the event a claim is made against a Working Interest Owner, or any Working Interest Owner is sued on account of any matter or thing arising from the development and operation of the Unit Area, and over which such Working Interest Owner individually has no control because of the rights, powers and duties granted by this Agreement and the Unit Agreement, said Working Interest Owner shall immediately notify the Unit Operator of such claim or suit. Unit Operator shall assume and take over the further handling of such claim or suit and all costs and expenses of handling, settling or otherwise discharging such claim or suit shall be borne by Working Interest Owners as any other cost or expense of operating the Unit Area. Unit Operator may settle any single damage claim or suit involving Unit operations but not involving an expenditure of more than two thousand dollars (\$2,000.00), provided the payment is in complete settlement of such claim or suit.

ARTICLE 15

INTERNAL REVENUE PROVISION

15.1 Internal Revenue Provision. Each party hereto hereby irrevocably elects that it and the operations covered by this Agreement be excluded from the application of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954 as permitted and authorized by Section 761 of said Code and the regulations promulgated thereunder. Unit Operator is hereby irrevocably authorized and directed to execute on behalf of each party hereto such additional or further evidence of said election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service and regulations issued under said Subchapter K, including all of the returns, statements and data required, and Unit Operator shall furnish each party hereto a copy thereof. Should said regulations require each party to execute such further evidence, each party hereto irrevocably agrees to execute or join in the execution thereof. Each party hereto irrevocably agrees not to give any notices or take any action inconsistent with the elections hereby made and each hereby states that the income derived by it from the operations under this Agreement can be adequately determined without the computation of partnership taxable income.

ARTICLE 16

NOTICES

16.1 Notices. All notices required hereunder shall be in writing and shall be deemed to have been properly served when sent by mail or

telegram to the address of the representative of each Working Interest Owner as furnished to Unit Operator in accordance with Article 4 hereof.

ARTICLE 17

WITHDRAWAL OF WORKING INTEREST OWNER

17.1 Withdrawal . If any Working Interest Owner so desires, it may withdraw from this Agreement by conveying, assigning and transferring, without warranty of title (either expressed or implied) to the other Working Interest Owners who do not desire to withdraw herefrom, all of the former's rights, title and interest in and to its lease or leases, or other operating rights in the Unit Area, insofar as said lease, leases or rights pertain to the Unitized Formation, together with the withdrawing Working Interest Owner's interest in all wells, pipe lines, casing, injection equipment facilities and other personal property used in conjunction with the development and operation of the Unit Area; provided, that such transfer, assignment or conveyance shall not relieve said Working Interest Owner from any obligation or liability 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 other Working Interest Owners in proportion to their respective Unit Participations, and the Unit Operator shall recompute the percentage of participation to include this change and furnish the remaining Working Interest Owners with a corrected interest sheet.

After the execution and delivery of such transfer, assignment or conveyance, the withdrawing Working Interest Owner shall be relieved from all further obligations and liability hereunder and under said Unit Agreement; and the right of such Working Interest Owner to any benefits subsequently accruing hereunder and under said Unit Agreement shall cease; provided, that upon delivery of said transfer, assignment or conveyance, the assignees, in the ratio of the respective interests so acquired, shall pay to the assignor for its interest in all jointly-owned equipment, casing and other personal property, the fair salvage value thereof, as estimated and fixed by the remaining Working Interest Owners.

ARTICLE 18

ABANDONMENT OF WELLS

18.1 Rights of Former Owners. If Working Interest Owners decide to permanently abandon any well within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice of such fact to the former Working Interest Owner of the Tract on which such well is located, together with the amount (as estimated and fixed by the Working Interest Owners) to be the net salvage value of the equipment in and on said well. Said former Working Interest Owner shall have the right and option for a period of ninety (90) days after receipt of such notice to notify Unit Operator of its election to take over and own said well and to deepen or plug back said well to a formation other than the Unitized Formation. Within ten (10) days after said former Working Interest Owner of the Tract has so notified Unit Operator of its desire

to take over such well, it shall pay to Unit Operator, for credit to the joint account of the Working Interest Owners, the amount of the net salvage value above described. At the same time the former Working Interest Owner taking over the well shall agree, by letter addressed to Unit Operator, to effectively seal off and protect the Unitized Formation and, at such time as the well is ready for abandonment, to plug and abandon the well in a workmanlike manner in accordance with applicable laws and regulations.

18.2 Plugging. In the event the former Working Interest Owner of a Tract does not elect to take over a well located thereon which is proposed for abandonment, Unit Operator shall plug and abandon the well in accordance with applicable laws and regulations.

ARTICLE 19

EFFECTIVE DATE AND TERM

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

19.2 Term. This Agreement shall continue in full force and effect so long as the Unit Agreement remains in force and effect and thereafter until all Unit wells have been plugged and abandoned or turned over to Working Interest Owners in accordance with Article 20 hereof, and all personal and real property acquired for the joint account of Working Interest Owners has been disposed of by Unit Operator in accordance with instructions of Working Interest Owners

and there shall have been a final accounting.

ARTICLE 20

TERMINATION OF UNIT AGREEMENT

20.1 Termination. Upon termination of the Unit Agreement the following shall occur.

20.1.1 Oil and Gas Rights. Possession of all oil and gas rights in and to the several separate tracts shall revert to the Working Interest Owners thereof.

20.1.2 Right to Operate. Working Interest Owners of any such Tract desiring to take over and continue to operate a well or wells located thereon may do so by paying Unit Operator, for the credit of the joint account, the net salvage value as determined by Working Interest Owners, of the equipment in and on the well, and agreeing in writing to properly plug the well at such time as it is abandoned.

20.1.3 Salvaging and Abandonment of Wells. With respect to all wells not taken over by the Working Interest Owners, Unit Operator shall, at the joint expense of Working Interest Owners, salvage as much of the casing and equipment in or on such wells as can economically and reasonably be salvaged, and

shall cause such wells to be properly plugged and abandoned.

20.1.4 Cost of Salvaging. Working Interest Owners shall share the cost of salvaging, liquidation or other distribution of assets and properties used in the development and operation of the Unit Area in proportion to their respective Unit Participation, as shown on Exhibit D.

ARTICLE 21

COUNTERPART EXECUTION

21.1 Execution by Separate Counterparts or Ratifications.

This Agreement may be executed 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 of the parties to the aggregate counterparts had signed the same instrument; or may be ratified by a separate instrument in writing referring to this Agreement. Each such ratification shall have the force and effect of an executed counterpart and of adopting by reference all of the provisions hereof.

ARTICLE 22

SUCCESSORS AND ASSIGNS

22.1 Successors and Assigns. The terms and provisions hereof shall be covenants running with the lands and unitized leases covered hereby and shall be binding upon and inure to the benefit of

the respective heirs, successors and assigns of the parties hereto.

No party hereto shall assign or convey less than his entire interest in any Tract committed hereto unless such leased interest, if any, is an undivided interest in such entire tract; and, should any interest committed hereto be or become owned by three (3) or more parties, then all of such parties shall be obligated to appoint a single agent to represent such interest for the purpose of accepting billings and receiving payments, if any, arising hereunder, or under the Unit Agreement, and for voting upon any matter which is the subject of determination by the Working Interest Owners.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement upon the respective dates indicated opposite their respective signatures.

ATTEST:

ANADARKO PRODUCTION COMPANY

BY _____

Date: _____

UNIT OPERATOR AND WORKING INTEREST
OWNER

STATE OF TEXAS X
 X
COUNTY OF TARRANT X

The foregoing instrument was acknowledged before me this
_____ day of _____ 1972 by _____,

Vice President of Anadarko Production Company, a Delaware Corporation,
on behalf of said Corporation.

My Commission Expires:

Notary Public in and for Tarrant
County, Texas

EXHIBIT D
TO
UNIT OPERATING AGREEMENT
BALLARD GRAYBURG SAN ANDRES UNIT
EDDY COUNTY, NEW MEXICO

SUMMARY OF OWNERSHIP BY WORKING INTEREST OWNER

Anadarko Production Company

| | |
|-----------------------------------|----------------|
| Tract 4 | 0.28600 |
| Tract 5 | 16.25966 |
| Tract 6 | 3.19892 |
| Tract 14 | 7.02962 |
| Tract 15 | 6.88186 |
| Tract 18 | 0.31000 |
| Tract 20 | 1.96194 |
| Tract 21 | 2.30388 |
| Tract 22 | <u>0.85100</u> |
| Total Anadarko Production Company | 39.08288 |

Bassett-Birney Oil Corporation

| | |
|--------------------------------------|----------------|
| Tract 3 | 0.62002 |
| Tract 19 | <u>1.90266</u> |
| Total Bassett-Birney Oil Corporation | 2.52268 |

Frank Darden

| | |
|--------------------|----------------|
| Tract 11 | 0.19674 |
| Tract 17 | <u>0.05377</u> |
| Total Frank Darden | 0.25051 |

DEPCO, Inc.

| | |
|-------------------|----------------|
| Tract 1 | 1.19824 |
| Tract 2 | 1.57421 |
| Tract 8 | 2.01167 |
| Tract 13 | 1.70987 |
| Tract 16 | 0.15500 |
| Tract 16A | 0.66368 |
| Tract 23 | <u>1.62491</u> |
| Total DEPCO, Inc. | 8.93758 |

EXHIBIT D
TO
UNIT OPERATING AGREEMENT
BALLARD GRAYBURG SAN ANDRES UNIT
EDDY COUNTY, NEW MEXICO

SUMMARY OF OWNERSHIP BY WORKING INTEREST OWNER

Husky Oil Company

| | |
|-------------------------|----------------|
| Tract 1 | 1.19824 |
| Tract 2 | 1.57421 |
| Tract 8 | 2.01167 |
| Tract 13 | 1.70987 |
| Tract 16 | 0.15500 |
| Tract 16A | 0.66368 |
| Tract 23 | <u>1.62491</u> |
| Total Husky Oil Company | 8.93758 |

I & L Development Company

| | |
|---------------------------------|----------------|
| Tract 7 | 0.38751 |
| Tract 7A | 0.18266 |
| Tract 10 | 0.69610 |
| Tract 11 | 0.62301 |
| Tract 17 | 0.17026 |
| Tract 26 | <u>0.20352</u> |
| Total I & L Development Company | 2.26306 |

Sam Lett

| | |
|----------------|----------------|
| Tract 7 | 0.38751 |
| Tract 7A | 0.18267 |
| Tract 10 | 0.69610 |
| Tract 11 | 0.62300 |
| Tract 17 | 0.17026 |
| Tract 26 | <u>0.20353</u> |
| Total Sam Lett | 2.26307 |

Southland Royalty Company

| | |
|---------------------------------|----------------|
| Tract 4 | 0.28600 |
| Tract 6 | 3.19892 |
| Tract 14 | 7.02962 |
| Tract 20 | <u>1.96194</u> |
| Total Southland Royalty Company | 12.47648 |

EXHIBIT D
TO
UNIT OPERATING AGREEMENT
BALLARD GRAYBURG SAN ANDRES UNIT
EDDY COUNTY, NEW MEXICO

SUMMARY OF OWNERSHIP BY WORKING INTEREST OWNER

Texas American Oil Corporation

| | |
|----------------------------------|----------------|
| Tract 9 | 4.46098 |
| Tract 12 | 1.55230 |
| Tract 24 | 0.77502 |
| Tract 24A | 0.15500 |
| Tract 25 | <u>6.03448</u> |
| Total Texas American Corporation | 12.97778 |

J. Cleo Thompson & James Cleo Thompson, Jr.

| | |
|--|----------------|
| Tract 7 | 1.55004 |
| Tract 7A | 0.73067 |
| Tract 10 | 2.78440 |
| Tract 11 | 2.49203 |
| Tract 17 | 0.68105 |
| Tract 26 | <u>0.81411</u> |
| Total J. Cleo Thompson and James Cleo Thompson, Jr. | 9.05230 |

Yates Petroleum Corporation

| | |
|-----------------------------------|----------------|
| Tract 1 | <u>1.23608</u> |
| Total Yates Petroleum Corporation | 1.23608 |

| | |
|------------|-----------|
| UNIT TOTAL | 100.00000 |
|------------|-----------|

EXHIBIT " E "

Attached to and made a part of Unit Operating Agreement
Ballard Grayburg San Andres Unit, Eddy County
New Mexico dated May 1, 1972

ACCOUNTING PROCEDURE JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

"Controllable Material" shall be defined as set forth under the subparagraph selected below:

- A. ☒ Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.
- B. ☐ Material which is ordinarily so classified and controlled by Operator in the conduct of its operations. List shall be furnished Non-Operators upon request.

2. Statements and Billings

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

- A. ☐ Statement in detail of all charges and credits to the Joint Account.
- B. ☐ Statement of all charges and credits to the Joint Account, summarized by appropriate classifications indicative of the nature thereof.
- C. ☒ Statement of all charges and credits to the Joint Account, summarized by appropriate classification indicative of the nature thereof, except that items of Controllable Material and unusual charges and credits shall be detailed.

3. Advances and Payments by Non-Operators

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

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of ten per cent (10%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser.

4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of

any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of the Joint Property as provided for in Section VII.

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, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

6. Approval by Non-Operators

Where an approval or other agreement of Non-Operators is expressly required under Paragraphs 5A, 5B, 6A and 8 of Section II, Section III, Section V, Section VI, and Paragraph 4 of Section VII, of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, the Operator shall notify all Non-Operators and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

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

2. Labor

- A. (1) Salaries and wages of Operator's employees directly employed on the Joint Property in the conduct of Joint Operations.
- (2) Salaries of first-level supervisors in the field if such charges are excluded from overhead rates in Option A of Section III.
- (3) Salaries and wages of technical employees temporarily assigned to and directly employed on the Joint Property if such charges are excluded from overhead rates in Option B of Section III.
- (4) Salaries and wages of technical employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from overhead rates in Option C of Section III.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to the employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1A of Section III; except that in the case of those employees only a pro rata portion of whose salaries and wages are chargeable to the Joint Account under Paragraph 1A of Section III, not more than the same pro rata portion of the benefits and allowances herein provided for shall be charged to the Joint Account. Cost under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1A of Section III. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
- C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's labor cost of salaries and wages chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1A of Section III.
- D. Reasonable personal expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and for which expenses the employees are reimbursed under Operator's usual practice.

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 chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1A of Section III shall be chargeable as indicated in the subparagraph selected below:

- A. ☐ Operator's actual cost.
- B. ☒ Operator's actual cost not to exceed fifteen per cent (15%).

4. Material

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. So far as it is reasonably practical and consistent with efficient and economical operation, only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use; and the accumulation of surplus stocks shall be avoided.

5. Transportation

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

- A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by Operator and Non-Operators.
- B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by Operators and Non-Operators. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by Operator and Non-Operators.
- C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking costs of \$100 or less.

6. Services

- A. The cost of contract services and utilities procured from outside sources other than services covered by Paragraph 8 of this Section II and Paragraph 1B of Section III. The cost of professional consultant services shall not be charged to the Joint Account unless agreed to by Operator and Non-Operators.
- B. Use and service of equipment and facilities furnished by Operator as provided in Paragraph 5 of Section IV.

7. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except to the extent that the damage or loss could have been avoided through the exercise of reasonable diligence on the part of Operator. Operator shall furnish Non-Operators written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

8. Legal Expense

All costs and expenses of handling, investigating, and settling litigation or claims arising by reason of the Joint Operations or necessary to protect or recover the Joint Property, including, but not limited to, attorney's fees, court costs, cost of investigation or procuring evidence and amounts paid in settlement or satisfaction of any such litigation or claims; provided, (a) no charge shall be made for the services of Operator's legal staff or other regularly employed personnel (such services being considered to be Administrative Overhead under Section III), unless agreed to by Operator and Non-Operators, and (b) no charge shall be made for the fees and expenses of outside attorneys unless the employment of such attorneys is agreed to by Operator and Non-Operators.

9. Taxes

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

10. Insurance

Net premiums paid for insurance required to be carried on the Joint Property for the protection of the Parties.

In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Workmen's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge therefor on the following basis:

None

11. Other Expenditures

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

III. INDIRECT CHARGES

Operator may charge the Joint Account for indirect costs either by use of an allocation of district expense items plus

the rate for administrative overhead, and plus the warehousing charges, all as provided for in Paragraph 1 of this Section III or by combining all three of said items under the rates provided for in Paragraph 2 or 3 of this Section III, as indicated next below:

OPERATOR SHALL CHARGE INDIRECT COSTS TO THE JOINT ACCOUNT UNDER THE TERMS OF:

- ☐ Paragraph 1. (District Expense, Administrative Overhead and Warehousing)
☒ Paragraph 2. (Combined Rates - Well Basis)
☐ Paragraph 3. (Combined Rates - Percentage Basis)

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

THE OVERHEAD RATES PROVIDED FOR IN ANY OF THE PARAGRAPHS SELECTED ABOVE

- A. ☒ shall ☐ shall not include salaries and personal expenses of first-level supervisors in the field.
 B. ☒ shall ☐ shall not include salaries, wages and personal expenses of technical employees temporarily assigned to and directly employed on the Joint Property.
 C. ☒ shall ☐ shall not include salaries, wages and personal expenses of technical employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property.

1. District Expense, Administrative Overhead and Warehousing

A. District Expense

Operator shall charge the Joint Account with a pro rata portion of the salaries, wages and expenses of Operator's production superintendent and other employees serving the Joint Property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's _____

_____ office located at or near _____ (or a comparable office if location changed); and necessary sub-offices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in connection with the operations of the Joint Property and other properties in the same operating area. The expense of, less any revenue from, such facilities may, at the option of Operator, include depreciation of investment or a fair monthly rental in lieu of depreciation. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.

B. Administrative Overhead

Operator shall charge administrative overhead to the Joint Account at the following rates, which charge shall be in lieu of the cost and expense of all offices of the Operator not covered by Paragraph 1A of this Section III, including salaries, wages and expenses of personnel assigned to such offices. Such charge shall be in addition to the salaries, wages and expenses of employees of Operator authorized to be charged direct as provided in Paragraphs 2 and 8 of Section II. Such charge shall be made on the basis indicated below, either (1) well basis or (2) percentage basis, at the rates shown thereunder.

(1) ☐ Well Basis

RATE PER WELL PER MONTH

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

(2) ☐ Percentage Basis

PERCENTAGE BASIS

Development:

_____ Percent (%) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 8 of Section II and all salvage credits.

Operating:

_____ Percent (%) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 1 and 8 of Section II, all salvage credits, the value of injected substances purchased for

secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

C. Operator's Warehouse Operating and Maintenance Expense

- ☐ Included in district expense
☐ No charge either direct or indirect
☐ Percentage basis (describe fully) _____

2. Combined Rates - Well Basis

Operator shall charge the Joint Account for the services covered by Paragraph 1 of this Section III on the basis indicated below:

| RATE PER WELL PER MONTH | | | | |
|-------------------------|---|--|-----------|--------------------|
| Well Depth | DRILLING WELL RATE (Use Total Depth) | PRODUCING WELL RATE (Use Current Producing Depth) | | |
| | Each Well | First Five | Next Five | All Wells Over Ten |
| All Unutilized Wells | \$577. | \$80. | \$75 | \$64 |
| _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ |

3. Combined Rates - Percentage Basis

Operator shall charge the Joint Account for the services covered by Paragraph 1 of this Section III on the basis indicated below:

PERCENTAGE BASIS

A. Development:

_____ Percent (%) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 8 of Section II and all salvage credits.

B. Operating:

_____ Percent (%) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 1 and 8 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

4. Application of Administrative Overhead or Combined Rates - Well Basis

The following limitations, instructions and charges shall apply in the application of the rates as provided under either Paragraph 1B (1) or Paragraph 2 of this Section III.

A. Charges for drilling wells shall begin on the date each well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.

B. The status of wells shall be as follows:

- (1) Producing gas wells, injection wells for recovery operations, water supply wells utilized for waterflood-ing operations and salt water disposal wells shall be considered the same as producing oil wells.
- (2) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the well schedule at the time the shutdown is effected. Any well being plugged or produced during any portion of the month shall be considered as a producing well for the entire month.
- (3) Wells being plugged back, drilled deeper, converted to a source or input well, or which are undergoing any type of workover that requires the use of a drilling rig or workover rig capable of drilling shall be considered the same as drilling wells.
- (4) Temporarily shut-down wells, which are not produced or worked upon for a period of a full calendar month, shall not be included in the well schedule, provided however, wells shut in by governmental regulatory body shall be included in the well schedule only in the event the allowable production is transferred to some other well or wells on the Joint Property. In the event of a unit allowable, shut-in wells shall be counted in determining the charge hereunder for such month if said wells contribute allow-able production that is actually produced during such month from one or more unit wells as a result of allowable transfer, inclusion in the unit allowable or other circumstances, but the total shut-in well count shall be limited to the minimum number of shut-in wells necessary to provide the contributed allowable actually produced during the month.
- (5) Gas wells shall be included in the well schedule if directly connected to a permanent sales outlet even though temporarily shut in due to overproduction or failure of purchaser to take the allowed production.
- (6) Wells completed in multiple horizons, shall be considered as a producing well for each separately pro-ducing horizon, providing each completion is considered a separate well by governmental or other state-wide regulatory authority.

- C. The well rates for producing wells shall be applied to the individual leases; provided that, whenever leases covered by this agreement are operated as a unitized project, the well rates shall be applied to the total number of producing wells, irrespective of individual leases.
- D. The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the preceding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian Index as published by the Dominion Bureau of Statistics, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.
- 5. Application of Administrative Overhead or Combined Rates - Percentage Basis**
For the purpose of determining charges on a Percentage Basis under Paragraph 1B (2) or Paragraph 3 of this Section III, Development shall include all costs in connection with drilling, redrilling, deepening or any remedial operations on any or all wells involving the use of drilling crew and equipment; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when well is not completed as a producer; and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 6 of this Section III. All other costs shall be considered as Operating.
- 6. Major Construction Overhead**
For the construction of compressor plants, water stations, secondary recovery systems, drilling and production platforms, salt water disposal facilities, and other such projects, as distinguished from the more usual drilling and producing operations, Operator in addition to the Administrative Overhead or Combined Rates provided for in Paragraph 1, 2 or 3 of this Section III shall either negotiate a rate prior to beginning of construction or shall charge the Joint Account with an additional overhead charge as follows:
- A. Total cost less than \$25,000, no charge.
 - B. Total cost more than \$25,000, but less than \$100,000, 3 % of total cost.
 - C. Total cost of \$100,000 or more, 3 % of the first \$100,000 plus 2 % of all over \$100,000 of total cost.
- Total cost shall mean the total gross cost of any one project. For the purpose of this paragraph the component parts of a single project shall not be treated separately and the cost of drilling wells shall be excluded.
- 7. Amendment of Rates**
The specific rates provided for in this Section III may be amended from time to time by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

IV. BASIS OF CHARGES TO JOINT ACCOUNT

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

1. Purchases

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

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

A. New Material (Condition "A")

- (1) Tubular goods, except line pipe, shall be priced on a maximum carload and/or barge load weight basis regardless of quantity transferred and equalized to the lowest prevailing price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available effective at date of transfer.
- (2) Line pipe shall be priced at the current replacement cost effective at date of transfer from a reliable supply store nearest the Joint Property where such Material is normally available if the movement is less than 30,000 pounds. If the movement is 30,000 pounds or more, it shall be priced on the same basis as casing and tubing under Subparagraph (1) of this paragraph.
- (3) When the Operator has equalized actual hauling costs as provided for in Paragraph 5 of Section II, Operator is permitted to include ten cents (10¢) per hundred-weight on all tubular goods furnished from his stocks in lieu of loading and unloading costs sustained.
- (4) Other Material shall be priced at the current replacement cost of the same kind of Material, effective at date of movement and f.o.b. the supply store or railway receiving point nearest the Joint Property where Material of the same kind is normally available.

(5) The Joint Account shall not be credited with cash discounts applicable to prices provided for in this Paragraph 2 of Section IV.

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

- (1) Material in sound and serviceable condition and suitable for reuse without reconditioning, shall be classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material.
- (2) Material which is not suitable for its original function until after reconditioning shall be furnished to the Joint Account under one of the two methods defined below:
 - (a) Classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material. The cost of reconditioning shall be absorbed by the Operator of the transferring property.
 - (b) Classified as Condition "C" and priced at fifty per cent (50%) of current price of new Material. The cost of reconditioning also shall be charged to the receiving property, provided Condition "C" value, plus cost of reconditioning, does not exceed Condition "B" value.
- (3) Obsolete Material or Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose.
- (4) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at prices specified in Paragraphs 1 and 2 of this Section IV because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in procuring such Material, in making it suitable for use, and in moving it to the Joint Property, provided, that notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within 10 days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished by Operator

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

5. Equipment and Facilities Furnished by Operator

- A. Operator shall charge the Joint Account for use of equipment and facilities at rates commensurate with cost of ownership and operation. Such rates shall include cost of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed six per cent (6%) per annum, provided such rates shall not exceed those currently prevailing in the immediate area within which the Joint Property is located. In lieu of rates based on costs of ownership and operation of equipment, other than automotive, Operator may elect to use commercial rates prevailing in the area of the Joint Property less 20%; for automotive equipment, rates as published by the Petroleum Motor Transport Association may be used. Rates for laboratory services shall not exceed those currently prevailing if performed by outside service laboratories. Rates for trucks, tractors and well service units may include wages and expenses of operator.
- B. Whenever requested, Operator shall inform Non-Operators in advance of the rates it proposes to charge.
- C. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

V. DISPOSAL OF MATERIAL

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

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

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

2. Division in Kind

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

3. Sales to Outsiders

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

VI. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

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

1. New Price Defined

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

2. New Material

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

3. Good Used Material

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

- A. At seventy-five per cent (75%) of current new price if Material was charged to Joint Account as new, or
- B. At sixty-five per cent (65%) of current new price if Material was originally charged to the Joint Account as secondhand at seventy-five 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. Is not in sound and serviceable condition but suitable for reuse after reconditioning, or
- B. Is serviceable for original function but not suitable for reconditioning.

5. Bad-Order Material

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

6. Junk Material

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

7. Temporarily Used Material

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

VII. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

4. Expense of Conducting Periodic Inventories

The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by Operator and Non-Operators.

EXHIBIT "F"

INSURANCE PROVISIONS
BALLARD GRAYBURG SAN ANDRES UNIT
EDDY COUNTY, NEW MEXICO

With respect to producing operations conducted hereunder, Unit Operator shall at all times purchase or provide for the protection and benefit of the parties hereto, protection comparable to that afforded under standard form policies of insurance for:

- (a) Workmen's compensation insurance to comply with the applicable Federal and State workmen's compensation laws to be billed to the Joint Account under the provisions of Paragraph 10 of Section II - Direct Charges, COPAS 1968 Accounting Procedure.
- (b) General public liability insurance with bodily injury limits of \$100,000.00 any one person, \$300,000.00 any one accident. The Joint Account will not be charged for this coverage.
- (c) General public liability property damage insurance with limits of \$100,000.00 for each accident. The Joint Account will not be charged for this coverage.
- (d) Automobile public liability insurance with bodily injury limits of \$100,000.00 any one person, \$300,000.00 any one accident, and property damage limit of \$100,000.00 any one accident. The cost of this coverage is included in the transportation rate applicable to vehicle use under Paragraph 3 above.

All losses not covered by standard form policies of insurance for the hazards set out above shall be borne by the parties hereto as their interests appear at the time of any loss.

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EXHIBIT "C"
TO
UNIT AGREEMENT
BALLARD GRAYBURG SAN ANDRES UNIT
EDDY COUNTY, NEW MEXICO

| <u>Tract Number</u> | <u>Tract Description</u> | <u>Tract Participation</u> |
|--|--|----------------------------|
| <u>All Township 18 South - Range 29 East</u> | | |
| 1 | Section 7: Lots 1 and 2 and E/2 NW/4 | 3.62016 |
| 2 | Section 7: N/2 NE/4 | 3.13472 |
| 3 | Section 7: S/2 NE/4 | 0.62002 |
| 4 | Section 7: SE/4 SE/4 | 0.57196 |
| 5 | Section 8: E/2 | 16.19298 |
| 6 | Section 6: SE/4 and SE/4 SW/4 | 6.38204 |
| 7 | Section 17: W/2 NE/4 | 2.32360 |
| 7A | Section 17: NE/4 NE/4 | 1.09514 |
| 8 | Section 5: NW/4 NE/4 and NE/4 NW/4 | 4.00818 |
| 9 | Section 5: SE/4 NW/4 and SW/4 NE/4 | 4.45014 |
| 10 | Section 4: W/2 NW/4 Section 5: E/2 NE/4 | 4.16908 |
| 11 | Section 6: E/2 NE/4 | 3.92890 |
| 12 | Section 8: NW/4 NW/4 | 1.54748 |
| 13 | Section 5: W/2 NW/4 | 3.41022 |
| 14 | Section 8: E/2 SW/4 and SW/4 SW/4 | 14.01200 |
| 15 | Section 8: E/2 NW/4 and SW/4 NW/4 | 7.06706 |