

<u>TRACT NUMBER</u>	<u>WORKING INTERESTS</u>		
	<u>Signed Up</u>	<u>Verbal Commitment*</u>	<u>No Commitment</u>
1	34.03%	65.97%	
2	100.00%		
3	100.00%		
4	100.00%		
5	100.00%		
6	100.00%		
7	100.00%		
8	66.67%		33.33%
9	100.00%		
10	100.00%		
11		100.00%	
12	100.00%		
13		100.00%	
14	100.00%		
15	100.00%		
16	24.08%	75.92%	
17	100.00%		
18	100.00%		
19	17.01%	82.99%	
20	34.03%	65.97%	
21	100.00%		
22	75.00%		25.00%

TOTAL PERCENTAGE COMMITMENT BASED ON FORMULA: SIGNED & VERBAL 98.93%
UNCOMMITTED 1.07%
100.00%

*VERBAL COMMITMENT INDICATED THE PARTIES UNDER THIS CATEGORY HAVE EXPRESSED EITHER READINESS TO SIGN PENDING MINOR CHANGES IN THE UNIT AGREEMENT AND OPERATING AGREEMENT, OR ARE PRESENTLY CIRCULATING INTERNALLY THE AGREEMENTS FOR SIGNATURES.

BEFORE EXAMINER STAMETS

OIL CONE... ..ION

CASE 5030 & 5031

Submitted Yes

Hearing Date 7-25-73

EXHIBIT VI

UNIT OPERATING AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
ARTESIA METEX UNIT AREA
COUNTY OF EDDY
STATE OF NEW MEXICO

Index

Preamble

Agreement Proper

Unit Participation Exhibit "C"
Accounting Procedure Exhibit "D"
Insurance Provisions Exhibit "E"

Dated - June 21, 1973

EXHIBIT VII B

*Appl Ex 7-B
5030-5031*

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UNIT OPERATING AGREEMENT

ARTESIA METEX UNIT

EDDY COUNTY, NEW MEXICO

THIS AGREEMENT entered into as of June 21st, 1973, by the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof;

WITNESSETH:

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

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

ARTICLE 1
CONFIRMATION OF UNIT AGREEMENT

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

ARTICLE 2
EXHIBITS

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

2.1.1 Exhibits A and B of the Unit Agreement.

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

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

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

2.2 Revision of Exhibits. Whenever Exhibits A and B are revised, Exhibit C shall be revised accordingly and be effective as of the same date. Unit Operator shall also revise Exhibit C from time to time as required to conform to changes in ownership of which Unit Operator has been notified as provided in the Unit Agreement.

ARTICLE 3
SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

3.1 Overall Supervision. Working Interest Owners shall exercise overall supervision and control of all matters pertaining to Unit Operations pursuant to this agreement and the Unit Agreement, in the exercise of such authority, each Working Interest Owner shall act solely in its own behalf in the capacity of an individual owner and not on behalf of the owners as an entirety.

3.2 Specific Authorities and Duties. The matters with respect to which the Working Interest Owners shall decide and take action shall include, but not be limited to, the following:

3.2.1 Method of Operation. The method of operation, including any type of pressure maintenance, secondary recovery, or other recovery program to be employed.

3.2.2 Drilling of Wells. The drilling of any well whether for production of Unitized Substances, for use as an injection well, or for other purposes.

3.2.3 Well Recompletions and Change of Status. The recompletion, abandonment, or change of status of any well in the Unit Area, or the use of any well for injection or other purposes, except for well servicing or stimulation work on the existing completion interval not exceeding Unit Operator's authority for single expenditures.

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

3.2.5 Disposition of Unit Equipment. The selling or otherwise disposing of any major item of surplus Unit Equipment if the current list price of new equipment similar thereto is three thousand five hundred dollars (\$3,500.00) or more.

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

3.2.7 Audits. The auditing of the accounts of Unit Operator pertaining to Unit Operations hereunder; provided that the audits shall:

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

(c) be made upon not less than thirty (30) days' written notice to Unit Operator, and

(d) be conducted in accordance with the Accounting Procedure, Exhibit D, attached hereto.

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

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

3.2.10 Assignments to Committees. The appointment of committees to study any problems in connection with Unit Operations.

3.2.11 The removal of Unit Operator and the selection of a successor.

3.2.12 The enlargement of the Unit Area.

3.2.13 The adjustment and readjustment of investments.

3.2.14 The termination of the Unit Agreement.

ARTICLE 4 MANNER OF EXERCISING SUPERVISION

4.1 Designation of Representatives. Each Working Interest Owner shall in writing inform Unit Operator of the names and addresses of the representative and alternate who are authorized to represent and bind such Working Interest Owner with respect to Unit Operations. The representative or alternate may be changed from time to time by written notice to Unit Operator.

4.2 Meetings. All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of one or more Working Interest Owners having a total Unit Participation then in effect of not less than ten percent (10%). No meeting shall be called on less than fourteen (14) days' advance written notice with agenda for the meeting attached. Working Interest Owners who attend the meeting shall not be prevented from amending items included in the agenda or from deciding the amended item or other items presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.

4.3 Voting Procedure. Working Interest Owners shall decide all matters coming before them as follows:

4.3.1 Voting Interest. Each Working Interest Owner shall have a voting interest equal to its Unit Participation which is in effect at the time the vote is taken.

4.3.2 Vote Required - Generally. Unless otherwise provided herein or in the Unit Agreement, all matters shall be decided by an affirmative vote of sixty percent (60%) or more voting interest; provided that should any one Working Interest Owner have more than sixty percent (60%) voting interest, its vote must be supported by the vote of one or more Working Interest Owners having a combined voting interest of at least ten percent (10%); provided, however, that if any Working Interest Owner has a voting interest of forty percent (40%) or more,

its negative vote, or failure to vote, shall not serve to disapprove any motion unless such vote is supported by the vote of one or more Working Interest Owners having a combined voting interest of at least ten percent (10%), and such affirmative vote shall be binding upon all parties.

4.3.3 Vote at Meeting by Nonattending Working Interest Owner. Any Working Interest Owner who is not represented at a meeting may vote by letter or telegram addressed to the representative of the Unit Operator if its vote is received prior to the vote on the item.

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 seven (7) days after the proposal is sent to Working Interest Owners. Unit Operator will give prompt notice of the results of the voting to all Working Interest Owners.

ARTICLE 5 INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

5.1 Reservation of Rights. Working Interest Owners severally reserve to themselves all their rights except as otherwise provided in this agreement and the Unit Agreement.

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

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

5.2.2 Reports. The right to receive from Unit Operator, upon written request, copies of all reports to any governmental agency, reports of crude oil runs and stocks, inventory reports, and all other information pertaining to Unit Operations. The cost of gathering and furnishing information not ordinarily furnished by Unit Operator to all Working Interest Owners shall be charged to the Working Interest Owner who requests the information.

ARTICLE 6 UNIT OPERATOR

6.1 Initial Unit Operator. Yates Drilling Company is hereby designated as initial Unit Operator.

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

ARTICLE 7 AUTHORITIES AND DUTIES OF UNIT OPERATOR

7.1 Exclusive Right to Operate Unit. Subject to the provisions of this agreement and to instructions from Working Interest Owners, Unit Operator shall have the exclusive right and be obligated to conduct Unit Operations.

7.2 Workmanlike Conduct. Unit Operator shall conduct Unit Operations in a good and workmanlike manner as would a prudent operator under the same or similar circumstances. Unit Operator shall

freely consult with Working Interest Owners and keep them informed of all matters which Unit Operator, in the exercise of its best judgment, considers important. Unit Operator shall not be liable to Working Interest Owners for damages unless such damages result from its gross negligence or willful misconduct.

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

7.4 Employees. The number of employees used by Unit Operator in conducting Unit Operations, their selection, hours of labor, and compensation shall be determined by Unit Operator. Such employees shall be the employees of Unit Operator.

7.5 Records. Unit Operator shall keep correct books, accounts, and records of Unit Operations.

7.6 Reports to Working Interest Owners. Unit Operator shall furnish to Working Interest Owners periodic reports of Unit Operations as prescribed by Working Interest Owners.

7.7 Reports to Governmental Authorities. Unit Operator shall make all reports to governmental authorities that it has the duty to make as Unit Operator.

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

7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of Ten Thousand Dollars (10,000.00) without prior approval of Working Interest Owners. If an emergency occurs, Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owners as promptly as possible the nature of the emergency and the action taken.

7.10 Wells Drilled by Unit Operator. All wells drilled by Unit Operator shall be at the usual rates prevailing in the area. Unit Operator may employ its own tools and equipment under terms and conditions approved by Working Interest Owners.

ARTICLE 8 TAXES

8.1 Ad Valorem Taxes. Beginning with the first calendar year after the effective date hereof, Unit Operator shall make and file all necessary ad valorem tax renditions and returns with the proper taxing authorities covering all real and personal property of each Working Interest Owner used or held by Unit Operator in Unit Operations. Unit Operator shall settle assessments arising therefrom. All such ad valorem taxes shall be paid by Unit Operator and charges to the joint account; provided that if the interest of a Working Interest Owner is subject to a separately assessed overriding royalty interest, production payment, or other interest in excess of a one-eighth (1/8) royalty, such Working Interest Owner shall be given credit for the reduction in taxes paid resulting therefrom. Any Working Interest Owner dissatisfied with any assessment of its interest shall have the right, at its own expense, to protest and resist the same.

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

ARTICLE 9
INSURANCE

9.1 Insurance. Unit Operator, with respect to Unit Operations, shall do the following:

9.1.1 Carry Workmen's Compensation Insurance in compliance with the Workmen's Compensation Law of the State of New Mexico.

9.1.2 Carry Employers' Liability and other insurance as required by the laws of the State of New Mexico.

9.1.3 Carry other insurance as set forth in Exhibit E.

ARTICLE 10
ADJUSTMENTS OF INVESTMENTS

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

10.1.1 Wells. All wells completed in the Unitized Formation.

10.1.2 Well and Lease Equipment. The casing and tubing in each such well, the wellhead connections thereon, and all other lease and operating equipment that is used in the operation of such wells which Working Interest Owners determine is necessary or desirable for conducting Unit Operations. Working Interest Owners shall make such determination as soon as practicable after the effective date hereof and all of such property that is determined to be surplus shall be returned to the Working Interest Owners who delivered same to Unit Operator; provided, however, that Unit Operator shall have the right to retain and use free of charge in conducting Unit Operations any of such surplus property for a period not to exceed one (1) year after the effective date hereof. Property determined by Working Interest Owners to be surplus shall not be considered to have been taken over under this agreement.

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

10.2 Inventory and Evaluation of Personal Property. Working Interest Owners shall, as soon as feasible after the effective date, at Unit Expense, inventory and evaluate, in accordance with the provisions of Exhibit D, the personal property taken over under Section 10.1.2, except that casing shall be given no value. Such inventories shall include and be limited to those items of equipment indicated to be controllable in the COPAS Bulletin No. 6 Material Classification Manual - 1967, except that sucker rods, Kobe tubing of sizes less than two inches (2"), and other items as agreed upon by the Working Interest Owners may be included on the inventories in order to insure a more equitable adjustment of investments. All other non-controllable items of lease and well equipment installed within the Unit Area that are required in Unit Operations, although excluded from the inventories, shall nevertheless be taken over by the Unit Operator. Immediately following completion of such inventory, the material and equipment taken over under Section 10.1.2 shall be priced in accordance with the provisions of Section IV, paragraph 2

of Exhibit D, Accounting Procedure, or at an appraised value as determined by the Working Interest Owners, which pricing shall be performed under the supervision of, by the personnel of, and in the offices of the Unit Operator, with other Working Interest Owners furnishing such additional pricing help as may be available and necessary.

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

10.4 General Facilities. The Acquisition of warehouses, warehouse stocks, lease houses, camps, facility systems, and office buildings necessary for Unit Operations shall be by negotiation by the Owners thereof and Unit Operator, subject to the approval of Working Interest Owners. There shall be no adjustment for lease roads or appurtenances thereto.

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

ARTICLE 11 UNIT EXPENSE

11.1 Basis of Charge to Working Interest Owners. Unit Operator initially shall pay all Unit Expense. Each Working Interest Owner shall reimburse Unit Operator for its share of Unit Expense. Each Working Interest Owner's share shall be the same as its Unit Participation at the time the expense was incurred. All charges, credits, and accounting for Unit Expense shall be in accordance with Exhibit D.

11.2 Budgets. Before or as soon as practical after the effective date hereof, Unit Operator shall prepare a budget of estimated Unit Expense for the remainder of the calendar year, and on or before the first day of each August thereafter shall prepare such a budget for the ensuing calendar year. A budget shall set forth the estimated Unit Expense by quarterly periods. Budgets shall be estimated only and shall be adjusted or corrected by Working Interest Owners and Unit Operator whenever an adjustment or correction is proper. A copy of each budget and adjusted budget shall promptly be furnished to each Working Interest Owner.

11.3 Advance Billings. Unit Operator shall have the right to require Working Interest Owners to advance their respective shares of estimated Unit Expense by submitting to Working Interest Owners, on or before the 15th day of any month, an itemized estimate thereof for the succeeding month with a request for payment in advance. Within fifteen (15) days thereafter, each Working Interest Owner shall pay to Unit Operator its share of such estimate. Adjustments between estimated and actual Unit Expense shall be made by Unit Operator at the close of each calendar month and the accounts of Working Interest Owners shall be adjusted accordingly.

11.4 Commingling of Funds. No funds received by Unit Operator under this agreement need be segregated or maintained by it as a separate fund, but may be commingled with its own funds.

11.5 Lien of Unit Operator. Each Working Interest Owner grants to Unit Operator a lien upon its Oil and Gas Right in each Tract, its share of Unitized Substances when produced, and its interest in all Unit Equipment as security for payment of its share of Unit Expense together with interest thereon at the rate of ten percent (10%) per annum. Unit Operator shall have the right to bring suit to enforce collection of such indebtedness with or without seeking foreclosure of the lien. In addition, upon default by any Working Interest Owner in the payment of its share of Unit Expense, Unit Operator shall have the right to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest as aforesaid, has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of any default. Provided further, Operator hereby grants to the Non-operating parties a like lien as hereinabove described with the same right and privileges.

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 the 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 right herein granted Unit Operator.

11.7 Uncommitted Royalty. Should an owner of a Royalty Interest in any Tract fail to become a party to the Unit Agreement and, as a result thereof, the actual Royalty Interest payments with respect to such Tract are more or less than the Royalty Interest payments computed on the basis of the Unitized Substances that are allocated to such Tract under the Unit Agreement, the difference shall be borne by or inure to the benefit of Working Interest Owners in proportion to their respective Unit Participations then in effect; 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 on 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.

ARTICLE 12 NON-UNITIZED FORMATIONS

12.1 Right to Operate. Any Working Interest Owner that now has or hereafter acquires the right to drill for and produce oil, gas, or other minerals from other than the Unitized Formation shall have the right to do so notwithstanding this agreement or the Unit Agreement. In exercising the right however, the Working Interest Owner shall exercise reasonable precaution to prevent unreasonable interference with Unit Operations. No Working Interest Owner shall produce Unitized Substances through any well drilled or operated by it. If any Working Interest Owner drills any well into or through the Unitized Formation, the Unitized Formation shall be protected in a manner satisfactory to Working Interest Owners so that the production of Unitized Substances will no be adversely be affected.

ARTICLE 13
TITLES

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

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

ARTICLE 14
LIABILITY, CLAIMS AND SUITS

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

14.2 Settlements. Unit Operator may settle any single damage claim or suit involving Unit Operations but not involving an expenditure in excess of two thousand five hundred dollars (\$2,500.00) provided the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above specified amount, Working Interest Owners shall assume and take over the further handling of the claim or suit unless such authority is expressly delegated to Unit Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit Expense. If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations and over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator by this agreement and the Unit Agreement, the Working Interest Owner shall immediately notify the Unit Operator and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

ARTICLE 15
INTERNAL REVENUE PROVISION

15.1 Internal Revenue Provision. Notwithstanding any provisions herein that the rights and liabilities of the parties hereunder are several and not joint or collective or that this agreement and the operations hereunder shall not constitute a partnership, if for Federal income tax purposes this agreement and the operations hereunder are regarded as a partnership, then each of the parties hereto hereby elects to be excluded from the application of all of the provisions of Subchapter K, Chapter 1, Subtitle A of the Internal Revenue Code of 1954 as permitted and authorized by Section 761 of said Code and the regulation promulgated thereunder. Operator is hereby authorized and

directed to execute on behalf of each of the parties hereto such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761-1 (a). Should there be any requirement that each party hereto further evidence this election, each party hereto agrees to execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. Each party hereto further agrees not to give any notice or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the property covered by this agreement is located, or any future income tax law of the United States, contain, or shall hereafter contain, provisions similar to those contained in Subchapter K, Chapter 1, Subtitle A of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of said Subchapter K is permitted, each of the parties hereto hereby makes such election or agrees to make such election as may be permitted by such laws. In making this election, each of the parties hereto hereby states that the income derived by him 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.

ARTICLE 17 WITHDRAWAL OF WORKING INTEREST OWNER

17.1 Withdrawal. A Working Interest Owner may withdraw from this agreement by transferring, without warranty of title, either express or implied, to the other Working Interest Owners who do not desire to withdraw, all its Oil and Gas Rights together with its interest in all Unit Equipment and in all wells used in Unit Operations. Such transfer shall not relieve said Working Interest Owner from any obligation or liability incurred prior to the date of the delivery of the transfer, which delivery may be made to Unit Operator as Agent for the transferees in proportion to their respective Unit Participations then in effect. The transferees, in proportion to the respective interests as acquired, shall pay transferor for its interest in Unit Equipment the fair salvage value thereof as estimated and fixed by Working Interest Owners. After the date of delivery of the transfer, the withdrawing Working Interest Owner shall be relieved from all further obligations and liability hereunder and under the Unit Agreement and the rights of such Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred. Notwithstanding anything hereinabove set forth in this section, a Working Interest Owner may not withdraw from this agreement by conveying, assigning, and transferring its interest if said Working Interest Owner's interest is burdened by any royalties, overriding royalties, or other burdens in excess of the presently existing burdens, unless the other Working Interest Owners willing to accept the assignment agree to accept said interest subject to the then existing overriding royalties, or other burdens in excess of the presently existing burdens. Nothing in this Article is intended in any way to restrict a Working Interest Owners right to convey its property to any third party; such conveyance, however, to be subject to the terms, covenants, and conditions of the Unit Agreement and Unit Operating Agreement.

ARTICLE 18
INTEREST CARVED OUT BY WORKING INTEREST OWNER

18.1 Carved-Out Interest Subject to This Agreement. In the event any Working Interest Owner shall, after executing this agreement, create any overriding royalty, production payment, net profits, carried interest, or any other interest out of its Working Interest then subject to this agreement, 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 of Unit Operator". In the event the Working Interest Owner creating such carved-out interest (a) fails to pay any costs or expenses chargeable to such Working Interest Owner under this Agreement and the production of Unitized Substances accruing to the credit of such Working Interest 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 pro rata portion of all costs and expenses 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 said Section 11.5 for the purpose of collecting the costs and expenses chargeable to said carved-out interest.

ARTICLE 19
ABANDONMENT OF WELLS

19.1 Rights of Former Owners. If Working Interest Owners decide to abandon permanently any well within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice thereof to the Working Interest Owners of the Tract on which the well is located and they shall have the option for a period of ninety (90) days after the sending of such notice to notify Unit Operator in writing of their election to take over and own the well. Within ten (10) days after the Working Interest Owners of the Tract have notified Unit Operator of their election to take over the well, they shall pay Unit Operator, for credit to the joint account, the amount estimated by Working Interest Owners to be the net salvage value of the casing and equipment in and on the well. The Working Interest Owners of the Tract, by taking over the well, agree to seal off effectively and protect the Unitized Formation and upon abandonment to plug the well in compliance with applicable laws and regulations.

19.2 Plugging. If the Working Interest Owners of a Tract do not elect to take over a well located thereon which is proposed for abandonment, Unit Operator shall plug and abandon the well in compliance with applicable laws and regulations.

ARTICLE 20
EFFECTIVE DATE AND TERM

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

20.2 Term. This agreement shall continue in effect so long as the Unit Agreement remains in effect and thereafter until (a) all unit wells have been abandoned and plugged or turned over to Working Interest Owners in accordance with Article 19, (b) all Unit Equipment and real property acquired for the joint account have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners, and (c) there has been a final accounting.

ARTICLE 21
ABANDONMENT OF OPERATIONS

21.1 Termination. Upon termination of the Unit Agreement the following will occur:

21.1.1 Oil and Gas Rights. Oil and Gas Rights in and to each separate Tract shall no longer be affected by this agreement and thereafter the parties shall be governed by the terms and provisions of the leases, contracts, and other instruments affecting the separate Tracts.

21.1.2 Right to Operate. Working Interest Owners of any Tract that desire to take over and continue to operate wells located thereon may do so by paying Unit Operator, for credit to the joint account, the new salvage value of the casing and equipment in and on the wells taken over, as estimated by Working Interest Owners, and by agreeing to plug properly each well at such time as it is abandoned.

21.1.3 Salvaging Wells. Unit Operator shall salvage as much of the casing and equipment in or on wells not taken over by Working Interest Owners of separate Tracts as can economically and reasonably be salvaged, and shall cause the wells to be plugged and abandoned properly.

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

ARTICLE 22
EXECUTION

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

ARTICLE 23
SUCCESSORS AND ASSIGNS

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

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

WORKING INTEREST OWNERS

ATTEST:

YATES DRILLING COMPANY

Assistant Secretary

By: _____
Vice-President

Date: June 21, 1973

207 S. 4th Street
Artesia, New Mexico 88210

EXHIBIT "C"

ATTACHED TO UNIT OPERATING AGREEMENT
ARTESIA METEX UNIT, EDDY COUNTY,
NEW MEXICO

TRACT NO.	WORKING INTEREST OWNER	WORKING INTEREST IN TRACT (%)	UNIT PARTICIPATION FACTOR
1	Depco, Inc.	32.986110%	.073870
	Husky Oil Co.	32.986110%	.073870
	Yates Petroleum Corp.	34.027780%	.076203
2	Yates Drilling Co.	100.000000%	.029740
3	Harold Kersey	100.000000%	.008657
4	Yates Drilling Co.	100.000000%	.022075
5	Yates Drilling Co.	75.000000%	.008062
	Vilas P. Sheldon	25.000000%	.002688
6	Yates Drilling Co.	75.000000%	.030858
	Vilas P. Sheldon	25.000000%	.010287
7	Yates Drilling Co.	100.000000%	.016730
8	Harold Kersey	33.334000%	.006139
	Walter Granberry	33.333000%	.006138
	Leland Wittkopp	33.333000%	.006138
9	Yates Drilling Co.	100.000000%	.040804
10	Yates Drilling Co.	100.000000%	.025980
11	Cities Service Oil Co.	100.000000%	.093068
12	Yates Drilling Co.	100.000000%	.028647
13	Depco, Inc.	50.000000%	.010032
	Husky Oil Co.	50.000000%	.010032
14	Yates Drilling Co.	100.000000%	.032254
15	Yates Drilling Co.	87.500000%	.021974
	John A Yates	12.500000%	.003139
16	Depco, Inc.	37.960650%	.009580
	Husky Oil Co.	37.960650%	.009580
	Yates Petroleum Corp.	19.912035%	.005025
	Yates Drilling Co.	3.125000%	.000789
	Vilas P. Sheldon	1.041665%	.000263
17	Yates Drilling Co.	81.944500%	.076345
	Yates Petroleum Corp.	18.055500%	.016822
18	Yates Drilling Co.	100.000000%	.055455

TRACT NO.	WORKING INTEREST OWNER	WORKING INTEREST IN TRACT (%)	UNIT PARTICIPATION FACTOR
19	Depco, Inc.	16.493055%	.003000
	Husky Oil Co.	16.493055%	.003000
	Yates Petroleum Corp.	17.013890%	.003095
	Mary Hester, Adm. of Estate of B.M. Hester	50.000000%	.009094
20	Depco, Inc.	32.986110%	.025611
	Husky Oil Co.	32.986110%	.025611
	Yates Petroleum Corp.	34.027780%	.026418
21	Yates Drilling Co.	90.972220%	.067784
	Yates Petroleum Corp.	9.027780%	.006727
22	Harold Kersey	40.000000%	.007366
	Ralph E. Linck, Jr.	25.000000%	.004604
	Frank Hanley	10.000000%	.001842
	Leonard Vandiver	5.000000%	.000921
	Lucille Gilbert	5.000000%	.000921
	Thelma Methvin	5.000000%	.000921
	Margaret Holcomb	5.000000%	.000921
	Betty Jane Peltola	1.875000%	.000345
	Sandra Kimmey	1.875000%	.000345
Margaret McIntyre	1.250000%	.000230	

SUMMARY

Yates Drilling Company	.457497
Yates Petroleum Corporation	.134290
Depco, Inc.	.122093
Husky Oil Company	.122093
Cities Service Oil Company	.093068
Harold Kersey	.022162
Vilas P. Sheldon	.013238
Mary Hester, Adm. Est. of B.M. Hester	.009094
Walter Granberry	.006138
Leland Wittkopp	.006138
Ralph E. Linck, Jr.	.004604
John A. Yates	.003139
Frank Hanley	.001842
Leonard Vandiver	.000921
Lucille K. Gilbert	.000921
Thelma Methvin	.000921
Margaret Holcomb	.000921
Betty Jane Peltola	.000345
Sandra Kimmey	.000345
Margaret McIntyre	<u>.000230</u>

1.000000

Dated - June 21, 1973

EXHIBIT " D "

Attached to and made a part of Unit Operating Agreement
Artesia Metex Unit
Eddy County,
New Mexico

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:

.....

.....

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:

Well Depth	RATE PER WELL PER MONTH			
	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten
All	\$285.00	\$43.00	\$43.00	\$43.00

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, re-drilling, 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 plus².....% 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 "E"

Attached to and made a part of the Unit Operating Agreement

ARTESIA METEX UNIT
EDDY COUNTY, NEW MEXICO

INSURANCE

Operator shall, at the joint expense of the parties hereto, at all times while operations are conducted hereunder, provide with responsible insurance companies, insurance as follows:

- a. Workmen's Compensation Insurance in accordance with the laws of the state in which the operating area is located, and Employers' Liability Insurance with limits of not less than \$100,000;
- b. Public Liability Insurance with respect to bodily injuries with limits of not less than \$100,000 as to any one person and \$300,000 as to any one accident; and Property Damage Liability Insurance with limits of not less than \$100,000 as to any one accident; and
- c. Automobile Public Liability Insurance with respect to bodily injuries with limits of not less than \$100,000 as to any one person and \$300,000 as to any one accident; also, Automobile Public Liability Insurance with respect to Property Damage with limits of not less than \$100,000 as to any one accident.

Operator shall not provide, for the joint account of the parties hereto, insurance against the hazards of fire, wind-storm, explosion, blowout, cratering, reservoir damage, or insurance other than that specified above.

Operator shall require all contractors engaged in work on or for the Unit Area to comply with the Workmen's Compensation Law of the State where the operations are being conducted and to maintain such other insurance as Operator may require.

Unit Name ARTESTIA METEX UNIT (WATERFLOOD)
 Operator Yates Drilling Company
 County Eddy

pec
5030

DATE	OCC CASE NO. 5030	EFFECTIVE DATE	TOTAL ACREAGE	STATE	FEDERAL	INDIAN-FEE	SEGREGATION CLAUSE	TERM
APPROVED	OCC ORDER NO. R-4608							
Commissioner	Commission	December 1, 1973	2,016.93	2,016.93	-0-	-0-	Yes	5 yrs.
11-29-73	8-13-73							

UNIT AREA

TOWNSHIP 18 SOUTH, RANGE 27 EAST, NMPM
 Section 24: NW/4NE/4, S/2NE/4, S/2
 Section 25: N/2, SW/4, N/2SE/4, SW/4SE/4
 Section 26: E/2E/2, SW/4SE/4
 Section 35: N/2NE/4
 Section 36: N/2NW/4

TOWNSHIP 18 SOUTH, RANGE 28 EAST, NMPM
 Section 19: Lots, 2, 3, 4, E/2SW/4, W/2SE/4, NE/4SE/4
 Section 30: Lots 1, 2, E/2NW/4, W/2NE/4, NE/4SW/4

Unit Name ARTESIA METES UNIT (WATERFLOOD)
 Operator YATES DRILLING COMPANY
 County EDDY

STATE TRACT NO.	LEASE NO.	INSTI-TUTION	SEC.	TWP.	RGE.	SUBSECTION	DATE	RATIFIED	ACRES	ACREAGE	LESSEE
								ACRES		NOT RATIFIED	
1.	648-131	AG. Col.	24	18S	27E	NW/4NE/4, S/2NE/4 SE/4NE/4, S/2NW/4, NW/4NW/4, SW/4, W/2SE/4, NE/4SE/4	9-7-73	560.00		Depco, Inc.	
2.	648-131	Ag. Col	24	18S	27E	W/2SW/4	9-7-73	80.00		Depco, Inc.	
3.	LG-1418	AG.Col.	24	18S	27E	NE/4SW/4	10-25-73	40.00		Yates Pet. Corp.	
4.	648-134	AG.Col.	24	18S	27E	SE/4SW/4	10-25-73	40.00		Yates Pet. Corp.	
5.	B-9603-17	AG.Col.	24	18S	27E	NW/4SE/4	10-25-73	40.00		Yates Drilling Co.	
6.	B-10453-7	AG.Col.	24	18S	27E	S/2SE/4	6-30-73	80.00		Vilas P. Sheldon	
7.	L-3757-1	Ag.Col.	24	18S	27E	NE/4SE/4	10-25-73	40.00		Yates Drilling Co.	
8.	B-7966-13	Univ.	19	18S	28E	Lot 2 (SW/4NW/4)	10-8-73 8-27-73	43.48		R. D. Collier C. A. Denton	
9.	B-11595	Univ.	19	18S	28E	Lots 3, 4, (W/2SW/4), SE/4SW/4	9-4-73	126.81		Gulf Oil Corporation	
10.	B-11595	Univ.	19	18S	28E	NE/4SW/4	9-4-73	40.00		Gulf Oil Corporation	
11.	B-11339-9	Univ.	19	18S	28E	W/2SE/4	7-24-73	80.00		Cities Service Oil Co.	
12.	E-828	Univ.	19	18S	28E	NE/4SE/4	9-4-73	40.00		Gulf Oil Corporation	
13.	B-11083-19	Ag.Col.	26	18S	27E	E/2NE/4	9-7-73 10-4-73	80.00		Depco, Inc. Husky Oil Co.	
14.	E-2123	Ag.Col.	26	18S	27E	SW/4SE/4	9-4-73	40.00		Gulf Oil Corporation	
15.	B-11083-6	Ag.Col.	26	18S	27E	E/2SE/4	10-25-73	80.00		Mary E. Yates, c/o Yates Brothers	
16.	E-5071-5	Ag.Col.	35	18S	27E	N/2NE/4	9-7-73 10-4-73	80.00		Depco, Inc. Husky Oil Company	

Unit Name ARTESIA METEX UNIT (WATERFLOOD)
 Operator YATES DRILLING COMPANY
 County EDDY

STATE TRACT NO.	LEASE NO.	INSTI-TUTION	SEC.	TWP.	RGE.	SUBSECTION	DATE	ACREAGE		LESSEE
								RATIFIED	NOT RATIFIED	
17.	648-131	Ag. Col.	25	18S	27E	N/2NE/4, NE/4NW/4	9-7-73	120.00		Depco, Inc.
18.	E-2123	AG.Col.	25	18S	27E	SW/4NE/4	9-4-73	40.00		Gulf Oil Corporation
19.	B-10371	C.S.	36	18S	27E	N/2NW/4	11-29-73	80.00		B. M. Hester
20.	647-368	Univ.	30	18S	28E	Lot 1 (NW/4NW/4), E/2NW/4, NE/4SW/4	9-7-73	163.34		Depco, Inc.
21.	647-339	Univ.	30	18S	28E	W/2NE/4	10-9-73	80.00		Leonard Nichols
22.	647-368	Univ.	30	18S	28E	Lot 2 (SW/4NW/4)	9-7-73	43.30		Depco, Inc.