





YATES DRILLING COMPANY  
Gulf State No. 1  
Sec. 19 - 18 S. - 28 E.  
1650' FSL 2310' FWL

YATES DRILLING COMPANY  
ARTESIA METEX UNIT  
TRACT 10 WELL 12  
INJECTION WELL

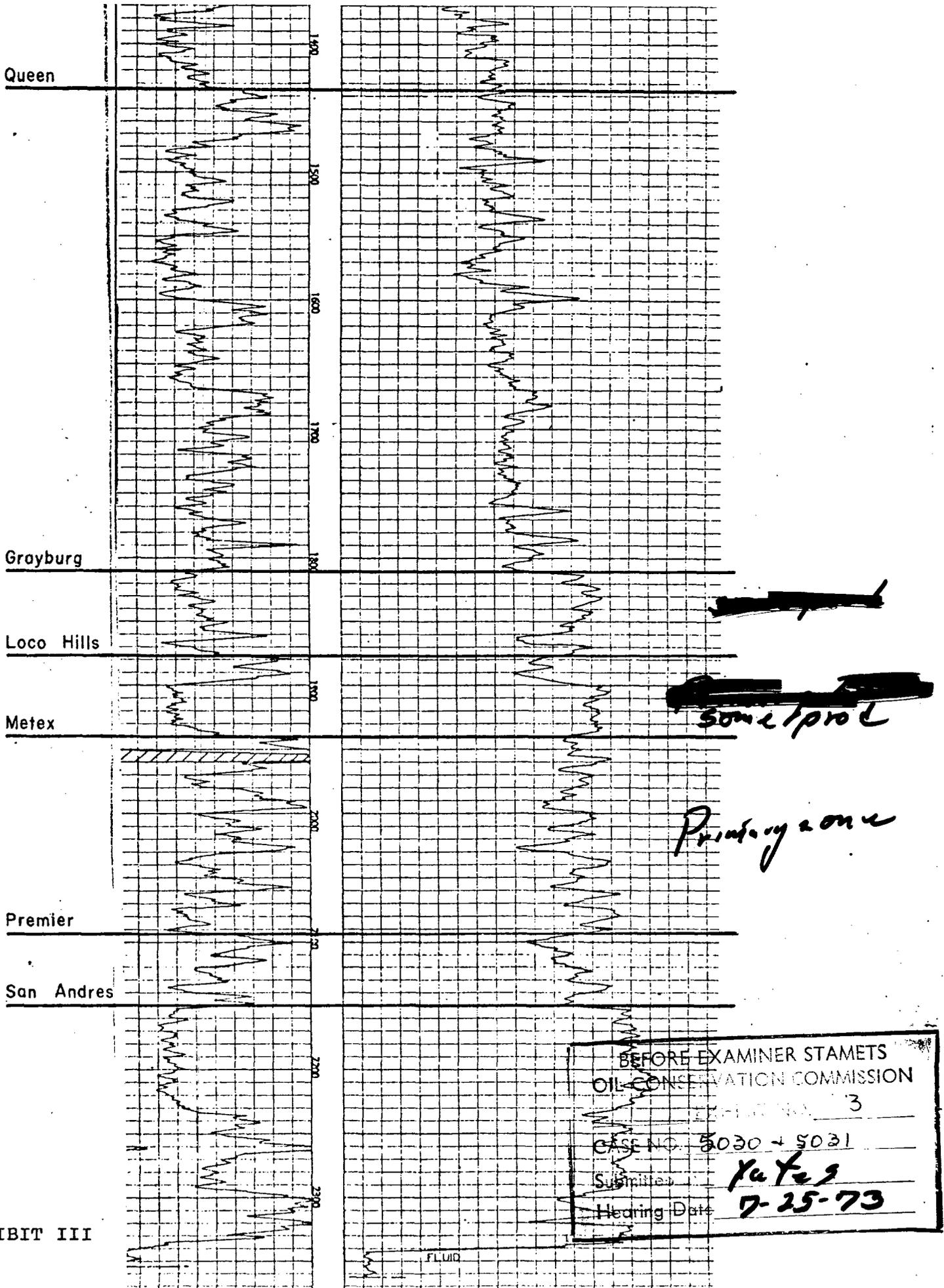
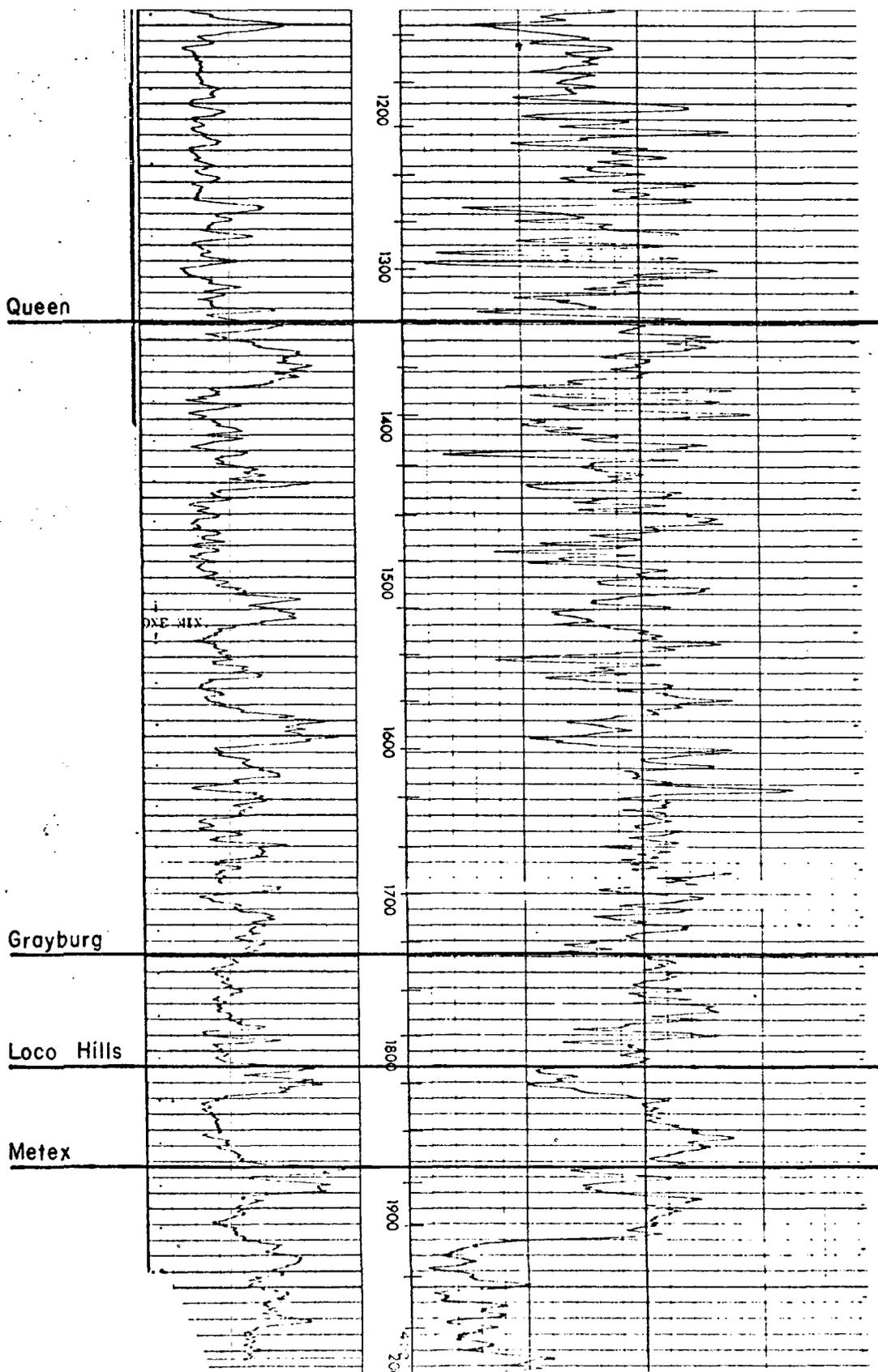


EXHIBIT III

DEPCO INC.  
State 648 No. 116  
Sec. 25-18 S.-27 E.  
1980' FSL 660' FWL

YATES DRILLING COMPANY  
ARTESIA METEX UNIT  
TRACT I WELL 45  
INJECTION WELL



YATES DRILLING COMPANY

State "E" No. 3

Sec. 25-18 S. - 27 E.

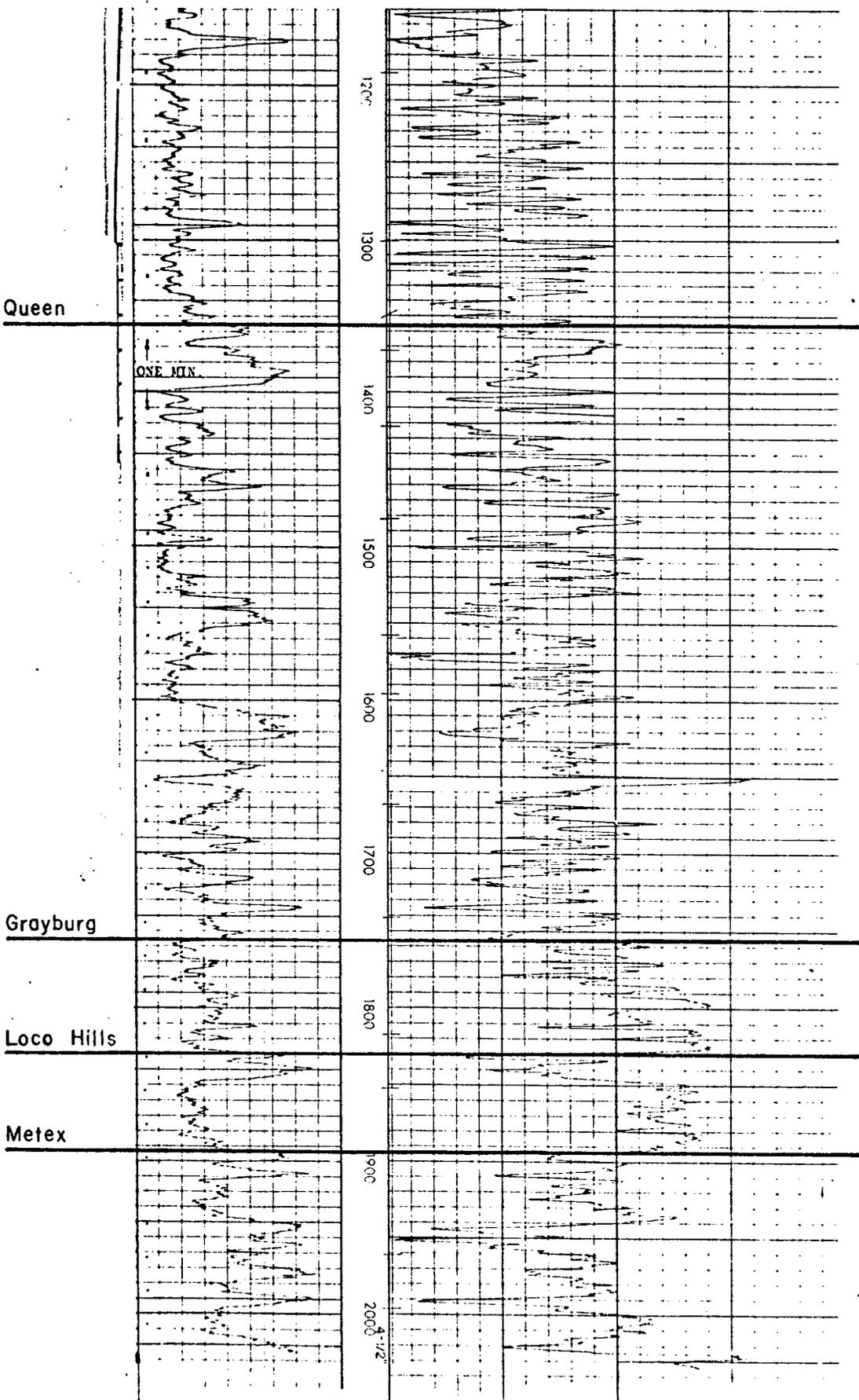
990' FNL 2310' FWL

YATES DRILLING COMPANY

ARTESIA METEX UNIT

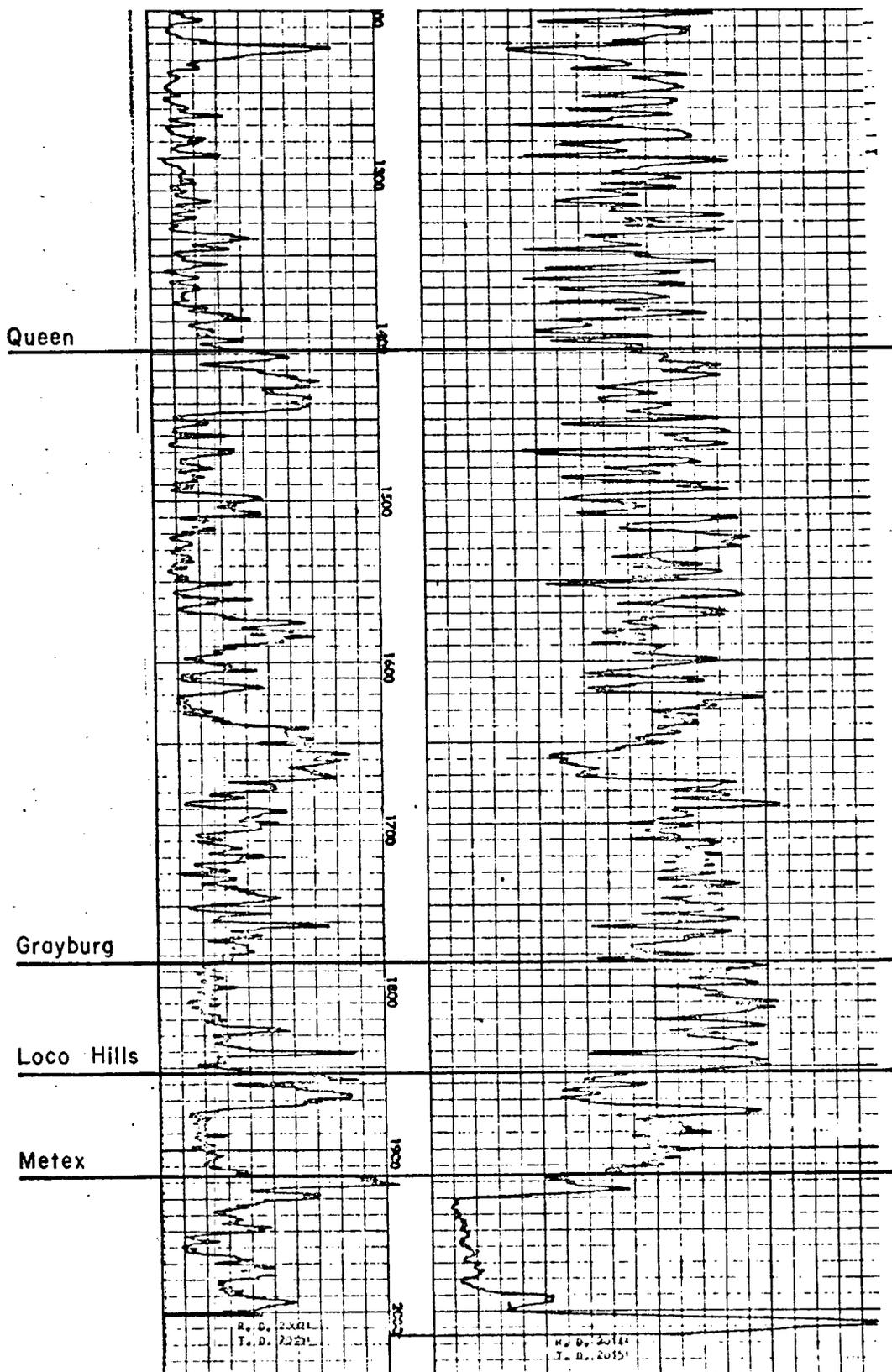
TRACT 17 WELL 28

INJECTION WELL



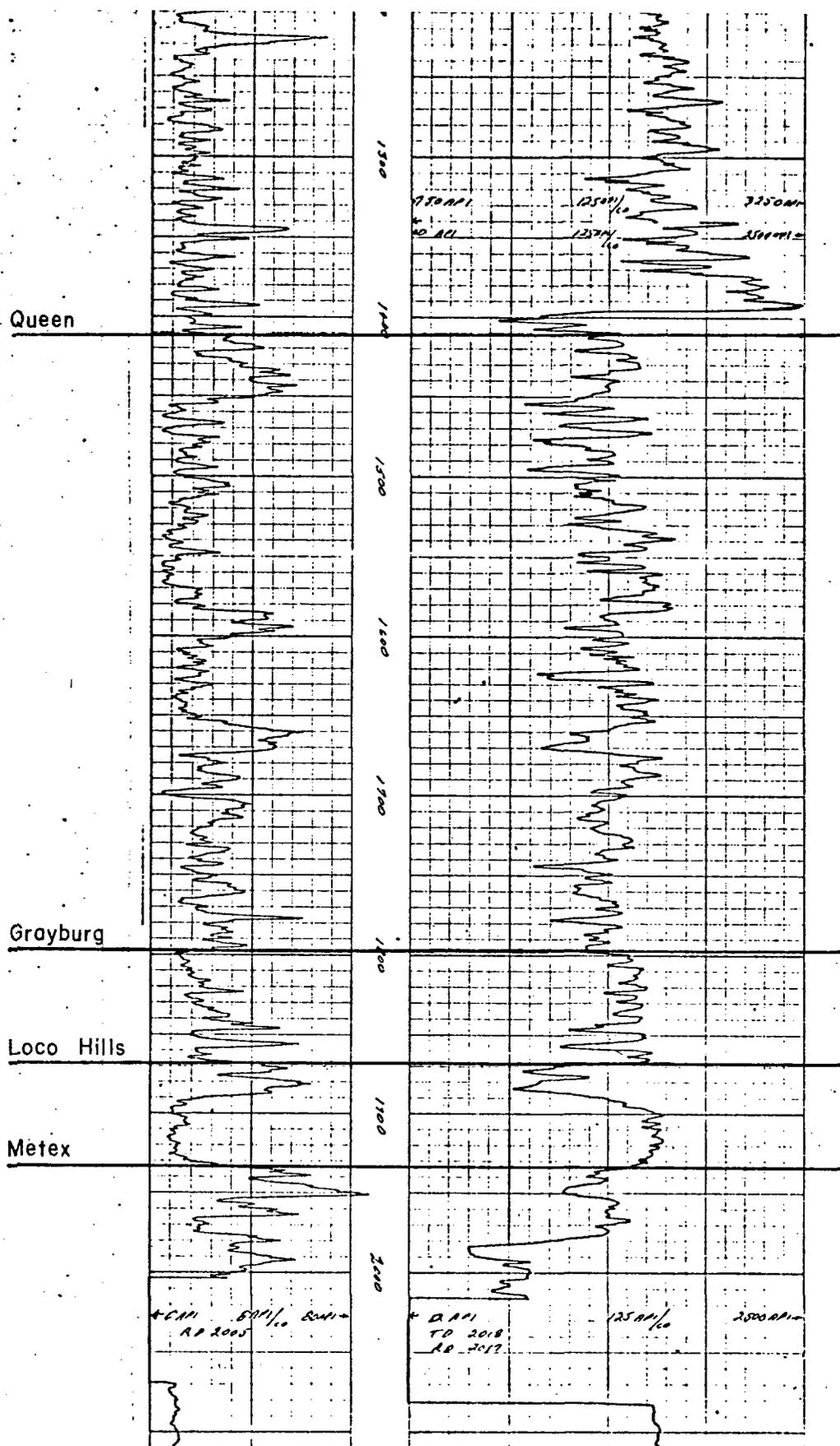
KERSEY & COMPANY  
MRY No. 2  
Sec. 30 - 18 S. - 28 E.  
1650' FNL 330' FWL

YATES DRILLING COMPANY  
ARTESIA METEX UNIT  
TRACT 22 WELL 41  
INJECTION WELL



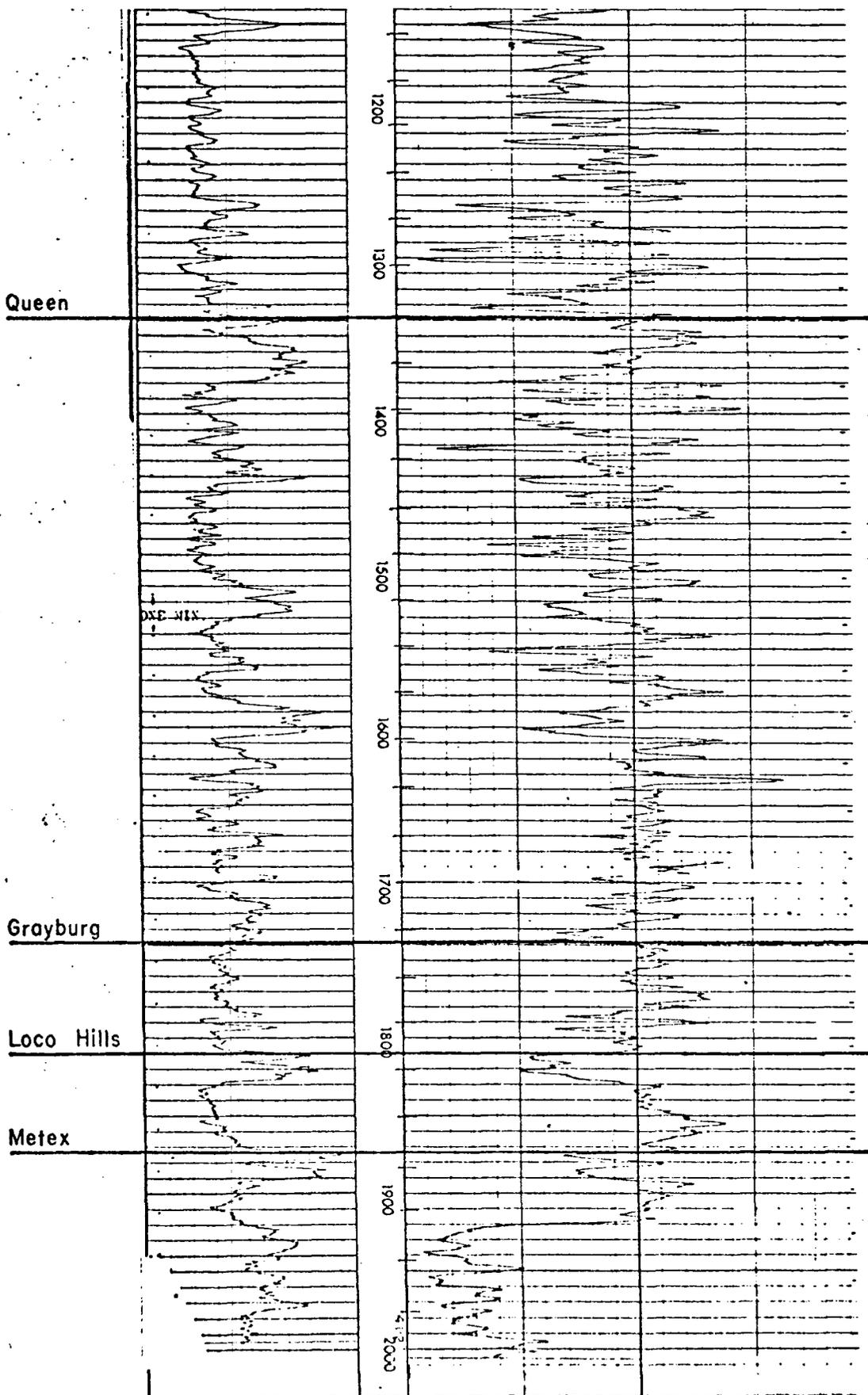
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 State "D" No. 1  
 Sec. 24 - 18 S. - 27 E.  
 330' FSL 330' FEL

YATES DRILLING COMPANY  
 ARTESIA METEX UNIT  
 TRACT 6 WELL 20  
 INJECTION WELL



DEPCO INC.  
State 648 No. 116  
Sec. 25-18 S.-27 E.  
1980' FSL 660' FWL

YATES DRILLING COMPANY  
ARTESIA METEX UNIT  
TRACT I WELL 45  
INJECTION WELL



DIAGRAMMATIC SKETCH OF INJECTION WELL  
 YATES DRILLING COMPANY  
 ARTESIA METEX UNIT  
 TRACT I WELL NO. 40  
 2310' FNL 990' FEL Sec. 25-18 S.-27 E.  
 STATE "648" NO. 108

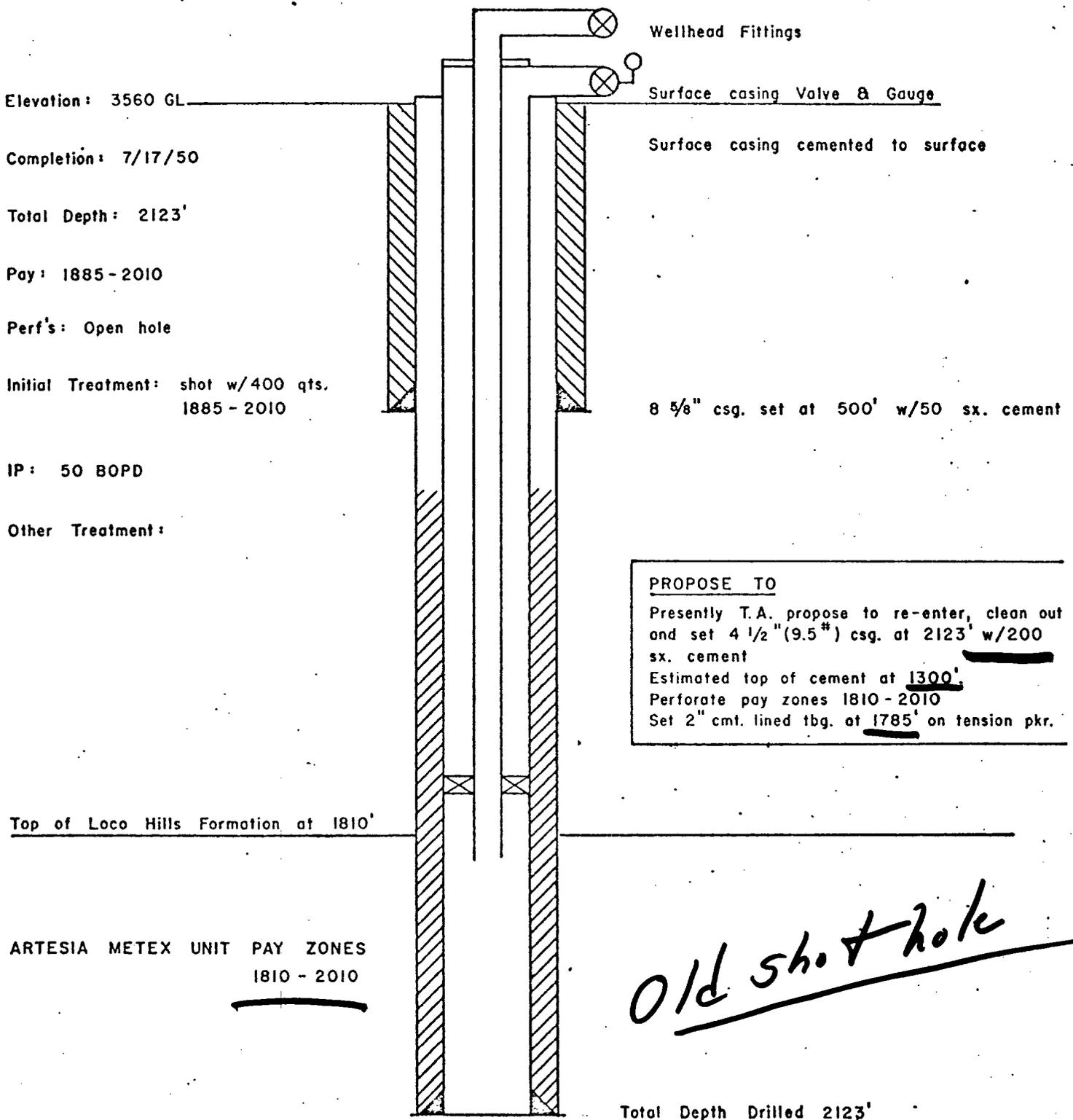
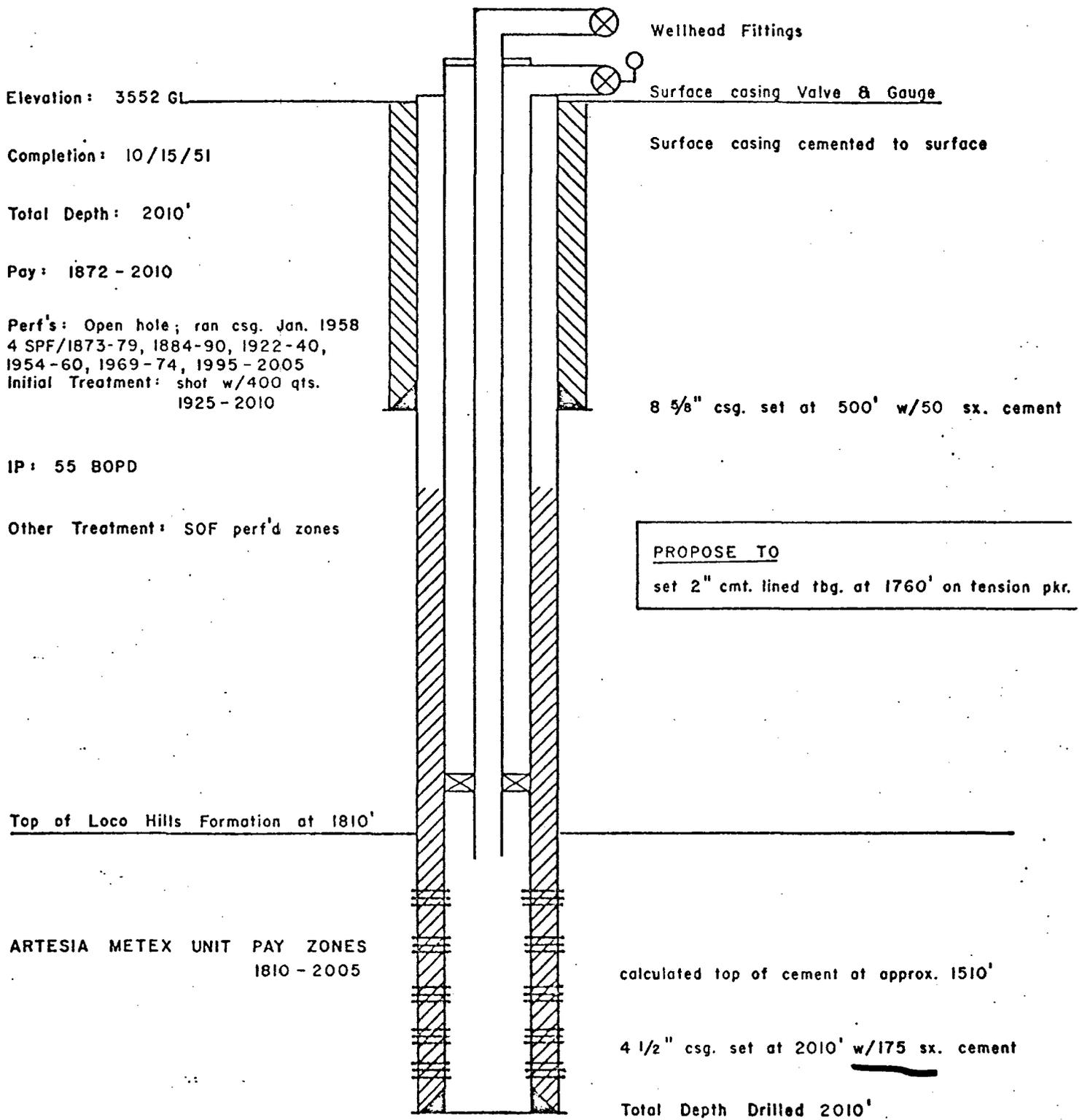


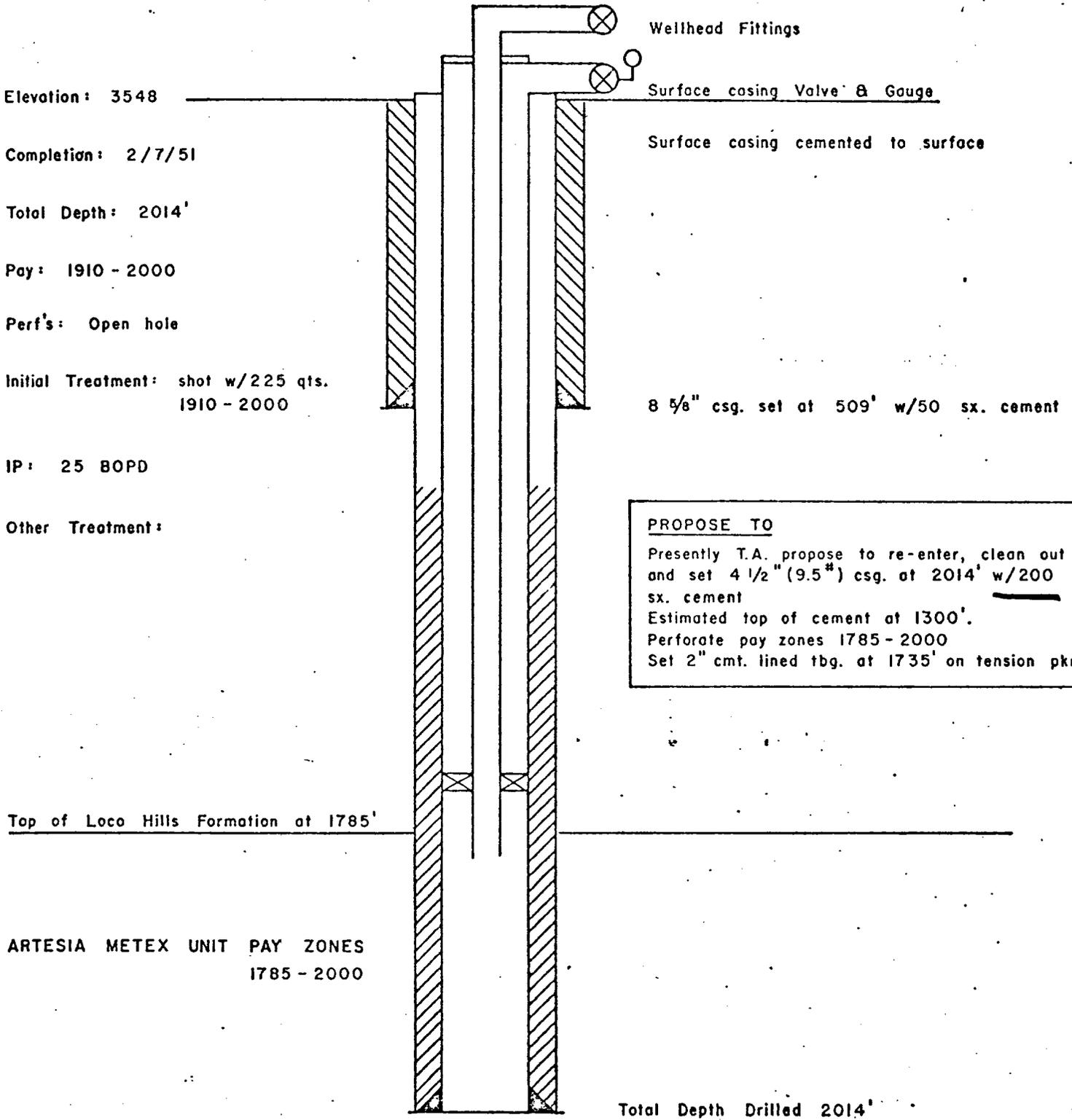
EXHIBIT IV

|                             |             |
|-----------------------------|-------------|
| BEFORE EXAMINER STAMETS     |             |
| OIL CONSERVATION COMMISSION |             |
| EXHIBIT NO.                 | 4           |
| CASE NO.                    | 5030 + 5031 |
| Submitted by                | Yates       |
| Hearing Date                | 7-25-73     |

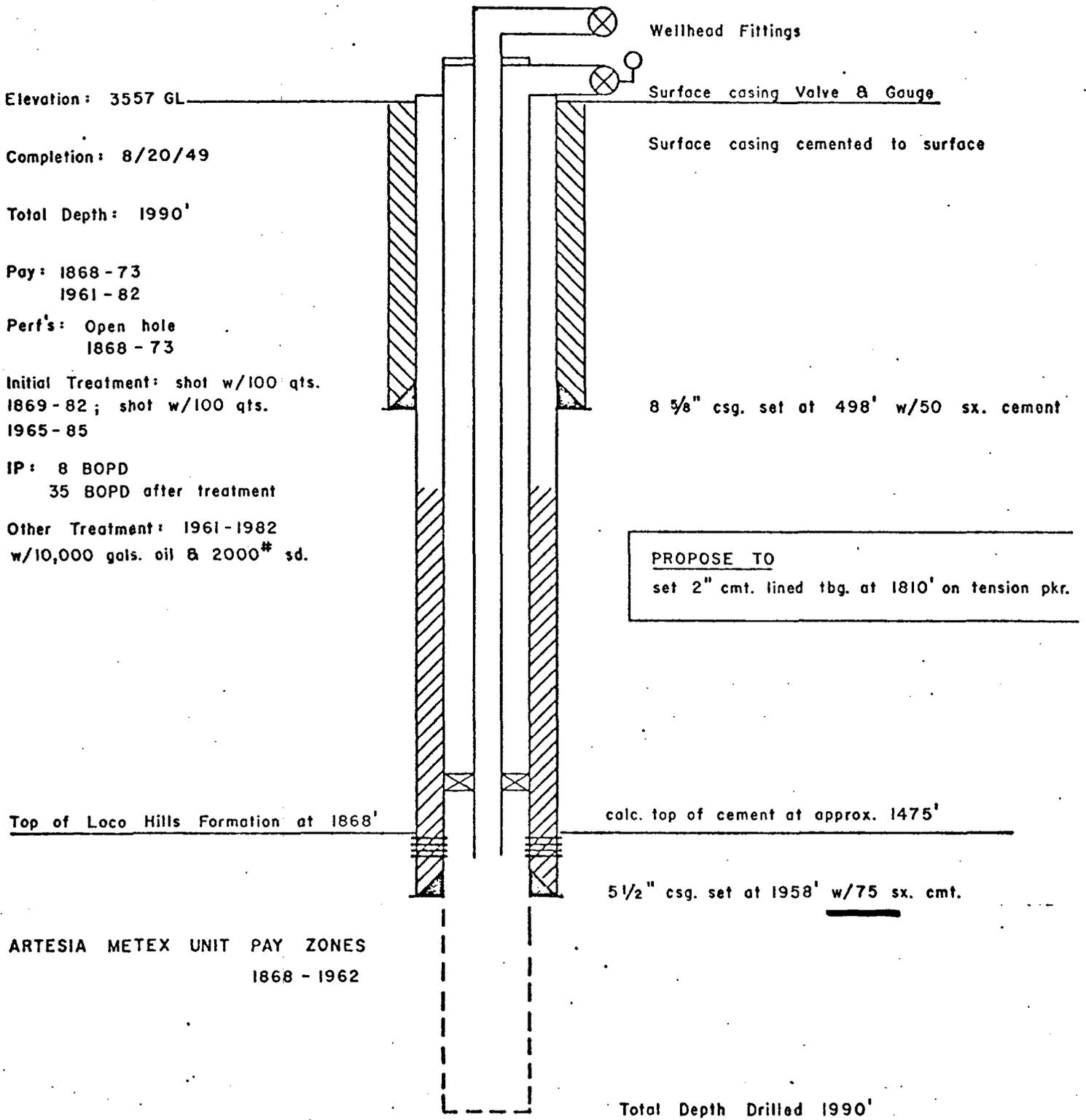
DIAGRAMMATIC SKETCH OF INJECTION WELL  
 YATES DRILLING COMPANY  
 ARTESIA METEX UNIT  
 TRACT I WELL NO. 45  
 1980' FSL 660' FWL Sec. 25 - 18 S. - 27 E.  
 STATE "648" NO. 116



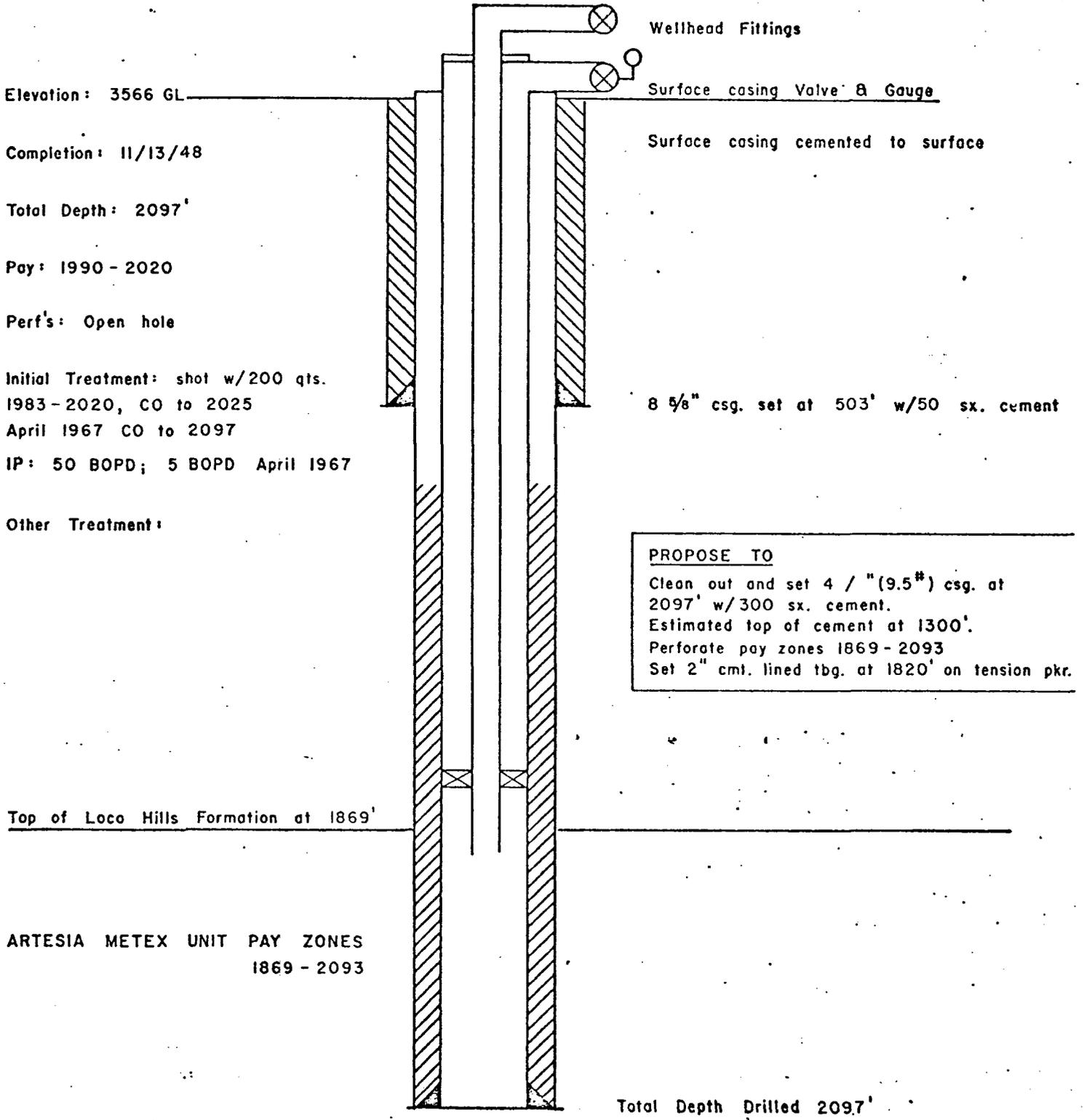
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 ARTESIA METEX UNIT  
 TRACT I WELL NO. 54  
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 STATE "648" NO. III



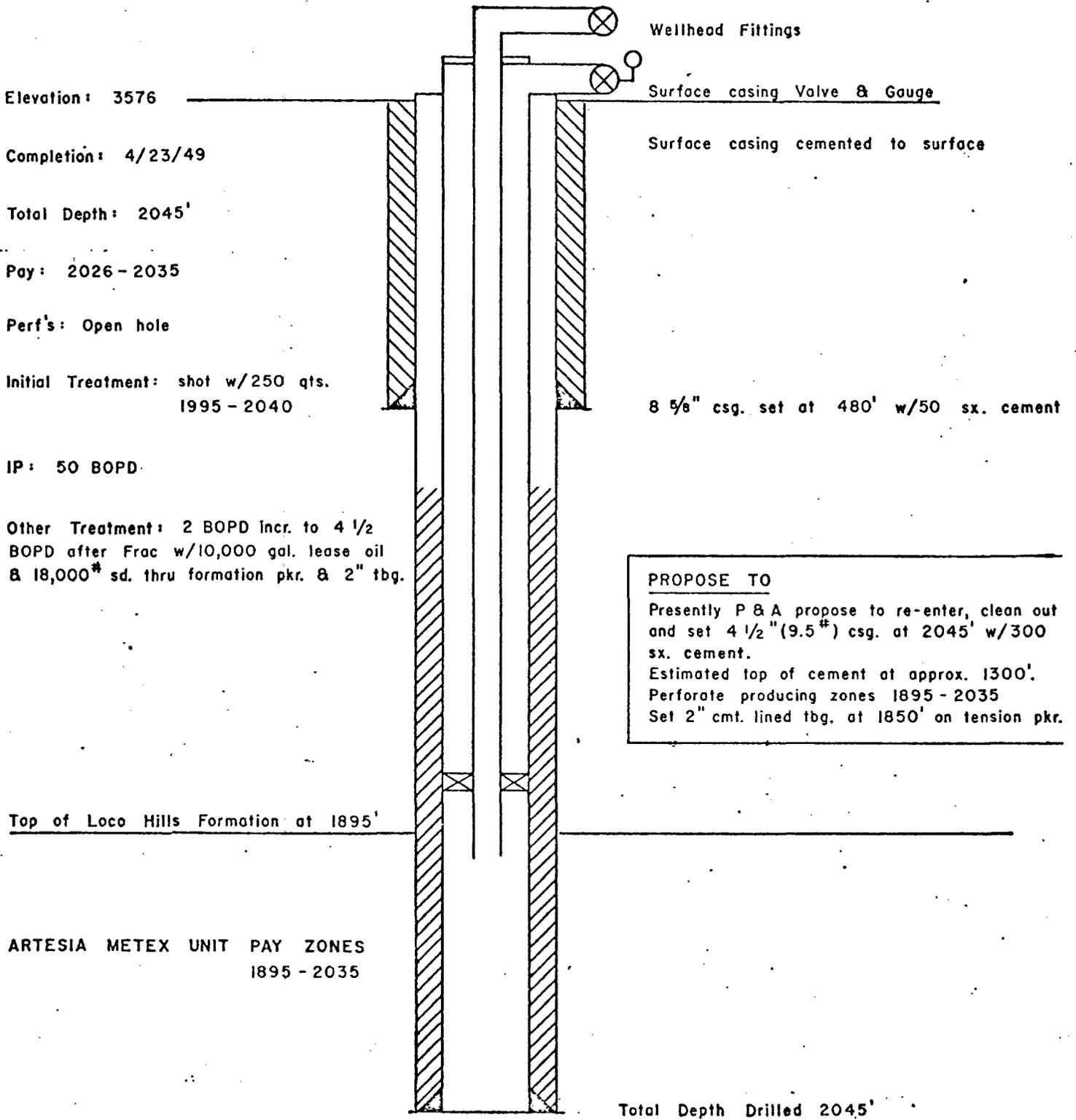
DIAGRAMMATIC SKETCH OF INJECTION WELL  
 YATES DRILLING COMPANY  
 ARTESIA METEX UNIT  
 TRACT 3 WELL NO. 6  
 1650' FSL 2310' FWL Sec. 24-18 S.-27 E.  
 MCGURT "K" NO. 1



DIAGRAMMATIC SKETCH OF INJECTION WELL  
 YATES DRILLING COMPANY  
 ARTESIA METEX UNIT  
 TRACT 6 WELL NO. 20  
 330' FSL 330' FEL Sec. 24 - 18 S. - 27 E.  
 STATE "D" NO. 1



**DIAGRAMMATIC SKETCH OF INJECTION WELL**  
**YATES DRILLING COMPANY**  
**ARTESIA METEX UNIT**  
**TRACT 7 WELL NO. 8**  
**2970' FNL 960' FEL Sec. 24-18 S. - 27 E.**  
**STATE "BW" NO. 12**



**DIAGRAMMATIC SKETCH OF INJECTION WELL**  
**YATES DRILLING COMPANY**  
**ARTESIA METEX UNIT**  
**TRACT 10 WELL NO. 12**  
**1650' FSL 2310' FWL Sec. 19 - 18 S. - 28 E.**  
**GULF STATE NO. 1**

Elevation: 3586 GL

Completion: 10/15/56

Total Depth: 2363'

Pay: 2098 - 2117

Perf's: 40/2298 - 2308;  
20/2098 - 2103; 20/2112 - 2117

Initial Treatment: 2098 - 2103,  
2112 - 2117 w/250 gals. acid; Frac  
w/10,000 gals. wtr. & 15,000<sup>#</sup> sd.

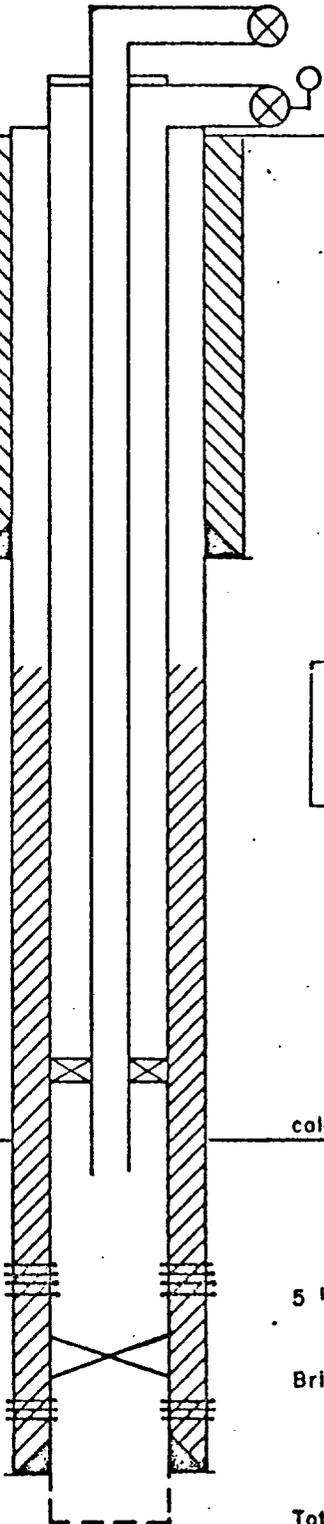
IP: 87 BOPD

Other Treatment:

Upon initial completion, perforated  
and frac lower zone 2298 - 2308,  
then set bridge plug at 2131'.  
Perforated and fraced upper zones.

Top of Loco Hills Formation at 1878'

ARTESIA METEX UNIT PAY ZONES  
1878 - 2117



Wellhead Fittings

Surface casing Valve & Gauge

Surface casing cemented to surface

8 5/8" csg. set at 499' w/50 sx. cement

PROPOSE TO

set 2" cmt. lined tbg. at 1830' on tension pkr.

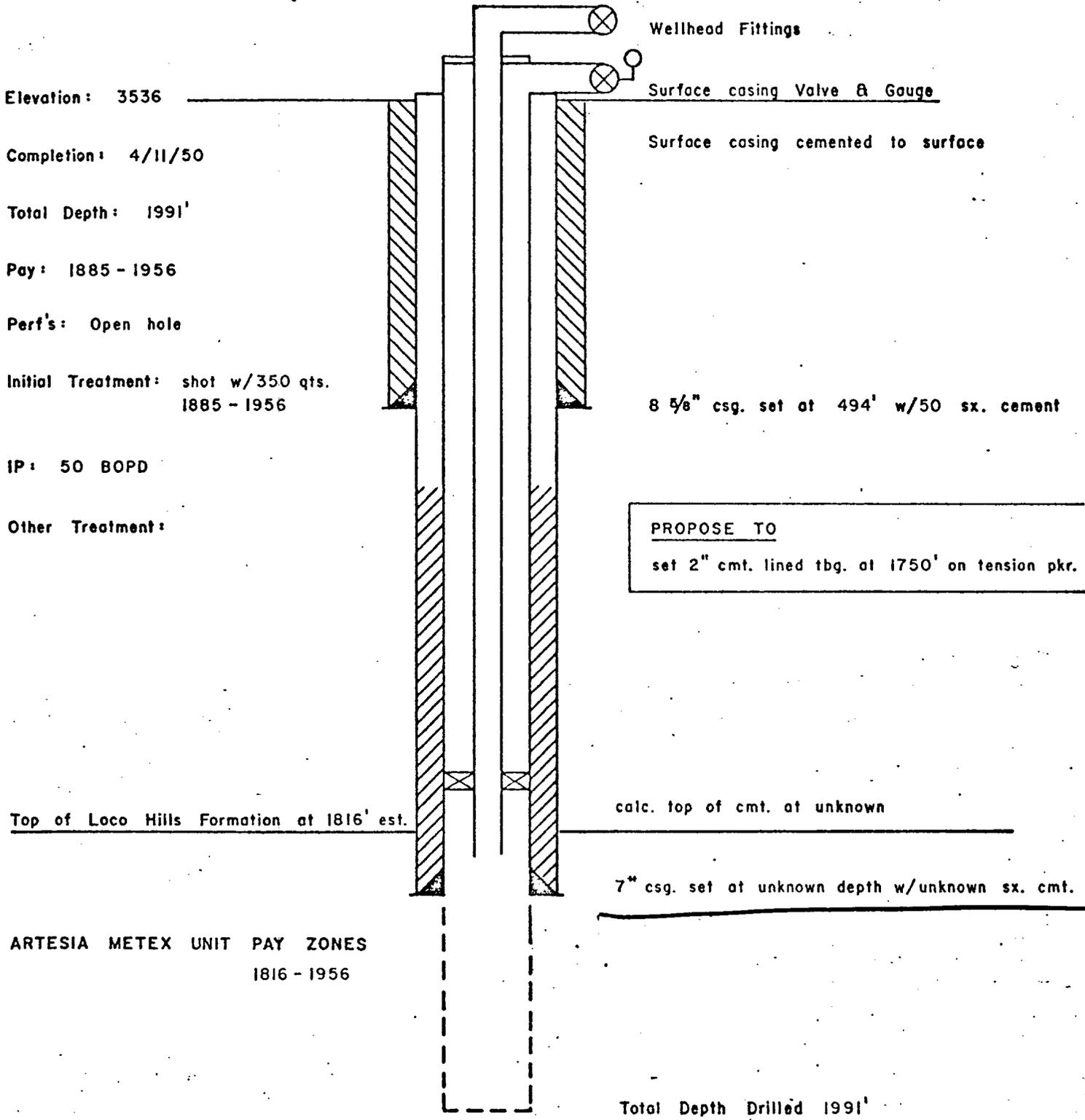
calc. top of cement at approx. 1950'

5 1/2" csg. set at 2351' w/85 sx. cement

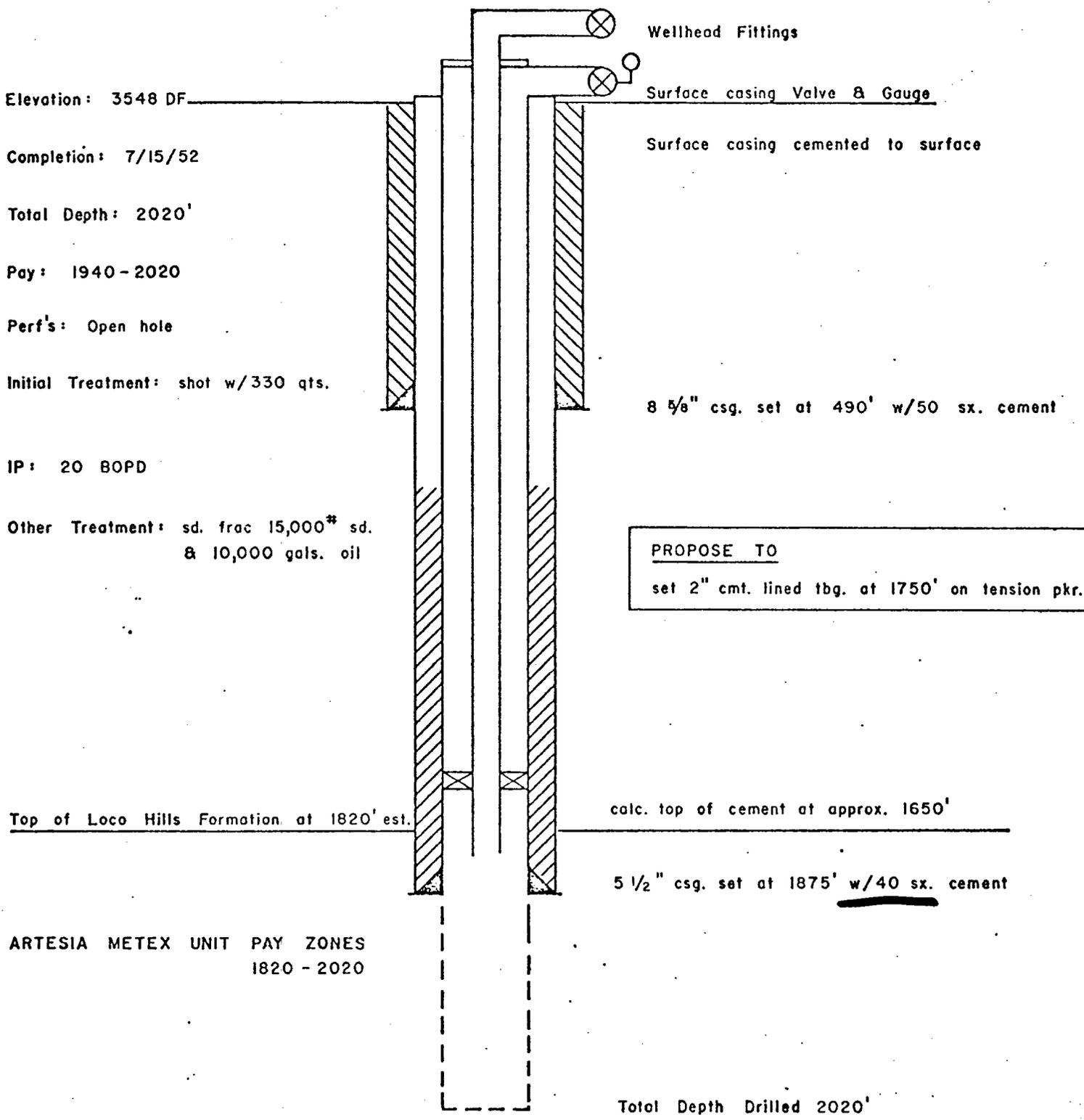
Bridge plug @ 2131'

Total Depth Drilled 2363'

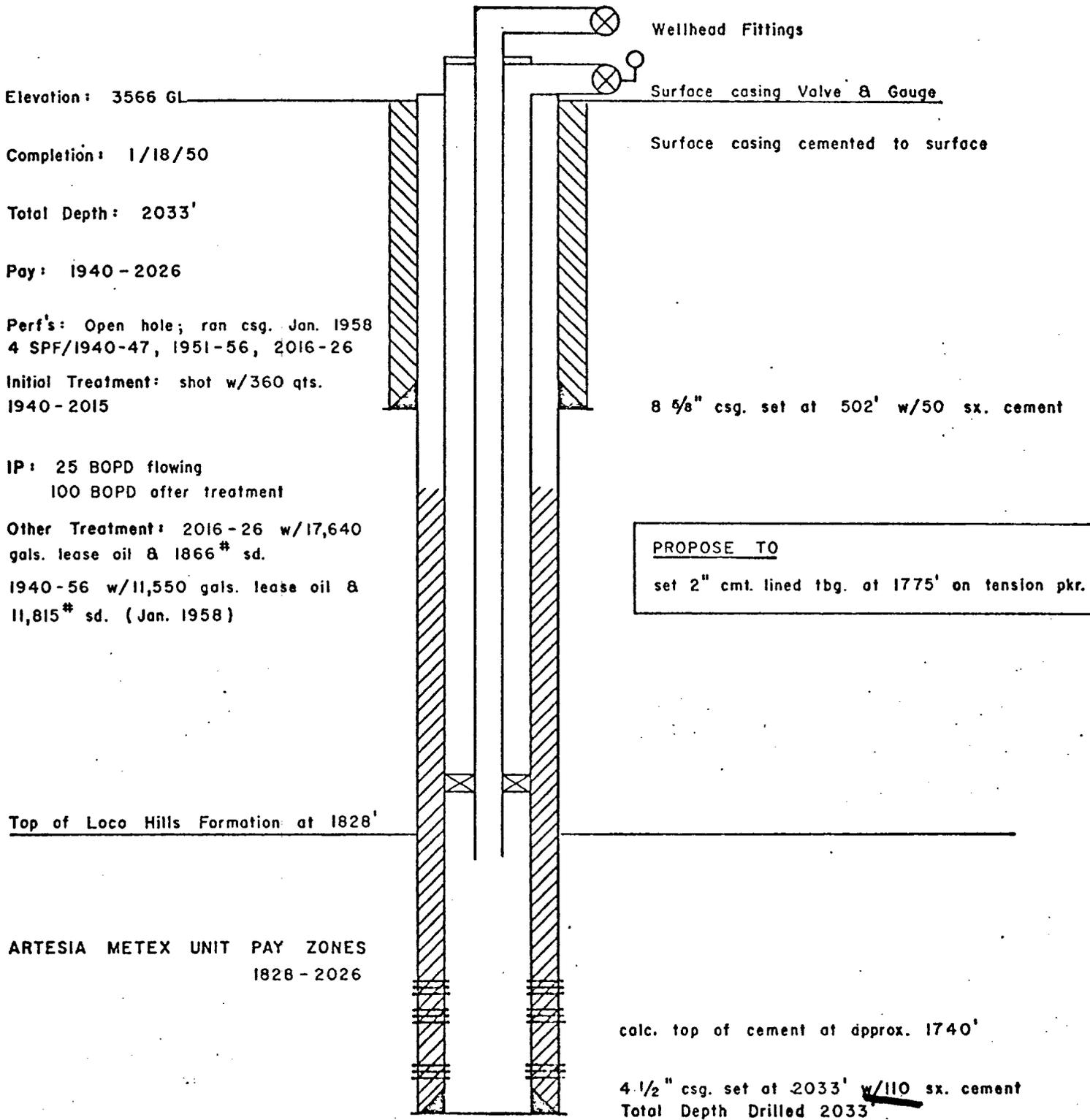
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**YATES DRILLING COMPANY**  
**ARTESIA METEX UNIT**  
**TRACT 13 WELL NO. 26**  
**330' FNL 330' FEL Sec. 26 - 18 S. - 27 E.**  
**EDDY STATE "CK" NO. 1**



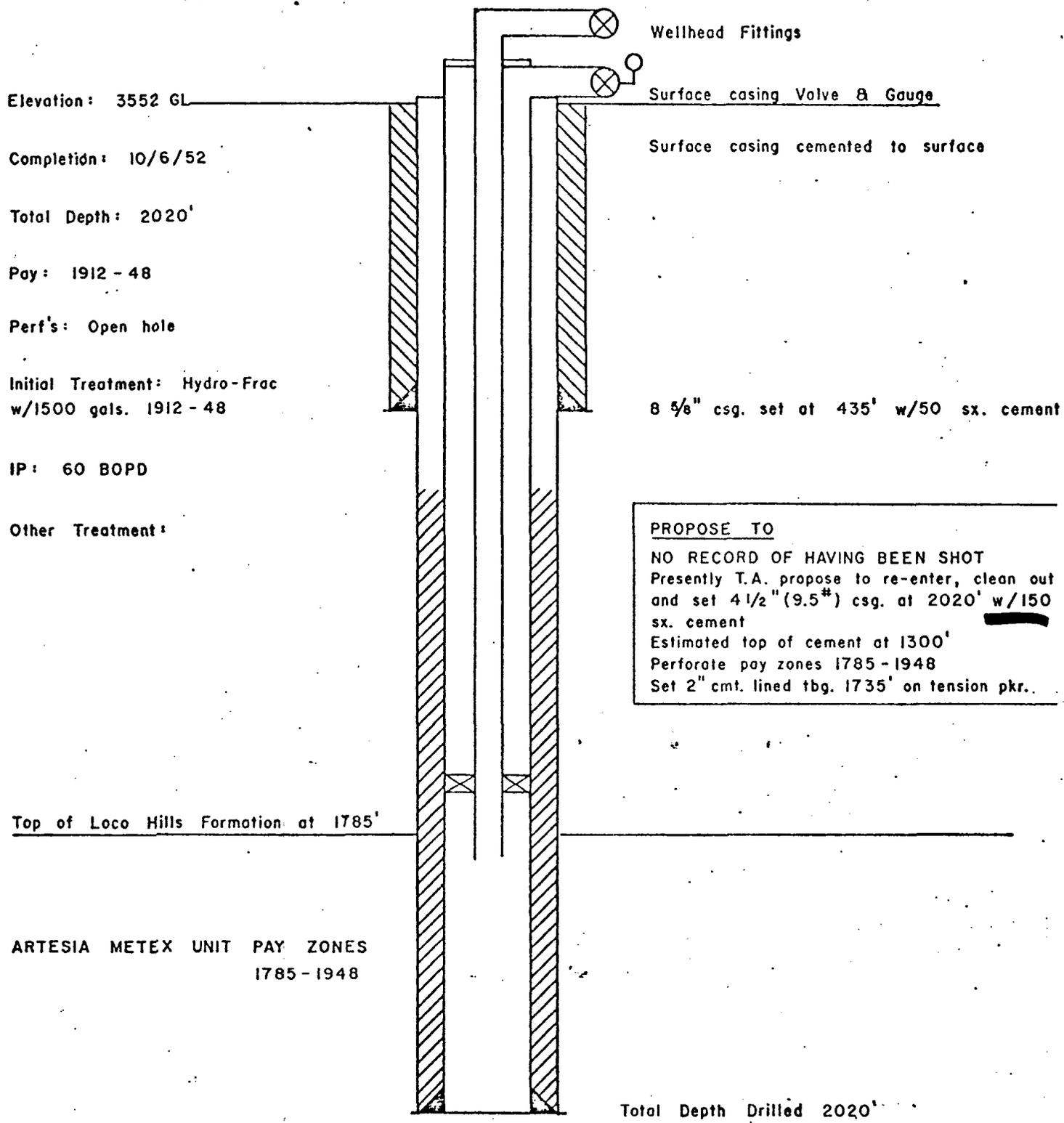
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 YATES DRILLING COMPANY  
 ARTESIA METEX UNIT  
 TRACT 16 WELL NO. 56  
 330' FNL 330' FEL Sec. 35-18 S.-27 E.  
 EDDY STATE "CL" NO. 1



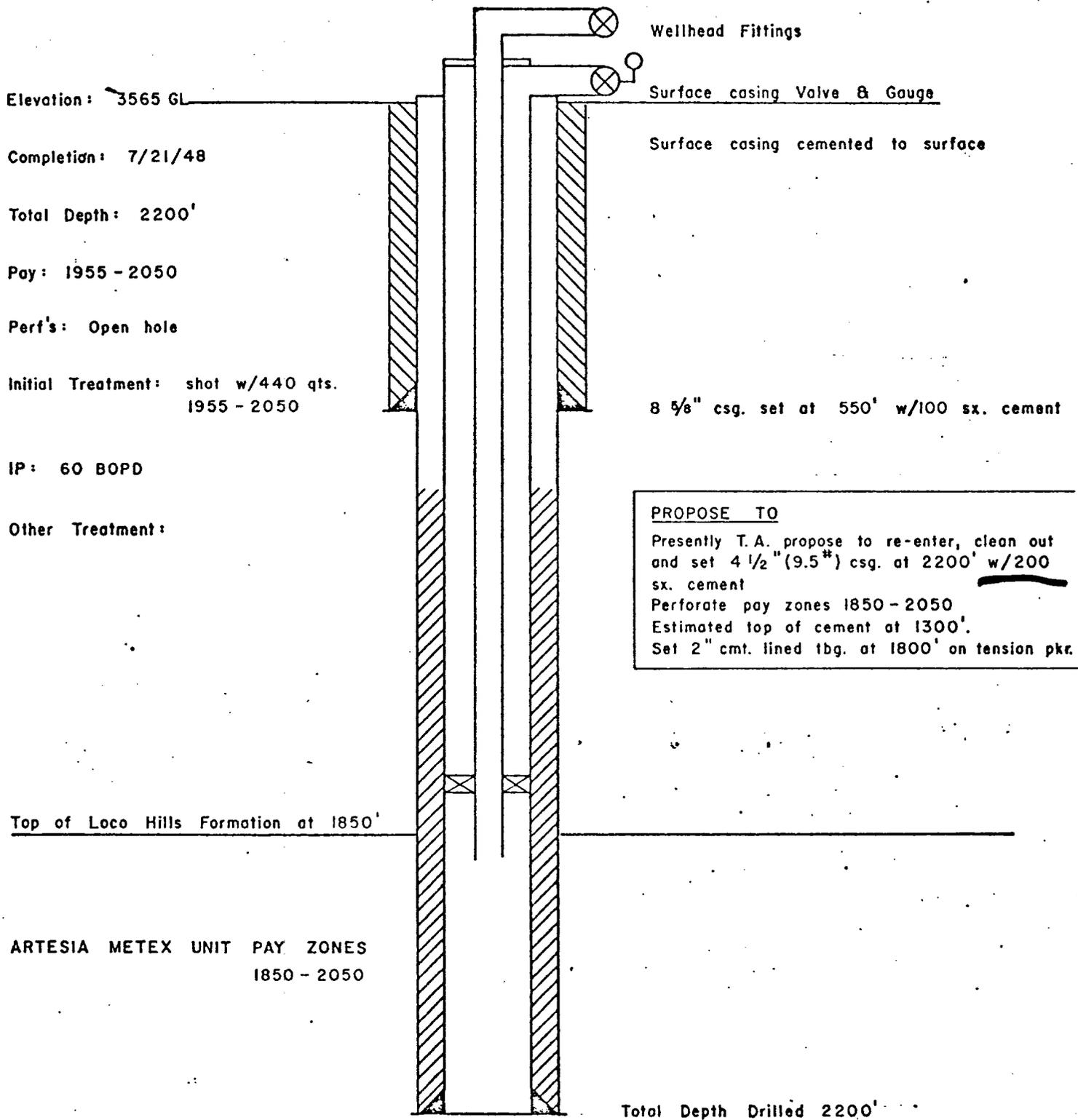
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**YATES DRILLING COMPANY**  
**ARTESIA METEX UNIT**  
**TRACT 17 WELL NO. 28**  
**990' FNL 2970' FEL Sec. 25 - 18 S. - 27 E.**  
**STATE "E" NO. 3**



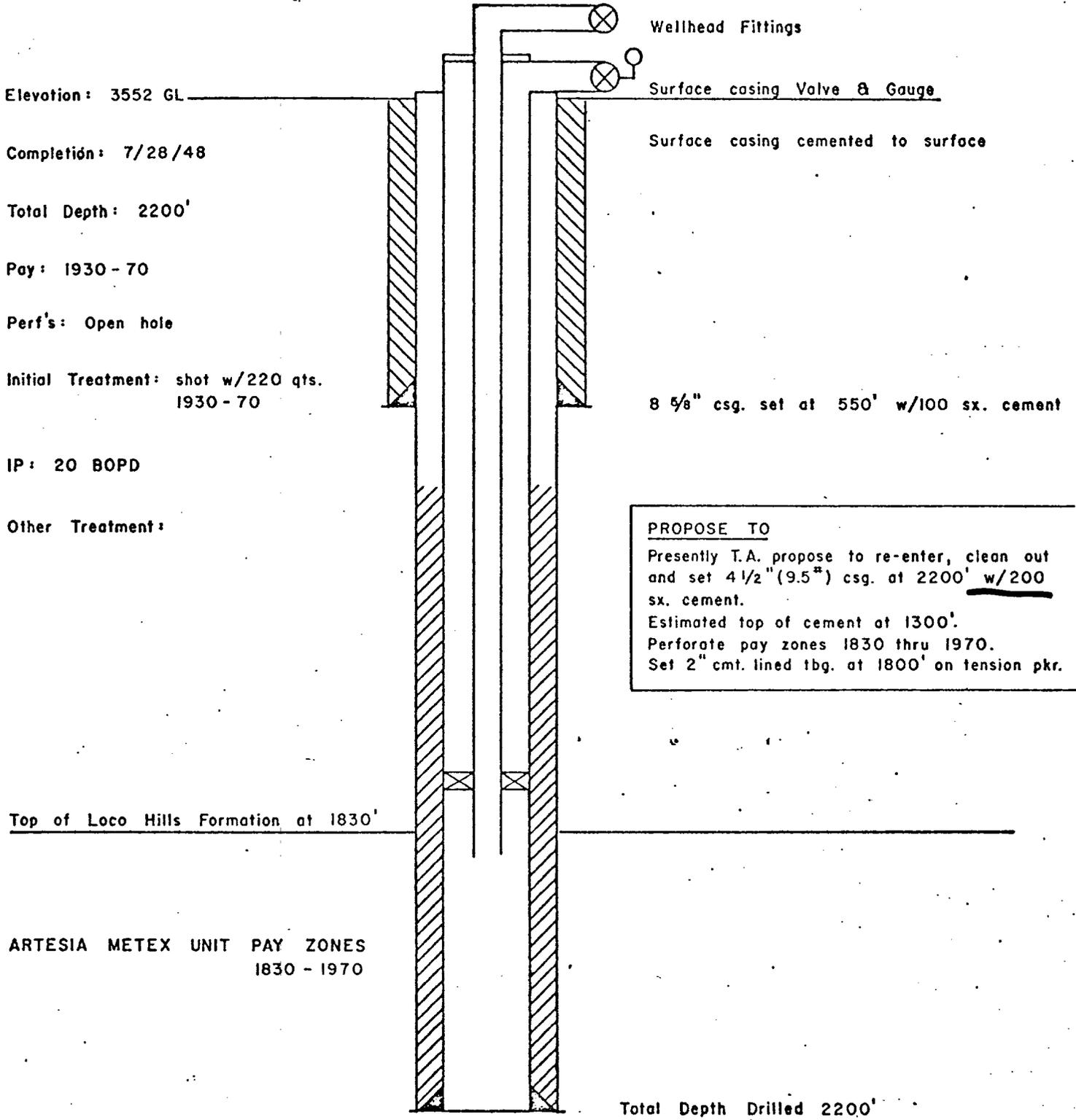
**DIAGRAMMATIC SKETCH OF INJECTION WELL**  
**YATES DRILLING COMPANY**  
**ARTESIA METEX UNIT**  
**TRACT 19 WELL NO. 58**  
**330' FNL 2310' FWL Sec. 36 - 18 S. - 27 E.**  
**HESTER NO. 2**



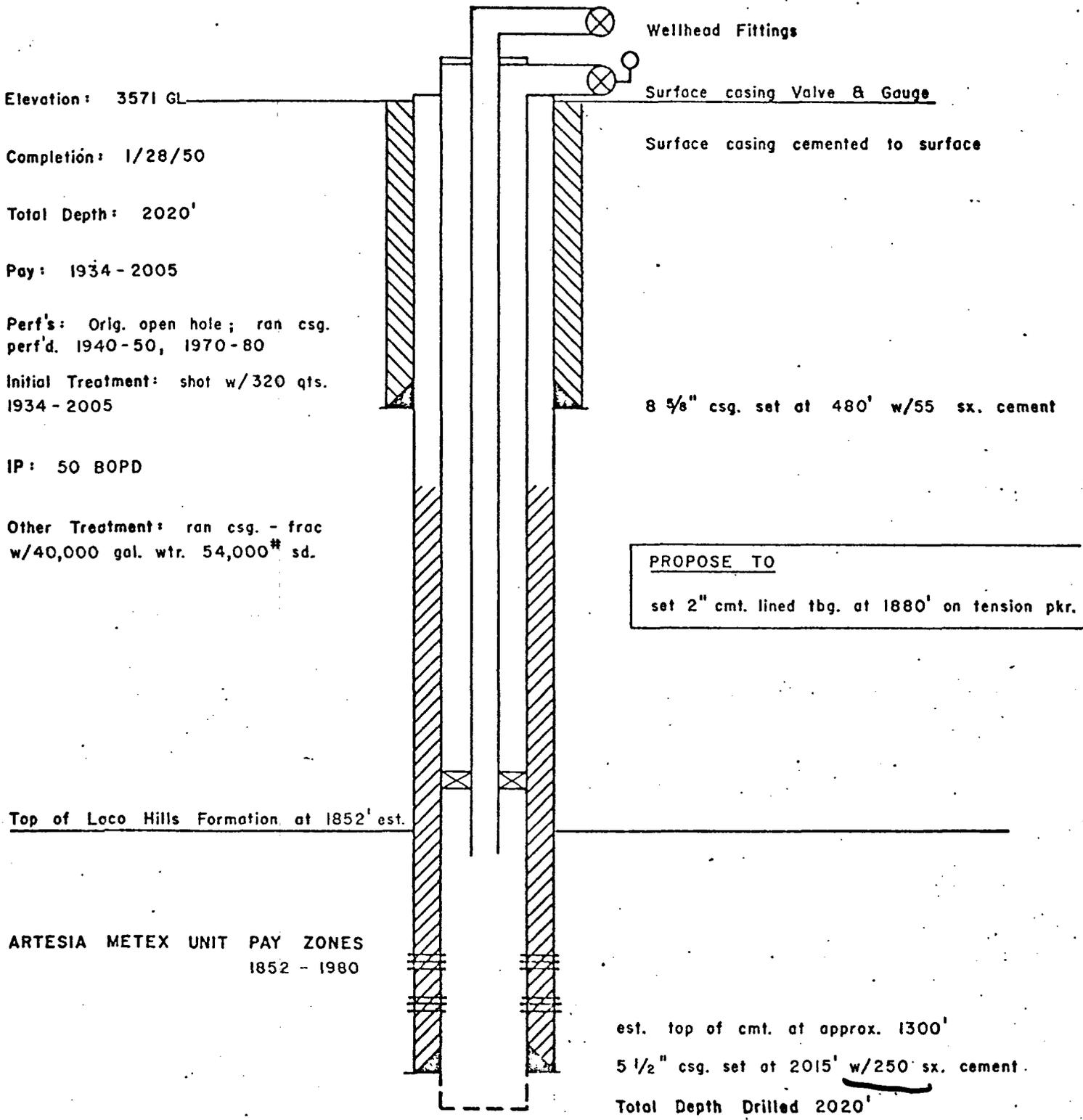
DIAGRAMMATIC SKETCH OF INJECTION WELL  
 YATES DRILLING COMPANY  
 ARTESIA METEX UNIT  
 TRACT 20 WELL NO. 32  
 380' FNL 2110' FWL Sec. 30 - 18 S. - 28 E.  
 STATE "647" NO. 96



DIAGRAMMATIC SKETCH OF INJECTION WELL  
 YATES DRILLING COMPANY  
 ARTESIA METEX UNIT  
 TRACT 20 WELL NO. 49  
 2310' FSL 2310' FWL Sec. 30-18 S.-28 E.  
 STATE "647" NO. 97



**DIAGRAMMATIC SKETCH OF INJECTION WELL**  
**YATES DRILLING COMPANY**  
**ARTESIA METEX UNIT**  
**TRACT 22 WELL NO. 41**  
**1650' FNL 330' FWL Sec. 30-18 S. - 28 E.**  
**MRY NO. 2**





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

Index

Unit Agreement Proper

Unit Area ..... Exhibit "A"  
Tract Ownership and  
Participation ..... Exhibit "B"

Dated - June 21, 1973

EXHIBIT VII A

|  |             |
|--|-------------|
| BEFORE EXAMINER STAMETS<br>OIL CONSERVATION COMMISSION |             |
| EX   | 7A          |
| CASE NO.   | 5030 & 5031 |
| Submitted by   | Yates       |
| Hearing Date   | 7-25-73     |

UNIT AGREEMENT  
ARTESIA METEX UNIT AREA  
Eddy County, New Mexico

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UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
ARTESIA METEX UNIT AREA

No. \_\_\_\_\_

THIS AGREEMENT, entered into as of the 21st day of June 1973, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto";

W I T N E S S E T H:

WHEREAS, the parties hereto are the owner of working, royalty or other oil or gas interests in the Unit Area subject to this agreement; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Ch. 88, Laws 1943, as amended by Sec. 1, Ch. 176, Laws of 1961) (Sec. 7-11-39 N.M.S.A., 1953 Comp.), to consent to and approve the development or operation of State lands under agreements made by lessees of State land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 3, Ch. 88, Laws 1943 as amended by Sec. 1, Ch. 162, Laws 1951) (Sec. 7-11-41 N.M.S.A., 1953 Comp.), to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field or area; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico (hereinafter referred to as the "Commission") is authorized by an Act of the Legislature (Sec. 12, Ch. 72, Laws 1935, as amended, Sec. 65-3-14 N.M.S.A., 1953 Comp.) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interest in the Artesia Metex Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to enable institution and consummation of secondary recovery operations, to conserve natural resources, prevent waste and secure other benefits obtainable through development and operation of the Unitized Formation subject to this agreement under the terms, conditions and limitations herein set forth;

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

1. DEFINITIONS: For the purpose of this agreement, the following terms and expressions as used herein shall mean:

(a) "Commission" means the Oil Conservation Commission of the State of New Mexico.

(b) "Commissioner" means the Commissioner of Public Lands of the State of New Mexico.

(c) "Royalty Interest" or "Royalty" means 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 by the lessor by an oil and gas lease and any overriding royalty interest, oil payment interest, net profits contract, or any other payment or burden which does not carry with it the right to search for and produce Unitized Substances.

(d) "Royalty Owner" means the owner of a Royalty Interest.

(e) "Tract" means each parcel of land described as such and given a Tract number in Exhibit "B".

(f) "Tract Participation" means the percentage of Unitized Substances allocated to a Tract under this agreement as shown in Exhibit "B".

(g) "Unit Area" means the land shown on Exhibit "A", and described by Tracts in Exhibit "B", containing 2,016.93 acres, more or less.

(h) "Unit Operating Agreement" means any agreement or agreements, whether one or more, entered into either separately or collectively by and between the Unit Operator and the Working Interest Owners, as provided in Section 8, ACCOUNTING PROVISIONS, and shall be styled "Unit Operating Agreement for the Development and Operation of the Artesia Metex Unit Area, County of Eddy, State of New Mexico."

(i) "Unit Participation" means the sum of the Tract Participation as shown by tracts for each Working Interest Owner in Exhibit "B".

(j) "Unitized Formation" means that inclusive subsurface portion throughout the Unit Area of the interval between the top of the Queen formation and the top of the San Andres formation as such formation tops occur between the depth interval measured from the kelly bushing, of 1376 feet and 2116 feet, respectively, in the Gulf Oil Corporation State "CI" Well No. 1 as shown on the Sonic Log of said well which is located in the NE $\frac{1}{4}$ SW $\frac{1}{4}$  of Section 25, Township 18 South, Range 27 East, Eddy County, New Mexico.

(k) "Unitized Substances" means all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons within or produced from the Unitized Formation.

(l) "Working Interest" means an interest in Unitized Substances by virtue of a lease, operating agreement, fee title, carried interest or otherwise, which 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, producing and operating the Unitized Formation. Any interest in Unitized Substances which is a Working Interest as of the date the owner thereof executes or ratifies this agreement shall thereafter be treated as a Working Interest for all purposes of this agreement.

(m) "Working Interest Owner" means a party hereto who owns a Working Interest.

(n) "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.

(o) "Unit Operator" means the Working Interest Owner designated by Working Interest Owners under the Unit Operating Agreement to develop and operate the Unitized Formation, acting as operator and not as a Working Interest Owner.

(p) "Unit Operations" means all operations conducted by Working Interest Owners or Unit Operator pursuant to the agreement and the Unit Operating Agreement for or on account of the development and operation of the Unitized Formation for the production of Unitized Substances.

(q) "Outside Substances" means all substances obtained from any source other than the Unitized Formation and which are injected into the Unitized Formation.

(r) "Oil and Gas Rights" means the right to explore, develop, and operate lands within the Unit Area for the production of Unitized Substances, or to share in the production so obtained or the proceeds therefrom.

(s) "Unit Equipment" means all personal property, lease and well equipment, plants, and other facilities and equipment taken over or otherwise acquired for the joint account for use in Unit Operations.

(t) "Unit Expense" means all cost, expense, or indebtedness incurred by Working Interest Owners or Unit Operator pursuant to this agreement and the Unit Operating Agreement for or on account of Unit Operations.

## 2. UNIT AREA AND EXHIBITS.

2.1 The following described land is hereby designated and recognized as constituting the Unit Area:

### Township 18 South, Range 27 East, N.M.P.M.

Section 24: NW $\frac{1}{4}$ NE $\frac{1}{4}$ , S $\frac{1}{2}$ NE $\frac{1}{4}$ , S $\frac{1}{2}$   
Section 25: N $\frac{1}{2}$ , SW $\frac{1}{4}$ , N $\frac{1}{2}$ SE $\frac{1}{4}$ , SW $\frac{1}{4}$ SE $\frac{1}{4}$   
Section 26: E $\frac{1}{2}$ E $\frac{1}{2}$ , SW $\frac{1}{4}$ SE $\frac{1}{4}$   
Section 35: N $\frac{1}{2}$ NE $\frac{1}{4}$   
Section 36: N $\frac{1}{2}$ NW $\frac{1}{4}$

### Township 18 South, Range 28 East, N.M.P.M.

Section 19: Lots 2, 3, 4, E $\frac{1}{2}$ SW $\frac{1}{4}$ , W $\frac{1}{2}$ SE $\frac{1}{4}$ , NE $\frac{1}{4}$ SE $\frac{1}{4}$   
Section 30: Lots 1, 2, E $\frac{1}{2}$ NW $\frac{1}{4}$ , W $\frac{1}{2}$ NE $\frac{1}{4}$ , NE $\frac{1}{4}$ SW $\frac{1}{4}$

Containing 2016.93 acres, more or less,  
Eddy County, New Mexico.

2.2 Exhibit "A" attached hereto is a map showing the Unit Area and the boundaries and identity of tracts and leases in said Area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Operator the acreage, percentage and kind of ownership of oil and gas interests in all lands in the Unit Area. However, nothing herein or in said schedule or map shall be construed as a representation by any party

hereto as to the ownership of any interest other than such interest or interests as are shown on said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in ownership in the Unit Area render such revisions necessary or when requested by the Commissioner. An exhibit shall be considered to be correct until revised as herein provided.

2.3 The shapes and descriptions of the respective Tracts have been established by using the best information available. If it subsequently appears that any Tract, because of diverse royalty or working interest ownership on the effective date hereof, should be divided into more than one Tract, or that any mechanical miscalculation has been made, Unit Operator, with the approval of Working Interest Owners and the Commissioner, may correct the mistake by revising the exhibits to conform to the facts. Each such revision of an exhibit shall be effective at 7:00 a.m. on the first day of the calendar month next following the filing for record of the revised exhibit or on such other date as may be determined by Working Interest Owners set forth in the revised exhibit.

### 3. EXPANSION OF UNIT AREA.

3.1 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 to conform with 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 proposed to be included in the Unit, setting out the basis for admission, the Unit Participation to be assigned to each Tract in the enlarged Unit and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise) if Working Interest Owners having in the aggregate eighty percent (80%) Unit Participation have agreed to such Tract or Tracts being brought into the Unit, then Unit Operator shall, after preliminary concurrence by the Commissioner:

(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 Unit Participation to be assigned thereto and the effective date thereof; and

(b) Deliver copies of said notice to the Commissioner, each Working Interest Owner and to the lessee and lessor whose interests are affected, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objection 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 Commissioner and Commission the following: (1) Evidence of mailing or delivering copies of such notice of expansion; (2) An application for such expansion; (3) An instrument containing the appropriate joinders in compliance with the participation requirements of Section 12 (Tracts Qualified for Participation); and (4) Copy of any objections received.

(d) There shall be no retroactive allocation or adjustment of unit expense or of interests in the Unitized Substances produced, or proceeds thereof prior to the effective date of expansion and qualification under Section 12; however, this limitation shall not prevent an adjustment of investment by reason of the enlargement.

3.2 After due consideration of all pertinent information and approval by the Commissioner and Commission, the expansion shall become effective as of the date prescribed in the notice thereof, preferably the first day of a month subsequent to the date of notice.

3.3 In any approved expansion of the Unit Area the revised Tract Participations of those Tracts which were committed prior to each such expansion shall remain in the same ratio one to another.

4. UNITIZED LANDS. The Unitized Substances and the surface rights incident to the ownership thereof, are unitized under the terms of this agreement. All lands committed to this agreement as to the Unitized Formation shall constitute land referred to herein as "Unitized Land" or "land subject to this agreement".

5. UNIT OPERATOR. Yates Drilling Company, a New Mexico corporation, whose address is 207 South 4th Street, Artesia, New Mexico, is hereby designated as Unit Operator and by signature hereto commits to this agreement all its vested interest in the Unitized Substances as set forth in Exhibit "B", and agrees and consents to accept the duties and obligations of Operator 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.

6. RESIGNATION OR REMOVAL OF UNIT OPERATOR.

6.1 Unit Operator shall have the right to resign at any time, but such resignation shall not become effective 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 three (3) months after written notice of intention to resign has been given by Unit Operator to all Working Interest Owners and the Commissioner, and until all unit wells are placed in a condition satisfactory to the Commissioner for suspension, abandonment, or operations, whichever is intended by the Unit Manager, 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.

6.2 The Unit Operator shall, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by Working Interest Owners having in the aggregate seventy-five percent (75%) or more Unit Participation, after excluding any Unit Participation of the Unit Operator. Such removal shall be effective upon notice thereof to the Commissioner.

6.3 In all such instances of effective 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 becomes effective, appoint a Unit Manager to represent them in any action to be taken hereunder.

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

7. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall resign as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owners shall, by a majority Voting Interest, select a successor Unit Operator; provided that, if a majority but less than seventy-five percent (75%) of the Voting Interest is owned by one party to this agreement, a concurring vote of sufficient additional parties, so as to constitute in the aggregate not less than seventy-five percent (75%) of the total Voting Interests, shall be required to select a new Operator. Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Commissioner. If no successor Unit Operator is selected and qualified as herein provided, the Commissioner at his election may declare this Unit Agreement terminated.

8. ACCOUNTING PROVISIONS. The Unit Operator shall pay in the first instance all costs and expenses incurred in conducting unit operations hereunder, and such costs and expenses and the working interest benefits accruing hereunder shall be apportioned, among the owners of the unitized Working Interests in accordance with an Operating Agreement entered into by and between the Unit Operator and the owners of such interests, whether one or more, separately or collectively. No such agreement shall be deemed either to modify any of the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this Unit Agreement and in case of any inconsistencies or conflict between this Unit Agreement and the Operating Agreement, this Unit Agreement shall prevail. One true copy of any Unit Operating Agreement shall be filed with the Commissioner.

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

10. PLAN OF OPERATIONS. The initial plan of operation shall be filed with the Commissioner and the Commission concurrently with the filing of this Unit Agreement for final approval. Said initial plan of operation and all revisions thereof shall be as complete and adequate as the Commissioner and Commission may determine to be necessary for timely operation consistent herewith. Reasonable diligence shall be exercised in complying with the obligations of the approved 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 to put into effect a secondary recovery project in order to effect additional recovery of Unitized Substances, prevent waste and conserve natural resources. The parties hereto agree that the Unit Operator may, subject to the consent and approval of a plan of operation by the Working Interest Owners, the Commissioner and the Commission, inject into the unitized formation, through any well or wells completed therein, brine, water, air, gas, liquefied petroleum gases and any one or more other substances or combination of substances whether produced from the Unit Area or not, and that the location of input wells, 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. Subject to like approval the plan of operation may be revised as conditions may warrant.

11. TRACT PARTICIPATION.

11.1 In Exhibit "B" attached hereto, there are listed and numbered the various tracts within the Unit Area and set forth opposite each tract is a figure which represents the percentage of participation allocated to such tract calculated on one hundred percent tract commitment.

11.2 The Tract Participation of each tract was determined in accordance with the following formula:

Percentage Participation of each Tract  
EQUALS

15% of  $\frac{\text{Surface Acres in Tract}}{\text{Total Surface Acres in Unit Area}}$   
PLUS

85% of  $\frac{\text{Cumulative Oil Production from Tract to January 1, 1973}}{\text{Cumulative Oil Production from Unit Area to January 1, 1973}}$

12. TRACTS QUALIFIED FOR PARTICIPATION.

12.1 On and after the effective date hereof and until the enlargement or reduction thereof, the Unit Area shall be composed of the Tracts listed in Exhibit "B" that corner or have a common boundary (Tracts separated only by a public highway of 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 have become parties to this agreement and as to which Royalty Owners owning seventy-five percent (75%) or more of the Royalty Interest have become parties to this agreement.

(b) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest have become parties to this agreement and as to which Royalty Owners owning less than seventy-five percent (75%) of the Royalty Interest have become parties to this agreement, and as to which (i) all Working Interest Owners in such Tract have joined in a request for the inclusion of such Tract in the Unit Area, 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 12 (a) have voted in favor of the inclusion of such Tract.

(c) Each Tract as to which Working Interest Owners owning less than one hundred percent (100%) of the Working Interest having become parties to this agreement regardless of the percentage of Royalty Interest therein 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 in the Unit Area, and have tendered or executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless the other Working Interest Owners in the Unit Area, 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 inclusion of the Tract in the Unit Area; and as to which (ii) seventy-five percent (75%) of the combined voting interest of Working Interest Owners in all Tracts that meet the requirements of Sections 12(a) and 12(b) have voted in favor of the inclusion of such Tract and to accept the indemnifying agreement. Upon the inclusion of such a Tract in the Unit Area, 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 Interests in the Tract.

12.2 If any of the Tracts described in original Exhibit "B" fail to qualify for inclusion in the Unit Area, Unit Operator shall recompute, using the original basis of computation, the Tract Participation of each of the qualifying Tracts and shall revise Exhibits "A" and "B" accordingly. The revised exhibits shall be effective as of the effective date hereof and upon approval by the Commissioner.

### 13. ALLOCATION OF UNITIZED SUBSTANCES.

13.1 All Unitized Substances produced and saved from the Unit Area (except any part of such Unitized Substances used in conformity with good operating practices on Unitized Land for drilling, operating, camp and other production or development purposes and for pressure maintenance or unavoidable loss) shall be apportioned among and allocated to the committed tracts within the Unit Area in accordance with the respective tract participation, as set forth in the schedule of participation in Exhibit "B" 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 the actual production of Unitized Substances from the well or wells, if any, on such tract), shall for all intents and purposes be deemed to have been produced from such tract.

13.2 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 the proceeds thereof, had this agreement not been entered into and with the same legal force and effect.

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

13.4 If the Royalty or Working Interest in any tract are divided with respect to separate parcels or portions of such tract and owned severally by different persons, the percentage participation assigned to such tract shall, in the absence of a recordable instrument executed by all owners and furnished to Unit Operator fixing the divisions of ownership, be divided among such parcels or portions in proportions to the number of surface acres in each.

13.5 The Unitized Substances allocated to each tract shall be delivered in kind to the Working Interest Owners and other parties entitled thereto by virtue of the ownership of the oil and gas leasehold rights therein or by purchase from such owners. Each Working Interest Owner and other parties entitled thereto shall, at its own expense, take in kind or separately dispose of its proportionate part of all of the Unitized Substances produced and saved from the Unitized land. Delivery of such Unitized Substances shall be made by the Unit Operator at a common point within the Unit Area. In the event any party hereto shall fail or refuse to take in kind or otherwise separately dispose of its proportionate part of said production, as and when produced, Unit Operator shall have the authority, revocable at will by such Working Interest Owner, to sell or otherwise dispose of all or part of such production to others, or to purchase same for its own account, at a price not less than the prevailing market price in the area for like products. The account of such party shall be charged therewith as having received such production and the net proceeds, if any, from the sale or other disposition of Unitized Substances by Unit Operator shall be paid to the party entitled thereto. All such sales or purchases by Unit Operator shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry, under the circumstances, but in no event shall any such sale be for a period in excess of one (1) year. Notwithstanding the foregoing, the Unit Operator shall not make a sale into interstate commerce of any Working Interest Owner's share of gas production without first giving such Working Interest Owner sixty (60) days notice of such intended sale.

13.6 Any party receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any tract, shall be responsible for the payment of all royalty on the lease or leases and tracts contributed by it and received into the Unit, and each such party shall indemnify and hold each other party hereto harmless against any liability for all Royalty, Overriding Royalty, Production Payments, and all other payments chargeable against, or

payable out of such Unitized Substances, or the proceeds therefrom.

13.7 If there are any tracts or tract within the Unit Area not committed hereto as of the effective date hereof but which are subsequently committed hereto, as provided in Section 3 (Expansion of Unit Area) or under the provisions of Section 26 (Subsequent Joinder), or if any tract is excluded from the Unit Area as provided for in Section 25 (Loss of Title), the schedule of participation as shown in Exhibit "B" shall be revised by the Unit Operator and distributed to the Working Interest Owners and the Commissioner to show the new percentage participation of all the then effectively committed tracts; and the revised Exhibit "B", upon approval by the Commissioner shall govern all the allocation of production from and after the effective date thereof until a new revised Exhibit "B" is filed and approved as hereinabove provided.

14. 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 of 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 Working Interest Owner entitled thereto the same as if the Unit had not been formed; and such Working Interest Owner 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 Working Interest Owner 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 and the amount thereof shall be charged to such tract as having been delivered to the parties entitled to Unitized Substances allocated to such Tract.

15. PAYMENT OF RENTALS, ROYALTIES AND OVERRIDING ROYALTIES. All rentals due the State of New Mexico shall be paid by the respective lease owners in accordance with the terms of their leases.

All royalties due the State of New Mexico under the terms of the leases committed to this agreement shall be computed and paid on the basis of all Unitized Substances allocated to the respective tracts by the formula established by Section 11 hereof; provided, however, the State shall be entitled to take in kind its share of the Unitized Substances allocated to the respective leases, and in such case the Unit Operator shall make deliveries of such royalty oil in accordance with the terms of the respective leases.

If the Unit Operator introduces gas obtained from sources other than the Unitized Substances into the Unitized Formation for the purpose of repressuring, stimulating or increasing the ultimate recovery of Unitized Substances therefrom, a like amount of gas, if available, with due allowance for loss or depletion from any cause may be withdrawn from the Unitized Formation royalty free as to dry gas but not as to the products extracted therefrom; provided, that such withdrawal shall

be at such time as may be provided in a plan of operation consented to by the Commissioner and approved by the Commission as conforming to good petroleum engineering practice; and provided, further, that such right of withdrawal shall terminate on the termination of this Unit Agreement.

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

Each Royalty Owner who ratifies this agreement represents and warrants that he is the owner of the interest in a tract or tracts within the Unit Area as his interest appears in Exhibit "B" attached hereto. If any such 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 shall be adjusted accordingly.

16. LEASES AND CONTRACTS CONFORMED AND EXTENDED INSOFAR AS THEY APPLY TO LANDS WITHIN THE UNITIZED AREA. The terms, conditions and provisions of all leases, subleases, operating agreements and other contracts relating to the exploration, drilling, development or operation for oil or gas of the lands committed to this agreement, shall as of the effective date hereof, be and the same are hereby expressly modified and amended insofar as they apply to lands within the Unit Area to the extent necessary to make the same conform to the provisions hereof and so that the respective terms of said leases and agreements will be extended insofar as necessary to coincide with the terms of this agreement and the approval of this agreement by the Commissioner and the respective lessees shall be effective to conform the provisions and extend the terms of each such lease as to lands within the Unit Area to the provisions and terms of this agreement; but otherwise to remain in full force and effect. Each lease, sublease or contract relating to the development and operation for oil and gas of the lands within the Unit Area, shall continue in force beyond the term provided therein as long as this agreement remains in effect. Termination of this agreement shall not affect any lease which pursuant to the terms thereof or any applicable laws would continue in full force and effect thereafter. Drilling, producing or secondary recovery operations performed hereunder upon any tract of the Unitized Lands shall be accepted and deemed to be performed on each of the tracts committed to this agreement and operations or production pursuant to this agreement shall be deemed to be operations upon and production from each tract committed hereto. The development and operation of the Unitized Lands 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 within the Unit Area, regardless of whether there is any development of any part of tract of the Unit Area.

The leases embracing land of the State of New Mexico having only a portion of the land committed hereto, shall be segregated as to that portion committed and that portion not committed, and the terms of such leases shall apply separately to such segregated portions commencing as of the effective date hereof. Notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its land committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease (whether within or without the Unit Area), (1) if, and for so long as oil or gas are capable of being produced in paying quantities from some part of the lands embraced in such lease committed to this agreement; or (2) if, and for so long as some part of the lands embraced in such lease committed to this agreement

are allocated Unitized Substances; or (3) if, at the expiration of the secondary term the lessee or the Unit Operator is then engaged in bona fide drilling or reworking operations on some part of the lands embraced therein and for so long as such operations are being diligently prosecuted, and if they result in the production of oil or gas said lease shall continue in full force and effect as to all the lands embraced therein so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

17. CONSERVATION. Operations hereunder and production of Unitized Substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to state laws or regulations.

18. DRAINAGE. In the event a well or wells producing oil or gas in paying quantities should be brought in on land adjacent to the Unit Area draining Unitized Substances from the lands embraced therein, Unit Operator shall drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances.

19. 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 an 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, royalty or other interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after the Unit Operator is furnished with the original, photostatic or certified copy of the instrument of transfer.

20. EFFECTIVE DATE AND TERM.

20.1 This agreement shall become effective at 7:00 a.m. on the first day of the month following approval by the Commissioner and shall remain in effect so long as Unitized Substances are capable of being produced in quantities sufficient to pay the costs of operation and should production cease, so long thereafter as diligent drilling, reworking or other operations (including secondary recovery operations) are in progress on the Unitized Land and so long thereafter as Unitized Substances so established or restored can be produced as aforesaid. This agreement may also be terminated at any time by not less than seventy-five percent (75%) of the total participating working interests signatory hereto with the approval of the Commissioner.

20.2 If this agreement is not effective on or before July 1, 1974, this agreement shall ipso facto terminate on that date (hereinafter called "termination date") and thereafter be of no further effect, unless prior thereto Working Interest Owners owning a combined Unit Participation of at least seventy-five percent (75%) have become parties to this agreement and Working Interest Owners owning sixty-five percent (65%) or more of that percent have decided to extend the termination date for a period not to exceed six (6) months. If the termination date is so extended and the requirements of Section 20.1 are not accomplished on or before the extended termination date, this agreement shall ipso facto terminate on the extended termination date and thereafter be of no further effect. For the purpose of this section, Unit Participation shall be as calculated on the basis of Tract Participations shown on the original Exhibit "B".

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

22. APPEARANCES. Unit Operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Commissioner of Public Lands and the New Mexico Oil Conservation Commission, and to appeal from orders issued under the regulations of the Commissioner or Commission or to apply for relief from any of said regulations or in any proceedings on its own behalf relative to operations pending before the Commissioner or Commission; provided, however, that any other interested party shall also have the right at his own expense to appear and to participate in any such proceeding.

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

24. 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, war, acts of God, federal, state or municipal law or agencies, unavoidable accidents, 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.

25. LOSS OF TITLE. In the event title to any tract of Unitized Land or substantial interest therein shall fail and the true owner cannot be induced to join the Unit Agreement so that such tract is not committed to this agreement or the operation thereof hereunder becomes impracticable as a result thereof, such tract may be eliminated from the Unitized Area, and the interest of the parties readjusted as a result of such tract being eliminated from the Unitized Area. In the event of a dispute as to the title to any royalty, working or other interest subject hereto, the Unit Operator may withhold payment or delivery of the allocated portion of the Unitized Substances involved on account thereof without liability for interest until the dispute is finally settled, provided that no payments of funds due the State of New Mexico shall be withheld. Unit Operator as such is relieved from any responsibility for any defect or failure of any title hereunder.

26. EASEMENTS OR USE OF SURFACE. The parties hereto, to the extent of their rights and interest, hereby grant to Working Interest Owners the right to use as much of the surface of the land within the Unit Area as may reasonably be necessary for Unit Operations, including the free use of water from the Unit Area for Unit Operations, except water from any well, lake, pond or irrigation ditch of Royalty Owners, 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.

27. NO WAIVER OF CERTAIN RIGHTS. Nothing in this agreement contained shall be construed as a waiver of any party hereto of the right



R 27 E

R 28 E

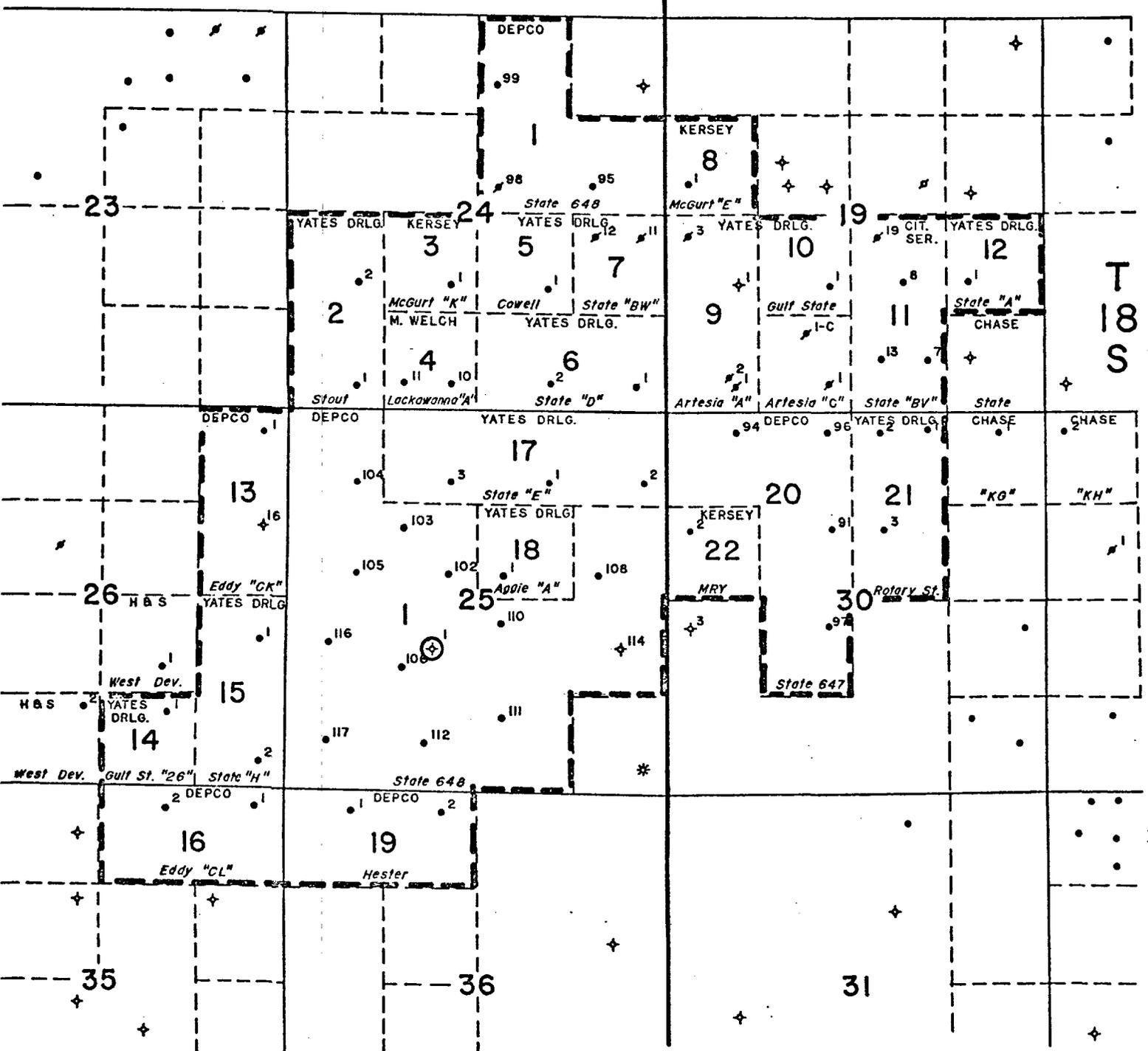


EXHIBIT "A"

# YATES DRILLING COMPANY

ARTESIA METEX UNIT

Eddy County, New Mexico

Dated 6/21/73



Dated - 6/1/73

| TRACT NO.                   | DESCRIPTION   | ACRES  | LEASE NO. & EXPIRATION DATE | LESSOR OF RECORD            | OVERRIDE OR PRODUCTION PAYMENT & PERCENTAGE                            | WORKING INTEREST                                 |   | PARTICIPATION FACTOR  |   |
|-----------------------------|---|--------|-----------------------------|-----------------------------|--|--|---|---|---|
|                             |   |        |                             |                             |  | OWNER -  | PERCENT   |   |   |
| ALL STATE LAND: 12% ROYALTY |   |        |                             |                             |  |  |   |   |   |
| 15.                         | T-18-S, R-27-E<br>Sec. 26: E4SE4                            | 80.00  | B-11083-6<br>HBP            | Mary E. Yates               | Yates Brothers   | 12.500%  | Yates Drly. Co.<br>John A. Yates  | 87.50%<br>12.50%  | .021974<br>.003139  |
| 16.                         | T-18-S, R-27-E<br>Sec. 35: N4NE4                            | 80.00  | E-5071-5<br>HBP             | Depco, Inc. & Husky Oil Co. | W.N. & D. Price<br>Bertie N. Price<br>G. Kelly Stout<br>Yates Brothers | 2.500000%<br>2.500000%<br>2.500000%<br>1.41421%  | Depco, Inc.<br>Husky Oil Co.<br>Yates Pet. Corp.<br>Yates Drly. Co.<br>Vilas P. Sheldon   | 37.96065%<br>37.96065%<br>19.912035%<br>3.125000%<br>1.041665%  | .009580<br>.009580<br>.005025<br>.000789<br>.000263   |
| 17.                         | T-18-S, R-27-E<br>Sec. 25: N4NE4, NE4NW4                    | 120.00 | 648-131<br>HBP              | Depco, Inc.                 | Depco, Inc.<br>Husky Oil Co.<br>Hondo Oil & Gas<br>Yates Brothers      | 3.05989%<br>3.05989%<br>3.12500%<br>2.25694%     | Yates Drly. Co.<br>Yates Pet. Corp.   | 81.9445%<br>18.0555%  | .076345<br>.016822  |
| 18.                         | T-18-S, R-27-E<br>Sec. 25: SW4NE4                           | 40.00  | E-2123<br>HBP               | Gulf Oil Corp.              | None   | -  | Yates Drly. Co.   | 100%  | .055455   |
| 19.                         | T-18-S, R-27-E<br>Sec. 36: N4SW4                            | 80.00  | B-10371<br>HBP              | B. M. Hester                | Atlantic Rich.<br>Yates Brothers                                       | 1.56250%<br>2.12676%                             | Depco, Inc.<br>Husky Oil Co.<br>Yates Pet. Corp.<br>Mary H. Hester<br>Adm. of Estate<br>of B.M. Hester  | 16.493055%<br>16.493055%<br>17.013890%<br>50.000000%  | .003000<br>.003000<br>.003095<br>.009094  |
| 20.                         | T-18-S, R-28-E<br>Sec. 30: Lot 1 (NW4NW4),<br>E4NW4, NE4SW4 | 163.34 | 647-368<br>HBP              | Depco, Inc.                 | Atlantic Rich.<br>Yates Brothers                                       | 3.12500(OP)<br>4.253472%                         | Depco, Inc.<br>Husky Oil Co.<br>Yates Pet. Corp.  | 32.986110%<br>32.986110%<br>34.027780%  | .025611<br>.025611<br>.026418   |
| 21.                         | T-18-S, R-28-E<br>Sec. 30: W4NE4                            | 80.00  | 647-339<br>HBP              | Leonard Nichols             | Yates Brothers   | 1.1284725%                                       | Yates Drly. Co.<br>Yates Pet. Corp.   | 90.97222%<br>9.02778%   | .067784<br>.006727  |
| 22.                         | T-18-S, R-28-E<br>Sec. 30: Lot 2 (SW4NW4)                   | 43.30  | 647-368<br>HBP              | Depco, Inc.                 | Depco, Inc.<br>Hondo Oil & Gas<br>Husky Oil Co.<br>Yates Brothers      | 3.059910%<br>3.125000%<br>3.059910%<br>3.255190% | Harold Kersey<br>Ralph E. Linck, Jr.<br>Frank Hanley<br>Leonard Vandiver<br>Lucille Gilbert<br>Thelma Methvin<br>Margaret Holcomb<br>Betty Jane Palcola<br>Sandra Kinney<br>Margaret McIntyre | 40.0000%<br>25.0000%<br>10.0000%<br>5.0000%<br>5.0000%<br>5.0000%<br>5.0000%<br>5.0000%<br>1.875%<br>1.875%<br>1.250% | .007366<br>.004604<br>.001842<br>.000921<br>.000921<br>.000921<br>.000921<br>.000921<br>.000345<br>.000345<br>.000230 |

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**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

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Accounting Procedure . . . . . Exhibit "D"  
Insurance Provisions . . . . . Exhibit "E"

Dated - June 21, 1973

|   |
|---|
| BEFORE EXAMINER STAMETS<br>OIL CONSERVATION COMMISSION<br>EXHIBIT NO. <u>7 B</u><br>CASE NO. <u>5030 + 5031</u><br>Submitted by _____<br>Hearing Date _____ |
|---|

**EXHIBIT VII B**

UNIT OPERATING AGREEMENT  
ARTESIA METEX UNIT  
EDDY COUNTY, NEW MEXICO

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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



Dated - June 21, 1973

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.<br>Husky Oil Co.<br>Yates Petroleum Corp.   | 32.986110%<br>32.986110%<br>34.027780%                           | .073870<br>.073870<br>.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.<br>Vilas P. Sheldon  | 75.000000%<br>25.000000%   | .008062<br>.002688                                  |
| 6         | Yates Drilling Co.<br>Vilas P. Sheldon  | 75.000000%<br>25.000000%   | .030858<br>.010287                                  |
| 7         | Yates Drilling Co.  | 100.000000%  | .016730   |
| 8         | Harold Kersey<br>Walter Granberry<br>Leland Wittkopp  | 33.334000%<br>33.333000%<br>33.333000%                           | .006139<br>.006138<br>.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.<br>Husky Oil Co.  | 50.000000%<br>50.000000%   | .010032<br>.010032                                  |
| 14        | Yates Drilling Co.  | 100.000000%  | .032254   |
| 15        | Yates Drilling Co.<br>John A Yates  | 87.500000%<br>12.500000%   | .021974<br>.003139                                  |
| 16        | Depco, Inc.<br>Husky Oil Co.<br>Yates Petroleum Corp.<br>Yates Drilling Co.<br>Vilas P. Sheldon | 37.960650%<br>37.960650%<br>19.912035%<br>3.125000%<br>1.041665% | .009580<br>.009580<br>.005025<br>.000789<br>.000263 |
| 17        | Yates Drilling Co.<br>Yates Petroleum Corp.   | 81.944500%<br>18.055500%   | .076345<br>.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<br>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                     | .000230 |

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:

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**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<br>(Use Total Depth) |            | PRODUCING WELL RATE<br>(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<br>(Use Total Depth) | PRODUCING WELL RATE<br>(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 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 "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.