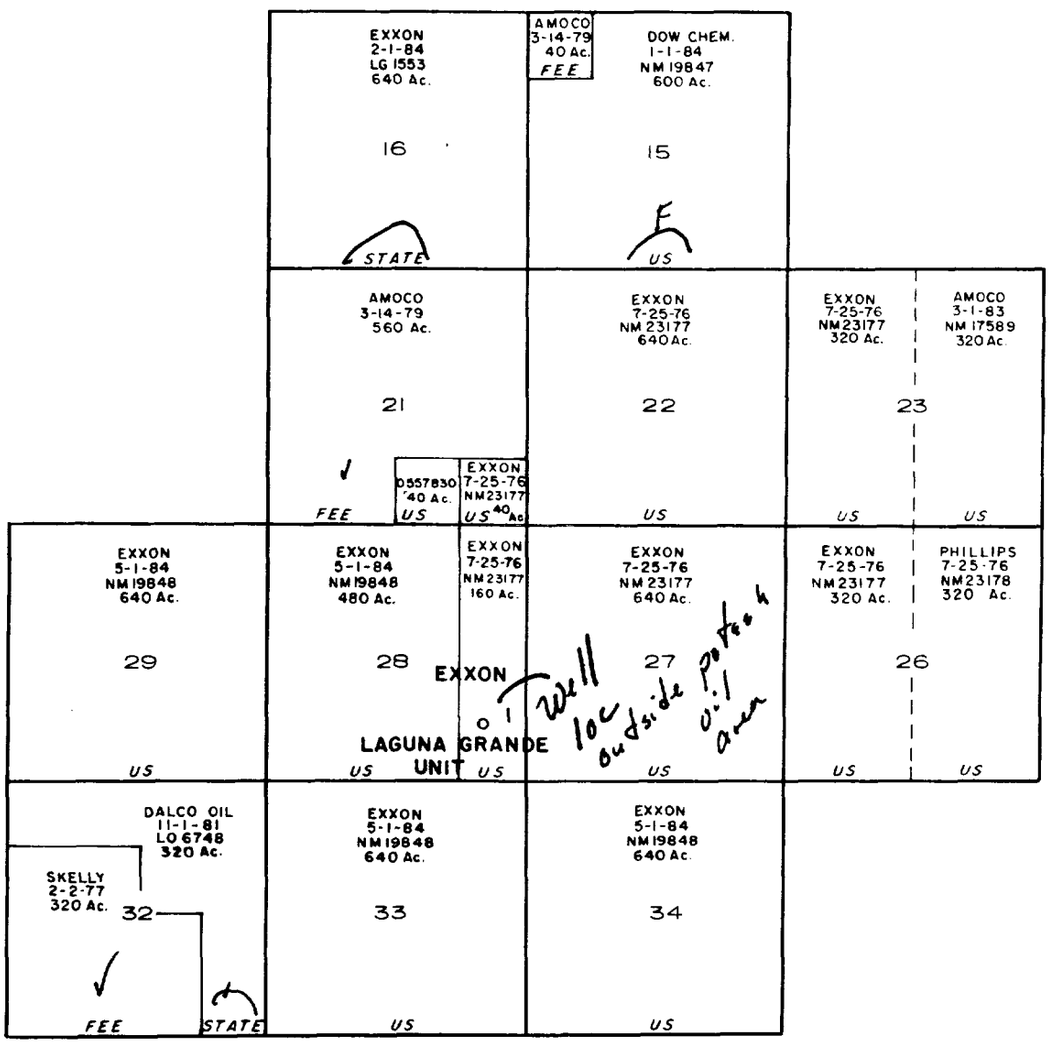
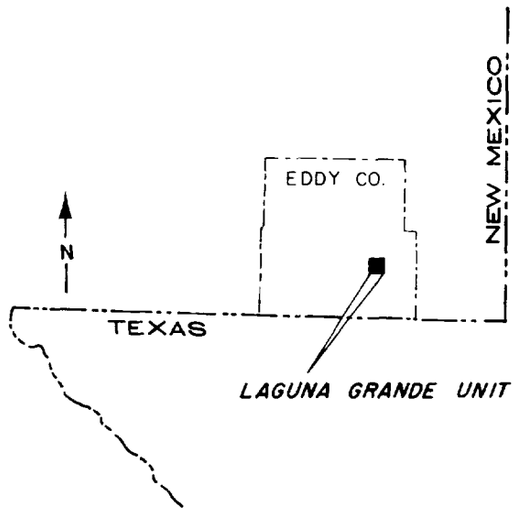
LEASE PLAT

LAGUNA GRANDE UNIT

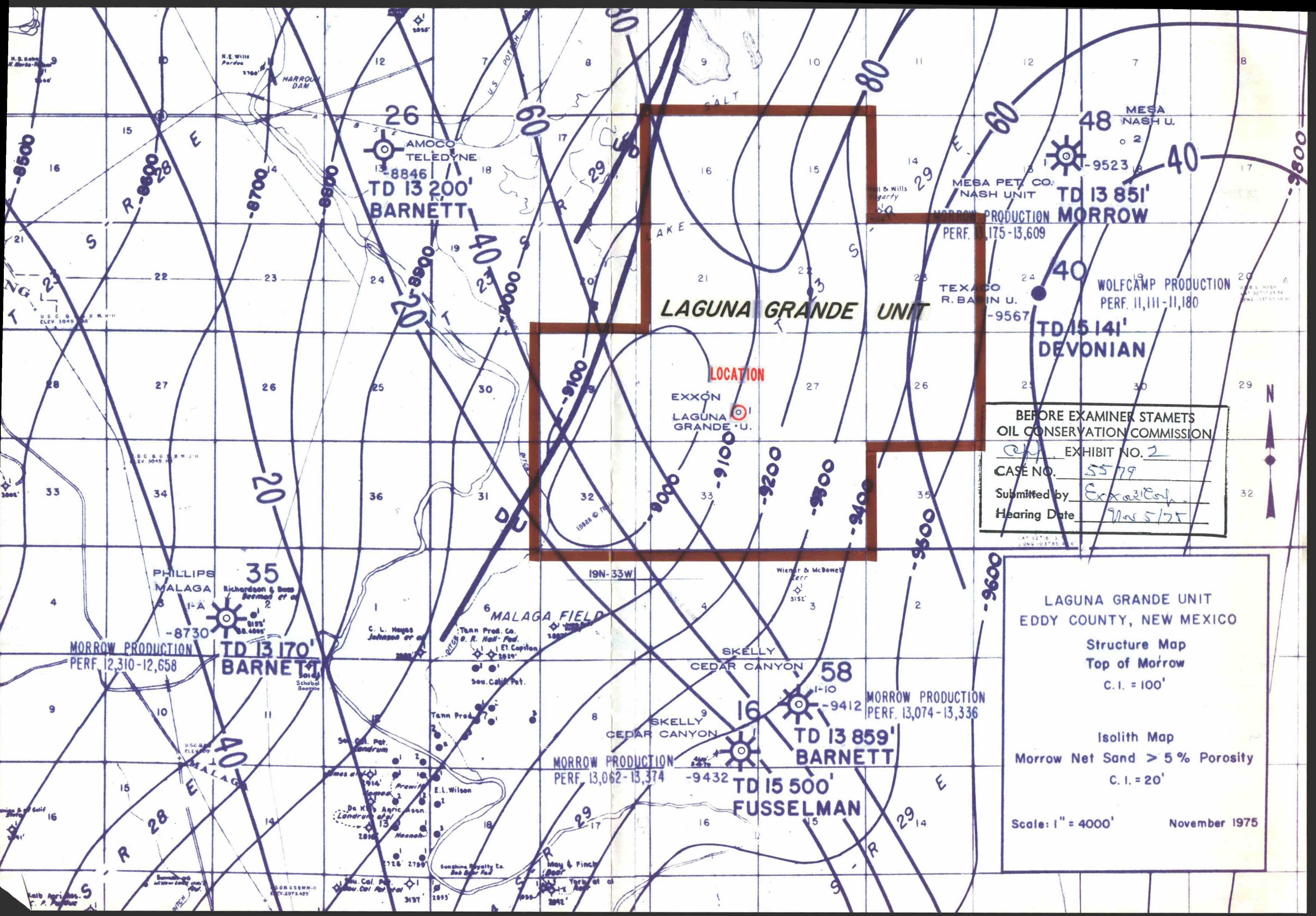
EDDY COUNTY, NEW MEXICO

T 23 S - R 29 E





BEFORE EXAMINER STAMETS
OIL CONSERVATION COMMISSION
Cabot EXHIBIT NO. 1
CASE NO. 5579
Submitted by Exxon Corp.
Hearing Date May 75



BEFORE EXAMINER STAMETS
OIL CONSERVATION COMMISSION
EXHIBIT NO. 2
CASE NO. 5579
Submitted by Exxon Co.
Hearing Date Nov 5/75

LAGUNA GRANDE UNIT
EDDY COUNTY, NEW MEXICO

Structure Map
Top of Morrow
C. I. = 100'

Isolith Map
Morrow Net Sand > 5 % Porosity
C. I. = 20'

Scale: 1" = 4000' November 1975

United States Department of the Interior

GEOLOGICAL SURVEY
Denver Federal Center
Denver, Colorado 80225

RECEIVED
MIDLAND
MAY 15 1975

EXXON
Land Section

IN REPLY REFER TO:

MAY 13 1975

BEFORE EXAMINER STAMETS
OIL CONSERVATION COMMISSION
EXHIBIT NO. 3
CASE NO. 5579
Submitted by Exxon Co.
Hearing Date May 15/75

Exxon Company, U.S.A.
Attention: Mr. Marvin L. Wigley
P. O. Box 1600
Midland, Texas 79701

Gentlemen:

Your application of April 14, 1975, filed with the Oil and Gas Supervisor, Roswell, New Mexico, requests the designation of the Laguna Grande unit area embracing 7,680 acres, more or less, Eddy County, New Mexico, as logically subject to exploration and development under the unitization provisions of the Mineral Leasing Act, as amended.

Pursuant to unit plan regulations 30 CFR 226 the land requested as outlined on your plat marked "Exhibit A, Laguna Grande Unit Area, Eddy County, New Mexico," is hereby designated as a logical unit area.

The unit agreement submitted for the area designated should provide for a well to test all formations of Pennsylvanian Age or to a depth of 14,000 feet. The Form of Agreement for Unproved Areas (1968 reprint) should be used with the following modifications:

1. Add the following new section:

"PROTECTION OF POTASH DEPOSITS. No wells will be drilled for oil or gas at a location on Federal lands which in the opinion of the Supervisor or at a location on State lands which in the opinion of the Commissioner would result in undue waste of potash deposits or constitute a hazard to or unduly interfere with mining operations being conducted for the extraction of potash deposits.

The drilling or abandonment of any well on unitized land shall be done in accordance with applicable oil and gas operating regulations, including such requirements as to Federal lands as may be prescribed by the Supervisor and as to State lands by the Commissioner, as necessary to prevent the infiltration of oil, gas or water into formations containing potash deposits or into mines or workings being utilized in the extraction of such deposits.

Well records and survey plats that an oil and gas lessee of Federal lands must file pursuant to applicable operating

regulations (30 CFR Part 221) shall be available for inspection at the Office of the Supervisor to any party holding a potash permit or lease on the Federal land on which the well is situated insofar as such records are pertinent to the mining and protection of potash deposits."

2. Add the words "as amended" after "(30 F.R. 12319)" in Section 26, Nondiscrimination.

3. The inclusion of the appropriate language for State and fee lands.

If conditions are such that further modification of said standard form is deemed necessary, three copies of the proposed modifications with appropriate justification must be submitted to this office through the Oil and Gas Supervisor for preliminary approval.

In the absence of any other type of land requiring special provisions or of any objections not now apparent, a duly executed agreement identical with said form, modified as outlined above, will be approved if submitted in approvable status within a reasonable period of time. However, notice is hereby given that the right is reserved to deny approval of any executed agreement submitted which, in our opinion, does not have the full commitment of sufficient lands to afford effective control of operations in the unit area.

When the executed agreement is transmitted to the Supervisor for approval include the latest status of all acreage. In preparation of Exhibits "A" and "B", follow closely the format of the sample exhibits attached to the 1968 reprint of the aforementioned form.

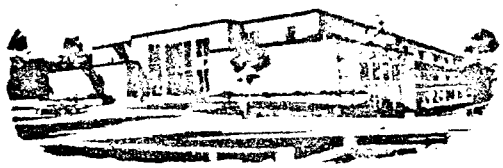
Inasmuch as this unit agreement involves State land, we are sending a copy of the letter to the Commissioner of Public Lands in Santa Fe. Please contact the State of New Mexico before soliciting joinders regardless of prior contacts or clearances from the State.

Sincerely yours,

Regional Conservation Manager
For the Director

State of New Mexico

TELEPHONE
505-827-2748



Commissioner of Public Lands

May 23, 1975

PHIL R. LUCERO
COMMISSIONER

P. O. BOX 1148
SANTA FE, NEW MEXICO 87501

Exxon Company
P. O. Box 1600
Midland, Texas 79701

Re: Proposed- Laguna Grande Unit
Eddy County, New Mexico

ATTENTION: Mr. Marvin L. Wigley

Gentlemen:

In reply to your letter of April 14, 1975, in connection with the subject unit, we have no objection to the unit area as described in your letter.

Approval of the proposed unit will be conditioned on receipt of a unit agreement which will meet all requirements of the Commissioner of Public Lands and the United States Geological Survey.

Very truly yours,

PHIL R. LUCERO
COMMISSIONER OF PUBLIC LANDS

BY: Ray D. Graham
RAY D. GRAHAM, Director
Oil and Gas Division

PRL/RDG/s

BEFORE EXAMINER STAMETS
OIL CONSERVATION COMMISSION
EXHIBIT NO. 3
CASE NO. 5579
Submitted by Exxon Corp.
Hearing Date Nov 5/75

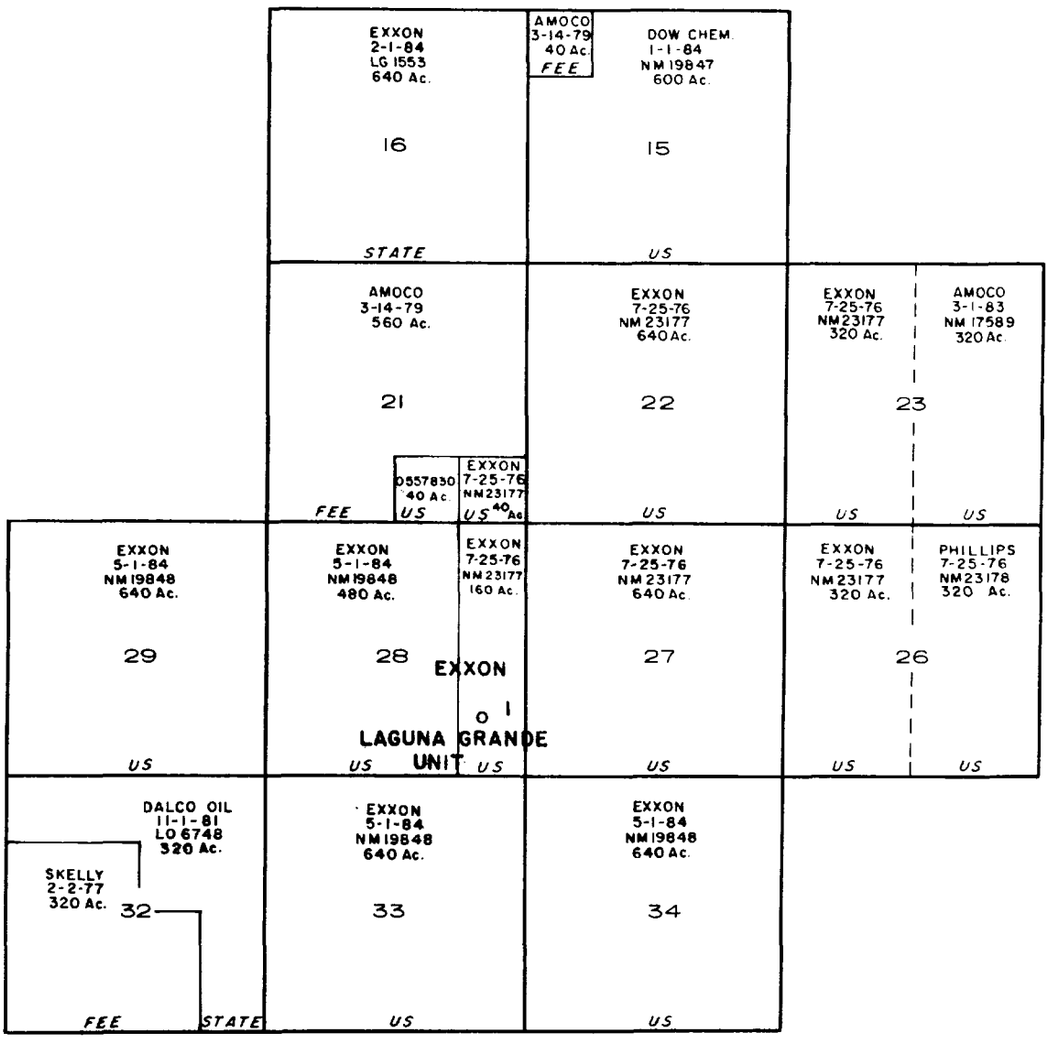
RECEIVED
MIDLAND
MAY 27 1975
EXXON
Land Section

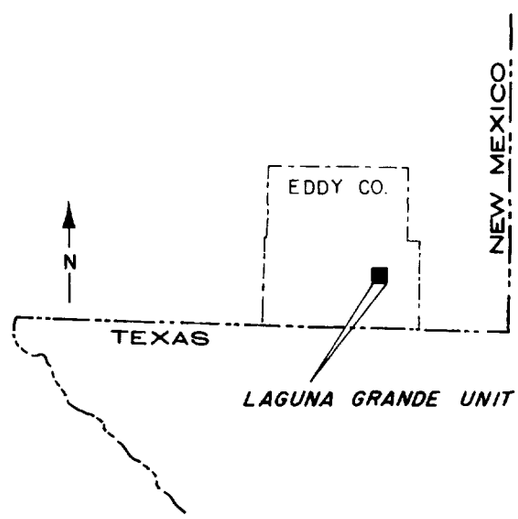
LEASE PLAT

LAGUNA GRANDE UNIT

EDDY COUNTY, NEW MEXICO

T 23 S - R 29 E

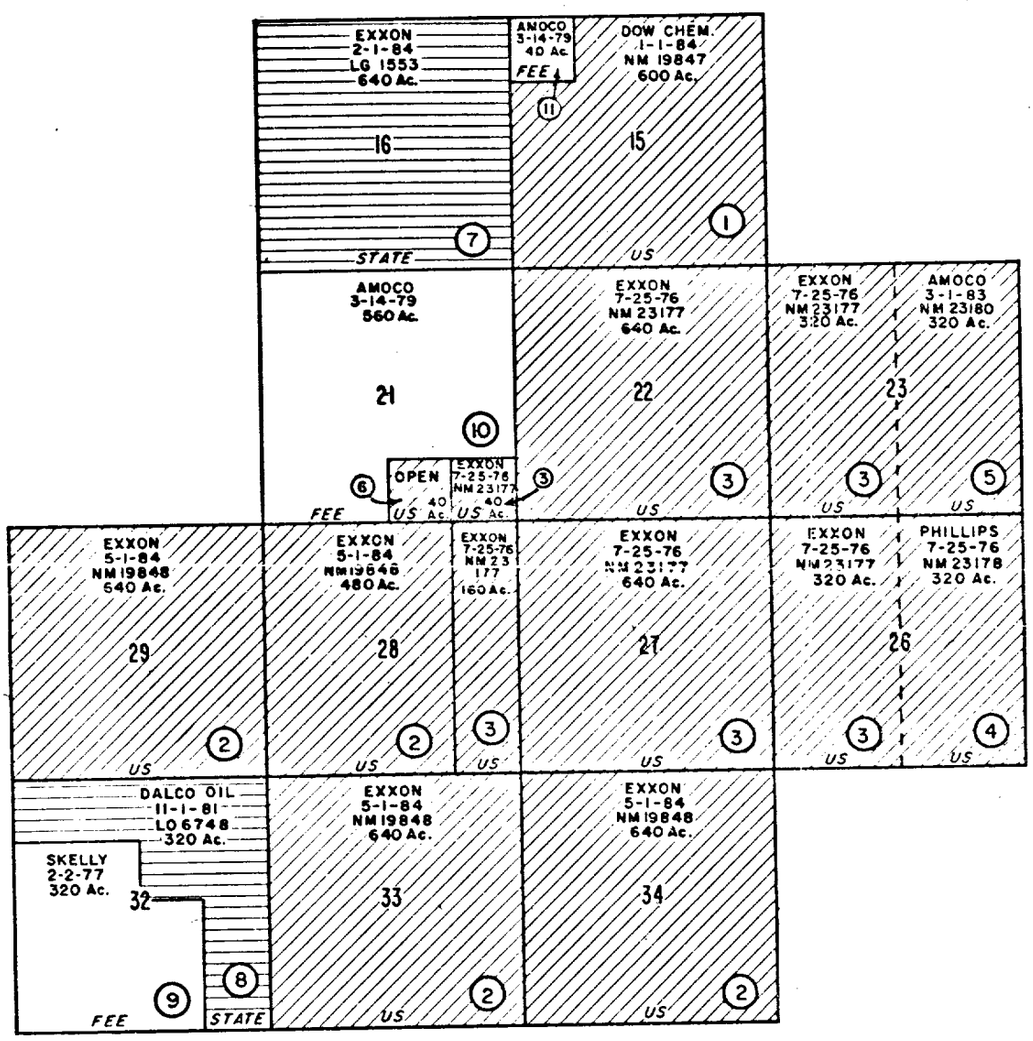




LAGUNA GRANDE UNIT AREA

EDDY COUNTY, NEW MEXICO
T 23 S - R 29E

EXHIBIT A



USA	5800	ACRES	
STATE	960	ACRES	
FEE	920	ACRES	
UNIT AREA	7680	ACRES	

TRACT (8)

Federal Lease Numbers

19847
19848
23177
23178
23180

EXHIBIT "B" - LAGUNA GRANDE UNIT AREA - EDDY COUNTY, NEW MEXICO

Tract No.	Description of Land	No. of Acres	Lease No. & Expiration Date of Lse.	Basic Royalty & Percentage of	Lessee Record & Int.	Overriding Royalty or Production Payments	Working Interest Owners and Percentage
1	T23S, R29E Sec. 15: E½, E½W½ SW¼NW¼, W½SW¼	600	NM19847 1-1-84	USA 12½%	Hayes - 25% Dow - 75%	None	Hayes 25% of 87.5% Dow - 75% of 87.5%
2	T23S, R29E Sec. 28: W½, W½E½ Sec. 29: All Sec. 33: All	2400	NM19848 5-1-84	USA 12½%	Exxon	Tim Daly (Nancy T.) 1/32 of 8/8 (.03125) Tommy Phipps et al, Trustees Margene Blakemore Trust 4.375% of 8/8 (.04375)	Exxon 80%
3	T23S, R29E Sec. 21: SE¼SE¼ Sec. 22: All Sec. 23: W½ Sec. 26: W½ Sec. 27: All Sec. 28: E½E½	2120	NM23177 7-25-76	USA 12½%	Exxon-All	Glenn R. Easterly (Viola Lillian) 4% of 8/8 Jack Easterly (Janice L.) 1/2 of 1%, Raymond C. Walker (Geraldine) 1/2 of 1%, Lyndell C. Brown (Eula Fern) 1/2 of 1%, Don R. Link 1%, Carol Ann Hoffman 1%).	Exxon 83.5%
4	T23S, R29E Sec. 26: E½	320	NM23178 7-25-76	USA 12½%	Phillips-All	Peggy E. Baetz (Bertrand V.) 2½% of 8/8 Eddy Land Co. 2½% of 8/8 **	Phillips 82.5%
5	T23S, R29E Sec. 23: E½	320	NM23180 3-1-83	USA 12½%	Amoco-All	Robert N. Enfield (Mona L.) 5% of 8/8*	Amoco 82.5%
6	T23S, R29E Sec. 21: SW¼SE¼	40	Open				

Total: 6 Tracts Federal Land - 5,800 Acres, 75.52% of the Unit Area

7	T23S, R29E Sec. 16: All	640	LG1553 2-1-84	St. of NM 1/8	Exxon-All	None	Exxon 87.5%
8	T23S, R29E Sec. 32: E½E½, W½NE¼, N½NW¼	320	LG6748 11-1-81	St. of NM 1/8	Dalco-All	None	Dalco 87.5%
Total: 2 Tracts State Land - 960 Acres, 12.50% of the Unit Area							
9	T23S, R29E Sec. 32: SW¼, S½NW¼ W½SE¼	320	Fee 2-2-77	D. S. Harroun et al 3/16	Skelly- All	None	Skelly 81.25%
10	T23S, R29E Sec. 21: N½, N½S½, S½SW¼	560	Fee 3-14-79	Teledyne Inc. 3/16	Amoco-All	None	Amoco 81.25%
11	T23S, R29E Sec. 15: NW¼NW¼	40	Fee 3-14-79	Teledyne Inc. 3/16	Amoco-All	None	Amoco 81.25%
Total: 3 Tracts Fee Land - 920 Acres, 11.98% of the Unit Area							

* PPI $750.00/acre payable out of 5% of 8/8

** PPI $375.00/acre payable out of 2½% of 8/8

Total Acres in Unit Area: 7,680 Acres

In the above Schedule "Exxon" indicates Exxon Corporation, "Amoco" indicated Amoco Production Company, "Hayes" indicates Hayes Oil Company, "Dow" indicates Dow Chemical Company, "Phillips" indicates Phillips Petroleum Company, "Dalco" indicates Dalco Oil Company and "Skelly" indicates Skelly Oil Company.

LAGUNA GRANDE
UNIT AGREEMENT

TABLE OF CONTENTS

UNIT AGREEMENT

FOR THE DEVELOPMENT AND OPERATION

OF THE

LAGUNA GRANDE UNIT AREA

COUNTY OF EDDY

STATE OF NEW MEXICO

NO. _____

THIS AGREEMENT entered into as of the 26th day of August, 1975, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as the "parties hereto".

WITNESSETH:

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

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 7-11-39 N.M. Statutes 1953 Annotated) to consent to or approve this agreement on behalf of the State of New Mexico, insofar as it covers and includes lands and mineral interests of the State of New Mexico; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico is authorized by an Act of the Legislature (Article 3, Chapter 65, Vol. 9, Part 2, 1953 Statutes) to approve this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the Laguna Grande 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 conserve natural resources, prevent waste, and secure other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions and limitations herein set forth;

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

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

2. UNIT AREA. The area specified on the map attached hereto marked Exhibit "A" is hereby designated and recognized as

constituting the unit area, containing 7,680 acres, more or less.

Exhibit "A" shows, in addition to the boundary of the unit area, the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing, to the extent known to the Unit Operator, the acreage, percentage, and kind of ownership of oil and gas interests in all land 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 in said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the unit area render such revision necessary, or when requested by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor", or when requested by the Commissioner of Public Lands of the State of New Mexico, hereinafter referred to as "Commissioner", and not less than five copies of the revised exhibits shall be filed with the Supervisor, and two copies thereof shall be filed with the Commissioner, and one copy with the New Mexico Oil Conservation Commission, hereinafter referred to as "Commission".

The above-described unit area shall when practicable be expanded to include therein any additional lands or shall be contracted to exclude lands whenever such expansion or contraction is deemed to be necessary or advisable to conform with the purposes of this agreement. Such expansion or contraction shall be effected in the following manner:

(a) Unit Operator, on its own motion or on demand of the Director of the Geological Survey, hereinafter referred to as "Director", or on demand of the Commissioner, after preliminary

concurrence by the Director and the Commissioner, shall prepare a notice of proposed expansion or contraction describing the contemplated changes in the boundaries of the unit area, the reasons therefor, and the proposed effective date thereof, preferably the first day of a month subsequent to the date of notice.

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

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

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

(e) All legal subdivisions of land (i.e., 40 acres by Government survey or its nearest lot or tract equivalent; in instances of irregular surveys unusually large lots or tracts shall be considered in multiples of 40 acres or the nearest aliquot equivalent thereof), no parts of which are entitled to be in a participating area on or before the fifth anniversary of the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of said fifth anniversary, and such lands shall no

longer be a part of the unit area and shall no longer be subject to this agreement, unless diligent drilling operations are in progress on unitized lands not entitled to participation on said fifth anniversary, in which event all such lands shall remain subject hereto so long as such drilling operations are continued diligently with not more than 90 days' time elapsing between the completion of one such well and the commencement of the next such well. All legal subdivisions of lands not entitled to be in a participating area within 10 years after the effective date of the first initial participating area approved under this agreement shall be automatically eliminated from this agreement as of said tenth anniversary. All lands proved productive by diligent drilling operations after the aforesaid 5-year period shall become participating in the same manner as during said 5-year period. However, when such diligent drilling operations cease, all nonparticipating lands shall be automatically eliminated effective as of the 91st day thereafter. The Unit Operator shall, within 90 days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the Supervisor and the Commissioner, and promptly notify all parties in interest.

If conditions warrant extension of the 10-year period specified in this subsection 2(e), a single extension of not to exceed 2 years may be accomplished by consent of the owners of 90% of the working interests in the current nonparticipating unitized lands and the owners of 60% of the basic royalty interests (exclusive of the basic royalty interests of the United States) in nonparticipating unitized lands with approval of the Director and Commissioner, provided such extension application is submitted to the Director and Commissioner not later than 60 days prior to the expiration of said 10-year period.

Any expansion of the unit area pursuant to this section which embraces lands theretofore eliminated pursuant to this subsection 2(e) shall not be considered automatic commitment or recommitment of such lands.

3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement". All oil and gas in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

4. UNIT OPERATOR. Exxon Corporation is hereby designated as Unit Operator and by signature hereto as Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development, and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interest 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.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time prior to the establishment of a participating area or areas hereunder, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of 6 months after notice of intention to resign has been served by Unit Operator on all working interest owners and the Supervisor, the Commissioner and the Commission, and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandon-

ment whichever is required by the Supervisor as to Federal lands and by the Commission as to State and privately owned lands, unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

Unit Operator shall have the right to resign in like manner and subject to like limitations as above provided at any time a participating area established hereunder is in existence, but, in all instances of resignation or removal, until a successor Unit Operator is selected and approved as hereinafter provided, the working interest owners shall be jointly responsible for performance of the duties of Unit Operator, and shall, not later than 30 days before such resignation or removal becomes effective, appoint a common agent to represent them in any action to be taken hereunder.

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

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

The resignation or removal of Unit Operator under this agreement shall not terminate its rights, title or interest as the owner of a working interest or other interest in unitized substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all wells, equipment, materials and appurtenances used in conducting

the unit operations to the new duly qualified successor Unit Operator or to the common agent, if no such new Unit Operator is elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment and appurtenances needed for the preservation of any wells.

6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his or its resignation as Unit Operator or shall be removed as hereinabove provided, or a change of Unit Operator is negotiated by working interest owners, the owners of the working interests in the participating area or areas according to their respective acreage interests in such participating area or areas, or, until a participating area shall have been established, the owners of the working interests according to their respective acreage interests in all unitized land, shall by majority vote select a successor Unit Operator: Provided, That, if a majority but less than 75 per cent of the working interests qualified to vote are owned by one party to this agreement, a concurring vote of one or more additional working interest owners shall be required to select a new operator. Such selection shall not become effective until

(a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and

(b) the selection shall have been approved by the Supervisor and the Commissioner.

If no successor Unit Operator is selected and qualified as herein provided, the Director and Commissioner at their election may declare this unit agreement terminated.

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

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

8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise specifically provided herein, the exclusive right, privilege, and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting

for producing, storing, allocating, and distributing the unitized substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said Unit Operator and, together with this agreement, shall constitute and define the rights, privileges, and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

9. DRILLING TO DISCOVERY. Within 6 months after the effective date hereof, the Unit Operator shall begin to drill an adequate test well at a location approved by the Supervisor, if on Federal land, or by the Commissioner if on State land, or by the Commission if on fee land, unless on such effective date a well is being drilled conformably with the terms hereof, and thereafter continue such drilling diligently until the Morrow formation has been tested or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities (to-wit: quantities sufficient to repay the costs of drilling, completing, and producing operations, with a reasonable profit) or the Unit Operator shall at any time establish to the satisfaction of the Supervisor if located on Federal lands, or the Commissioner if located on State lands, or the Commission if located on fee lands, that further drilling of said well would be unwarranted or impracticable, provided, however, that Unit Operator shall not in any event be required to drill said well to a depth in excess of 14,000 feet. Until the discovery of a deposit of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue

drilling one well at a time, allowing not more than 6 months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of said Supervisor if on Federal land, or the Commissioner if on State land, or the Commission if on fee land, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section. The Supervisor and Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when, in their opinion, such action is warranted. Upon failure to commence any well provided for in this section within the time allowed, including any extension of time granted by the Supervisor and Commissioner, this agreement will automatically terminate; upon failure to continue drilling diligently any well commenced hereunder, the Supervisor and Commissioner may, after 15 days notice to the Unit Operator, declare this unit agreement terminated.

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the Supervisor and the Commissioner an acceptable plan of development and operation for the unitized land which, when approved by the Supervisor and the Commissioner, shall constitute the further drilling and operating obligations of the Unit Operator under this agreement for the period specified

therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for the approval of the Supervisor and the Commissioner a plan for an additional specified period for the development and operation of the unitized land.

Any plan submitted pursuant to this section shall provide for the exploration of the unitized area and for the diligent drilling necessary for determination of the area or areas thereof capable of producing unitized substances in paying quantities in each and every productive formation and shall be as complete and adequate as the Supervisor, the Commissioner and Commission may determine to be necessary for timely development and proper conservation of the oil and gas resources of the unitized area and shall:

(a) specify the number and locations of any wells to be drilled and the proposed order and time for such drilling; and

(b) to the extent practicable, specify the operating practices regarded as necessary and advisable for proper conservation of natural resources.

Separate plans may be submitted for separate productive zones, subject to the approval of the Supervisor, the Commissioner and the Commission.

Plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of development. The Supervisor and Commissioner are authorized to grant a reasonable extension of the 6-month period herein prescribed for submission of an initial plan of development where such action is justified because of unusual conditions or circumstances. After

completion hereunder of a well capable of producing any unitized substances in paying quantities, no further wells, except such as may be necessary to afford protection against operations not under this agreement and such as may be specifically approved by the Supervisor and the Commissioner, shall be drilled except in accordance with a plan of development approved as herein provided.

11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of producing unitized substances in paying quantities or as soon thereafter as required by the Supervisor and Commissioner, the Unit Operator shall submit for approval by the Supervisor and Commissioner a schedule, based on subdivisions of the public land survey or aliquot parts thereof, of all land then regarded as reasonably proved to be productive in paying quantities; all lands in said schedule on approval of the Supervisor and Commissioner to constitute a participating area, effective as of the date of completion of such well or the effective date of this unit agreement, whichever is later. The acreages of both Federal and non-Federal lands shall be based upon appropriate computations from the courses and distances shown on the last approved public land survey as of the effective date of each initial participating area. Said schedule shall also set forth the percentage of unitized substances to be allocated as herein provided to each tract in the participating area so established, and shall govern the allocation of production commencing with the effective date of the participating area. A separate participating area shall be established for each separate pool or deposit of unitized substances or for any group thereof which is produced as a single pool or zone, and any two or more participating areas so established may be combined into one, on approval of the Supervisor and Commissioner. When production from two or more participating areas, so established,

is subsequently found to be from a common pool or deposit said participating areas shall be combined into one effective as of such appropriate date as may be approved or prescribed by the Supervisor and Commissioner. The participating area or areas so established shall be revised from time to time, subject to like approval, to include additional land then regarded as reasonably proved to be productive in paying quantities or necessary for unit operations, or to exclude land then regarded as reasonably proved not to be productive in paying quantities and the schedule of allocation percentages shall be revised accordingly. The effective date of any revision shall be the first day of the month in which is obtained the knowledge or information on which such revision is predicated, provided, however, that a more appropriate effective date may be used if justified by the Unit Operator and approved by the Supervisor and Commissioner. No land shall be excluded from a participating area on account of depletion of the unitized substances, except that any participating area established under the provisions of this unit agreement shall terminate automatically whenever all completions in the formation on which the participating area is based are abandoned.

It is the intent of this section that a participating area shall represent the area known or reasonably estimated to be productive in paying quantities, but, regardless of any revision of the participating area, nothing herein contained shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the revision of the participating area.

In the absence of agreement at any time between the Unit Operator and the Supervisor and Commissioner as to the proper

definition or redefinition of a participating area, or until a participating area has, or areas have, been established as provided herein, the portion of all payments affected thereby shall be impounded in a manner mutually acceptable to the owners of working interests and the Supervisor and Commissioner. Royalties due the United States and the State of New Mexico, which shall be determined by the Supervisor for Federal land and the Commissioner for State land and the amount thereof shall be deposited, as directed by the Supervisor and Commissioner respectively, to be held as unearned money until a participating area is finally approved and then applied as earned or returned in accordance with a determination of the sum due as Federal and State royalty on the basis of such approved participating area.

Whenever it is determined, subject to the approval of the Supervisor as to wells drilled on Federal land and of the Commissioner as to wells drilled on State land, that a well drilled under this agreement is not capable of production in paying quantities and inclusion of the land on which it is situated in a participating area is unwarranted, production from such well shall, for the purposes of settlement among all parties other than working interest owners, be allocated to the land on which the well is located unless such land is already within the participating area established for the pool or deposit from which such production is obtained. Settlement for working interest benefits from such a well shall be made as provided in the unit operating agreement.

12. ALLOCATION OF PRODUCTION. All unitized substances produced from each participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, camp and other production or development purposes,

for repressuring or recycling in accordance with a plan of development approved by the Supervisor and Commissioner, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land of the participating area established for such production and, for the purpose of determining any benefits accruing under this agreement, each such tract of unitized land shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land in said participating area, except that allocation of production hereunder, for purposes other than for settlement of the royalty, overriding royalty, or payment out of production obligations of the respective working interest owners, shall be on the basis prescribed in the unit operating agreement whether in conformity with the basis of allocation herein set forth or otherwise. It is hereby agreed that production of unitized substances from a participating area shall be allocated as provided herein regardless of whether any wells are drilled on any particular part or tract of said participating area. If any gas produced from one participating area is used for repressuring or recycling purposes in another participating area, the first gas withdrawn from such last-mentioned participating area for sale during the life of this agreement shall be considered to be the gas so transferred until an amount equal to that transferred shall be so produced for sale and such gas shall be allocated to the participating area from which initially produced as such area was last defined at the time of such final production.

13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS. Any party hereto owning or controlling the working interest in any unitized land having thereon a regular well loca-

tion may with the approval of the Supervisor as to Federal land, the Commissioner as to State land and the Commission as to privately owned land, at such party's sole risk, cost and expense, drill a well to test any formation for which a participating area has not been established or to test any formation for which a participating area has been established if such location is not within said participating area, unless within 90 days of receipt of notice from said party of his intention to drill the well the Unit Operator elects and commences to drill such a well in like manner as other wells are drilled by the Unit Operator under this agreement.

If any well drilled as aforesaid by a working interest owner results in production such that the land upon which it is situated may properly be included in a participating area, such participating area shall be established or enlarged as provided in this agreement and the well shall thereafter be operated by the Unit Operator in accordance with the terms of this agreement and the unit operating agreement.

If any well drilled as aforesaid by a working interest owner obtains production in quantities insufficient to justify the inclusion of the land upon which such well is situated in a participating area, such well may be operated and produced by the party drilling the same subject to the conservation requirements of this agreement. The royalties in amount or value of production from any such well shall be paid as specified in the underlying lease and agreements affected.

14. ROYALTY SETTLEMENT. The United States and any State and any royalty owner who is entitled to take in kind a share of the substances now unitized hereunder shall hereafter be entitled to the right to take in kind its share of the unitized

substances, and the Unit Operator, or the working interest owner in case of the operation of a well by a working interest owner as herein provided for in special cases, shall make deliveries of such royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for royalty interest not taken in kind shall be made by working interest owners responsible therefor under existing contracts, laws and regulations, or by the Unit Operator, on or before the last day of each month for unitized substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any royalties due under their leases.

If gas obtained from lands not subject to this agreement is introduced into any participating area hereunder, for use in repressuring, stimulation or production, or increasing ultimate recovery, in conformity with a plan of operations approved by the Supervisor, the Commissioner, and Commission, a like amount of gas, after settlement as herein provided for any gas transferred from any other participating area and with appropriate deduction for loss from any cause, may be withdrawn from the formation in which the gas is introduced, royalty free as to dry gas, but not as to any products which may be extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved plan of operations or as may otherwise be consented to by the Supervisor, the Commissioner and 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.

Royalty due the United States shall be computed as provided in the operating regulations and paid in value or delivered in

kind as to all unitized substances on the basis of the amounts thereof allocated to unitized Federal land as provided herein at the rate specified in the respective Federal leases, or at such lower rate or rates as may be authorized by law or regulation; provided, that for leases on which the royalty rate depends on the daily average production per well, said average production shall be determined in accordance with the operating regulations as though each participating area were a single consolidated lease.

Royalty due on account of State lands shall be computed and paid on the basis of all unitized substances allocated to such lands.

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

Rentals on State of New Mexico lands subject to this agreement shall be paid at the rates specified in the respective leases.

With respect to any lease on non-Federal land containing provisions which would terminate such lease unless drilling operations are commenced upon the land covered thereby within the time therein specified or rentals are paid for the privilege of deferring such drilling operations, the rentals required thereby shall, notwithstanding any other provisions of this agreement,

be deemed to accrue and become payable during the term thereof as extended by this agreement and until the required drilling operations are commenced upon the land covered thereby or until some portion of such land is included within a participating area.

16. CONSERVATION. Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to State or Federal laws or regulations.

17. DRAINAGE. The Unit Operator shall take such measures as the Supervisor and Commissioner deem appropriate and adequate to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement.

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

(a) The development and operation of lands subject to this

agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every separately owned tract subject to this agreement, regardless of whether there is any development of any particular tract of the unit area.

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

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

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

(e) Any Federal lease for a fixed term of twenty (20) years or any renewal thereof or any part of such lease which is made subject to this agreement shall continue

in force beyond the term provided therein until the termination hereof. Any other Federal lease committed hereto shall continue in force beyond the term so provided therein or by law as to the land committed so long as such lease remains subject hereto, provided that production is had in paying quantities under this unit agreement prior to the expiration date of the term of such lease, or in the event actual drilling operations are commenced on unitized lands, in accordance with the provisions of this agreement, prior to the end of the primary term of such lease and are being diligently prosecuted at that time, such lease shall be extended for two years and so long thereafter as oil or gas is produced in paying quantities in accordance with the provisions of the Mineral Leasing Act Revision of 1960.

(f) Each sublease or contract relating to the operation and development of unitized substances from lands of the United States committed to this agreement, which by its terms would expire prior to the time at which the underlying lease, as extended by the immediately preceding paragraph, will expire, is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of the underlying lease as such term is herein extended.

(g) Any lease embracing lands of the State of New Mexico which is made subject to this agreement, shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof, subject to the provisions of subsection (e) of Section 2 and subsection (i) of this Section 18.

(h) The segregation of any Federal lease committed to

this agreement is governed by the following provisions in the fourth paragraph of Sec. 17(j) of the Mineral Leasing Act, as amended by the Act of September 2, 1960 (74 Stat. 781-784): "Any (Federal) lease heretofore or hereafter committed to any such (unit) plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization: Provided, however, That any such lease as to the nonunitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

(i) Any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto, shall be segregated as to the portion committed and the portion not committed, and the provisions of such lease shall apply separately to such segregated portions commencing as of the effective date hereof; provided, however, notwithstanding any of the provisions of this agreement to the contrary any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease, if oil or gas is discovered and is capable of being produced in paying quantities from some part of the lands embraced in such lease at the expiration of the secondary term of such lease; or if, at the expiration of the secondary term, the lessee or Unit Operator is then engaged in bona fide drilling

or reworking operations on some part of the lands embraced in such lease, the same, as to all lands embraced therein, shall remain in full force and effect so long as such operations are being diligently prosecuted, and if they result in the production of oil or gas, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

(j) Any lease, other than a Federal lease, having only a portion of its lands committed hereto shall be segregated as to the portion committed and the portion not committed, and the provisions of such lease shall apply separately to such segregated portions commencing as of the effective date hereof. In the event any such lease provides for a lump sum rental payment, such payment shall be prorated between the portions so segregated in proportion to the acreage of the respective tracts.

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 interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee or other successor in interest. No assignment or transfer of any working interest, royalty, or other interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, photostatic, or certified copy of the instrument of transfer.

20. EFFECTIVE DATE AND TERM. This agreement shall become

effective upon approval by the Secretary and Commissioner, or their duly authorized representatives and shall terminate five (5) years from said effective date unless:

(a) such date of expiration is extended by the Director and Commissioner, or

(b) it is reasonably determined prior to the expiration of the fixed term or any extension thereof that the unitized land is incapable of production of unitized substances in paying quantities in the formations tested hereunder and after notice of intention to terminate the agreement on such ground is given by the Unit Operator to all parties in interest at their last known addresses, the agreement is terminated with the approval of the Supervisor and the Commissioner, or

(c) a valuable discovery of unitized substances has been made or accepted on unitized land during said initial term or any extension thereof, in which event the agreement shall remain in effect for such term and so long as unitized substances can be produced in quantities sufficient to pay for the cost of producing same from wells on unitized land within any participating area established hereunder and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as unitized substances so discovered can be produced as aforesaid, or

(d) it is terminated as heretofore provided in this agreement.

This agreement may be terminated at any time by not less than 75 per centum, on an acreage basis, of the working interest owners signatory hereto, with the approval of the Supervisor and Commissioner; notice of any such approval to be given by the Unit

Operator to all parties hereto.

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

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

22. CONFLICT OF SUPERVISION. Neither the Unit Operator nor

the working interest owners nor any of them shall be subject to any forfeiture, termination or expiration of any rights hereunder or under any leases or contracts subject hereto; or to any penalty or liability on account of delay or failure in whole or in part to comply with any applicable provision thereof to the extent that the Unit Operator, working interest owners or any of them are hindered, delayed or prevented from complying therewith by reason of failure of the Unit Operator to obtain in the exercise of due diligence, the concurrence of proper representatives of the United States and proper representatives of the State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained. The parties hereto, including the Commission, agree that all powers and authority vested in the Commission in and by any provisions of this agreement are vested in the Commission and shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject in any case to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

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

24. 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 personally delivered to the party or sent by postpaid registered or certified mail, addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party may have furnished in writing to party sending the notice, demand or statement.

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

26. UNAVOIDABLE DELAY. All obligations under this agreement requiring the Unit Operator to commence or continue drilling or to operate on or produce unitized substances from any of the lands covered by this agreement shall be suspended while the Unit Operator, despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State or municipal law or agencies, unavoidable 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. No unit obligation which is suspended under this section shall become due less than thirty (30) days after it has been determined

that the suspension is no longer applicable. Determination of creditable "Unavoidable Delay" time shall be made by the Unit Operator subject to approval of the Supervisor and Commissioner.

27. PROTECTION OF POTASH DEPOSITS. No wells will be drilled for oil or gas at a location on Federal lands which in the opinion of the Supervisor or at a location on State lands which in the opinion of the Commissioner would result in undue waste of potash deposits or constitute a hazard to or unduly interfere with mining operations being conducted for the extraction of potash deposits.

The drilling or abandonment of any well on unitized land shall be done in accordance with applicable oil and gas operating regulations, including such requirements as to Federal lands as may be prescribed by the Supervisor and as to State lands by the Commissioner, as necessary to prevent the infiltration of oil, gas or water into formations containing potash deposits or into mines or or workings being utilized in the extraction of such deposits.

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

28. NONDISCRIMINATION. In connection with the performance of work under this agreement, the operator agrees to comply with all of the provisions of Section 202 (1) to (7) inclusive of Executive Order 11246 (30 F.R. 12319), as amended, which are hereby incorporated by reference in this agreement.

29. LOSS OF TITLE. In the event title to any tract of unitized land shall fail and the true owner cannot be induced to

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

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

30. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw said tract from this agreement by written notice delivered to the Supervisor and the Commissioner and the Unit Operator prior to the approval of this agreement by the Supervisor and Commissioner. Any oil or gas interests in lands within the unit area not committed hereto prior to submission of this agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest is a working interest, by the owner of such interest also subscribing to the unit operating agreement. After operations are

commenced hereunder, the right of subsequent joinder, as provided in this section, by a working interest owner is subject to such requirements or approvals, if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final approval hereof, joinder by a non-working interest owner must be consented to in writing by the working interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. A non-working interest may not be committed to this unit agreement unless the corresponding working interest is committed hereto. Joinder to the unit agreement by a working interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, if more than one committed working interest owner is involved, in order for the interest to be regarded as committed to this unit agreement. Except as may otherwise herein be provided subsequent joinders to this agreement shall be effective as of the first day of the month following the filing with the Supervisor and the Commissioner of duly executed counterparts of all or any papers necessary to establish effective commitment of any tract to this agreement unless objection to such joinder is duly made within 60 days by the Supervisor, provided, however, that as to State lands all subsequent joinders must be approved by the Commissioner.

31. COUNTERPARTS. This agreement may be executed in any number of counterparts no one of which needs to be executed by all parties or may be ratified or consented to by separate instrument in writing specifically referring hereto and shall be binding upon all those parties who executed such a counterpart, ratification, or consent hereto with the same force and effect as if all such parties had signed the same document and regardless of

whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described unit area.

32. NO PARTNERSHIP. It is expressly agreed that the relation of the parties hereto is that of independent contractors and nothing in this agreement contained, expressed or implied, nor any operations conducted hereunder, shall create or be deemed to have created a partnership or association between the parties hereto or any of them.

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

Div. Ldm. _____
Div. Geol. _____
Jt. Int. _____
Div. Acct. _____
Div. Law _____

UNIT OPERATOR AND WORKING INTEREST OWNER

EXXON CORPORATION

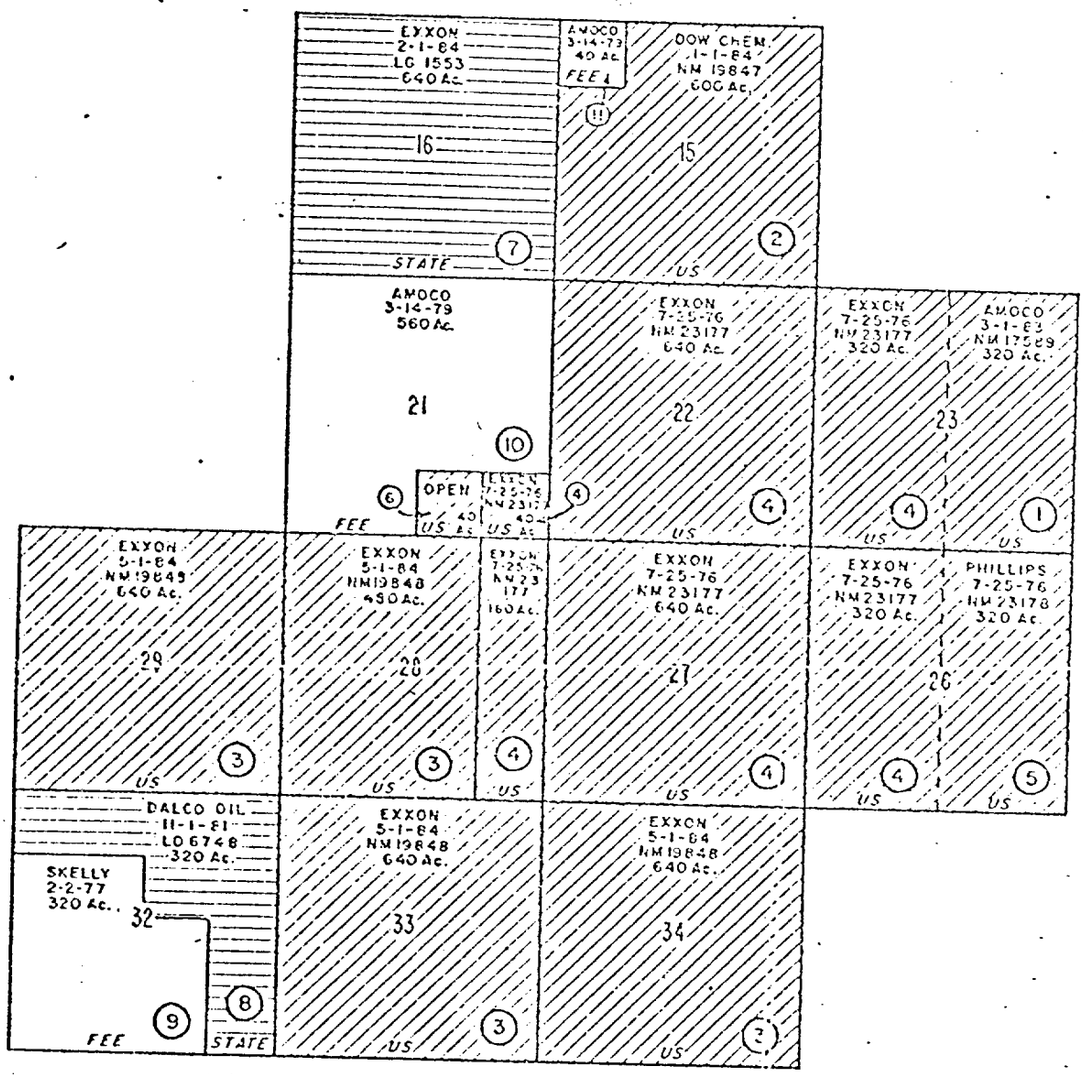
DATE: August 26, 1975

BY: B. D. Holland
B. D. HOLLAND, Attorney-in-Fact

LAGUNA GRANDE UNIT AREA

EDDY COUNTY, NEW MEXICO
T 23 S - R 29 E

EXHIBIT A



USA	5800	ACRES
STATE	960	ACRES
FEE	920	ACRES
UNIT AREA	7680	ACRES

TRACT (8)

Federal Lease Numbers

17589
19847
19848
23177
23178

EXHIBIT "B" - LAGUNA GRANDE UNIT AREA - EDDY COUNTY, NEW MEXICO

Tract No.	Description of Land	No. of Acres	Lease No. & Expiration Date of Lse.	Basic Royalty & Percentage	Lessee of Record & Int.	Overriding Royalty or Production Payments	Working Interest Owners and Percentage
1	T23S, R29E Sec. 23: E½	320	NM17589 3-1-83	USA 12½%	Amoco-All	Robert N. Enfield (Mona L.) 5% of 8/8 *	Amoco 82.5%
2	T23S, R29E Sec. 15: E½, E½W½ SW¼NW¼, W½SW¼	600	NM19847 1-1-84	USA 12½%	Hayes - 25% Dow - 75%	None	Hayes 25% of 87.5% Dow - 75% of 87.5%
3	T23S, R29E Sec. 28: W½, W½E½ Sec. 29: All Sec. 33: All	2400	NM19848 5-1-84	USA 12½%	Exxon	Tim Daly (Nancy T.) 1/32 of 8/8 (.03125) Tommy Phipps et al, Trustees Margene Blakemore Trust 4.375% of 8/8 (.04375)	Exxon 80%
4	T23S, R29E Sec. 21: SE¼SE¼ Sec. 22: All Sec. 23: W½ Sec. 26: W½ Sec. 27: All Sec. 28: E½E½	2120	NM23177 7-25-76	USA 12½%	Exxon-All	Glenn R. Easterly (Viola Lillian) 4% of 8/8 Jack Easterly (Janice L.) 1/2 of 1%, Raymond C. Walker (Geraldine) 1/2 of 1%, Lyndell C. Brown (Eula Fern) 1/2 of 1%, Don R. Link 1%, Carol Ann Hoffman 1%).	Exxon 83.5%
5	T23S, R29E Sec. 26: E½E½	320	NM23178 7-25-76	USA 12½%	Phillips-All	Peggy E. Baetz (Bertrand V.) 2½% of 8/8 Eddy Land Co. 2½% of 8/8 **	Phillips 82.5%
6	T23S, R29E Sec. 21: SW¼SE¼	40	Open				

Total: 6 Tracts Federal Land - 5,800 Acres, 75.52% of the Unit Area

7	T23S, R29E Sec. 16: All	640	LG1553 2-1-84	St. of NM 1/8	Exxon-All	None	Exxon	87.5%
8	T23S, R29E Sec. 32: E½E½, W½ NE¼, N½NW¼	320	LG6748 11-1-81	St. of NM 1/8	Dalco-All	None	Dalco	87.5%
Total: 2 Tracts State Land - 960 Acres, 12.50% of the Unit Area								
9	T23S, R29E Sec. 32: SW¼, S½NW¼ W½SE¼	320	Fee 2-2-77	D. S. Harroun et al 3/16	Skelly- All	None	Skelly	81.25%
10	T23S, R29E Sec. 21: N½, N½S½, S½SW¼	560	Fee 3-14-79	Teledyne, Inc. 3/16	Amoco-All	None	Amoco	81.25%
11	T23S, R29E Sec. 15: NW¼NW¼	40	Fee 3-14-79	Teledyne, Inc. 3/16	Amoco-All	None	Amoco	81.25%
Total: 3 Tracts Fee Land - 920 Acres, 11.98% of the Unit Area								

* PPI $750.00/acre payable out of 5% of 8/8

** PPI $375.00/acre payable out of 2½% of 8/8

Total Acres in Unit Area: 7.680 Acres

In the above Schedule "Exxon" indicates Exxon Corporation, "Amoco" indicates Amoco Production Company, "Hayes" indicates Hayes Oil Company, "Dow" indicates Dow Chemical Company, "Phillips" indicates Phillips Petroleum Company, "Dalco" indicates Dalco Oil Company and "Skelly" indicates Skelly Oil Company.

UNIT OPERATING AGREEMENT

LAGUNA GRANDE UNIT

EDDY COUNTY, NEW MEXICO

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UNIT OPERATING AGREEMENT

FOR THE LAGUNA GRANDE UNIT

EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, made and entered into this the 26th day of August, 1975, by and between EXXON CORPORATION, a corporation, with offices at Midland, Texas, hereinafter referred to as "Unit Operator", and such other owners of working interests in the Unitized Substances within the Unit Area subject to the Unit Agreement hereinafter referred to as may subscribe to this agreement and become parties hereto, which said owners are hereinafter sometimes referred to as "Working Interest Owners".

W I T N E S S E T H, T H A T:

WHEREAS, the parties hereto have concurrently herewith entered into a certain Unit Agreement for the Development and Operation of the Laguna Grande Unit Area, Eddy County, New Mexico, hereinafter referred to as "Unit Agreement", embracing all horizons and formations underlying the lands more particularly described in said Unit Agreement, which lands, to the extent that the same have been or are hereafter committed to said Unit Agreement and made subject to this agreement are hereafter referred to as "Unit Area"; and

WHEREAS, said Unit Agreement provides for the apportionment of all costs and expenses incurred in conducting the Unit Operations under the terms of said Unit Agreement and for the allocation of production of Unitized Substances among the Working Interest Owners in accordance with a Unit Operating Agreement to be made and entered into by and between the Unit Operator and the Working Interest Owners having interests committed to said Unit Agreement. This agreement is the Unit Operating Agreement which is entered into in conformity with the provisions of said Unit Agreement;

NOW, THEREFORE, in consideration of mutual covenants and agreements hereinafter contained, the parties hereto do hereby covenant, contract and agree as follows:

UNIT AGREEMENT CONFIRMED

The Unit Agreement and exhibits attached thereto are hereby confirmed and made a part of this agreement. If there is any conflict between the Unit Agreement and this agreement, the Unit Agreement shall govern.

II.

DEFINITIONS

As used in this agreement, the terms herein contained shall have the following meanings:

A. Any definitions contained in the Unit Agreement are adopted for all purposes of this agreement.

B. Working Interest means an interest in the Unit Area by virtue of a lease, operating agreement, fee title, or otherwise, including a carried interest, 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 Unit Area. A schedule of the allocation of costs to such Working Interests in the Unit Area is attached hereto as Exhibit "E". Any interest in the Unit Area 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.

C. Beneficial Interest means a Working Interest owner's share of production as shown in Exhibit "C" attached hereto, after payment of royalties, overriding royalties and other leasehold burdens.

D. Royalty Interest means a right to or interest in any portion of the Unitized Substances or proceeds thereof other than a Working Interest.

E. Royalty Owner means a party who owns a Royalty Interest.

F. Working Interest Owner means a party hereto who owns a Working Interest. The owner of oil and gas rights that are free of lease or other instruments conveying the Working Interest to another shall be regarded as a Working Interest Owner to the extent of seven-eighths (7/8ths) of his or its interest in Unitized Substances, and as a Royalty Owner with respect to his or its remaining one-eighth (1/8th) interest therein.

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

H. Unit Operations means all operations conducted by Working Interest Owners or Unit Operator pursuant to this agreement and the Unit Agreement for or on account of the development and operation of the Unit Area for the production of Unitized Substances.

I. 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.

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

K. Unless the context otherwise clearly indicates, words used in the singular include the plural, the plural include the singular, and the neuter gender include the masculine and the feminine.

III.

EXHIBITS

The following Exhibits are incorporated herein by reference:

A. Exhibits "A" and "B" of the Unit Agreement.

B. Exhibit "C", attached hereto, which is a Schedule showing the Beneficial Interest of each Working Interest Owner.

C. Exhibit "D", attached hereto, which is the Accounti Procedure applicable to all operations conducted on the Unit Area. If there is any conflict between this agreement and Exhibit "D", this agreement shall govern.

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

E. Exhibit "E", attached hereto, which is a Schedule showing the Working Interest of each Working Interest Owner.

F. Exhibit "F", attached hereto, is a Gas Storage and Balancing Agreement.

G. Exhibit "G", attached hereto, is an Equal Employmen Opportunity Provision and Certification of Non-Segregated Facilities.

IV.

INTEREST OF THE PARTIES

A. Exhibit "C" is a Beneficial Interest Schedule showing the Beneficial Interest ownership of each Working Interest Owner as of the date hereof. Said Beneficial Interests were computed on the basis of the following formula

1. For the purposes hereof:

   a. represents the number of acres in each Tract as shown in Exhibit "B".

   b. represents the basic royalty in percentage in each Tract as shown in Exhibit "B".

c. represents the total of all overriding royalties and production payments in excess of b (hereinafter referred to as Lease Burdens) and which affect the respective Tracts as of the date hereof and shall include, but not be limited to, the Lease Burdens that are not deemed to be carved-out interests under the provisions of Section D of this Article IV.

d. represents the number of royalty acres in each Tract.

e. represents the number of overriding royalty acres in each Tract.

f. represents the total number of Beneficial Acres in each Tract.

g. represents the total number of Beneficial Acres.

h. represents the percentage of the Working Interest of each Working Interest Owner in each Tract as set forth in Exhibit "B".

x. represents each Working Interest Owner's Tract Beneficial Interest stated in a percentage.

2. For the purposes of determining x:

$$d = a \times b$$
$$e = a \times c$$
$$f = a - (d+e)$$
$$x = \frac{f}{g} \times h$$

3. Each Working Interest Owner's Beneficial Interest shall be equal to the sum of such Working Interest Owner's Tract Beneficial Interest in each Tract.

B. In the event the Unit Area is expanded or contracted as provided in the Unit Agreement, the Beneficial Interest and the Working Interest of the Working Interest Owners, insofar as the same pertain to the Tracts remaining in the Unit Area and which were within the Unit Area prior to the enlargement or reduction shall remain in the same ratio one to another.

C. Except as provided in Section D of this Article IV and in separate agreements between the Unit Operator and the several Working Interest Owners pertaining to the drilling of the initial well, all costs and liabilities incurred in operations under this agreement and the Unit Agreement shall be borne and paid, and all equipment and material acquired hereunder, shall be owned by the parties hereto in proportion to their Working Interest as reflected in Exhibit "E". All Unitized Substances produced from the Unit Area shall be owned by the parties hereto, in proportion to their respective Beneficial Interests, as reflected in Exhibit "C", after payment of royalties, overriding royalties and other leasehold burdens.

D. In the event any Working Interest Owner shall, after executing the Unit Agreement and this agreement, create or cause to be created any Lease Burden or other interest out of its interest then subject to the Unit Agreement and this agreement, such carved-out interest shall be subject to the terms and provisions of this agreement (any Lease Burden which affects any Working Interest Owner's interest but which may not have been actually conveyed to the party entitled thereto prior to the date of this agreement shall not be deemed to be an carved-out interest within the meaning of this Section D; provided, that such Lease Burden was utilized in computing the Beneficial Interest of each Working Interest Owner as of the date hereof). In the event the Working Interest Owner owning the interest out of which the carved-out interest was created withdraws from this agreement under the provisions of Article XXII hereof, or fails to pay any Unit Expense chargeable to such Working Interest Owner under this agreement and if the Unitized Substances attributable to the credit of such Working Interest Owner are insufficient

for the purpose, the owner of the carved-out interest will be liable for its pro rata portion of all costs and expenses for which the Working Interest Owner that created such carved-out interest would have been liable hereunder by virtue of such Working Interest Owner's entire original interest, just as if such carved-out interest had not been created. In such event, the lien provided for in Article XII hereof may be enforced against such carved-out interest in the same manner as the lien was enforceable against the original interest out of which the carved-interest was created.

V.

ESTABLISHMENT, REVISION AND CONSOLIDATION OF PARTICIPATING AREA

A. Unit Operator shall initiate each proposal for the establishment or revision of a participating area by submitting the proposal therefor in writing to each Working Interest Owner at least thirty (30) days before filing the same with the Supervisor and the Land Commissioner. The date of the proposed filing shall be shown on the proposal. If the proposal receives the approval of the Working Interest Owners as provided in Article IX hereof, then such proposal shall be filed on the date specified in the notice.

B. Prior to the proposed filing date, any Working Interest Owner may submit to all other Working Interest Owners and Unit Operator written objections to such proposal. If, despite such objections, the proposal receives the approval of the Working Interest Owners, then the Working Interest Owner making such rejection may renew its objections before the Supervisor and the Land Commissioner.

C. If the proposal does not receive the approval of such Working Interest Owners, then the Unit Operator shall submit a revised proposal taking into account the objections made to the first proposal. If no proposal received the

approval of said Working Interest Owners within thirty (30) days from the submission of the first proposal, the Unit Operator shall then file with the Supervisor and the Land Commissioner a proposal reflecting as nearly as practicable the various views expressed by the affected Working Interest Owners.

D. If a proposal filed by the Unit Operator as above provided is rejected by the Supervisor and/or the Land Commissioner, the Unit Operator shall initiate a new proposal in the same manner as provided in Section C of this Article V and the procedure with respect thereto shall be the same as in the case of an initial proposal.

E. Two (2) or more participating areas may be combined as provided in the Unit Agreement.

VI.

PLANS OF DEVELOPMENT

A. Each plan for the development and operation of the Unit Area which is submitted by the Unit Operator to the Supervisor and the Land Commissioner in accordance with the Unit Agreement shall make provisions only for such drilling, deepening or plugging back operations and such other projects as Unit Operator has been authorized to conduct by the Working Interest Owners pursuant to this agreement.

B. At least ten (10) days before submitting any such proposed plan to the Supervisor and the Land Commissioner, Unit Operator shall give each party written notice thereof together with a copy of the proposed plan.

C. If and when a proposed plan has been approved or disapproved by the Supervisor and the Land Commissioner, Unit Operator shall give prompt written notice thereof to each Working Interest Owner. In the event of disapproval, the Unit Operator shall state in such notice the reasons therefor.

D. If any Working Interest Owner or Working Interest Owners shall have elected to proceed with drilling, deepening or plugging back operations in accordance with the provisions of this agreement, and such operations are not provided for in the then current plan of development as approved by the Supervisor and the Land Commissioner, the Unit Operator shall either

1. Request the Supervisor and the Land Commissioner to approve an amendment to such plan which will provide for such operations, or

2. Request the Supervisor and the Land Commissioner to consent to such operations if their consents are sufficient.

E. If any such plan as approved by the Supervisor and the Land Commissioner provides for the cessation of any drilling or other operations on the happening of a contingency and if such contingency occurs, Unit Operator shall promptly cease such drilling or other operations and shall not incur any additional Unit Expense in connection therewith unless and until such drilling or other operations are again authorized in accordance with the agreement of the Working Interest Owners.

VII.

REQUIRED WELLS

A. For the purposes of this Article VII, a well shall be deemed to be a required well if the drilling thereof is required by the final order of an authorized representative of the Department of the Interior in the case of Federal lands or of the Land Commissioner in the case of State lands. Such an order shall be deemed to be final upon the expiration of the time allowed for an appeal therefrom without commencement of appropriate appeal proceedings, or if such proceedings are commenced within said time, upon the

final disposition of the appeal. Whenever Unit Operator receives any such order, Unit Operator shall promptly mail a copy thereof to each of the Working Interest Owners. If any such order is appealed, the party appealing such order shall give prompt written notice thereof to Unit Operator and to each of the other Working Interest Owners, and upon final disposition of the appeal, Unit Operator shall give each of the other Working Interest Owners prompt written notice of the results of such appeal.

B. Any Working Interest Owner desiring to drill, or to participate in the drilling of, a required well shall give Unit Operator written notice thereof within thirty (30) days after the order requiring such well becomes final or within such lesser time as may be required by such order. If such notice is given within said period, Unit Operator, subject to the provisions of Article XV Section j, shall drill the required well for the account of the Working Interest Owner or Working Interest Owners giving such notice who shall bear all costs and expenses which may be incurred in connection therewith. The rights and obligations of such Working Interest Owner or Working Interest Owners with respect to the ownership of such well, the operating rights therein, the production therefrom and the bearing of all costs and expenses incurred in connection therewith shall be the same as if the well had been drilled for the account of such Working Interest Owner or Working Interest Owners under the provisions of Article XV hereof.

C. If no Working Interest Owner elects to drill a required well within the period allowed for such election, and if any of the following alternatives is available, the first of such alternatives which is available shall be followed:

1. If compensatory royalties may be paid in lieu of drilling the well and if payment thereof receives, within said period, the approval of the Working Interest Owners, Unit Operator shall pay such compensatory royalties for the account of said Working Interest Owners, or

2. If the drilling of the well may be avoided, without other penalty, by contraction of the Unit Area, Unit Operator shall make a reasonable effort to effect such contraction with the approval of the Director and the Land Commissioner, or

3. If the Unit Agreement may be terminated by reason of the failure to drill such required well, all Working Interest Owners shall join in the termination of the Unit Agreement in accordance with the provisions thereof.

D. If none of the alternatives set forth in Section C of this Article VII is available, Unit Operator shall drill the required well for the account of the Working Interest Owners.

VIII.

SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

A. The 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.

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

1. The establishment or revision of a participating area or participating areas.

2. The approval of any plan of development which is to be submitted by the Unit Operator to the Supervisor and the Land Commissioner.

3. The drilling of all wells whether for the production of Unitized Substances, for use as an injection well, or for other purposes except the drilling of the initial well which shall be covered by separate agreements between Unit Operator and the Working Interest Owners.

4. The recompletion, abandonment, or change of status of any well, or the use of any well for injection or other purposes.

5. 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 through the well head.

6. The selling or otherwise disposing of any major item of surplus Unit Equipment, if the current list price of new equipment similar thereto is Five Thousand Dollars ($5,000.00), or more.

7. 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.

8. 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 Operator, and

b) be made at the expense of all Working Interest Owners other than the Working Interest Owner designated as Unit Operator, and

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

d) be conducted in accordance with Exhibit "D".

9. 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".

10. The appointment of committees to study any problems in connection with Unit Operations.

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

12. The expansion or contraction of the Unit Area.

13. The adjustment and readjustment of investments.

14. The termination of the Unit Agreement.

IX.

MANNER OF EXERCISING SUPERVISION

A. 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.

B. 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 Working Interest 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 presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.

C. Working Interest Owners shall decide all matters coming before them as follows:

1. On matters affecting the Unit Area, each Working Interest Owner shall have a voting interest equal to its Working Interest within the Unit Area.

2. Except as otherwise provided herein or except as provided in the Unit Agreement, the Working Interest Owners shall decide all matters by an affirmative vote of seventy percent (70%) or more voting interest; provided, however, that should any one Working Interest Owner have thirty percent (30%) or more voting interest, its negative vote, or failure to vote, must be supported by the vote of one or more Working Interest Owners having a combined voting interest of at least five percent (5%) and the resulting vote shall be binding upon all Working Interest Owners affected by such vote.

3. Any expansion or contraction of the Unit Area or the initiation of any secondary recovery or pressure maintenance program shall require the affirmative vote of eighty (80%) or more voting interest; provided that, should any one Working Interest Owner have twenty percent (20%) or more voting interest, its negative vote, or failure to vote, must be supported by the vote of one or more Working Interest Owners having a combined voting interest of at least five percent (5%) and the resulting vote shall be binding on all parties.

4. 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.

5. 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 B of this Article 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 affected by such voting.

X.

INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

A. Working Interest Owners severally reserve to themselves all their rights, except as otherwise provided in this agreement and the Unit Agreement.

B. Each Working Interest Owner shall have, among others, the following specific rights:

1. Access to the Unit Area, at such party's sole risk, at all reasonable times to inspect Unit Operations, all wells, and the records and data pertaining thereto.

2. 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.

XI.

UNIT OPERATOR AND DUTIES OF UNIT OPERATOR

A. EXXON CORPORATION, a corporation, is hereby designated as the Unit Operator.

B. Unit Operator may resign at any time. Working Interest Owners may remove Unit Operator at any time by the affirmative vote of at least eighty percent (80%) of the voting interest remaining after excluding the voting interest of Unit Operator. A Unit Operator that resigns or is removed shall not be released from its obligations hereunder for a period of three (3) months after the resignation or discharge, unless a successor Unit Operator has taken over Unit Operations prior to the expiration of such period.

C. In the event of the resignation or removal of a Unit Operator, a successor Unit Operator shall be selected by Working Interest Owners. If the Unit Operator that is removed votes only to succeed itself, or fails to vote, the successor Unit Operator may be selected by an affirmative vote of at least fifty-one percent (51%) of the voting interest remaining after excluding the voting interest of the Unit Operator that was removed.

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

E. 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 Unit Operator's gross negligence or willful misconduct.

F. 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.

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

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

I. Unit Operator shall furnish to Working Interest Owners periodic reports of Unit Operations.

J. Unit Operator shall make all reports to governmental authorities that it has the duty to make as Unit Operator.

K. Unit Operator shall furnish to any Working Interest Owner, upon written request, a copy of the log and engineering and geological date pertaining to wells drilled for Unit Operations.

L. Unit Operator shall comply with the terms, provisions and conditions of the Unit Agreement and all valid applicable Federal, State and local laws, orders, rules and regulations.

M. 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 any 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.

N. All wells drilled by Unit Operator shall be at the usual rates prevailing in the area. Unit Operator may employ its own tools and equipment, but the charge therefor shall not exceed the prevailing rate in the area, and the work shall be performed by Unit Operator under the same

terms and conditions as are usual in the area in contracts of independent contractors doing work of a similar nature.

XII.

UNIT EXPENSE AND UNIT OPERATORS LIEN

A. Unit Operator initially shall pay all Unit Expense. Each Working Interest Owner shall reimburse Unit Operator for its share of Unit Expense. All charges, credits, and accounting for Unit Expense shall be in accordance with Exhibit "D".

B. As soon as is 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 October thereafter, shall prepare such a budget for the next ensuing calendar year. Each budget shall set forth the estimated Unit Expense by quarterly periods. Budgets shall be estimates only, and shall be adjusted or corrected by Working Interest Owners whenever an adjustment or correction is proper. A copy of each budget and adjusted budget shall promptly be furnished to each Working Interest Owner.

C. 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.

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

E. Each Working Interest Owner grants to Unit Operator a lien upon its leasehold rights 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. To the extent that the Unit Operator has a security interest under the Uniform Commercial Code of the State of New Mexico, Unit Operator should be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of a judgment by the Unit Operator for the secured indebtedness should not be deemed an election of remedy or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Working Interest Owner in the payment of its share of Unit Expense, Unit Operator shall have the right to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owned 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. Each Non-Operator shall likewise have a lien on Unit Operator's leasehold rights in each tract, its share of Unitized Substances when produced, and its interest in all Unit Equipment to secure the payment of any amount that may at any time become due and payable by Unit Operator to such Non-Operator under the terms of this agreement, together with interest thereon as herein provided.

XII.

INSURANCE

As to all operations hereunder, Unit Operator shall carry for the benefit and protection of the parties hereto Workmen's Compensation Insurance in accordance with the laws

of the State of New Mexico. The Unit Operator shall not be required to carry any other insurance for the Joint Account. The liability, if any, of the parties hereto in damages for claims growing out of personal injury to or death of third persons or injury or distruction of property of third persons resulting from the operation and development of the Unit Area shall be borne by the parties hereto in the proportions of their participation as shown on Exhibit "E"; and each party individually may acquire such insurance as it deems proper to protect itself against such claims. Unit Operator shall require all third party contractors performing work in or on the Unit Area to carry insurance for the benefit and protection of the Working Interest Owners consistent with Unit Operator's then existing requirement.

XIV.

TAXES

A. Commencing 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. Unless otherwise provided in a separate agreement between the Unit Operator and the respective Working Interest Owners, all such ad valorem taxes shall be paid by Unit Operator and charged 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 one-eighth (1/8th) royalty, such Working Interest Owner shall be given credit for the reduction in taxes paid resulting therefrom. If any assessment is considered unreasonable

by Unit Operator, Unit Operator may protest such valuation within the time and manner provided by law, and may, with the approval of the Working Interest Owners, prosecute such protest to a final determination. When any such protested valuation is finally determined, Unit Operator shall pay the taxes and any accrued interest and penalty and charge such payments to the joint account.

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

XV.

OPERATIONS BY LESS THAN ALL PARTIES

A. If all of the Working Interest Owners cannot mutually agree upon the drilling of any well other than the initial test well to be drilled thereon, or upon the reworking, deepening or plugging back of a dry hole drilled at the joint expense of said Working Interest Owners, or a well jointly owned by all of the Working Interest Owners and not then producing in paying quantities, any Working Interest Owner or Working Interest Owners wishing to drill, rework, deepen or plug back such a well shall give the other Working Interest Owners written notice of the proposed operation, specifying the work to be performed, the location of such well, the proposed depth, the objective formation and the estimated cost of such operations. The Working Interest Owners receiving such notice shall have thirty (30) days (except as to reworking, plugging back or drilling deeper, where a drilling rig is on location, the period shall be limited to forty-eight (48) hours, exclusive of Saturdays, Sundays and Legal holidays) after receipt of the notice within which to notify the Working Interest Owner or Working Interest Owners wishing to conduct such operations whether

or not the Working Interest Owners receiving such notice elect to participate in the cost of the proposed operations. Any failure of a Working Interest Owner receiving such notice to reply to said notice within the period above fixed shall constitute an election by such Working Interest Owner not to participate in the cost of the proposed operations.

B. If any Working Interest Owner receiving such notice elects not to participate in the proposed operations (such Working Interest Owner or Working Interest Owners being hereinafter referred to as "Non-Consenting Party", whether one or more), then in order to be entitled to the benefits of this Article, the Working Interest Owner or Working Interest Owners giving such notice and such other Working Interest Owners as shall have elected to participate in the proposed operations (all such parties being hereinafter referred to as "Consenting Parties", whether one or more), shall, within thirty (30) days after the expiration of the aforesaid notice period (or as promptly as possible after the expiration of the forty-eight (48) hour notice period in the case where a drilling rig is on location), actually commence the proposed operations and complete the same with due diligence.

C. The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportion that their Working Interests as shown in Exhibit "E" bear to the total Working Interests of all Consenting Parties. Said Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind, character or nature which may be created by or arise out of the operations of the Consenting Parties. If such operations result in a dry hole, the Consenting Parties shall plug and abandon the well at their sole risk, cost and expense and in accordance with all laws, rules and

regulations. If any well drilled, reworked, deepened or plugged back pursuant to the provisions of this Article results in a producer of oil or gas in paying quantities, the Consenting Parties shall complete and equip said well at their sole risk, cost and expense and said well, if not drilled by the Unit Operator, shall be turned over to the Unit Operator and shall be operated by Unit Operator at the expense and for the account of the Consenting Parties pursuant to this agreement.

D. Upon the commencement of operations for drilling, reworking, deepening or plugging back of any well by the Consenting Parties pursuant to the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to the Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well, its leasehold operating rights, and the share of production therefrom until the amount received from the sale thereof (after deducting production taxes, royalty, overriding royalty and other interests payable out of or measured by the production from such well accruing with respect to such interest until the same reverts) shall equal the total of the following:

1. One Hundred percent (100%) of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, flowlines, stock tanks, separators, treaters and pumping equipment) plus one hundred percent (100%) of each of such Non-Consenting Party's share of the cost of operating such well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to said party under other provisions of this Article. It is understood and agreed

that each Non-Consenting Party's share of such costs will be that share which would have been chargeable to each Non-Consenting Party had such party participated in said well from the beginning of the proposed operations; and

2. Three hundred percent (300%) of that portion of the costs and expenses of drilling, reworking, deepening, plugging back, testing, completing and three hundred percent (300%) of that cost of the newly acquired equipment in the well (to and including the wellhead connections) which would have been chargeable to such Non-Consenting Party had such party participated in such operations.

E. In the case of reworking, plugging back or deeper drilling operations, the Consenting Party shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; upon the abandonment of a well after such reworking, plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the owners thereof, each party receiving its proportionate part in kind or value.

F. Within sixty (60) days from the completion of any operations pursuant to this Article, the Working Interest Owner conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an Inventory of the Equipment in and connected to the well on which such operations were conducted, and an itemized statement of the cost of drilling, deepening, plugging back, testing and completing the well for production; or, at such Working Interest Owner's option, such Working Interest Owner, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided

above, the Unit Operator shall furnish the Non-Consenting Parties an itemized statement of all costs, expenses and liabilities incurred in connection with the operation of such well, together with a statement as to the quantities of oil and gas produced from such well and the amount of proceeds realized from the sale of said well's Beneficial Interest production during the preceding month. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operations which would have been owned by Non-Consenting Party had it participated in such operations shall be credited against the total unreturned cost of such operations and of the equipment purchased in determining when the interest of such Non-Consenting Party shall revert to such party as above provided; if there is a credit balance, such balance shall be paid to such Non-Consenting Party.

G. If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest, the amounts provided for hereinabove, the relinquished interest of such Non-Consenting Party shall automatically revert to such party and from and after such reversion, such Non-Consenting Party shall own the same interest in such well, the operating rights and working interest therein, the material and equipment in or pertaining thereto and the production therefrom that such Non-Consenting Party would have owned had such party participated in the drilling, reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate share of all future costs which may be incurred in connection with said well in accordance with the terms of this agreement.

H. Notwithstanding the provisions of this Article, it is understood and agreed that without the mutual consent of all parties, no wells shall be completed in or produced from

a source of supply from which a well located elsewhere is producing unless the proposed well conforms to the then existing well spacing pattern for such source of supply.

I. The provisions of this Article shall have no application whatsoever to the drilling of the initial test well but shall apply to the reworking, deepening or plugging back of such initial test well after said well has been drilled to the depth specified in the respective agreements between Unit Operator and the Working Interest Owners, if such well is or thereafter shall prove to be a dry hole or a non-commercial well.

J. Notwithstanding anything contained in this Article to the contrary, all wells drilled hereunder shall be drilled by the Unit Operator for the account of the Consenting Parties unless Unit Operator is a Non-Consenting Party, in which event, the majority of the Consenting Parties shall elect another Working Interest Owner as Sub-Operator and upon receipt of written notice of such election, the Unit Operator shall designate the elected party as Sub-Operator for the sole purpose of drilling any such well.

K. Any provisions of this agreement to the contrary notwithstanding, consent to the drilling of a well by any party hereto shall not be deemed as consent to the setting of casing and a completion attempt. After any well drilled pursuant to this agreement has reached its authorized depth, Operator shall give immediate notice to all Non-Operators participating in the drilling of such well. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturday or Sunday or legal holidays and after appropriate well information, including applicable electric logs, have been furnished by Unit Operator to the Working Interest Owners participating in the drilling of the particular well involved at the address of the representative of each

such Working Interest Owner as furnished to Unit Operator in accordance with Article IX hereof") in which to elect whether or not they desire to set casing and to participate in a completion attempt. Failure of a party receiving such notice so to reply within the period above fixed shall constitute an election by that party not to participate in the cost of a completion attempt. If all participating parties elect to plug and abandon the well, Operator shall plug and abandon same at the expense of the participating parties. If one or more, but less than all, of the participating parties elect to set pipe and to attempt a completion, the provisions of this agreement as to operations by less than all parties shall thereafter apply.

XVI.

ESTABLISHMENT OF PARTICIPATING AREA FOR PAYMENT OF ROYALTIES

All Unitized Substances produced, saved and marketed from a participating area established pursuant to the Unit Agreement and this agreement shall be allocated to the lands comprising such participating area on an acreage basis as provided in the Unit Agreement for the purpose of determining and paying royalties, overriding royalties and production payments under the terms of the instruments which provide for the payment thereof as to the production from the lands that are within said participating area; provided, however, that as between the Working Interest Owners in which such participating area is located, all production from such participating area shall be owned by the Working Interest Owners in the proportion to their respective Beneficial Interests in effect at the time such production is obtained.

XVII.

RIGHT TO TAKE PRODUCTION IN KIND

A. Each Working Interest Owner shall have the right to take in kind or separately dispose of its proportionate

share of all Unitized Substances produced from the Unit Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by any Working Interest Owner of its proportionate share of Unitized Substances shall be borne by such party.

B. Each Working Interest Owner shall execute all division orders and contracts of sale pertaining to its interest in Unitized Substances produced from the Unit Area, and shall be entitled to receive payment direct from the purchaser or purchasers thereof for its share of Unitized Substances.

C. In the event any Working Interest Owners shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the Unitized Substances produced from the Unit Area, Unit Operator shall have the right, subject to revocation at will by the Working Interest Owner owning such share of Unitized Substances, but not the obligation, to purchase such Unitized Substances or sell the same to others for the time being, at not less than the market price prevailing in the area, which shall in no event be less than the price which Unit Operator receives for its portion of the Unitized Substances produced from the Unit Area. Any such purchase or sale by Unit Operator shall be subject always to the right of the owner of such Unitized Substances to exercise at any time its right to take in kind, or separately dispose of, its share of all Unitized Substances not previously delivered to a purchaser. Notwithstanding the foregoing, Unit Operator shall not make a sale into interstate commerce of any Working Interest Owner's share of gas produced from the Unit Area without first giving such Working Interest Owner sixty (60) days

notice of such intended sale. Any such sale by Operator shall be for such reasonable periods of time only as is consistent with the minimum needs of the industry, and shall in no event exceed one year.

D. The provisions of this Article XVII are expressly subject to the provisions of the Gas Balancing Agreement attached hereto as Exhibit "F".

XVIII.

RENTALS, RENEWALS AND EXTENSIONS OF LEASES

A. The Working Interest Owners in each Tract shall pay all rentals which may become due and payable under the leases covering such Tract. If any lease is a Federal lease, the Working Interest Owners committing such lease to this agreement shall obtain such renewals and extensions thereof as may be permitted by applicable Federal statutes and regulations and shall promptly furnish to Unit Operator evidence that such renewals and extensions have been so obtained. If any Working Interest Owner in any Tract elects not to pay any such rentals or to obtain any such renewal or extension, such Working Interest Owner shall notify Unit Operator not less than sixty (60) days before the date that the rental payment is due or the date that an application for renewal or extension must be filed. Such Working Interest Owner shall tender an assignment to all other Working Interest Owners; provided, however, that any assignment to be tendered pursuant to this Article XVIII shall be subject to all obligations pertaining to reassignments, if any, of the Working Interest Owner making such assignment theretofore created in favor of the predecessor or predecessors in title to the Working Interest Owner tendering said assignment. If all of the Working Interest Owners are not willing to accept the foregoing assignment, such assignment shall be made to those Working Interest Owners that are willing to accept

said assignment in the proportions that their respective Working Interests bear to the aggregate of all such Working Interest Owners' Working Interests. In the event any Working Interest Owner inadvertently fails to pay, or makes an improper payment of, any rental or inadvertently fails to obtain any renewal or extension where such rental, renewal or extension is required to continue the lease in force, there shall be no money liability on the part of the Working Interest Owner or Working Interest Owners failing to pay such rental or to obtain such renewal or extension; provided, that such Working Interest Owner or Working Interest Owners shall make a bona fide effort to secure a new lease and commit such lease to the Unit Agreement and to this agreement. In the event such Working Interest Owner fails, or Working Interest Owners fail, to secure a new lease within a reasonable time, the Working Interest and the Beneficial Interest of the Working Interest Owners shall be revised so that the Working Interest Owner or Working Interest Owners who failed to pay such rental or to obtain such renewal or extension shall not be credited with the ownership of the lease as to which such rental was not paid or such renewal or extension was not obtained. In the event the party who failed to pay the rental or failed to obtain such renewal or extension, shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to the lost interest for the development and operating costs therefore paid on account of such interest, it shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement.

(1) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost interest, up to the amount of unrecovered costs;

(2) proceeds, less operating expenses thereafter incurred attributable to the lost interest of that portion of oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which would, in the absence of such lease termination, be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said portion of the oil and gas to be contributed by the other parties in proportion to their respective interests; and

(3) any moneys, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest lost, for the privilege of participating in the Unit Area or becoming a party to this contract.

Unit Operator shall incur no liability for failure to pay any rental due under the terms of any lease committed to the Unit Agreement; however, if any rentals are paid by the Unit Operator, the Working Interest Owner or Working Interest Owners responsible for the payment of such rentals shall promptly reimburse Unit Operator upon being billed therefor.

B. Unit Operator shall use its best efforts to promptly notify each of the Working Interest Owners of the date on which any gas well located on the Unit Area is shut-in and the reason therefor; however, Unit Operator shall not be subject to any liability for any failure to do so.

XIX.

TITLES

A. Each Working Interest Owner represents and warrants that, as of the date hereof, it is the owner of the respective interests set forth opposite its name in Exhibit "B", and hereby agrees to indemnify and hold harmless the other Working Interest Owners from any loss due to failure, in whole or 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 such Working Interest Owner has received from the sale or receipt of Unitized Substances attributed to the interest as to which title failed. Each failure of title will be deemed to be effective, insofar as this agreement is concerned, as of 7:00 A.M. local time on the first day of the calendar month in which such failure is finally determined, and there shall be no retroactive adjustment of Unit Expense, or retroactive allocation of Unitized Substances or the proceeds therefrom, as a result of title failure.

B. 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 Working Interest or the Beneficial Interest of the Working Interest Owner whose title failed in relation to the Working Interest and Beneficial Interests of the other Working Interest Owners at the time of the title failure.

XX.

TITLE EXAMINATIONS

A. Upon request by Unit Operator, each Working Interest Owner shall promptly submit to Operator all abstracts of title, ~~certified from beginning to a recent date,~~ together with copies of all leases, copies of all title opinions and other title papers, in its possession relating to the Lease(s) committed by the respective Working Interest Owners to the Unit Agreement and this agreement.

B. Prior to commencing the initial well, Unit Operator shall cause the title to the drillsite lease(s) to be examined by attorneys acceptable to Unit Operator. A copy of such title opinion will be furnished by Unit Operator to all Working Interest Owners who elect to pay their proportionate share of all costs incurred in drilling, testing, completing and equipping or plugging and abandoning of the initial well. All costs, including, but not limited to, attorney's fees paid to outside attorneys and costs of obtaining the necessary abstracts, shall be charged to the account of the Working Interest Owners who pay the costs of drilling such well.

C. In the event the initial well is completed as a well capable of producing Unitized Substances in paying quantities and a participating area is created as the result of such well, Unit Operator shall cause a division order title opinion to be rendered covering all leases pertaining to the lands within such participating area. Unit Operator shall furnish a copy of such opinion to all Working Interest Owners. All Costs incurred by the Unit Operator in securing said title opinion shall be charged to the joint account of the Working Interest Owners.

D. In the event any Working Interest Owner elects, or Working Interest Owners elect, to drill any well subsequent to the initial well, Unit Operator shall cause the title to the lease on which such well is to be located to be examined, if the title to such lease has not previously been examined pursuant to the terms of this agreement. A copy of such title opinion shall be furnished to each Working Interest Owner paying the costs incurred in the drilling of such well. All costs incurred by the Unit Operator in connection with such title examination shall be charged to the account of the Working Interest Owners participating in the cost of drilling of such well. In the event any such well is completed

as a well capable of producing Unitized Substances in paying quantities, Unit Operator shall obtain a division order title opinion and the cost thereof shall be borne and paid as provided in Section C of this Article XX.

E. If any well drilled on any Tract is completed as a well capable of producing Unitized Substances, but not in paying quantities, and if any of the Working Interest Owners who participated in drilling such well, elect to operate and produce said well on a Tract basis as provided in the Unit Agreement, any subsequent title examination pertaining to the proration or spacing unit allocated to such well shall be borne and solely paid by the Working Interest Owner or Working Interest Owners electing to so operate such well.

F. It is understood and agreed that Unit Operator shall not be deemed to warrant the accuracy or correctness of any title opinion obtained hereunder and any reliance placed thereon by any Working Interest Owner shall be at such Working Interest Owner's sole risk and liability.

XXI.

TRANSFERS OF INTEREST

A. Any Working Interest Owner may, at any time and from time to time, sell, transfer or assign all of such Working Interest Owner's interest in the Unit Area to any other Working Interest Owner who is a party to the Unit Agreement and to this agreement or to any other person or party who is not a party to the Unit Agreement and this agreement provided that any assignment is made expressly subject to the terms, provisions and conditions of the Unit Agreement and of this agreement.

B. If Unit Operator sells all of its Working Interest committed to the Unit Agreement and to this agreement, Unit Operator shall resign and a new Unit Operator shall be selected as provided in the Unit Agreement and this agreement.

C. No transfer of any interest by any Working Interest Owner shall be effective unless the same is made expressly subject to the Unit Agreement and to this Agreement and the transferee agrees in writing to assume and perform all of the obligations of the transferor under the Unit Agreement and this agreement insofar as said agreements relate to the interests assigned. Such assumption of obligations by such transferee shall not be required in case of a transfer by mortgage or deed of trust as security for indebtedness.

D. A transfer of any interest by any Working Interest Owner hereunder shall not be effective as between the parties hereto until the first day of the month following delivery to the Unit Operator of the original or a certified copy of the instrument of transfer conforming to the requirements of this Article. In no event shall a transfer of any interest by any Working Interest Owner relieve the transferring Working Interest Owner of any obligations which accrue or have accrued hereunder prior to said effective date. Any obligations assumed by the transferring Working Interest Owner to participate in any drilling, deepening, plugging back or reworking operations prior to the effective date of such transfer shall be deemed to be an accrued obligation and shall be binding upon the transferring Working Interest Owner unless the transferree expressly assumes, in writing, all of such obligations.

XXII.

WITHDRAWAL OF A WORKING INTEREST OWNER

Any 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 of such withdrawing Working Interest Owner's leasehold rights together with such Working Interest Owner's interest in all Unit Equipment and in all

wells used in Unit Operations. Such transfer shall not relieve the withdrawing Working Interest Owner of or from any obligation or liability incurred prior to the date of the delivery of the transfer, which delivery may be made to the Unit Operator as agent for the transferees. The interest transferred shall be owned by the transferees in proportion to their respective Working Interests. The Transferees, in proportion to the respective interests so acquired, shall pay to the withdrawing Working Interest Owner, for its interest in such Unit Equipment, the net salvage value thereof as estimated and fixed by the Working Interest Owners. After the date of the delivery of the transfer, the withdrawing Working Interest Owner shall, as to such transferred interest, be relieved from all further obligations and liabilities hereunder and under the Unit Agreement, and the rights of such Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as such rights existed by virtue of the interest so transferred.

XXIII.

SUBSEQUENT JOINDER

Prior to the commencement of any operations under the Unit Agreement, all owners of working interest within the Unit Area who have not become bound by the terms of the Unit Agreement shall have the right to join in this agreement by subscribing to the Unit Agreement and this agreement and in the event of such joinder, the Working Interests and the Beneficial Interests of the parties hereto shall be revised on the basis set forth in Article IV hereof to reflect the joinder by such additional Working Interest Owner or Working Interest Owners and Exhibit "C" and "E" shall be revised accordingly. After commencement of any operations on the Unit Area under the Unit Agreement and/or this agreement, any subsequent joinder to the Unit Agreement and to this

agreement by any party owning a working interest in the Unit Area shall be on such reasonable terms and conditions as the Working Interest Owners who are then signatory parties hereto and to the Unit Agreement may require under the circumstances existing at the time that such subsequent joinder is requested.

XXIV.

LIABILITY, CLAIMS AND SUITS

A. 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.

B. 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 chargeable to the Working Interest Owners. 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.

XXV.

INTERNAL REVENUE PROVISIONS

Notwithstanding any provisions herein that the rights and liabilities of the parties hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if for Federal income tax purposes this agreement and the operations hereunder are regarded as a partnership, then each of the parties hereto elects to be excluded from the application of all of the provisions of Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Unit Operator is hereby authorized and directed to execute on behalf of each of the parties hereto such evidence of this election as may be required by the Secretary of 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 1.761-2(b). Should there be any requirement that each party hereto further evidence this election, each party hereto agrees to execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. Each party hereto further agrees not to give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Unit Area is located, or any future income tax law of the United States, contain provisions similar to those in Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is permitted, each of the parties agrees to make such election as may be permitted or required by such

laws. In making this election, each of the parties states that the income derived by such party from the operations under this agreement can be adequately determined without the computation of partnership taxable income.

XXVI.

NOTICES

All notices required hereunder shall be in writing and shall be deemed to have been properly served when sent by mail or telegram with postage or charges prepaid to the address of the representative of each Working Interest Owner as furnished to Unit Operator in accordance with Article IX hereof.

XXVII.

SURRENDER OF TERMINATION OF INTEREST

No lease committed to the Unit Agreement or to this agreement shall be surrendered in whole or in part unless all Working Interest Owners signatory hereto consent to such surrender. In the event any Working Interest Owner should at any time desire to surrender any committed lease, or any part thereof, and the other Working Interest Owners do not agree or consent to such surrender, the Working Interest Owner desiring to surrender shall tender an assignment, without any warranty, express or implied, of all of such surrendering Working Interest Owner's interest in such lease to the other Working Interest Owners in the proportions of such Working Interest Owner's Working Interests. The Working Interest Owner desiring to so surrender its interest pursuant to this Article XXVII shall give sixty (60) days written notice of such intention to all other Working Interest Owners. On or before the expiration of said sixty (60) day period, each Working Interest Owner shall notify the Unit Operator whether or not such Working Interest Owner desires to accept the interest sought to be assigned. If all of the

Working Interest Owners are not willing to accept the assignment of such interest, such assignment shall be made to those Working Interest Owners willing to accept said assignment in proportion to their respective Working Interest. Such assignment shall be free and clear of all liens and encumbrances created after the date of this Agreement. Upon the delivery thereof, the assigning Working Interest Owner shall be relieved of all further obligations with respect to the lease so assigned, but such assignment shall not relieve the assigning party of any obligations which accrued or which such assigning Working Interest Owner assumed with respect to such lease prior to the assignment thereof pursuant to this Article. Any assignment or surrender made under the provisions of this Article XXVII shall not operate to reduce or change the interest of the assigning Working Interest Owner, as it was immediately before the assignment, in the balance of the Unit Area. Operations relating to any lease assigned under the provisions of this Article XXVII shall thereafter be conducted by Unit Operator for the account and at the expense of the Working Interest Owners who accepted such assignment.

XXVIII.

RELATIONSHIP OF THE PARTIES

No partnership, joint venture or mining partnership or any other entity is intended or created by this agreement, and no act by any Working Interest Owner or Working Interest Owners shall operate to create such a relationship, nor shall any of the provisions of this agreement be construed or implied as creating such relationship for any purpose whatsoever.

XXIX.

LAWS, RULES AND REGULATIONS

A. All of the provisions of this agreement are expressly subject to all applicable laws, orders, rules and regulations

of any governmental body or agency having jurisdiction in the premises, and all operations contemplated hereby shall be conducted in conformity therewith. Any provisions of this agreement which is inconsistent with any such laws, orders, rules and regulations is hereby modified so as to conform therewith, and this agreement, as so modified, shall continue in full force and effect.

B. In connection with the performance of work under this agreement, Unit Operator agrees to comply with all of the provisions of Section 202(1) to (7) inclusive of Executive Order 11246 (30 F. R. 12319), as amended, a copy of which is attached hereto as Exhibit "G".

XXX.

FORCE MAJEURE

A. In the event any Working Interest Owner is rendered unable, wholly or in part, by force majeure, to carry out its obligations under this agreement other than the obligation to make money payments due hereunder, it is agreed that upon such Working Interest Owner giving notice with reasonably full particulars of the force majeure, in writing or by telephone to the other Working Interest Owners within a reasonable time after the occurrence of the cause relied upon, then the obligations of the Working Interest Owner giving such notice, insofar as such obligations are affected by such force majeure, shall be suspended during the continuance of such force majeure, but for no longer. The cause of the force majeure shall, so far as is reasonably possible be remedied with all reasonable dispatch by the Working Interest Owner giving such notice. The term "force majeure" as employed herein shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental restraint, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

B. The settlement of strikes, lockouts or other labor disputes shall be entirely within the discretion of the Working Interest Owner having such difficulty and the requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty against the will of the Working Interest Owner having such difficulty.

C. The term Working Interest Owner as used herein shall also include the Unit Operator acting in its capacity as Unit Operator.

XXXI.

ABANDONMENT OF OPERATIONS

Upon the termination of the Unit Agreement, the following will occur:

A. All leasehold rights in each Tract committed hereto shall no longer be affected by this agreement and thereafter the Working Interest Owners contributing each such Tract shall be governed by the terms, provisions and conditions of the lease(s), contract(s) and other instrument(s) affecting the separate tracts.

B. The Working Interest Owners of any Tract that desire to take over and continue to operate any wells located thereon may do so by paying to the Unit Operator, for the credit of the joint account of the Working Interest Owners owning any such well upon the termination of this agreement, the net salvage value of the casing and equipment in and on the wells taken over as such value is estimated by Working Interest Owners owning such well upon the termination of this agreement. The Working Interest Owners taking over such well agree to plug each well in accordance with applicable rules and regulations at such time as it is abandoned.

C. The Unit Operator shall salvage as much of the casing and equipment in and on the wells not taken over by Working Interest Owners of the separate Tracts as can economically and reasonably be salvaged and shall cause the

wells to be plugged and abandoned in accordance with applicable rules and regulations.

D. The Working Interest Owners owning any interest in any salvaged material and equipment at the termination hereof shall share in the cost of plugging and abandoning operations, salvaging, liquidation or other distribution of such assets and properties in the proportion to their respective ownership in such assets and property at the time of the termination of this agreement.

XXXII.

EFFECTIVE DATE AND TERM

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

B. This agreement shall continue in effect so long as the Unit Agreement remains in effect and thereafter until

1. All Unit wells have been plugged and abandoned or turned over to the Working Interest Owners in accordance with Article XXXI hereof, and

2. All Unit Equipment and real property acquired for operations hereunder have been disposed of by the Unit Operator in accordance with instructions of the Working Interest Owners owning an interest in such Unit Equipment and real property, and

3. There has been final accounting between the parties hereto.

XXXIII.

COUNTERPART EXECUTION

A party may become a party to this agreement by executing the original of this instrument, a counterpart thereof, or other instrument, agreeing to be bound by the provisions hereof and this agreement shall be binding upon all parties who have agreed to be bound by the terms hereof regardless of whether this agreement is executed by all parties owning

an oil and gas leasehold interest in the Unit Area. The execution of any such instrument shall have the same effect as if all the parties had signed one and the same instrument.

XXXIV.

HEADINGS

The heading set forth above any Article of this agreement are for convenience only and shall in no manner be used in construing or interpreting any provision of this agreement.

XXXV.

COVENANTS RUN WITH THE LAND

The terms, provisions and conditions 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.

XXXVI.

OTHER AGREEMENTS

On or before November 1, 1975, Unit Operator shall commence operations for the drilling of the "Initial Test Well" at a lawful location of Operator's selection in the NE¼SE¼ of Section 28, Township 23 South, Range 29 East, N.M.P.M., Eddy County, New Mexico, and thereafter prosecute the drilling of said well with due diligence and in a good and workmanlike manner to a depth sufficient to identify the Morrow (Penn.) Formation (the "objective depth") expected to be encountered at approximately 14,000 feet beneath the surface. In the drilling of the initial test well, Unit Operator shall make reasonable tests of all formations encountered during drilling and which give indication of containing oil and gas in quantities sufficient to test. Such well shall be drilled and completed by operator in a good and workmanlike manner and completed if a producer or plugged and abandoned if a dry hole.

If, in the drilling of the Initial Test Well, Unit Operator loses the hole or encounters mechanical or other difficulties rendering it impracticable in the opinion of Unit Operator to drill the well to the objective depth, then Operator shall have the option of commencing a "Substitute Test Well" at a lawful location of Operator's selection on the unit area. Such substitute well shall be deemed to comply with the drilling obligation herein and shall be deemed in compliance with the terms for drilling the well which it became necessary to junk or abandon.

Working Interest Owners shall bear the entire cost, risk and expense of drilling and completing or plugging and abandoning the Initial Test Well (or Substitute Test Well) in accordance with the Working Interest Schedule set forth on Exhibit "E" attached hereto and made a part hereof for all purposes. In connection therewith, it is recognized that Exxon Corporation, Amoco Production Company, Dow Chemical Company, Hayes Oil Company, and Dalco Oil Company (sometimes referred to herein as the "Participating Interest Owners") have assumed and agreed to bear proportionately the portion of said costs as to the Initial Test Well (or the Substitute Test Well) which would otherwise be allocable to Skelly Oil Company. In consideration of the payment of such expenses by the Participating Interest Owners, and in the event commercial production of oil or gas is established in either the initial test well or the substitute test well, the Participating Interest Owners shall earn the entire beneficial interest of Skelly Oil Company as more particularly identified on Exhibit "C" attached to this agreement and made a part hereof for all purposes, with such Participating Interest Owners being entitled to a proportionate share of Skelly Oil Company's beneficial interest during the "payout", for said Initial Test Well (or the Substitute Test Well).

Said "payout" is defined to be the date on which the net income, exclusive of production, severance and sales taxes, attributable to the interest of the Working Interest Owners in the participating area allocated to said Initial Well or Substitute Well shall equal all expenditures for the drilling, testing, completing, equipping and operating said well to produce such amount. During the period of such payout, Skelly Oil Company shall be entitled to an overriding royalty of 1/16 of 8/8 of production from said Initial Well or Substitute Well, reducible in proportion to Skelly Oil Company's beneficial interest, as reflected on Exhibit "C" of this agreement, with such overriding royalty in favor of Skelly Oil Company to be carved from the beneficial interest allocated to Skelly Oil Company on Page 1 of Exhibit "C" of this agreement.

Upon the event of payout, Unit Operator shall notify Skelly of the same in writing. Skelly shall have thirty (30) days after receipt of such notice within which to make an election to convert its said overriding royalty to a working interest. If Skelly elects not to convert to a working interest, then Skelly's overriding royalty interest shall continue as to the Initial Test Well at the same rate as for all periods prior to payout. If Skelly fails to give Unit Operator notice within the thirty (30) days specified above, then Skelly shall be deemed to have elected not to convert to a working interest.

If Skelly elects to convert its overriding royalty interest to a Working Interest after payout, The Skelly Oil Company overriding royalty shall terminate as to said Initial Well or Substitute Well and Skelly Oil Company will be entitled

to the beneficial interest credited to Skelly Oil Company on Page 3 of Exhibit "C" attached hereto with the Participating Interest Owners entitled to retain to themselves a fifty percent (50 interest in the beneficial interest credited to Skelly Oil Company on Page 1 of Exhibit "C". Such conversion shall be effective as of the day on which payout occurs. Such beneficial interest is to be allocated among the Participating Interest Owners in accordance with entries found on Page 3 of Exhibit "C" attached hereto. The beneficial interests for all Working Interest Owners for all wells subsequent to the Initial Test Well or Substitute Test Well are to be as specified on Page 3 of Exhibit "C". Likewise, if Skelly converts to a Working Interest in the Initial Test Well or Substitute Test Well, all costs and expenses of operations conducted in connection with the Initial Test Well (or Substitute Test Well) after payout shall be borne by all Working Interest Owners in accordance with the second schedule set out on Exhibit "E" attached hereto. Also, all costs and expenses incurred in drilling, testing, completing, equipping and operating or plugging and abandoning of all wells drilled subsequent to the said Initial Test Well (or Substitute Test Well) shall be borne by all working interest owners in accordance with the second schedule set out on Exhibit "E" attached hereto.

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

UNIT OPERATOR AND WORKING INTEREST OWNER

EXXON CORPORATION

Div. Ldrn.
Div. Geol.
Jt. Int.
Div. Acct.
Div. Law

BY: S. D. Holland
B. D. HOLLAND, ATTORNEY IN FACT

Date: August 26, 1975

ADDRESS: P. O. Box 1600
Midland, Texas 79701

OTHER WORKING INTEREST OWNERS

ATTEST: _____

_____ BY: _____

Date: _____

ADDRESS: _____

_____

STATE OF TEXAS)
) SS.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this 26th day of August, 1975, by B. D. HOLLAND, ATTORNEY IN FACT of EXXON CORPORATION, on behalf of said corporation.

Lena P. Jehle
Notary Public

My Commission Expires:
LENA P. JEHLE, NOTARY PUBLIC IN AND FOR THE COUNTY OF MIDLAND, STATE OF TEXAS.
MY COMMISSION EXPIRES JUNE 1, 1977.

EXHIBIT "C"

Attached to and made a part of the Laguna Grande Unit Operating Agreement, Eddy County, New Mexico

Beneficial Interest Schedule Prior to Payout of Initial Test Well and After Payout of the Initial Well in the Event Skelly Elects Not to Convert Overriding Royalty Interest to Working Interest

Working Interest Owners	Tract No.	Tract Acres	Percent of W. I. Owned in Tract	Tract Net Acres	Basic Royalty-%	Overriding Royalty-%	Royalty Acres	Overriding Royalty Acres	Tract Beneficial Acres	Total Beneficial Acres	W. I. Owners Beneficial Int.
Exxon Corporation	3	2400.00	100	2400.00	12.5	7.5	300.00	180.00	1920.00		
	4	2120.00	100	2120.00	12.5	4.0	265.00	84.80	1770.20		
	7	640.00	100	640.00	12.5	None	80.00	None	560.00	4250.20	67.1363%
Amoco Production Company	1	320.00	100	320.00	12.5	$750/AC P.P.out of 5%*	40.00	16.00	264.00		
	10	560.00	100	560.00	18.75	None	105.00	None	455.00		
	11	40.00	100	40.00	18.75	None	7.5	None	32.5	751.5	11.8707
Dow Chemical Company	2	600.00	75	450.00	12.5	None	56.25	None	393.75	393.75	6.2197
Hayes Oil Company	2	600.00	25	150.00	12.5	None	18.75	None	131.25	131.25	2.0732
Phillips Petroleum Company	5	320.00	100	320.00	12.5	$375/AC P.P. out of 2.5%** 2.5	40.00	16.00	264.00	264.00	4.1702
Dalco Oil Company	8	320.00	100	320.00	12.5	None	40.00	None	280.00	280.00	4.4229
Skelly Oil Company	9	320.00	100	320.00	18.75	None	60.00	None	260.00	260.00	4.1070***
Total Committed to Unit		7640.00		7640.00			1012.5	296.8	6330.70	6330.70	100.0000

* Upon payout of $750.00 per acre for 679.59 acres, taken out of 5% overriding royalty, said ORI terminates and the Beneficial interest of all parties will be adjusted accordingly.

** Upon payout of $375.00 per acre for 680.47 acres taken out of 2.5% overriding royalty, said ORI terminates and the Beneficial interest of all parties will be adjusted accordingly.

*** The 4.1070 Beneficial Interest allocable to Skelly Oil Company's Tract No. 9 is subject to farmout provisions as specified in Section XXXVI of this Agreement. In accordance therewith, Exxon Corporation, Amoco Production Company, Dow Chemical Company, Hayes Oil Company and Dalco Oil Company, (the Participating Interest Owners") bear all costs attributable to the Skelly Oil Company interest in connection with the drilling, testing, completing, equiping and operating or plugging and abandoning of the Initial Test Well. The Participating Interest Owners will own the Skelly Oil Company Beneficial Interest, subject to a 1/16 of 8/8 overriding royalty in favor of Skelly Oil Company reducible in proportion to Skelly Oil Company's Beneficial Interest, until the Participating Interest Owners have recovered said costs. Upon the Participating Interest Owners recouping said costs, the interests specified on Page 3 of this Exhibit "C" will become effective. During the payout period while said costs are being recouped, the Skelly Oil Company Beneficial Interest shall be owned by the Participating Interest Owners in accordance with the proportionate burden of said costs borne by these respective parties. This results in an increase in the Participating Interest Owners Beneficial Interest and an ORI to Skelly, with said 4.1070% allocated as follows:

Exxon Corporation	73.71428%	x	4.1070%	less	73.71428%	x .25669%	= 2.83823%
Amoco Production Co.	13.14285%	x	4.1070%	less	13.14285%	x .25669%	= .50604%
Dow Chemical Company	6.42857%	x	4.1070%	less	6.42857%	x .25669%	= .24752%
Hayes Oil Company	2.14286%	x	4.1070%	less	2.14286%	x .25669%	= .08251%
Dalco Oil Company	4.57143%	x	4.1070%	less	4.57143%	x .25669%	= .17601%
							3.85031%
					Skelly ORI	--------	.25669%
						TOTAL	4.10700%

Initial Test Well if Skelly elects to Convert its Overriding Royalty to a Working Interest and Beneficial Interest Schedule for all Subsequent Wells

Working Interest Owners	Tract No.	Tract Acres	Percent of W. I. Owned in Tract	Tract Net Acres	Basic Royalty-%	Overriding Royalty-%	Royalty Acres	Overriding Royalty Acres	Tract Beneficial Acres	Total Beneficial Acres	W. I. Owners Beneficial Int.
Exxon Corporation	3	2400.00	100	2400.00	12.5	7.5	300.00	180.00	1920.00 *		
	4	2120.00	100	2120.00	12.5	4.0	265.00	84.80	1770.20		
	7	640.00	100	640.00	12.5	None	80.00	None	560.00		
	9	320.00	36.9520	118.2463	18.75	None	22.17	None	96.07	4346.27	68.6539
Amoco Production Company	1	320.00	100	320.00	12.5	$750/AC P.P.out of 5%*	40.00	16.00	264.00		
	10	560.00	100	560.00	18.75	None	105.00	None	455.00		
	11	40.00	100	40.00	18.75	None	7.5	None	32.50		
	9	320.00	6.5104	20.8333	18.75	None	3.91	None	16.94	768.44	12.1383
Dow Chemical Company	2	600.00	75	450.00	12.5	None	56.25	None	393.75		
	9	320.00	3.1978	10.2330	18.75	None	1.92	None	8.31	402.06	6.3510
Hayes Oil Company	2	600.00	25	150.00	12.5	None	18.75	None	131.25		
	9	320.00	1.0659	3.4107	18.75	None	.64	None	2.77	134.02	2.1170
Phillips' Petroleum Company	5	320.00	100	320.00	12.5	$375/AC P.P. out of 2.5% ** 2.5%	40.00	16.00	264.00	264.00	4.1702
Dalco Oil Company	8	320.00	100	320.00	12.5	None	40.00	None	280.00		
	9	320.00	2.2739	7.2767	18.75	None	1.36	None	5.91	285.91	4.5161
Skelly Oil Company	9	320.00	50.000	160.00	18.75	None	30.00	None	130.00	130.00	2.0535
Total Committed to Unit		7640.00		7640.00			1012.50	296.80	6330.70	6330.70	100.0000

* Upon payout of $750.00 per acre for 679.59 acres, taken out of 5% overriding royalty, said ori terminates and the Beneficial interest of all parties will be adjusted accordingly.

** Upon payout of $375.00 per acre for 680.47 acres taken out of 2.5% overriding royalty, said ori terminates and the Beneficial interest of all parties will be adjusted accordingly.

EXHIBIT "D"

Attached to and made a part of the Laguna Grande Unit Operating Agreement, 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. [X] 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. [X] 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. The Provisions of this Paragraph shall not apply to Paragraph 7, Section III.

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. [x] Operator's actual cost not to exceed ~~fifteen~~ Twenty per cent (~~15%~~ 20%).

4. Material

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

5. Transportation

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

   A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by Operator and Non-Operators.

   B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by Operators and Non-Operators. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by Operator and Non-Operators.

   C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking costs of $100 or less.

6. Services

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

   B. Use and service of equipment and facilities furnished by Operator as provided in Paragraph 5 of Section IV.

7. Damages and Losses to Joint Property

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

8. Legal Expense

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

9. Taxes

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

10. Insurance

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

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

.....

.....

.....

11. Other Expenditures

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

III. INDIRECT CHARGES

Operator may charge the Joint Account for indirect costs either by use of an allocation of district expense items plus the rate for administrative overhead, and plus the warehousing charges, all as provided for in Paragraph 1 of this Section III or by combining all three of said items under the rates provided for in Paragraph 2 or 3 of this Section III, as indicated next below:

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

[ ] Paragraph 1. (District Expense, Administrative Overhead and Warehousing)
[X] 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 [X] shall not include salaries and personal expenses of first-level supervisors in the field.

B. [ ] shall [X] shall not include salaries, wages and personal expenses of technical employees temporarily assigned to and directly employed on the Joint Property.

C. [X] 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

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

(2) [ ] Percentage Basis

PERCENTAGE BASIS

Development:

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

Operating:

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

C. Operator's Warehouse Operating and Maintenance Expense

[ ] Included in district expense

[ ] No charge either direct or indirect

[ ] Percentage basis (describe fully) .....

.....

.....

2. Combined Rates - Well Basis

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

RATE PER WELL PER MONTH

	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		
Well Depth	Each Well	First Five	Next Five	All Wells Over Ten
All	$2240	$234	$224	

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 waterflooding 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 allowable 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 producing horizon, providing each completion is considered a separate well by governmental or other statewide 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. beginning with the year 1976.

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

5. Application of Administrative Overhead or Combined Rates - Percentage Basis

For the purpose of determining charges on a Percentage Basis under Paragraph 1B (2) or Paragraph 3 of this Section III, Development shall include all costs in connection with drilling, redrilling, deepening or any remedial operations on any or all wells involving the use of drilling crew and equipment; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when well is not completed as a producer; and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 6 of this Section III. All other costs shall be considered as Operating.

6. Major Construction Overhead

For the construction of compressor plants, water stations, secondary recovery systems, drilling and production platforms, salt water disposal facilities, and other such projects, as distinguished from the more usual drilling

and producing operations, Operator in addition to the Administrative Overhead or Combined Rates provided for in Paragraph 1, 2 or 3 of this Secton 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, 5 % of total cost.

C. Total cost of $100,000 or more, 5 % 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. Amendment of Rates shall require approval of 100% of the interest of the Non-Operators.

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 (10c) 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.

E X H I B I T "E"

Attached to and made a part of the Laguna Grande
Unit Operating Agreement, Eddy County, New Mexico

WORKING INTEREST SCHEDULE

All costs and expenses incurred in the drilling, testing, completing and equipping or plugging and abandoning the Initial Test Well, and, if such well is a producer, all operating costs incurred during the time that the "Participating Interest Owners" (as identified in Exhibit "C" and Section XXXVI. of this Agreement) are recouping costs of said Initial Test Well as provided in Section XXXVI. of this Agreement, shall be borne and paid as follows:

Exxon Corporation	67.539267%	+	73.71428%	x	4.188482%	= 70.626776%
Amoco Production Company	12.041884%	+	13.14285%	X	4.188482%	= 12.592370%
Dow Chemical Company	5.890052%	+	6.428571	x	4.188482%	= 6.159312%
Hayes Oil Company	1.963351%	+	2.14286%	x	4.188482%	= 2.053104%
Phillips Petroleum Company	4.188482%					= 4.188482%
Dalco Oil Company	4.188482%	+	4.57143%	x	4.188482%	= 4.379956%
					Total	100.000000%

All costs and expenses of all operations conducted in connection with the Initial Test Well drilled after the time the "Participating Interest Owners" have recouped costs of the Initial Test Well as provided in Section XXXVI. of this Agreement, also all costs and expenses incurred in drilling, testing, completing, equipping and operating or plugging and abandoning of all wells drilled subsequent to said Initial Test Well shall be borne and paid as follows:

Exxon Corporation	67.539267%	+	73.71428%	x	2.094241%	= 69.083021%
Amoco Production Company	12.041884%	+	13.14285%	x	2.094241%	= 12.317127%
Dow Chemical Company	5.890052%	+	6.428571	x	2.094241%	= 6.024682%
Hayes Oil Company	1.963351%	+	2.14286%	x	2.094241%	= 2.008228%
Phillips Petroleum Company	4.188482%					= 4.188482%
Dalco Oil Company	4.188482%	+	4.57143%	x	2.094241%	= 4.284219%
Skelly Oil Company	2.094241%					= 2.094241%
					Total	100.000000%

NOTE: As to the Initial Test Well, the foregoing assumes Skelly Oil Company will elect to convert its overriding royalty to a working interest on payout of that well. If Skelly Oil Company does not so elect, the costs and expenses of all operations for the Initial Test Well after payout will continue to be allocated on the same basis as before payout.

EXHIBIT "F"
GAS BALANCING AGREEMENT
FOR GAS WELL PRODUCTION

1. Each party shall have the right to take in kind and separately dispose of its proportionate share of the gas produced from the Unit Area and shall be entitled to an opportunity to produce its fair share of the allowable production from a gas well (including lawful tolerances) established by appropriate regulatory authority.

2. It is the intent that each party be entitled to gas produced in the proportion that its ownership interest bears to the sum of the ownership interests. It is the intent that the Unit Operator have the duty of controlling gas well production and the responsibility of administering the provisions of this agreement. Unit Operator shall cause deliveries to be made to the gas purchasers at such rates as may be required to give effect to the intent that the gas production accounts of all parties are to be brought into balance under the provisions contained herein.

3. To give effect to the intent of this agreement, the Unit Operator shall be governed by the following rights of each party:

(a) When the well's current production is less than the well allowable due to either the capacity of the well to produce or the Unit Operator causing the well to produce below allowable in order to properly balance well allowable overproduction:

(1) Each underproduced party (a party who has taken a lesser volume of gas than the quantity such party is herein entitled) shall have the right to take a greater amount of gas than its proportionate share of the well's current production, provided that the right to take such greater amount shall be in proportion that its interest bears to the total interest of all underproduced parties desiring to take more than their proportionate share of the well's current production.

(2) Each overproduced party (a party who has taken a greater volume of gas than the quantity such party is herein entitled) shall reduce its respective take in the proportion that such party's interest bears to the total interest of all overproduced parties, but in no event shall any overproduced party be required to reduce its take to less than seventy-five percent (75%) of such overproduced party's proportionate share of the well's current production.

(b) When the well's current production is less than the well allowable due to combined pipeline takes or for reasons other than in subparagraph (a) above:

(1) Each underproduced party shall have the right as in subparagraph (a)(1) above.

(2) Each overproduced party shall reduce its respective take in the proportion that such party's interest bears to the total interest of all overproduced parties, but in no event shall any overproduced party be required to reduce its take to less than seventy-five percent (75%)

of such overproduced party's proportionate share of the well allowable.

(c) When the well's current production is equal to or greater than the well allowable:

(1) Each underproduced party shall have the right to take a greater amount of gas than its proportionate share of the well allowable, provided that the right to take such greater amount shall be in proportion that its interest bears to the total interests of all underproduced parties desiring to take more than their proportionate share of the well allowable.

(2) Each overproduced party shall have the right as in subparagraph (a)(2) above.

(d) The Unit Operator, at the request of any party, may produce the entire well stream, if necessary, for a deliverability test not to exceed seventy-two (72) hours duration required under such requesting party's gas sales contract and may overproduce in any other situation provided that such overproducing would be consistent with prudent operations.

4. Each party taking gas shall furnish the Unit Operator a monthly statement of gas taken. After commencement of production, Unit Operator shall furnish a current account monthly of the gas balance between parties hereto including the total quantity of gas produced, the portion thereof used in Unit operations, vented or lost, and the total quantity of gas delivered to a market.

5. Each party producing and/or delivering gas to its purchaser shall pay any and all production taxes due on such gas.

6. The provisions of this agreement shall be separately applicable to each well and each reservoir to the end that production from one reservoir in a gas well may not be utilized for the purpose of balancing underproduction from other reservoirs.

7. When gas sales from a gas well permanently cease, Unit Operator shall make a final determination of the volumes of over and/or underproduction, if any, which have accrued since the last volumetric balance, as of the date of such cessation of sales and the identity of the party or parties who are over or underproduced. A cash balancing adjustment shall be made by the overproduced party, or parties, to the underproduced party, or parties, for the overproduced volumes which have been taken and sold; the price to be paid for such adjustment shall be the actual price received for such overproduction by the overproduced party, or parties, less appropriate deductions for taxes and/or royalties paid on such production by the overproduced party.

8. This agreement may be executed in counterparts but will not be binding on any party unless and until all working interest parties in a gas well have accepted this Gas Balancing Agreement without exception.

9. This shall constitute a separate agreement as to each well and as to each reservoir.

EXHIBIT "C"

EQUAL EMPLOYMENT OPPORTUNITY PROVISION

During the performance of this contract, the Operator agrees as follows:

(1) The Operator will not discriminate against any employee or applicant for employment because of race, color, religion, national origin or sex. The Operator will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, national origin or sex. Such action shall include, but not be limited to the following: Employment, upgrading, demotion, or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensations; and selection for training, including apprenticeship. The Operator agrees to post in conspicuous places, available to employees and applicants for employment notices to be provided for the contracting officer setting forth the provisions of this non-discrimination clause.

(2) The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, national origin or sex.

(3) The Operator will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

(4) The Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevent orders of the Secretary of Labor.

(5) The Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965. and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to its books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

(6) In the event of the Operator's non-compliance with the non-discrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be cancelled, terminated or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rule, regulation, or order of the Secretary of Labor, or as otherwise provided by law.

(7) The Operator will include the provisions of paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Operator will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for non-compliance: Provided, however, that in the event the Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interests of the United States.

Operator acknowledges that it may be required to file Standard Form 100 (EEO-1) Promulgated jointly by the Office of Federal Contract Compliance, the Equal Employment Opportunity Commission and Plans for Progress with Joint Reporting Committee, Federal Depot, Jeffersonville, Indiana, within thirty (30) days of the date of contract award if such report has not been filed for the current year and otherwise comply with or file such other compliance reports as may be required under Executive Order 11246, as amended and Rules and Regulations adopted thereunder.

Operator further acknowledges that he may be required to develop a written affirmative action compliance program as required by the Rules and Regulations approved by the Secretary of Labor under authority of Executive Order 11246 and supply Non-Operators with a copy of such program if they so request.

CERTIFICATION OF NON-SEGREGATED FACILITIES

Operator assures Non-Operators that it does not and will not maintain or provide for its employees any segretated facilities at any of its establishments, and that it does not and will not permit its employees to perform their services, at any location, under its control, where segregated facilities are maintained. For this purpose, it is understood that the phrase "segregated facilities" includes facilities which are in fact segregated on a basis of race, color, religion, or national origin, because of habit; local custom or otherwise. It is further understood and agreed that maintaining or providing segregated facilities for its employees or permitting its employees to perform their services at any location under its control where segregated facilities are maintained is a violation of the equal opportunity clause required by Executive Order 11246 of September 24, 1965.

Operator further understands and agrees that a breach of the assurance herein contained subjects it to the provisions of the Order at 41 CFR Chapter 60 of the Secretary of Labor dated May 21, 1968, and the provisions of the equal opportunity clause enumerated in contracts between the United States of America and Non-Operators.

Whoever knowingly and willfully makes any false, fictitious or fraudulent representation may be liable to criminal prosecution under 18 U.S.C. § 1001.

RATIFICATION

KNOW ALL MEN BY THESE PRESENTS, THAT:

WHEREAS, certain instruments entitled UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE LAGUNA GRANDE UNIT AREA, EDDY COUNTY, NEW MEXICO, and the UNIT OPERATING AGREEMENT FOR THE LAGUNA GRANDE UNIT, EDDY COUNTY, NEW MEXICO, have been executed as of the 26th day of August, 1975, by various persons conducting operations with respect to the LAGUNA GRANDE UNIT AREA located in Eddy County, New Mexico, as more particularly described in said agreement; and

WHEREAS, the Unit Agreement, by Exhibit "A", shows on a map the boundary lines of the Unit Area and the Tracts therein, and by Exhibit "B" described each tract within the Unit Area; and

WHEREAS, the Unit Agreement and Unit Operating Agreement each provides that a person may become a party thereto by signing the original of said instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned (whether one or more) is, or claims to be, the owner of a royalty, overriding royalty and/or working interest in one or more of the Tracts described in Exhibit "B" of the Unit Agreement:

NOW, THEREFORE, the undersigned (whether one or more), for and in consideration of the premises and the benefits anticipated to accrue under each of said agreements, does hereby agree to become a party to, and to be bound by the provisions of the said Unit Agreement, and also the said Unit Operating Agreement, if the undersigned is a Working Interest Owner, and the undersigned does hereby agree that the parties to said agreements are those persons signing the originals of said instruments, counterparts thereof, or other instruments agreeing to be bound by the provisions thereof. The undersigned does also hereby acknowledge receipt of a true copy of the said Unit Agreement, and also the said Unit Operating Agreement, if the undersigned is a Working Interest Owner.

IN WITNESS WHEREOF, the undersigned has executed this instrument on the date set forth below opposite the undersigned's signature.

AMOCO PRODUCTION COMPANY

Date: September 19, 1975

BY: V. E. Hamilton

ATTORNEY-IN-FACT

APPROVE

Address:

P. O. Box 3092

Houston, Texas 77001

THE STATE OF Texas |
|
COUNTY OF Harris |

The foregoing instrument was acknowledged before me this 19 day of September, 1975, by D. E. Hanson, Attorney-in-Fact of AMOCO PRODUCTION COMPANY, a Delaware corporation, on behalf of said corporation.

Irene Haldas

My Commission Expires:
6-1-77

Notary Public in and for
Said County and State.

IRENE HALDAS
Notary Public in and for Harris County, Texas

THE STATE OF |
|
COUNTY OF |

The foregoing instrument was acknowledged before me this ____ day of _____, 1975, by _____.

My Commission Expires:

_____

Notary Public in and for
Said County and State.

RATIFICATION

KNOW ALL MEN BY THESE PRESENTS, THAT:

WHEREAS, certain instruments entitled UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE LAGUNA GRANDE UNIT AREA, EDDY COUNTY, NEW MEXICO, and the UNIT OPERATING AGREEMENT FOR THE LAGUNA GRANDE UNIT, EDDY COUNTY, NEW MEXICO, have been executed as of the 26th day of August, 1975, by various persons conducting operations with respect to the LAGUNA GRANDE UNIT AREA located in Eddy County, New Mexico, as more particularly described in said agreement; and

WHEREAS, the Unit Agreement, by Exhibit "A", shows on a map the boundary lines of the Unit Area and the Tracts therein, and by Exhibit "B" described each tract within the Unit Area; and

WHEREAS, the Unit Agreement and Unit Operating Agreement each provides that a person may become a party thereto by signing the original of said instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned (whether one or more) is, or claims to be, the owner of a royalty, overriding royalty and/or working interest in one or more of the Tracts described in Exhibit "B" of the Unit Agreement:

NOW, THEREFORE, the undersigned (whether one or more), for and in consideration of the premises and the benefits anticipated to accrue under each of said agreements, does hereby agree to become a party to, and to be bound by the provisions of the said Unit Agreement, and also the said Unit Operating Agreement, if the undersigned is a Working Interest Owner, and the undersigned does hereby agree that the parties to said agreements are those persons signing the originals of said instruments, counterparts thereof, or other instruments agreeing to be bound by the provisions thereof. The undersigned does also hereby acknowledge receipt of a true copy of the said Unit Agreement, and also the said Unit Operating Agreement, if the undersigned is a Working Interest Owner.

IN WITNESS WHEREOF, the undersigned has executed this instrument on the date set forth below opposite the undersigned's signature.

THE DOW CHEMICAL COMPANY

Date: September 22 1975

BY: [signature] for

ATTORNEY-IN-FACT

Address:

3634 Richmond

Houston, Texas 77046

THE STATE OF Texas |
|
COUNTY OF Harris |

The foregoing instrument was acknowledged before me this 22nd day of September, 1975, by Vincent H. Buckley ATTORNEY-IN-FACT of THE DOW CHEMICAL COMPANY, a Delaware corporation, on behalf of said corporation.

My Commission Expires:
6-1-77

Carol A Gilliland
Notary Public in and for
Said County and State.

THE STATE OF |
|
COUNTY OF |

The foregoing instrument was acknowledged before me this ____ day of _____, 1975, by _____.

My Commission Expires:
_____

_____
Notary Public in and for
Said County and State.

RATIFICATION

KNOW ALL MEN BY THESE PRESENTS, THAT:

WHEREAS, certain instruments entitled UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE LAGUNA GRANDE UNIT AREA, EDDY COUNTY, NEW MEXICO, and the UNIT OPERATING AGREEMENT FOR THE LAGUNA GRANDE UNIT, EDDY COUNTY, NEW MEXICO, have been executed as of the 26th day of August, 1975, by various persons conducting operations with respect to the LAGUNA GRANDE UNIT AREA located in Eddy County, New Mexico, as more particularly described in said agreement; and

WHEREAS, the Unit Agreement, by Exhibit "A", shows on a map the boundary lines of the Unit Area and the Tracts therein, and by Exhibit "B" described each tract within the Unit Area; and

WHEREAS, the Unit Agreement and Unit Operating Agreement each provides that a person may become a party thereto by signing the original of said instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned (whether one or more) is, or claims to be, the owner of a royalty, overriding royalty and/or working interest in one or more of the Tracts described in Exhibit "B" of the Unit Agreement:

NOW, THEREFORE, the undersigned (whether one or more), for and in consideration of the premises and the benefits anticipated to accrue under each of said agreements, does hereby agree to become a party to, and to be bound by the provisions of the said Unit Agreement, and also the said Unit Operating Agreement, if the undersigned is a Working Interest Owner, and the undersigned does hereby agree that the parties to said agreements are those persons signing the originals of said instruments, counterparts thereof, or other instruments agreeing to be bound by the provisions thereof. The undersigned does also hereby acknowledge receipt of a true copy of the said Unit Agreement, and also the said Unit Operating Agreement, if the undersigned is a Working Interest Owner.

IN WITNESS WHEREOF, the undersigned has executed this instrument on the date set forth below opposite the undersigned's signature.

DALCO OIL COMPANY

Date: October 10, 1975

BY: _____

H. D. Carter, Vice President

Address:

ATTEST: _____

Louis Morrison III, Assistant Secretary

619 West Texas, Suite 200

Midland, Texas 79701

THE STATE OF TEXAS |
|
COUNTY OF DALLAS |

The foregoing instrument was acknowledged before me this 10 day of October, 1975, by H. D. Carter, Vice President of DALCO OIL COMPANY, a Texas corporation, on behalf of said corporation.

My Commission Expires:
June 1, 1977

Dorothy E. Jones
Notary Public in and for
Said County and State.

THE STATE OF |
|
COUNTY OF |

The foregoing instrument was acknowledged before me this ____ day of _____, 1975, by _____.

My Commission Expires:
_____

_____
Notary Public in and for
Said County and State.

RATIFICATION

KNOW ALL MEN BY THESE PRESENTS, THAT:

WHEREAS, certain instruments entitled UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE LAGUNA GRANDE UNIT AREA, EDDY COUNTY, NEW MEXICO, and the UNIT OPERATING AGREEMENT FOR THE LAGUNA GRANDE UNIT, EDDY COUNTY, NEW MEXICO, have been executed as of the 26th day of August, 1975, by various persons conducting operations with respect to the LAGUNA GRANDE UNIT AREA located in Eddy County, New Mexico, as more particularly described in said agreement; and

WHEREAS, the Unit Agreement, by Exhibit "A", shows on a map the boundary lines of the Unit Area and the Tracts therein, and by Exhibit "B" described each tract within the Unit Area; and

WHEREAS, the Unit Agreement and Unit Operating Agreement each provides that a person may become a party thereto by signing the original of said instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned (whether one or more) is, or claims to be, the owner of a royalty, overriding royalty and/or working interest in one or more of the Tracts described in Exhibit "B" of the Unit Agreement:

NOW, THEREFORE, the undersigned (whether one or more), for and in consideration of the premises and the benefits anticipated to accrue under each of said agreements, does hereby agree to become a party to, and to be bound by the provisions of the said Unit Agreement, and also the said Unit Operating Agreement, if the undersigned is a Working Interest Owner, and the undersigned does hereby agree that the parties to said agreements are those persons signing the originals of said instruments, counterparts thereof, or other instruments agreeing to be bound by the provisions thereof. The undersigned does also hereby acknowledge receipt of a true copy of the said Unit Agreement, and also the said Unit Operating Agreement, if the undersigned is a Working Interest Owner.

IN WITNESS WHEREOF, the undersigned has executed this instrument on the date set forth below opposite the undersigned's signature.

HAYES OIL COMPANY

Date: 9 Nov 3 1975 BY: [signature]

[signature]

Address:

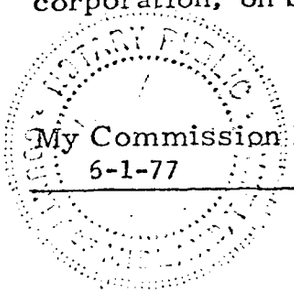
[illegible] National Bank Bldg

Roswell, N.M. 88201

THE STATE OF TEXAS

COUNTY OF MIDLAND

The foregoing instrument was acknowledged before me this 3rd day of October, 1975, by Wayne Moore, Managing Partner of HAYES OIL COMPANY, a Partnership corporation, on behalf of said corporation.



My Commission Expires:
6-1-77

Notary Public in and for
Said County and State.

THE STATE OF

COUNTY OF

The foregoing instrument was acknowledged before me this ____ day of _____, 1975, by _____.

My Commission Expires:

Notary Public in and for
Said County and State.

RATIFICATION

KNOW ALL MEN BY THESE PRESENTS, THAT:

WHEREAS, certain instruments entitled UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE LAGUNA GRANDE UNIT AREA, EDDY COUNTY, NEW MEXICO, and the UNIT OPERATING AGREEMENT FOR THE LAGUNA GRANDE UNIT, EDDY COUNTY, NEW MEXICO, have been executed as of the 26th day of August, 1975, by various persons conducting operations with respect to the LAGUNA GRANDE UNIT AREA located in Eddy County, New Mexico, as more particularly described in said agreement; and

WHEREAS, the Unit Agreement, by Exhibit "A", shows on a map the boundary lines of the Unit Area and the Tracts therein, and by Exhibit "B" described each tract within the Unit Area; and

WHEREAS, the Unit Agreement and Unit Operating Agreement each provides that a person may become a party thereto by signing the original of said instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned (whether one or more) is, or claims to be, the owner of a royalty, overriding royalty and/or working interest in one or more of the Tracts described in Exhibit "B" of the Unit Agreement:

NOW, THEREFORE, the undersigned (whether one or more), for and in consideration of the premises and the benefits anticipated to accrue under each of said agreements, does hereby agree to become a party to, and to be bound by the provisions of the said Unit Agreement, and also the said Unit Operating Agreement, if the undersigned is a Working Interest Owner, and the undersigned does hereby agree that the parties to said agreements are those persons signing the originals of said instruments, counterparts thereof, or other instruments agreeing to be bound by the provisions thereof. The undersigned does also hereby acknowledge receipt of a true copy of the said Unit Agreement, and also the said Unit Operating Agreement, if the undersigned is a Working Interest Owner.

IN WITNESS WHEREOF, the undersigned has executed this instrument on the date set forth below opposite the undersigned's signature.

PHILLIPS PETROLEUM COMPANY

Date: October 6, 1975

BY: _____
Fred Forward, Attorney-in-Fact

Address:

Phillips Building
4th & Washington Streets
Odessa, Texas 79761

THE STATE OF TEXAS |
|
COUNTY OF ECTOR |

The foregoing instrument was acknowledged before me this 6th day of October, 1975, by Fred Forward, Attorney-in-Fact of PHILLIPS PETROLEUM COMPANY, a Delaware corporation, on behalf of said corporation.

My Commission Expires:
June 1, 1977

Notary Public in and for
Said County and State.

THE STATE OF |
|
COUNTY OF |

The foregoing instrument was acknowledged before me this ____ day of _____, 1975, by _____.

My Commission Expires:
_____

Notary Public in and for
Said County and State.

RATIFICATION

KNOW ALL MEN BY THESE PRESENTS, THAT:

WHEREAS, certain instruments entitled UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE LAGUNA GRANDE UNIT AREA, EDDY COUNTY, NEW MEXICO, and the UNIT OPERATING AGREEMENT FOR THE LAGUNA GRANDE UNIT, EDDY COUNTY, NEW MEXICO, have been executed as of the 26th day of August, 1975, by various persons conducting operations with respect to the LAGUNA GRANDE UNIT AREA located in Eddy County, New Mexico, as more particularly described in said agreement; and

WHEREAS, the Unit Agreement, by Exhibit "A", shows on a map the boundary lines of the Unit Area and the Tracts therein, and by Exhibit "B" described each tract within the Unit Area; and

WHEREAS, the Unit Agreement and Unit Operating Agreement each provides that a person may become a party thereto by signing the original of said instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned (whether one or more) is, or claims to be, the owner of a royalty, overriding royalty and/or working interest in one or more of the Tracts described in Exhibit "B" of the Unit Agreement:

NOW, THEREFORE, the undersigned (whether one or more), for and in consideration of the premises and the benefits anticipated to accrue under each of said agreements, does hereby agree to become a party to, and to be bound by the provisions of the said Unit Agreement, and also the said Unit Operating Agreement, if the undersigned is a Working Interest Owner, and the undersigned does hereby agree that the parties to said agreements are those persons signing the originals of said instruments, counterparts thereof, or other instruments agreeing to be bound by the provisions thereof. The undersigned does also hereby acknowledge receipt of a true copy of the said Unit Agreement, and also the said Unit Operating Agreement, if the undersigned is a Working Interest Owner.

IN WITNESS WHEREOF, the undersigned has executed this instrument on the date set forth below opposite the undersigned's signature.

SKELLY OIL COMPANY

Date: _____

BY: _____
ATTORNEY-IN-FACT

Address: _____

P.O. Box 1351

Midland, Texas 79701

Approved Leg

THE STATE OF Oklahoma |
|
COUNTY OF Tulsa |

The foregoing instrument was acknowledged before me this 14th day of September, 1975, by [illegible], Attorney-in-Fact of SKELLY OIL COMPANY, a [illegible] corporation, on behalf of said corporation.

My Commission Expires:
My Commission Expires August 20, 1979

[illegible]
Notary Public in and for
Said County and State.

THE STATE OF |
|
COUNTY OF |

The foregoing instrument was acknowledged before me this ____ day of _____, 1975, by _____
_____.

My Commission Expires:
_____

_____
Notary Public in and for
Said County and State.

RATIFICATION

KNOW ALL MEN BY THESE PRESENTS, THAT:

WHEREAS, certain instruments entitled UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE LAGUNA GRANDE UNIT AREA, EDDY COUNTY, NEW MEXICO, and the UNIT OPERATING AGREEMENT FOR THE LAGUNA GRANDE UNIT, EDDY COUNTY, NEW MEXICO, have been executed as of the 26th day of August, 1975, by various persons conducting operations with respect to the LAGUNA GRANDE UNIT AREA located in Eddy County, New Mexico, as more particularly described in said agreement; and

WHEREAS, the Unit Agreement, by Exhibit "A", shows on a map the boundary lines of the Unit Area and the Tracts therein, and by Exhibit "B" described each tract within the Unit Area; and

WHEREAS, the Unit Agreement and Unit Operating Agreement each provides that a person may become a party thereto by signing the original of said instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned (whether one or more) is, or claims to be, the owner of a royalty, overriding royalty and/or working interest in one or more of the Tracts described in Exhibit "B" of the Unit Agreement:

NOW, THEREFORE, the undersigned (whether one or more), for and in consideration of the premises and the benefits anticipated to accrue under each of said agreements, does hereby agree to become a party to, and to be bound by the provisions of the said Unit Agreement, and also the said Unit Operating Agreement, if the undersigned is a Working Interest Owner, and the undersigned does hereby agree that the parties to said agreements are those persons signing the originals of said instruments, counterparts thereof, or other instruments agreeing to be bound by the provisions thereof. The undersigned does also hereby acknowledge receipt of a true copy of the said Unit Agreement, and also the said Unit Operating Agreement, if the undersigned is a Working Interest Owner.

IN WITNESS WHEREOF, the undersigned has executed this instrument on the date set forth below opposite the undersigned's signature.

AMOCO PRODUCTION COMPANY

Date: September 19, 1975

BY: V. E. Hamilton

ATTORNEY-IN-FACT

APPROVE

Address:

P. O. Box 3092

Houston, Texas 77001

THE STATE OF Texas |
|
COUNTY OF Harris |

The foregoing instrument was acknowledged before me this 19 day of September, 1975, by D. P. Hannon, Attorney-in-Fact of AMOCO PRODUCTION COMPANY, a Delaware corporation, on behalf of said corporation.

Irene Haldas
Notary Public in and for
Said County and State.

My Commission Expires:
6-1-77

IRENE HALDAS
Notary Public in and for Harris County, Texas

THE STATE OF |
|
COUNTY OF |

The foregoing instrument was acknowledged before me this ____ day of _____, 1975, by _____.

_____
Notary Public in and for
Said County and State.

My Commission Expires:
_____

RATIFICATION

KNOW ALL MEN BY THESE PRESENTS, THAT:

WHEREAS, certain instruments entitled UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE LAGUNA GRANDE UNIT AREA, EDDY COUNTY, NEW MEXICO, and the UNIT OPERATING AGREEMENT FOR THE LAGUNA GRANDE UNIT, EDDY COUNTY, NEW MEXICO, have been executed as of the 26th day of August, 1975, by various persons conducting operations with respect to the LAGUNA GRANDE UNIT AREA located in Eddy County, New Mexico, as more particularly described in said agreement; and

WHEREAS, the Unit Agreement, by Exhibit "A", shows on a map the boundary lines of the Unit Area and the Tracts therein, and by Exhibit "B" described each tract within the Unit Area; and

WHEREAS, the Unit Agreement and Unit Operating Agreement each provides that a person may become a party thereto by signing the original of said instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned (whether one or more) is, or claims to be, the owner of a royalty, overriding royalty and/or working interest in one or more of the Tracts described in Exhibit "B" of the Unit Agreement:

NOW, THEREFORE, the undersigned (whether one or more), for and in consideration of the premises and the benefits anticipated to accrue under each of said agreements, does hereby agree to become a party to, and to be bound by the provisions of the said Unit Agreement, and also the said Unit Operating Agreement, if the undersigned is a Working Interest Owner, and the undersigned does hereby agree that the parties to said agreements are those persons signing the originals of said instruments, counterparts thereof, or other instruments agreeing to be bound by the provisions thereof. The undersigned does also hereby acknowledge receipt of a true copy of the said Unit Agreement, and also the said Unit Operating Agreement, if the undersigned is a Working Interest Owner.

IN WITNESS WHEREOF, the undersigned has executed this instrument on the date set forth below opposite the undersigned's signature.

THE DOW CHEMICAL COMPANY

Date: September 22 1975

BY: [signature]

ATTORNEY-IN-FACT

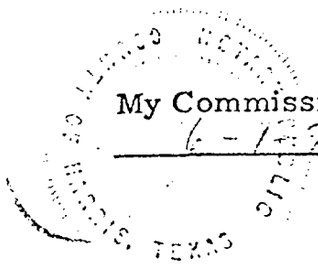
Address:

3636 Richmond

Houston, Texas 77046

THE STATE OF Texas |
|
COUNTY OF Harris |

The foregoing instrument was acknowledged before me this 22nd day of September, 1975, by Vincent H. Buckley ATTORNEY-IN-FACT of THE DOW CHEMICAL COMPANY, a Delaware corporation, on behalf of said corporation.



My Commission Expires:
6-1-77

Carol A. Coffland
Notary Public in and for
Said County and State.

THE STATE OF |
|
COUNTY OF |

The foregoing instrument was acknowledged before me this ____ day of _____, 1975, by _____.

My Commission Expires:

_____
Notary Public in and for
Said County and State.

RATIFICATION

KNOW ALL MEN BY THESE PRESENTS, THAT:

WHEREAS, certain instruments entitled UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE LAGUNA GRANDE UNIT AREA, EDDY COUNTY, NEW MEXICO, and the UNIT OPERATING AGREEMENT FOR THE LAGUNA GRANDE UNIT, EDDY COUNTY, NEW MEXICO, have been executed as of the 26th day of August, 1975, by various persons conducting operations with respect to the LAGUNA GRANDE UNIT AREA located in Eddy County, New Mexico, as more particularly described in said agreement; and

WHEREAS, the Unit Agreement, by Exhibit "A", shows on a map the boundary lines of the Unit Area and the Tracts therein, and by Exhibit "B" described each tract within the Unit Area; and

WHEREAS, the Unit Agreement and Unit Operating Agreement each provides that a person may become a party thereto by signing the original of said instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned (whether one or more) is, or claims to be, the owner of a royalty, overriding royalty and/or working interest in one or more of the Tracts described in Exhibit "B" of the Unit Agreement:

NOW, THEREFORE, the undersigned (whether one or more), for and in consideration of the premises and the benefits anticipated to accrue under each of said agreements, does hereby agree to become a party to, and to be bound by the provisions of the said Unit Agreement, and also the said Unit Operating Agreement, if the undersigned is a Working Interest Owner, and the undersigned does hereby agree that the parties to said agreements are those persons signing the originals of said instruments, counterparts thereof, or other instruments agreeing to be bound by the provisions thereof. The undersigned does also hereby acknowledge receipt of a true copy of the said Unit Agreement, and also the said Unit Operating Agreement, if the undersigned is a Working Interest Owner.

IN WITNESS WHEREOF, the undersigned has executed this instrument on the date set forth below opposite the undersigned's signature.

DALCO OIL COMPANY

Date: October 10, 1975

BY: _____

H. D. Carter, Vice President

Address:

ATTEST: _____

Louis Morrison III, Assistant Secretary

619 West Texas, Suite 200

Midland, Texas 79701

THE STATE OF TEXAS |
|
COUNTY OF DALLAS |

The foregoing instrument was acknowledged before me this 10 day of October, 1975, by H. D. Carter, Vice President of DALCO OIL COMPANY, a Texas corporation, on behalf of said corporation.

My Commission Expires:
June 1, 1977

Dorothy E. Jones
Notary Public in and for
Said County and State.

THE STATE OF |
|
COUNTY OF |

The foregoing instrument was acknowledged before me this ____ day of _____, 1975, by _____.

My Commission Expires:
_____

_____
Notary Public in and for
Said County and State.

RATIFICATION

KNOW ALL MEN BY THESE PRESENTS, THAT:

WHEREAS, certain instruments entitled UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE LAGUNA GRANDE UNIT AREA, EDDY COUNTY, NEW MEXICO, and the UNIT OPERATING AGREEMENT FOR THE LAGUNA GRANDE UNIT, EDDY COUNTY, NEW MEXICO, have been executed as of the 26th day of August, 1975, by various persons conducting operations with respect to the LAGUNA GRANDE UNIT AREA located in Eddy County, New Mexico, as more particularly described in said agreement; and

WHEREAS, the Unit Agreement, by Exhibit "A", shows on a map the boundary lines of the Unit Area and the Tracts therein, and by Exhibit "B" described each tract within the Unit Area; and

WHEREAS, the Unit Agreement and Unit Operating Agreement each provides that a person may become a party thereto by signing the original of said instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned (whether one or more) is, or claims to be, the owner of a royalty, overriding royalty and/or working interest in one or more of the Tracts described in Exhibit "B" of the Unit Agreement:

NOW, THEREFORE, the undersigned (whether one or more), for and in consideration of the premises and the benefits anticipated to accrue under each of said agreements, does hereby agree to become a party to, and to be bound by the provisions of the said Unit Agreement, and also the said Unit Operating Agreement, if the undersigned is a Working Interest Owner, and the undersigned does hereby agree that the parties to said agreements are those persons signing the originals of said instruments, counterparts thereof, or other instruments agreeing to be bound by the provisions thereof. The undersigned does also hereby acknowledge receipt of a true copy of the said Unit Agreement, and also the said Unit Operating Agreement, if the undersigned is a Working Interest Owner.

IN WITNESS WHEREOF, the undersigned has executed this instrument on the date set forth below opposite the undersigned's signature.

HAYES OIL COMPANY

Date: 9 Nov 5 1975 BY: [signature]

[signature]

Address:

1210 National Bank Bldg

Midland, Texas 79701

THE STATE OF TEXAS |
|
COUNTY OF MIDLAND |

The foregoing instrument was acknowledged before me this 3rd day of October, 1975, by Wayne Moore, Managing Partner, of HAYES OIL COMPANY, a Partnership corporation, on behalf of said corporation.

My Commission Expires:
6-1-77

Notary Public in and for
Said County and State.

THE STATE OF |
|
COUNTY OF |

The foregoing instrument was acknowledged before me this ____ day of _____, 1975, by _____.

My Commission Expires:

Notary Public in and for
Said County and State.

RATIFICATION

KNOW ALL MEN BY THESE PRESENTS, THAT:

WHEREAS, certain instruments entitled UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE LAGUNA GRANDE UNIT AREA, EDDY COUNTY, NEW MEXICO, and the UNIT OPERATING AGREEMENT FOR THE LAGUNA GRANDE UNIT, EDDY COUNTY, NEW MEXICO, have been executed as of the 26th day of August, 1975, by various persons conducting operations with respect to the LAGUNA GRANDE UNIT AREA located in Eddy County, New Mexico, as more particularly described in said agreement; and

WHEREAS, the Unit Agreement, by Exhibit "A", shows on a map the boundary lines of the Unit Area and the Tracts therein, and by Exhibit "B" described each tract within the Unit Area; and

WHEREAS, the Unit Agreement and Unit Operating Agreement each provides that a person may become a party thereto by signing the original of said instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned (whether one or more) is, or claims to be, the owner of a royalty, overriding royalty and/or working interest in one or more of the Tracts described in Exhibit "B" of the Unit Agreement:

NOW, THEREFORE, the undersigned (whether one or more), for and in consideration of the premises and the benefits anticipated to accrue under each of said agreements, does hereby agree to become a party to, and to be bound by the provisions of the said Unit Agreement, and also the said Unit Operating Agreement, if the undersigned is a Working Interest Owner, and the undersigned does hereby agree that the parties to said agreements are those persons signing the originals of said instruments, counterparts thereof, or other instruments agreeing to be bound by the provisions thereof. The undersigned does also hereby acknowledge receipt of a true copy of the said Unit Agreement, and also the said Unit Operating Agreement, if the undersigned is a Working Interest Owner.

IN WITNESS WHEREOF, the undersigned has executed this instrument on the date set forth below opposite the undersigned's signature.

PHILLIPS PETROLEUM COMPANY

Date: October 6, 1975

BY: _____
Fred Forward, Attorney-in-Fact

Address:

Phillips Building
4th & Washington Streets
Odessa, Texas 79761

THE STATE OF TEXAS |
|
COUNTY OF ECTOR |

The foregoing instrument was acknowledged before me this 6th day of October, 1975, by Fred Forward, Attorney-in-Fact of PHILLIPS PETROLEUM COMPANY, a Delaware corporation, on behalf of said corporation.

My Commission Expires:
June 1, 1977

Notary Public in and for
Said County and State.

THE STATE OF |
|
COUNTY OF |

The foregoing instrument was acknowledged before me this ____ day of _____, 1975, by _____.

My Commission Expires:
_____

Notary Public in and for
Said County and State.

RATIFICATION

KNOW ALL MEN BY THESE PRESENTS, THAT:

WHEREAS, certain instruments entitled UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE LAGUNA GRANDE UNIT AREA, EDDY COUNTY, NEW MEXICO, and the UNIT OPERATING AGREEMENT FOR THE LAGUNA GRANDE UNIT, EDDY COUNTY, NEW MEXICO, have been executed as of the 26th day of August, 1975, by various persons conducting operations with respect to the LAGUNA GRANDE UNIT AREA located in Eddy County, New Mexico, as more particularly described in said agreement; and

WHEREAS, the Unit Agreement, by Exhibit "A", shows on a map the boundary lines of the Unit Area and the Tracts therein, and by Exhibit "B" described each tract within the Unit Area; and

WHEREAS, the Unit Agreement and Unit Operating Agreement each provides that a person may become a party thereto by signing the original of said instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions thereof; and

WHEREAS, the undersigned (whether one or more) is, or claims to be, the owner of a royalty, overriding royalty and/or working interest in one or more of the Tracts described in Exhibit "B" of the Unit Agreement:

NOW, THEREFORE, the undersigned (whether one or more), for and in consideration of the premises and the benefits anticipated to accrue under each of said agreements, does hereby agree to become a party to, and to be bound by the provisions of the said Unit Agreement, and also the said Unit Operating Agreement, if the undersigned is a Working Interest Owner, and the undersigned does hereby agree that the parties to said agreements are those persons signing the originals of said instruments, counterparts thereof, or other instruments agreeing to be bound by the provisions thereof. The undersigned does also hereby acknowledge receipt of a true copy of the said Unit Agreement, and also the said Unit Operating Agreement, if the undersigned is a Working Interest Owner.

IN WITNESS WHEREOF, the undersigned has executed this instrument on the date set forth below opposite the undersigned's signature.

SKELLY OIL COMPANY

Date: _____

BY: _____
ATTORNEY-IN-FACT

Approved Legal

Address:

P.O. Box 1351

Midland, Texas 79701

THE STATE OF Oklahoma |
|
COUNTY OF Tulsa |

The foregoing instrument was acknowledged before me this 14th day of September, 1975, by [illegible], Attorney-in-Fact of SKELLY OIL COMPANY, a [illegible] corporation, on behalf of said corporation.

My Commission Expires:
[illegible] October 30, 1979

[illegible]
Notary Public in and for
Said County and State.

THE STATE OF |
|
COUNTY OF |

The foregoing instrument was acknowledged before me this _____ day of _____, 1975, by _____.

My Commission Expires:

_____

Notary Public in and for
Said County and State.