EXHIBIT "B"

SCHEDULE SHOWING THE PERCENTAGE AND KIND OF OWNERSHIP OF OIL AND GAS INTERESTS

WHITE RANCH UNIT AREA

CHAVES COUNTY, NEW MEXICO

TRACT NO.	DESCRIPTION OF LAND	NUMBER OF ACRES	SERIAL NUMBER AND EXPIRATION DATE OF LEASE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
FEDERAL LANDS:							
1.	T13S-R30E, N.M.P.M. Sec. 10: W½SW¼	80.00	NM-12601 Effective 11-1-70 Expires 10-31-80	U.S.A.-All	Amoco Production Company 100%	Ben S. Brooks 5%	Amoco Production Company 100%

2.	T13S-R30E, N.M.P.M. Sec. 4: NE¼SE¼, S½SE¼ Sec. 9: NW¼, SE¼	440.00	NM-13828 Effective 6-1-71 Expires 5-31-81	U.S.A.-All	Celeste C. Grynberg	100%	Celeste C. Grynberg and Dean G. Smernoff as Co-Trustees for Rachel Susan Grynberg, beneficiary under the "Rachel Susan Trust" 2.08333% Celeste C. Grynberg and Dean G. Smernoff as Co-Trustees for Stephen Mark Grynberg, beneficiary under the "Stephen Mark Trust" 2.08334% Celeste C. Grynberg and Dean G. Smernoff as Trustees for Miriam Zela Grynberg, beneficiary under the "Miriam Zela Trust" 2.08333%	Celeste C. Grynberg	100%
3.	T13S-R30E, N.M.P.M. Sec. 6: Lot 6	48.59	NM-14317 Effective 9-1-71 Expires 8-31-81	U.S.A.-All	Beard Oil Company	100%	None	Beard Oil Company	100%

4.	T12S-R30E, N.M.P.M. Sec. 29: E½	320.00	NM-14486 Effective 12-1-71 Expires 11-30-81	U.S.A.-All	Western Reserves Oil Company	100%	R. C. Beveridge	6.25%	Western Reserves Oil Company	100%
5.	T13S-R30E, N.M.P.M. Sec. 4: NW¼SE¼	40.00	NM-14487 Effective 12-1-71 Expires 11-30-81	U.S.A.-All	E. R. Richardson	100%	None		E. R. Richardson	100%
6.	T12S-R30E, N.M.P.M. Sec. 6: Lots 1,2, S½NE¼	161.25	NM-15437 Effective 7-1-72 Expires 6-30-82	U.S.A.-All	Supron Energy Corporation	100%	John H. Klas	3%	Supron Energy Corporation	100%

7.	T12S-R30E, N.M.P.M. Sec. 29: NW¼ Sec. 30: Lots 1,2,3, E½, E½W½ Sec. 31: Lots 1,2, E½NW¼	972.05	NM-15888 Effective 7-1-72 Expires 6-30-82	U.S.A.-All	Gulf Oil Corporation	100%	Shirley A. and Randall B. Johnson 5%	Gulf Oil Corporation	100%
8.	T12S-R30E, N.M.P.M. Sec. 31: E½	320.00	NM-15889 Effective 7-1-72 Expires 6-30-82	U.S.A.-All	Duncan Miller	100%	None	Duncan Miller	100%

9.	T13S-R30E, N.M.P.M. Sec. 9: SW¼SW¼ Sec. 17: E½SE¼ Sec. 18: SE¼ Sec. 19: Lot 3, E½, NE¼SW¼ Sec. 20: W½	1,003.11	NM-15890 Effective 7-1-72 Expires 6-30-82	U.S.A.-All	Yates Drilling Company and Martin Yates, III 100%	Dean R. and Gladys Archer 3% Lloyd Sellinger and Christopher C. Cole 1%	Yates Drilling Company and Martin Yates, III 100%
10.	T12S-R29E, N.M.P.M. Sec. 24: NW¼	160.00	NM-16107 Effective 7-1-72 Expires 6-30-82	U.S.A.-All	Laguna Petroleum Company 100%	John B. Castle 3.125% H. Bruce Wigzell 3.125%	Laguna Petroleum Company 100%
11.	T12S-R29E, N.M.P.M. Sec. 24: SW¼	160.00	NM-16108 Effective 7-1-72 Expires 6-30-82	U.S.A.-All	Tom L. Ingram 100%	None	Tom L. Ingram 100%

12.	T12S-R29E, N.M.P.M. Sec. 1: Lots 3, 4, S½NW¼, SW¼ Sec. 14: NE¼	480.93	NM-16110 Effective 8-1-72 Expires 7-31-82	U.S.A.-All	Holly Energy, Inc. 87.5% Read & Stevens, Inc. 12.5%	Robert B. and Nada S. Gates 5% James D. and Suzanne P. Short 4%	Holly Energy, Inc. 87.5% Read & Stevens, Inc. 12.5%
13.	T12S-R29E, N.M.P.M. Sec. 12: All	640.00	NM-16111 Effective 7-1-72 Expires 6-30-82	U.S.A.-All	Sundance Oil Company 100%	L. C. and Marion V. Harris 4% Elizabeth Gorman 1%	Sundance Oil Company 100%
14.	T12S-R30E, N.M.P.M. Sec. 7: NE¼	160.00	NM-16120 Effective 7-1-72 Expires 6-30-82	U.S.A.-All	Getty Oil Company 100%	Grace E. LaRue 3% John W. and Jean M. Gates, W. T. and Margaret Winn 2%	Getty Oil Company 100%

15.	T12S-R30E, N.M.P.M. Sec. 6: SE¼	160.00	NM-16633 Effective 9-1-72 Expires 8-31-82	U.S.A.-All	Estelle H. Yates	100%	None		Estelle H. Yates	100%
16.	T13S-R30E, N.M.P.M. Sec. 9: E½SW¼	80.00	NM-16634 Effective 9-1-72 Expires 8-31-82	U.S.A.-All	Clifford Cone	100%	None		Clifford Cone	100%

17.	T13S-R30E, N.M.P.M. Sec. 4: Lots 1,2, S½NE¼, SW¼ Sec. 9: NE¼ Sec. 10: E½, E½SW¼ Sec. 19: Lot 4	921.85	NM-16634-A Effective 9-1-72 Expires 8-31-82	U.S.A.-All	Gulf Oil Corporation	100%	Clifford Cone	3%	Gulf Oil Corporation	100%
18.	T13S-R30E, N.M.P.M. Sec. 4: Lots 3,4, S½NW¼ Sec. 15: W½ Sec. 17: SW¼ T12S-R30E, N.M.P.M. Sec. 19: Lots 3, 4, E½SW¼, SE¼	982.67	NM-16812 Effective 10-1-72 Expires 9-30-82	U.S.A.-All	Depco, Inc.	100%	Roberts, Koch & Cartwright 6.25% Estoril Production Corporation 6.25% Gloster Production Properties, Production payment of $1,000.00 per acre out of 5%		Depco, Inc. Nicor Exploration Company	50% 50%

19.	T12S-R30E, N.M.P.M. 1,461.30 Sec. 6: Lot 7, SE¼SW¼ Sec. 7: Lots 1,2,3,4, E½W½ Sec. 18: Lots 1,2,3,4, E½W½ Sec. 19: Lots 1,2, NE¼, E½NW¼ Sec. 20: SE¼NE¼, W½NE¼, NW¼	NM-17052 Effective 6-1-73 Expires 5-31-83	U.S.A.-All	Sundance Oil Company	100%	Martha P. Thomas 4.0625% Daniel P. Haerther 1.625% Stewart Capital Corporation .5625%	Sundance Oil Company	100%
20.	T13S-R30E, N.M.P.M. 399.83 Sec. 5: Lots 3,4, S½NW¼ Sec. 6: Lots 1,2,3, S½NE¼, SE¼NW¼	NM-17053 Effective 12-1-72 Expires 11-30-82	U.S.A.-All	S. P. Yates	100%	None	S. P. Yates	100%
21.	T13S-R30E, N.M.P.M. 40.00 Sec. 19: SE¼SW¼	NM-17226 Effective 1-1-73 Expires 12-31-82	U.S.A.-All	Reuben Walters	100%	None	Reuben Walters	100%

22.	T12S-R29E, N.M.P.M. Sec. 1: Lots 1,2, S½NE¼, SE¼ Sec. 14: SE¼ Sec. 24: E½	800.31	NM-17585 Effective 3-1-73 Expires 2-28-83	U.S.A.-All	Sundance Oil Company	100%	M. J. Harvey, Jr. 3% Penroc Oil Corporation 2.5%		Sundance Oil Company	100%
23.	T12S-R30E, N.M.P.M. Sec. 30: Lot 4	50.27	NM-17805 Effective 3-1-73 Expires 2-28-83	U.S.A.-All	Don J. Leeman	100%	None		Don J. Leeman	100%
24.	T13S-R30E, N.M.P.M. Sec. 6: Lots 4,5 Sec. 7: Lot 4, E½SW¼, SE¼ Sec. 18: Lots 1,2,3,4, NE¼, E½W½ Sec. 19: Lots 1,2, E½NW¼	1,064.42	NM-17806 Effective 3-1-73 Expires 2-28-83	U.S.A.-All	Depco, Inc.	100%	Mildred F. Dachner	5%	Depco, Inc. Nicor Exploration Company	50% 50%

25.	T13S-R30E, N.M.P.M. Sec. 8: S½ Sec. 17: N½, W½SE¼	720.00	NM-17806-C Effective 3-1-73 Expires 2-28-83	U.S.A.-All	Depco, Inc.	100%	Mildred F. Dachner 5%	Depco, Inc.	100%
26.	T12S-R29E, N.M.P.M. Sec. 14: SW¼ Sec. 23: E½	480.00	NM-18494 Effective 6-1-73 Expires 5-31-83	U.S.A.-All	Sundance Oil Company	100%	Jack J. Grynberg and Celeste, his wife 3.125% James and Jean R. Muslow 1.5625% James Muslow, Jr. 1.5625%	Sundance Oil Company	100%
27.	T13S-R30E, N.M.P.M. Sec. 5: S½ Sec. 6: E½SW¼, SE¼ Sec. 7: Lot 2, NE¼, SE¼NW¼ Sec. 8: NE¼	967.98	NM-18620 Effective 7-1-73 Expires 6-30-83	U.S.A.-All	Sundance Oil Company	100%	A. G. Andrikopoulos 4.75% Laura Swords .25%	Sundance Oil Company	100%

28.	T13S-R30E, N.M.P.M. Sec. 7: Lot 3	47.80	NM-18840 Effective 8-1-73 Expires 7-31-83	U.S.A.-All	W. H. Gilmore	100%	None	W. H. Gilmore	100%
29.	T13S-R30E, N.M.P.M. Sec. 5: Lots 1,2, S½NE¼	159.98	NM-18993 Effective 9-1-73 Expires 8-31-83	U.S.A.-All	Sundance Oil Company	100%	David J. and Bonnie J. Sorenson 6.25%	Sundance Oil Company	100%
30.	T12S-R29E, N.M.P.M. Sec. 14: N½NW¼, SE¼NW¼	120.00	NM-20954 Effective 6-1-74 Expires 5-31-84	U.S.A.-All	Phillips Petroleum Company	100%	Jim Hahn 2.5% C. E. and Sherrie R. Strange 2.5%	Phillips Petroleum Company	100%

31.	T13S-R30E, N.M.P.M. Sec. 10: NW¼	160.00	NM-20964 Effective 6-1-74 Expires 5-31-84	U.S.A.-All	Depco, Inc.	100%	Roberts, Koch and Cartwright, a general partnership, and Estoril Production Corporation 7.5% Arthur E. Meinhart and Irwin Rubenstein 5%	Depco, Inc. Nicor Exploration Company	50% 50%
32.	T13S-R30E, N.M.P.M. Sec. 8: NW¼	160.00	NM-21503 Effective 7-1-74 Expires 6-30-84	U.S.A.-All	Depco, Inc.	100%	Robert R. Emmons 5%	Depco, Inc.	100%

33.	T13S-R30E, N.M.P.M. Sec. 6: Lot 7	48.33	NM-27803 Effective 5-1-76 Expires 4-30-86	U.S.A.-All	Yates Petroleum Corporation 25% Yates Drilling Company 25% ABO Petroleum Corporation 25% Myco Industries, Inc. 25%	R. Hugo and Karen Cotter 4%	Yates Petroleum Corporation 25% Yates Drilling Company 25% ABO Petroleum Corporation 25% Myco Industries, Inc. 25%
34.	T13S-R30E, N.M.P.M. Sec. 20: E½	320.00	NM-28920 Effective 12-1-76 Expires 11-30-86	U.S.A.-All	El Paso Natural Gas Company 100%	R.G.B. Company 4% Thomas H. Connelly 1%	El Paso Natural Gas Company 100%
35.	T13S-R30E, N.M.P.M. Sec. 15: NE¼, N½SE¼, SE¼SE¼	280.00	NM-29227 Effective 2-1-77 Expires 1-31-87	U.S.A.-All	Hanagan Petroleum Corp. 100%	Sanford and Shirley Starma and Marguerite and Richard Tejeda 5%	Hanagan Petroleum Corporation 100%
36.	T12S-R30E, N.M.P.M. Sec. 7: SE¼ Sec. 17: All Sec. 18: E½ Sec. 20: NE¼NE¼	1,160.00	NM-31647 Effective 11-1-77 Expires 10-31-87	U.S.A.-All	Depco, Inc. 100%	H. Timothy Stander 5%	Depco, Inc. 50% Nicor Exploration Company 50%
37.	T13S-R30E, N.M.P.M. Sec. 15: SW¼SE¼	40.00	NM-34450 Effective 11-1-78 Expires 10-31-83	U.S.A.-All	Depco, Inc. 100%	None	Depco, Inc. 100%

38.	T12S-R30E, N.M.P.M. Sec. 29: SW¼ Sec. 31: Lots 3,4, E½SW¼	338.96	NM-36421 Effective 5-1-79 Expires 4-30-89	U.S.A.-All	David W. Miller	100%	None	David W. Miller	100%
39.	T13S-R30E, N.M.P.M. Sec. 9: NW¼SW¼	40.00	Unleased	U.S.A.-All	Unleased		None	Unleased	

39 FEDERAL TRACTS TOTALING 15,989.63 ACRES OR 84.33% OF UNIT AREA

STATE LANDS:

40.	T13S-R30E, N.M.P.M. Sec. 7: Lot 1, NE¼NW¼	88.15	L-4378 4-21-80	State of New Mexico-All	Atom, Inc.	100%	None		Atom, Inc.	100%
41.	T12S-R30E, N.M.P.M. Sec. 32: NE¼SE¼	40.00	L-4788 8-18-80	State of New Mexico-All	Western Reserves Oil Company	100%	None		Western Reserves Oil Company	100%
42.	T13S-R30E, N.M.P.M. Sec. 16: NW¼NW¼, S½NW¼, N½SW¼, SW¼SW¼	240.00	LG-2256 10-1-84	State of New Mexico-All	Read & Stevens, Inc.	100%	None		Read & Stevens, Inc.	100%
43.	T12S-R30E, N.M.P.M. Sec. 32: NW¼, W½SW¼, NW¼SE¼	280.00	LG-2918 8-1-85	State of New Mexico-All	Sundance Oil Company	100%	None		Sundance Oil Company	100%

44.	T13S-R30E, N.M.P.M. Sec. 16: E½, NE¼NW¼, SE¼SW¼	400.00	LG-5256 4-1-88	State of New Mexico-All	Depco, Inc.	100%	None		Depco, Inc.	100%
45.	T12S-R30E, N.M.P.M. Sec. 32: NE¼, E½SW¼, S½SE¼	320.00	Unleased	State of New Mexico-All	Unleased		None		Unleased	

6 STATE TRACTS TOTALING 1,368.15 ACRES OR 7.21% OF UNIT AREA

PATENTED LANDS:

46.	T12S-R29E, N.M.P.M. Sec. 13: N½	320.00	1-27-80	Patricia J. Christenson 50%	Sundance Oil Company	100%	None	Sundance Oil Company	50%
			1-27-80	Sylvester P. and Barbara Jo Johnson III (h&w) 50%	Sundance Oil Company	100%	None	Sundance Oil Company	50%
47.	T12S-R29E, N.M.P.M. Sec. 13: S½	320.00	1-10-80	Arvil Lee and Johnnie R. Johnson (h&w) 14.0625%	Sundance Oil Company	100%	None	Sundance Oil Company	14.0625%
			1-10-80	Cecil and Thyra Johnson (h&w) 14.0625%	Sundance Oil Company	100%	None	Sundance Oil Company	14.0625%
			1-10-80	Edna Johnson 14.0625%	Sundance Oil Company	100%	None	Sundance Oil Company	14.0625%
			1-13-80	Blanche Whitaker 7.8125%	Sundance Oil Company	100%	None	Sundance Oil Company	7.8125%
			1-10-80	New Mexico Osage Co-op Royalty Co. 25%	Sundance Oil Company	100%	None	Sundance Oil Company	25%
			2-13-80	Flag-Redfern Oil Company 25%	Sundance Oil Company	100%	None	Sundance Oil Company	25%

48. T12S-R29E, N.M.P.M. Sec. 14: SW¼NW¼	40.00	11-11-80	Elston and Ima Jo Grubaugh (h&w)	25%	Phillips Petroleum Company	100%	None	Phillips Petroleum Company	25%
		11-11-80	Joan L. Grubaugh Valser	25%	Phillips Petroleum Company	100%	None	Phillips Petroleum Company	25%
		11-11-80	Leverta Mae King	25%	Phillips Petroleum Company	100%	None	Phillips Petroleum Company	25%
		12-11-80	Lena C. Johnson	3.125%	Phillips Petroleum Company	100%	None	Phillips Petroleum Company	3.125%
		12-11-80	Martha Chandler	3.125%	Phillips Petroleum Company	100%	None	Phillips Petroleum Company	3.125%
		12-11-80	Sarah Jane Arnold	3.125%	Phillips Petroleum Company	100%	None	Phillips Petroleum Company	3.125%
		12-11-80	Sandra Chavez	3.125%	Phillips Petroleum Company	100%	None	Phillips Petroleum Company	3.125%
		12-11-80	Sammy Charles Chandler	3.125%	Phillips Petroleum Company	100%	None	Phillips Petroleum Company	3.125%
		12-11-80	Gary Clarence Chandler	3.125%	Phillips Petroleum Company	100%	None	Phillips Petroleum Company	3.125%
		12-11-80	Norma I. Henington	3.125%	Phillips Petroleum Company	100%	None	Phillips Petroleum Company	3.125%
		Unleased	Babs Chandler	.78125%	Unleased	100%	None	Unleased	.78125%
		Unleased	Jeff Chandler	.78125%	Unleased	100%	None	Unleased	.78125%
		Unleased	Daniel Chandler	.78125%	Unleased	100%	None	Unleased	.78125%
		Unleased	Mitchell Chandler	.78125%	Unleased	100%	None	Unleased	.78125%

49.	T12S-R29E, N.M.P.M. Sec. 23: W½	320.00	2-12-85	Martha Monetta Adcock Betterton 16.6667%	Sundance Oil Company	100%	Carl A. and Gloria Schellinger David J. Sorenson	2.5% 2.5%	Sundance Oil Company	16.6667%
			2-14-85	W. Creath Goodwin, Thelma Ophelia Goodwin Grimes, Mary Lou Goodwin Johnston, Wilma Pearl Goodwin Eisenbach, Betty Jo Goodwin Mutze and Ernest Zip Goodwin 16.6667%	Sundance Oil Company	100%	Carl A. and Gloria Schellinger David J. Sorenson	2.5% 2.5%	Sundance Oil Company	16.6667%
			1-10-80	Orville E. and Mary E. Malmstrom (h&w) 12.5%	Sundance Oil Company	100%	Carl A. and Gloria Schellinger David J. Sorenson	2.5% 2.5%	Sundance Oil Company	12.5%

49.	Continued		5-6-80	Jonnie Douthitt Stinson 18.75%	Sundance Oil Company	100%	Carl A. & Gloria Schellinger 2.5% David J. Sorenson 2.5%	Sundance Oil Company	18.75%
			Unleased	Mary C. Douthill 18.75%	Unleased	100%	None	Unleased	18.75%
			11-7-85	Evie Jo Rucker 16.6666%	Sundance Oil Company	100%	Carl A. & Gloria Schellinger 2.5% David J. Sorenson 2.5%	Sundance Oil Company	16.6666%
50.	T12S-R30E, N.M.P.M. Sec. 6: Lots 3,4, 5,6, SE¼NW¼, NE¼SW¼	284.00	6-14-82	R. L. & Florence Burrow (h & w) 12.5%	Depco, Inc.	100%	None	Depco, Inc.	12.5%
			6-14-82	L. B. & Margaret M. Hodges (h & w) 12.5%	Depco, Inc.	100%	None	Depco, Inc.	12.5%
			6-14-82	W. O. & Mickey Stephens (h & w) 37.5%	Depco, Inc.	100%	Carl A. & Gloria Schellinger 6.25%	Depco, Inc.	37.5%
			6-14-82	Evelyn Mae & Jack Fisher (h & w) 37.5%	Depco, Inc.	100%	Carl A. & Gloria Schellinger 6.25%	Depco, Inc.	37.5%
51.	T12S-R30E, N.M.P.M. Sec. 20: S½	320.00	4-29-84	Estate of John L. Cook, Verda Williams, Personal Representative 100%	Sundance Oil Company	100%	Carl A. & Gloria Schellinger David J. Sorenson 3.125%	Sundance Oil Company	100%

6	PATENTED	TRACTS	TOTALING	1,604.00	ACRES	OR	8.46%	OF	UNIT	AREA

51	TRACTS	TOTALING	18,961.78	ACRES	IN	UNIT	AREA

UNIT OPERATING AGREEMENT

WHITE RANCH **UNIT AREA**

COUNTY OF CHAVES

STATE OF NEW MEXICO

TABLE OF CONTENTS

Preliminary Recitals

ARTICLE 1—DEFINITIONS

Section 1.1 Unit Agreement Definitions 1
Section 1.2 Unit Operator 1
Section 1.3 Party 1
Section 1.4 Costs 1
Section 1.5 Committed Working Interest 1
Section 1.6 Acreage Basis 1
Section 1.7 Production 1
Section 1.8 Lease Burdens 1
Section 1.9 Drilling Party 1
Section 1.10 Non-Drilling Party 1
Section 1.11 Drill 1
Section 1.12 Deepen or Plug Back 1
Section 1.13 Initial Test Well 1
Section 1.14 Subsequent Test Well 1
Section 1.15 Development Well 1
Section 1.16 Exploratory Well 1
Section 1.17 Approval of the Parties or Direction of the Parties 1
Section 1.18 Salvage Value 1
Section 1.19 Neuter Pronoun 1

ARTICLE 2—NO LIABILITY FOR DRILLING, DEEPENING OR PLUGGING BACK WELLS WITHOUT CONSENT

Section 2.1 No Liability Without Consent 1

ARTICLE 3—INITIAL TEST WELL

Section 3.1 Location 1
Section 3.2 Costs of Drilling 1

ARTICLE 4—SUBSEQUENT TEST WELLS

Section 4.1 Right to Drill 2

ARTICLE 5—ESTABLISHMENT, REVISION AND CONSOLIDATION OF PARTICIPATING AREAS

Section 5.1 Proposal 2
Section 5.2 Objections to Proposal 2
Section 5.3 Revised Proposal 2
Section 5.4 Rejection by ~~Director~~ Supervisor 2
Section 5.5 Consolidation 2

ARTICLE 6—APPORTIONMENT OF COSTS AND OWNERSHIP AND DISPOSITION OF PRODUCTION AND PROPERTY

Section 6.1 Apportionment and Ownership Within Participating Area 2
A. Costs 2
B. Production 2
C. Property 2
Section 6.2 Ownership and Costs Outside Participating Area 2
Section 6.3 Taking in Kind 2
Section 6.4 Failure to Take in Kind (See Section 37.1) ..... ~~2~~ 11
Section 6.5 Surplus Materials and Equipment 2

ARTICLE 7—PLANS OF DEVELOPMENT

Section 7.1 Wells and Projects Included 2
Section 7.2 Notice of Proposed Plan 2
Section 7.3 Notice of Approval or Disapproval 2
Section 7.4 Amendments 2
Section 7.5 Cessation of Operations Under Plan 2

ARTICLE 8—DRILLING OF DEVELOPMENT WELLS

Section 8.1 Purpose and Procedure 3
Section 8.2 Notice of Proposed Drilling 3
Section 8.3 Response to Notice 3
Section 8.4 Notice of Election to Drill 3
Section 8.5 Effect of Election to Drill 3
Section 8.6 Subsequent Election 3
Section 8.7 Rights and Obligation of Drilling Party and Non-Drilling Party 3

ARTICLE 9—EXPLORATORY WELLS

Section 9.1 Procedure for Drilling 3

ARTICLE 10—REQUIRED WELLS

Section 10.1 Definition 3
Section 10.2 Election to Drill 3
Section 10.3 Alternatives to Drilling 3
A. Compensatory Royalties 3
B. Contraction 3
C. Termination 3
Section 10.4 Required Drilling 3
A. Development Well 3
B. Exploratory Well 3

ARTICLE 11—ATTEMPTED COMPLETION, DEEPENING, PLUGGING BACK AND ABANDONMENT

Section 11.1 Procedure 3

ARTICLE 12—RIGHTS AND OBLIGATIONS OF DRILLING PARTY AND NON-DRILLING PARTY

Section 12.1 Scope of Article ... 3
Section 12.2 Relinquishment of Interest by Non-Drilling Party ... 3
Section 12.3 Reversion of Relinquished Interest ... 4
Section 12.4 Effect of Reversion ... 4
Section 12.5 Rights and Obligations of Drilling Party ... 4

ARTICLE 13—ADJUSTMENT ON ESTABLISHMENT OR CHANGE OF PARTICIPATING AREA

Section 13.1 When Adjustment Made ... 4
Section 13.2 Definitions ... 4
A. Useable Well ... 4
B. Intangible Value ... 4
C. Tangible Property ... 4
D. Value ... 4
Section 13.3 Method of Adjustment on Establishment or Enlargement ... 4
Section 13.4 Method of Adjustment on Contraction ... 4
Section 13.5 Ownership of Wells and Tangible Property ... 5
Section 13.6 Relinquished Interests of Non-Drilling Parties ... 5

ARTICLE 14—SUPERVISION OF OPERATIONS BY PARTIES

Section 14.1 Right of Supervision ... 5
Section 14.2 Voting Control ... 5
Section 14.3 Meetings ... 5
Section 14.4 Action Without Meeting ... 5
Section 14.5 Representatives ... 6
Section 14.6 Audits ... 6
Section 14.7 Extraneous Projects ... 6

ARTICLE 15—UNIT OPERATOR'S POWERS AND RIGHTS

Section 15.1 In General ... 6
Section 15.2 Employees ... 6
Section 15.3 Non-Liability ... 6
Section 15.4 Force Majeure ... 6
Section 15.5 Lien ... 6
Section 15.6 Advances ... 6
Section 15.7 Use of Unit Operator's Drilling Equipment ... 6
Section 15.8 Rights as Party ... 6

ARTICLE 16—UNIT OPERATOR'S DUTIES

Section 16.1 Specific Duties ... 6
A. Drilling of Wells ... 6
B. Compliance with Laws and Agreements ... 6
C. Consultation with Parties ... 6
D. Payment of Costs ... 6
E. Records ... 6
F. Information ... 6
G. Access to Unit Area ... 6
Section 16.2 Insurance ... 7
A. Unit Operator's ... 7
B. Contractor's ... 7
C. Automotive Equipment ... 7
Section 16.3 Non-Discrimination ... 7
Section 16.4 Drilling Contracts ... 7
Section 16.5 Uninsured Losses ... 7

ARTICLE 17—LIMITATIONS ON UNIT OPERATOR

Section 17.1 Specific Limitations ... 7
A. Change in Operations ... 7
B. Limit on Expenditures ... 7
C. Partial Relinquishment ... 7
D. Settlement of Claims ... 7
E. Determinations ... 7

ARTICLE 18—TITLES

Section 18.1 Representations of Ownership ... 7
Section 18.2 Title Papers to be Furnished ... 7
A. Lease Papers ... 7
B. Title Papers for Initial Test Well ... 7
C. Title Papers for Subsequent Wells ... 7
D. Title Papers on Establishment or Enlargement of a Participating Area ... 7
Section 18.3 Title Examination ... 8
Section 18.4 Option for Additional Title Examination ... 8
Section 18.5 Approval of Titles Prior to Drilling ... 8
Section 18.6 Approval of Titles Prior to Inclusion of Land in a Participating Area ... 8
Section 18.7 Failure of Title to Committed Working Interest Before Approval ... 8
Section 18.8 Failure of Title to Committed Working Interest After Approval ... 8A
Section 18.9 Joinder by True Owner ... 8A

ARTICLE 19—UNLEASED INTERESTS

Section 19.1 Treated as Leased ... 8
~~Section 19.2 Execution of Lease ... 8~~

ARTICLE 20—RENTALS AND LEASE BURDENS

Section 20.1 Rentals ... 9
Section 20.2 Lease Burdens ... 9
Section 20.3 Loss of Committed Working Interest ... 9

ARTICLE 21—TAXES

Section 21.1 Payment 9
Section 21.2 Apportionment 9
Section 21.3 Transfer of Interests 9
Section 21.4 Notices and Returns 9

ARTICLE 22—WITHDRAWAL OF TRACTS AND UNCOMMITTED INTERESTS

Section 22.1 ~~Limitation on~~ Right of Withdrawal 9
~~Section 22.2 The Effect of Non-Withdrawal at Direction of Parties ..... 9~~
Section 22.3 Voluntary Non-Withdrawal 9

ARTICLE 23—COMPENSATORY ROYALTIES

Section 23.1 Notice 9
Section 23.2 Demand for Failure to Drill a Development Well 9
Section 23.3 Demand for Failure to Drill a Well Other than a Development Well 9

ARTICLE 24—SEPARATE MEASUREMENT AND SALVAGE

Section 24.1 Separate Measurement 9
Section 24.2 Salvaged Materials 9

ARTICLE 25—SECONDARY RECOVERY AND PRESSURE MAINTENANCE

Section 25.1 Consent Required 10
Section 25.2 Above Ground Facilities 10

ARTICLE 26—TRANSFERS OF INTEREST

~~Section 26.1 Restriction on Zone Transfers ..... 10~~
Section 26.2 Sale by Unit Operator 10
Section 26.3 Assumption of Obligations 10
Section 26.4 Effective Date 10

ARTICLE 27—RELEASE FROM OBLIGATIONS AND SURRENDER

Section 27.1 Surrender or Release Within Participating Area 10
Section 27.2 Procedure on Surrender Outside Participating Area 10
Section 27.3 Accrued Obligations 10

ARTICLE 28—SEVERAL, NOT JOINT LIABILITY

Section 28.1 Liability 10
Section 28.2 No Partnership Created 10
Section 28.3 Election 10

ARTICLE 29—NOTICES

Section 29.1 Giving and Receipt 10
Section 29.2 Proper Addresses 11

ARTICLE 30—EXECUTED IN COUNTERPARTS AND RATIFICATION

Section 30.1 Counterparts 11
Section 30.2 Ratification 11

ARTICLE 31—SUCCESSORS AND ASSIGNS

Section 31.1 Covenants 11

ARTICLE 32—HEADINGS FOR CONVENIENCE

Section 32.1 Headings 11

ARTICLE 33—RIGHT OF APPEAL

Section 33.1 Not Waived 11

ARTICLE 34—SUBSEQUENT JOINDER

Section 34.1 Prior to the Commencement of Operations 11
Section 34.2 After Commencement of Operations 11

ARTICLE 35—CARRIED INTERESTS

Section 35.1 Treatment of 11

ARTICLE 36—EFFECTIVE DATE AND TERM

Section 36.1 Effective Date 11
Section 36.2 Term 11
Section 36.3 Effect of Termination 11
Section 36.4 Effect of Signature 11

ARTICLE 37—OTHER PROVISIONS

Section 37.1 Failure to Take in Kind 11
Section 37.2 Payment of Taxes Relating to Production 12
Section 37.3 Accounting Due Non-Drilling Party 12
Section 37.4 Reversion to Non-Drilling Party 12
Section 37.5 Excess Burdens 12
Section 37.6 Specific Consent - Drilling, Deepening, Plugging Back, Completing or Abandoning 12
Section 37.7 Subsequent Created Interests 12A
Section 37.8 Uncommitted Royalty Interests 12A
Section 37.9 Challenging Title 12A
Section 37.10 Non-Consent Investment Adjustment 12A

EXHIBITS

Exhibit 1 Not Used, refer to Exhibit "B" to Unit Agreement
Exhibit 2 Accounting Procedure (referred to in Sections 1.4, 1.18, 13.4B and 13.4C)
Exhibit 3 Initial Test Well (referred to in Sections 1.13, 2.1, 3.1, 3.2 and 18.2B)
Exhibit 4 Part 1 - Drill of Exploratory Wells (referred to in Sections 6.1, 9.1, 10.4B and 12.1)
Exhibit 5 Insurance (referred to in Sections 16.2A and 16.3C)
Exhibit 6 Executive Order 11246 (referred to in Section 16.3)
Exhibit 7 Gas Balancing Agreement (referred to in Section 37.11)

UNIT OPERATING AGREEMENT

WHITE RANCH **UNIT AREA**

STATE OF NEW MEXICO

COUNTY OF CHAVES

THIS AGREEMENT made as of the 22nd day of October, 19 79, by and among the parties who execute or ratify this agreement or a counterpart hereof,

WITNESSETH:

WHEREAS, the Parties have entered into that certain UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE White Ranch UNIT AREA, County of Chaves, State of New Mexico, dated as of the 22nd day of October, 19 79, and hereinafter referred to as the "Unit Agreement", covering the lands described in Exhibit ~~1, hereto~~ attached, which lands are referred to in the Unit Agreement and in this agreement as the "Unit Area"; "B", thereto

WHEREAS, the Parties enter into this agreement pursuant to Section 7 of the Unit Agreement,
NOW, THEREFORE, in consideration of the mutual agreements herein set forth, it is agreed as follows:

ARTICLE 1
DEFINITIONS

1.1 Unit Agreement Definitions. The definitions contained in the Unit Agreement are adopted for all purposes of this agreement. In addition, each term listed below shall have the meaning stated therefor, whenever used in this agreement.

1.2 "Unit Operator" means Depco, Inc. and its successors, as the Unit Operator designated in accordance with the Unit Agreement, acting in that capacity and not as an owner of Working Interest.

1.3 "Party" means a party to this agreement, including the Party acting as Unit Operator when acting as an owner of Working Interest.

1.4 "Costs" means all costs and expenses incurred in the development and operation of the Unit Area pursuant to this agreement or the Unit Agreement and all other expenses that are herein made chargeable as Costs, determined in accordance with the accounting procedure set forth in Exhibit 2 attached hereto, which shall govern in all matters covered thereby, except that in event of inconsistency between said accounting procedure and this agreement, this agreement shall control.

1.5 "Committed Working Interest" means a Working Interest which is shown on Exhibit B to the Unit Agreement as owned by a Party and which is committed to the Unit Agreement. Whenever reference is made to a Party "in" or "within" the Unit Area, a participating area, or other area designated pursuant to this agreement, such reference shall mean a Party owning a Committed Working Interest in lands within such area.

1.6 "Acreage Basis", when used to describe the basis of participation by the Parties within the Unit Area, a participating area, or other area designated pursuant to this agreement in voting, Costs, or Production, means participation by each such Party in the proportion that the acreage of its Committed Working Interests in such area bears to the total acreage of the Committed Working Interests of all such Parties therein. For the purposes of this definition, (a) the acreage of the working interest in a tract within the Unit Area shall be the acreage of such tract as set forth in Exhibit B to the Unit Agreement, and (b) if there are two or more undivided working interests in a tract, there shall be apportioned to each such working interest that proportion of the acreage of the tract that such working interest bears to the entire working interest in the tract.

1.7 "Production" means all Unitized Substances produced and saved from the Unit Area except so much thereof as is used in the conduct of operations under the Unit Agreement and this agreement.

1.8 "Lease Burdens" means the royalty reserved to the lessor in an oil and gas lease, an overriding royalty, a production payment and any similar burden, but does not include a carried working interest, a net profits interest or any other interest which is payable out of profits.

1.9 "Drilling Party" means the Party or Parties obligated to bear the Costs incurred in Drilling, Deepening or Plugging Back a well in accordance with this agreement at the commencement of such operation.

1.10 "Non-Drilling Party" means a Party who has had the optional right to participate in the Drilling, Deepening or Plugging Back of a well and who has elected not to participate therein.

*1.11 **"Drill"** means to perform all operations reasonably necessary and incident to the Drilling of a well, including preparation of roads and drill site, testing, and, if productive of Unitized Substances, completing and equipping for production, including flow lines, treaters, separators and tankage, or plugging and abandoning, if dry.

*1.12 **"Deepen or Plug Back"** means to perform all operations reasonably necessary and incident to Deepening or Plugging Back a well, testing, and, if productive of Unitized Substances, completing or recompleting and equipping for production, including flow lines, treaters, separators and tankage, or plugging and abandoning, if dry.

1.13 "Initial Test Well" means a test well specifically provided for in Section 9 of the Unit Agreement and described in Exhibit 3 attached hereto.

1.14 "Subsequent Test Well" means a test well Drilled after the Drilling of the Initial Test Well or Wells, and before discovery of Unitized Substances in paying quantities in the Unit Area.

1.15 "Development Well" means a well Drilled within a participating area and projected to the pool or zone for which the participating area was established.

1.16 "Exploratory Well" means a well other than a Development Well Drilled after discovery of Unitized Substances in paying quantities in the Unit Area.

1.17 "Approval of the Parties" or **"Direction of the Parties"** mean an approval, authorization or direction which receives the affirmative vote specified in Section 14.2 of the Parties entitled to vote on the giving of such Approval or Direction.

1.18 "Salvage Value" of a well means the value of the materials and equipment in or appurtenant to the well determined in accordance with Exhibit 2, less the reasonably estimated Costs of salvaging the same and plugging the well.

1.19 Each Party is herein referred to by the neuter pronoun "it".

ARTICLE 2
NO LIABILITY FOR DRILLING, DEEPENING OR PLUGGING BACK WELLS WITHOUT CONSENT

2.1 No Liability Without Consent. No party shall be liable without its consent for any portion of the Costs of Drilling, Deepening or Plugging Back a well except as provided in Section 10.4 with respect to Required Wells, and except as provided in Article 13 dealing with Investment Adjustment. Nothing herein shall be construed to relieve a Party of any obligation assumed by it pursuant to Exhibit 3 to participate in the Costs of the Initial Test Well.

ARTICLE 3
INITIAL TEST WELL

3.1 Location. Unit Operator shall begin to Drill the Initial Test Well within the time required by Section 9 of the Unit Agreement or any extension thereof at the location specified in Exhibit 3 attached hereto.

3.2 Costs of Drilling. Subject to the Investment Adjustment provisions of Article 13 the Costs of Drilling the Initial Test Well shall be shared by the Parties in the manner and in the proportions specified in said Exhibit 3.

*For the purpose of Section 12.3B hereof and Section 7B of Exhibit 4, such terms do not include equipment or equipping beyond the wellhead connections (e.g. flow lines, treaters, separators, tankage) and the same shall be considered included as a part of the cost of operating under Section 12.3A hereof and 7A of Exhibit 4.

ARTICLE 4
SUBSEQUENT TEST WELLS

4.1 **Right to Drill.** The Drilling of any Subsequent Test Well shall be on such terms and conditions as the Parties shall agree; provided, however, that in the absence of agreement, such wells may be Drilled under the provisions of Article 9 dealing with Exploratory Wells.

ARTICLE 5
ESTABLISHMENT, REVISION AND CONSOLIDATION OF PARTICIPATING AREAS

5.1 **Proposal.** Unit Operator shall initiate each proposal for the establishment or revision of a participating area by submitting the proposal in writing to each Party at least 20 days before filing the same with the ~~Director~~.* The date of proposed filing must be shown on the proposal. If the proposal receives the Approval of the Parties within the proposed participating area, then such proposal shall be filed on the date specified in the notice.

5.2 **Objections to Proposal.** Prior to the proposed filing date any Party may submit to all other Parties written objections to such proposal. If, despite such objections, the proposal receives the Approval of the Parties within the proposed participating area, then the Party making the objections may renew the same before the ~~Director~~*.

5.3 **Revised Proposal.** If the proposal does not receive the Approval of the Parties within the proposed participating area, then Unit Operator shall submit a revised proposal taking into account the objections made to the first proposal. If no proposal receives the Approval of the Parties within 30 days from the submission of the first proposal, then Unit Operator shall file with the ~~Director~~* a proposal reflecting as nearly as practicable the various views expressed by the Parties.

5.4 **Rejection by ~~Director~~.*** If a proposal filed by Unit Operator, as above provided, is rejected by the ~~Director~~*, Unit Operator shall initiate a new proposal in the same manner as provided in Section 5.1, and the procedure with respect thereto shall be the same as in the case of an initial proposal.

5.5 **Consolidation.** Two or more participating areas may be combined as provided in the Unit Agreement.

*Supervisor

ARTICLE 6
APPORTIONMENT OF COSTS AND OWNERSHIP AND DISPOSITION OF PRODUCTION AND PROPERTY

6.1 **Apportionment and Ownership Within Participating Area.** Except as otherwise provided in Article 8 dealing with Development Wells, Part 1 of Exhibit 4 dealing with Exploratory Wells, and Part 2 of Exhibit 4 dealing with Attempted Completion, Deepening and Plugging Back:

A. **Costs.** All Costs incurred in the development and operation of a participating area for or in connection with production of Unitized Substances from any pool or zone for which such participating area is established shall be borne by the Parties within such participating area on an Acreage Basis determined as of the time such Costs are incurred. on an acreage basis

B. **Production.** All Production from a participating area shall be allocated ~~in accordance with the Unit Agreement~~ to the tracts of land within such participating area. That portion of such Production which is allocated to any such tract shall be owned by the Party or Parties having Committed Working Interest or Interests therein in the same manner and subject to the same conditions as if actually produced from such tract through a well thereon, and as if this agreement and the Unit Agreement had not been executed.

C. **Property.** All materials, equipment and other property, whether real or personal, the cost of which is chargeable as Costs and which have been acquired in connection with the development or operation of a participating area shall be owned by the Parties within such participating area on an Acreage Basis.

6.2 **Ownership and Costs Outside Participating Area.** If a well completed as a producer is not included within a participating area, such well, the Production therefrom, and the materials and equipment therein or appurtenant thereto shall be owned by the Party or Parties who constituted the Drilling Party for such well, and all Costs incurred in the operation of the well shall be charged to and borne by such Party or Parties, and all Lease Burdens payable in respect of Production from the well shall be borne and paid by such Party or Parties. If the Drilling Party comprises two or more Parties, apportionment among them of ownership, Costs and Lease Burdens shall be in the same proportions that they bore the Costs incurred in Drilling the well. Refer to Paragraph 37.4

6.3 **Taking in Kind.** Each Party shall currently as produced take in kind or separately dispose of its share of Production and pay Unit Operator for any extra expenditure necessitated thereby. Except as otherwise provided in Section 15.5 dealing with Liens, each Party shall be entitled to receive directly payment for its proportionate share of the proceeds from the sale of its share of Production, and on all purchases or sales each Party shall execute any division order or contract of sale pertaining to its interest. Refer to Paragraph 37.2A

6.4 **Failure to Take in Kind.** ~~If any Party fails so to take or dispose of its share, Unit Operator shall have the right for the time being and subject to revocation at will by the Party owning same to purchase for its own account or sell to others such share at not less than the market price prevailing in the area and not less than the price Unit Operator receives for its share of Production, subject to the right of such Party to exercise at any time its right to take in kind or separately dispose of its own share of Production not previously taken by Unit Operator or delivered to others pursuant to this Section 6.4~~. Refer to Section 37.1

6.5 **Surplus Materials and Equipment.** Materials and equipment acquired by the Parties, or any of them pursuant to this agreement, may be classified as surplus by Unit Operator when deemed by it to be no longer needed in operations hereunder, by giving to each Party owning an interest therein written notice thereof. Such surplus materials and equipment shall be disposed of as follows:

A. Each Party owning an interest therein shall have the right to take in kind its share of surplus tubular goods and other surplus items which are susceptible of division in kind, by written notice given to Unit Operator within thirty (30) days after classification thereof as surplus, except that such right shall not apply to junk or to any item (other than tubular goods) having a replacement cost less than one thousand dollars ($1,000).

B. Surplus materials and equipment not divided in kind (other than junk and any item ~~other than tubular goods~~ having a replacement cost of less than one thousand dollars ($1,000)) shall be ~~offered to the Parties owning interests therein and~~ sold to the highest bidder or bidders.

C. Surplus materials and equipment not disposed of in accordance with the preceding provisions of this section shall be disposed of by Unit Operator for the best prices obtainable.

ARTICLE 7
PLANS OF DEVELOPMENT

7.1 **Wells and Projects Included.** Each plan for the development and operation of the Unit Area which is submitted by Unit Operator to the Supervisor in accordance with the Unit Agreement shall make provision only for such Drilling, Deepening and Plugging Back operations and such other projects as Unit Operator has been authorized to conduct by the Parties chargeable with the Costs incurred therein.

7.2 **Notice of Proposed Plan.** At least ten (10) days before submitting any such proposed plan to the Supervisor, Unit Operator shall give each Party written notice thereof, together with a copy of the proposed plan.

7.3 **Notice of Approval or Disapproval.** If and when a proposed plan has been approved or disapproved by the Supervisor, Unit Operator shall give prompt written notice thereof to each Party. In the case of disapproval, Unit Operator shall state in such notice the reasons therefor.

7.4 **Amendments.** If any Party or Parties shall have elected to proceed with Drilling, Deepening or Plugging Back operation in accordance with the provisions of this agreement, and such operation is not provided for in the then current plan of development as approved by the Supervisor, Unit Operator shall either (a) request the Supervisor to approve an amendment to such plan which will provide for the conduct of such operation, or (b) request the Supervisor to consent to such operation, if his consent is sufficient.

7.5 **Cessation of Operations Under Plan.** If any such plan as approved by the Supervisor provides for the cessation of any Drilling or other operations therein provided for 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 Costs in connection therewith unless and until such Drilling or other operations are again authorized in accordance with this agreement by the Parties chargeable with such Costs.

ARTICLE 8
DRILLING OF DEVELOPMENT WELLS

8.1 **Purpose and Procedure.** It is the purpose of this Article to set forth the procedure for Drilling a Development Well otherwise than by the written consent of all Parties within the participating area involved. The Drilling of a Development Well pursuant to the procedure herein set forth shall, however, be subject to such Drilling receiving the Approval of the Parties, unless the Drilling of the proposed well is necessary to prevent the loss of Committed Working Interest in the tract of land on which the proposed well is to be Drilled. Vote by any Party in favor of Approval of the Drilling of any such well shall not, however, be deemed an election by such Party to participate in the Costs thereof, but will mean only that such Party considers the Drilling of the well consistent with the ordinary development of the participating area involved and has no objection to the Drilling thereof.

8.2 **Notice of Proposed Drilling.** Subject to the provisions of Section 8.1, any Party within a participating area may propose the Drilling of a Development Well therein by giving to each of the other Parties within the participating area written notice specifying the location, depth and estimated cost of the proposed well, which location shall conform to any applicable spacing pattern theretofore adopted or then being followed, or an authorized exception thereto.

8.3 **Response to Notice.** Within thirty (30) days after receipt of such notice, each Party within such participating area shall advise all other Parties therein, in writing, whether or not it wishes to participate in Drilling the proposed well. If all the Parties within such participating area so advise that they wish to participate therein, the proposed well shall be Drilled by Unit Operator for the account of all the Parties within the participating area. If any Party fails to respond to such notice within said thirty (30) day period, it shall be deemed to have elected not to participate in Drilling the proposed well.

8.4 **Notice of Election to Drill.** Unless all Parties within the participating area agree to participate in response to said notice, then within fifteen (15) days after expiration of said period of thirty (30) days, each Party within the participating area who then desires to have the proposed well Drilled shall give to all other Parties within the participating area written notice of election to proceed with the Drilling of said well. Failure to give such notice shall be deemed an election not to participate in Drilling said well.

8.5 **Effect of Election to Drill.** If one or more, but not all of the Parties within the participating area so elect to proceed, Unit Operator shall Drill the well for the account of such Party or Parties, who shall constitute the Drilling Party.

8.6 **Subsequent Election.** If election to Drill the proposed well is made, any Party within the participating area who has not previously elected to participate therein may do so by written notice given to all other Parties within the participating area at any time before operations for Drilling the well are commenced, in which event such Party shall be included in the Drilling Party. However, such Party shall be bound by any and all Directions and Approvals theretofore given by the Drilling Party concerning the Drilling of the well.

8.7 **Rights and Obligations of Drilling Party and Non-Drilling Parties.** Whenever a Development Well is Drilled otherwise than for the account of all Parties within the participating area involved, the provisions of Article 12 dealing with Rights and Obligations of Drilling Party and Non-Drilling Parties shall be applicable.

ARTICLE 9
EXPLORATORY WELLS

9.1 **Procedure for Drilling.** The Drilling of Exploratory Wells shall be governed by the provisions of Part 1 of Exhibit 4 hereto attached and made a part hereof.

ARTICLE 10
REQUIRED WELLS

10.1 **Definition.** For the purpose of this Article a well shall be deemed a required well if the Drilling thereof is required by the final order of an authorized representative of the Department of Interior. Such an order shall be deemed final upon expiration of the time allowed for appeal therefrom without the 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, it shall promptly mail a copy thereof to each of the other Parties; if any such order is appealed, the Party appealing shall give prompt written notice thereof to each of the other Parties, and upon final disposition of the appeal, Unit Operator shall give each of the other Parties prompt written notice of the result thereof.

10.2 **Election to Drill.** Any Party desiring to Drill, or participate in the Drilling of, a required well shall give to 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 shall Drill the required well for the account of the Party or Parties giving such notice, who shall bear all Costs incurred therein, provided, however, that if the Required Well is a Development Well it shall not be drilled unless it receives the Approval of the Parties. The rights and obligations of such Party or Parties with respect to the ownership of such well, the operating rights therein, the Production therefrom and the bearing of Costs incurred therein shall be the same as if the well had been Drilled for the account of such Party or Parties under Article 8 dealing with Development Wells, if the same is a Development Well, or Article 9 dealing with Exploratory Wells, if the same is an Exploratory Well or a Subsequent Test Well.

10.3 **Alternatives to Drilling.** If no Party elects to Drill a required well within the period allowed for such election, and if any of the following alternatives is available, the first such alternative which is available shall be followed:

A. **Compensatory Royalties.** If compensatory royalties may be paid in lieu of Drilling the well and if payment thereof receives, within said period, the Approval of the Parties who would be chargeable with the Costs incurred in Drilling the well, if the well were Drilled as provided in Section 10.4, Unit Operator shall pay such compensatory royalties for the account of said Parties; or

B. **Contraction.** If the Drilling of the well may be avoided, without other penalty, by contraction of the Unit Area, Unit Operator shall make reasonable effort to effect such contraction with the approval of the ~~Director~~ *Supervisor; or

C. **Termination.** If the required well is a Subsequent Test Well, the Parties shall join in termination of the Unit Agreement in accordance with its provisions.

10.4 **Required Drilling.** If none of the foregoing alternatives is available, Unit Operator shall Drill the required well under whichever of the following provisions is applicable:

A. **Development Well.** If the required well is a Development Well, it shall be Drilled by Unit Operator for the account of all Parties within the participating area in which the well is Drilled; or

B. **Exploratory Well.** If the required well is an Exploratory Well, it shall be Drilled by Unit Operator for the account of the Party or Parties who would be obligated to bear the Costs thereof in accordance with Part 1 of Exhibit 4.

ARTICLE 11
ATTEMPTED COMPLETION, DEEPENING, PLUGGING BACK AND ABANDONMENT

11.1 **Procedure.** The attempted completion, Deepening, or Plugging Back of any well not completed as a producer, the abandonment of a producing well and the Deepening or Plugging Back of any well abandoned in the stratum in which it was completed as a producer, shall be governed by the provisions of Part 2 of Exhibit 4 hereto attached and made a part hereof.

ARTICLE 12
RIGHTS AND OBLIGATIONS OF DRILLING PARTY AND NON-DRILLING PARTY

12.1 **Scope of Article.** Subject to such contrary or inconsistent provisions, if any, as are contained in Exhibit 4, the rights and obligations of the Drilling Party and Non-Drilling Party in respect of a well which is Drilled, Deepened, Plugged Back or completed otherwise than for the account of all Parties entitled to participate therein, shall be governed by the succeeding provisions of this article.

12.2 **Relinquishment of Interest by Non-Drilling Party.** When a well is Drilled, Deepened, Plugged Back or completed otherwise than for the account of all Parties entitled to participate therein, each Non-Drilling Party shall be deemed to have relinquished to the Drilling Party all of its operating rights and working interest in and to such well. In the case of a Deepening or Plugging Back, if a Non-Drilling Party owned an interest in the well immediately prior to the Deepening or Plugging Back, the Drilling Party shall pay to such Non-Drilling Party its share of the Salvage Value of the well, such payment to be made at the time the well is taken over by the Drilling Party for Deepening or Plugging Back.

12.3 **Reversion of Relinquished Interest.** If the well is completed as a producer of Unitized Substances, and if the well is a Development Well, or results in the establishment or enlargement of a participating area to include such well, then the operating rights and working interest relinquished by a Non-Drilling Party shall revert to it at such time as the proceeds or market value of that portion of the Production obtained from the well after such relinquishment which is allocated to the acreage of such Non-Drilling Party in the participating area involved (after deducting from such proceeds or market value all Lease Burdens and all taxes upon or measured by Production that are payable up to such time on said portion of the Production from such well) shall equal the total of the following:

A. 100% of that portion of the Costs incurred in operating the well after such relinquishment, and up to such time, that would have been charged to such Non-Drilling Party if the well had been Drilled, Deepened, Plugged Back or completed for the account of all Parties entitled to participate therein.

B. ....300.....% of that portion of the Costs incurred in Drilling, Deepening, Plugging Back or completing the well that would have been charged to such Non-Drilling Party if the well had been Drilled, Deepened, Plugged Back or completed for the account of all Parties entitled to participate therein.

However, if a Deepening or Plugging Back is involved (1) any payment made to such Non-Drilling Party as its share of the Salvage Value of the well in accordance with Section 12.2 shall be added to and deemed part of the Costs incurred in operating the well, for the purposes of Subdivision A above, and (2) if such Non-Drilling Party did not participate in the initial Drilling of the well, but the Drilling Party did participate therein, and if the interest relinquished by such Non-Drilling Party upon the initial Drilling of the well had not reverted to it before such Deepening or Plugging Back, then, for the purposes of Subdivision B above, there shall be added to and deemed part of the Costs incurred in the Deepening or Plugging Back, the then unrecovered portion of the Costs incurred in the initial Drilling of the well down to the pool or zone in which such well is completed as a producer.

12.4 **Effect of Reversion.** From and after reversion to a Non-Drilling Party of its relinquished interest in a well, such Non-Drilling Party shall share, on an Acreage Basis in the ownership of the well, the operating rights and working interest therein, the materials and equipment in or pertaining to the well, the Production therefrom and the Costs of operating the well.

12.5 **Rights and Obligations of Drilling Party.** The Drilling Party for whom a well is Drilled, Deepened, Plugged Back or completed shall pay and bear all Costs incurred therein, and shall own the well, the materials and equipment in the well or pertaining thereto, and the production therefrom, subject to reversion to each Non-Drilling Party of its relinquished interest in the well. If the well is a Development Well, or results in the establishment or enlargement of a participating area to include the well, then, until reversion to a Non-Drilling Party of its relinquished interest, the Drilling Party shall pay and bear (a) that portion of the costs incurred in operating the well that otherwise would be chargeable to such Non-Drilling Party, and (b) all Lease Burdens that are payable in respect of that portion of the Production from such well which is allocated to the acreage of such Non-Drilling Party. If the Drilling Party includes two (2) or more Parties, the burdens imposed upon and the benefits accruing to the Drilling Party shall be shared by such Parties on an Acreage Basis among themselves.

ARTICLE 13

ADJUSTMENT ON ESTABLISHMENT OR CHANGE OF PARTICIPATING AREA

13.1 **When Adjustment Made.** Whenever, in accordance with the Unit Agreement, a participating area is established or revised by contraction or enlargement, and whenever two or more participating areas are combined (the participating area resulting from such establishment, revision or combination being hereinafter referred to as a "resulting area") an adjustment shall be made in accordance with the succeeding provisions of this Article 13, as of the date on which the establishment, revision or combination that creates such resulting area becomes effective, such date being hereinafter referred to as the "effective date" of such resulting area.

13.2 **Definitions.** As used in this Article 13:

A. **"Useable well"** within a resulting area means a well which is either (1) completed in and capable of producing unitized substances from a pool or zone for which such resulting area is created, or (2) used as a disposal well, injection well or otherwise, in connection with the production of Unitized Substances from such resulting area.

B. **"Intangible value"** of a useable well within a resulting area means the amount of Costs incurred in Drilling such well, or Deepening it, down to the deepest pool or zone for which such resulting area is created, and which contribute to the Production of Unitized Substances therefrom and which are properly classified as intangible costs in conformity with accounting practices generally accepted in the industry, reduced at the following rates for each month during any part of which such well has been operated prior to the effective date of such resulting area:

(1) ..One-half.....per cent (..0..50....%) per month for a cumulative total of .....60.....months, and

(2) ..None.....per cent (.....00....%) per month for each month in excess of said cumulative total.

C. **"Tangible property"** serving a resulting area means any kind of tangible property (whether or not in or pertaining to a well) which has been acquired for use in or in connection with the Production of Unitized Substances from such resulting area or any portion thereof, and the cost of which has been charged as Costs pursuant to this agreement.

D. **"Value"** of tangible property means the amount of Costs incurred therefor, including Costs incurred in the construction or installation thereof (excepting installation costs properly classified as part of the intangible costs incurred in connection with a well) reduced, in the case of tangible property which is generally regarded as depreciable, at such reasonable rates of depreciation as receive the Approval of the Parties within such resulting area, for the period of time between the acquisition date thereof and the effective date of such resulting area.

13.3 **Method of Adjustment on Establishment or Enlargement.** As promptly as reasonably possible after the effective date of a resulting area created by establishment or enlargement of a participating area, and as of such effective date an adjustment shall be made in accordance with the following provisions except to the extent otherwise specified in Section 13.6.

A. The intangible value of each useable well within such resulting area on the effective date thereof shall be credited to the Party or Parties who own such well immediately prior to such effective date, in proportion to their respective interests in such well immediately prior to such effective date. The total amount so credited as the intangible value of useable wells shall be charged to all parties within the resulting area on an Acreage Basis.

B. The value of each item of tangible property serving the resulting area on the effective date thereof shall be credited to the Party or Parties who own such item immediately prior to such effective date, in proportion to their respective interests in such item immediately prior to such effective date. The total amount so credited as the value of tangible property shall be charged to all Parties within the resulting area on an Acreage Basis.

C. If a resulting area, on the effective date thereof, is served by any tangible property or useable well, which also serves another participating area or other participating areas, the value of such tangible property and useable well (including intangible value thereof) shall be determined in accordance with Subdivision D of Section 13.2, and such value may be fairly apportioned between such resulting area and such other participating area or areas, provided that such apportionment receives Approval of the Parties in each participating area concerned. That portion of the value of such tangible property and useable well (including intangible value thereof) which is so apportioned to the resulting area shall be included in the adjustment made as of the effective date of such resulting area in the same manner as the value of tangible property serving only the resulting area.

D. The credits and charges above provided for shall be made by Unit Operator, in such manner that an adjustment shall be made for the intangible value of useable wells separate and apart from an adjustment for the value of tangible property. On each such adjustment, each Party who is charged an amount in excess of the amount credited to it, shall pay to Unit Operator the amount of such excess, which shall be considered as Costs chargeable to such Party for all purposes of this agreement, and such amount, when received by Unit Operator, shall be distributed or credited to the Parties who, in such adjustment, are credited with amounts in excess of the amounts charged to them respectively.

13.4 **Method of Adjustment on Contraction.** As promptly as reasonably possible after the effective date of any contraction of a participating area, an adjustment shall be made with each Party owning a Committed Working Interest in land excluded from the participating area by such contraction (such Committed Working Interest being hereinafter in this section referred to as "excluded interest") in accordance with the following provisions:

A. An adjustment for intangibles shall be made in accordance with Subdivision B hereof and a separate adjustment for tangibles shall be made in accordance with Subdivision C hereof.

B. Such party shall be credited with the sum of (1) the total amount theretofore charged against such Party in respect of its excluded interest in accordance with the accounting procedure set forth in Exhibit 2 as intangible Costs incurred in the development and operation of the participating area prior to the effective date of such contraction, plus (2) the total amount charged against such Party in respect of such excluded interest as intangible value of useable wells in any previous adjustment or adjustments made upon the establishment or revision of such participating area. Such Party shall be charged with the sum of (1) the market value of that portion of the Production from such participating area which, prior to the effective date of such contraction, is delivered to such Party in respect of such excluded interest, less the amount of Lease Burdens and taxes paid or payable on said portion, and (2) the total amount credited to such Party in respect of such excluded interest as intangible value of useable wells, in any previous adjustment or adjustments made upon the establishment or revision of such participating area. Any difference between the amount of said credit and the amount of said charge shall be adjusted as hereinafter provided.

C. Such Party shall be credited with the sum of (1) the total amount theretofore charged against such Party in respect of its excluded interest, in accordance with the accounting procedure set forth in Exhibit 2, as Costs other than intangible Costs incurred in the development and operation of the participating area prior to the effective date of such contraction, plus (2) the total amount charged against such Party in respect of its excluded interest as value of tangible property in any previous adjustment or adjustments made upon the establishment or revision of such participating area, plus (3) the excess, if any, of the credit provided for in Subdivision B of this Section over the charge provided for in said Subdivision B. Such Party shall be charged with the sum of (1) the excess, if any, of the charge provided for said Subdivision B, over the credit therein provided for, plus (2) the total amount credited to such Party in respect of its excluded interest as value of tangible property in any previous adjustment or adjustments made upon the establishment or revision of such participating area.

D. If the charge provided for in Subdivision C of this Section is equal to or greater than the credit therein provided for, no adjustment shall be made with such Party. However, if the credit provided for in said Subdivision C is in excess of the charge therein provided for, such excess shall be charged on an Acreage Basis against the Parties who remain in the participating area after such contraction, and shall be paid by said Parties to Unit Operator upon receipt of invoices therefor. Such payments, when received by Unit Operator, shall be paid by it to the Party owning such excluded interest.

13.5 Ownership of Wells and Tangible Property. From and after the effective date of a resulting area, all useable wells within such resulting area and all tangible property serving such resulting area shall be owned by the Parties within such area on an Acreage Basis, except that (a) in the case of tangible property serving a participating area or participating areas in addition to the resulting area, only that undivided interest therein which is proportionate to that portion of the value thereof which is included in the adjustment above provided for shall be owned by the parties within the resulting area on an Acreage Basis, and (b) if a Party within the resulting area was a Non-Drilling Party for a well which is a useable well within such resulting area on the effective date thereof, and if the relinquished interest of such Non-Drilling Party in such well has not reverted to it prior to such effective date, the Drilling Party for such well shall own the interest therein that would otherwise be owned by such Non-Drilling Party, until reversion to such Non-Drilling Party of its relinquished interest in such well.

13.6 Relinquished Interests of Non-Drilling Parties. If the interest relinquished by a Non-Drilling Party in a well which is a useable well within a resulting area on the effective date thereof has not reverted to it prior to such effective date then insofar, and only insofar, as relates to such well, the adjustments provided for in Section 13.3 shall be subject to the following provisions, wherein the sum of the intangible value of such well, plus the value of the tangible property in or pertaining thereto, is referred to as the "value" of such well:

A. The Drilling Party for such well shall be charged with that part of the value of the well that would otherwise be chargeable to such Non-Drilling Party in respect of (1) such Non-Drilling Party's Committed Working Interest or Interests in the participating area in which the well was Drilled, as such participating area existed when the Drilling of the well was commenced, if the well was Drilled as a Development Well, or (2) the Committed Working Interest or Interests of such Non-Drilling Party which entitled it to participate in the Drilling, Deepening, Plugging Back, or Completion of the well, if it was Drilled, Deepened, Plugged Back or Completed, otherwise than as a Development Well. However, such Non-Drilling Party shall be charged with such part, if any, of the value of such well as is chargeable to it, in accordance with Subdivisions A and B or Section 13.3, in respect of its Committed Working Interests other than those referred to in (1) or (2) above.

B. If that part of the value of such well which would have been credited to such Non-Drilling Party, if the well had been Drilled, Deepened, Plugged Back or Completed for the account of all Parties entitled to participate therein, exceeds the amount provided in Subdivision A above to be charged against the Drilling Party, such excess shall be applied against the reimbursement to which the Drilling Party is entitled out of Production that would otherwise accrue to such Non-Drilling Party. Any balance of such excess over the amount necessary to complete such reimbursement shall be credited to such Non-Drilling Party.

ARTICLE 14

SUPERVISION OF OPERATIONS BY PARTIES

14.1 Right of Supervision. Each operation conducted by Unit Operator under this agreement or the Unit Agreement shall be subject to supervision and control in accordance with the succeeding provisions of this article by the Parties who are chargeable with the Costs thereof.

14.2 Voting Control. In the supervision of an operation conducted by Unit Operator, the Parties chargeable with the Costs of such operation shall have the right to vote thereon in proportion to their respective obligations for such Costs. The Parties having the right to vote on any other matter shall vote thereon on an Acreage Basis. Except as provided in the Unit Agreement and except as otherwise specified herein (particular reference being made to Section 25.1, Consent Required to Commence Secondary Recovery and Pressure Maintenance; Section 27.1, Surrender or Release Within Participating Area, and that portion of Part 2, Exhibit 4 relating to Abandonment of producing wells outside of a participating area), the affirmative vote of Parties having seventy-five per cent (75%) or more of the voting power on any matter which is proper for action by them shall be binding on all Parties entitled to vote thereon; provided, however, that if one Party voting in the affirmative has seventy-five per cent (75%) or more but less than eighty per cent (80%) of the voting power, the affirmative vote of such Party shall not be binding on the Parties entitled to vote thereon unless its vote is supported by the affirmative vote of at least one additional Party; and provided further, that if one Party voting in the negative or failing to vote has more than twenty-five per cent (25%) but less than fifty per cent (50%) of the voting power, the affirmative vote of the Parties having a majority of the voting power shall be binding on all Parties entitled to vote unless there is a negative vote of at least one additional Party. In the event only two Parties are entitled to vote, the vote of the one with the greater interest shall prevail. If only one Party is entitled to vote, such Party's vote shall control. A Party failing to vote shall not be deemed to have voted either in the affirmative or negative. Any Approval or Direction provided for in this agreement which receives the affirmative vote above specified shall be deemed given by and shall be binding on all Parties entitled to vote thereon, except where the vote of a larger percentage is specifically required.

14.3 Meetings. Any matter which is proper for consideration by the Parties or any of them, may be considered at a meeting held for that purpose. A meeting may be called by Unit Operator at any time and a meeting shall be called by Unit Operator upon written request of any Party or Parties having five per cent (5%) or more of the voting power on each matter to be considered at the meeting. At least ten (10) days in advance of each meeting, Unit Operator shall give each Party entitled to vote thereat written notice of the time, place and purpose of the meeting. Unit Operator's representative shall be chairman of such meetings.

14.4 Action Without Meeting. In lieu of calling a meeting, Unit Operator may submit any matter which is proper for consideration by the Parties, or any of them, by giving to each such Party written notice by mail or telegraph (or telephone confirmed in writing not later than the next business day), describing in adequate detail the matter so submitted. Each Party entitled to vote on any matter so submitted shall communicate its vote thereon to Unit Operator by mail or telegraph (or telephone, confirmed in writing not later than the next business day), within such period as may be designated in the notice given by Unit Operator (which period shall not be less than ten (10) nor more than thirty (30) days) provided, however, that if within ten (10) days after submission of such matter, request is made for a meeting in accordance with Section 14.3, such matter shall be considered only at a meeting called for that purpose. If a meeting is not required, then, at the expiration of the period designated in the notice given by it, Unit Operator shall give to each Party entitled to vote thereon written notice stating the tabulation and result of the vote.

14.5 **Representatives.** Promptly after execution of this agreement, each Party by written notice to all other Parties shall designate a representative authorized to vote for such Party, and may designate an alternate who is authorized to vote for such Party in the absence of its representative. Any such designation of a representative or alternate representative may be revoked at any time by written notice given to all other Parties, provided such notice designates a new representative or alternate representative as the case may be. In addition, any corporate Party may vote through its President, or any of its Vice Presidents, and a Party which is a partnership may vote through any of its partners.

14.6 **Audits.** ~~An audit shall be made of Unit Operator's records and books of account pertaining to operations hereunder whenever the making of such audit receives the Approval of the Parties (other than the Party acting as Unit Operator) chargeable with the Costs incurred during the period covered by the audit, except that such audit shall not be made more often than once each six months. Such audit shall be made by auditors in the employ of said Parties, and the allowance to be made to each Party furnishing an auditor shall be determined by the Approval of said Parties; such allowances shall be paid by said Parties in proportion to their respective participations among themselves in Costs incurred during the period covered by the audit.~~ Refer to Exhibit "2" for audits

14.7 **Extraneous Projects.** Nothing contained in this agreement shall be deemed to authorize the Parties, by vote or otherwise, to act on any matter or authorize any expenditure unless such matter or expenditure relates to the conduct of operations authorized by the Unit Agreement or this agreement.

ARTICLE 15
UNIT OPERATOR'S POWERS AND RIGHTS

15.1 **In General.** Subject to the limitations provided for in this agreement, all operations authorized by the Unit Agreement and this agreement shall be managed and conducted by Unit Operator. Unit Operator shall have exclusive custody of all materials, equipment and any other property used in connection with any operation on the Unit Area.

15.2 **Employees.** All individuals employed by Unit Operator in the conduct of operations hereunder shall be the employees of Unit Operator alone, and their working hours, rates of compensation and all other matters relating to their employment shall be determined solely by Unit Operator.

15.3 **Non-Liability.** Unit Operator shall not be liable to any other Party for anything done or omitted to be done by it in the conduct of operations hereunder except in case of bad faith.

15.4 **Force Majeure.** The obligations of Unit Operator hereunder shall be suspended to the extent that, and only so long as, performance thereof is prevented by fire, action of the elements, strikes or other differences with workmen, acts of civil or military authorities, acts of the public enemy, restrictions or restraints imposed by law or by regulation or order of governmental authority, whether federal, state or local, inability to obtain necessary rights of access, or any other cause reasonably beyond control by Unit Operator, whether or not similar to any cause above enumerated. Whenever performance of its obligations is prevented by any such cause, Unit Operator shall give notice thereof to the other Parties as promptly as reasonably possible.

15.5 **Lien.** Each of the other Parties hereby grants to Unit Operator a lien upon its Committed Working Interests, its interest in all jointly owned materials, equipment and other property and its interest in all Production, as security for payment of Costs chargeable to it, together with any interest payable thereon. Unit Operator shall have the right to bring any action at law or in equity to enforce collection of such indebtedness with or without foreclosure of such lien. In addition, upon default by any Party in the payment of Costs chargeable to it, Unit Operator shall have the right to collect and receive from the purchaser or purchasers thereof the proceeds of such Party's share of Production, up to the amount owing by such Party plus interest at the rate of ~~six per cent (6%)~~ 12% per annum until paid; each such purchaser shall be entitled to rely on Unit Operator's statement concerning the existence and amount of any such default.

15.6 **Advances.** Unit Operator, at its election, shall have the right from time to time to demand and receive from the other Parties chargeable therewith payment in advance of their respective shares of the estimated amount of the Costs to be incurred during any month, which right may be exercised only by submission to each such Party of a properly itemized statement of such estimated Costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated Costs for any month shall be submitted on or about the twentieth (20th) day of the next preceding month. The amount of each such invoice shall be payable within fifteen (15) days after the ~~mailing~~ thereof, and thereafter shall bear interest at the rate of ~~six per cent (6%)~~ 12% per annum until paid. Proper adjustment shall be made monthly between such advances and Costs, to the end that each Party shall bear and pay its proportionate share of Costs incurred and no more. Unit Operator may request advance payment or security for the total estimated Costs to be incurred in a particular Drilling, Deepening or Plugging Back operation and notwithstanding any other provision of this agreement shall not be obligated to commence such operation unless and until such advance payment is made or Unit Operator is furnished security acceptable to it for the payment thereof by the Party or Parties chargeable therewith.

15.7 **Use of Unit Operator's Drilling Equipment.** Any Drilling, Deepening or Plugging Back operation conducted hereunder may be conducted by Unit Operator by means of its own tools and equipment provided that the rates to be charged and the applicable terms and conditions are set forth in a form of drilling contract which receives the Approval of the Party or Parties chargeable with the Costs incurred in such operation, except that in any case where the Unit Operator alone constitutes the Drilling Party, such form shall receive the approval of the Parties within the participating area, or other designated area for such well, prior to the commencement of such operation.

15.8 **Rights as Party.** As an owner of Committed Working Interest, the Party acting as Unit Operator shall have the same rights and obligations hereunder as if it were not the Unit Operator. In each instance where this agreement requires or permits a Party to give a notice, consent or approval to the Unit Operator, such notice, consent or approval shall be deemed properly given by the Party acting as Unit Operator if and when given to all other Parties entitled to give or receive such notice, consent or approval.

ARTICLE 16
UNIT OPERATOR'S DUTIES

16.1 **Specific Duties.** In the conduct of operations hereunder, Unit Operator shall:

A. **Drilling of Wells.** Drill, Deepen or Plug Back a well or wells only in accordance with the provisions of this agreement;

B. **Compliance with Laws and Agreements.** Comply with the provisions of the Unit Agreement, all applicable laws and governmental regulations (whether federal, state or local), and Directions by the Parties pursuant to this agreement; in case of conflict between such Directions and the provisions of the Uint Agreement or such laws or regulations, the provisions of the Unit Agreement or such laws or regulations shall govern;

C. **Consultation with Parties.** Consult freely with the Parties within the area affected by any operation hereunder, and keep them advised of all matters arising in operations hereunder which Unit Operator deems important, in the exercise of its best judgment;

D. **Payment of Costs.** Pay all Costs incurred in operations hereunder promptly as and when due and payable, and keep the Committed Working Interests and all property used in connection with operations under this agreement free from liens which may be claimed for the payment of such Costs, except any such lien which it disputes, in which event Unit Operator may contest the disputed lien upon giving written notice thereof to the Parties affected thereby;

E. **Records.** Keep full and accurate records of all Costs incurred, and controllable materials and equipment, which records, and receipts and vouchers in support thereof, shall be available for inspection by authorized representatives of the other Parties at reasonable intervals during usual business hours at the office of Unit Operator;

F. **Information.** Furnish to each of the other Parties who makes timely written request therefor (1) copies of Unit Operator's authorizations for expenditure or itemizations of estimated expenditures in excess of Fifteen Thousand & No/100 Dollars ($ 15,000.00), (2) copies of all drilling reports, well logs, basic engineering data, tank tables, gauge reports and run tickets, (3) reports of stock on hand at the first of each month, and (4) samples of cores or cuttings taken from wells Drilled hereunder, to be delivered at the well in containers furnished by the Party requesting same, and (5) such other and additional information or reports as may be required by Direction of the Parties within the area affected; refer to Section 37.3

G. **Access to Unit Area.** Permit each of the other Parties, through its duly authorized employees or agents, but at such Party's sole risk and expense, to have access to the Unit Area at all times, and to the derrick floor of each well Drilled or being Drilled hereunder, for the purpose of observing operations conducted hereunder and inspecting

materials, equipment or other property used in connection with operations under this agreement, and to have access at reasonable times to information and data in the possession of Unit Operator concerning the Unit Area.

16.2 **Insurance.**

A. **Unit Operator's.** Unit Operator shall comply with the Workmen's Compensation Law of the state in which the Unit Area is located. Unit Operator shall also maintain in force at all times with respect to operations hereunder such other insurance, if any, as may be required by law. In addition, Unit Operator shall maintain such other insurance, if any, as is described in Exhibit 5 hereto attached or as receives the Approval of the Parties from time to time. Unit Operator shall carry no other insurance for the benefit of the Parties except as above specified. Upon written request of any Party, Unit Operator shall furnish evidence of insurance carried by it with respect to operations hereunder.

B. **Contractor's.** Unit Operator shall require all contractors engaged in operations under this agreement to comply with the Workmen's Compensation Law of the state in which the Unit Area is located and to maintain such insurance as is required by Direction of the Parties.

C. **Automotive Equipment.** In the event Automobile Public Liability insurance is specified in said Exhibit 5 or subsequently receives the Approval of the Parties, no direct charge shall be made by Unit Operator for premiums paid for such insurance for Operator's fully owned automotive equipment.

16.3 **Non-Discrimination.** In connection with the performance of work under this Agreement, the Operator agrees to comply with all of the provisions of Section 202 (1) through (7) inclusive, of Executive Order 11246 (30 F.R. 12319), as amended, which are set forth in Exhibit 6 attached hereto.

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

16.4 **Drilling Contracts.** Each Drilling, Deepening or Plugging Back operation conducted hereunder, and not performed by Unit Operator with its own tools and equipment in accordance with Section 15.7 dealing with Use of Unit Operator's Drilling Equipment, shall be performed by a reputable drilling contractor having suitable equipment and personnel under written contract between Unit Operator and the contractor, at the most favorable rates and on the most favorable terms and conditions bid by any such contractor after soliciting bids, if bids are obtainable, but otherwise at rates and on terms and conditions receiving the Approval of the Parties.

16.5 **Uninsured Losses.** Any and all payments made by Unit Operator in the settlement or discharge of any liability to third persons (whether or not reduced to judgment) arising out of an operation conducted hereunder and not covered by insurance herein provided to be maintained by Unit Operator shall be charged as Costs and borne by the Party or Parties for whose account such operation was conducted.

ARTICLE 17

LIMITATIONS ON UNIT OPERATOR

17.1 **Specific Limitations.** In the conduct of operations hereunder, Unit Operator shall not, without first obtaining the Approval of the Parties:

A. **Change in Operations.** Make any substantial change in the basic method of operation of any well, except in the case of an emergency.

B. **Limit on Expenditures.** Undertake any project reasonably estimated to require an expenditure in excess of Twenty-Five Thousand & No/100 Dollars ($ 25,000.00); provided, however, that (1) Unit Operator is authorized to make all usual and customary operating expenditures that are required in the normal course of producing operations, (2) whenever Unit Operator is authorized to conduct a Drilling, Deepening or Plugging Back operation, or to undertake any other project, in accordance with this agreement, Unit Operator shall be authorized to make all reasonable and necessary expenditures in connection therewith and (3) in case of emergency, Unit Operator may make such immediate expenditures as may be necessary for the protection of life or property, but notice of such emergency shall be given to all other Parties as promptly as reasonably possible.

C. **Partial Relinquishment.** Make any partial relinquishment of its rights as Unit Operator or appoint any sub-operator.

D. **Settlement of Claims.** Pay in excess of ~~Five Hundred Dollars ($500.00)~~ ($2,500) in the settlement of any claim (other than Workmen's Compensation claims) for injury to or death of persons, or for loss of or damage to property.

E. **Determinations.** Make any of the determinations provided in the Unit Agreement to be made by Unit Operator, except as otherwise specified in this agreement.

ARTICLE 18

TITLES

18.1 **Representations of Ownership.** Each Party represents to all other Parties that to the best of its knowledge and belief its ownership of Working Interests in the Unit Area is that set out in Exhibit B of the Unit Agreement. If it develops that any such ownership is incorrectly stated, the rights and responsibilities of the Parties shall be governed by the provisions of this Article 18, but such erroneous statement shall not be a cause for cancelling or terminating this agreement.

18.2 **Title Papers to be Furnished.**

A. **Lease Papers.** Each Party, after executing this agreement, shall upon request promptly furnish Unit Operator, ~~and any other Party requesting same~~, with photostatic copies of all leases, assignments, options and other contracts which it has in its possession relating to its Committed Working Interests.

B. **Title Papers for Initial Test Well.** Promptly after the effective date of this agreement each Party within the area described as the Title Examination Area in Exhibit 3 shall at its own expense furnish Unit Operator with the following title material relating to all lands within such area in which it owns Committed Working Interests covering the same:

(1) Abstracts of title based upon the county records certified to current date,

(2) All lease papers, or photostatic copies thereof, mentioned in Section 18.2A which the Party has in its possession, and which have not been previously furnished to Unit Operator,

(3) Copies of any title opinions which the Party has in its possession,

(4) If federal lands are involved, status reports of current date setting forth the entries found in the district land office ~~and the Washington, D. C. land office~~ of the Bureau of Land Management for the lands involved, and also a certified copy of the serial register for the federal leases involved,

(5) If state lands are involved, status reports of current date showing the entries pertaining to the land involved found in the records of such state,

(6) If Indian lands are involved, status reports for the land involved showing the entries found in the office of the Superintendent of the Indian Agency and the area office for such Indian lands ~~and in the Bureau of Indian Affairs in Washington, D. C~~.

C. **Title Papers for Subsequent Wells.** Any Party who proposes the Drilling of a Subsequent Test Well or Exploratory Well shall, at the time of giving notice for such proposed well, designate a title examination area not exceeding 2,560.00 acres and not including any lands within a participating area. When the drilling of a Development Well receives the Approval of the Parties within the participating area in which it is located, a title examination area which covers lands outside any participating area may be designated by the Approval of such Parties. Each Party within any such title examination area shall at its own expense and upon request furnish Unit Operator with the title materials listed in Section 18.2B not previously furnished, relating to all lands within such area in which it owns Committed Working Interests.

D. **Title Papers on Establishment or Enlargement of a Participating Area.** Upon the establishment or the enlargement of a participating area, each Party shall promptly at its own expense furnish Unit Operator all the title materials listed in Section 18.2B relating to all its Committed Working Interests in the lands lying within such participating area as established or enlarged.

18.3 Title Examination. Promptly after all title papers delivered pursuant to Paragraphs 18.2 B, C or D have been received, Unit Operator shall deliver such title papers to attorney or attorneys approved by the Parties. Unit Operator shall arrange to have the same examined promptly by such attorney or attorneys and shall distribute copies of title opinions to all Parties within the title examination area as soon as they are received. After a title examination has been completed and a reasonable time, not exceeding thirty (30) days, has been allowed for any necessary curative work, Unit Operator shall submit to each Party copies of title opinions and a report concerning the title examination with written recommendations for approval or disapproval of the title to each Committed Working Interest involved, and thereafter the Parties shall advise Unit Operator in writing within fifteen (15) days after receipt of such title opinions or reports of approval or disapproval of titles. Unless otherwise agreed, the cost of all title examinations made under this Paragraph 18.3 shall be charged as cost of drilling the well for which such title examination was made.

18.4 Option for Additional Title Examination. Any Party who furnishes materials for title examination pursuant to paragraphs 18.2 B, C, or D shall have the right to examine all materials furnished Unit Operator. If such additional title examination is elected, it shall be at the sole cost and expense of the Party electing to perform the same and such Party shall bear any expense which may be necessary to reproduce title materials for its use, if required. Whether or not such additional title examination is elected, each Party shall have the right to approve or disapprove title according to the provisions of this Article 18.

18.5 Approval of Titles Prior to Drilling. Where the Committed Working Interest within the title examination area is owned by more than one Party, then no drilling shall be conducted within such area until the title to the Committed Working Interest therein has received the approval of the Parties as hereinafter in this section provided. If a Drilling Block has been designated for the drilling of a well, such well shall not be drilled until title to the Committed Working Interest within the title examination area established for such well has received the approval of the Parties within the Drilling Block in which such well is located. Approval of title to lands within a Drilling Block shall be binding upon all Parties owning Committed Working Interests within such Drilling Block. If land outside a participating area is designated as a title examination area for a development well, such well shall not be drilled until title to the Committed Working Interest within such title examination area has received the approval of the Parties within the participating area in which such well is located. In all other instances where a title examination area has been established for a well, such well shall not be drilled until title to the Committed Working Interest within such title examination area has received the approval of the Parties therein. In the event approval of the Parties is not obtained as in this section provided, the drilling party (whether one or more) may proceed with the drilling of the well, but said drilling Party (a) shall, by so proceeding, assume all risk attending the failure to obtain such approval to the same extent as if approval of titles to all lands within the Drilling Block (if one has been established) or the title examination area (in all other instances) has been obtained, and (b) shall also be deemed to have given its approval to the title to all lands within the Drilling Block (if one has been established) or the title examination area (in all other instances).

18.6 Approval of Titles Prior to Inclusion of Land in a Participating Area. Where the Committed Working Interests within the participating area are owned by more than one Party, no Committed Working Interest shall be included within a participating area or be entitled to participate in the production of Unitized Substances from any participating area until title to such Committed Working Interest has received the approval of the Parties within such participating area. Approval of titles to lands within a participating area shall be binding on all Parties within such participating area and all Parties coming within such participating area upon any enlargement thereof.

18.7 Failure of Title to Committed Working Interest Before Approval. If title to any Committed Working Interest shall fail in whole or in part prior to receiving the approval of the Parties, the Parties hereto who improperly claimed an interest in said land shall sustain the entire loss occasioned by such failure of title, and do hereby expressly relieve and indemnify the Unit Operator and all other Parties from any and all liability on account thereof.

18.8 Failure of Title to Committed Working Interest After Approval. If title to a Committed Working Interest which has received the approval of the Parties under Section 18.5 fails in whole or in part at a time when the tract affected thereby is within an active Drilling Block, or within a Drilling Block formed as herein provided upon which a well has been completed as a producer of Unitized Substances but which has not been admitted to a participating area; or, if title to a Committed Working Interest which has received the approval of the Parties under Section 18.6 fails in whole or in part at a time when the tract affected thereby is within a participating area, then:

(1) The loss and any ensuing liablity shall be charged as a common loss of the Parties having interests in the affected participating area or Drilling Block (including the Party whose Committed Working Interest has been lost and including the acreage of such Committed Working Interest); and

(2) There shall be relinquished to the Party whose Committed Working Interest has been lost, such proportionate part of each of the other Committed Working Interests in the lands within such affected participating area or Drilling Block, subject to a like portion of their respective Lease Burdens, as may be necessary to make the loss of such Committed Working Interest a joint loss of the Parties within such participating area or Drilling Block; and

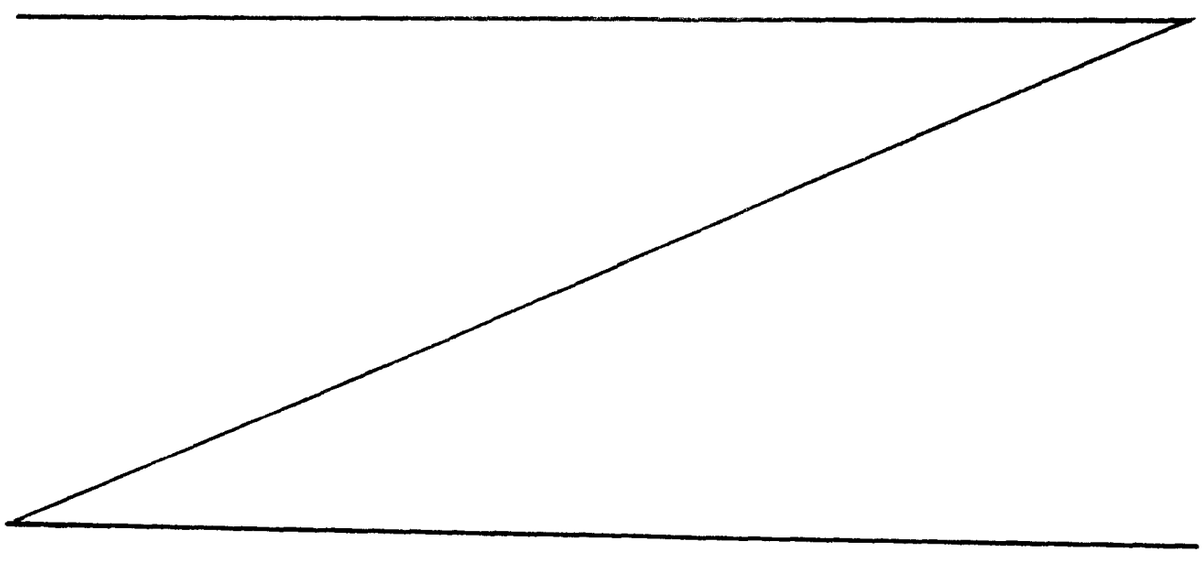
(3) The relinquished portions of said Committed Working Interests shall be deemed owned by the Party receiving the same, subject to a proportionate part of their respective Lease Burdens for all purposes of this Agreement.

18.9 Joinder by True Owner. If title to a Committed Working Interest fails in whole or in part, such Committed Working Interest shall no longer be subject to this Agreement and Unit Agreement. A true owner of a Working Interest, title to which has failed, may join in this Agreement or enter into a separate Operating Agreement with the Parties to this Agreement upon such terms and conditions as receive the approval of the Parties within the unit area; and subject to any valid claims by the true owner.

ARTICLE 19

UNLEASED INTERESTS

19.1 Treated as Leased. If a Party owns in fee all or any part of the oil and gas rights in any tract within the Unit Area which is not subject to any oil and gas lease, or other contract in the nature thereof, such Party shall be deemed to own a Committed Working Interest in such tract to the extent of seven-eighths (7/8) of its interest therein and a royalty interest with respect to the remaining one-eighth (1/8) interest therein.



ARTICLE 20

RENTALS AND LEASE BURDENS

20.1 **Rentals.** Each Party shall be obligated to pay any and all rentals and other sums (other than Lease Burdens) payable upon or in respect of its Committed Working Interests, subject, however, to the right of each Party to surrender any of its Committed Working Interests in accordance with Article 27. Upon request, each Party shall furnish to Unit Operator satisfactory evidence of the making of such payments. However, no Party shall be liable to any other Party for unintentional failure to make any such payments provdied it has acted in good faith.

20.2 **Lease Burdens.** The Party or Parties entitled to receive the Production allocated to a tract of land within a participating area shall be obligated to make any and all payments, whether in cash or in kind, accruing to any and all Lease Burdens, net profits interests, carried interests and any similar interest payable in respect of such Production or the proceeds thereof, except as provided in Article 22 dealing with Withdrawal of Tracts and Uncommitted Interests. The Party or Parties entitled to receive the Production from a well completed as a producer but not included within a participating area shall be obligated to pay all Lease Burdens payable in respect of such Production and each such Party shall be obligated to pay any net profits interest, carried interest and similar interests payable in respect of its share of such production.

20.3 **Loss of Committed Working Interest.** If a Committed Working Interest is lost through failure to make any payment above provided to be made by the Party owning the same, such loss shall be borne entirely by such Party; provided, however, if the Committed Working Interest so lost covers land within a participating area the provisions of ~~Subdivisions A, B, C and D~~ of Section ~~18.8~~ 18.8 dealing with Failure of Title to Committed Working Interest shall apply.

ARTICLE 21

TAXES

21.1 **Payment.** Any and all ad valorem taxes payable upon the Committed Working Interests (and upon Lease Burdens which are not payable by the owners thereof) or upon materials, equipment or other property acquired and held by Unit Operator hereunder, and any and all taxes (other than income taxes) upon or measured by Unitized Substances produced from the Unit Area which are not payable by the purchaser or purchasers thereof or by the owner of Lease Burdens, shall be paid by Unit Operator as and when due and payable.

21.2 **Apportionment.** Taxes upon materials, equipment and other property acquired and held by Unit Operator hereunder shall be charged to and borne by the Parties owning the same in proportion to their respective interests therein. All other taxes paid by Unit Operator shall be charged to and borne by the Parties in proportion to their ownership in the Committed Working Interests or Unitized Substances (as the case may be) upon which or in respect of which such taxes are paid. All reimbursements from owners of Lease Burdens, whether obtained in cash or by deduction from Lease Burdens, on account of any taxes paid for such owners shall be paid or credited to the Parties in the same proportions as such taxes were charged to such Parties.

21.3 **Transfer of Interests.** In the event of a transfer by one Party to another under the provisions of this agreement of any Committed Working Interest or of any interest in any well or in the materials and equipment in any well or in the event of the reversion of any relinquished interest as in this agreement provided the taxes above mentioned assessed against the interest transferred or reverted for the taxable period in which such transfer or reversion occurs shall be apportioned between such Parties so that each shall bear the percentage of such taxes which is proportionate to that portion of the taxable period during which it owned such interest.

21.4 **Notices and Returns.** Each Party shall promptly furnish Unit Operator with copies of notices, assessments, levies or tax statements received by it pertaining to the taxes to be paid by Unit Operator. Unit Operator shall make such returns, reports and statements as may be required by law in connection with any taxes above provided to be paid by it and shall furnish copies to the parties upon request. It shall notify the Parties of any tax which it does not propose to pay before such tax becomes delinquent.

ARTICLE 22

WITHDRAWAL OF TRACTS AND UNCOMMITTED INTERESTS

22.1 ~~Limitation on~~ **Right of Withdrawal.** ~~Not less than five (5) days before filing the Unit Agreement for final Departmental approval, Unit Operator shall notify each Party in writing of intention to file, specifying in such notice, to the best of Unit Operator's knowledge, the status of ownership of unitized lands and Lease Burdens on Production therefrom.~~ If the owner of any substantial interest in a tract within the Unit Area has then failed or refused to join in the Unit Agreement, the Party or Parties owning Committed Working Interests in such tract shall have the right to withdraw such tract from the Unit Area in accordance with the Unit Agreement~~, provided, however, that such right shall not be exercised until after at least ten (10) days prior written notice to all other Parties within the Unit Area and such right shall not be exercised if within said period of ten days the non-withdrawal of such tract receives the Direction of the Parties who at the time of the giving of such notice have executed this agreement~~.

~~22.2 The Effect of Non-Withdrawal at Direction of Parties. If the non-withdrawal of a tract receives the Direction of the Parties as above provided and if such tract is included within a participating area, the following provisions shall apply:~~

~~A. Any and all payments and liabilities to the owners of uncommitted interests in such tract that are in excess of the payments that would accrue to such owners had they executed the Unit Agreement shall be borne and shared on an Acreage Basis by the Parties within the participating area in which the tract is located.~~

~~B. If the payments that would accrue to the owners of uncommitted interests in such tract if they had joined in the Unit Agreement are in excess of the payments actually accruing to them such excess shall be shared by all Parties within the participating area on an Acreage Basis.~~

22.3 **Voluntary Non-Withdrawal.** If the Party or Parties owning Committed Working Interests in a tract voluntarily fails to exercise the right to withdraw such tract in accordance with the Unit Agreement, all payments and liabilities accruing to the owners of uncommitted interests in such tract shall be paid and borne by such Party or Parties.

ARTICLE 23

COMPENSATORY ROYALTIES

23.1 **Notice.** Whenever demand is made in accordance with the Unit Agreement for the payment of compensatory royalties, Unit Operator shall give written notice thereof to each Party affected by the demand, as hereinafter provided.

23.2 **Demand for Failure to Drill a Development Well.** If the demand for compensatory royalty results from the failure to Drill a Development Well and such well is not drilled, then Unit Operator shall pay such compensatory royalty. Such payment shall be charged as Costs incurred in operations within such participating area.

23.3 **Demand for Failure to Drill a Well Other than a Development Well.** If the demand for compensatory royalty results from the failure to Drill a well other than a Development Well and an election to Drill in order to avoid payment of Compensatory Royalties is not made by any Party owning a Committed Working Interest in the tract upon which such a well may be Drilled, then Unit Operator shall pay such compensatory royalty. Such payment shall be chargeable to and borne by the Parties who would be obligated to bear the Costs of such well if the well were Drilled as a Required Well in accordance with Section 10.4B.

ARTICLE 24

SEPARATE MEASUREMENT AND SALVAGE

24.1 **Separate Measurement.** If a well completed as a producer of Unitized Substances is in or included in a participating area but is not owned on an Acreage Basis by all the Parties within such participating area and if, within thirty (30) days after request by any interested Party, a method of measuring the Production from such well without necessitating additional facilities does not receive the Approval of the Parties, then Unit Operator shall install such additional tankage, flow lines or other facilities for separate measurement of the Unitized Substances produced from such well as Unit Operator may deem suitable. The Costs of such facilities for separate measurement shall be charged to and borne by the Drilling Party for such well and treated as Costs incurred in operating such well notwithstanding any other provisions of this agreement.

24.2 **Salvaged Materials.** If any materials and equipment are salvaged from a well completed as a producer after being Drilled, Deepened or Plugged Back otherwise than for the account of all the Parties entitled to participate therein before reversion to the Non-Drilling Parties of their relinquished interests in the well, the proceeds derived from sale

thereof, or, if not sold, the Salvage Value thereof, shall be treated in the same manner as proceeds of Production from such well for the purpose of determining reversion to Non-Drilling Parties of their relinquished interests in such well.

ARTICLE 25

SECONDARY RECOVERY AND PRESSURE MAINTENANCE

25.1 **Consent Required.** Unit Operator shall not undertake any program of secondary recovery or pressure maintenance involving injection of gas, water or other substance by any method, whether now known or hereafter devised, without first obtaining the consent of ~~not less than.....~~Parties in the aggregate owning not less than..... ninety.....per cent (.....90.....%) of the Committed Working Interests on an Acreage Basis in the participating area affected by any such program. After the Parties have voted to undertake a program of secondary recovery or pressure maintenance in accordance with this section, the conduct of such a program shall be subject to supervision by the Parties by vote as set forth in Article 14.

25.2 **Above Ground Facilities.** This agreement shall not be deemed to require any Party to participate in the construction or operation of any gasoline plant, sulphur recovery plant, dewaxing plant or other above ground facilities to process or otherwise treat Production, other than such facilities as may be required for treating Production in ordinary lease operations and such facilities as may be required in the conduct of operations authorized under Section 25.1.

ARTICLE 26

TRANSFERS OF INTEREST

~~26.1 **Restriction on Zone Transfers.** No Party shall assign, mortgage or transfer its Committed Working Interest in any tract committed to this agreement as to less than all formations underlying said tract without first receiving the Approval of the Parties within the Unit Area; provided, however, that such restriction shall not apply to a transfer by any Party of any part of its Committed Working Interest in any tract or tracts after the Drilling of the Initial Test Well or Wells and prior to the discovery of Unitized Substances in paying quantities under a farmout arrangement in consideration of the Drilling of a well within the Unit Area, free of expense to the other Parties, and upon the further condition that if such well results in the Production of Unitized Substances in paying quantities, such well and the Production therefrom will be shared by the Parties within the participating area established for such well in the same manner as if the well had been Drilled for the account of all Parties within such participating area.~~

26.2 **Sale by Unit Operator.** If Unit Operator sells all its Committed Working Interests, it shall resign and a new Unit Operator shall be selected as provided in the Unit Agreement.

26.3 **Assumption of Obligations.** No transfer of any Committed Working Interests shall be effective unless the same is made expressly subject to the Unit Agreement and this agreement and the transferee agrees in writing to assume and perform all obligations of the transferor under the Unit Agreement and this agreement insofar as relates to the interest assigned, except that such assumption of obligations shall not be required in case of a transfer by mortgage or deed of trust as security for indebtedness.

26.4 **Effective Date.** A transfer of Committed Working Interests shall not be effective as between the Parties until the first day of the month next following the delivery to Unit Operator of the original or a certified copy of the instrument of transfer conforming to the requirements of Section 26.3. In no event shall a transfer of Committed Working Interests relieve the transferring Party of any obligations accrued hereunder prior to said effective date, for which purpose any obligation assumed by the transferor to participate in the Drilling, Deepening or Plugging Back of a well prior to such effective date shall be deemed an accrued obligation.

ARTICLE 27

RELEASE FROM OBLIGATIONS AND SURRENDER

27.1 **Surrender or Release Within Participating Area.** A Committed Working Interest covering land within a participating area shall not be surrendered except with the consent of all Parties within such participating area. However, a Party who owns a Committed Working Interest in land within a participating area and who is not at the time committed to participate in the Drilling, Deepening or Plugging Back of a well within such participating area may be relieved of further obligations with respect to such participating area as then constituted by executing and delivering to Unit Operator an assignment conveying to all other Parties within such participating area all Committed Working Interests owned by such Party in lands within the participating area, together with the entire interest of such Party in any and all wells, materials, equipment and other property within or pertaining to such participating area.

27.2 Procedure on Surrender Outside Participating Area. Whenever a Party or Parties owning all (100.00%) of the working interest in any tract or tracts desire to surrender all (100.00%) of said working interest in any tract or tracts not within any participating area, such Party or Parties shall give to all other Parties written notice thereof describing such Committed Working Interest. The Parties receiving such notice, or any of them, shall have the right at their option to take from the Party or Parties desiring to surrender an assignment of such Committed Working Interest by giving the Party or Parties desiring to surrender written notice of election to do so within thirty (30) days after receipt of the notice of the desire to surrender. If such election is made as above provided, the Party or Parties taking the assignment (which shall be taken by them in proportion to the acreage of their Committed Working Interest among themselves in the Unit Area) shall pay to the assigning Party or Parties the sum of One Dollar ($1.00) plus the assigning Parties' share of the Salvage Value of any wells, if any, owned by the Party or Parties and then located on the land covered by such Committed Working Interest, which payment shall be made on receipt of the assignment. If no Party elects to take such assignment within such thirty (30) day period then the Party or Parties owning such Committed Working Interest may surrender the same if surrender thereof can be made in accordance with the Unit Agreement. Whenever a Party or Parties owning less than all (100.00%) of the Committed Working Interest in any tract or tracts desire to surrender its, or their, interest, such interest may be acquired by the other Party or Parties owning Committed Working Interest within said tract or tracts without giving notice to any other Parties owning interests within the Unit Area. In the event the other Party or Parties owning Committed Working Interests within the tract or tracts to be surrendered do not desire to acquire such interests the interests will be treated as 100.00% interests as above provided for.

27.3 **Accrued Obligations.** A Party making an assignment or surrender in accordance with Section 27.1 or 27.2 shall not be relieved of its liability for any obligation accrued hereunder at the time the assignment or surrender is made, or of obligation to bear its share of the Costs incurred in any Drilling, Deepening or Plugging Back operation in which such Party has elected to participate prior to the making of such assignment or surrender, except to the extent that the Party or Parties receiving such assignment shall assume, with the Approval of the Parties, any and all obligations of the assigning Party hereunder and under the Unit Agreement.

ARTICLE 28

SEVERAL, NOT JOINT LIABILITY

28.1 **Liability.** The liability of the Parties hereunder shall be several and not joint or collective. Each Party shall be responsible only for its obligations as herein set out.

28.2 **No Partnership Created.** It is not the intention of the Parties to create, nor shall this agreement or the Unit Agreement be construed as creating a mining or other partnership or association between the Parties, or to render them liable as partners or associates.

28.3 Election. Each of the Parties hereby elects, under the authority of Section 761(a) of the Internal Revenue Code of 1954, to be excluded from the application of all of the provisions of Sub-chapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954. In making this election, each Party states that income derived by it from operations under this agreement can be adequately determined without computation of partnership taxable income. If the income tax laws of the state or states in which the Unit Area is located contain, or may hereafter contain, provisions similar to those contained in the Subchapter of the Internal Revenue Code of 1954 above referred to under which a similar election is permitted, each of the Parties agrees that such election shall be exercised, and should the income tax laws of such state or states require evidence of such election the Unit Operator is authorized and directed to execute same on behalf of each Party. Beginning with the first taxable year of the operation each Party agrees that the deemed election provided by Federal Regulations Section 1.761-2(b)(2)(ii) will apply and no Party will file an application under Federal Regulations Section 1.761-2(b)(3)(i) to revoke said election.

ARTICLE 29

NOTICES

29.1 **Giving and Receipt.** Except as otherwise specified herein, any notice, consent or statement herein provided or permitted to be given by Unit Operator or a Party to the Parties shall be given in writing by United States mail or by telegraph, properly addressed to each Party to whom given, with postage or charges prepaid, or by delivery thereof in person to the Party to whom given; however, if delivered to a corporate Party, it shall not be deemed given unless delivered personally to an executive officer of such Party or to its representative designated pursuant to Section 14.5 dealing with Representatives. A notice given under any provision hereof shall be deemed given only when received by the Party to whom such notice is directed, except that any notice given by United States registered mail or by telegraph,

properly addressed to the Party to whom given with all postage and charges prepaid, shall be deemed given to and received by the Party to whom directed forty-eight (48) hours after such notice is deposited in the United States mails or twenty-four (24) hours after such notice is filed with an operating telegraph company for immediate transmission by telegraph, and also except that a notice to Unit Operator shall not be deemed given until actually received by it.

29.2 **Proper Addresses.** Each Party's proper address shall be deemed to be the address set forth under or opposite its signature hereto unless and until such Party specifies another post office address within the continental limits of the United States by not less than ten (10) days prior written notice to all other Parties.

ARTICLE 30
EXECUTED IN COUNTERPARTS AND RATIFICATION

30.1 **Counterparts.** This agreement may be executed in counterparts and all such counterparts taken together shall be deemed to constitute one and the same instrument.

30.2 **Ratification.** This agreement may be executed by the execution and delivery of a good and sufficient instrument of ratification, adopting and entering into this agreement. Such ratification shall have the same effect as if the Party executing it had executed this agreement or a counterpart hereof.

ARTICLE 31
SUCCESSORS AND ASSIGNS

31.1 **Covenants.** This agreement shall be binding on and inure to the benefit of all Parties signing the same, their heirs, devisees, personal representatives, successors and assigns and their successors in interest, whether or not it is signed by all the Parties listed below. The terms hereof shall constitute a covenant running with the lands and the Committed Working Interests of the Parties.

ARTICLE 32
HEADINGS FOR CONVENIENCE

32.1 **Headings.** The table of contents and the headings used in this agreement are inserted for convenience only and shall be disregarded in construing this agreement.

ARTICLE 33
RIGHT OF APPEAL

33.1 **Not Waived.** Nothing contained in this agreement shall be deemed to constitute the waiver by any Party of any right it would otherwise have to contest the validity of any law or any order or regulation of governmental authority (whether federal, state or local) relating to or affecting the conduct of operations within the Unit Area or to appeal from any such order.

ARTICLE 34
SUBSEQUENT JOINDER

34.1 **Prior to the Commencement of Operations.** Prior to the commencement of operations under the Unit Agreement, all owners of Working Interests in the Unit Area who have joined in the Unit Agreement shall be privileged to execute or ratify this agreement.

34.2 **After Commencement of Operations.** After commencement of operations under the Unit Agreement, any Working Interest in land within the Unit Area which is not then committed hereto may be committed to this agreement and to the Unit Agreement upon such reasonable terms and conditions as may receive the Approval of the Parties.

ARTICLE 35
CARRIED INTERESTS

35.1 **Treatment of.** If any working interest shown on Exhibit B of the Unit Agreement and committed thereto is a carried working interest, such interest shall, if the carrying party executes this agreement be deemed to be, for the purpose of this agreement, a Committed Working Interest owned by the carrying party.

ARTICLE 36
EFFECTIVE DATE AND TERM

36.1 **Effective Date.** This agreement shall become effective on the effective date of the Unit Agreement ~~except that the provisions of Section 22.1 dealing with Limitation on Right of Withdrawal shall be operative prior to such effective date.~~

36.2 **Term.** The term of this agreement shall be the same as the term of the Unit Agreement and shall terminate concurrently therewith.

36.3 **Effect of Termination.** Termination of this agreement shall not relieve any Party of its obligations then accrued hereunder. Notwithstanding termination of this agreement the provisions hereof relating to the charging and payment of Costs and the disposition of materials and equipment shall continue in force until all materials and equipment owned by the Parties have been disposed of and until final accounting between Unit Operator and the Parties. Termination of this agreement shall automatically terminate all rights and interests acquired by virtue of this agreement in lands within the Unit Area except such transfers of Committed Working Interests as have been evidenced by formal written instruments of transfer.

36.4 **Effect of Signature.** When this agreement is executed by two Parties, execution by each shall be deemed consideration for execution by the other and each Party theretofore or thereafter executing this agreement shall thereupon become and remain bound hereby until the termination of this agreement. ~~However, if the Unit Agreement does not become effective within twelve (12) months from and after the date of this agreement, then at the expiration of said period, this agreement shall terminate.~~

ARTICLE 37

37.1 FAILURE TO TAKE IN KIND. If any Party shall at any time fail or refuse to take in kind or separately dispose of its proportionate part of Production, Unit Operator shall have the right to enter into a contract for the sale of all or part of such Production at the price which Unit Operator receives for its own portion of the Production, but any such contract shall be only for such reasonable period of time as is consistent with the minimum needs of the industry under the circumstances, and in no event shall the term thereof exceed one (1) year, provided, however, that any Non-Operator may revoke at any time Unit Operator's right to dispose of its proportionate part of Production.

Notwithstanding anything contained herein to the contrary, Unit Operator shall not commit a sale of any Party's share of gas production which requires authorization of any government agency or is in interstate commerce without the written consent of such Party.

37.2 PAYMENT OF TAXES RELATING TO PRODUCTION.

A. At and during such time or times as Non-Operator is exercising the right to take in kind or separately dispose of its proportionate part of the production as set forth in paragraph 6.3 hereof, Non-Operator shall pay or arrange for the payment of all production, severance, gathering, sales or similar taxes imposed upon such part.

B. At and during such time or times as Unit Operator is purchasing or selling Non-Operator's proportionate part of the production, as set forth in paragraph 37.1 hereof, Unit Operator shall pay or arrange for the payment of all production, severance, gathering, sales or similar taxes imposed upon such part.

37.3 ACCOUNTING DUE NON-DRILLING PARTY. In the event a relinquishment of interest by a Non-Drilling Party occurs according to the provisions of this Agreement as to any well and production is had from such well, the Unit Operator, or other Party conducting the operation which resulted in the relinquishment, shall furnish each Non-Drilling Party upon its request all the information referred to in Section 16.1 F and in addition shall include the following:

(a) An itemized statement of the Costs of the operation in which the Non-Drilling Party did not participate; and

(b) Until reversion occurs, a monthly itemized statement of the Costs incurred in the operation of the said well, the quantity of production therefrom, the amount of proceeds received from the sale of the same, and the Lease Burdens paid with respect to Production.

37.4 REVERSION TO NON-DRILLING PARTY. The provisions of Section 6.2 are hereby modified and limited with respect to a well covered thereby if any Party owning a Committed Working Interest in the Drilling Block formed for such well elects not to participate in the Costs thereof as to his Committed Working Interest in the Drilling Block. In such case, the relinquished interest of Non-Drilling Party shall revert to it in the same manner and under the same conditions as provided in Section 12.3 with respect to wells located in a Participating Area, except that the production from such well sufficient to cause such reversion shall be that which, had the Non-Drilling Party elected to participate in such well, would be allocable on the acreage basis to the interest of Non-Drilling Party in land in the Drilling Block formed for such well. Upon reversion of the relinquished interest of a Non-Drilling Party in such a well the provisions of Section 12.4 dealing with Effect of Reversion shall be applicable.

37.5 EXCESS BURDENS. Notwithstanding anything to the contrary herein contained it is understood and agreed that if any Party hereto should create any overriding royalty, production payment, or other burden against its working interest share of production and if any other Party or Parties should conduct non-consent operations pursuant to any provision of this agreement and as a result become entitled to receive the working interest production belonging to the Non-Consenting Party, the Consenting Party or Parties entitled to receive the working interest production of the Non-Participating Party shall receive such production free and clear of any burdens against such production which may have been created subsequent to the date of this Agreement and the Non-Consenting Party creating such burden shall save the Consenting Party or Parties harmless with respect to the receipt of such working interest production.

37.6 SPECIFIC CONSENT - DRILLING, DEEPENING, PLUGGING BACK, COMPLETING OR ABANDONING. The consent or authorization by any party to the drilling, deepening, plugging back of any well shall not constitute, nor be implied to be, a consent or election to participate in a completion attempt or other operation beyond such authorized drilling, deepening or plugging back and any related testing prior to the running of casing in connection therewith, and the plugging and abandoning thereof. This shall be true regardless of any inconsistent expressed or implied provision contained herein or in the Unit Agreement.

All of the provisions of Article 1-A through 1-F of Part II of Exhibit 4 attached hereto shall apply to exploratory wells the same as said provisions relate to Development Wells. This modification is agreed to supplement and amend Article 12 hereof so that each party participating in the drilling of a well shall have the right to participate or not participate in the proposed completion attempt or the proposed deeper drilling

or plugging back and any subsequent completion operations related thereto in such exploratory well. Any Party who does not participate in any such completion attempt or any such deepening or plugging back shall be deemed to have relinquished its interest in such well and the production therefrom until the Parties participating in such completion, deepening or plugging back operations have recovered from the net proceeds obtained from such relinquished interest the percentages of costs which would have been charged to such Non-Participating Party after commencement of the operations in which it did not participate as such percentages are set forth in paragraph 7 of subparagraphs A and B in Part 1 of Exhibit 4 attached hereto.

37.7 SUBSEQUENT CREATED INTERESTS. Notwithstanding anything herein to the contrary, if any Working Interest Owner shall, subsequent to the execution of this Agreement, create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its working interest (hereinafter called "subsequently created interest"), such subsequently created interest shall be specifically made subject to all the terms and provisions of this Agreement. If the Working Interest Owner from which such subsequently created interest is created, (a) fails to pay when due its share of costs and expenses chargeable hereunder, and its share of production accruing hereunder is insufficient to cover such costs and expenses, or (b) elects to abandon a well under Part 2 of Exhibit 4 or elects to surrender a lease under Article 27, the subsequently created interest shall be chargeable with a pro rata portion of all costs and expenses hereunder in the same manner as if such subsequently created interest were a working interest, and Unit Operator shall have the right to enforce against such subsequently created interest the lien and all other rights granted in Section 15.5 for the purpose of collecting costs and expenses chargeable to the subsequently created interest

37.8 UNCOMMITTED ROYALTY INTERESTS. Should the owner of a royalty interest fail or refuse to execute or become bound by the Unit Agreement and as a result thereof the Lease Burdens of the Party entitled to receive the production allocated to the tract or tracts of land affected are more than the Lease Burdens computed on the basis of production allocated thereto, Unit Operator, upon receipt of evidence thereof from the Party affected, shall reimburse that Party for the full amount of such excess Lease Burdens and shall treat the same as an operating cost; similarly, if the Lease Burdens are less than the Lease Burdens computed on the basis of production allocated thereto, such Party shall remit the difference to Unit Operator for distribution to all Parties.

37.9 CHALLENGING TITLE. In the event of any suit or action challenging the title of any Party to any of the oil and gas rights committed by said Party to this Agreement and to the Unit Agreement, the Party served will immediately notify the other Parties, and the Party whose title has been challenged shall forthwith take over and be in charge of the conduct of the litigation and shall bear the entire cost of such litigation.

37.10 NON-CONSENT INVESTMENT ADJUSTMENT. Notwithstanding any provision in this Agreement to the contrary, no Party shall be liable, without its consent, for any investment adjustment charge under the provisions of Section 13.3D or 13.4D, which charge is in excess of the Party's credits under Article 13. In the event of the establishment, enlargement or contraction of a Participating Area, the provisions of Article 12 and other provisions related thereto shall be applicable to any investment adjustment to the same extent that these provisions are applicable to a well drilled otherwise than for the account of all Parties entitled to participate therein. Any Party subject to such charge may elect not to pay it in cash. If within 30 days after proposal for establishment, enlargement or contraction of Participating Area has been submitted by Unit Operator, in writing to the Working Interest Owners involved, a Party elects not to participate in the investment adjustment applicable to the establishment, enlargement or contraction, that Party shall be a Non-Drilling Party, and shall be deemed, as of the effective date of the resulting area in connection with which such charge is made, to have relinquished the interest for which such charge is made to the Party or Parties who would otherwise be entitled to receive a credit under Section 13.3D or Section 13.4D, which latter Party or Parties shall be the Drilling Party with respect to this relinquished interest. The Drilling Party shall own the relinquished interest until it reverts to Non-Drilling Party pursuant to Article 12, except that it is specifically understood that the Article 12.3B percentage for exercise of the Non-Drilling Option applicable to establishment, enlargement or contraction of the Participating Area, be 300%.

37.11 GAS BALANCING AGREEMENT. Exhibit "7" hereto attached and by this reference made a part hereof is the Gas Balancing Agreement.

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

UNIT OPERATOR AND WORKING INTEREST OWNER

ATTEST:

DEPCO, INC.

_____
Secretary

By_____
Vice-President

Date of Execution:

_____

Address: 1000 Petroleum Club Bldg.
Denver, Colorado 80202

STATE OF_____)
)
COUNTY OF_____)

The foregoing instrument was acknowledge before me this_____day of

_____, 1979, by_____who is_____

_____of_____

a corporation, for and on behalf of said Corporation.

My Commission Expires:

_____

_____
Notary Public

EXHIBIT "2"

Attached to and made a part of the Unit Operating Agreement for White Ranch Unit Area, Chaves County, New Mexico

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"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.

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

"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.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

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

"Controllable Material" shall mean 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.

2. Statement and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits, summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

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 twelve percent (12%) 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, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

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 Controllable Material as provided for in Section V.

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 Joint Account 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 the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

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

2. Labor

A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.

(2) Salaries of First Level Supervisors in the field.

(3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs 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. 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 costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.

3. Employee Benefits

Operator's current costs 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 shall be Operator's actual cost not to exceed 22%.

4. Material

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. 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 the Parties.

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 the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.

C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of $200 or less excluding accessorial charges.

6. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraph 1. ii of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the Overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

7. Equipment and Facilities Furnished by Operator

A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.

B. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

8. 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 those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

9. Legal Expense

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgments and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

10. 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.

11. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations 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 at Operator's cost not to exceed manual rates.

12. 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 in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

(X) Fixed Rate Basis, Paragraph 1A, or
( ) Percentage Basis, Paragraph 1B.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 2A, Section II. 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 the Parties as a direct charge to the Joint Account.

ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall ( ) shall not (X) be covered by the Overhead rates.

A. Overhead - Fixed Rate Basis

(1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate $ 3,000.00
Producing Well Rate $ 300.00

(2) Application of Overhead - Fixed Rate Basis shall be as follows:

(a) Drilling Well Rate

[1] Charges for onshore drilling wells shall begin on the date the 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 suspension of drilling operations for fifteen (15) or more consecutive days.

[2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days

[3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

[1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.

[2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.

[3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.

[4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.

[5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

(3) 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 calendar year preceding as shown by the index of average weekly earnings of Crude Petroleum and Gas Fields Production Workers as published by the United States Department of Labor, Bureau of Labor Statistics, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

B. Overhead - Percentage Basis

(1) Operator shall charge the Joint Account at the following rates:

(a) Development

_____ Percent (%) of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 9 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 9 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.

(2) Application of Overhead - Percentage Basis shall be as follows:
For the purpose of determining charges on a percentage basis under Paragraph 1B 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 the 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 2 of this Section III. All other costs shall be considered as Operating.

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of $ * :

* To be negotiated

A. * % of total costs if such costs are more than $ * but less than $ * ; plus

B. * % of total costs in excess of $ * but less than $1,000,000; plus

C. * % of total costs in excess of $1,000,000.

Total cost shall mean the 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 and workover wells shall be excluded.

3. Amendment of Rates

The Overhead rates provided for in this Section III may be amended from time to time only by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.

IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all material movements affecting the Joint Property. Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

1. Purchases

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reason, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

2. Transfers and Dispositions

Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following bases exclusive of cash discounts:

A. New Material (Condition A)

(1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.

(2) Line Pipe

(a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.

(b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.

(3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

B. Good Used Material (Condition B)

Material in sound and serviceable condition and suitable for reuse without reconditioning:

(1) Material moved to the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.

(2) Material moved from the Joint Property

(a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as new Material, or

(b) at sixty-five percent (65%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as good used Material at seventy-five percent (75%) of current new price.

The cost of reconditioning, if any, shall be absorbed by the transferring property.

C. Other Used Material (Condition C and D)

(1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph 2A of this Section IV. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

All other Material, including junk, shall be priced at a value commensurate with its use or at prevailing prices. 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. Operator may dispose of Condition D Material under procedures normally utilized by the Operator without prior approval of Non-Operators.

D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

E. Pricing Conditions

(1) Loading and unloading costs may be charged to the Joint Account at the rate of fifteen cents (15¢) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.

(2) 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 published or listed prices 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 providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided 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 ten 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.

V. 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 a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six months following the taking of the inventory. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable 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 the Parties.

EXHIBIT "3"

INITIAL TEST WELLS

Attached to and made a part of the Unit Operating Agreement for the White Ranch Unit Area Chaves County, New Mexico.

1. LOCATION: Each of the initial test wells shall be drilled at a location selected by Unit Operator and approved by the Supervisor.

2. DEPTH: The initial test wells shall be drilled conformably with the terms of Article 9 of the White Ranch Unit Agreement.

3. COSTS: All costs and expenses incurred in connection with the initial test wells, including drilling, testing and completing into the tanks, if an oil well, or through gas separator, if a gas producer, and plugging and abandoning, if a dry hole, shall be borne and paid for by Depco, Inc. and such other parties hereto as agreed to bear such costs in accordance with separate agreement among themselves and where applicable subject to the investment adjustment provisions of Article 13 of this Agreement. Any cash contributions received toward the drilling of the initial test wells shall belong to the parties sustaining the risk of drilling the applicable initial test well.

4. TITLE EXAMINATION AREA: The title examination area for the initial test wells shall be an area surrounding the location of such wells as may be designated by the Unit Operator.

5. COST OF TITLE EXAMINATION: The cost of title examination shall be charged as a cost of drilling the applicable initial test well.

6. DEEPENING, PLUGGING BACK: In the absence of any agreement to the contrary, the attempted completion, deepening or plugging back, and abandonment of the Initial Test Wells shall be governed by the provisions of Part 2 of Exhibit "4" to this agreement.

EXHIBIT 4

Attached to and made a part of that certain agreement entitled Unit

Operating Agreement _____

for the Whire Ranch

Unit Area, County of Chaves, State of New Mexico,

Dated the 22nd day of October, 1979

PART 1

DRILLING OF EXPLORATORY WELLS

1. Notice of Proposed Drilling. Any Party desiring the Drilling of an Exploratory Well on land in which it owns a Committed Working Interest shall designate an area, herein called a Drilling Block, not to exceed 960 acres, which, on the basis of available geological information will, in its judgment, be proved productive by the drilling of such well. Unit Operator and each Party within the Drilling Block shall be furnished with a plat and description of the area so designated, together with written notice of the location, objective formation, maximum depth, and estimated cost of the proposed well. The location of the proposed well shall conform to any applicable spacing pattern then existing or an authorized exception thereto. The Drilling Block shall include no land in an established participating area for the objective formation for the well to be drilled thereon nor any land included in a proposal therefor filed with the ~~Director~~ Supervisor, nor any land within an active, previously designated Drilling Block for such formation. The Drilling Block shall be considered active for ninety (90) days after the designation thereof and if a well is commenced thereon within such period until either:

A. The completion of the well, if it is completed otherwise than as a producer of unitized substances in paying quantities, or;

B. The filing with the ~~Director~~ Supervisor of a proposal for the establishment or revision of a participating area if the drilling of the well results in the filing of such proposal.

2. Basis of Participation. Each Party within the Drilling Block shall be entitled to participate in the Costs of the proposed well on an Acreage Basis, but shall be required to do so only if it notifies the other Parties of its willingness so to participate as hereinafter in this Article provided.

3. Exclusion of Land From Proposed Drilling Block. Within thirty (30) days after receipt of such notice, any part of the land included in the proposed Drilling Block may be excluded therefrom at the Direction of the Parties therein. In such event the proposed Drilling Block as reduced by the exclusion of such land shall be established as the Drilling Block. In the absence of any such Direction then at the expiration of said period, the proposed Drilling Block shall be established as the Drilling Block.

4. Preliminary Notice to Join in Drilling. Within ten (10) days after the establishment of the Drilling Block, each Party within such Drilling Block shall in writing advise all other Parties therein whether or not it wishes to participate in the Drilling of the proposed well. If any Party fails to give such advice within the prescribed time, it shall be deemed to have elected not to participate in Drilling such proposed well. If all the Parties within the Drilling Block so advise that they wish to participate therein, the Unit Operator shall Drill the proposed well for the account of all such Parties.

5. Notice of Election to Drill. Unless all Parties within the Drilling Block agree to participate in Drilling such well, then, within fifteen (15) days after the expiration of the ten-day period last above provided in Section 4, each Party within the Drilling Block then desiring to have the proposed well Drilled, shall give to all other Parties therein written notice of its election to proceed with the Drilling of said well. Failure to give such notice shall be deemed an election not to participate in Drilling the well.

6. Effect of Election to Drill. If one or more, but not all of the Parties, elect to proceed with the Drilling of the well, Unit Operator shall drill the well for the account of such Party or Parties on an Acreage Basis among themselves who shall constitute the Drilling Party.

Any Party within the Drilling Block who has not previously elected to participate in the proposed well may do so by written notice given to all other Parties within the Drilling Block at any time before operations for the Drilling of the well are commenced, in which event such Party shall be included in the Drilling Party. However, such Party shall be bound by any and all Directions and Approvals theretofore given by the Drilling Party concerning the Drilling of the well.

7. Rights and Obligations of Drilling Party and Non-Drilling Party. If the well results in the establishment or enlargement of a participating area to include such well and if by reason thereof there is included in such participating area any land within the Drilling Block in which a Non-Drilling Party owns a Committed Working Interest, then such Non-Drilling Party as of the effective date of such inclusion shall be deemed to have relinquished to the Drilling Party and the Drilling Party shall own all of the operating rights and working interests in such well, and the materials and equipment pertaining thereto, which such Non-Drilling Party would otherwise own, and that portion of production from such well which is allocated to all of the acreage of such Non-Drilling Party within such participating area until such time as the proceeds or market value of said portion of the production from such well (after deducting all Lease Burdens and all taxes upon or measured by production which are payable in respect of said portion up to such time) shall equal the sum of the following:

A. One hundred per cent (100%) of that portion of the Costs incurred in operation of the well up to such time that would have been chargeable to Non-Drilling Party with respect to its Committed Working Interest in the participating area but for the relinquishment aforesaid, and,

B. Three hundred per cent (300%) of that portion of the Costs incurred by Drilling Party in Drilling the well that would have been chargeable to such Non-Drilling Party had it initially participated in the Drilling of such well on an Acreage Basis and had the Drilling Block included only such of the lands included in the Drilling Block as originally designated which are included within the participating area. At such time the interest relinquished by Non-Drilling Party in such well shall revert to it. Except as above in this section provided the provisions of Article 12 dealing with Rights and Obligations of Drilling Party and Non-Drilling Party shall apply.

8. Required Drilling. If an Exploratory Well is Drilled as a required well in accordance with Section 10.4 B, the Drilling block for such well shall consist of all forty acre subdivisions and lots of the Public Land Survey of which more than one-half of the surface area is within a distance of 2,640 feet from the proposed bottom hole location of such well, but excluding therefrom all lands within a participating area theretofore established for the pool or zone to which the well is to be Drilled.

PART 2

ATTEMPTED COMPLETION, DEEPENING, PLUGGING BACK AND ABANDONMENT

1. Wells Not Completed as Producers. The attempted completion, Deepening or Plugging Back of wells not completed as producers at their projected depths, shall be governed by the following provisions, except that said provisions shall not apply to a particular well if every Party entitled to the notice provided for in Subdivision A hereof has consented to abandonment and plugging of such well:

A. **Notice by Unit Operator.** Before abandoning a Development Well which has been Drilled to its projected depth but not completed as a producer, Unit Operator shall give notice thereof to each Party within the participating area involved. After a well other than a Development Well has reached its projected depth and been tested, but before production pipe has been set therein, Unit Operator shall give notice thereof to each Party who participated in Drilling the well, and to each additional Party, if any, who was entitled to participate therein, but elected not to do so. Each notice provided for in this section shall be given by telegraph or telephone.

B. **Right to Attempt Completion, Deepen or Plug Back.** Each Party who participated in the Drilling of a well concerning which notice is given in accordance with Subdivision A hereof, and any other Party owning a Committed Working Interest in the tract of land on which the well is located, may initiate a proposal to attempt the completion of, or to Deepen or Plug Back such well; provided, however, that if the well was Drilled as a Development Well, a proposal to Deepen or Plug Back the well may be initiated only by a Party owning a Committed Working Interest in the tract of land on which the well is located. In order to be entitled to participate in a proposed operation, a Party must have the right to initiate the same or must own a Committed Working Interest in the Drilling block theretofore established for such well or, if no Drilling block has theretofore been established for such well, in the Drilling Block established for such Deepening or Plugging Back operation as provided in the following paragraph C.

C. **Time and Manner of Initiating Proposal.** A period of twenty-four (24) hours (exclusive of Saturdays, Sundays and holidays) from and after receipt of the notice referred to in Subdivision A of this paragraph 1 shall be allowed within which a Party may initiate a proposal to complete, Deepen or Plug Back and, except in the case of a proposal to complete a well Drilled as a Development well, designate a Drilling Block for such proposed operation, if one has not previously been designated for such well. Any such proposal shall be initiated by giving notice thereof by telephone or telegraph to each Party entitled to participate in the proposed operation. If no such proposal is initiated within the period allowed therefor, Unit Operator shall abandon and plug the well.

D. **Election.** If a proposal is initiated each Party entitled to participate in any completing, Deepening or Plugging Back operation proposed in accordance with Subdivision C above shall have a period of twenty-four (24) hours (exclusive of Saturdays, Sundays and holidays) from and after receipt of notice of the initiation of any such operation within which (either at a meeting or by telephone) to establish a Drilling Block if the establishment of a Drilling Block is necessary for the proposed operations (following the same procedures in establishing a Drilling Block as the procedures provided for in Part 1 of the Exhibit 4 for the establishment of a Drilling Block for an Exploratory Well) and to notify Unit Operator by telephone or telegraph whether or not it elects to participate in the proposed operation. The failure of a Party to signify its election within the time required shall be deemed to constitute an election not to participate in the proposed operation.

E. **Effect of Election.** The Party or Parties electing to participate in an attempt to complete, or to Deepen or Plug Back, a well as above provided shall constitute the Drilling Party for such operation. Each Party who is entitled to make such election but fails to do so as above provided, shall be deemed to have elected not to participate in such operation, and shall be a Non-Drilling Party in respect of such operation. Such operation shall be conducted by Unit Operator for the account of the Party or Parties constituting the Drilling Party on an acreage basis among themselves, subject, however, to the provisions of paragraph 4 of Part 2 of this Exhibit 4, dealing with Conflicts, and paragraph 5 of Part 2 of this Exhibit 4 dealing with Deepening or Plugging Back to Participating Area.

F. **Stand-By Rig Time.** Stand-by time paid for the rig on a well until expiration of the period of forty-eight (48) hours allowed for the initiation of and election to participate in an attempt to complete, or to Deepen or Plug Back, such well, shall be charged and borne as part of the Costs incurred in Drilling the well. Thereafter such stand-by time shall be charged to and borne by the Party or Parties who elect to participate in the attempt to complete, or to Deepen or Plug Back, the well, whether or not such Party or Parties shall proceed with such operation. However, if the Party or Parties making such election do not proceed with the operation, the Costs incurred in plugging the well shall be charged and borne as part of the Costs incurred in Drilling the well.

2. **Abandonment of Producing Wells.** A well completed as a producer of Unitized Substances within a participating area shall be abandoned for plugging if and when abandonment thereof receives the Approval of the Parties within such participating area, subject, however, to the provisions of paragraph 3 hereof concerning Deepening, or Plugging Back Abandoned Producing Wells. The abandonment of a well completed as a producer but not included in a participating area shall be governed by the following provisions:

A. **Consent Required.** Such a well shall not be abandoned for production from the pool or zone in which it is completed except with the consent of all Parties then owning the well.

B. **Abandonment Procedure.** If the abandonment of such a well receives the Approval of the Parties who own the well, but is not consented to by all such Parties, Unit Operator shall give written notice thereof to each Party then having an interest in the well who did not join in such Approval. Any such non-joining Party who objects to abandonment of the well (herein called non-abandoning Party) may give written notice thereof to all other Parties (herein called abandoning Parties) then having interests in the well, provided such notice is given within thirty (30) days after receipt of the notice given by Unit Operator. If such objection is so made, the non-abandoning Party or Parties shall forthwith pay to the abandoning Parties their respective shares of the Salvage Value of the well. Upon the making of such payment, the abandoning Parties shall be deemed to have relinquished unto the non-abandoning Party or Parties all their operating rights and working interest in the well, but only with respect to the pool or zone in which it is then completed, and all their interest in the materials and equipment in or pertaining to the well. If there is more than one non-abandoning Party, the interest so relinquished shall be owned by the non-abandoning Parties, each in the proportion that its interest in the well bears to the combined interest therein of all non-abandoning Parties immediately prior to such relinquishment.

C. **Rights and Obligations of Non-Abandoning Party.** After the relinquishment above provided for, such well shall be operated by Unit Operator for the account of the non-abandoning Party or Parties, who shall own all Production therefrom and shall bear all Costs, Lease Burdens and other burdens thereafter incurred in operating the well and plugging it when abandoned (unless the well is taken over for Deepening or Plugging Back as hereinafter provided), and also the Costs of any additional tankage, flow lines or other facilities needed to measure separately the Unitized Substances produced from the well; said operating Costs shall include an overhead charge computed at the highest per well rate applicable to the operation of a single producing well in accordance with Exhibit 2, if such rate is provided.

D. **Option to Repurchase Materials.** If a well taken over by the non-abandoning Party or Parties as above provided is abandoned for plugging within six (6) months after relinquishment by the abandoning Parties of their interests therein, each abandoning Party shall have the right at its option to repurchase that portion of the materials and equipment salvaged from the well equal to the interest relinquished by it to the non-abandoning Party or Parties, at the value fixed therefor in accordance with Subdivision B of this section. Said option may be exercised only by written notice given to Unit Operator and the non-abandoning Party or Parties within fifteen (15) days after receipt of the notice given by Unit Operator pursuant to paragraph 3 hereof.

3. **Deepening or Plugging Back Abandoned Producing Wells.** Before abandoning for plugging any well completed as a producer of Unitized Substances, Unit Operator shall, (A) if the well is within a Participating Area, give written notice thereof to the Party or Parties owning Committed Working Interests in the tract of land on which the well is located, or (B) if the well is not within a Participating Area, give written notice thereof to each Party then owning an interest in the well and to each additional Party, if any, owning Committed Working Interests in the tract of land upon which the well is located. If no Drilling Block has previously been established for such well and a Party receiving such notice desires the Deepening or Plugging Back thereof, it shall, within fifteen (15) days after receipt of such notice, proceed with the establishment of a Drilling Block for such well as provided in paragraphs 1 and 3 of Part 1 of this Exhibit 4. Within ten (10) days after receipt of such notice, if a Drilling Block has previously been established for such well, or, if not previously established, within ten (10) days after a Drilling Block is established for such well, the Party desiring the Deepening or Plugging Back of such well shall give notice thereof in accordance with paragraph 4 of Part 1 of this Exhibit 4 and all of the provisions of paragraphs 4, 5 and 6 of Part 1 of this Exhibit 4 shall apply in the same manner as if the proposed Deepening or Plugging Back were the Drilling of an Exploratory Well, subject, however, to the provisions of paragraph 4 of Part 1 of this Exhibit 4, dealing with Conflicts, and paragraph 5 of Part 1 of this Exhibit 4, dealing with Deepening or Plugging Back to a Participating Area. If no Party gives notice of desire to Deepen or Plug Back such well within said period of ten (10) days, or if such notice is given but no Party elects to proceed with the Deepening or Plugging Back of the well within the time limited therefor, Unit Operator shall abandon and plug the well for the account of the Party or Parties owning the well.

4. **Conflicts.** If conflicting elections to attempt completion, Deepen, or Plug Back are made in accordance with the preceding provisions of Part 2 of this Exhibit 4, preference shall be given first to a completion attempt and then to Deepening. However, if a completion attempt, a Deepening or Plugging Back does not result in completion of the well as a producer, Unit Operator shall again give notice in accordance with Subdivision A of paragraph 1 of Part 2 of this Exhibit 4 before abandoning the well for plugging.

5. **Deepening or Plugging Back to Participating Area.** If a well within the surface boundaries of a participating area is to be Deepened or Plugged Back to a pool or zone for which such participating area has been established, such op-

eration may be conducted only if it receives the Approval of the Parties within such participating area, and upon such terms and conditions as may be specified in such Approval.

6. **Rights and Obligations of Drilling Party and Non-Drilling Parties.** Whenever an attempt to complete a well Drilled as a Development Well is made otherwise than for the account of all Parties entitled to participate therein, the provisions of Article 12 dealing with Rights and Obligations of Drilling Party and Non-Drilling Parties shall apply.

Whenever either (1) an attempted completion of a well which was not Drilled as a Development well is made or (2) a well is Deepened or Plugged Back, otherwise than for the account of all Parties entitled to participate therein, the provisions of paragraph 7 of Part 1 of this Exhibit 4 dealing with Rights and Obligations of Drilling Party and Non-Drilling Parties shall apply to the operations conducted the same as if such operations comprised Drilling operations.

EXHIBIT "5"

Attached to and made a part of the Unit Operating for the White Ranch Unit Area, Chaves County, New Mexico.

INSURANCE

For Operations by Unit Operator: The Unit Operator shall carry for the benefit of the joint account insurance to cover the Unit Operator's operations on the lands covered by this Agreement as follows:

1. Workman's Compensation Insurance in full compliance with the laws of the applicable State in which operations are conducted.

2. Employer's Liability Insurance with limits of $100,000 as to any one person and $100,000 as to any one accident.

3. Public Liability Insurance: Bodily Injury (other than automobile) with limits of $1,000,000 as to any one person, $1,000,000 as to any one accident; and Property Damage (other than automobile) with limits of $1,000,000 for each accident, $1,000,000 aggregate.

4. Automobile Public Liability Insurance, with limits of $50,000 as to any one person and $50,000 as to any one accident, and Property Damage of $50,000 for each accident; excess coverage of such limits up to $1,000,000 combined single limit.

Operator shall not carry physical damage insurance on jointly-owned property, it being understood and agreed that each party will be responsible for its own interest in such properties and will assume its portion of any loss that occurs. Each party hereby waives its rights of recovery against all other parties to the Agreement and agrees that all insurance policies covering its interest in the jointly-owned property will be suitably endorsed to effectuate this waiver. Operator shall promptly notify Non-Operators in writing of all losses involving damage to jointly-owned property in excess of $1,000.

Operator shall submit to non-operators certificates of insurance in evidence of the above coverage. Such certificates shall specify that in event of cancellation or material change in coverage at least ten days prior written notice will be given to non-operators at their respective addresses.

Operator shall notify non-operators promptly in writing of any occurrences wherein liability may exceed the limits of the insurance if covered by insurance as set out above.

EXHIBIT "6"

Attached to and made a part of Unit Operating Agreement for White Ranch Unit Area, Chaves County, New Mexico

EXECUTIVE ORDER 11246 AND EXECUTIVE ORDER 1158
PROVISIONS OF SECTION 202 OF EXECUTIVE ORDER 11246

"(1) The contractor will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. The contractor will take affirmative action to ensure that applicants are employed and that employees are treated during employment, without regard to their race, color, religion, sex or national origin. 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 compensation; and selection for training, including apprenticeship. The contractor agrees to post in conspicuous places available to employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of this non-discrimination clause.

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

(3) The contractor will send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice, to be provided by the agency contracting officer, advertising the labor union or workers' representative of the contractor's commitments under Section 202 of Executive Order No. 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

(4) The contractor will comply with all provisions of Executive Order No. 11246 of September 24, 1965, and of the rules, regulations, and relevant orders of the Secretary of Labor.

(5) The contractor will furnish all information and reports required by Executive Order No. 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 his 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 contractor'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 contractor may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order No. 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order No. 11246 of September 24, 1965, or by rule, regulation or order of the Secretary of Labor, or as otherwise provided by law.

(7) The contractor will include the provisions of Paragraph (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 No. 11246 of September 24, 1965, so that such provision will be binding upon each subcontractor or vendor. The contractor 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 contractor becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the contractor may request the United States to enter into such litigation to protect the interests of the United States."

EXHIBIT "7"

Attached to and made a part of the Unit Operating Agreement for the White Ranch Unit Area, Chaves County, New Mexico

GAS BALANCING AGREEMENT

In accordance with the terms of Article VI.C (1977) or Paragraph 13 (1956) of the Operating Agreement, this agreement shall apply upon the completion of a gas well to each separately metered formation or group of formations for each gas well covered by the Operating Agreement ("Separate Source").

It is the intention of the parties hereto that Operator shall have the duty of controlling gas well production and the responsibility of administering the provisions of this agreement. Operator shall cause deliveries to be made to 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.

Each party has made (or will make) arrangements to sell or utilize its share of the gas produced from each Separate Source. It appears, however, that such arrangements of the parties may allow commencing delivery at different times or be limited from time to time; therefore, to permit the parties as much flexibility as possible, the parties have agreed as follows:

1.

From and after the date of initial delivery of gas from a Separate Source, during any period when a party is taking less than its Share of the gas produced from said Separate Source, any other party may take from said Separate Source all or a part of that portion of the maximum or allowable gas production which is not taken by a party taking less than its Share. The parties hereto at all times shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests.

2.

On a cumulative basis, a party taking less than its full share of the gas produced shall be credited with gas in storage equal to its full share of the total gas produced and saved, less that portion of the gas such party took or delivered to a purchaser. Operator will maintain an account of the gas balance as between the parties hereto and will furnish each party monthly statements showing the total quantity of gas produced, the total quantity of gas taken by each party, and the monthly and cumulative over and under delivery of each party.

3.

After notice to the Operator, any party may at any time begin taking or delivering to a purchaser its full share of gas produced (less such party's share of gas used in operations, vented or lost). To allow the recovery of gas in storage and to balance the gas account of the parties in accordance with their respective interests, a party with gas in storage shall be entitled to take or deliver to a purchaser its current share of the gas produced, plus a share of gas not exceeding its gas storage, determined by multiplying 50% of the interest in the current gas production of the party or parties without gas in storage by a fraction, the numerator of which is the interest in said well of such party with gas in storage and the denominator of which is the total percentage interest in said well of all parties with gas in storage currently taking or delivering to a purchaser.

4.

Nothing herein shall be construed to deny any party the right, from time to time, to deliver to a purchaser its Share of the maximum or allowable gas production to meet the deliverability test required by its purchaser. Each party shall, at all times, use its best efforts to regulate its takes and deliveries from said well so that said well will not be shut in for overproducing the allowable assigned thereto by the applicable regulatory authority.

5.

Nothing herein ever shall be construed as altering, amending or negating any agreement heretofore entered into by any party hereto obligating such party to pay an overriding royalty, payments out of production, or royalties payable under any lease out of its interest regardless of whether such party is or is not taking or selling its full share of production.

6.

Each party taking gas shall pay any and all production taxes due on such gas.

7.

Should production of gas from said well be permanently discontinued before the gas account is balanced, settlement will be made between the underproduced and overproduced parties. In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced party or parties based on the actual price received month by month for the overproduction when it occurred and equal to the volume of overproduction of each such party subject to settlement, less applicable taxes theretofore paid.

However, if an overproduced party has taken gas for its own consumption or sold such gas to an affiliated party, settlement shall be based on the weighted average price received by the other parties selling gas to non-affiliated buyers at the time of such taking or delivery. If there is no price received by another party selling to a non-affiliated buyer, the average price shall be the market value of the gas at the time of the sale.

Any amount of monies paid by an overproduced party to underproduced parties, in settlement pursuant to the above, which is later required to be refunded by the Federal Energy Regulatory Commission, or any successor agency, and so refunded by the overproduced party who paid such amount to underproduced parties, shall be returned to such party by the underproduced parties who divided the amount in the same ratio as they received it, including interest paid by the contributing overproduced party, provided that the total amount refunded shall never exceed the amount contributed to said underproduced parties by the overproduced party.

8.

Nothing herein shall change or affect each party's obligations to pay its proportionate share of all costs and liabilities incurred, as its share thereof is set forth in the Operating Agreement.

9.

This agreement is binding upon the parties to the Operating Agreement and their respective heirs, successors and assigns. It is agreed that this agreement is a covenant running with the oil and gas leases subject to the Operating Agreement. The parties hereto agree to give notice of the existence of this agreement to any successor in interest of such signatory party to any oil and gas lease subject to the terms of this agreement. This agreement shall be and remain in force and effect for a term concurrent with the term of the Operating Agreement between the parties hereto.

DEPCO, Inc.

PRODUCTION & EXPLORATION

GEOLOGICAL REPORT
PROPOSED WHITE RANCH UNIT
CHAVES COUNTY, NEW MEXICO

LOCATION:

The proposed White Ranch Unit is positioned on the N.W. Shelf of the Permian Basin portion of Southeast New Mexico. Geographically, it is located approximately 30 miles east of Roswell, New Mexico.

UNIT PROPOSAL:

Depco, Inc. proposes the formation of a Federal Unit to be known as the White Ranch Unit which would be comprised of approximately 18,961.78 acres covering portions of Townships 12 and 13 South, Ranges 29 and 30 East. Depco, as operator, proposes the drilling of an Atoka-Morrow test well within the Unit to evaluate the gas potential of these reservoirs. The well is to be drilled in the SE/4 NW/4 of Section 8, T13S-R30E to a depth of 9800' or 50' into the top of the solid Mississippian Limestone formation, whichever is the lesser. The Unit outline and proposed location is shown on Exhibit 'B'.

GENERAL GEOLOGIC DISCUSSION:

The objective of the wildcat test Depco proposes to drill in the White Ranch Unit is to evaluate stratigraphic accumulations of gas in the Atoka-Morrow sands.

The drilling for and subsequent evaluation of Atoka-Morrow gas reserves in the N.W. Shelf area of Chaves County has been at a relatively slow pace and for the most part, in scattered areas along the Shelf. As a consequence, the existing well control has made interpretation of the depositional enviornment of Atoka-Morrow clastics somewhat difficult. It is probably deltaic but the systems have not been too well defined and the thicker areas of deposition have not been evaluated to any extent. Wildcat drilling has been fairly successful over the years and scattered gas production has been established over a wide area. There have also been encouraging shows from drill-stem tests, etc. throughout the area of deposition on the Shelf. A great deal of additional exploratory drilling is needed, however, to evaluate the full potential of this area. Depco hopes to further this evaluation of the gas reserves by the drilling of the proposed test well.

SUITE 402 WESTERN UNITED BUILDING • MIDLAND, TEXAS 79701 • PHONE 915/682-6308

The proposed Unit outline encompasses a local area of thick Atoka-Morrow clastic deposition that is, for the most part, untested and is flanked by numerous shows of gas and thinner sand deposition. Exhibit "B" is an Isopach of the "gross sand thickness" of the Atoka-Morrow within the Unit boundry. Regional dip is to the East. Depositional limits of the Atoka-Morrow is updip to the West. Regional isopaching of the gross Atoka-Morrow indicates several interpreted depositional systems converging in the Unit area with resulting offshore bar deposition. Thicker clean sands stratigraphically trapped with good reservoir conditions should be developed here as potential gas reserves. The gas accumulation in these reservoirs would be trapped by a gradual thinning and loss of quality reservoir sand development shoreward and increased shale facies basinward.

PREVIOUS DRILLING WITHIN THE PROPOSED UNIT:

Only 2 wells have been drilled deep enough to penetrate the Atoka-Morrow within the Unit outline:

The Sundance #1 Amoco Federal in Section 17 of 12S-30E was drilled in 1975 to a total depth of 9986' in the Mississippian Limestone. A drillstem test in the San Adres from 2950-3147' recovered 15' MCW. Two DST's were taken in the Mississippian. A test from 9200-9414' recovered 93' DM and a test from 9417-9509' recovered 170' DM. The well was then plugged and abandoned. No testing was done in the Atoka-Morrow even though there were several good shows of gas recorded by the mudlogger while drilling through it.

The Sundance #1 Beveridge Federal in Section 29 of 12S-30E was drilled in 1975 to a total depth of 10,000' in the Mississippian Limestone. A DST from 8940-9074' was taken in the Strawn and 45' of drilling mud was recovered. A test from 9708-9800' in the Mississippian recovered 35' of drilling mud. The well was then plugged and abandoned. There were no tests taken in the Atoka-Morrow in this well either although shows of gas were reported by the mudlogger while drilling.

DELINEATION OF THE UNIT:

The Western boundry is defined by all full Sections of which 50% or more are cut by the 100' isopach contour line of the "gross sand thickness" which defines the minimum gross sand thickness updip that would relate to quality reservoir sand development. This is evidenced by the wells outside of the Unit boundry, one of which was tite, the other a submarginal producer out of the Atoka-Morrow.

The Southern boundry is defined by all full Sections of which 50% or more are cut by the 100' isopach contour line which establishes the loss of reservoir conditions as evidenced by the tite wells outside of the Unit boundry.

The Eastern Boundry is defined by all full Sections, 50% or more of which are cut by the 100' isopach contour line of the "gross sand thickness". The 100' isopach contour was used as it defined the minimum gross sand thickness downdip or basinward that would relate to quality reservoir sand development as evidenced by the shows of gas in the Atoka-Morrow in the two Sundance wells.

The Northern boundry of the proposed Unit is defined by all full Sections of which 50% or more are cut by the 100' isopach line which is analogous to the Southern boundry parameters in regard to the related loss of reservoir conditions.

SUMMARY:

The proposed White Ranch Unit is being formed to allow an orderly exploration and development of the anticipated stratigraphic accumulation of natural gas in the Atoka-Morrow reservoirs.

L. J. Seright
District Exploration Manager
Depco, Inc.