

## Schedule of lands lying within the proposed Made Well Anticline Unit Area

TRACT #	LAND DESCRIPTION	NO. OF ACRES	SERIAL NO. & EXP. DATE	BASIC ROYALTY OWNERSHIP %	LESSEE OF RECORD	CR.	WI OWNER & %
1	FEDERAL LANDS T13S, R21E Section 14: All Section 23: All Section 26: E/2	1600.00	NM-31763 5-1-88	USA 1/8-100%	Inexco Oil Company 100%	\$7500/ac. prod pymt. paid out of 5% of 8/8 to David J. Sorenson et ux Bonnie	Inexco Oil Company 100%
2	T14S, R21E Section 10: SW SW	40.00	NM-31775 4-1-88	USA 1/8 100%	Wintershall Oil & Gas Properties 100%	Guy M. Willis 1% Los Siete Ex- ploration 2%, Pecos Slope Royalty Trust 4.5%	Wintershall Oil & Gas Properties 100%
3	T12S, R22E Section 20: SE/4 Section 21: SE/4 Section 28: SW/4 Section 29: SW/4 Section 30: Lots 3(46.27), 4(46.25) E/2SW Section 31: SE/4 Section 33: SW/4	1132.52	NM-31838 3-1-89	USA 1/8-100%	Phillips Petroleum Company 100%	\$7500/ac prod. pymt. (paid) out of 5% of 8/8 to G. Dee & Paulett Williamson	Phillips Petroleum Company 100%
4	T12S, R22E Section 20: SW/4 Section 30: Lots 1(46.31), 2(46.29) E/2NW, E/2 Section 31: Lots 2(46.33), 3(46.39) 4(46.45), E/2SW, S/2NE, SENW	991.77	NM-31871 3-1-89	USA 1/8-100%	Reading & Bates Petro- leum Company 100%	Ed Pendleton 4% Joe B. Schutz 1%	Reading & Bates Petroleum Company 100%
5	T13S, R21E Section 13: Lots 1(35.62), 2(35.53) N/2NW Section 35: Lots 1(39.10), 3(39.10) SWNE, SWSE, E/2E/2	469.35	NM-31872 5-1-88	USA 1/8-100%	Reading & Bates Petro- leum Company 100%	Ed Pendleton 5% Joe B. Schutz 1%	Reading & Bates Petroleum Company 100%
6	T12S, R22E Section 1: Lots 1(40.09), 2(40.27) 3(40.45), 4(40.83) S/2N/2, S/2 Section 3: S/2NE, SE Section 12: W/2	1201.64	NM-32183 5-1-88	USA 1/8-100%	Inexco Oil Company 100%	None	Inexco Oil Company 100%

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7	T13S, R22E Section 31: Lots 9(44.82), 10(44.42) 11(44.82), 12(33.15), 13(33.17), 14(33.27), 15(37.69)E/2NW, NE, NESW, N/2SE Section 32: Lots 2(17.76), 3(12.21) 4(11.88), 5(11.92) Section 33: Lots 1(26.18), 2(27.61) 3(27.90), 4(30.87), 5(43.85) 6(43.87), 7(43.91) E/2NW, NE, NESW, N/2SE	1289.30	NM-32189 3-1-89	USA 1/8-100%	Inexco Oil Company 100%	None	Inexco Oil Co. 100%
8	T13, R21E Section 13: Lots 3(35.49), 4(35.44) 5(7.95), 6(7.36) N/2NE Section 24: All Section 25: Lots 1(39.96), 2(39.86) 3(39.78), 4(39.68) N/2S/2, N/2 T13S, R22E Section 19: Lots 5(11.86), 6(38.46) 7(38.44), 8(31.76), 9(33.09) 10(38.79), 11(33.15), 12(33.19) SWNE, SENW, E/2SW, SE Section 30: Lots 5(33.25), 8(33.39) NENW, SESW, NE, SWSSE	2370.90	NM-32190 3-1-89	USA 1/8-100%	Inexco Oil Company 100%	None	Inexco Oil Co. 100%
9	T13S, R22E Section 14: W/2	320.00	NM-32192 5-1-88	USA 1/8-100%	Inexco Oil Company 100%	None	Inexco Oil Co. 100%

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10	T12S, R22E Section 33: N/2,SE/4 Section 34: A11 T13S, R22E Section 3: Lots 5(35.69),6(37.47) 7(37.74),8(34.91),9(19.30) 10(34.22) Section 4: Lots 5(34.43),6(34.07) 7(33.85),8(33.48) S/2S/2 (all) Section 5: Lots 6(12.29),7(27.22) 8(27.11),9(35.80),10(32.85) S/2SE,SW/4(all)	1990.43	NM-32193 3-1-89	USA 1/8-100%	Inexco Oil Company 100%	None	Inexco Oil Co. 100%
11	T12S, R22E Section 21: S/2NE,SWNW,SW Section 22: NWNE,S/2NE,W/2,SE/4 Section 27: A11 Section 28: N/2NW,E/2 Section 29: SWNE,SENN,SE	2160.00	NM-32194 3-1-89	USA 1/8-100%	Inexco Oil Company 100%	None	Inexco Oil Co. 100%
12	T12S, R22E Section 13: W/2 Section 14: A11 Section 23: NE,SWNW,SW Section 24: A11 Section 26: N/2N/2,SWNW	2160.00	NM-32196 3-1-89	USA 1/8-100%	Inexco Oil Company 100%	None	Inexco Oil Co. 100%
13	T12S, R22E Section 10: E/2W/2,E/2 Section 11: A11 Section 15: N/2NE,NENN	1240.00	NM-32197 5-1-88	USA 1/8-100%	Inexco Oil Company 100%	None	Inexco Oil Co. 100%
14	T13S, R22E Section 20: Lots 1(25.98),2(39.42) N/2NE,SWNE,E/2NW,SW,NWSE, S/2SE Section 21: Lots 1(38.13),2(38.19), 3(38.25),4(38.92),S/2NW,SW Section 27: S/2 Section 28: N/2N/2,S/2S/2 Section 29: N/2,N/2SW,S/2SW,SE	2178.89	NM-32200 5-1-88	USA 1/8-100%	Inexco Oil Company 100%	None	Inexco Oil Co. 100%

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15	T13S, R22E Section 8: All Section 9: All	1280.00	NM-32201 5-1-88	USA 1/8-100%	Inexco Oil Company 100%	None	Inexco Oil Company 100%
16	T13S, R22E Section 7: Lots 5(32.49),6(32.55), 7(32.61),8(32.67) E/2W/2, E/2(all) Section 17: Lot 1(25.07),2(25.81) E/2SW, SE/4, N/2 Section 18: Lots 5(32.74),6(33.62), 7(40.88),8(40.94),9(41.02) NENW,N/2NE Tract 46 (S/2) all	1850.40	NM-32202 5-1-88	USA 1/8-100%	Inexco Oil Company 100%	None	Inexco Oil Company 100%
17	T13S, R22E Section 1: Lots 5(21.94),6(37.20), 7(37.22),8(35.52)9(38.36) 10(25.26) SESW,SWSE(all) Section 10: Lots 1(33.92),2(17.56) 3(17.38),4(33.95),5(39.87) 6(39.14),7(39.04),8(39.36) S/2S/2 Section 11: S/2 Section 12: Lots 1(26.98),2(39.97) 3(28.68),4(30.40),5(32.12) W/2NE,E/2NW,SWNW,SW, W/2SE(all) Section 15: Lots 1(24.74),2(23.84), 3(23.95),4(24.08),E/2W/2, E/2(all)	2190.48	NM-32203 3-1-89	USA 1/8-100%	Inexco Oil Company 100%	None	Inexco Oil Company 100%
18	T14S, R21E Section 10: E/2,NW,N/2SW,SESW Section 11: W/2,SE,W/2NE	1160.00	NM-32317 8-1-88	USA 1/8-100%	Inexco Oil Company 100%	None	Inexco Oil Company 100%
19	T14S, R21E Section 1: Lots 1(40.03),2(40.09) 3((40.16),4(40.22),S/2N/2, S/2 (all) Section 3: Lots 1(40.57),2(40.51), 3(40.45),4(40.39) S/2N/2, S/2(all)	1282.42	NM-32326 7-1-89	USA 1/8-100%	Melvin Wolf 100%	None	Melvin Wolf 100%



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20	T13S, R22E Section 16: Lots 3(16.20),4(15.27), 5(14.95),6(14.64)	61.11	NM-36867 4-1-91	USA 1/8-100%	John A. Yates 100%	None	John A. Yates 100%
21	T12S, R22E Section 10: W/2W/2 Section 15: N/2NW,S/2N/2,SE Section 20: N/2 Section 21: N/2N/2, SENW	1040.00	NM-39992 10-1-90	USA 1/8-100%	Phillips Petroleum Co. 100%	None	Phillips Petroleum Company 100%
22	T12S, R22E Section 3: Lot 1,	40.68	NM-41371 12-1-91	USA 1/8-100%	Robert W. Piatt 100%	None	Robert W. Piatt 100%
23	T12S, R22E Sec. 3: Lot 2(40.76) Sec. 15: W/2SW, NESW, N/2SESW, SWSESW, W/2SESESW Sec. 16: N/2, SE	675.76	NM-41408 11-1-93	USA 1/8-100%	Phillips Petroleum Co. 100%	None	Phillips Petroleum Company 100%
24	T13S, R22E Sec. 22: NENW  Total Federal Lands	40.00  28,765.65	None	USA 100%	Open	None	None
<u>STATE LANDS</u>							
25	T14S, R21E Section 2: Lots 1(40.30),2(40.38) 3(40.47),4(40.55),S/2N/2, N/2S/2,S/2SW, SWSE Section 11: E/2NE	681.70	IG-5524 7-1-88	St. of N. Mex. 1/8-100%	Inexco Oil Company 100%	None	Inexco Oil Company 100%
26	T12S, R22E Section 16: SW/4	160.00	IG-7112 10-1-89	St. of N. Mex. 1/8-100%	Harper Oil Company 100%	None	Harper Oil Company 100%

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27	T12S, R22E Section 31: Lot 1(46.27),NENW,N/2NE	166.27	LG-7113 10-1-89	St. of N. Mex. 1/8-100%	Harper Oil Company 100%	None	Harper Oil Company 100%
28	T13S, R22E Section 16: A11 (A/K/A Tract 45)	640.00	LG-7115 10-1-89	St. of N. Mex. 1/8-100%	Inexco Oil Company 100%	None	Inexco Oil Company 100%
29	T13S, R21E Section 36: A11 (A/K/A Tract 55)	640.00	LG-7116 10-1-89	St. of N. Mex. 1/8-100%	Inexco Oil Company 100%	None	Inexco Oil Company 100%
30	T12S, R22E Section 32: A11	640.00	LG-7251 11-1-89	St. of N. Mex. 1/8-100%	Inexco Oil Company 100%	None	Inexco Oil Co.100%
31	T13S, R22E Section 32: A11 + Tract 56 (resurveyed)	640.00	LG-7252 11-1-89	St. of N. Mex. 1/8-100%	Phillips Petroleum Company 100%	None	Phillips Petroleum Company 100%
32	T12S, R22E Section 2: Lots 1(40.71),2(40.69), 3(40.67),4(40.65)S/2N/2,S/2	642.72	LG-8465 8-1-90	St. of N. Mex. 1/8-100%	Inexco Oil Company 100%	None	Inexco Oil Company 100%
33	T12S, R22E Section 26: S/2, S/2NE, SENW	440.00	LG-8466 8-1-90	St. of N. Mex. 1/8-100%	Inexco Oil Company 100%	None	Inexco Oil Company 100%
34	T12S, R22E Section 28: S/2NW Section 29: N/2N/2,SWNW,SENE	320.00	LG-8467 8-1-90	St. of N. Mex. 1/8-100%	Inexco Oil Company 100%	None	Inexco Oil Company 100%
35	T12S, R22E Section 35: A11	640.00	LG-8468 8-1-90	St. of N. Mex. 1/8-100%	Inexco Oil Company 100%	None	Inexco Oil Company 100%
36	T13S, R21E Section 35: Tract No. 54	40.00	LG-8469 8-1-90	St. of N. Mex. 1/8-100%	Inexco Oil Company 100%	None	Inexco Oil Company 100%
37	T13S, R22E Section 2: Tract 37	312.38	LG-8470 8-1-90	St. of N. Mex. 1/8-100%	Inexco Oil Company 100%	None	Inexco Oil Company 100%
38	T13S, R22E Section 10: Tract No. 40	320.00	LG-8471 8-1-90	St. of N. Mex. 1/8-100%	Inexco Oil Company 100%	None	Inexco Oil Company 100%
Total State lands		6,283.07					

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39	<u>FEE LANDS</u>						
	T13S, R21E	160.90	None	8/8 Wyley J. Johnson 50%	None	None	Wyley J. Johnson 50%
	Section 35: Lot 4 (40.90) SENW S/2SW	(80.45) (60.34)	10-6-87	1/8 David W. McGee 37.5%	Gulf Oil Corporation 100%	None	Gulf Oil Corporation 37.5%
40		(20.11)	10-6-87	1/8 Mary Ion McGee Glass 12.5%	Gulf Oil Corporation 100%	None	Gulf Oil Corporation 0.5%
	T12S, R22E	320.00	10-28-87	1/8 Matthew Henderson et ex 50.0%	Gulf Oil Corporation 100%	None	Gulf Oil Corporation 50%, Phillips Petroleum Company 50%
	Section 12: E/2	(160.00)	5-16-85	1/8 Nora L. Farrar and Leon A. Farrar, et ux 50%	Phillips Petroleum Company 100%		
41		320.00	10-28-87	1/8-Matthew Henderson-50.0%	Gulf Oil Corporation 100%	None	Gulf Oil Corporation 50%
	T12S, R22E	(160.00)	5-25-85	1/8 Frank E. Crow 12.5%	Phillips Petroleum Company 50%	None	Phillips Petroleum Company 50%
	Section 13: E/2	(40.00)	5-13-85	1/8-Thelma Mae Crow, 12.5%	Phillips Petroleum Company 100%	None	
42		(40.00)	5-12-85	1/8 Sylvia J. Smith 12.5%, 1/8 Lee Elvia Crow 12.5%	Phillips Petroleum Company 100%	None	
	T12S, R22E	165.00	10-28-87	1/8 Matthew Henderson 100%	Gulf Oil Corporation 100%	None	Gulf Oil Corporation 100%
	Section 15: E/2 SE/4 SE/4 SW/4						
43		160.00	5-14-85	1/8-Lillian Dullard 100%	Phillips Petroleum Company 100%	None	Phillips Petroleum Company 100%
	T12S, R22E						
	Section 22: NENE						
	Section 23: N/2NW, SENW						

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44	T13S, R22E Section 10: NENW(Tr.43) (40.00) Section 11: Lots 1(39.26), 2(39.25) 3(39.25), 4(39.29), S/2N/2 Section 19, 20: Tract 47(40.00) Section 30: Lot 6(33.29), SENW, SESE	510.34	OPEN	8/8 Zoa White McGee 100%	OPEN	None	Zoa White McGee 100%
45	T13S, R21E Section 13: S/2 (A/K/A Tract 64)  T14S, R21E Section 2: SESE	360.00	10-6-87	1/8-Zoa White McGee 100%	Gulf Oil Corporation 100%	None	Gulf Oil Corporation 100%
46	T13S, R22E Section 20: NESE,SENE Section 21: S/2NE,SE/4 Section 22: Lot 1(39.25) NENW, S/2NW, NE,S2 All(639.25) Section 27: N/2 of Tract 52 Section 28: N/2S/2, S/2N/2 Section 29: NWSW	1639.25 (819.625)  (819.625)	4-28-85  4-29-85	1/8-Chesser Ranch, Inc.50.0% 1/8 Alta Mae Threlkeld 50.0%	Phillips Petroleum Company 100% Phillips Petroleum Company 100%	None  None	Phillips Petroleum Company 50% Phillips Petroleum Company 50%
47	T13S, R22E Section 30: Lot 7(33.34),NESW,N/2SE	153.34	6-2-85	1/8-Norman B. Taylor et ux 100%	Phillips Petroleum Company 100%	None	Phillips Petroleum Company 100%
48	T13S, R21E Section 26: W/2	320.00	1-26-88	1/8-Diamond A. Cattle Company 50%, Joe Howard Smith et ux 25%, Betty Jane Priest 25%,	Inexco Oil Company 100%		Inexco Oil Co.100%

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49	T13S, R21E Section 35: Lot 2(40.90) SWNW	80.90 (40.45) (30.34)	None 10-6-87	8/8 Ethel E. Johnson 50% 1/8 David W. McGee 37.5% 1/8 Mary Lon McGee Glass 12.5%	None Gulf Oil Corporation 100% Gulf Oil Corporation 100%	None None None	Ethel E. Johnson 50% Gulf Oil Corporation 37.5% Gulf Oil Corporation 12.5%
50	T13S, R21E Section 35: NE1/4	40.00	None	8/8 Zoa White McGee 100%	None	None	Zoa White McGee 100%
	Federal	28,765.65 acres		73.23520% of unit			
	State	6,283.07 acres		15.99623% of unit			
	Fee	4,229.73 acres		10.76857% of unit			
		39,278.45 acres		100.00000%			
	IOC	28,628.84 acres		72.88689% of unit			
	Phillips	5,760.87 acres		14.66674% of unit			
	R & B	1,461.12 acres		3.71990% of unit			
	Wintershall	40.00 acres		0.10184% of unit			
	Melvin Wolf	1,282.42 acres		3.26495% of unit			
	J. Yates	61.11 acres		0.15558% of unit			
	Harper	326.27 acres		0.83066% of unit			
	Gulf	965.90 acres		2.45911% of unit			
	Piatt	40.68 acres		0.10357% of unit			
	McGee	550.34 acres		1.40112% of unit			
	W.J. Johnson	80.45 acres		0.20482% of unit			
	Ethel Johnson	40.45 acres		0.10298% of unit			
	Open Fed.	40.00 acres		0.10184% of unit			

EXHIBIT "C"

**UNIT OPERATING AGREEMENT**

**MADE WELL ANTICLINE UNIT AREA**

**COUNTY OF** CHAVES

**STATE OF** NEW MEXICO

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**NOTE:** Attention is called to pages 1, 6, 10, 11, 13, 14, 15, 16, and 19, which contain blanks to be filled in.

## UNIT OPERATING AGREEMENT

### UNIT AREA

THIS AGREEMENT made as of the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, 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 MADE WELL ANTICLINE UNIT AREA, County of Chaves; State of New Mexico, dated as of the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, and hereinafter referred to as the "Unit Agreement", covering the lands described in EXHIBIT B thereto attached, which lands are referred to in the Unit Agreement and in this Agreement as the "Unit Area"; and

WHEREAS, the Parties enter into this Agreement pursuant to Section 7 of the Unit Agreement, NOW, THEREFORE, in consideration of the covenants herein contained, it is agreed as follows:

#### ARTICLE 1 DEFINITIONS

1.1 **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:

"Unit Operator" means INEXCO OIL COMPANY and its successors, as the Unit Operator designated in accordance with the Unit Agreement, acting in that capacity and not as an owner of a Committed Working Interest.

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

"Drilling Party", "Completing Party", and "Participating Party" all mean the Party or Parties obligated to bear Costs incurred in the Drilling, Completing, or Deepening or Plugging Back, respectively, of a well at the commencement of such operation.

"Non-Drilling Party", "Non-Completing Party", and "Non-Participating Party" all mean the Party or Parties who had the optional right to participate in the Drilling, Completing, or Deepening or Plugging Back, respectively, of a well and who elected not to participate therein.

"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.

"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 Committed 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 Committed Working Interests in a tract, there shall be apportioned to each such Committed Working Interest that proportion of the acreage of the tract that such Committed Working Interest bears to the entire Committed Working Interest in the tract.

"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.

"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 attached hereto as Exhibit 1, which shall govern in all matters covered thereby, except that in the event of an inconsistency between said Accounting Procedure and this Agreement, this Agreement shall control.

"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.

"Drill" means to perform all operations reasonably necessary and incident to the drilling of a well to its projected depth, including preparation of roads and drill site, testing, and logging, but excluding Completion operations.

"Complete" means to perform all operations reasonably necessary and incident to the completion of a well, commencing with the running and setting of the production pipe and, if productive of unitized substances, equipping through the wellhead connections, or plugging and abandoning, if dry.

**"Equip"** means to perform all operations reasonably necessary and incident to the equipping of a well for production beyond the wellhead connections.

**"Deepen" or "Plug Back"** means to perform all operations reasonably necessary and incident to Drilling a well below its original projected depth or plugging back a well to a depth above its original projected depth, testing, and logging, but excluding Completing and Equipping operations.

**"Initial Test Well"** means the test well or wells provided for in Section 9 of the Unit Agreement and in Exhibit 2 attached hereto.

**"Subsequent Test Well"** means a test well Drilled after the Drilling of the Initial Test Well and before discovery of unitized substances in paying quantities in the Unit Area.

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

**"Exploratory Well"** means a well (other than a Development Well) Drilled after discovery of unitized substances in paying quantities in the Unit Area.

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

**"Salvage Value"** of a well means the value of the materials and equipment in or appurtenant to the well, determined in accordance with Exhibit 1, less the reasonably estimated Costs of salvaging the same and plugging and abandoning the well.

**"Geological Survey"** means the Authorized Officer (AO), the Land Commissioner and Oil Conservation Commission (Division), including any person or person acting under the authority thereof.

## **ARTICLE 2 EXHIBITS**

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

**Exhibit 1.** Accounting Procedure.

**Exhibit 2.** Initial Test Well.

**Exhibit 3.** Insurance.

**Exhibit 4.** Non-Discrimination.

**Exhibit 5.** Oil and Gas Lease.

In the event of a conflict or inconsistency between the provisions of an Exhibit and the provisions of this Agreement, the provisions of this Agreement shall control.

## **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 2.

**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 Exhibit 2.

## **ARTICLE 4 SUBSEQUENT TEST WELLS**

**4.1 Right to Drill.** The Drilling of any Subsequent Test Well shall be upon such terms and conditions as may be agreed to by the Parties; provided, however, that in the absence of agreement, such well may be Drilled under the provisions of Article 9.

## **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 twenty (20) days before filing the same with the Geological Survey. The date of proposed filing must be shown in the proposal. If, within the 20-day period above provided, the proposal receives the Approval of the Parties within the proposed participating area or no written objections are received, then such proposal shall be filed on the date specified.

**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 Geological Survey.

**5.3 Revised Proposal.** If the proposal does not receive the Approval of the Parties within the proposed participating area, and Unit Operator receives written objections thereto, then Unit Operator shall submit to the Parties a revised proposal, taking into account the objections made to the first proposal. If no proposal receives the Approval of the Parties within sixty (60) days from submission of the

first proposal, then Unit Operator shall file with the Geological Survey a proposal reflecting as nearly as practicable the various views expressed by the Parties.

**5.4 Rejection of Proposal.** If a proposal filed by Unit Operator as above provided is rejected by the Geological Survey, 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.

## 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 Articles 8, 9, 11, and 12:

**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.

**B. Production.** All Production from a participating area shall be allocated on an Acreage Basis to the tracts of unitized 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 Drilled (including the Deepening or Plugging Back thereof) within a Drilling Block established under the provisions of either Article 9 or Article 10 is completed as a producer but not included within a participating area, then the following provisions shall be applicable:

**A. When All Drilling Block Parties Participate.** If all Parties within the Drilling Block shall have elected to participate in Drilling and Completing such well, then said well, the Production therefrom, and the materials and equipment therein or appurtenant thereto shall be owned by such Parties; and all Costs incurred in the operation of such well and all Lease Burdens payable in respect of Production from such well shall be borne and paid by said Parties. Apportionment among said Parties of ownership, Costs, and Lease Burdens shall be in the same proportions in which Costs incurred in Drilling the well were borne.

**B. When Less Than All Drilling Block Parties Participate.** If any Party within the Drilling Block shall have elected not to participate in Drilling or Completing such well, then the provisions of Article 12 shall be applicable thereto; and the relinquished interest of the Non-Drilling Party shall revert to it in the same manner and under the same conditions as provided in Section 12.4 with respect to a well which results in the establishment or enlargement of a participating area, except that the proceeds or market value to be used in determining when such reversion shall occur shall be the proceeds or market value (after making the deductions provided for in Section 12.4) of that portion of the Production obtained from the well which, had the Non-Drilling Party elected to participate in the Drilling or Completing thereof, would have been allocable, on an Acreage Basis within the Drilling Block, to the Non-Drilling Party. Upon reversion of the relinquished interest of the Non-Drilling Party in such well, the provisions of Section 12.5 shall become applicable.

**6.3 Cost Liability of Subsequently Created Interests.** Anything herein to the contrary notwithstanding, if, subsequent to the date of this Agreement, any Party shall create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its Committed Working Interest (hereinafter called "Subsequently Created Interest"), such Subsequently Created Interest shall be made expressly subject to the terms and provisions of this Section 6.3 and of Section 12.9. If the Party which created such Subsequently Created Interest fails to pay, when due, its share of Costs and the proceeds from its share of Production are insufficient to cover such Costs, then the Subsequently Created Interest shall be chargeable with a pro rata share of such Costs as if such Subsequently Created Interest were a Committed 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 chargeable to the Subsequently Created Interest.

**6.4 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, each Party shall be entitled to receive directly all proceeds from the sale of its share of Production. Unit Operator shall timely make all permitted governmental filings relative to the price to be charged for gas; however, Unit Operator shall not be liable if, through mistake or oversight, it should fail to make any such filing or should make erroneous filings.

**6.5 Failure to Take in Kind.** Should any Party fail to take in kind or separately dispose of its share of Production, the Party acting as Unit Operator shall have the right, revocable at will by the Party owning such share, to purchase such share for its own account at not less than the market price

## ARTICLE 9 EXPLORATORY WELLS

**9.1 Purpose and Procedure.** It is the purpose of this Article to set forth the procedure for Drilling and Completing an Exploratory Well.

**9.2 Drilling.** The Drilling of an Exploratory Well shall be pursuant to the procedure herein set forth.

**A. 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 640 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 notice of the location, objective formation, estimated 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 approved 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 Geological Survey 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 the actual Drilling of a well is commenced thereon within such period, until either:

- (1) the Completion of the well, if it is completed otherwise than as a producer of unitized substances in paying quantities, either at its original projected depth or, if Deepening or Plugging Back operations are conducted, at any other projected depth; or
- (2) the filing with the Geological Survey of a proposal for the establishment or revision of a participating area if the Completion of the well results in the filing of such proposal.

**B. Basis of Participation.** Each Party within the Drilling Block shall be entitled to participate in the Costs of Drilling the proposed well on an Acreage Basis but shall be required to do so only if it notifies the other Parties within the Drilling Block of its willingness so to participate, as hereinafter in this Article 9 provided.

**C. 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 30-day period, the proposed Drilling Block shall be established as the Drilling Block.

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

**E. Notice of Election to Proceed.** Unless all Parties within the Drilling Block agree to participate in Drilling such well, then, within fifteen (15) days after expiration of the 10-day period specified in Subdivision D of this Section 9.2, each Party within the Drilling Block then desiring to have the proposed well Drilled shall give to all other Parties therein 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.

**F. Subsequent Election.** If election to Drill the proposed well is made, any Party within the Drilling Block who had not previously elected to participate therein may do so by notice given to all other Parties within the Drilling Block at any time before the well is spudded, 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.

**G. Effect of Election.** If one or more, but not all, of the Parties within the Drilling Block elect to proceed with the Drilling of the well, Unit Operator shall Drill the well for the account of such Party or Parties, who shall constitute the Drilling Party, on an Acreage Basis among themselves, or on such other basis as said Parties may specify.

**H. Rights and Obligations of Drilling Party and Non-Drilling Party.** Whenever an Exploratory Well is Drilled otherwise than for the account of all Parties within the Drilling Block involved, the provisions of Article 12 shall be applicable to such operation.

**9.3 Attempted Completion.** The attempted Completion of Exploratory Wells Drilled to their projected depths shall be governed by the following provisions:

**A. Notice by Unit Operator.** After an Exploratory Well has reached its projected depth and has been tested, logged, and logs furnished to each Drilling Party, but before production pipe has been set, Unit Operator shall give notice thereof to each Drilling Party.

**B. Right to Attempt Completion.** Each Drilling Party shall have the right to initiate a proposal to attempt the Completion of such well and also shall be entitled to participate in the Completion attempt.

prevailing in the area for Production of like kind and quality, or to sell such share to others at not less than the price which it receives for its own share of Production; provided that all such sales shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but not to exceed one (1) year. Notwithstanding the foregoing, Unit Operator shall not sell or commit any Party's share of gas Production to a sale without first giving such Party not less than ninety (90) days' written notice.

**6.6 Surplus Materials and Equipment.** Materials and equipment owned by the Parties or by 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 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 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 of less than Seven Thousand Five Hundred Dollars (\$7,500.00).

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 Seven Thousand Five Hundred Dollars (\$7,500.00), shall be 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 as provided in Exhibit 1.

## ARTICLE 7 PLANS OF DEVELOPMENT

**7.1 Submittal of Plans.** Each plan for the development and operation of the Unit Area shall be submitted by Unit Operator to the Geological Survey in accordance with the Unit Agreement and the further provisions of this Article.

**7.2 Proposal.** Unit Operator shall initiate each proposed plan by submitting the same in writing to each Party at least thirty (30) days before filing the same with the Geological Survey. If, within the 30-day period above provided, such plan receives the Approval of the Parties or no written objections are received, then such plan shall be filed.

**7.3 Objections to Plan.** Within the 30-day period above provided, any Party may submit to Unit Operator written objections to such plan. If, despite such objections, the plan receives the Approval of the Parties, then the Party making the objections may renew the same before the Geological Survey.

**7.4 Revised Plan.** If such plan does not receive the Approval of the Parties, and Unit Operator receives written objections thereto, then Unit Operator shall submit to the Parties a revised plan, taking into account the objections made to the first plan. If no plan receives the Approval of the Parties within sixty (60) days from submission of the first plan, then Unit Operator shall file with the Geological Survey a plan reflecting as nearly as practicable the various views expressed by the Parties.

**7.5 Rejection of Plan.** If a plan filed by Unit Operator as above provided is rejected by the Geological Survey, Unit Operator shall initiate a new plan in the same manner as provided in Section 7.2, and the procedure with respect thereto shall be the same as in the case of an initial plan.

**7.6 Notice of Approval or Disapproval.** If and when a plan has been approved or disapproved by the Geological Survey, Unit Operator shall give prompt notice thereof to each Party.

**7.7 Supplemental Plans.** If any Party or Parties shall have elected to proceed with a 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 approved by the Geological Survey, Unit Operator shall either (a) submit to the Geological Survey for approval a supplemental plan providing for the conduct of such operation or (b) request the Geological Survey to consent to such operation, if such consent is sufficient.

**7.8 Cessation of Operations Under the Plan.** If any plan approved by the Geological Survey provides for the cessation of any Drilling or other operation therein provided for on the happening of a contingency and such contingency occurs, Unit Operator shall promptly cease such Drilling or other operation and shall not incur any additional Costs in connection therewith unless and until such Drilling or other operation is again authorized, in accordance with this Agreement, by the Parties chargeable with such Costs and the Geological Survey.

## ARTICLE 8 DEVELOPMENT WELLS

**8.1 Purpose and Procedure.** It is the purpose of this Article to set forth the procedure for Drilling and Completing a Development Well.

**8.2 Drilling.** The Drilling of a Development Well shall be pursuant to the procedure herein set forth.

A. **Approval Required.** The Drilling of a Development Well shall 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 a Committed Working Interest in the tract of land on which the proposed well is to be Drilled. Vote by any Party in favor of the Drilling of any such well shall not, however, be deemed an election by such Party to participate in the Costs thereof but shall mean only that such Party

considers the Drilling of the well to be consistent with the efficient and economic development of the participating area involved and has no objection to the Drilling thereof.

**B. Notice of Proposed Drilling.** Subject to the provisions of Subdivision A of this Section 8.2, 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 notice, specifying the location, depth, and estimated cost of the proposed well, which location shall conform to any applicable spacing pattern then existing or an approved exception thereto.

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

**D. Notice of Election to Proceed.** Unless all Parties within the participating area agree to participate in Drilling such well, then, within fifteen (15) days after expiration of the 30-day period specified in Subdivision C of this Section 8.2, each Party within the participating area then desiring to have the proposed well Drilled shall give to all other Parties therein 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.

**E. Subsequent Election.** If election to Drill the proposed well is made, any Party within the participating area who had not previously elected to participate therein may do so by notice given to Unit Operator at any time before the well is spudded, 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.

**F. Effect of Election.** If one or more, but not all, of the Parties within the participating area elect to proceed with the Drilling of the well, Unit Operator shall Drill the well for the account of such Party or Parties, who shall constitute the Drilling Party, on an Acreage Basis among themselves, or on such other basis as said Parties may specify.

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

**8.3 Attempted Completion.** The attempted Completion of Development Wells Drilled to their projected depths shall be governed by the following provisions:

**A. Notice by Unit Operator.** After a Development Well has reached its projected depth and been tested, logged, and logs furnished to each Drilling Party, but before production pipe has been set, Unit Operator shall give notice thereof to each Drilling Party.

**B. Right to Attempt Completion.** Each Drilling Party shall have the right to initiate a proposal to attempt the Completion of such well and also shall be entitled to participate in the Completion attempt.

**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 given pursuant to Subdivision A of this Section 8.3 shall be allowed within which a Party entitled to do so may initiate a proposal to Complete. Any such proposal shall be initiated by giving notice thereof to Unit Operator and to each Drilling Party. If no such proposal is initiated within said period and no other proposal is initiated pursuant to Article 11, Unit Operator shall plug and abandon the well for the account of the Drilling Party.

**D. Election.** If a proposal to Complete is initiated, each Drilling Party shall have a period of twenty-four (24) hours (exclusive of Saturdays, Sundays, and holidays) from and after receipt of such proposal within which to notify Unit Operator whether or not it elects to participate in the Completion attempt. The failure of a Party to signify its election within said 24-hour period shall be deemed an election not to participate in the Completion attempt.

**E. Effect of Election.** The Party or Parties electing to participate in an attempt to Complete a well as above provided shall constitute the Completing Party for such operation. Each Party who was entitled to make such election but failed to do so as above provided shall be a Non-Completing Party with respect to such operation. Such operation shall be conducted by Unit Operator for the account of the Party or Parties constituting the Completing Party, on an Acreage Basis among themselves, or on such other basis as the Completing Party may specify. Such operation, if successful, shall include Equipping the well for production.

**F. Rights and Obligations of Completing Party and Non-Completing Party.** Upon the commencement of a Completion operation otherwise than for the account of all Drilling Parties, the provisions of Article 12 shall be applicable to such operation.

**G. Notice Prior to Plugging.** Before plugging and abandoning any Development Well which was Drilled to its projected depth and not completed as a producer of unitized substances, Unit Operator shall give the notice specified in Section 11.1 A, unless every Party entitled to the notice has consented to the plugging and abandonment of such well, in which event Unit Operator shall plug and abandon the well for the account of the Completing Party. Upon the giving of such notice, the provisions of Article 11 shall apply.



**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 given pursuant to Subdivision A of this Section 9.3 shall be allowed within which a Party entitled to do so may initiate a proposal to Complete. Any such proposal shall be initiated by giving notice thereof to Unit Operator and to each Drilling Party. If no such proposal is initiated within said period and no other proposal is initiated pursuant to Article 11, Unit Operator shall plug and abandon the well for the account of the Drilling Party.

**D. Election.** If a proposal to Complete is initiated, each Party entitled to participate in the Completion attempt shall have a period of twenty-four (24) hours (exclusive of Saturdays, Sundays, and holidays) from and after receipt of such proposal within which to notify Unit Operator whether or not it elects to participate in the Completion attempt. The failure of a Party to signify its election within said 24-hour period shall be deemed an election not to participate in the Completion attempt.

**E. Effect of Election.** The Party or Parties electing to participate in an attempt to Complete a well as above provided shall constitute the Completing Party for such operation. Each Party who was entitled to make such election but failed to do so as above provided shall be a Non-Completing Party with respect to such operation. Such operation shall be conducted by Unit Operator for the account of the Party or Parties constituting the Completing Party, on an Acreage Basis among themselves, or on such other basis as the Completing Party may specify. Such operation, if successful, shall include Equipping the well for production.

**F. Rights and Obligations of Completing Party and Non-Completing Party.** Upon the commencement of a Completion operation otherwise than for the account of all Drilling Parties, the provisions of Article 12 shall be applicable to such operation.

**G. Notice Prior to Plugging.** Before plugging and abandoning any Exploratory Well which was Drilled to its projected depth and not completed as a producer of unitized substances, Unit Operator shall give the notice specified in Section 11.1 A, unless every Party entitled to the notice has consented to the plugging and abandonment of such well, in which event Unit Operator shall plug and abandon the well for the account of the Completing Party. Upon the giving of such notice, the provisions of Article 11 shall apply.

## 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 a final order of the Geological Survey. 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 Party. If any such order is appealed, the Party appealing shall give prompt notice thereof to Unit Operator and to each of the other Parties, and, upon final disposition of the appeal, Unit Operator shall give each Party prompt notice of the result thereof.

**10.2 Election to Drill.** Any Party desiring to Drill, or to participate in the Drilling of, a Required Well shall give to Unit Operator notice thereof within thirty (30) days after the order requiring such well becomes final or within such lesser time as may be required to insure compliance with 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; provided, however, if the Required Well is a Development Well, it shall not be Drilled unless it receives the Approval of the Parties within the participating area involved. All rights and obligations 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 under Article 8, if the same is a Development Well, or under Article 9, 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 a reasonable effort to effect such contraction; 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, the Drilling Block for such well shall consist of all forty (40) 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 any participating area theretofore

established for the pool or zone to which the well is to be Drilled. Unit Operator shall Drill such well for the account of all the Parties owning Committed Working Interests within the Drilling Block, on an Acreage Basis among themselves; and no such Party shall have the right to elect not to participate in the Drilling of said well.

## ARTICLE 11 DEEPENING, PLUGGING BACK, AND ABANDONMENT

**11.1 Attempted Deepening or Plugging Back.** The attempted Deepening or Plugging Back of wells not completed as producers of unitized substances at their original projected depths shall be governed by the following provisions of this Section 11.1 and by the provisions of Section 11.2, unless every Party entitled to the notice provided for in Subdivision A of this Section 11.1 has consented to the plugging and abandonment of such well:

**A. Notice by Unit Operator.** Before abandoning any well which has been Drilled to its original projected depth but not completed as a producer of unitized substances, Unit Operator shall give notice of its intention to plug and abandon such well to each Drilling Party and Non-Drilling Party.

**B. Right to Initiate Proposal.** Each Party who participated in the Drilling of a well concerning which notice is given in accordance with Subdivision A of this Section 11.1 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 to Deepen or Plug Back such well; provided, however, if the well was Drilled as a Development Well, a proposal to Deepen or Plug Back may be initiated only by a Party owning a Committed Working Interest in the tract of land on which the well is located.

**C. Right to Participate.** In order to be entitled to participate in a Deepening or Plugging Back 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 Drilling the well involved; if no Drilling Block was theretofore established for Drilling such well, the Drilling Block for such Deepening or Plugging Back operation shall be established automatically in accordance with the provisions of Subdivision B of Section 10.4, which shall be applicable hereto.

**D. 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 given pursuant to Subdivision A of this Section 11.1 shall be allowed within which a Party entitled to do so may initiate a proposal to Deepen or Plug Back. Any such proposal shall be initiated by giving notice thereof to Unit Operator and to each Party entitled to participate in the proposed operation. If no such proposal is initiated within said period, Unit Operator shall plug and abandon the well for the account of the Completing Party if a Completion attempt was made or, if not, then for the account of the Drilling Party.

**E. Election.** If a proposal to Deepen or Plug Back a well is initiated, each Party entitled to participate in the operation proposed shall have a period of forty-eight (48) hours (exclusive of Saturdays, Sundays, and holidays) from and after receipt of such proposal within which to notify Unit Operator whether or not it elects to participate in the proposed operation. The failure of a Party to signify its election within said 48-hour period shall be deemed an election not to participate in the proposed operation.

**F. Effect of Election.** The Party or Parties electing to participate in an operation to Deepen or Plug Back a well as above provided shall constitute the Participating Party for such operation. Each Party who was entitled to make such election but failed to do so as above provided shall be a Non-Participating Party with respect to such operation. Such operation shall be conducted by Unit Operator for the account of the Party or Parties constituting the Participating Party, on an Acreage Basis among themselves, subject, however, to the provisions of Section 11.2 and Section 11.3. If the Party or Parties making such election do not proceed with the operation, the Costs incurred in plugging and abandoning the well shall be charged and borne as part of the Costs incurred in Drilling the well.

**G. Rights and Obligations of Participating Party and Non-Participating Party.** Upon the commencement of a Deepening or Plugging Back operation otherwise than for the account of all Parties entitled to participate therein, the provisions of Article 12 shall be applicable to such operation.

**11.2 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 the pool or zone for which such participating area was established, such operation, including the Completion of such well, may be conducted only if it receives the Approval of the Parties within such participating area, and only upon such terms and conditions as may be specified in such Approval, and upon such further terms and conditions as may be agreed to by the Parties owning interests in the well immediately prior to the commencement of any such Deepening or Plugging Back operation.

**11.3 Conflicts.** If conflicting elections to attempt to Deepen or Plug Back are made in accordance with the provisions of this Article 11, preference shall be given first to Deepening. However, if a Deepening attempt does not result in completion of the well as a producer of unitized substances, Unit Operator shall again give notice in accordance with Subdivision A of Section 11.1 before plugging and abandoning the well.

**11.4 Attempted Completion.** The attempted Completion of wells Deepened or Plugged Back to their projected depths, except wells Deepened or Plugged Back to a participating area, shall be governed by the provisions of Section 9.3, unless every Participating Party has consented to the plugging and

abandonment of such well, in which event Unit Operator shall plug and abandon the well for the account of the Participating Party.

**11.5 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 Section 11.6. 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 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 well receives the Approval of the Parties who own the well but is not consented to by all such Parties, Unit Operator shall give notice thereof to each Party, if any, 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 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 to 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 interests so relinquished shall be owned by the Non-Abandoning Parties in the proportions which their respective interests in the well bear to the total of their interests therein 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. 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 1, 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 which is equal to the interest relinquished by it to the Non-Abandoning Party or Parties, at the value previously fixed therefor. Said option may be exercised only by notice given to Unit Operator and to the Non-Abandoning Party or Parties within fifteen (15) days after receipt of the notice given by Unit Operator pursuant to Section 11.6.

**11.6 Deepening or Plugging Back Abandoned Producing Wells.** Before plugging any well authorized for abandonment pursuant to Section 11.5, Unit Operator shall give notice to the Party or Parties owning Committed Working Interests in the tract of land upon which the well is located, which Parties, for the further purposes of this Section 11.6, shall constitute the Parties entitled to initiate and participate in a proposed Deepening or Plugging Back operation. Within ten (10) days after receipt of said notice, any such Party desiring the Deepening or Plugging Back of such well shall give notice thereof to Unit Operator and to each Party entitled to participate in the proposed operation; and all the provisions of Subdivisions E, F, and G of Section 11.1 shall apply in the same manner as if the proposed Deepening or Plugging Back were a proposal for the Drilling of an Exploratory Well, subject, however, to the provisions of Section 11.2 and Section 11.3. 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 specified therefor, Unit Operator shall plug and abandon the well for the account of the Party or Parties owning the well.

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

**12.1 Use of Terms.** As used in this Article, the terms "Drilling Party" and "Non-Drilling Party" are to be understood as including "Completing Party" and "Non-Completing Party" and "Participating Party" and "Non-Participating Party", respectively, as such terms are used in Articles 8, 9, and 11.

**12.2 Scope of Article.** The rights and obligations of the Drilling Party and Non-Drilling Party with respect to 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.

**12.3 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, upon the commencement of such operation, shall be deemed to have relinquished to the Drilling Party, and the Drilling Party shall own, all such Non-Drilling Party's 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.

**12.4 Reversion of Relinquished Interest.** If the well is completed as a producer of unitized substances and is a Development Well or 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 the operating rights and working interest relinquished by such 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 all 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. <sup>200%</sup>~~100%~~ of that portion of the Costs incurred in Equipping the well and in operating the well after such relinquishment, and up to such time, that would have been charged to such Non-Drilling Party had the well been Drilled, Deepened, Plugged Back, or Completed and Equipped for the account of all Parties entitled to participate therein.

B. 500% 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 had the well been Drilled, Deepened, Plugged Back, or Completed and Equipped for the account of all Parties entitled to participate therein.

However, if such well is subsequently Deepened or Plugged Back, then (1) any payment made to such Non-Drilling Party as its share of the Salvage Value of the well in accordance with Section 12.3 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 of unitized substances as a result of such Deepening or Plugging Back.

**12.5 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.

**12.6 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 with respect to 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 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.

**12.7 Accounting Due Non-Drilling Party.** In the event a relinquishment of interest by a Non-Drilling Party occurs pursuant to any provision of this Agreement with respect to any well and Production is had from such well, Unit Operator shall furnish each Non-Drilling Party, upon its request, all information referred to in Subdivision F of Section 16.1 and, in addition, 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 operating said well, the quantity of Production obtained therefrom, the proceeds received from the sale of such Production, and the Lease Burdens paid with respect thereto.

**12.8 Stand-By Rig Time.** Stand-by time for the rig on a well for the period of time allowed for the initiation of a proposal and for the response thereto shall be charged and borne as part of the Costs incurred in the operation just completed. Stand-by time subsequent to said period of time shall be charged to and borne as Costs incurred in the proposed operation, unless no Party elected to participate therein.

**12.9 Subsequently Created Lease Burdens.** Anything herein to the contrary notwithstanding, if, subsequent to the date of this Agreement, any Party shall create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its Committed Working Interest and at any time become a Non-Drilling Party with respect to any operation conducted under this Agreement, then the Drilling Party entitled to receive the share of Production to which the Non-Drilling Party would otherwise be entitled shall receive the same free and clear of any such burden, and the Non-Drilling Party who created such burden shall hold the Drilling Party harmless with respect thereto.

**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. For the purposes of this Article 13, all Costs of a usable well shall be deemed to have been incurred on the date the well was Completed.

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

A. "Usable 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 the resulting area was 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 usable well within a resulting area means the amount of those Costs incurred in Drilling, Completing, and Equipping such well, down to the deepest pool or zone for which such resulting area was created, 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 was operated prior to the effective date of such resulting area:

- (1) 0.5 % per month for a cumulative total of 60 months, and
- (2) \_\_\_\_\_ % 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 in the construction or installation thereof (except 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 the rate of 0.5 % per month for each month during any part of which such well has been operated prior to 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 the 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 13.5:

A. The intangible value of each usable well within such resulting area on the effective date thereof shall be credited to the Party or Parties owning 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 usable 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 owning 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 the 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 usable well which also serves another participating area or other participating areas, the value of such tangible property and usable well (including the intangible value thereof) shall be determined in accordance with Subdivision D of Section 13.2, and such value shall be fairly apportioned between such resulting area and such other participating area or areas, provided that such apportionment receives the Approval of the Parties in each participating area concerned. That portion of the value of such tangible property and usable well (including the 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 is 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 usable 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 a 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 of this Section 13.4, and a separate adjustment for tangibles shall be made in accordance with Subdivision C of this Section 13.4.

B. Such Party shall be credited with the sum of (1) the total amount theretofore charged against such Party with respect to its excluded interest, pursuant to the provisions of Exhibit 1, 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 with respect to such excluded interest as intangible value of usable 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, was delivered to such Party with respect to such excluded interest, less the amount of Lease Burdens and taxes paid or payable on said portion, plus (2) the total amount credited to such Party with respect to such excluded interest as intangible value of usable 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 with respect to its excluded interest, pursuant to the provisions of Exhibit 1, 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 with respect to 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 13.4 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 in said Subdivision B over the credit therein provided for, plus (2) the total amount credited to such Party with respect to 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 13.4 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 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 usable 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 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 usable 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 Interest of Non-Drilling Parties.** If the interest relinquished by a Non-Drilling Party in a well which is a usable well within a resulting area on the effective date thereof has not reverted to it prior to such effective date, then insofar, but only insofar, as they relate 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 with respect to (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 of Section 13.3, with respect to its Committed Working Interests other than those referred to in (1) and (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 of this Section 13.6 to be charged against the Drilling Party, such excess shall be applied against the reimburse-



ment 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 14 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 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 for in the Unit Agreement and except as otherwise specified in this Agreement (particular reference being made to Section 25.1, Section 27.1, and that portion of Section 11.5 relating to abandonment of producing wells outside of a participating area), the affirmative vote of Parties having 65 % or more of the voting power on any matter which is proper for action by them shall be binding upon all Parties entitled to vote thereon; provided, however, if one Party voting in the affirmative has 65 % or more but less than 85 % of the voting power, the affirmative vote of such Party shall not be binding upon 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 35 % but less than 50% of the voting power, the affirmative vote of the Parties having a majority of the voting power shall be binding upon 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 in the 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 upon 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 having voting power on any 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 notice of the time, place, and purpose of the meeting. Unit Operator's representative shall be the Chairman of such meeting.

**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 notice, 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 within such period as may be designated in the notice given by Unit Operator (which period shall be not less than ten (10) nor more than thirty (30) days); provided, however, 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 notice, stating the tabulation and result of the vote.

**14.5 Representatives.** Promptly after execution of this Agreement, each Party, by notice to all other Parties, shall designate a representative authorized to vote for such Party and may designate an alternate 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 notice given to all other Parties, provided such notice designates a new representative or alternate representative, as the case may be.

**14.6 Audits.** Audits may be made of Unit Operator's records and books of account pertaining to operations hereunder, as provided in Exhibit 1.

**14.7 Extraneous Projects.** Nothing contained in this Agreement shall be deemed to authorize the Parties, by vote or otherwise, to act upon any matter or to 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 set forth 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 within 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 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 the control of 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 Parties as promptly as is reasonably practicable.

**15.5 Lien.** Each of the 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. In addition to Unit Operator's rights under the foregoing lien, and as a secured party, Unit Operator shall be entitled to the benefit of any statutory operator's lien provided for in the jurisdiction in which the Unit Area is located. Unit Operator may, but need not, bring an action at law or in equity to enforce collection of such indebtedness, with or without foreclosure of such lien, and, in addition, shall have all rights provided under the terms of the Uniform Commercial Code or of any other law. In addition to the foregoing, and not in limitation thereof, upon default by any Party in the payment of Costs chargeable to it, Unit Operator shall have the right to collect and receive proceeds from the purchaser of such Party's share of Production, up to the amount owing by such Party, plus interest at the maximum interest        per annum until paid. Each such purchaser shall be entitled to rely upon Unit Operator's statement concerning the existence and amount of any such default. None of the remedies or rights specified above shall be deemed exclusive, and the exercise of any such remedy or right shall not be deemed an election of remedies and shall not affect enforceability of the foregoing lien or security interest.

**15.6 Advances.** Unit Operator, at its election, shall have the right from time to time to demand and receive from the Parties chargeable therewith payment in advance of their respective shares of the estimated amount of 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 receipt thereof and thereafter shall bear interest at the        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, Plugging Back, or Completing operation and, notwithstanding any other provisions 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 such payment 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 with 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 of such operation, except that in any case where 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 a Committed Working Interest, the Party acting as Unit Operator shall have the same rights and obligations hereunder as if it were not Unit Operator. In each instance where this Agreement requires or permits a Party to give notice, consent, or approval to 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, Plug Back, or Complete 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 of the Parties pursuant to this Agreement. In case of conflict between such Directions and the provisions of the Unit 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 notice thereof to the Parties affected thereby.



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

**F. Information.** Furnish promptly to each Party chargeable with Costs of the operation involved and to each additional Party who makes timely written request therefor (1) copies of Unit Operator's authorizations for expenditures or itemizations of estimated expenditures in excess of Ten thousand Dollars (\$10,000.00), (2) copies of all drilling reports, well logs, and State and Federal reports, (3) samples of cores and cuttings taken from wells Drilled hereunder, to be delivered at the well in containers furnished by the Party requesting same, and (4) such other and additional information or reports as may be required by Direction of the Parties within the area affected. If multiple copies of any such materials are requested by any Party, Unit Operator may charge the cost thereof directly to the requesting Party.

**G. Access to Unit Area.** Permit each Party, through its 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 Unit operations.

#### 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 3 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 request of any Party, Unit Operator shall furnish evidence of insurance carried by it with respect to operations hereunder.

**B. Contractors'.** 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 other insurance as may be required by Direction of the Parties.

**C. Automotive Equipment.** In the event Automobile Public Liability insurance is specified in Exhibit 3 or subsequently receives the Approval of the Parties, no direct charge shall be made by Unit Operator for premiums paid for such insurance for Unit Operator's fully owned automotive equipment.

**16.3 Non-Discrimination.** In connection with the performance of work under this Agreement, Unit Operator agrees to comply with the provisions of Exhibit 4.

Unit Operator agrees to insert non-discrimination provisions in all subcontracts hereunder, as required by law or regulation.

**16.4 Drilling Contracts.** Each Drilling, Deepening, Plugging Back, or Completing operation conducted hereunder, and not performed by Unit Operator with its own tools and equipment in accordance with Section 15.7, 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, if bids were obtained, 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 for 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 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, Completing, or 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 Parties as promptly as reasonably possible.

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

D. **Settlement of Claims.** Pay in excess of Ten thousand Dollars (\$10,000.00) in 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. All claims or suits involving title to any interest subject to this agreement shall be treated as a claim or suit against all parties hereto.  
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 **Representation of Ownership.** Each Party represents to all other Parties that, to the best of its knowledge and belief, its ownership of Committed Working Interests in the Unit Area is that set out in Exhibit B to 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 canceling 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 with 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 2 shall, at its own expense but without responsibility for the accuracy thereof, furnish Unit Operator with the following title materials relating to all lands within such area in which it owns Committed Working Interests:

- (1) Abstracts of title based upon the County records, certified to the current date;
- (2) All lease papers, or copies thereof, mentioned in Subdivision A of this Section 18.2 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 for such lands, and also certified copies of the Serial Registers for the Federal leases involved;
- (5) If State lands are involved, status reports of current date, setting forth the entries found in the State records for such lands; and
- (6) If Indian lands are involved, status reports of current date, setting forth the entries found in the office of the Superintendent of the Indian Agency and in the Area Office for such lands.

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 640 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 to be Drilled, a title examination area covering 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 Subdivision B of this Section 18.2 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 furnish Unit Operator all the title materials listed in Subdivision B of this Section 18.2 not previously furnished, 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 materials delivered pursuant to Section 18.2 have been received, Unit Operator shall deliver the same to an attorney or attorneys approved by the Parties within the title examination area. Unit Operator shall arrange to have said materials 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. Each Party shall be responsible, at its expense, for curing its own titles. After a reasonable time, not exceeding thirty (30) days, has been allowed for any necessary curative work, Unit Operator shall submit to each Party 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 recommendations, of approval or disapproval of titles. Unless otherwise agreed, the cost of all title examinations made under this Section 18.3 shall be charged as part of the Costs 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 Section 18.2 shall have the right to examine all materials furnished Unit Operator. If such additional, independent 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 titles according to the provisions of this Article 18.

18.5 **Approval of Titles Prior to Drilling.** Where the Committed Working Interests within a title

examination area are owned by more than one Party, no Drilling shall be conducted in such area until titles to the Committed Working Interests therein have 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 titles to the Committed Working Interests within the title examination area established for such well have received the Approval of the Parties within the Drilling Block in which such well is to be Drilled. Approval of title to lands within a Drilling Block shall be binding upon all Parties owning Committed Working Interests within such Drilling Block. If lands outside a participating area are included in the title examination area for a Development Well, such well shall not be Drilled until titles to the Committed Working Interests within such title examination area have received the Approval of the Parties therein. In the event Approval of the Parties is not obtained as in this Section 18.5 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 within the title examination area (in all other instances) had been obtained, and (b) shall also be deemed to have given its approval to the titles to all lands within the Drilling Block (if one has been established) or within 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 a participating area are owned by more than one Party, no Committed Working Interest shall be included within said participating area or be entitled to participate in the Production of unitized substances from said participating area until title to such Committed Working Interest has received the Approval of the Parties within said participating area. Approval of titles to lands within a participating area shall be binding upon 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 a Committed Working Interest shall fail in whole or in part prior to receiving the Approval of the Parties, the Parties who improperly claimed said interest shall sustain the entire loss occasioned by such failure of title and do hereby expressly relieve and indemnify Unit Operator and all other Parties from and against 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 upon which a well has been completed otherwise than as a producer of unitized substances in paying quantities, 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:

A. the loss, the cost of litigation, and any ensuing liability shall be borne by 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);

B. 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 proportion 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

C. the relinquished portions of said Committed Working Interests (subject to their proportionate part of the Lease Burdens attributable thereto) shall be deemed owned by the Party receiving same.

**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 or the Unit Agreement. The true owner of a Committed 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.

**18.10 Title Challenge.** 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, unless the title has previously received the Approval of the Parties, in which event the provisions of Section 18.8 shall apply.

## 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 and also a royalty interest therein in the same manner as if such Party's oil and gas rights in such tract were covered by the form of oil and gas lease attached as Exhibit 5.

**19.2 Execution of Lease.** In any provision of this Agreement where reference is made to an assignment or conveyance by any Party of its Committed Working Interest to any other Party, each such reference as to any Party owning an unleased interest shall be interpreted to mean that such Party shall

execute an oil and gas lease to such other Party in the form of Exhibit 5, which shall satisfy the requirement for an assignment or conveyance of a Committed Working Interest.

## 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 with respect to 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 payment, provided it has acted in good faith.

20.2 **Lease Burdens.** Each Party entitled to receive a share of Production shall be obligated for 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 with respect to such share or the proceeds thereof; provided, however, at any time any such Party entitled to receive Production is not taking in kind or separately disposing of its share, that portion of such Production or the proceeds thereof (at the option of such Party) accruing to such Lease Burdens shall, upon request, be distributed to such Party.

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 Section 18.8 shall apply.

## ARTICLE 21 TAXES

21.1 **Payment.** Any and all ad valorem and severance taxes payable upon 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 taxes paid by Unit Operator upon or measured by the value of Production shall be charged to and borne by the Parties owning the same in the same proportions as the assessed values of their respective portions of such Production bear to the whole thereof. 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 with respect to 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 other 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 transferred or reverted interest for the taxable period in which such transfer or reversion occurs shall be apportioned among said 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 **Right of Withdrawal.** If the owner of any substantial interest in a tract within the Unit Area fails or refuses to join in the Unit Agreement, then such tract may be withdrawn from the Unit Agreement, as provided in the Unit Agreement.

22.2 **Non-Withdrawal.** Should the Party or Parties having the right under the Unit Agreement to withdraw a tract from the Unit Agreement fail to exercise such right, then 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 notice thereof to each Party affected by the demand.

23.2 **Demand for Failure to Drill a Development Well.** If the demand for compensatory royalties results from the failure to have Drilled a Development Well and such well is not Drilled, then Unit

Operator shall pay such compensatory royalties. Such payment shall be charged as Costs incurred in operations within the participating area involved.

**23.3 Demand for Failure to Drill a Well Other Than a Development Well.** If the demand for compensatory royalties results from the failure to have Drilled a well other than a Development Well and such well is not Drilled, then Unit Operator shall pay such compensatory royalties. 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 under Subdivision B of Section 10.4.

#### ARTICLE 24 SEPARATE MEASUREMENT AND SALVAGE

**24.1 Separate Measurement.** If a well completed as a producer of unitized substances is in or becomes 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 therefor by any interested Party, a method of measuring the Production from such well without the necessity of 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 or equipment are salvaged from a well completed as a producer after being Drilled, Deepened, Plugged Back, or Completed otherwise than for the account of all the Parties entitled to participate therein before reversion to the Non-Drilling Party of its relinquished interest in the well, the proceeds derived from the 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 the Non-Drilling Party of its relinquished interest in such well.

#### ARTICLE 25 ENHANCED RECOVERY AND PRESSURE MAINTENANCE

**25.1 Consent Required.** Unit Operator shall not undertake any program of enhanced 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 Parties owning, on an Acreage Basis, not less than 90% % of the Committed Working Interests in the participating area affected by any such program. After the Parties have voted to undertake a program of enhanced recovery or pressure maintenance in accordance with this Section 25.1, the conduct of such program shall be subject to supervision by the Parties 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 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.

**26.2 Assumption of Obligations.** No transfer of any Committed Working Interest 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 they relate 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.

**26.3 Effective Date.** A transfer of Committed Working Interests shall not be effective as among 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 26.2. In no event shall a transfer of Committed Working Interests relieve the transferring Party of any obligations accrued under this Agreement prior to said effective date, for which purpose any obligation assumed by the transferor to participate in the Drilling, Deepening, Plugging Back, or Completing 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 in 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, Plugging Back, or Completing 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 or Release Outside Participating Area.** Whenever a Party or Parties owning 100% of the Committed Working Interest in any tract which is not within any participating area desire to surrender said 100% interest, such Party or Parties shall give to all other Parties 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 notice of election so to do within thirty (30) days after receipt of 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 respective Committed Working Interests among themselves in the Unit Area) shall pay the assigning Party or Parties for its or their share of the Salvage Value of all wells, if any, in which the assigning Party or Parties own an interest and which are located on the land covered by such Committed Working Interest, which payment shall be made upon receipt of the assignment. If no Party elects to take such assignment within said 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 owning less than 100% of the Committed Working Interest in any tract desires to surrender its interest therein, such interest may be acquired by the other Party or Parties owning Committed Working Interests in said tract without notice being given to any other Parties owning interests within the Unit Area. In the event the other Party or Parties owning Committed Working Interests in the tract to be surrendered do not desire to acquire such interest, the interest shall be treated as a 100% interest.

**27.3 Accrued Obligations.** A Party making an assignment or surrender in accordance with Section 27.1 or Section 27.2 shall not be relieved of its liability for any obligation accrued under this Agreement at the time the assignment or surrender is made or of the obligation to bear its share of the Costs incurred in any Drilling, Deepening, Plugging Back, or Completing operation in which such Party had 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 under this Agreement and under the Unit Agreement.

## ARTICLE 28 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 as rendering 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 the provisions of Subchapter 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 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, Unit Operator is authorized and directed to execute the same on behalf of each Party. Beginning with the first taxable year of operation under this Agreement, 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.** Whenever a rig is on location, every notice and every response shall be by telephone, to be confirmed promptly in writing. In all other instances, any notice, response, consent, advice, or statement herein provided or permitted to be given shall be in writing and shall be deemed given only when received by the Party to whom the same is directed.

**29.2 Addresses.** For the foregoing purposes, each Party's address and telephone number shall be deemed to be the address and telephone number set forth under or opposite its signature hereto, unless and until such Party specifies another address or telephone number by not less than ten (10) days' prior notice to all other Parties.

## ARTICLE 30 EXECUTION

**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.

**30.3 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 31 SUCCESSORS AND ASSIGNS**

**31.1 Covenants.** This Agreement shall be binding upon and shall 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 covenants 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 a 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 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 to 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 and Term.** This Agreement shall become effective upon the effective date of the Unit Agreement, shall continue in effect during the term of the Unit Agreement, and shall terminate concurrently therewith.

**36.2 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 has been made. 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.



ARTICLE 37  
OTHER PROVISIONS

37.1 METERING OF PRODUCTION: If a diversity of the working interest ownership in production from a lease subject to this agreement occurs as a result of operations by less than all parties pursuant to any provision of this agreement, it is agreed that the oil and other hydrocarbons produced from the well or wells completed by the consenting party or parties shall be separately measured by standard metering equipment to be properly tested periodically for accuracy, and the setting of a separate tank battery will not be required unless the purchaser of the production or governmental regulatory body having jurisdiction will not approve metering for separately measuring the production.

37.2 PRIORITY OF OPERATIONS. Whenever there is more than one proposal in connection with any well subject to this agreement, such proposals shall be considered and disposed of in the following order of priority:

- (a) Drilling the well to its authorized depth or attempting a completion including testing and logging of such well at such depth shall have first priority over all operations and proposals;
- (b) A proposal to plug back a well shall prevail over a proposal to deepen or sidetrack such well; if there is more than one proposal to plug back, the proposal to plug back to the next deepest prospective interval shall have priority over proposal(s) to plug back to shallower prospective intervals;
- (c) A proposal to sidetrack a well in order to reach the authorized depth shall prevail over a proposal to deepen;
- (d) A proposal to deepen a well shall have last priority; and
- (e) Proposals of the same type and to the same depth shall be given precedence in the order in which they were made.



IN WITNESS WHEREOF, this Agreement has been executed by the Parties as of the day and year first above written.

Date of Execution:

Address:

Telephone:

INEXCO OILCOMPANY

By William G. Goodwin, Vice President

Attest: Robert E. Gill, Jr.  
Asst. Sec.

As Unit Operator and Working Interest Owner

Date of Execution:

Address:

Telephone:

By \_\_\_\_\_  
President

Attest: \_\_\_\_\_  
Secretary

Date of Execution:

Address:

Telephone:

By \_\_\_\_\_  
President

Attest: \_\_\_\_\_  
Secretary

Date of Execution:

Address:

Telephone:

By \_\_\_\_\_  
President

Attest: \_\_\_\_\_  
Secretary

Working Interest Owners

## EXHIBIT " 1 "

Attached to and made a part of "Unit Operating Agreement" Made Well  
Anticline Unit Area, Chavez County, New Mexico

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## 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 twenty per cent (20%).

### 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

## I. 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 \$ \$3,108.00  
Producing Well Rate \$ \$ 376.00

(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.

## ~~Overhead - Major Construction TO BE NEGOTIATED~~

~~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 \$ \_\_\_\_\_:~~

~~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 "2"

ATTACHED TO AND MADE A PART OF " UNIT OPERATING AGREEMENT"  
MADE WELL ANTICLINE UNIT AREA  
CHAVES COUNTY, NEW MEXICO

- A. The proposed locations for the initial test wells shall be as follows:
- T12S,R22E  
Sec. 28: 660' FNL & 1980' FEL. ..
- T13S,R22E  
Sec. 17: 1980' FNL & 1980' FEL . .
- B. The Initial Test Wells shall be drilled conformably with Article 9 of the Made Well Anticline Unit Agreement.
- C. All Costs and expenses incurred in connection with the Initial Test Wells, including drilling, testing, and completing into tanks, if an oil producer, or through gas separator, if a gas producer, and plugging and abandoning if a dry hole, shall be borne by Inexco Oil Company and such other parties hereto as agree to bear such costs in accordance with separate agreement among themselves, subject to the investment adjustment provisions of Article 13 of this Agreement. Any cash contributions received towards the drilling of the Initial Test Wells shall belong to the parties sustaining the risk of drilling the Initial Test Wells.
- D. Title examination for the Initial Test Wells shall comprise no less than 160 acres but not more than 640 acres, more or less, around the Initial Test Wells as designated by the parties sustaining the risk of drilling the Initial Test Wells.
- E. The provisions of Article 18.3 notwithstanding, Unit Operator shall examine title to all leases, lands and interests, any portion of which fall within the designated title examination area and shall furnish copies of all title opinions and report concerning the title examination with written recommendations for approval or disapproval of the title to each committed working interest owner involved and thereafter the parties shall advise Operator in writing within fifteen (15) days after receipt of such title opinions or reports of approval or disapproval of titles. All costs of such examination shall be charged as costs of drilling the Initial Test Wells.

"EXHIBIT 3"

INSURANCE

Operator shall at all times during the term of this Agreement maintain the following insurance, for the benefit of the parties hereto, subject to availability on acceptable terms:

1. Worker's Compensation, including an "all states" endorsement, as required by the laws of the state where the operations are to be conducted and Employers' Liability Insurance with a limit of not less than \$100,000.
2. Comprehensive General Liability Insurance, including completed operations and blanket contractual liability insurance, with limits not less than:
  - \$500,000 - each occurrence
  - \$100,000 - for loss of or damage to property in any one occurrence
3. Comprehensive Automobile Liability Insurance covering all automotive equipment used in performance of work under this agreement with limits of not less than:
  - \$250,000 - each person
  - \$500,000 - each occurrence
  - \$100,000 - for loss of or damage to property in any one occurrence

Excess liability insurance may be carried to meet the above requirements.



EQUAL EMPLOYMENT OPPORTUNITY PROVISION  
 ATTACHED TO AND MADE A PART OF "UNIT OPERATING AGREEMENT", MADE WELL  
 ANTICLINE UNIT AREA, CHAVES COUNTY, NEW MEXICO.

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

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

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

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

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

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

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

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

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

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

SUPPLEMENT "B"

CERTIFICATION OF NON-SEGREGATED FACILITIES

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

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

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



Lessor (whether one or more), and  
Lessee, WITNESSETH

1 Lessor in consideration of \_\_\_\_\_ Dollars

(to be paid in cash), in hand paid, of the royalties herein provided, and of the agreement of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil, gas, other hydrocarbons and, without restriction to such enumerated minerals, all other minerals whether similar or dissimilar to those particularly specified herein, lying pipe lines, building tanks, power stations, telephone lines and other structures thereon to produce, save, take care of, treat, transport and own said products, and housing its employees, the following described land in \_\_\_\_\_ County, New Mexico, to-wit:

of Section \_\_\_\_\_ Township \_\_\_\_\_ Range \_\_\_\_\_

In addition to the land above described, Lessor hereby grants, leases and lets exclusively unto Lessee to the same extent as if specifically described herein all lands owned or claimed by Lessor which are adjacent, contiguous to or form a part of the lands above particularly described, including all oil, gas, other hydrocarbons and all other minerals underlying lakes, rivers, streams, roads, easements and rights-of-way which traverse or

adjoin any of said lands. For rental payment purposes, the land included within this lease shall be deemed to contain \_\_\_\_\_ acres, whether it actually comprises more or less

2 Subject to the other provisions herein contained, this lease shall be for a term of  $\frac{1}{2}$  years from this date (called "primary term") and as long thereafter as oil, gas or other mineral is produced from said land hereunder, or drilling or reworking operations are conducted thereon

3 The royalties to be paid by Lessee are: (a) on oil, either one-eighth of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected, or at the Lessee's option Lessee may pay to the Lessor for such one-eighth royalty the market price for oil of like grade and gravity prevailing on the day such oil is run into the pipe line or into storage tanks, (b) on gas, including casinghead gas or other gaseous substance, produced from said land and sold on or off the premises, one-eighth of the net proceeds at the well received from the sale thereof, provided that on gas used off the premises or by Lessee in the manufacture of gasoline or other product therefrom, the market value at the well of one-eighth of the gas so used, and (c) on all other minerals mined and marketed, one-tenth either in kind or in value at the well or mine, at Lessee's election, except that on sulphur the royalty shall be fifty cents (\$50) per long ton. Lessee shall have free use of oil, gas, coal, wood and water from said land except water from Lessor's wells, for all operations hereunder, and the royalty on oil, gas and coal shall be computed after deducting any so used. While there is a well on this lease or on acreage pooled therewith, which well is capable of producing only gas, gas condensate or some combination of gas and gas condensate, but from which well production is not being sold or used, this lease shall be extended for a period of ninety (90) days from the date such well is shut-in, and Lessee may tender or pay annually as royalty a sum equal to the amount of annual delay rentals which would be payable during the primary term to defer drilling operations on the lands then subject to this lease, but in no event shall such payment exceed One Hundred (\$100.00) Dollars per well per year; payment or tender of such royalty may be made by check or draft of Lessee mailed or delivered to Lessor or to Lessor's credit in the depository bank designated hereinafter for the payment of delay rentals, with the first payment to be made on or before ninety (90) days from and after the date on which such well is shut-in and a similar payment to be made annually thereafter on or before the anniversary date on which such well is shut-in, and if such payments are so made, it shall be considered that gas, gas condensate, or a combination of gas and gas condensate is being produced in paying quantities from the above described land under all the terms, conditions and limitations of this lease, the amount of such shut-in royalty payment shall be reduced proportionately as provided in paragraph 11 hereof if Lessor owns an interest in said land less than the entire fee simple estate, and shall be further reduced in the proportion that the amount of surface acreage out of this lease included in any pooled unit upon which such gas and/or gas condensate well is situated bears to the entire surface acreage contained in such pooled unit as provided in paragraph 6 hereof

4 If operations for drilling are not commenced on said land as hereinafter provided, on or before one year from this date, the lease shall then terminate as to both parties, unless on or before such anniversary date Lessee shall pay or tender to Lessor or to the credit of Lessor in \_\_\_\_\_

\_\_\_\_\_ Bank of \_\_\_\_\_ (which bank and its successors are Lessor's agent and shall continue as the depository for all rentals payable hereunder regardless of changes in ownership of said land or the rentals either by conveyance or by the death or incapacity of Lessor) the sum of \_\_\_\_\_ Dollars

15. \_\_\_\_\_ (therein called rental), which shall cover the privilege of deferring commencement of operations for drilling for a period of twelve (12) months. In like manner and upon like payments or tenders annually the commencement of operations for drilling may be further deferred for successive periods of twelve (12) months each during the primary term. The payment or tender of rental herein referred to may be made in currency, draft or check at the option of the Lessee, and the depositing of such currency, draft or check in any post office, properly addressed to the Lessor, or said bank, on or before the rental paying date, shall be deemed payment as herein provided. If such bank (or any successor bank) should fail, liquidate or be succeeded by another bank, or for any reason fail or refuse to accept rental, Lessee shall not be held in default for failure to make such payment or tender of rental until thirty (30) days after Lessor shall deliver to Lessee a proper recordable instrument, naming another bank as agent to receive such payments or tenders. The down cash payment is consideration for this lease according to its terms and shall not be allocated as a mere rental for a period Lessee may at any time execute and deliver to Lessor or to the depository above named or place of record a release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered, and thereafter the rentals payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases

If Lessee shall on or before any rental date, make a bona fide attempt to pay or deposit rental to a Lessor entitled thereto under this lease according to Lessee's records or to a Lessor who, prior to such attempted payment or deposit, has given Lessee notice, in accordance with the terms of this lease hereinafter set forth, of his right to receive rental, and if such payment or deposit shall be erroneous in any regard (whether deposited in the wrong depository, paid to persons other than the parties entitled thereto as shown by Lessee's records, in any incorrect amount, or otherwise), Lessee shall be unconditionally obligated to pay to such Lessor the rental properly payable for the rental period involved, but this lease shall be maintained in the same manner as if such erroneous rental payment or deposit had been properly made, provided that the erroneous rental payment or deposit be corrected within 30 days after receipt by Lessee of written notice from such Lessor of such error accompanied by any documents and other evidence necessary to enable Lessee to make proper payment

5. Should any well drilled on the above described land or on acreage pooled therewith during the primary term before production is obtained by a dry hole, or should production on said land or on acreage pooled therewith be obtained during the primary term and thereafter cease, then and in either event, if operations for drilling an additional well are not commenced or operations for reworking an old well are not pursued on said land or on acreage pooled therewith on or before the first rental paying date next succeeding the completion of a dry hole or the cessation of production or drilling or reworking operations on said well or wells, then this lease shall terminate unless Lessee, on or before said date, shall resume the payment of rentals. Upon resumption of the payment of rentals, Section 4 governing the payment of rentals, shall continue in force just as though there had been no interruption in the rental payments. If during the last year of the primary term and prior to the discovery of oil or gas on said land or on acreage pooled therewith, Lessee should drill a dry hole thereon, or if after discovery of oil or gas on said land or on acreage pooled therewith, the production should cease during the last year of said primary term from any cause, no rental payment or operations are necessary in order to keep the lease in force during the remainder of the primary term. If, at the expiration of the primary term, Lessee is conducting operations for drilling a new well on said land or on acreage pooled therewith or reworking an old well thereon, or if after the expiration of the primary term, production on this lease or on acreage pooled therewith shall cease, this lease nevertheless shall continue as long as said operations continue or additional operations are had on this lease or on acreage pooled therewith, which additional operations shall be deemed to be had where not more than sixty (60) days elapse between abandonment of operations on one well and commencement of operations on another well, and if production is discovered, this lease shall continue as long thereafter as oil, gas or other mineral is produced on said land or on acreage pooled therewith, and as long as additional operations are had thereon. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within three hundred thirty (330) feet of and draining the leased premises, Lessee agrees to drill such offset wells as a reasonably prudent operator would drill under the same or similar circumstances

6. Lessee, at its option, is hereby given the right and power to pool or combine the land covered by this lease, or any portion thereof, as to oil and gas, or either of them, with any other land, lease or leases when in Lessee's judgment it is necessary or advisable to do so in order to properly develop and operate said premises, such pooling to be into a well unit or units not exceeding forty (40) acres, plus an acreage tolerance of ten per cent (10%) of forty (40) acres, for oil, and not exceeding six hundred and forty (640) acres, plus an acreage tolerance of ten per cent (10%) of six hundred and forty (640) acres, for gas, except that larger units may be created to conform to any spacing or well unit pattern that may be prescribed by governmental authorities having jurisdiction. Lessee may pool or combine acreage covered by this lease, or any portion thereof, as above provided, as to oil or gas in any one or more strata, and units so formed need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall execute in writing and place of record an instrument or instruments identifying and describing the pooled acreage. The entire acreage so pooled into a unit shall be treated for all purposes, except the payment of royalties, as if it were included in this lease, and drilling or reworking operations thereon or production of oil or gas therefrom, or the completion thereon of a well as a shut-in gas well, shall be considered for all purposes, except the payment of royalties as if such operations were on or such production were from or such completion were on the land covered by this lease, whether or not the well or wells be located on the premises covered by this lease. In lieu of the royalties elsewhere herein specified, Lessor shall receive from a unit so formed, only such portion of the royalty stipulated herein as the amount of his acreage placed in the unit or his royalty interest therein bears to the total acreage so pooled in the particular unit involved. Should any unit as originally created hereunder contain less than the maximum number of acres hereinabove specified, then Lessee may at any time thereafter, whether before or after production is obtained on the unit, enlarge the unit by adding additional acreage thereto, but the enlarged unit shall in no event exceed the acreage content hereinabove specified. In the event an acreage unit is so enlarged, Lessee shall execute and place of record a supplemental declaration of unitization identifying and describing the land added to the original unit, provided that if such supplemental declaration of unitization is not filed until after production is obtained on the unit, it shall be deemed to be filed on the first day of the calendar month next following the filing thereof. In the absence of production Lessee may terminate any unitized area by filing of record notice of termination

7 Lessee also shall have the right to utilize, or combine all or any part of the above described lands with other lands in the same general area by entering into a cooperative or unit plan of development or operation approved by any governmental authority and, from time to time, with the approval of the Lessor, to modify, change or terminate any such plan or agreement and in such event, the terms, conditions, and provisions of this lease shall be deemed modified to conform to the terms, conditions, and provisions of such approved cooperative or unit plan of development or operation and, particularly, all drilling and development requirements of this lease, express or implied, shall be satisfied by compliance with the drilling and development requirements of such plan or agreement and this lease shall not terminate or expire during the life of such plan or agreement. In the event that said above described lands or any part thereof, shall hereafter be operated under any such cooperative or unit plan of development or operation whereby the production therefrom is allocated to different portions of the land covered by said plan, then the production allocated to any particular tract of land shall, for the purpose of computing the royalties to be paid hereunder to Lessor, be regarded as having been produced from the particular tract of land to which it is allocated and not to any other tract of land, and the royalty payments to be made hereunder to Lessor shall be based upon production only as so allocated. Lessor shall formally express Lessor's consent to any cooperative or unit plan of development or operation adopted by Lessee and approved by any governmental agency by executing the same upon request of Lessee.

8 Lessee shall have the right at any time without Lessor's consent to surrender all or any portion of the leased premises and be relieved of all obligation as to the acreage surrendered. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all pipelines below ordinary plow depth, and no well shall be drilled within two hundred (200) feet of any residence or barn now on said land without Lessor's consent. The Lessee agrees to promptly pay to the owner thereof any damages to crops, or improvements, caused by or resulting from any operations of Lessee.

9 The rights of either party hereunder may be assigned, in whole or in part, and the provisions hereof shall extend to the heirs, successors, and assigns of the parties hereto, but no change or division in ownership of the land, rentals, or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee. No change in the ownership of the land, or any interest therein, shall be binding on Lessee until Lessee shall be furnished with a certified copy of all recorded instruments, all court proceedings and all other necessary evidence of any transfer, inheritance, or sale of said rights. In event of the assignment of this lease as to a segregated portion of said land, the rentals payable under shall be apportionable among the several leasehold owners ratably according to the surface area of each, and default in rental payment by one shall not affect the rights of other leasehold owners hereunder. In case Lessee assigns this lease, in whole or in part, Lessee shall be relieved of all obligations with respect to the assigned portion or portions arising subsequent to the date of assignment.

10 All express or implied covenants of this lease shall be subject to all Federal and State Laws, Executive Orders, Rules or Regulations, and this lease shall not be terminated, in whole or in part, nor Lessee held liable in damages, for failure to comply therewith, if compliance is prevented by or if such failure is the result of, any such Law, Order, Rule or Regulation, or if prevented by an act of God, of the public enemy, labor disputes, inability to obtain material, failure of transportation, or other cause beyond the control of Lessee.

If, during the term of this lease, oil or gas or other hydrocarbons or other mineral is discovered upon the leased premises, but Lessee is prevented from producing the same by reason of any of the causes set out in this Section, this lease shall nevertheless be considered as continuing and shall continue in full force and effect until Lessee is permitted to produce the oil, gas, other hydrocarbons or other mineral and as long thereafter as such production continues in paying quantities or drilling or reworking operations are continued as elsewhere herein provided.

11 Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee at its option may discharge any tax, mortgage or other lien upon said land, either in whole or in part, and in event Lessee does so, it shall be subrogated to such lien with the right to enforce and apply rentals and royalties accruing hereunder toward satisfying same. Without impairment of Lessee's rights under the warranty in event of failure of title it is agreed that if Lessor owns an interest in said land less than the entire fee simple estate, then the royalties and rentals to be paid Lessor shall be reduced proportionately.

This agreement shall be binding on each of the above named parties who execute the same, regardless of whether it is executed by any of the other parties.

All of the provisions of this lease shall inure to the benefit of and be binding upon the parties hereto, their heirs, administrators, successors and assigns.

IN WITNESS WHEREOF this instrument is executed on the date first above written.

Signatures of SALES

Signatures

Taxpayer Identification or Social Security Number

Address

Address

ACKNOWLEDGMENT OF NATURAL PERSON

STATE OF \_\_\_\_\_  
COUNTY OF \_\_\_\_\_

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

by \_\_\_\_\_

My Commission expires: \_\_\_\_\_

Notary Public in and for \_\_\_\_\_

County, \_\_\_\_\_

ACKNOWLEDGMENT OF NATURAL PERSON

STATE OF \_\_\_\_\_  
COUNTY OF \_\_\_\_\_

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

by \_\_\_\_\_

My Commission expires: \_\_\_\_\_

Notary Public in and for \_\_\_\_\_

County, \_\_\_\_\_

ACKNOWLEDGMENT OF CORPORATION

STATE OF \_\_\_\_\_  
COUNTY OF \_\_\_\_\_

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

by \_\_\_\_\_

as \_\_\_\_\_ on behalf of \_\_\_\_\_, a corporation.

My Commission expires: \_\_\_\_\_

Notary Public in and for \_\_\_\_\_

County, \_\_\_\_\_

No. \_\_\_\_\_  
Oil, Gas  
and Mineral Lease

FROM

TO

Dated \_\_\_\_\_, 19\_\_\_\_.

to Acres \_\_\_\_\_, County, New Mexico

Term \_\_\_\_\_

This instrument was filed for record on the \_\_\_\_\_

at \_\_\_\_\_, 19\_\_\_\_, at \_\_\_\_\_

o'clock \_\_\_\_\_ M., and duly recorded in

Book \_\_\_\_\_, Page \_\_\_\_\_

of the \_\_\_\_\_ records of this office

County Clerk \_\_\_\_\_

By \_\_\_\_\_, Deputy

When recorded return to \_\_\_\_\_

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE

MADEWELL ANTICLINE UNIT AREA

COUNTY OF CHAVES

STATE OF NEW MEXICO

NO. \_\_\_\_\_

BEFORE EXAMINER QUINTANA	
OIL CONSERVATION DIVISION	
<u>INEXCO</u>	EXHIBIT NO. <u>1</u>
CASE NO.	<u>8410</u>

THIS AGREEMENT, entered into as of the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto,"

WITNESSETH:

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

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

WHEREAS the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 19-10-45,46,47 N.M. Statutes 1978 Annotated) to consent to or approve this agreement on behalf of the State of New Mexico, insofar as it covers and includes lands and mineral interest of the State of New Mexico; and

WHEREAS, the Oil Conservation Division of the New Mexico Energy and Minerals Department, hereinafter referred to as "Division", is authorized by an act of the Legislature (Chapter 70 and 71, New Mexico Statutes 1978 Annotated) to approve this agreement and the conservation provisions hereof; and

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

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent waste, and secure other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions, and limitations herein set forth;

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

1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of February 25, 1920, as amended, supra, and all valid pertinent



regulations including operating and unit plan regulations, heretofore issued thereunder or valid, pertinent and reasonable regulations hereafter issued thereunder are accepted and made a part of this agreement as to Federal lands, provided such regulations are not inconsistent with the terms of this agreement; and as to non-Federal lands, the oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations, not inconsistent with the terms hereof or the laws of the State in which the non-Federal land is located, are hereby accepted and made a part of this agreement.

2. UNIT AREA. The following described land is hereby designated and recognized as constituting the unit area:

Township 12S, Range 22E, N.M.P.M., Chaves County, New Mexico  
Sections 1 & 2: All, Sec. 3: E/2, Sec. 10 thru 16 incl: All  
Sections 20 thru 24 incl: All, Sec. 26 thru 35 incl: All

Township 13S, Range 21E, N.M.P.M., Chaves County, New Mexico  
Sections 13 & 14: All, Sec. 23 thru 26 incl: All, Sec. 35  
and 36: All

Township 13S, Range 22E, N.M.P.M., Chaves County, New Mexico  
Sections 1 thru 5 incl.: All, Sec. 7 thru 12 incl.: All,  
Section 14: W/2, Sec. 15 thru 22 incl.: All,  
Sections 27 thru 33 incl.: All

Township 14S, Range 21E, N.M.P.M., Chaves County, New Mexico  
Sections 1-3 incl.: All, Sec. 10 & 11 All

Containing 39,278.45 acres, more or less

Exhibit "A" shows, in addition to the boundary of the unit area, the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator, the acreage, percentage, and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in Exhibits "A" and "B" shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in the Exhibits as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the unit area or in the ownership interests in the individual tracts render such revision necessary, or when requested by the Authorized Officer, hereinafter referred to as "AO", or when requested by the Commissioner of Public Lands of the State of New Mexico, hereinafter referred to as "Land Commissioner", and not less than five copies of the revised Exhibits shall be filed with the proper Bureau of Land Management office and one (1) copy thereof shall be filed with the Land Commissioner, and one (1) copy with the New Mexico Oil Conservation Division of the Energy and Minerals Department, hereinafter referred to as "Division"

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

(a) Unit Operator, on its own motion (after preliminary concurrence by the AO), or on demand of the AO, or the Land Commissioner (after preliminary concurrence by the AO and the Land Commissioner) shall prepare a notice of proposed expansion or contraction describing the contemplated changes in the boundaries of the unit area, the reasons therefore, any plans for additional drilling, and the proposed effective date of the expansion or contraction, preferably the first day of a month subsequent to the date of notice.

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

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

(d) After due consideration of all pertinent information, the expansion or contraction shall, upon approval by the AO, the Land Commissioner and the Division, become effective as of the date prescribed in the notice thereof or such other appropriate date.

(e) Notwithstanding any prior elimination under the "Drilling to Discovery" section, all legal subdivisions of lands (i.e., 40 acres by Government survey or its nearest lot or tract equivalent; in instances of irregular surveys, unusually large lots or tracts shall be considered in multiples of 40 acres or the nearest aliquot equivalent thereof), no parts of which are entitled to be in a participating area on or before the fifth anniversary of the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of said fifth anniversary, and such lands shall no longer be a part of the unit area and shall no longer be subject to this agreement, unless diligent drilling operations are in progress on unitized lands not entitled to participation on said fifth anniversary, in which event all such lands shall remain subject hereto for so long as such drilling operations are continued diligently, with not more than 90 days' time elapsing between the completion of one such well and the commencement of the next such well. All legal subdivisions of lands not entitled to be in a participating area within 10 years after the effective date of the first initial participating area approved under this agreement shall be automatically eliminated from this agreement as of said tenth anniversary. The Unit Operator shall, within 90 days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the AO and Land Commissioner and promptly notify all parties in interest. All lands reasonably proved productive of unitized substances in paying quantities by diligent drilling operations after the aforesaid 5-year period shall become participating in the same manner as during said first 5-year period. However, when such diligent drilling operations cease, all non-participating lands not then entitled to be in a participating area shall be automatically eliminated effective as of the 91st day thereafter.

Any expansion of the unit area pursuant to this section which embraces lands theretofore eliminated pursuant to this subsection 2(e) shall not be considered automatic commitment or recommitment of such lands. If conditions warrant extension of the 10-year period specified in this subsection, a single extension of not to exceed 2 years may be accomplished by consent of the owners of 90% of the working interests in the current non-participating unitized lands and the owners of 60% of the basic royalty interests (exclusive of the basic royalty interests of the United States) in non-participating unitized lands with approval of the AO and the Land Commissioner provided such extension application is submitted not later than 60 days prior to the expiration of said 10-year period.



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

4. UNIT OPERATOR. Inexco Oil Company is hereby designated as Unit Operator and by signature hereto as Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development, and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interest in unitized substances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest only when such an interest is owned by it.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time prior to the establishment of a participating area or areas hereunder, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of 6 months after notice of intention to resign has been served by Unit Operator on all working interest owners, the AO, the Land Commissioner and the Division, and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandonment, whichever is required by the AO as to Federal lands and the Division as to State and Fee lands, unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

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

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

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

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

if on State land, and by the Division if on Fee land, unless on such effective date a well is being drilled in conformity with the terms hereof, and thereafter continue such drilling diligently until the basement has been tested or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities (to wit: quantities sufficient to repay the costs of drilling, completing, and producing operations, with a reasonable profit) or the Unit Operator shall at any time establish to the satisfaction of the AO if on Federal land, or the Land Commissioner if on State land, or the Division if located on Fee land, that further drilling of said well would be unwarranted or impracticable, provided, however, that Unit Operator shall not in any event be required to drill said well to a depth in excess of 5500'. Until the discovery of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling one well at a time, allowing not more than six (6) months between the completion of one well and the commencement of drilling operations for the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the AO if it be on Federal land or of the Land Commissioner if on State land, or the Division if on Fee land, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5, hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section.

Notwithstanding anything in this unit agreement to the contrary, except the 'Unavoidable Delay' Section 25, two(2) wells shall be drilled with not more than six months' time elapsing between the completion of the first well and commencement of the second well regardless of whether a discovery has been made in the first well. Both the initial well and the second well must be drilled in compliance with the above specified formation or depth in order to meet the requirements of this section; and the second well must be located a minimum of 2 miles from the initial well in order to be accepted by the AO and Land Commissioner as the second unit test well, within the meaning of this section. Nevertheless in the event of discovery of unitized substances in paying quantities by the first well, the unit agreement shall not terminate for failure to complete the two(2) well program, but the unit area shall be contracted automatically, effective the first day of the month following the default, to eliminate by subdivisions (as defined in Section 2(e) hereof) all lands not then entitled to participation.

The AO and Land Commissioner may modify any of the drilling requirements of this section by granting reasonable extensions of time when, in their opinion, such action is warranted.

Upon failure to commence any well as provided for in this section within the time allowed, prior to the establishment of a participating area, including any extension of time granted by the AO and the Land Commissioner, this agreement will automatically terminate. Upon failure to continue drilling diligently any well commenced hereunder, the AO and the Land Commissioner may, after 15 days notice to the Unit Operator, declare this unit agreement terminated. The parties to this agreement may not initiate a request to voluntarily terminate this agreement during the first 6 months of its term unless at least one obligation well has been drilled in accordance with the provisions of this section.

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within six(6) months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the AO, the Land Commissioner and Division, an acceptable plan of development and operation for the unitized land which, when approved by the AO, the Land Commissioner and Division, shall constitute the further drilling and development obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for the approval of the AO, the Land Commissioner and Division a plan for an additional specified period for the development and operation of the unitized land. Subsequent plans should normally be filed on a calendar year basis not later than March 1 each year. Any proposed modification or addition to the existing plan should be filed as a supplement to the plan.

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

- (a) specify the number and locations of any wells to be drilled and the proposed order and time for such drilling; and
- (b) provide a summary of operations and production for the previous year.

Plans shall be modified or supplemented when necessary to meet changing conditions or to protect the interest of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of development and operation. Separate plans may be submitted for separate productive zones, subject to approval by the AO and the Land Commissioner.

The AO and the Land Commissioner are authorized to grant a reasonable extension of the 6 month period herein prescribed for submission of an initial plan of development and on operation where such action is justified because of unusual conditions or circumstances. After completion of a well capable of producing unitized substances in paying quantities, no further wells, except such as may be necessary to afford protection against operations not under this agreement and such as may be specifically approved by the AO, the Land Commissioner and Division, shall be drilled except in accordance with an approved plan of development and operation as herein provided.

11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of producing unitized substances in paying quantities, or as soon thereafter as required by the AO, the Land Commissioner and the Division, the Unit Operator shall submit for approval by the AO, the Land Commissioner and Division, a schedule, based on subdivisions of the public-land survey or aliquot parts thereof, of all land then regarded as reasonably proved to be productive of unitized substances in paying quantities. These lands upon approval by the AO, the Land Commissioner and Division shall constitute a participating area effective as of the date of completion of such well or the effective date of this unit agreement, whichever is later. The acreages of both Federal and non-Federal lands shall be based upon appropriate computations from the courses and distances shown on the last approved public-land survey as of the effective date of each initial participating area. The schedule shall also set forth the percentage of unitized substances to be allocated, as

provided in Section 12 to each committed tract in the participating area so established, and shall govern the allocation of production commencing with the effective date of the participating area. A different participating area shall be established for each separate pool or deposit of unitized substances or for any group thereof which is produced as a single pool or zone, and any two or more participating areas so established may be combined into one, on approval of the AO, the Land Commissioner and the Division. When production from two or more participating areas subsequently found to be from a common pool or deposit, the participating areas shall be combined into one, effective as of such appropriate date as may be approved or prescribed by the AO, the Land Commissioner and Division. The participating area or areas so established shall be revised from time to time, subject to the approval of the AO, the Land Commissioner and Division to include additional lands then regarded as reasonably proved to be productive of unitized substances in paying quantities or which are necessary for unit operations, or to exclude lands then regarded as reasonably proved not to be productive of unitized substances in paying quantities, and the schedule of allocation percentages shall be revised accordingly. The effective date of any revision shall be the first of the month in which the knowledge or information is obtained on which such revision is predicated; provided, however, that a more appropriate effective date may be used if justified by the Unit Operator and approved by the AO, the Land Commissioner and Division. No land shall be excluded from a participating area on account of depletion of its unitized substances, except that any participating area established under the provisions of this unit agreement shall terminate automatically whenever all completions in the formation on which the participating area is based are abandoned.

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

In the absence of agreement at any time between the Unit Operator and the AO, the Land Commissioner and Division, as to the proper definition or redefinition of a participating area, or until a participating area has, or areas have, been established, the portion of all payments affected thereby shall, except royalty due the United States, be impounded in a manner mutually acceptable to the owners of committed working interests and the AO and the Land Commissioner. Royalties due the United States and the State of New Mexico shall be determined by the AO for Federal lands and the Land Commissioner for the State lands and the amount thereof shall be deposited, as directed by the AO and the Land Commissioner until a participating area is finally approved and then adjusted in accordance with a determination of the sum due as Federal royalty on the basis of such approved participating area.

Whenever it is determined, subject to the approval of the AO, the Land Commissioner and Division, that a well drilled under this agreement is not capable of production of unitized substances in paying quantities and inclusion in a participating area of the land on which it is situated in a participating area is unwarranted, production from such well shall, for the purposes of settlement among all parties other than working interest owners, be allocated to the land on which the well is located, unless such land is

already within the participating area established for the pool or deposit from which such production is obtained. Settlement for working interest benefits from such a nonpaying unit well shall be made as provided in the unit operating agreement.

Determination as to whether a well completed within the unit area prior to the effective date of this agreement is capable of producing unitized substances in paying quantities shall be deferred until an initial participating area is established as a result of the completion of a well for production in paying quantities in accordance with Section 9 hereof.

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

13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS. Any party hereto owning or controlling the working interest in any unitized land having thereon a regular well location may with the approval of the AO and the Land Commissioner, and the Division at such party's sole risk, costs, and expense, drill a well to test any formation provided the well is outside any participating area established for that formation, unless within 90 days of receipt of notice from said party of his intention to drill the well, the Unit Operator elects and commences to drill the well in a like manner as other wells are drilled by the Unit Operator under this agreement.

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

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

14. ROYALTY SETTLEMENT. The United States and any State and any royalty owner who is entitled to take in kind a share of the substances now unitized hereunder shall hereafter be entitled to the right to take in kind its share of the unitized substances, and Unit Operator, or the working interest owner in case of the operation of a well by a working interest owner as herein provided for in special cases, shall make deliveries of such royalty share taken in kind in conformity with the applicable contracts, laws, and regulations. Settlement for royalty interest not taken in kind shall be made by working interest owners responsible therefore under existing contracts, laws and regulations, or by the Unit Operator on or before the last day of each month for unitized substances produced during the preceding calendar month; provided, however, that nothing in this section shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any royalties due under their leases.

If gas obtained from lands not subject to this agreement is introduced into any participating area hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery, in conformity with a plan of development and operation approved by the AO and the Land Commissioner and the Division, a like amount of gas, after settlement as herein provided for any gas transferred from any other participating area and with appropriate deduction for loss from any cause, may be withdrawn from the formation into which the gas is introduced, royalty free as to dry gas, but not as to any products which may be extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved plan of development and operation or as may otherwise be consented to by the AO and the Land Commissioner and the Division as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

Royalty due the United States shall be computed as provided in 30 CFR Part 221 and paid in value or delivered in kind as to all unitized substances on the basis of the amounts thereof allocated to unitized Federal land as provided in Section 12 at the rates specified in the respective Federal leases, or at such other rate or rates as may be authorized by law or regulation and approved by the AO; provided, that for leases on which the royalty rate depends on the daily average production per well, said average production shall be determined in accordance with the operating regulations as though each participating area were a single consolidated lease.

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

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

15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases committed hereto shall be paid by appropriate working interest owners under existing contracts, laws, and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty

due under their leases. Rental or minimum royalty for lands of the United States subject to this agreement shall be paid at the rate specified in the respective leases from the United States unless such rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

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

With respect to any lease on non-Federal land containing provisions which would terminate such lease unless drilling operations are commenced upon the land covered thereby within the time therein specified or rentals are paid for the privilege of deferring such drilling operations, the rentals required thereby shall, notwithstanding any other provision of this agreement, be deemed to accrue and become payable during the term thereof as extended by this agreement and until the required drilling operations are commenced upon the land covered thereby, or until some portion of such land is included within a participating area.

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

17. DRAINAGE. The Unit Operator shall take such measures as the AO and Land Commissioner deems appropriate and adequate to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement, which shall include the drilling of protective wells and which may include the payment of a fair and reasonable compensatory royalty, as determined by the AO, as to Federal leases and the Land Commissioner, as to State leases.

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

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

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

(c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the AO and the Land Commissioner, or his duly authorized representative shall be deemed to constitute such

suspension pursuant to such direction or consent as to each and every tract of unitized land. A suspension of drilling or producing operations limited to specified lands shall be applicable only to such lands.

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

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

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

(g) The segregation of any Federal lease committed to this agreement is governed by the following provision in the fourth paragraph of Sec. 17 (j) of the Mineral Leasing Act, as amended by the Act of September 2, 1960, (74 Stat. 781-784) (30 U.S.C. 226 (j): "Any (Federal) lease heretofore or hereafter committed to any such (unit) plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization: Provided, however, that any such lease as to the non-unitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

(h) In the event the Initial Test Well is commenced prior to the expiration date of the shortest term State Lease within the Unit Area, any lease embracing lands of the State of New Mexico which is made the subject to this agreement, shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof.

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



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

19. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee, or other successor in interest. No assignment or transfer of any working interest, royalty, or other interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, photostatic, or certified copy of the instrument of transfer.

20. EFFECTIVE DATE AND TERM. This agreement shall become effective upon approval by the AO and the Land Commissioner or their duly authorized representative and shall automatically terminate five (5) years from said effective date unless:

(a) Upon application by the Unit Operator such date of expiration is extended by the AO and the Land Commissioner, or

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

(c) a valuable discovery of unitized substances in paying quantities has been made or accepted on unitized land during said initial term or any extension thereof, in which event this agreement shall remain in effect for such term and so long thereafter as unitized substances can be produced as to Federal lands and are being produced as to State lands in quantities sufficient to pay for the cost of producing same from wells on unitized land within any participating area established hereunder. Should production cease and diligent drilling operations to restore production or new production are not in progress or reworking within 60 days and production is not restored or should new production not be obtained in paying quantities on committed lands within this unit area, this agreement will automatically terminate effective the last day of the month in which the last unitized production occurred, or

(d) it is voluntarily terminated as provided in this agreement. Except as noted herein this agreement may be terminated at any time prior to the discovery of unitized substances which can be produced in paying quantities by not less than 75 per centum, on an acreage basis, of the working interest owners signatory hereto, with the approval of the AO and the Land Commissioner. The Unit Operator shall give notice of any such approval to all parties hereto. Voluntary termination may not occur during the first six (6) months of this agreement unless at least one obligation well shall have been drilled in conformance accordance with Section 9.



21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The AO is hereby vested with authority to alter or modify from time to time, in his discretion, the quantity and rate of production under this agreement when such quantity and rate are not fixed pursuant to Federal or State law, or do not conform to any State-wide voluntary conservation or allocation program which is established, recognized and generally adhered to by the majority of operators in such State. The above authority is hereby limited to alteration or modifications which are in the public interest. The public interest to be served and the purpose thereof, must be stated in the order of alteration or modification. The AO is also hereby vested with authority to alter or modify from time to time, in his discretion, the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable Federal or State law; provided, further, that no such alteration or modification shall be effective as to any land of the State of New Mexico, as to the rate or prospecting and developing in the absence of the specific written approval thereof by the Commissioner and also to any lands of the State of New Mexico or privately owned lands subject to this agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Division.

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

22. APPEARANCES. Unit Operators shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Department of the Interior and the Commissioner of Public Lands and Division, and to appeal from orders issued under the regulations of said Department or Land Commissioner and Division or to apply for relief from any of said regulations, or in any proceedings relative to operations before the Department or the Land Commissioner and Division or any other legally constituted authority; provided, however, that any other interested party shall also have the right at its own expense to be heard in any such proceeding.

23. NOTICES. All notices, demands, or statements required hereunder to be given or rendered to the parties hereto shall be in writing and shall be personally delivered to the party or parties, or sent by postpaid registered or certified mail, to the last known address of the party or parties.

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

25. UNAVOIDABLE DELAY. All obligations under this agreement requiring the Unit Operator to commence or continue drilling, or to operate on, or produce unitized substances from any of the lands covered by this agreement, shall be suspended while the Unit Operator, despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State, or municipal law or

agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials or equipment in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

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

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

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

28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw the tract from this agreement by written notice delivered to the proper Bureau of Land Management office, the Land Commissioner, the Division and the Unit Operator prior to the approval of this agreement by the AO and Commissioner. Any oil or gas interests in lands within the unit area not committed hereto prior to final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest is a working interest, by the owner of such interest also subscribing to the unit operating agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working interest owner is subject to such requirements or approval(s), if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final approval hereof, joinder by a non-working interest owner must be consented to in writing by the working interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. A non-working interest may not be committed to this unit agreement unless the corresponding working interest is committed hereto. Joinder to the unit agreement by a working interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, in order for the interest to be regarded as committed to this agreement. Except as may otherwise herein be provided, subsequent joinder to this agreement shall be effective as of the date of the filing with the AO, and the Land Commissioner and the Division of duly executed counterparts of all or any papers necessary to establish

effective commitment of any interest and/or tract to this agreement unless objection to such joinder is duly made within sixty(60) days by the AO Land Commissioner or Division, provided that as to State lands all subsequent joinders must be approved by the Land Commissioner.

29. COUNTERPARTS. This agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument in writing specifically referring hereto and shall be binding upon all those parties who have executed such a counterpart, ratification, or consent hereto with the same force and effect as if all such parties had signed the same document and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above-described unit area.

30. SURRENDER. Nothing in this agreement shall prohibit the exercise by any working interest owner of the right to surrender vested in such party by any lease, sublease, or operating agreement as to all or any part of the lands covered thereby, provided that each party who will or might acquire such working interest by such surrender or by forfeiture as hereafter set forth, is bound by the terms of this agreement.

If as a result of any such surrender, the working interest rights as to such lands become vested in any party other than the fee owner of the unitized substances, said party may forfeit such rights and further benefits from operation hereunder as to said land to the party next in the chain of title who shall be and become the owner of such working interest.

If as the result of any such surrender or forfeiture working interest rights become vested in the fee owner of the unitized substances, such owner may:

(a) Accept those working interest rights subject to this agreement and the unit operating agreement; or

(b) Lease the portion of such land as is included in a participating area established hereunder subject to this agreement and the unit operating agreement; or

(c) Provide for the independent operation of any part of such land that is not then included within a participating area established hereunder.

If the fee owner of the unitized substances does not accept the working interest rights subject to this agreement and the unit operating agreement or lease such lands as above provided within 6 months after the surrendered or forfeited, working interest rights become vested in the fee owner, the benefits and obligations of operations accruing to such lands under this agreement and the unit operating agreement shall be shared by the remaining owners of unitized working interests in accordance with their respective working interest ownership, and such owners of working interests shall compensate the fee owner of unitized substances in such lands by paying sums equal to the rentals, minimum royalties, and royalties applicable to such lands under the lease in effect when the lands were unitized.

An appropriate accounting and settlement shall be made for all benefits accruing to or payments and expenditures made or incurred on behalf of such surrendered or forfeited working interest subsequent to the date of surrender or forfeiture, and payment of any moneys found to be owing by such an accounting shall be made as between the parties within thirty (30) days.

The exercise of any right vested in a working interest owner to reassign such working interest to the party from whom obtained shall be subject to the same conditions as set forth in this section in regard to the exercise of a right to surrender.

31. TAXES. The working interest owners shall render and pay for their account and the account of the royalty owners all valid taxes on or measured by the unitized substances in and under or that may be produced, gathered and sold from the land covered by this agreement after its effective date, or upon the proceeds derived therefrom. The working interest owners on each tract shall and may charge the proper proportion of said taxes to royalty owners having interests in said tract, and may currently retain and deduct a sufficient amount of the unitized substances or derivative products, or net proceeds thereof, from the allocated share of each royalty owner to secure reimbursement for the taxes so paid. No such taxes shall be charged to the United States or the State of New Mexico or to any lessor who has a contract with his lessee which requires the lessee to pay such taxes.

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

33. SURFACE AND ENVIRONMENTAL PROTECTION STIPULATIONS. Nothing in this agreement shall modify or change either the special Federal lease stipulations relating to surface management or such special Federal lease stipulations relating to surface and environmental protection, attached to and made a part of, Oil and Gas Leases covering lands within the Unit Area.

IN WITNESS WHEREOF, the undersigned parties hereto have caused this agreement to be executed as of the respective dates set forth opposite their signatures.

UNIT OPERATOR

ATTEST:

INEXCO OIL COMPANY

BY:

Robert G. Gill, Jr.  
Asst. Secretary

BY:

William G. Goodwin  
Vice President

DATE:

STATE OF TEXAS

COUNTY OF HARRIS

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 198\_\_\_\_, by William G. Goodwin, Vice President of INEXCO OIL COMPANY, a Delaware Corporation, on behalf of said corporation.

My Commission Expires

Notary Public

EXHIBIT "C"

**UNIT OPERATING AGREEMENT**

**MADE WELL ANTICLINE UNIT AREA**

**COUNTY OF** CHAVES

**STATE OF** NEW MEXICO

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**NOTE:** Attention is called to pages 1, 6, 10, 11, 13, 14, 15, 16, and 19, which contain blanks to be filled in.

## UNIT OPERATING AGREEMENT

### UNIT AREA

THIS AGREEMENT made as of the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, 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 MADE WELL ANTICLINE UNIT AREA, County of Chaves; State of New Mexico, dated as of the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, and hereinafter referred to as the "Unit Agreement", covering the lands described in EXHIBIT B thereto attached, which lands are referred to in the Unit Agreement and in this Agreement as the "Unit Area"; and

WHEREAS, the Parties enter into this Agreement pursuant to Section 7 of the Unit Agreement, NOW, THEREFORE, in consideration of the covenants herein contained, it is agreed as follows:

#### ARTICLE 1 DEFINITIONS

**1.1 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:

"Unit Operator" means INEXCO OIL COMPANY and its successors, as the Unit Operator designated in accordance with the Unit Agreement, acting in that capacity and not as an owner of a Committed Working Interest.

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

"Drilling Party", "Completing Party", and "Participating Party" all mean the Party or Parties obligated to bear Costs incurred in the Drilling, Completing, or Deepening or Plugging Back, respectively, of a well at the commencement of such operation.

"Non-Drilling Party", "Non-Completing Party", and "Non-Participating Party" all mean the Party or Parties who had the optional right to participate in the Drilling, Completing, or Deepening or Plugging Back, respectively, of a well and who elected not to participate therein.

"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.

"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 Committed 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 Committed Working Interests in a tract, there shall be apportioned to each such Committed Working Interest that proportion of the acreage of the tract that such Committed Working Interest bears to the entire Committed Working Interest in the tract.

"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.

"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 attached hereto as Exhibit 1, which shall govern in all matters covered thereby, except that in the event of an inconsistency between said Accounting Procedure and this Agreement, this Agreement shall control.

"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.

"Drill" means to perform all operations reasonably necessary and incident to the drilling of a well to its projected depth, including preparation of roads and drill site, testing, and logging, but excluding Completion operations.

"Complete" means to perform all operations reasonably necessary and incident to the completion of a well, commencing with the running and setting of the production pipe and, if productive of unitized substances, equipping through the wellhead connections, or plugging and abandoning, if dry.

**"Equip"** means to perform all operations reasonably necessary and incident to the equipping of a well for production beyond the wellhead connections.

**"Deepen" or "Plug Back"** means to perform all operations reasonably necessary and incident to Drilling a well below its original projected depth or plugging back a well to a depth above its original projected depth, testing, and logging, but excluding Completing and Equipping operations.

**"Initial Test Well"** means the test well or wells provided for in Section 9 of the Unit Agreement and in Exhibit 2 attached hereto.

**"Subsequent Test Well"** means a test well Drilled after the Drilling of the Initial Test Well and before discovery of unitized substances in paying quantities in the Unit Area.

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

**"Exploratory Well"** means a well (other than a Development Well) Drilled after discovery of unitized substances in paying quantities in the Unit Area.

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

**"Salvage Value"** of a well means the value of the materials and equipment in or appurtenant to the well, determined in accordance with Exhibit 1, less the reasonably estimated Costs of salvaging the same and plugging and abandoning the well.

**"Geological Survey"** means the Authorized Officer (AO), the Land Commissioner and Oil Conservation Commission (Division), including any person or person acting under the authority thereof.

## ARTICLE 2 EXHIBITS

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

Exhibit 1. Accounting Procedure.

Exhibit 2. Initial Test Well.

Exhibit 3. Insurance.

Exhibit 4. Non-Discrimination.

Exhibit 5. Oil and Gas Lease.

In the event of a conflict or inconsistency between the provisions of an Exhibit and the provisions of this Agreement, the provisions of this Agreement shall control.

## 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 2.

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 Exhibit 2.

## ARTICLE 4 SUBSEQUENT TEST WELLS

4.1 Right to Drill. The Drilling of any Subsequent Test Well shall be upon such terms and conditions as may be agreed to by the Parties; provided, however, that in the absence of agreement, such well may be Drilled under the provisions of Article 9.

## 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 twenty (20) days before filing the same with the Geological Survey. The date of proposed filing must be shown in the proposal. If, within the 20-day period above provided, the proposal receives the Approval of the Parties within the proposed participating area or no written objections are received, then such proposal shall be filed on the date specified.

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 Geological Survey.

5.3 Revised Proposal. If the proposal does not receive the Approval of the Parties within the proposed participating area, and Unit Operator receives written objections thereto, then Unit Operator shall submit to the Parties a revised proposal, taking into account the objections made to the first proposal. If no proposal receives the Approval of the Parties within sixty (60) days from submission of the

first proposal, then Unit Operator shall file with the Geological Survey a proposal reflecting as nearly as practicable the various views expressed by the Parties.

**5.4 Rejection of Proposal.** If a proposal filed by Unit Operator as above provided is rejected by the Geological Survey, 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.

## 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 Articles 8, 9, 11, and 12:

**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.

**B. Production.** All Production from a participating area shall be allocated on an Acreage Basis to the tracts of unitized 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 Drilled (including the Deepening or Plugging Back thereof) within a Drilling Block established under the provisions of either Article 9 or Article 10 is completed as a producer but not included within a participating area, then the following provisions shall be applicable:

**A. When All Drilling Block Parties Participate.** If all Parties within the Drilling Block shall have elected to participate in Drilling and Completing such well, then said well, the Production therefrom, and the materials and equipment therein or appurtenant thereto shall be owned by such Parties; and all Costs incurred in the operation of such well and all Lease Burdens payable in respect of Production from such well shall be borne and paid by said Parties. Apportionment among said Parties of ownership, Costs, and Lease Burdens shall be in the same proportions in which Costs incurred in Drilling the well were borne.

**B. When Less Than All Drilling Block Parties Participate.** If any Party within the Drilling Block shall have elected not to participate in Drilling or Completing such well, then the provisions of Article 12 shall be applicable thereto; and the relinquished interest of the Non-Drilling Party shall revert to it in the same manner and under the same conditions as provided in Section 12.4 with respect to a well which results in the establishment or enlargement of a participating area, except that the proceeds or market value to be used in determining when such reversion shall occur shall be the proceeds or market value (after making the deductions provided for in Section 12.4) of that portion of the Production obtained from the well which, had the Non-Drilling Party elected to participate in the Drilling or Completing thereof, would have been allocable, on an Acreage Basis within the Drilling Block, to the Non-Drilling Party. Upon reversion of the relinquished interest of the Non-Drilling Party in such well, the provisions of Section 12.5 shall become applicable.

**6.3 Cost Liability of Subsequently Created Interests.** Anything herein to the contrary notwithstanding, if, subsequent to the date of this Agreement, any Party shall create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its Committed Working Interest (hereinafter called "Subsequently Created Interest"), such Subsequently Created Interest shall be made expressly subject to the terms and provisions of this Section 6.3 and of Section 12.9. If the Party which created such Subsequently Created Interest fails to pay, when due, its share of Costs and the proceeds from its share of Production are insufficient to cover such Costs, then the Subsequently Created Interest shall be chargeable with a pro rata share of such Costs as if such Subsequently Created Interest were a Committed 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 chargeable to the Subsequently Created Interest.

**6.4 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, each Party shall be entitled to receive directly all proceeds from the sale of its share of Production. Unit Operator shall timely make all permitted governmental filings relative to the price to be charged for gas; however, Unit Operator shall not be liable if, through mistake or oversight, it should fail to make any such filing or should make erroneous filings.

**6.5 Failure to Take in Kind.** Should any Party fail to take in kind or separately dispose of its share of Production, the Party acting as Unit Operator shall have the right, revocable at will by the Party owning such share, to purchase such share for its own account at not less than the market price

prevailing in the area for Production of like kind and quality, or to sell such share to others at not less than the price which it receives for its own share of Production; provided that all such sales shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but not to exceed one (1) year. Notwithstanding the foregoing, Unit Operator shall not sell or commit any Party's share of gas Production to a sale without first giving such Party not less than ninety (90) days' written notice.

**6.6 Surplus Materials and Equipment.** Materials and equipment owned by the Parties or by 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 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 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 of less than Seven Thousand Five Hundred Dollars (\$7,500.00).

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 Seven Thousand Five Hundred Dollars (\$7,500.00), shall be 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 as provided in Exhibit 1.

## ARTICLE 7 PLANS OF DEVELOPMENT

**7.1 Submittal of Plans.** Each plan for the development and operation of the Unit Area shall be submitted by Unit Operator to the Geological Survey in accordance with the Unit Agreement and the further provisions of this Article.

**7.2 Proposal.** Unit Operator shall initiate each proposed plan by submitting the same in writing to each Party at least thirty (30) days before filing the same with the Geological Survey. If, within the 30-day period above provided, such plan receives the Approval of the Parties or no written objections are received, then such plan shall be filed.

**7.3 Objections to Plan.** Within the 30-day period above provided, any Party may submit to Unit Operator written objections to such plan. If, despite such objections, the plan receives the Approval of the Parties, then the Party making the objections may renew the same before the Geological Survey.

**7.4 Revised Plan.** If such plan does not receive the Approval of the Parties, and Unit Operator receives written objections thereto, then Unit Operator shall submit to the Parties a revised plan, taking into account the objections made to the first plan. If no plan receives the Approval of the Parties within sixty (60) days from submission of the first plan, then Unit Operator shall file with the Geological Survey a plan reflecting as nearly as practicable the various views expressed by the Parties.

**7.5 Rejection of Plan.** If a plan filed by Unit Operator as above provided is rejected by the Geological Survey, Unit Operator shall initiate a new plan in the same manner as provided in Section 7.2, and the procedure with respect thereto shall be the same as in the case of an initial plan.

**7.6 Notice of Approval or Disapproval.** If and when a plan has been approved or disapproved by the Geological Survey, Unit Operator shall give prompt notice thereof to each Party.

**7.7 Supplemental Plans.** If any Party or Parties shall have elected to proceed with a 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 approved by the Geological Survey, Unit Operator shall either (a) submit to the Geological Survey for approval a supplemental plan providing for the conduct of such operation or (b) request the Geological Survey to consent to such operation, if such consent is sufficient.

**7.8 Cessation of Operations Under the Plan.** If any plan approved by the Geological Survey provides for the cessation of any Drilling or other operation therein provided for on the happening of a contingency and such contingency occurs, Unit Operator shall promptly cease such Drilling or other operation and shall not incur any additional Costs in connection therewith unless and until such Drilling or other operation is again authorized, in accordance with this Agreement, by the Parties chargeable with such Costs and the Geological Survey.

## ARTICLE 8 DEVELOPMENT WELLS

**8.1 Purpose and Procedure.** It is the purpose of this Article to set forth the procedure for Drilling and Completing a Development Well.

**8.2 Drilling.** The Drilling of a Development Well shall be pursuant to the procedure herein set forth.

A. **Approval Required.** The Drilling of a Development Well shall 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 a Committed Working Interest in the tract of land on which the proposed well is to be Drilled. Vote by any Party in favor of the Drilling of any such well shall not, however, be deemed an election by such Party to participate in the Costs thereof but shall mean only that such Party

considers the Drilling of the well to be consistent with the efficient and economic development of the participating area involved and has no objection to the Drilling thereof.

**B. Notice of Proposed Drilling.** Subject to the provisions of Subdivision A of this Section 8.2, 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 notice, specifying the location, depth, and estimated cost of the proposed well, which location shall conform to any applicable spacing pattern then existing or an approved exception thereto.

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

**D. Notice of Election to Proceed.** Unless all Parties within the participating area agree to participate in Drilling such well, then, within fifteen (15) days after expiration of the 30-day period specified in Subdivision C of this Section 8.2, each Party within the participating area then desiring to have the proposed well Drilled shall give to all other Parties therein 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.

**E. Subsequent Election.** If election to Drill the proposed well is made, any Party within the participating area who had not previously elected to participate therein may do so by notice given to Unit Operator at any time before the well is spudded, 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.

**F. Effect of Election.** If one or more, but not all, of the Parties within the participating area elect to proceed with the Drilling of the well, Unit Operator shall Drill the well for the account of such Party or Parties, who shall constitute the Drilling Party, on an Acreage Basis among themselves, or on such other basis as said Parties may specify.

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

**8.3 Attempted Completion.** The attempted Completion of Development Wells Drilled to their projected depths shall be governed by the following provisions:

**A. Notice by Unit Operator.** After a Development Well has reached its projected depth and been tested, logged, and logs furnished to each Drilling Party, but before production pipe has been set, Unit Operator shall give notice thereof to each Drilling Party.

**B. Right to Attempt Completion.** Each Drilling Party shall have the right to initiate a proposal to attempt the Completion of such well and also shall be entitled to participate in the Completion attempt.

**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 given pursuant to Subdivision A of this Section 8.3 shall be allowed within which a Party entitled to do so may initiate a proposal to Complete. Any such proposal shall be initiated by giving notice thereof to Unit Operator and to each Drilling Party. If no such proposal is initiated within said period and no other proposal is initiated pursuant to Article 11, Unit Operator shall plug and abandon the well for the account of the Drilling Party.

**D. Election.** If a proposal to Complete is initiated, each Drilling Party shall have a period of twenty-four (24) hours (exclusive of Saturdays, Sundays, and holidays) from and after receipt of such proposal within which to notify Unit Operator whether or not it elects to participate in the Completion attempt. The failure of a Party to signify its election within said 24-hour period shall be deemed an election not to participate in the Completion attempt.

**E. Effect of Election.** The Party or Parties electing to participate in an attempt to Complete a well as above provided shall constitute the Completing Party for such operation. Each Party who was entitled to make such election but failed to do so as above provided shall be a Non-Completing Party with respect to such operation. Such operation shall be conducted by Unit Operator for the account of the Party or Parties constituting the Completing Party, on an Acreage Basis among themselves, or on such other basis as the Completing Party may specify. Such operation, if successful, shall include Equipping the well for production.

**F. Rights and Obligations of Completing Party and Non-Completing Party.** Upon the commencement of a Completion operation otherwise than for the account of all Drilling Parties, the provisions of Article 12 shall be applicable to such operation.

**G. Notice Prior to Plugging.** Before plugging and abandoning any Development Well which was Drilled to its projected depth and not completed as a producer of unitized substances, Unit Operator shall give the notice specified in Section 11.1 A, unless every Party entitled to the notice has consented to the plugging and abandonment of such well, in which event Unit Operator shall plug and abandon the well for the account of the Completing Party. Upon the giving of such notice, the provisions of Article 11 shall apply.



## ARTICLE 9 EXPLORATORY WELLS

**9.1 Purpose and Procedure.** It is the purpose of this Article to set forth the procedure for Drilling and Completing an Exploratory Well.

**9.2 Drilling.** The Drilling of an Exploratory Well shall be pursuant to the procedure herein set forth.

**A. 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 640 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 notice of the location, objective formation, estimated 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 approved 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 Geological Survey 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 the actual Drilling of a well is commenced thereon within such period, until either:

- (1) the Completion of the well, if it is completed otherwise than as a producer of unitized substances in paying quantities, either at its original projected depth or, if Deepening or Plugging Back operations are conducted, at any other projected depth; or
- (2) the filing with the Geological Survey of a proposal for the establishment or revision of a participating area if the Completion of the well results in the filing of such proposal.

**B. Basis of Participation.** Each Party within the Drilling Block shall be entitled to participate in the Costs of Drilling the proposed well on an Acreage Basis but shall be required to do so only if it notifies the other Parties within the Drilling Block of its willingness so to participate, as hereinafter in this Article 9 provided.

**C. 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 30-day period, the proposed Drilling Block shall be established as the Drilling Block.

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

**E. Notice of Election to Proceed.** Unless all Parties within the Drilling Block agree to participate in Drilling such well, then, within fifteen (15) days after expiration of the 10-day period specified in Subdivision D of this Section 9.2, each Party within the Drilling Block then desiring to have the proposed well Drilled shall give to all other Parties therein 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.

**F. Subsequent Election.** If election to Drill the proposed well is made, any Party within the Drilling Block who had not previously elected to participate therein may do so by notice given to all other Parties within the Drilling Block at any time before the well is spudded, 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.

**G. Effect of Election.** If one or more, but not all, of the Parties within the Drilling Block elect to proceed with the Drilling of the well, Unit Operator shall Drill the well for the account of such Party or Parties, who shall constitute the Drilling Party, on an Acreage Basis among themselves, or on such other basis as said Parties may specify.

**H. Rights and Obligations of Drilling Party and Non-Drilling Party.** Whenever an Exploratory Well is Drilled otherwise than for the account of all Parties within the Drilling Block involved, the provisions of Article 12 shall be applicable to such operation.

**9.3 Attempted Completion.** The attempted Completion of Exploratory Wells Drilled to their projected depths shall be governed by the following provisions:

**A. Notice by Unit Operator.** After an Exploratory Well has reached its projected depth and has been tested, logged, and logs furnished to each Drilling Party, but before production pipe has been set, Unit Operator shall give notice thereof to each Drilling Party.

**B. Right to Attempt Completion.** Each Drilling Party shall have the right to initiate a proposal to attempt the Completion of such well and also shall be entitled to participate in the Completion attempt.

**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 given pursuant to Subdivision A of this Section 9.3 shall be allowed within which a Party entitled to do so may initiate a proposal to Complete. Any such proposal shall be initiated by giving notice thereof to Unit Operator and to each Drilling Party. If no such proposal is initiated within said period and no other proposal is initiated pursuant to Article 11, Unit Operator shall plug and abandon the well for the account of the Drilling Party.

**D. Election.** If a proposal to Complete is initiated, each Party entitled to participate in the Completion attempt shall have a period of twenty-four (24) hours (exclusive of Saturdays, Sundays, and holidays) from and after receipt of such proposal within which to notify Unit Operator whether or not it elects to participate in the Completion attempt. The failure of a Party to signify its election within said 24-hour period shall be deemed an election not to participate in the Completion attempt.

**E. Effect of Election.** The Party or Parties electing to participate in an attempt to Complete a well as above provided shall constitute the Completing Party for such operation. Each Party who was entitled to make such election but failed to do so as above provided shall be a Non-Completing Party with respect to such operation. Such operation shall be conducted by Unit Operator for the account of the Party or Parties constituting the Completing Party, on an Acreage Basis among themselves, or on such other basis as the Completing Party may specify. Such operation, if successful, shall include Equipping the well for production.

**F. Rights and Obligations of Completing Party and Non-Completing Party.** Upon the commencement of a Completion operation otherwise than for the account of all Drilling Parties, the provisions of Article 12 shall be applicable to such operation.

**G. Notice Prior to Plugging.** Before plugging and abandoning any Exploratory Well which was Drilled to its projected depth and not completed as a producer of unitized substances, Unit Operator shall give the notice specified in Section 11.1 A, unless every Party entitled to the notice has consented to the plugging and abandonment of such well, in which event Unit Operator shall plug and abandon the well for the account of the Completing Party. Upon the giving of such notice, the provisions of Article 11 shall apply.

## 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 a final order of the Geological Survey. 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 Party. If any such order is appealed, the Party appealing shall give prompt notice thereof to Unit Operator and to each of the other Parties, and, upon final disposition of the appeal, Unit Operator shall give each Party prompt notice of the result thereof.

**10.2 Election to Drill.** Any Party desiring to Drill, or to participate in the Drilling of, a Required Well shall give to Unit Operator notice thereof within thirty (30) days after the order requiring such well becomes final or within such lesser time as may be required to insure compliance with 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; provided, however, if the Required Well is a Development Well, it shall not be Drilled unless it receives the Approval of the Parties within the participating area involved. All rights and obligations 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 under Article 8, if the same is a Development Well, or under Article 9, 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 a reasonable effort to effect such contraction; 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, the Drilling Block for such well shall consist of all forty (40) 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 any participating area theretofore

established for the pool or zone to which the well is to be Drilled. Unit Operator shall Drill such well for the account of all the Parties owning Committed Working Interests within the Drilling Block, on an Acreage Basis among themselves; and no such Party shall have the right to elect not to participate in the Drilling of said well.

## ARTICLE 11 DEEPENING, PLUGGING BACK, AND ABANDONMENT

**11.1 Attempted Deepening or Plugging Back.** The attempted Deepening or Plugging Back of wells not completed as producers of unitized substances at their original projected depths shall be governed by the following provisions of this Section 11.1 and by the provisions of Section 11.2, unless every Party entitled to the notice provided for in Subdivision A of this Section 11.1 has consented to the plugging and abandonment of such well:

**A. Notice by Unit Operator.** Before abandoning any well which has been Drilled to its original projected depth but not completed as a producer of unitized substances, Unit Operator shall give notice of its intention to plug and abandon such well to each Drilling Party and Non-Drilling Party.

**B. Right to Initiate Proposal.** Each Party who participated in the Drilling of a well concerning which notice is given in accordance with Subdivision A of this Section 11.1 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 to Deepen or Plug Back such well; provided, however, if the well was Drilled as a Development Well, a proposal to Deepen or Plug Back may be initiated only by a Party owning a Committed Working Interest in the tract of land on which the well is located.

**C. Right to Participate.** In order to be entitled to participate in a Deepening or Plugging Back 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 Drilling the well involved; if no Drilling Block was theretofore established for Drilling such well, the Drilling Block for such Deepening or Plugging Back operation shall be established automatically in accordance with the provisions of Subdivision B of Section 10.4, which shall be applicable hereto.

**D. 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 given pursuant to Subdivision A of this Section 11.1 shall be allowed within which a Party entitled to do so may initiate a proposal to Deepen or Plug Back. Any such proposal shall be initiated by giving notice thereof to Unit Operator and to each Party entitled to participate in the proposed operation. If no such proposal is initiated within said period, Unit Operator shall plug and abandon the well for the account of the Completing Party if a Completion attempt was made or, if not, then for the account of the Drilling Party.

**E. Election.** If a proposal to Deepen or Plug Back a well is initiated, each Party entitled to participate in the operation proposed shall have a period of forty-eight (48) hours (exclusive of Saturdays, Sundays, and holidays) from and after receipt of such proposal within which to notify Unit Operator whether or not it elects to participate in the proposed operation. The failure of a Party to signify its election within said 48-hour period shall be deemed an election not to participate in the proposed operation.

**F. Effect of Election.** The Party or Parties electing to participate in an operation to Deepen or Plug Back a well as above provided shall constitute the Participating Party for such operation. Each Party who was entitled to make such election but failed to do so as above provided shall be a Non-Participating Party with respect to such operation. Such operation shall be conducted by Unit Operator for the account of the Party or Parties constituting the Participating Party, on an Acreage Basis among themselves, subject, however, to the provisions of Section 11.2 and Section 11.3. If the Party or Parties making such election do not proceed with the operation, the Costs incurred in plugging and abandoning the well shall be charged and borne as part of the Costs incurred in Drilling the well.

**G. Rights and Obligations of Participating Party and Non-Participating Party.** Upon the commencement of a Deepening or Plugging Back operation otherwise than for the account of all Parties entitled to participate therein, the provisions of Article 12 shall be applicable to such operation.

**11.2 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 the pool or zone for which such participating area was established, such operation, including the Completion of such well, may be conducted only if it receives the Approval of the Parties within such participating area, and only upon such terms and conditions as may be specified in such Approval, and upon such further terms and conditions as may be agreed to by the Parties owning interests in the well immediately prior to the commencement of any such Deepening or Plugging Back operation.

**11.3 Conflicts.** If conflicting elections to attempt to Deepen or Plug Back are made in accordance with the provisions of this Article 11, preference shall be given first to Deepening. However, if a Deepening attempt does not result in completion of the well as a producer of unitized substances, Unit Operator shall again give notice in accordance with Subdivision A of Section 11.1 before plugging and abandoning the well.

**11.4 Attempted Completion.** The attempted Completion of wells Deepened or Plugged Back to their projected depths, except wells Deepened or Plugged Back to a participating area, shall be governed by the provisions of Section 9.3, unless every Participating Party has consented to the plugging and

abandonment of such well, in which event Unit Operator shall plug and abandon the well for the account of the Participating Party.

**11.5 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 Section 11.6. 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 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 well receives the Approval of the Parties who own the well but is not consented to by all such Parties, Unit Operator shall give notice thereof to each Party, if any, 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 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 to 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 interests so relinquished shall be owned by the Non-Abandoning Parties in the proportions which their respective interests in the well bear to the total of their interests therein 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. 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 1, 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 which is equal to the interest relinquished by it to the Non-Abandoning Party or Parties, at the value previously fixed therefor. Said option may be exercised only by notice given to Unit Operator and to the Non-Abandoning Party or Parties within fifteen (15) days after receipt of the notice given by Unit Operator pursuant to Section 11.6.

**11.6 Deepening or Plugging Back Abandoned Producing Wells.** Before plugging any well authorized for abandonment pursuant to Section 11.5, Unit Operator shall give notice to the Party or Parties owning Committed Working Interests in the tract of land upon which the well is located, which Parties, for the further purposes of this Section 11.6, shall constitute the Parties entitled to initiate and participate in a proposed Deepening or Plugging Back operation. Within ten (10) days after receipt of said notice, any such Party desiring the Deepening or Plugging Back of such well shall give notice thereof to Unit Operator and to each Party entitled to participate in the proposed operation; and all the provisions of Subdivisions E, F, and G of Section 11.1 shall apply in the same manner as if the proposed Deepening or Plugging Back were a proposal for the Drilling of an Exploratory Well, subject, however, to the provisions of Section 11.2 and Section 11.3. 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 specified therefor, Unit Operator shall plug and abandon the well for the account of the Party or Parties owning the well.

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

**12.1 Use of Terms.** As used in this Article, the terms "Drilling Party" and "Non-Drilling Party" are to be understood as including "Completing Party" and "Non-Completing Party" and "Participating Party" and "Non-Participating Party", respectively, as such terms are used in Articles 8, 9, and 11.

**12.2 Scope of Article.** The rights and obligations of the Drilling Party and Non-Drilling Party with respect to 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.

**12.3 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, upon the commencement of such operation, shall be deemed to have relinquished to the Drilling Party, and the Drilling Party shall own, all such Non-Drilling Party's 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.

**12.4 Reversion of Relinquished Interest.** If the well is completed as a producer of unitized substances and is a Development Well or 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 the operating rights and working interest relinquished by such 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 all 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. <sup>200%</sup>~~100%~~ of that portion of the Costs incurred in Equipping the well and in operating the well after such relinquishment, and up to such time, that would have been charged to such Non-Drilling Party had the well been Drilled, Deepened, Plugged Back, or Completed and Equipped for the account of all Parties entitled to participate therein.

B. 500% 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 had the well been Drilled, Deepened, Plugged Back, or Completed and Equipped for the account of all Parties entitled to participate therein.

However, if such well is subsequently Deepened or Plugged Back, then (1) any payment made to such Non-Drilling Party as its share of the Salvage Value of the well in accordance with Section 12.3 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 of unitized substances as a result of such Deepening or Plugging Back.

**12.5 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.

**12.6 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 with respect to 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 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.

**12.7 Accounting Due Non-Drilling Party.** In the event a relinquishment of interest by a Non-Drilling Party occurs pursuant to any provision of this Agreement with respect to any well and Production is had from such well, Unit Operator shall furnish each Non-Drilling Party, upon its request, all information referred to in Subdivision F of Section 16.1 and, in addition, 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 operating said well, the quantity of Production obtained therefrom, the proceeds received from the sale of such Production, and the Lease Burdens paid with respect thereto.

**12.8 Stand-By Rig Time.** Stand-by time for the rig on a well for the period of time allowed for the initiation of a proposal and for the response thereto shall be charged and borne as part of the Costs incurred in the operation just completed. Stand-by time subsequent to said period of time shall be charged to and borne as Costs incurred in the proposed operation, unless no Party elected to participate therein.

**12.9 Subsequently Created Lease Burdens.** Anything herein to the contrary notwithstanding, if, subsequent to the date of this Agreement, any Party shall create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its Committed Working Interest and at any time become a Non-Drilling Party with respect to any operation conducted under this Agreement, then the Drilling Party entitled to receive the share of Production to which the Non-Drilling Party would otherwise be entitled shall receive the same free and clear of any such burden, and the Non-Drilling Party who created such burden shall hold the Drilling Party harmless with respect thereto.

**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. For the purposes of this Article 13, all Costs of a usable well shall be deemed to have been incurred on the date the well was Completed.

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

A. "Usable 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 the resulting area was 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 usable well within a resulting area means the amount of those Costs incurred in Drilling, Completing, and Equipping such well, down to the deepest pool or zone for which such resulting area was created, 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 was operated prior to the effective date of such resulting area:

- (1) 0.5 % per month for a cumulative total of 60 months, and
- (2) \_\_\_\_\_ % 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 in the construction or installation thereof (except 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 the rate of 0.5 % per month for each month during any part of which such well has been operated prior to 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 the 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 13.5:

A. The intangible value of each usable well within such resulting area on the effective date thereof shall be credited to the Party or Parties owning 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 usable 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 owning 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 the 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 usable well which also serves another participating area or other participating areas, the value of such tangible property and usable well (including the intangible value thereof) shall be determined in accordance with Subdivision D of Section 13.2, and such value shall be fairly apportioned between such resulting area and such other participating area or areas, provided that such apportionment receives the Approval of the Parties in each participating area concerned. That portion of the value of such tangible property and usable well (including the 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 is 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 usable 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 a 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 of this Section 13.4, and a separate adjustment for tangibles shall be made in accordance with Subdivision C of this Section 13.4.

B. Such Party shall be credited with the sum of (1) the total amount theretofore charged against such Party with respect to its excluded interest, pursuant to the provisions of Exhibit 1, 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 with respect to such excluded interest as intangible value of usable 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, was delivered to such Party with respect to such excluded interest, less the amount of Lease Burdens and taxes paid or payable on said portion, plus (2) the total amount credited to such Party with respect to such excluded interest as intangible value of usable 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 with respect to its excluded interest, pursuant to the provisions of Exhibit 1, 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 with respect to 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 13.4 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 in said Subdivision B over the credit therein provided for, plus (2) the total amount credited to such Party with respect to 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 13.4 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 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 usable 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 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 usable 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 Interest of Non-Drilling Parties.** If the interest relinquished by a Non-Drilling Party in a well which is a usable well within a resulting area on the effective date thereof has not reverted to it prior to such effective date, then insofar, but only insofar, as they relate 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 with respect to (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 of Section 13.3, with respect to its Committed Working Interests other than those referred to in (1) and (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 of this Section 13.6 to be charged against the Drilling Party, such excess shall be applied against the reimburse-

ment 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 14 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 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 for in the Unit Agreement and except as otherwise specified in this Agreement (particular reference being made to Section 25.1, Section 27.1, and that portion of Section 11.5 relating to abandonment of producing wells outside of a participating area), the affirmative vote of Parties having 65 % or more of the voting power on any matter which is proper for action by them shall be binding upon all Parties entitled to vote thereon; provided, however, if one Party voting in the affirmative has 65 % or more but less than 85 % of the voting power, the affirmative vote of such Party shall not be binding upon 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 35 % but less than 50% of the voting power, the affirmative vote of the Parties having a majority of the voting power shall be binding upon 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 in the 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 upon 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 having voting power on any 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 notice of the time, place, and purpose of the meeting. Unit Operator's representative shall be the Chairman of such meeting.

**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 notice, 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 within such period as may be designated in the notice given by Unit Operator (which period shall be not less than ten (10) nor more than thirty (30) days); provided, however, 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 notice, stating the tabulation and result of the vote.

**14.5 Representatives.** Promptly after execution of this Agreement, each Party, by notice to all other Parties, shall designate a representative authorized to vote for such Party and may designate an alternate 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 notice given to all other Parties, provided such notice designates a new representative or alternate representative, as the case may be.

**14.6 Audits.** Audits may be made of Unit Operator's records and books of account pertaining to operations hereunder, as provided in Exhibit 1.

**14.7 Extraneous Projects.** Nothing contained in this Agreement shall be deemed to authorize the Parties, by vote or otherwise, to act upon any matter or to 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 set forth 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 within 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 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 the control of 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 Parties as promptly as is reasonably practicable.

15.5 Lien. Each of the 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. In addition to Unit Operator's rights under the foregoing lien, and as a secured party, Unit Operator shall be entitled to the benefit of any statutory operator's lien provided for in the jurisdiction in which the Unit Area is located. Unit Operator may, but need not, bring an action at law or in equity to enforce collection of such indebtedness, with or without foreclosure of such lien, and, in addition, shall have all rights provided under the terms of the Uniform Commercial Code or of any other law. In addition to the foregoing, and not in limitation thereof, upon default by any Party in the payment of Costs chargeable to it, Unit Operator shall have the right to collect and receive proceeds from the purchaser of such Party's share of Production, up to the amount owing by such Party, plus interest at the maximum interest rate permitted by the applicable usury law of the State of New Mexico per annum until paid. Each such purchaser shall be entitled to rely upon Unit Operator's statement concerning the existence and amount of any such default. None of the remedies or rights specified above shall be deemed exclusive, and the exercise of any such remedy or right shall not be deemed an election of remedies and shall not affect enforceability of the foregoing lien or security interest.

15.6 Advances. Unit Operator, at its election, shall have the right from time to time to demand and receive from the Parties chargeable therewith payment in advance of their respective shares of the estimated amount of 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 receipt thereof and thereafter shall bear interest at the maximum interest rate permitted by the applicable usury law of the State of New Mexico 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, Plugging Back, or Completing operation and, notwithstanding any other provisions 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 such payment 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 with 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 of such operation, except that in any case where 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 a Committed Working Interest, the Party acting as Unit Operator shall have the same rights and obligations hereunder as if it were not Unit Operator. In each instance where this Agreement requires or permits a Party to give notice, consent, or approval to 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, Plug Back, or Complete 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 of the Parties pursuant to this Agreement. In case of conflict between such Directions and the provisions of the Unit 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 notice thereof to the Parties affected thereby.

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

**F. Information.** Furnish promptly to each Party chargeable with Costs of the operation involved and to each additional Party who makes timely written request therefor (1) copies of Unit Operator's authorizations for expenditures or itemizations of estimated expenditures in excess of Ten thousand Dollars (\$10,000.00), (2) copies of all drilling reports, well logs, and State and Federal reports, (3) samples of cores and cuttings taken from wells Drilled hereunder, to be delivered at the well in containers furnished by the Party requesting same, and (4) such other and additional information or reports as may be required by Direction of the Parties within the area affected. If multiple copies of any such materials are requested by any Party, Unit Operator may charge the cost thereof directly to the requesting Party.

**G. Access to Unit Area.** Permit each Party, through its 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 Unit operations.

#### 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 3 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 request of any Party, Unit Operator shall furnish evidence of insurance carried by it with respect to operations hereunder.

**B. Contractors'.** 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 other insurance as may be required by Direction of the Parties.

**C. Automotive Equipment.** In the event Automobile Public Liability insurance is specified in Exhibit 3 or subsequently receives the Approval of the Parties, no direct charge shall be made by Unit Operator for premiums paid for such insurance for Unit Operator's fully owned automotive equipment.

**16.3 Non-Discrimination.** In connection with the performance of work under this Agreement, Unit Operator agrees to comply with the provisions of Exhibit 4.

Unit Operator agrees to insert non-discrimination provisions in all subcontracts hereunder, as required by law or regulation.

**16.4 Drilling Contracts.** Each Drilling, Deepening, Plugging Back, or Completing operation conducted hereunder, and not performed by Unit Operator with its own tools and equipment in accordance with Section 15.7, 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, if bids were obtained, 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 for 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 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, Completing, or 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 Parties as promptly as reasonably possible.

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

D. **Settlement of Claims.** Pay in excess of Ten thousand Dollars (\$10,000.00) in 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. All claims or suits involving title to any interest subject to this agreement shall be treated as a claim or suit against E. **Determinations.** Make any of the determinations provided in the Unit Agreement to be all parties made by Unit Operator, except as otherwise specified in this Agreement. hereto.

## ARTICLE 18 TITLES

**18.1 Representation of Ownership.** Each Party represents to all other Parties that, to the best of its knowledge and belief, its ownership of Committed Working Interests in the Unit Area is that set out in Exhibit B to 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 canceling 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 with 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 2 shall, at its own expense but without responsibility for the accuracy thereof, furnish Unit Operator with the following title materials relating to all lands within such area in which it owns Committed Working Interests:

- (1) Abstracts of title based upon the County records, certified to the current date;
- (2) All lease papers, or copies thereof, mentioned in Subdivision A of this Section 18.2 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 for such lands, and also certified copies of the Serial Registers for the Federal leases involved;
- (5) If State lands are involved, status reports of current date, setting forth the entries found in the State records for such lands; and
- (6) If Indian lands are involved, status reports of current date, setting forth the entries found in the office of the Superintendent of the Indian Agency and in the Area Office for such lands.

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 640 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 to be Drilled, a title examination area covering 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 Subdivision B of this Section 18.2 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 furnish Unit Operator all the title materials listed in Subdivision B of this Section 18.2 not previously furnished, 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 materials delivered pursuant to Section 18.2 have been received, Unit Operator shall deliver the same to an attorney or attorneys approved by the Parties within the title examination area. Unit Operator shall arrange to have said materials 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. Each Party shall be responsible, at its expense, for curing its own titles. After a reasonable time, not exceeding thirty (30) days, has been allowed for any necessary curative work, Unit Operator shall submit to each Party 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 recommendations, of approval or disapproval of titles. Unless otherwise agreed, the cost of all title examinations made under this Section 18.3 shall be charged as part of the Costs 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 Section 18.2 shall have the right to examine all materials furnished Unit Operator. If such additional, independent 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 titles according to the provisions of this Article 18.

**18.5 Approval of Titles Prior to Drilling.** Where the Committed Working Interests within a title

examination area are owned by more than one Party, no Drilling shall be conducted in such area until titles to the Committed Working Interests therein have 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 titles to the Committed Working Interests within the title examination area established for such well have received the Approval of the Parties within the Drilling Block in which such well is to be Drilled. Approval of title to lands within a Drilling Block shall be binding upon all Parties owning Committed Working Interests within such Drilling Block. If lands outside a participating area are included in the title examination area for a Development Well, such well shall not be Drilled until titles to the Committed Working Interests within such title examination area have received the Approval of the Parties therein. In the event Approval of the Parties is not obtained as in this Section 18.5 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 within the title examination area (in all other instances) had been obtained, and (b) shall also be deemed to have given its approval to the titles to all lands within the Drilling Block (if one has been established) or within 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 a participating area are owned by more than one Party, no Committed Working Interest shall be included within said participating area or be entitled to participate in the Production of unitized substances from said participating area until title to such Committed Working Interest has received the Approval of the Parties within said participating area. Approval of titles to lands within a participating area shall be binding upon 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 a Committed Working Interest shall fail in whole or in part prior to receiving the Approval of the Parties, the Parties who improperly claimed said interest shall sustain the entire loss occasioned by such failure of title and do hereby expressly relieve and indemnify Unit Operator and all other Parties from and against 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 upon which a well has been completed otherwise than as a producer of unitized substances in paying quantities, 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:

A. the loss, the cost of litigation, and any ensuing liability shall be borne by 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);

B. 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 proportion 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

C. the relinquished portions of said Committed Working Interests (subject to their proportionate part of the Lease Burdens attributable thereto) shall be deemed owned by the Party receiving same.

**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 or the Unit Agreement. The true owner of a Committed 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.

**18.10 Title Challenge.** 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, unless the title has previously received the Approval of the Parties, in which event the provisions of Section 18.8 shall apply.

## 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 and also a royalty interest therein in the same manner as if such Party's oil and gas rights in such tract were covered by the form of oil and gas lease attached as Exhibit 5.

**19.2 Execution of Lease.** In any provision of this Agreement where reference is made to an assignment or conveyance by any Party of its Committed Working Interest to any other Party, each such reference as to any Party owning an unleased interest shall be interpreted to mean that such Party shall

execute an oil and gas lease to such other Party in the form of Exhibit 5, which shall satisfy the requirement for an assignment or conveyance of a Committed Working Interest.

## 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 with respect to 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 payment, provided it has acted in good faith.

20.2 **Lease Burdens.** Each Party entitled to receive a share of Production shall be obligated for 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 with respect to such share or the proceeds thereof; provided, however, at any time any such Party entitled to receive Production is not taking in kind or separately disposing of its share, that portion of such Production or the proceeds thereof (at the option of such Party) accruing to such Lease Burdens shall, upon request, be distributed to such Party.

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 Section 18.8 shall apply.

## ARTICLE 21 TAXES

21.1 **Payment.** Any and all ad valorem and severance taxes payable upon 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 taxes paid by Unit Operator upon or measured by the value of Production shall be charged to and borne by the Parties owning the same in the same proportions as the assessed values of their respective portions of such Production bear to the whole thereof. 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 with respect to 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 other 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 transferred or reverted interest for the taxable period in which such transfer or reversion occurs shall be apportioned among said 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 **Right of Withdrawal.** If the owner of any substantial interest in a tract within the Unit Area fails or refuses to join in the Unit Agreement, then such tract may be withdrawn from the Unit Agreement, as provided in the Unit Agreement.

22.2 **Non-Withdrawal.** Should the Party or Parties having the right under the Unit Agreement to withdraw a tract from the Unit Agreement fail to exercise such right, then 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 notice thereof to each Party affected by the demand.

23.2 **Demand for Failure to Drill a Development Well.** If the demand for compensatory royalties results from the failure to have Drilled a Development Well and such well is not Drilled, then Unit

Operator shall pay such compensatory royalties. Such payment shall be charged as Costs incurred in operations within the participating area involved.

23.3 **Demand for Failure to Drill a Well Other Than a Development Well.** If the demand for compensatory royalties results from the failure to have Drilled a well other than a Development Well and such well is not Drilled, then Unit Operator shall pay such compensatory royalties. 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 under Subdivision B of Section 10.4.

#### ARTICLE 24 SEPARATE MEASUREMENT AND SALVAGE

24.1 **Separate Measurement.** If a well completed as a producer of unitized substances is in or becomes 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 therefor by any interested Party, a method of measuring the Production from such well without the necessity of 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 or equipment are salvaged from a well completed as a producer after being Drilled, Deepened, Plugged Back, or Completed otherwise than for the account of all the Parties entitled to participate therein before reversion to the Non-Drilling Party of its relinquished interest in the well, the proceeds derived from the 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 the Non-Drilling Party of its relinquished interest in such well.

#### ARTICLE 25 ENHANCED RECOVERY AND PRESSURE MAINTENANCE

25.1 **Consent Required.** Unit Operator shall not undertake any program of enhanced 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 Parties owning, on an Acreage Basis, not less than 90% % of the Committed Working Interests in the participating area affected by any such program. After the Parties have voted to undertake a program of enhanced recovery or pressure maintenance in accordance with this Section 25.1, the conduct of such program shall be subject to supervision by the Parties 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 **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.

26.2 **Assumption of Obligations.** No transfer of any Committed Working Interest 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 they relate 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.

26.3 **Effective Date.** A transfer of Committed Working Interests shall not be effective as among 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 26.2. In no event shall a transfer of Committed Working Interests relieve the transferring Party of any obligations accrued under this Agreement prior to said effective date, for which purpose any obligation assumed by the transferor to participate in the Drilling, Deepening, Plugging Back, or Completing 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 in 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, Plugging Back, or Completing 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 or Release Outside Participating Area.** Whenever a Party or Parties owning 100% of the Committed Working Interest in any tract which is not within any participating area desire to surrender said 100% interest, such Party or Parties shall give to all other Parties 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 notice of election so to do within thirty (30) days after receipt of 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 respective Committed Working Interests among themselves in the Unit Area) shall pay the assigning Party or Parties for its or their share of the Salvage Value of all wells, if any, in which the assigning Party or Parties own an interest and which are located on the land covered by such Committed Working Interest, which payment shall be made upon receipt of the assignment. If no Party elects to take such assignment within said 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 owning less than 100% of the Committed Working Interest in any tract desires to surrender its interest therein, such interest may be acquired by the other Party or Parties owning Committed Working Interests in said tract without notice being given to any other Parties owning interests within the Unit Area. In the event the other Party or Parties owning Committed Working Interests in the tract to be surrendered do not desire to acquire such interest, the interest shall be treated as a 100% interest.

**27.3 Accrued Obligations.** A Party making an assignment or surrender in accordance with Section 27.1 or Section 27.2 shall not be relieved of its liability for any obligation accrued under this Agreement at the time the assignment or surrender is made or of the obligation to bear its share of the Costs incurred in any Drilling, Deepening, Plugging Back, or Completing operation in which such Party had 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 under this Agreement and under the Unit Agreement.

## ARTICLE 28 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 as rendering 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 the provisions of Subchapter 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 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, Unit Operator is authorized and directed to execute the same on behalf of each Party. Beginning with the first taxable year of operation under this Agreement, 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.** Whenever a rig is on location, every notice and every response shall be by telephone, to be confirmed promptly in writing. In all other instances, any notice, response, consent, advice, or statement herein provided or permitted to be given shall be in writing and shall be deemed given only when received by the Party to whom the same is directed.

**29.2 Addresses.** For the foregoing purposes, each Party's address and telephone number shall be deemed to be the address and telephone number set forth under or opposite its signature hereto, unless and until such Party specifies another address or telephone number by not less than ten (10) days' prior notice to all other Parties.

## ARTICLE 30 EXECUTION

**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.

**30.3 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 31 SUCCESSORS AND ASSIGNS**

**31.1 Covenants.** This Agreement shall be binding upon and shall 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 covenants 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 a 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 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 to 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 and Term.** This Agreement shall become effective upon the effective date of the Unit Agreement, shall continue in effect during the term of the Unit Agreement, and shall terminate concurrently therewith.

**36.2 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 has been made. 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.



ARTICLE 37  
OTHER PROVISIONS

37.1 METERING OF PRODUCTION: If a diversity of the working interest ownership in production from a lease subject to this agreement occurs as a result of operations by less than all parties pursuant to any provision of this agreement, it is agreed that the oil and other hydrocarbons produced from the well or wells completed by the consenting party or parties shall be separately measured by standard metering equipment to be properly tested periodically for accuracy, and the setting of a separate tank battery will not be required unless the purchaser of the production or governmental regulatory body having jurisdiction will not approve metering for separately measuring the production.

37.2 PRIORITY OF OPERATIONS. Whenever there is more than one proposal in connection with any well subject to this agreement, such proposals shall be considered and disposed of in the following order of priority:

- (a) Drilling the well to its authorized depth or attempting a completion including testing and logging of such well at such depth shall have first priority over all operations and proposals;
- (b) A proposal to plug back a well shall prevail over a proposal to deepen or sidetrack such well; if there is more than one proposal to plug back, the proposal to plug back to the next deepest prospective interval shall have priority over proposal(s) to plug back to shallower prospective intervals;
- (c) A proposal to sidetrack a well in order to reach the authorized depth shall prevail over a proposal to deepen;
- (d) A proposal to deepen a well shall have last priority; and
- (e) Proposals of the same type and to the same depth shall be given precedence in the order in which they were made.

IN WITNESS WHEREOF, this Agreement has been executed by the Parties as of the day and year first above written.

Date of Execution:

Address:

Telephone:

INEXCO OILCOMPANY

By William G. Goodwin, Vice President

Attest: Robert E. Gill, Jr.  
Asst. Sec.

As Unit Operator and Working Interest Owner

Date of Execution:

Address:

Telephone:

By \_\_\_\_\_  
President

Attest: \_\_\_\_\_  
Secretary

Date of Execution:

Address:

Telephone:

By \_\_\_\_\_  
President

Attest: \_\_\_\_\_  
Secretary

Date of Execution:

Address:

Telephone:

By \_\_\_\_\_  
President

Attest: \_\_\_\_\_  
Secretary

Working Interest Owners

## EXHIBIT " 1 "

Attached to and made a part of "Unit Operating Agreement" Made Well  
Anticline 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 twenty per cent (20%).

### 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

## I. 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 \$	<u>\$3,108.00</u>
Producing Well Rate \$	<u>\$ 376.00</u>

(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.

## ~~Overhead - Major Construction TO BE NEGOTIATED~~

~~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 \$ \_\_\_\_\_:~~

~~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 "2"

ATTACHED TO AND MADE A PART OF " UNIT OPERATING AGREEMENT"  
MADE WELL ANTICLINE UNIT AREA  
CHAVES COUNTY, NEW MEXICO

- A. The proposed locations for the initial test wells shall be as follows:
- T12S,R22E  
Sec. 28: 660' FNL & 1980' FEL. ..
- T13S,R22E  
Sec. 17: 1980' FNL & 1980' FEL . .
- B. The Initial Test Wells shall be drilled conformably with Article 9 of the Made Well Anticline Unit Agreement.
- C. All Costs and expenses incurred in connection with the Initial Test Wells, including drilling, testing, and completing into tanks, if an oil producer, or through gas separator, if a gas producer, and plugging and abandoning if a dry hole, shall be borne by Inexco Oil Company and such other parties hereto as agree to bear such costs in accordance with separate agreement among themselves, subject to the investment adjustment provisions of Article 13 of this Agreement. Any cash contributions received towards the drilling of the Initial Test Wells shall belong to the parties sustaining the risk of drilling the Initial Test Wells.
- D. Title examination for the Initial Test Wells shall comprise no less than 160 acres but not more than 640 acres, more or less, around the Initial Test Wells as designated by the parties sustaining the risk of drilling the Initial Test Wells.
- E. The provisions of Article 18.3 notwithstanding, Unit Operator shall examine title to all leases, lands and interests, any portion of which fall within the designated title examination area and shall furnish copies of all title opinions and report concerning the title examination with written recommendations for approval or disapproval of the title to each committed working interest owner involved and thereafter the parties shall advise Operator in writing within fifteen (15) days after receipt of such title opinions or reports of approval or disapproval of titles. All costs of such examination shall be charged as costs of drilling the Initial Test Wells.



"EXHIBIT 3"

INSURANCE

Operator shall at all times during the term of this Agreement maintain the following insurance, for the benefit of the parties hereto, subject to availability on acceptable terms:

1. Worker's Compensation, including an "all states" endorsement, as required by the laws of the state where the operations are to be conducted and Employers' Liability Insurance with a limit of not less than \$100,000.
2. Comprehensive General Liability Insurance, including completed operations and blanket contractual liability insurance, with limits not less than:
  - \$500,000 - each occurrence
  - \$100,000 - for loss of or damage to property in any one occurrence
3. Comprehensive Automobile Liability Insurance covering all automotive equipment used in performance of work under this agreement with limits of not less than:
  - \$250,000 - each person
  - \$500,000 - each occurrence
  - \$100,000 - for loss of or damage to property in any one occurrence

Excess liability insurance may be carried to meet the above requirements.

EQUAL EMPLOYMENT OPPORTUNITY PROVISION  
 ATTACHED TO AND MADE A PART OF "UNIT OPERATING AGREEMENT", MADE WELL  
 ANTICLINE UNIT AREA, CHAVES COUNTY, NEW MEXICO.

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

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

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

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

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

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

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

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

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

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

SUPPLEMENT "B"

CERTIFICATION OF NON-SEGREGATED FACILITIES

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

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

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

Lessor (whether one or more), and  
Lessee, WITNESSETH:

1 Lessor in consideration of \_\_\_\_\_ Dollars

\_\_\_\_\_ in hand paid, of the royalties herein provided, and of the agreement of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil, gas, other hydrocarbons and, without restriction to such enumerated minerals, all other minerals whether similar or dissimilar to those particularly specified herein, laying pipe lines, building tanks, power stations, telephone lines and other structures thereon to produce, save, take care of, treat, transport and own said products, and housing its employees, the following described land in \_\_\_\_\_ County, New Mexico, to-wit:

of Section \_\_\_\_\_ Township \_\_\_\_\_ Range \_\_\_\_\_

In addition to the land above described, Lessor hereby grants, leases and lets exclusively unto Lessee to the same extent as if specifically described herein all lands owned or claimed by Lessor which are adjacent, contiguous to or form a part of the lands above particularly described, including all oil, gas, other hydrocarbons and all other minerals underlying lakes, rivers, streams, roads, easements and rights-of-way which traverse or

adjoin any of said lands. For rental payment purposes, the land included within this lease shall be deemed to contain \_\_\_\_\_ acres, whether it actually comprises more or less.

2. Subject to the other provisions herein contained, this lease shall be for a term of 5 years from this date (called "primary term") and as long thereafter as oil, gas or other mineral is produced from said land hereunder, or drilling or reworking operations are conducted thereon.

3. The royalties to be paid by Lessee are: (a) on oil, either one-eighth of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected, or at the Lessee's option, Lessee may pay to the Lessor for such one-eighth royalty the market price for oil of like grade and gravity prevailing on the day such oil is run into the pipe line or into storage tanks; (b) on gas, including casinghead gas or other gaseous substance, produced from said land and sold on or off the premises, one-eighth of the net proceeds at the well received from the sale thereof, provided that on gas used off the premises or by Lessee in the manufacture of gasoline or other product therefrom the market value at the well of one-eighth of the gas so used; and (c) on all other minerals mined and marketed, one-tenth either in kind or in value at the well or mine, at Lessee's election, except that on sulphur the royalty shall be fifty cents (\$0.50) per long ton. Lessee shall have free use of oil, gas, coal, wood and water from said land, except water from Lessor's wells, for all operations hereunder, and the royalty on oil, gas and coal shall be computed after deducting any so used. While there is a well on this lease or on acreage pooled therewith, which well is capable of producing only gas, gas condensate or some combination of gas and gas condensate, but from which well production is not being sold or used, this lease shall be extended for a period of ninety (90) days from the date such well is shut-in, and Lessee may tender or pay annually as royalty a sum equal to the amount of annual delay rentals which would be payable during the primary term to defer drilling operations on the lands then subject to this lease, but in no event shall such payment exceed One Hundred (\$100.00) Dollars per well per year; payment or tender of such royalty may be made by check or draft of Lessee mailed or delivered to Lessor or to Lessor's credit in the depository bank designated hereinafter for the payment of delay rentals, with the first payment to be made on or before ninety (90) days from and after the date on which such well is shut-in and a similar payment to be made annually thereafter on or before the anniversary date on which such well is shut-in, and if such payments are so made, it shall be considered that gas, gas condensate or a combination of gas and gas condensate is being produced in paying quantities from the above described land under all the terms, conditions and limitations of this lease, the amount of such shut-in royalty payment shall be reduced proportionately as provided in paragraph 11 hereof if Lessor owns an interest in said land less than the entire fee simple estate, and shall be further reduced in the proportion that the amount of surface acreage out of this lease included in any pooled unit upon which such gas and/or gas condensate well is situated bears to the entire surface acreage contained in such pooled unit as provided in paragraph 6 hereof.

4. If operations for drilling are not commenced on said land as hereinafter provided on or before one year from this date, the lease shall then terminate as to both parties, unless on or before such anniversary date Lessee shall pay or tender to Lessor or to the credit of Lessor in \_\_\_\_\_

\_\_\_\_\_ Bank of \_\_\_\_\_ (which bank and its successors are Lessor's agent and shall continue as the depository for all rentals payable hereunder regardless of changes in ownership of said land or the rentals either by conveyance or by the death or incapacity of Lessor) the sum of \_\_\_\_\_ Dollars

\_\_\_\_\_ (therein called rental), which shall cover the privilege of deferring commencement of operations for drilling for a period of twelve (12) months. In like manner and upon like payments or tenders annually the commencement of operations for drilling may be further deferred for successive periods of twelve (12) months each during the primary term. The payment or tender of rental herein referred to may be made in currency, draft or check at the option of the Lessee, and the depositing of such currency, draft or check in any post office, properly addressed to the Lessor, or said bank on or before the rental paying date, shall be deemed payment as herein provided. If such bank (or any successor bank) should fail, liquidate or be succeeded by another bank, or for any reason fail or refuse to accept rental, Lessee shall not be held in default for failure to make such payment or tender of rental until thirty (30) days after Lessor shall deliver to Lessee a proper recordable instrument, naming another bank as agent to receive such payments or tenders. The down cash payment is consideration for this lease according to its terms and shall not be allocated as mere rental for a period. Lessee may at any time execute and deliver to Lessor or to the depository above named or place of record a release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered, and thereafter the rentals payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

If Lessee shall, on or before any rental date, make a bona fide attempt to pay or deposit rental to a Lessor entitled thereto under this lease according to Lessee's records or to a Lessor who, prior to such attempted payment or deposit, has given Lessee notice, in accordance with the terms of this lease hereinafter set forth, of his right to receive rental, and if such payment or deposit shall be erroneous in any regard (whether deposited in the wrong depository, paid to persons other than the parties entitled thereto as shown by Lessee's records, in any incorrect amount, or otherwise), Lessee shall be unconditionally obligated to pay to such Lessor the rental properly payable for the rental period involved, but this lease shall be maintained in the same manner as if such erroneous rental payment or deposit had been properly made, provided that the erroneous rental payment or deposit be corrected within 30 days after receipt by Lessee of written notice from such Lessor of such error accompanied by any documents and other evidence necessary to enable Lessee to make proper payment.

5. Should any well drilled on the above described land or on acreage pooled therewith during the primary term before production is obtained be a dry hole, or should production on said land or on acreage pooled therewith be obtained during the primary term and thereafter cease, then and in either event, if operations for drilling an additional well are not commenced or operations for reworking an old well are not pursued on said land or on acreage pooled therewith on or before the first rental paying date next succeeding the completion of a dry hole or the cessation of production or drilling or reworking operations on said well or wells, then this lease shall terminate unless Lessee, on or before said date, shall resume the payment of rentals. Upon resumption of the payment of rentals, Section 4 governing the payment of rentals, shall continue in force just as though there had been no interruption in the rental payments. If during the last year of the primary term and prior to the discovery of oil or gas on said land or on acreage pooled therewith, Lessee should drill a dry hole thereon, or if after discovery of oil or gas on said land or on acreage pooled therewith, the production should cease during the last year of said primary term from any cause, no rental payment or operations are necessary in order to keep the lease in force during the remainder of the primary term. If, at the expiration of the primary term, Lessee is conducting operations for drilling a new well on said land or on acreage pooled therewith or reworking an old well thereon or if, after the expiration of the primary term, production on this lease or on acreage pooled therewith shall cease, this lease nevertheless shall continue as long as said operations continue or additional operations are had on this lease or on acreage pooled therewith, which additional operations shall be deemed to be had where not more than sixty (60) days elapse between abandonment of operations on one well and commencement of operations on another well, and if production is discovered, this lease shall continue as long thereafter as oil, gas or other mineral is produced on said land or on acreage pooled therewith, and as long as additional operations are had thereon. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within three hundred thirty (330) feet of and draining the leased premises, Lessee agrees to drill such offset wells as a reasonably prudent operator would drill under the same or similar circumstances.

6. Lessee, at its option, is hereby given the right and power to pool or combine the land covered by this lease, or any portion thereof, as to oil and gas, or either of them, with any other land, lease or leases when in Lessee's judgment it is necessary or advisable to do so in order to properly develop and operate said premises, such pooling to be into a well unit or units not exceeding forty (40) acres, plus an acreage tolerance of ten per cent (10%) of forty (40) acres, for oil, and not exceeding six hundred and forty (640) acres, plus an acreage tolerance of ten per cent (10%) of six hundred and forty (640) acres, for gas, except that larger units may be created to conform to any spacing or well unit pattern that may be prescribed by governmental authorities having jurisdiction. Lessee may pool or combine acreage covered by this lease, or any portion thereof, as above provided, as to oil or gas in any one or more strata, and units so formed need not conform in size or area with the unit or units into which the lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this lease or portions thereof into other units. Lessee shall execute in writing and place of record an instrument or instruments identifying and describing the pooled acreage. The entire acreage so pooled into a unit shall be treated for all purposes, except the payment of royalties, as if it were included in this lease, and drilling or reworking operations thereon or production of oil or gas therefrom, or the completion thereof of a well as a shut-in gas well, shall be considered for all purposes, except the payment of royalties, as if such operations were on or such production were from or such completion were on the land covered by this lease, whether or not the well or wells be located on the premises covered by this lease. In lieu of the royalties elsewhere herein specified Lessor shall receive from a unit so formed, only such portion of the royalty stipulated herein as the amount of his acreage placed in the unit or his royalty interest therein bears to the total acreage so pooled in the particular unit involved. Should any unit as originally created hereunder contain less than the maximum number of acres hereinabove specified, then Lessee may at any time thereafter, whether before or after production is obtained on the unit, enlarge the unit by adding additional acreage thereto, but the enlarged unit shall in no event exceed the acreage content hereinabove specified. In the event an existing unit is enlarged, Lessee shall execute and place of record a supplemental declaration of unitization identifying and describing the land added to the unit, and provided that if such supplemental declaration of unitization is not filed until after production is obtained on the unit, the unit shall be deemed to be enlarged in such event the supplemental declaration of unitization shall not become effective until the first day of the calendar month next following the filing thereof. In the absence of production Lessee may terminate any unitized area by filing of record notice of termination.

7. Lessee also shall have the right to unitize, or combine all or any part of the above described land with other lands in the same general area by entering into a cooperative or unit plan of development or operation approved by any governmental authority and, from time to time, with like approval, to modify, change or terminate any such plan or agreement and in such event, the terms, conditions and provisions of this lease shall be deemed modified to conform to the terms, conditions and provisions of such approved cooperative or unit plan of development or operation and, particularly, all drilling and development requirements of this lease, express or implied, shall be satisfied by compliance with the drilling and development requirements of such plan or agreement, and this lease shall not terminate or expire during the life of such plan or agreement. In the event that said above described lands or any part thereof, shall hereafter be operated under any such cooperative or unit plan of development or operation whereby the production therefrom is allocated to different portions of the land covered by said plan, then the production allocated to any particular tract of land shall for the purpose of computing the royalties to be paid hereunder to Lessor, be regarded as having been produced from the particular tract of land to which it is allocated and not to any other tract of land, and the royalty payments to be made hereunder to Lessor shall be based upon production only as so allocated. Lessor shall formally express Lessor's consent to any cooperative or unit plan of development or operation adopted by Lessee and approved by any governmental agency by executing the same upon request of Lessee.

8. Lessee shall have the right at any time without Lessor's consent to surrender all or any portion of the leased premises and be relieved of all obligation as to the acreage surrendered. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all pipe lines below ordinary plow depth, and no well shall be drilled within two hundred (200) feet of any residence or barn now on said land without Lessor's consent. The Lessee agrees to promptly pay to the owner thereof any damages to crops, or improvements, caused by or resulting from any operations of Lessee.

9. The rights of either party hereunder may be assigned, in whole or in part, and the provisions hereof shall extend to the heirs, successors and assigns of the parties hereto, but no change or division in ownership of the land, rentals, or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee. No change in the ownership of the land, or any interest therein, shall be binding on Lessee until Lessee shall be furnished with a certified copy of all recorded instruments, all court proceedings and all other necessary evidence of any transfer, inheritance, or sale of said rights. In event of the assignment of this lease as to a segregated portion of said land, the rentals payable under shall be apportionable among the several leasehold owners ratably according to the surface area of each, and default in rental payment by one shall not affect the rights of other leasehold owners hereunder. In case Lessee assigns this lease, in whole or in part, Lessee shall be relieved of all obligations with respect to the assigned portion or portions arising subsequent to the date of assignment.

10. All express or implied covenants of this lease shall be subject to all Federal and State Laws, Executive Orders, Rules or Regulations, and this lease shall not be terminated, in whole or in part, nor Lessee held liable in damages, for failure to comply therewith, if compliance is prevented by, or if such failure is the result of, any such Law, Order, Rule or Regulation, or if prevented by an act of God, of the public enemy, labor disputes, inability to obtain material, failure of transportation, or other cause beyond the control of Lessee.

If, during the term of this lease, oil or gas or other hydrocarbons or other mineral is discovered upon the leased premises, but Lessee is prevented from producing the same by reason of any of the causes set out in this Section, this lease shall nevertheless be considered as producing and shall continue in full force and effect until Lessee is permitted to produce the oil, gas, other hydrocarbons or other mineral and as long thereafter as such production continues in paying quantities or drilling or reworking operations are continued as elsewhere herein provided.

11. Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee at its option may discharge any tax, mortgage, or other lien upon said land, either in whole or in part, and in event Lessee does so, it shall be subrogated to such lien with the right to enforce same, and apply rentals and royalties accruing hereunder toward satisfying same. Without impairment of Lessee's rights under the warranty in event of failure of title, it is agreed that if Lessor owns an interest in said land less than the entire fee simple estate, then the royalties and rentals to be paid Lessor shall be reduced proportionately.

This agreement shall be binding on each of the above named parties who execute the same, regardless of whether it is executed by any of the other parties.

All of the provisions of this lease shall inure to the benefit of and be binding upon the parties hereto, their heirs, administrators, successors and assigns.

IN WITNESS WHEREOF, this instrument is executed on the date first above written.

Taxpayer Identification or  
Social Security Number

Signatures of

Signatures

Address

Address

#### ACKNOWLEDGMENT OF NATURAL PERSON

STATE OF \_\_\_\_\_  
COUNTY OF \_\_\_\_\_

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

by \_\_\_\_\_

My Commission expires: \_\_\_\_\_

Notary Public in and for \_\_\_\_\_

County, \_\_\_\_\_

#### ACKNOWLEDGMENT OF NATURAL PERSON

STATE OF \_\_\_\_\_  
COUNTY OF \_\_\_\_\_

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

by \_\_\_\_\_

My Commission expires: \_\_\_\_\_

Notary Public in and for \_\_\_\_\_

County, \_\_\_\_\_

#### ACKNOWLEDGMENT OF CORPORATION

STATE OF \_\_\_\_\_  
COUNTY OF \_\_\_\_\_

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

by \_\_\_\_\_

as \_\_\_\_\_

on behalf of \_\_\_\_\_, a corporation.

My Commission expires: \_\_\_\_\_

Notary Public in and for \_\_\_\_\_

County, \_\_\_\_\_

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

Oil, Gas  
and Mineral Lease

FROM

TO

Dated \_\_\_\_\_ 19\_\_\_\_

No. Acres \_\_\_\_\_  
County, New Mexico

Term \_\_\_\_\_

This instrument was filed for record on the \_\_\_\_\_

\_\_\_\_\_ 19\_\_\_\_ at \_\_\_\_\_

o'clock \_\_\_\_\_ M., and duly recorded in

Book \_\_\_\_\_ Page \_\_\_\_\_

if the \_\_\_\_\_ records of this office.

County Clerk

By \_\_\_\_\_ Deputy

When recorded return to



# United States Department of the Interior

## BUREAU OF LAND MANAGEMENT

Roswell District Office

P. O. Box 1397

Roswell, New Mexico 88201

IN REPLY  
REFER TO:

T3100

December 10, 1984

Inexco Oil Company  
Attn: L.J. Tacconi  
Inexco Oil Co. Building  
Suite 201  
211 Highland Cross  
Houston, TX 77073

BEFORE EXAMINER QUINTANA	
OIL CONSERVATION DIVISION	
<u>Inexco</u>	EXHIBIT NO. <u>2</u>
CASE NO. <u>8410</u>	

Gentlemen:

Your application of September 17, 1984, filed with the BLM, requests the designation of the Made Well Anticline Unit area, embracing 37,278.45 acres, more or less, Chaves County, New Mexico, as logically subject to exploration and development under the unitization provisions of the Mineral Leasing Act as amended, for all formations.

Pursuant to unit plan regulations, 43 CFR 3180, the land requested as outlined on your plat marked "Inexco Oil Company, Made Well Anticline Project, Chaves County, New Mexico," is hereby designated as a logical unit area for all formations.

The unit agreement submitted for the area designated should provide for 2 wells to test the Abo Formation, or to a depth of 5500' feet. Your use of the Form of Agreement for Unapproved Areas will be accepted with the modifications requested in your application.

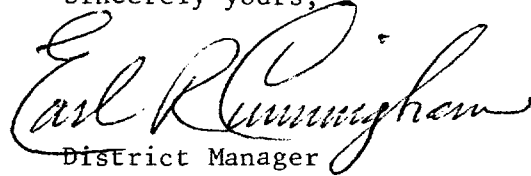
If conditions are such that further modification of said standard form is deemed necessary, three copies of the proposed modifications with appropriate justification must be submitted to this office for preliminary approval.

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

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

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

Sincerely yours,

A handwritten signature in cursive script, reading "Earl R. Cunningham". The signature is written in dark ink and is positioned above the printed name "District Manager".

District Manager