9734

COMMERCIAL RESOURCES
(505)-827-5724

SURFACE RESOURCES
(505)-827-5793

MINERAL RESOURCES
(505)-827-5744

ROYALTY
(505)-827-5772

State of New Mexico
Commissioner of Public Lands
Ray Powell, M.S., D.V.M.
310 Old Santa Fe Trail, P. O. Box 1148
Santa Fe, New Mexico 87504-1148
Phone (505)-827-5760, Fax (505)-827-5766

PUBLIC AFFAIRS
(505)-827-5765

ADMINISTRATIVE MGMT.
(505)-827-5700

LEGAL
(505)-827-5713

PLANNING
(505)-827-5752

April 8, 1997

Mack Energy Corporation
P.O. Box 960
Artesia, New Mexico 88211-0960

Attn: Ms. Staci Sanders

Re: 1997 Plan of Development
ETZ State Unit
Eddy County, New Mexico

Dear Ms. Sanders:

The Commissioner of Public Lands has, of this date, approved the above-captioned Plan of Development. Our approval is subject to like approval by all other appropriate agencies.

The possibility of drainage by wells outside of the unit area and the need for further development of the unit may exist. You may be contacted at a later date regarding these possibilities.

If you have any questions or if we may be of further help, please contact Pete Martinez at (505) 827-5791.

Very truly yours,

RAY POWELL, M.S., D.V.M.
COMMISSIONER OF PUBLIC LANDS

BY:
JAMI BAILEY, Director
Oil, Gas and Minerals Division
(505) 827-5744

RP/JB/cpm
cc: Reader File OCD BLM

State of New Mexico

#9734

W.R. HUMPHRIES
COMMISSIONER

Commissioner of Public Lands

P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

December 5, 1989

Devon Energy Corporation
1500 Mid-America Tower
20 North Broadway
Oklahoma City, Oklahoma 73102-8260

ATTN: Mr. Carter Muire

RE: **Etz State Unit**
Eddy County, New Mexico
Initial Plan of Operations

Gentlemen:

The Commissioner of Public Lands has this date approved the above captioned Initial Plan of Operations for the Etz State Unit. Our approval is subject to like approval by all other appropriate agencies.

Enclosed is an approved copy for your files. If we may be of further help, please do not hesitate to contact Susan Howarth at (505) 827-5791.

Very truly yours,

W.R. HUMPHRIES
COMMISSIONER OF PUBLIC LANDS

BY:
FLOYD O. PRANDO, Director
Oil and Gas Division
(505) 827-5749

cc: OCD - Santa Fe, New Mexico
BLM
Unit Correspondence File
Unit P.O.D. File

WRH/FOP/SMH

OCD

State of New Mexico

Commissioner of Public Lands

W.R. HUMPHRIES
COMMISSIONER

P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

October 24, 1989

Devon Energy Corporation
1500 Mid-America Tower
20 North Broadway
Oklahoma City, Oklahoma 73102-8260

ATTN: Mr. Carter Muire

RE: Approval of **Etz State Unit**
Eddy County, New Mexico

Gentlemen:

Please be advised that the Commissioner of Public Lands has this date granted final approval to the Etz State Unit Agreement, Eddy County, New Mexico. It is our understanding that tracts 2, 5, and 7 are not committed at this time. The effective date of the Etz State Unit is October 1, 1989.

Our approval is subject to like approval by the New Mexico Oil Conservation Division and the BLM. Enclosed are five (5) Certificates of Approval and one copy of the approved Unit Agreement.

Your filing fee in the amount of two hundred seventy dollars ($270.00) was received. However, the filing fee for this Unit is only sixty dollars ($60.00). Your refund in the amount of two hundred ten dollars ($210.00) will be forthcoming within 30 days.

If we may be of further help, please do not hesitate to call on us.

Very truly yours,

W.R. HUMPHRIES
COMMISSIONER OF PUBLIC LANDS

BY: Floyd Prando

FLOYD O. PRANDO, Director
Oil and Gas Division
(505) 827-5749

WRH/FOP/SMH
enclosures
cc: OCD - Santa Fe, New Mexico
BLM - Roswell, New Mexico

Unit Correspondence

State of New Mexico

Commissioner of Public Lands

W.R. HUMPHRIES
COMMISSIONER

P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

November 1, 1989

Devon Energy Corporation
1500 Mid-America Tower
20 North Broadway
Oklahoma City, Oklahoma 73102-8260

ATTN: Mr. Carter Muire

RE: Etz State Unit

Gentlemen:

Please be advised there was a mistake on the letter we sent to you, dated October 24, 1989, that we would like to correct. In that letter we stated that Tract 7 was not committed to the Unit. However, the information in our files shows that Tract 7 is committed to the Unit Agreement of the Etz State Unit. We regret any inconvenience this may have caused.

In regard to your question regarding partially committed tracts within a State/Federal Unit area, the following State Land Office policy information should serve to clarify the participation of such tracts. First of all, a partially committed tract is defined as one in which the lessee of record has not ratified the Unit Agreement but the working interest and lessor have committed their interest. A partially committed lease is not subject to any benefit by unit operations unless there are actual operations and/or production on the lease itself or it is included within and receives an allocation of production from a participating area. Unitized drilling is permissible on a partially committed tract but if unitized production is obtained on the partially committed tract and a participating area is established, the working interest operator must allocate the entire production to the participating area and also pay the noncommitted parties their just royalty on a leasehold basis. It is our understanding that this is also the BLM policy for partially committed tracts within a Unit.

If you have any other questions, please do not hesitate to contact us.

Very truly yours,

W.R. HUMPHRIES
COMMISSIONER OF PUBLIC LANDS

BY:
FLOYD O. PRANDO, Director
Oil and Gas Division
(505) 827-5749

cc: BLM - Roswell
OCD
Unit Files

State of New Mexico

W.R. HUMPHRIES
COMMISSIONER

Commissioner of Public Lands

P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

December 6, 1989

Devon Energy Corporation
1500 Mid-America Tower
20 North Broadway
Oklahoma City, Oklahoma 73102-8260

ATTN: Mr. Carter Muire

RE: Etz State Unit
Subsequent Joinder of Tracts 5 and 5A

Gentlemen:

We received your letter dated November 15, 1989 enclosed documents requesting that Tracts 5 and 5A be included in the Etz State Unit under subsequent joinder.

Please be advised that the Commissioner of Public Lands has this date approved the subsequent joinder of Tracts 5 and 5A to the Etz State Unit Agreement. This subsequent joinder will be effective December 1, 1989 as per Section 32 of the Unit Agreement.

If you have any questions, please contact Susan Howarth at (505) 827-5791.

Very truly yours,

W. R. HUMPHRIES,
COMMISSIONER OF PUBLIC LANDS

BY: Floyd O. Prando

FLOYD O. PRANDO, Director
Oil and Gas Division
(505) 827-5749

Unit Name ETZ STATE UNIT
Operator DEVON ENERGY CORPORATION
County EDDY COUNTY, NEW MEXICO

DATE APPROVED	OCC CASE NO. OCC ORDER NO.		EFFECTIVE DATE	TOTAL ACREAGE	STATE	FEDERAL	INDIAN-FEE	SEGREGATION CLAUSE	TERM
October 24, 1989	Case No.:	Order No.:	October 1, 1989	640.00	520.00	120.00	-0-	Modified	So long
	9734	R-8996							
	9735	R-7926-A							

UNIT AREA

T-17-S, R-30-E

Section 16: SE/4, S/2NE/4, NW/4, E/2SW/4, NW/4SW/4
Section 17: N/2NE/4,SE/4NE/4

Unit Name ETZ STATE UNIT
Operator DEVON ENERGY CORPORATION
County EDDY COUNTY, NEW MEXICO

STATE TRACT NO.	LEASE NO.	INSTI-TUTION	SEC.	TWP.	RGE.	SUBSECTION	RATIFIED DATE	ACRES	ACREAGE NOT RATIFIED	LESSEE
3	B-936-16	C.S.	16	17S	30E	E/2SE/4, E/2SW/4		160.00		Texaco, Inc.
4	B-1483-16	C.S.	16	17S	30E	W/2SE/4		80.00		Texaco, Inc.
5	B-2130-7A	C.S.	16	17S	30E	N/2NW/4		80.00		O.H. Randel E.C. Donohue
5A	B-2130-7A	C.S.	16	17S	30E	SE/4NE/4		40.00		O.H. Randel E.C. DOnahue
6	B-8095-5	C.S.	16	17S	30E	S/2NW/4		80.00		Texaco, Inc.
7	B-2209-15	C.S.	16	17S	30E	NW/4SW/4		40.00		Texaco, Inc.
8	VB-0071-1	C.S.	16	17S	30E	SW/4NE/4		40.00		Devon Energy Corporati

520.00 Acres Ratified

All State Acreage is Committed to the Unit Agreement, as is all Federal Acreage.
Tracts 5 and 5A came in under subsequent joinder, effective December 1, 1989.

DEVON
ENERGY
CORPORATION

1500 Mid-America Tower
20 North Broadway
Oklahoma City, Oklahoma 73102-8260

405/235-3611
TWX 910-831-3277

October 30, 1989

State of New Mexico
Energy, Minerals, and Natural Resources Department
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Attention: Mr. David Catanach

Re: Case No. 9734
Order No. R-8996
Etz State Unit
Eddy County, New Mexico

Gentlemen:

In reference to the above proceedings, and unit, please find enclosed copies of the following instruments for your records.

1) Etz State Unit Agreement dated September 9, 1989, and Etz State Unit Operating Agreement, fully executed by Devon Energy Corporation (Nevada).

2) Certification by the New Mexico State Lands Office of the subject Unit effective October 1, 1989.

3) Certification by the Department of Interior, Bureau of Land Management of the subject Unit, effective October 1, 1989.

4) Ratification and Joinder of Texaco Inc. of the subject Unit, effective October 1, 1989.

On the date of this letter Tracts 1, 3, 4, 6, 7, and 8 are fully committed, Tract 2 covered by a Federal renewal lease is partially committed in accordance with rules of the Bureau of Land Management, Ratification of the Unit Agreement and Unit Operating Agreement by Lessees of Record under Tract 5 are forthcoming. I will supply these latter Joinders as soon as same are available. If I may provide additional information on this matter, please contact me at your convenience.

Very truly yours,

DEVON ENERGY CORPORATION (NEVADA)

Carter Muire

Carter Muire
District Landman

CM/gc
Enclosure

RATIFICATION
ETZ STATE UNIT

STATE OF NEW MEXICO)
) §.
COUNTY OF EDDY)

WHEREAS, certain instruments, entitled "Unit Agreement for the Development and Operation of the Etz State Unit, Eddy County, New Mexico," and "Operating Agreement for the Etz State Unit, Eddy County, New Mexico," have been executed as of the 9th day of September 1989, by various persons for conducting Unit Operations with respect to the "unitized formation" within the Etz State Unit Area, located in Eddy County, New Mexico, as more particularly described in said agreements; and

WHEREAS, the form of the above agreements have been approved by the State Lands Office of the State of New Mexico, and by the Secretary of Interior, Bureau of Land Management; and

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

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

WHEREAS, the undersigned is, or claims to be, a Lessee of Record in and to leasehold in one or more of the Tracts described in Exhibit "B" of the Unit Agreement; and

WHEREAS, the undersigned owns no operating rights interest in the "unitized formation" but is ratifying and joining the Etz State Unit as a matter of convenience for the parties actually owning the working interest in the unitized formation, and as a requirement of the State of New Mexico, Division of State Lands pursuant to NMSA 19-10-45 (1977), and Land Office Rule 1.048:

NOW, THEREFORE, KNOW ALL MEN BY THESE PRESENTS that the undersigned, for and in consideration of the premises and the benefits anticipated to accrue under said agreements does hereby ratify, confirm, and to the extent that the undersigned is a working interest owner in the separate tracts identified on Exhibit "B" to the Unit Agreement, agrees to be bound by the provisions of the said Unit Agreement and the said Unit Operating Agreement. The undersigned does hereby agree that the parties to said agreements are those persons signing the originals of said instruments, counterparts thereof, or other instruments agreeing to be bound by the provisions thereof, and does hereby acknowledge receipt of a counterpart of the said Unit Agreement, and also the Unit Operating Agreement.

IN WITNESS WHEREOF, the undersigned has executed this instrument on this 18th day of October, 1989, effective however, on October 1, 1989.

ATTEST:

_____
Secretary

TEXACO INC.

By: Patsy Cullum

Title: ATTORNEY-IN-FACT

ATTEST:

_____
Secretary

By: _____

Title: _____

STATE OF _____)
) S.
COUNTY OF_____)

BEFORE ME, the undersigned authority, on this day personally appeared _____ _____, known to me to be the person who executed the foregoing instrument as _____ of _____, a _____ _____ corporation, and acknowledged to me that he (or she) executed the same for the purposes and consideration therein expressed; as the act and deed of said corporation, and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this _____ day of _____, 1989.

_____
Notary Public in and for said County and State,
Residing at _____

My commission expires:

_____

STATE OF COLORADO)
) S.
COUNTY OF DENVER)

BEFORE ME, the undersigned authority, on this day personally appeared _____ PATRICK LEE CALLAHAN, known to me to be the person who executed the foregoing instrument as Attorney-in-Fact of **TEXACO INC.**, a Delaware corporation, and acknowledged to me that he (or she) executed the same for the purposes and consideration therein expressed; as the act and deed of said corporation, and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this 18th day of OCTOBER, 1989.

W. E. Herrington
Notary Public in and for said County and State,
Residing at _____

W.E. Herrington, Notary Public
4601 DTC Blvd.
Denver, Colorado 80237

My commission expires:

February 23, 1993

PLAN OF OPERATIONS FOR
THE ETZ STATE UNIT
EDDY COUNTY, NEW MEXICO

Devon Energy Corporation (Nevada), ("Devon") is the operator and owner of all right title and interest in and to certain leasehold record title and operating rights in several oil and gas leases ("leases") issued by The State of New Mexico and the Department of the Interior, Bureau of Land Management insofar as they cover and effect the proposed "Unitized Formation" as defined in the proposed Etz State Unit Agreement ("Unit Agreement"); said leases more fully described on Exhibit "A" and "B" to said Unit Agreement. The Unit Agreement, accompanied by supporting geological and engineering data and evaluations has been submitted herewith for approval to The Commissioner of Public Lands, The Oil and Gas Conservation Division of the Energy and Minerals Department of the State of New Mexico ("The Division") and the District Manager of the Bureau of Land Management, Department of the Interior ("B.L.M."). Said leases are valid and subsisting and currently producing in commercial quantities from the Unitized Formation or are within their respective primary terms.

Production of oil and gas from wells on said leases has reached an advanced state of depletion and such wells are classified as stripper wells. In order to effect a greater recovery of oil and/or gas associated hydrocarbons from the Unitized Formation, the value of which is reasonably expected to exceed the additional costs of conducting the operations herein proposed, and to prevent waste and conserve natural resources, Devon has continued to inject water into the proposed Unitized Formation through certain wells ("injection wells") under permission granted by the Order of The Oil and Gas Conservation Division dated February 13, 1985 in Case No. 8481, Order No. R-7926 as modified by letters dated July 7, 1986 and April 13, 1989 from the Oil Conservation Division, of the Energy, Minerals and Natural Resources Department of the State of New Mexico. These injection wells are identified as follows, to wit:

CURRENT WELL NAME	PROPOSED UNIT WELL NAME	LOCATION	CURRENT PERFORATIONS
ETZ "B" State Well No. 18	8-1	Section 16: SW NE T17S, R30E	2551-2798
ETZ State Well No. 24	3-7	Section 16: NE NE SW T17S, R30E	2533-2779
ETZ "C" State Well No. 17	6-1	Section 16: SW NW T17S, R30E	2532-2776
Randel State Well No. 3	5-1	Section 16: NE NW T17S, R30E	2564-2795

Said original order and modifying letters are attached hereto as Exhibit "A." Devon has succeeded as Operator of the above injection wells under the original order by virtue of acquisition of all rights and title of the prior owner and Operator, Texas American Oil Corporation in the wells and oil and gas leases effected by said order.

The interval of perforation in the currently existing injection wells is set forth above. The current rate of injection into these wells ranges from 0 bbls water per day to 135 bbls water per day at pressures from 1,084 psig to 1,240 psig in accordance with the above referenced order as amended. Devon may from time to time alter existing perforations within the proposed Unitized Formation.

Upon effective approval of the unit, Devon intends to perform a cement squeeze of existing perforations in the Queen formation in the existing Randel State Well No. 5, and Etz State Well No. 20 wells, (Unit Well Name 5A-1 and 3-4 respectively). Additionally, Devon will plug all perforations and open hole completions in the San Andres formation in all unit wells as and when such wells are reworked or entered for operational purposes under standards of good oil field practice, and in compliance with rules and regulations of The Oil Conservation Division of The Energy Minerals and Natural Resources Department of the State of New Mexico, and The Bureau of Land Management.

Devon intends to seek approval of additional injection wells at the following locations including perforations in the following intervals by submittal of a Division form C-108, and related B.L.M. Sundry Notice in accordance with Division rules 701, 1203, 1204, 1205, 1206, and 1207, and B.L.M. Operating Procedure.

CURRENT WELL NAME	PROPOSED UNIT WELL NAME	LOCATION	PERFORATIONS
ETZ "J" State No. 22	4-3	Section 16: NW SW SE T17S-R30E	2539-2802
Collier Federal No. 1	1-1	Section 17: NE NE	2573-2819

Operation of the above existing injection wells and proposed injection wells will be conducted pursuant to existing and prospective orders, and governed by standards of good geologic and petroleum engineering practices and conservation methods as prescribed by industry custom and practice.

Injection into each of said wells shall be through internally coated tubing, set in a packer which shall be located as near as practicable to the uppermost perforation; the casing-tubing annulus of each injection well shall be loaded with an inert fluid and equipped with an approved pressure gauge or attention-attracting leak detection device.

The injection wells and/or injection system shall be so equipped as to limit injection pressures at the respective wellheads as prescribed in the pertinent orders as may be amended from time to time through authorization of the Division Director following application and satisfactory showing that such pressures will not result in fracturing of the confining strata.

Devon shall furnish The Commissioner, The Division, and the District Manager of the B.L.M. with monthly injection and production reports for each well in the proposed Unit Area. Subject to approval and final order, operations shall be commenced on August 1, 1989, at 7:00 a.m. and shall be conducted in accordance with Division Rules 701 through 708, and 1115, and all pertinent rules and regulations of the B.L.M.

EXHIBIT "A"

to Plan of Operations
Etz State Unit
Eddy County, New Mexico

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 8481
Order No. R-7926

APPLICATION OF TEXAS AMERICAN
OIL CORPORATION FOR A WATERFLOOD
PROJECT, EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8 a.m. on February 13, 1985, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 20th day of May, 1985, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Texas American Oil Corporation, seeks authority to institute a cooperative waterflood project in the Grayburg Jackson Pool by the injection of water into the Grayburg and San Andres formations through selected perforated intervals from approximately 2525 feet to 2850 feet in four existing wells, as described in Exhibit "A" attached hereto and made a part hereof, all located on the applicant's Etz State, Etz "B" State, Etz "C" State, and Randel State leases, located in portions of Section 16, Township 17 South, Range 30 East, NMPM, Eddy County, New Mexico.

(3) The wells in the project area are in an advanced state of depletion and should properly be classified as "stripper" wells.

(4) The proposed cooperative waterflood project should result in the recovery of otherwise unrecoverable oil, thereby preventing waste.

(5) The operator should take all steps necessary to ensure that the injected water enters only the proposed injection interval and is not permitted to escape to other formations or onto the surface from injection, production, or plugged and abandoned wells.

(6) The injection wells or injection pressurization system should be so equipped as to limit injection pressure at the wellhead to no more than 0.2 psi, per foot of depth to the top of the uppermost perforation, but the Division Director should have authority to increase said pressure limitation, should circumstances warrant.

(7) The subject application should be approved and the cooperative project should be governed by the provisions of Rules 702 through 708 of the Division Rules and Regulations.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Texas American Oil Corporation, is hereby authorized to institute a cooperative waterflood project on its Etz State, Etz "B" State, Etz "C" State, and Randel State leases, Grayburg Jackson Pool, by the injection of water into the Grayburg and San Andres formations through four existing wells, as described in Exhibit "A" attached hereto and made a part hereof, in Eddy County, New Mexico.

(2) Injection into each of said wells shall be through internally coated tubing, set in a packer which shall be located as near as practicable to the uppermost perforation; the casing-tubing annulus of each injection well shall be loaded with an inert fluid and equipped with an approved pressure gauge or attention-attracting leak detection device.

(3) The operator shall immediately notify the supervisor of the Division's Artesia district office of the failure of the tubing or packer in any of said injection wells, the leakage of water or oil from or around any producing well, or the leakage of water or oil from any plugged and abandoned well within the project area and shall take such timely steps as may be necessary or required to correct such failure or leakage.

(4) The injection wells herein authorized and/or the injection pressurization system shall be so equipped as to limit injection pressure at the wellhead to no more than 0.2 psi per foot of depth to the uppermost perforation of

each well, provided however, the Division Director may authorize a higher surface injection pressure upon application and satisfactory showing that such pressure will not result in fracturing of the confining strata.

(5) The subject cooperative waterflood project is hereby designated the Etz-Randel State Cooperative Waterflood Project and shall be governed by the provisions of Rules 701 through 708 of the Division Rules and Regulations.

(6) Monthly progress reports of the cooperative waterflood project herein authorized shall be submitted to the Division in accordance with Rules 706 and 1115 of the Division Rules and Regulations.

(7) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

R. L. STAMETS
Director

S E A L

fd/

ETZ-RANDEL STATE
COOPERATIVE WATERFLOOD

Well Name and No.	Footage Location (Unit)	Section, Township, Range
Texas American Etz "B" State Well No. 18	1980' FNL & 1980' FEL (G)	16-17S-30E
Texas American Etz State Well No. 24	2310' FSL & 2310' FWL (K)	16-17S-30E
Texas American Etz "C" State Well No. 17	1880' FNL & 660' FWL (E)	16-17S-30E
Texas American Randel State Well No. 3	660' FNL & 1980' FWL (C)	16-17S-30E

EXHIBIT "A"
CASE NO. 8481
ORDER NO. R-7926

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

GARREY CARRUTHERS
GOVERNOR

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

April 13, 1989

Devon Energy Corporation
1500 Mid America Tower
20 N. Broadway
Oklahoma City, OK 73102-8260

Attention: J. M. Duckworth

RE: Injection Pressure Increase
Etz-Randal State Cooperative
Waterflood Project,
Eddy County, New Mexico

Dear Mr. Duckworth:

Reference is made to your request dated March 28, 1989, to increase the surface injection pressure on four wells within the Etz-Randal State Cooperative Waterflood Project. This request is based on a step rate tests conducted on these wells on March 15-17, 1989. The results of the tests have been reviewed by my staff and we feel an increase in injection pressure on two of the subject wells is justified at this time.

You are therefore authorized to increase the surface injection pressure on the following wells.

WELL AND LOCATION	MAXIMUM INJECTION SURFACE PRESSURE
Etz "B" State Well No. 18 Unit G, Section 16, T-17S, R-30E, NMPM; and	1090 PSIG
Randal State Well No. 3 Unit C, Section 16, T-17S, R-30E, NMPM,	1280 PSIG

Both in Eddy County, New Mexico.

The Division Director may rescind this injection pressure increase if it becomes apparent that the injected water is not being confined to the injection zone or is endangering any fresh water aquifers.

Sincerely,

William J. LeMay
Director

cc: OCD - Artesia
File: Case 8481
T. Gallegos
D. Catanach

50 YEARS

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

1935 - 1985

TONEY ANAYA
GOVERNOR

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-5800

July 7, 1986

Texas American Corporation
300 West Wall
Suite 400
Midland, Texas 79701

Attn: Craig Young

Re: Surface Injection Pressure Increase
Etz State Cooperative Waterflood

Dear Mr. Young:

Reference is made to your request dated June 19, 1986 to increase the surface injection pressure on the three remaining injection wells on your Etz State Coop Waterflood Project in Eddy County, New Mexico. Based upon the step rate test recently performed on your Etz "B" State No. 18 Well and the step rate test performed on your Etz "C" State No. 17 Well in 1985, you are hereby authorized to increase the surface injection pressure to 1030 psi. on all four of your injection wells on the Etz State Waterflood Project. These wells and their locations are as follows:

Well Name & Number	Location
Etz "C" State No. 17	Unit E, Sec. 16, T-17S, R-30E
Etz "B" State No. 18	Unit G, Sec. 16, T-17S, R-30E
Etz State No. 24	Unit K, Sec. 16, T-17S, R-30E
Randel State No. 3	Unit C, Sec. 16, T-17S, R-30E

This increase in injection pressure may be rescinded if it becomes apparent that the injected water is not being confined to the Grayburg or San Andres formations or it is endangering any fresh water aquifers.

Sincerely,

Victor P. Lyon

R. L. Stamets
acting Director

RLS/DC/et

xc: Donna McDonald
Oil Conservation Division - Artesia
Dave Catanach

ETZ STATE UNIT

Existing Well Name - Unit Well Name Cross Reference and Location

OLD LEASE NAME	WELL NUMBER	NEW TRACT NUMBER	NEW WELL NUMBER	LOCATION	NEW WELL NAME
COLLIER FEDERAL	1	1	1	A SECTION 17-T17S-R30E, NE NE	ETZ STATE UNIT #1-1
	2	1	2	B SECTION 17-T17S-R30E, NW NE	ETZ STATE UNIT #1-2
McINTYRE 'D'	1	2	1	H SECTION 17-T17S-R30E, SE NE	ETZ STATE UNIT #2-1
ETZ STATE	1	3	1	N SECTION 16-T17S-R30E, SE SW	ETZ STATE UNIT #3-1
	3	3	2	K SECTION 16-T17S-R30E, NE SW	ETZ STATE UNIT #3-2
	4	3	3	P SECTION 16-T17S-R30E, SW SE SE	ETZ STATE UNIT #3-3
	20	3	4	I SECTION 16-T17S-R30E, NE SE	ETZ STATE UNIT #3-4
	21	3	5	P SECTION 16-T17S-R30E, NE SE SE	ETZ STATE UNIT #3-5
	23	3	6	N SECTION 16-T17S-R30E, NW SE SW	ETZ STATE UNIT #3-6
	24	3	7	K SECTION 16-T17S-R30E, NE NE SW	ETZ STATE UNIT #3-7
ETZ STATE 'A'	16	7	1	L SECTION 16-T17S-R30E, S/2 NW SW	ETZ STATE UNIT #7-1
ETZ STATE 'B'	18	8	1	G SECTION 16-T17S-R30E, SW NE	ETZ STATE UNIT #8-1
ETZ STATE 'C'	17	6	1	E SECTION 16-T17S-R30E, SW NW	ETZ STATE UNIT #6-1
	19	6	2	F SECTION 16-T17S-R30E, SE NW	ETZ STATE UNIT #6-2
ETZ STATE 'J'	1	4	1	O SECTION 16-T17S-R30E, SW SE	ETZ STATE UNIT #4-1
	15	4	2	J SECTION 16-T17S-R30E, SE NW SE	ETZ STATE UNIT #4-2
	22	4	3	O SECTION 16-T17S-R30E, NW SW SE	ETZ STATE UNIT #4-3
	25	4	4	O SECTION 16-T17S-R30E, SE SW SE	ETZ STATE UNIT #4-4
RANDAL STATE	3	5	1	C SECTION 16-T17S-R30E, NE NW	ETZ STATE UNIT #5-1
	4	5	2	D SECTION 16-T17S-R30E, NW NW	ETZ STATE UNIT #5-2
	(5)	5A	1	H SECTION 16-T17S-R30E, SE NE	ETZ STATE UNIT #5A-1
TOTAL WELLS	21				

GEOLOGIC SUMMARY FOR THE ETZ STATE UNIT

The Devon Energy Corporation proposed Etz-State Unit Grayburg waterflood includes all or parts of Sections 16 and 17 of Township 17 South, Range 30 East of Eddy County, New Mexico. This property lies on the structural axis of an easterly plunging anticline which defines the Grayburg-Jackson oil field. The field was discovered in March of 1929 and has established production from the Seven Rivers, Queen, Grayburg and San Andres Formations.

The formation of interest here is the Grayburg which consists of several lenses of porous, dolomitic sand occurring throughout 300 feet of massive dolomite found in the depth interval of 2500 feet to 2800 feet. Examination of geophysical logs in the local area indicates good lateral continuity of these porous intervals across the proposed Etz-State Unit. Core analyses in the immediate area are not available. Core observations of the porous zones within the Grayburg elsewhere in the Grayburg-Jackson field describe it as a tan, medium-grained, friable sand, sucrosic in portions with fair to good oil stain throughout and having fair to good intergranular porosity throughout. The sand appears well sorted and contains occasional thin stringers of tight anhydritic sand.

At the Etz-State Unit specifically there are five distinct porosity intervals identifiable on geophysical logs; the Loco Hills, the Upper, Middle and Lower Metex and the Premier. Assuming a sandy dolomite lithology, the porosity averages 14.5% for the three primary producing Grayburg zones; the Loco Hills, the Middle Metex and the Premier. The sandy intervals are believed to be lenticular with a permeability pinch out occurring laterally and bearing a solution gas drive as the reservoir mechanism.

NEW MEXICO STATE LAND OFFICE

CERTIFICATE OF APPROVAL

COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO

ETZ STATE UNIT
EDDY COUNTY, NEW MEXICO
DEVON ENERGY CORPORATION

There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, the attached Agreement for the development and operation of acreage which is described within the attached Agreement, dated September 7, 1989, which has been executed, or is to be executed by parties owning and holding oil and gas leases and royalty interests in and under the property described, and upon examination of said Agreement, the Commissioner finds:

(a) That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy in said area.

(b) That under the proposed agreement, the State of New Mexico will receive its fair share of the recoverable oil or gas in place under its lands in the area.

(c) That each beneficiary Institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the area.

(d) That such agreement is in other respects for the best interests of the State, with respect to state lands.

NOW, THEREFORE, by virtue of the authority conferred upon me under Sections 19-10-45, 19-10-46, 19-10-47, New Mexico Statutes Annotated, 1978 Compilation, I, the undersigned, Commissioner of Public Lands of the State of New Mexico, for the purpose of more properly conserving the oil and gas resources of the State, do hereby consent to and approve the said Agreement, and any leases embracing lands of the State of New Mexico within the area shall be and the same are hereby amended to conform with the terms thereof, and shall remain in full force and effect according to the terms and conditions of said Agreement. This approval is subject to all of the provisions of the aforesaid statutes.

IN WITNESS WHEREOF, this Certificate of Approval is executed, with seal affixed, this 24th day of October, 1989.

W. R. Humphries
COMMISSIONER OF PUBLIC LANDS
of the State of New Mexico

OG-27

CERTIFICATION--DETERMINATION

Pursuant to the authority vested in the Secretary of the Interior, the act approved February 25, 1920, 41 Stat. 437, as amended, 30 U.S.C., secs. 181, et seq., and delegated to the District Manager, Bureau of Land Management, I do hereby:

A. Approve the attached agreement for the development and operation of the Etz State unit area, State of New Mexico.

B. Certify and determine that the unit plan of development and operation comtemplated in the attached agreement is necessary and advisable in the public interest for the purpose of more properly conserving the natural resources.

C. Certify and determine that the drilling, producing, rental, minimum royalty, and royalty requirements of all Federal leases committed to said agreement are hereby established, altered, changed, or revoked to conform with the terms and conditions of this agreement.

ADM, Minerals
Bureau of Land Management

September 29, 1989
Date

NMNM82041
Contract No.

UNIT AGREEMENT
ETZ STATE UNIT
EDDY COUNTY, NEW MEXICO

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Exhibit "A" (Map of Unit Area)
Exhibit "B" (Schedule of Ownership and Tract Participation)
Exhibit "C" (Tract Participation Formula and Parameters of Unitization)

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
ETZ STATE UNIT
EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 9th day of September, 1989, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto,"

WITNESSETH:

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

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Section 1, Chapter 88, Laws 1943, as amended by Section 1 of Chapter 176, Laws of 1961) (Chapter 19, Article 10, Section 45, New Mexico Statutes 1978 Annotated), to consent to and approve the development or operation of State lands under agreements made by lessees of State land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Section 1, Chapter 88, Laws 1943, as amended by Section 1, Chapter 162, Laws of 1951) (Chapter 19, Article 10, Section 47, new Mexico Statutes 1978 Annotated) to amend with the approval of lessee, evidenced by the lessee's execution of such agreement or otherwise, any oil and gas lease embracing State lands so that the length of the term of said lease may coincide with the term of such agreements for the unit operation and development of part or all of any oil or gas pool, field or area; and

WHEREAS, the Oil Conservation Division of the State of New Mexico (hereinafter referred to as the "Division") is authorized by an Act of the Legislature (Chapter 72, Laws of 1935 as amended) (Chapter 70, Article 2, Section 2 et seq., New Mexico Statutes 1978 Annotated) to approve this Agreement and the conservation provisions hereof; and

WHEREAS, the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico is authorized by law (Chapter 65, Article 3 and Article 14, N.M.S. 1953 Annotated) to approve this Agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interest in the Unit Area covering the land hereinafter described to give reasonably effective control of operation 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 interest in the below-defined Unit Area, and agree severally among themselves as follows:

SECTION 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.

SECTION 2. UNIT AREA AND DEFINITIONS. For the purpose of this Agreement, the following terms and expressions as used herein shall mean:

(a) "Unit Area" is defined as those lands described in Exhibit "B" and depicted on Exhibit "A" hereof, and such land is hereby designated and recognized as constituting the Unit Area, containing 640 acres, more or less, in Eddy County, New Mexico.

(b) "Land Commissioner" is defined as the Commissioner of Public Lands of the State of New Mexico.

(c) "Division" is defined as the Oil Conservation Division of the Department of Energy and Minerals of the State of New Mexico.

(d) "Authorized Officer" or "A.O." is any employee of the Bureau of Land Management who has been delegated the required authority to act on behalf of the BLM.

(e) "Secretary" is defined as the Secretary of the Interior of the United States of America, or his duly authorized delegate.

(f) "Department" is defined as the Department of the Interior of the United States of America.

(g) "Proper BLM Office" is defined as the Bureau of Land Management office having jurisdiction over the federal lands included in the Unit Area.

(h) "Unitized Formation" shall mean that interval comprising the Grayburg formation underlying the Unit Area, the vertical limits of which extend from the top of the Grayburg formation, the geologic marker having been previously found to occur at 2,474 feet in Devon Energy Corporation (Nevada)'s Etz State No. 23 well (located 990' FSL and 1650' FWL of Section 16, T17S, R30E, Eddy County, New Mexico) as recorded on the Dresser Atlas BHC Acoustilog recorded on November 25, 1972, said log measured from a kelly bushing elevation of 3,673 feet above mean sea level, to a lower limit of the base of the Grayburg formation, the geologic marker having been previously found to occur at 2,770 feet in the above well as recorded and measured by the above referenced well log.

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

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

(k) "Tract Participation" is defined as the percentage of participation shown on Exhibit "B" for allocating Unitized Substances to a Tract under this Agreement.

(l) "Unit Participation" is the sum of the percentages obtained by multiplying the Working Interest of a Working Interest Owner in each Tract by the Tract Participation of such Tract.

(m) "Working Interest" is the right to search for, produce and acquire Unitized Substances whether held as an incident of ownership of mineral fee simple title, under an oil and gas lease, operating agreement, or otherwise held, which interest is chargeable with and obligated to pay or bear, either in cash or out of production, or otherwise, all or a portion of the cost of drilling, developing and producing the Unitized Substances from the Unitized Formation and operations thereof hereunder. Provided that any royalty interest created out of a working interest subsequent to the execution of this Agreement by the owner of the working interest shall continue to be subject to such working interest burdens and obligations.

(n) "Working Interest Owner" is any party hereto owning a Working Interest, including a carried working interest owner, holding an interest in Unitized Substances by virtue of a lease, operating agreement, fee title or otherwise. The owner of oil and gas rights that are free of lease or other instrument creating a Working Interest in another shall be regarded as a Working Interest Owner to the extent of seven-eights (7/8) of his interest in Unitized Substances, and as a Royalty owner with respect to his remaining one-eighth (1/8) interest therein.

(o) "Royalty Interest" or "Royalty" is an interest other than a Working Interest in or right to receive a portion of the Unitized Substances or the proceeds thereof and includes the royalty interest reserved by the lessor or by an oil and gas lease and any overriding royalty interest, oil payment interest, net profit contracts, or any other payment or burden which does not carry with it the right to search for and produce unitized substances.

(p) "Royalty Owner" is the owner of a Royalty Interest.

(q) "Unit Operating Agreement" is the agreement entered into by and between the Unit Operator and the Working Interest Owners as provided in Section 9, infra, and shall be styled "Unit Operating Agreement, Etz State Unit, Eddy County, New Mexico."

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

(s) "Outside Substances" is any substance obtained from any source other than the Unitized Formation and injected into the Unitized Formation.

(t) "Unit Manager" is any person or corporation appointed by Working Interest Owners to perform the duties of Unit Operator until the selection and qualification of a successor Unit Operator as provided for in Section 7 hereof.

(u) "Unit Operator" is the party designated by Working Interest Owners under the Unit Operating Agreement to conduct Unit Operations.

(v) "Unit Operations" is any operation conducted pursuant to this Agreement and the Unit Operating Agreement.

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

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

(y) "Effective Date" is the date determined in accordance with Section 24, or as redetermined in accordance with Section 39.

SECTION 3. EXHIBITS. the following exhibits are incorporated herein by reference: Exhibit "A" attached hereto is a map showing the Unit Area and the boundaries and identity of tracts and leases in said Unit Area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule

showing, to the extend known to the Unit Operator, the acreage comprising each Tract, percentages and kind of ownership of oil and gas interests in all land in the Unit Area, and Tract Participation of each Tract. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. The shapes and descriptions of the respective Tracts have been established by using the best information available. Each Working Interest Owner is responsible for supplying Unit Operator with accurate information relating to each Working Interest Owner's interest. If it subsequently appears that any Tract, because of diverse royalty or working interest ownership on the Effective Date hereof, should be divided into more than one Tract, or when any revision is requested by the A.O., or any correction of any error other than mechanical miscalculations or clerical is needed, then the Unit Operator, with the approval of the Working Interest owners, may correct the mistake by revising the exhibits to conform to the facts. The revision shall not include any reevaluation of engineering or geological interpretations used in determining Tract Participation. Each such revision of an exhibit made prior to thirty (30) days after the Effective Date shall be effective as of the Effective Date. Each other such revision of an exhibit shall be effective at 7:00 a.m. on the first day of the calendar month next following the filing for record of the revised exhibit or on such other date as may be determined by Working Interest Owners and set forth in the revised exhibit. Copies of such revision shall be filed with the Land Commissioner, and not less than four copies shall be filed with the A.O. In any such revision, there shall be no retroactive allocation or adjustment of Unit Expense or of interests in the Unitized Substances produced, or proceeds thereof.

SECTION 4. EXPANSION. The above described Unit Area may, with the approval of the A.O. and Land Commissioner, when practicable be expanded to include therein any additional Tract or Tracts regarded as reasonably necessary or advisable for the purposes of this Agreement provided however, in such expansion there shall be no retroactive allocation or adjustment of Unit Expense or of interests in the Unitized Substances produced, or proceeds thereof. Pursuant to Subsection (b), the Working Interest Owners may agree upon an adjustment of investment by reason of the expansion. Such expansion shall be effected in the following manner:

(a) The Working Interest Owner or Owners of a Tract or Tracts desiring to bring such Tract or Tracts into this unit, shall file an application therefor with Unit Operator requesting such admission.

(b) Unit Operator shall circulate a notice of the proposed expansion to each Working Interest Owner in the Unit Area and in the Tract proposed to be included in the unit, setting out the basis for admission, the Tract Participation to be assigned to each Tract in the enlarged Unit Area and other pertinent data. After negotiation (at Working Interest owners' meeting or otherwise) if at least three Working Interest Owners having in the aggregate seventy-five percent (75%) of the Unit Participation then in effect have agreed to inclusion of such Tract or Tracts in the Unit Area, then Unit Operator shall:

(1) After obtaining preliminary concurrence by the A.O. and Land Commissioner, prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefor, the basis for admission of the additional Tract or Tracts, the Tract Participation to be assigned thereto and the proposed effective date thereof; and

(2) Deliver copies of said notice to Land Commissioner, the A. O. at the Proper BLM Office, each Working Interest Owner and the last known address of each lessee and lessor whose interest are affected, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objection to such proposed expansion; and

(3) File, upon the expiration of said thirty (30) day period as set out in (2) immediately above with the Land Commissioner and A.O. the following: (a) evidence of mailing or delivering copies of said notice of expansion; (b) an application for approval of such expansion; (c) an instrument containing the appropriate joinders in compliance with the participation requirements of Section 14 and Section 34, infra; and (d) a copy of all objections received along with the Unit Operator's response thereto.

The expansion shall, after due consideration of all pertinent information and approval by the Land Commissioner and the A.O., become effective as of the date prescribed in the notice thereof, preferably the first day of the month subsequent to the date of notice. The revised Tract Participation of the respective Tracts included within the Unit Area prior to such enlargement shall remain the same ratio one to another.

SECTION 5. UNITIZED LAND. All land committed to this Agreement as to the Unitized Formation shall constitute land referred to herein as "Unitized Land" or "Land subject to this Agreement." Nothing herein shall be construed to unitize, pool, or in any way affect the oil, gas and other minerals contained in or that may be produced from any formation other than the Unitized Formation as defined in Section 2(h) of this Agreement.

SECTION 6. UNIT OPERATOR. Devon Energy Corporation (Nevada) is hereby designated the Unit Operator, and by signing this instrument as Unit Operator, agrees and consents to accept the duties and obligations of Unit Operator for the operation, 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, when such interests are owned by it and the term "Working Interest Owner" when used herein shall include or refer to the Unit Operator as the owner of a Working Interest when such an interest is owned by it.

Unit Operator shall have a lien upon interests of Working Interest Owners in the Unit Area to the extent provided in the Unit Operating Agreement.

SECTION 7. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit operator shall have the right to resign at any time, 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 six (6) months after written notice of intention to resign has been given by Unit Operator to all Working Interest Owners, the Land Commissioner and the A.O. unless a new Unit Operator shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

The Unit Operator shall, upon default or failure in the performance of its duties and obligations hereunder, be subject to removal by Working Interest Owners having in the aggregate eighty percent (80%) or more of the Unit Participation then in effect exclusive of the Working Interest Owner who is the Unit Operator. Such removal shall be effective upon notice thereof to the Land Commissioner and the A.O.

In all such instances of effective resignation or removal, until a successor to Unit Operator is selected and approved as hereinafter provided, the Working Interest Owners shall be jointly responsible for the performance of the duties of the Unit Operator and shall, not later than thirty (30) days before such resignation or removal becomes effective, appoint a Unit Manager to represent them in any action to be taken hereunder.

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, books and records, materials, appurtenances and any other assets used in connection with the Unit Operations to the new duly qualified successor Unit Operator or to the Unit

Manager if no such new Unit Operator is elected. Nothing herein shall be construed as authorizing the removal of any material, equipment or appurtenances needed for the preservation of any wells. Nothing herein contained shall be construed to relieve or discharge any Unit Operator or Unit Manager who resigns or is removed hereunder from any liability or duties accruing or performable by it prior to the effective date of such resignation or removal.

SECTION 8. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owners shall select a successor Unit Operator as herein provided. Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Land Commissioner and the A.O. If no successor Unit Operator or Unit Manager is selected and qualified as herein provided, the Land Commissioner and/or the A.O., at their election, may declare this Agreement terminated.

In selecting a successor Unit Operator, the affirmative vote of three or more Working Interest Owners having a total of sixty-five percent (65%) or more of the total Unit Participation shall prevail; provided that if any one Working Interest Owner has a Unit Participation of more than thirty-five percent (35%), its negative vote or failure to vote shall not be regarded as sufficient unless supported by the vote of one or more other Working Interest Owners having a total Unit Participation of at least five percent (5%). If the Unit Operator who is removed votes only to succeed itself or fails to vote, the successor Unit Operator may be selected by the affirmative vote of the owners of at least seventy-five percent (75%) of the Unit Participation remaining after excluding the Unit Participation of Unit Operator so removed.

SECTION 9. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. Costs and expenses incurred by Unit Operator in conducting Unit Operations hereunder shall be paid, apportioned among and borne by the Working Interest Owners in accordance with the Unit Operating Agreement. Such Unit Operating Agreement shall also provide the manner in which the Working Interest Owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases or other contracts and such other rights and obligations as between Unit Operator and the Working Interest Owners as may be agreed upon by the Unit Operator and the Working Interest Owners; however, no such Unit Operating Agreement shall be deemed either to modify any of the terms and conditions of this Agreement or to relieve the Unit Operator of any right or obligation established under this Agreement, and in case of any inconsistency or conflict between this Agreement and the Unit Operating Agreement, this Agreement shall prevail. Copies of any Unit Operating Agreement executed pursuant to this Section shall be filed with the Land Commissioner and with the A. O. at the Proper BLM Office as required prior to approval of this Agreement.

SECTION 10. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto including surface rights which are necessary or convenient for prospecting for, producing, storing, allocating and distributing the Unitized Substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Upon request, acceptable evidence of title to said rights shall be deposited with said Unit Operator, and together with this Agreement, shall constitute and define the rights, privileges and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this Agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

SECTION 11. PLAN OF OPERATIONS. It is recognized and agreed by the parties hereto that all of the land subject to this Agreement is reasonably proved to be productive of Unitized Substances and that the object and purpose of this Agreement is to formulate and to put into effect an improved recovery project in order to effect additional recovery of Unitized Substances, prevent waste and conserve natural resources. Unit Operator shall have the right to inject into the Unitized Formation any substances for secondary recovery or enhanced recovery purposes in accordance with a plan of operation approved by the Working Interest Owners, the A.O., the Land Commissioner and the Division, including the right to drill and maintain injection wells on the Unitized Land and completed in the Unitized Formation, and to use abandoned well or wells producing from the Unitized Formation for said purpose. Subject to like approval, the Plan of Operation may be revised as conditions may warrant.

The initial Plan of Operation shall be filed with the A.O., the Land Commissioner and the Division concurrently with the filing of this Unit Agreement for final approval. Said initial plan of operations and all revisions thereof shall be as completed and adequate as the A.O., the Land Commissioner and the Division may determine to be necessary for timely operation consistent herewith. Upon approval of this Agreement and the initial plan by the A.O. and Commissioner, said plan, and all subsequently approved plans, shall constitute the operating obligations of the Unit Operator under this Agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for like approval a plan for an additional specified period of operations. After such operations are commenced, reasonable diligence shall be exercised by the Unit Operator in complying with the obligations of the approved Plan of Operation.

Notwithstanding anything to the contrary herein contained, should the Unit Operator fail to commence Unit Operations for the secondary recovery of Unitized Substances from the Unit Area within eighteen (18) months after the effective date of this Agreement, or any extension thereof approved by the A.O., this Agreement shall terminate automatically as of the date of default.

SECTION 12. USE OF SURFACE AND USE OF WATER. The parties to the extent of their rights and interests, hereby grant to Unit Operator the right to use as much of the surface, including the water thereunder, of the Unitized Land as may reasonably be necessary for Unit Operations.

Unit Operator's free use of water or brine or both for Unit Operations, shall not include any water from any well, lake, pond or irrigation ditch of a surface owner, unless approval for such use is granted by the surface owner.

Unit Operator shall pay the surface owner for damages to growing crops, fences, improvements and structures on the Unitized Land that result from Unit Operations, and such payments shall be considered as items of unit expense to be borne by all of the Working Interest Owners of lands subject hereto.

SECTION 13. TRACT PARTICIPATION. In Exhibit "B" attached hereto there are listed and numbered the various Tracts within the Unit Area, and set forth opposite each Tract are figures which represent the Tract Participation, during Unit Operations if all Tracts in the Unit Area qualify as provided herein. The Tract Participation of each Tract as shown in Exhibit "B" was determined in accordance with the formula and specific tract parameters set forth on Exhibit "C" attached hereto.

In the event less than all Tracts are qualified on the Effective Date hereof, the Tract Participation shall be calculated on the basis of all such qualified Tracts rather than all Tracts in the Unit Area.

SECTION 14. TRACTS QUALIFIED FOR PARTICIPATION. On and after the Effective Date hereof, the Tracts within the Unit Area which shall be entitled to participation in the production of Unitized Substances shall be those Tracts more particularly described in Exhibit "B" that corner or have a common boundary (Tracts separated only by a public road or a railroad right-of-way shall be considered to have a common boundary), and that otherwise qualify as follows:

(a) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest have become parties to this Agreement and as to which Royalty Owners owning seventy-five percent (75%) or more of the Royalty Interest have become parties to this Agreement.

(b) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest have become parties to this agreement, and as to which Royalty Owners owning less than seventy-five percent (75%) of the Royalty Interest have become parties to this Agreement, and as to which (1) the Working, Interest Owner who operates the Tract and Working Interest Owners owning at least seventy-five percent (75%) of the remaining Working Interest in such Tract have joined in a request for the inclusion of such Tract, and as to which (2) Working Interest Owners owning at least seventy-five percent (75%) of the combined Unit Participation in all Tracts that meet the requirements of Section 14(a) above have voted in favor of the inclusion of such tract.

(c) Each Tract as to which Working Interest Owners owning less than one hundred percent (100%) of the Working Interest have become parties to this Agreement, regardless of the percentage of Royalty Interest therein that is committed hereto; and as to which (1) the Working Interest Owner who operates the Tract and Working Interest Owner owning at lease seventy-five percent (75%) of the remaining Working Interest in such Tract who have become parties to this Agreement have joined in a request for inclusion of such Tract, and have executed and delivered, or obligated themselves to execute and deliver an indemnity agreement indemnifying and agreeing to hold harmless the other owners of committed Working Interests, their successors and assigns, against all claims and demands that may be made by the owners of Working Interest in such Tract who are not parties to this Agreement, and which arise out of the inclusion of the Tract; and as to which (2) Working Interest Owners owning at least seventy-five percent (75%) of the Unit Participation in all Tracts that meet the requirements of Section 14(a) and 14(b) have voted in favor of the inclusion of such Tract and to accept the indemnity agreement. Upon the inclusion of such a Tract, the Tract Participations which would have been attributed to the nonsubscribing owners of Working Interest in such Tract, had they become parties to this Agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such Tract who have become parties to such agreements, and joined in the indemnity agreement, in proportion to their respective Working Interests in the Tract.

If on the Effective Date of this Agreement there is any Tract or Tracts which have not been effectively committed to or made subject to this Agreement by qualifying as above provided, then such Tract or Tracts shall not be entitled to participate hereunder. Unit Operator shall, when submitting this Agreement for final approval by the Land Commissioner and the A.O., file therewith a schedule of those tracts which have been committed and made subject to this Agreement and are entitled to participate in Unitized Substances. Said schedule shall set forth opposite each such committed Tract the lease number or assignment number, the owner of record of the lease, and the percentage participation of such tract which shall be computed according to the participation formula set forth in Section 13 (Tract Participation) above. This schedule of participation shall be revised Exhibit "B" and upon approval thereof by the Land Commissioner and the A.O., shall become a part of this Agreement and shall govern the allocation of production of Unitized Substances until a new schedule is approved by the Land Commissioner and A.O.

SECTION 15.A. ALLOCATION OF UNITIZED SUBSTANCES. All Unitized Substances produced and saved (less, save and except any part of such Unitized Substances used in conformity with good operating practices on unitized land for drilling, operating, camp and other production or development purposes and for injection or unavoidable loss in accordance with a Plan of Operation approved by the A.O. and Land Commissioner) shall be apportioned among and allocated to the qualified Tracts in accordance with the respective Tract Participations effective hereunder during the respective periods such Unitized Substances were produced, as set forth in the schedule of participation in Exhibit "B." The amount of Unitized Substances so allocated to each Tract, and only that amount (regardless of whether it be more or less than the amount of the actual production of unitized Substances from the well or wells, if any, on such Tract) shall, for all intents, uses and purposes, be deemed to have been produced from such Tract.

The Unitized Substances allocated to each Tract shall be distributed among, or accounted for, to the parties entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions, as they would have participated and shared in the production from such Tracts, or in the proceeds thereof, had this Agreement not been entered into; and with the same legal force and effect.

No Tract committed to this Agreement and qualified for participation as above provided shall be subsequently excluded from participation hereunder on account of depletion of Unitized Substances.

If the Working Interest and/or the Royalty Interest in any Tract are divided with respect to separate parcels or portions of such Tract and owned now or hereafter in severalty by different persons, the Tract Participation shall be in the absence of a recordable instrument executed by all owners in such Tract and furnished to Unit Operator fixing the divisions of ownership, be divided among such parcels or portions in proportion to the number of surface acres in each.

SECTION 15.B. WINDFALL PROFIT TAX. In order to comply with the Windfall Profit Tax Act of 1980, as amended, and applicable regulatins and to ensure that interest owners of each Tract retain the Windfall Profit Tax benefits accruing to each Tract prior to joining the Unit, for Windfall Profit Tax purposes only, crude oil shall be allocated to individual Tracts as follows:

SECTION 15.C. IMPUTED NEWLY DISCOVERED CRUDE OIL. Each Tract contributing newly discovered crude oil to the Unit Area, that is each Tract certified as a newly discovered property for Windfall Profit Tax purposes prior to joining the Unit (Newly Discovered Tract), shall be allocated imputed newly discovered crude oil in the proportion that the Tract Participation of such Tract bears to the total of the Tract Participations of all Newly discovered Tracts; provided, however, that imputed newly discovered crude oil allocated to any Tract under this Subsection 15.C. shall not exceed, in any month, the total number of barrels of crude oil allocable out of unit production to such Tract in accordance with its Tract Participation. In the event a Newly Discovered Tract is so allocated a number of barrels of imputed newly discovered crude oil which is less than the total number of barrels of crude oil allocable out of unit production to such Tract in accordance with its Tract Participation, then such Newly Discovered Tract shall be allocated any remaining unallocated newly discovered crude oil in the proportion that the Tract Participation of such Tract bears to the total of the Tract Participations of all Newly Discovered Tracts not previously so allocated the total number of barrels allocable out of unit production in accordance with their Tract Participations. This additional allocation process shall continue to be repeated, as outlined in the preceding sentence, until such time as:

(a) all Newly Discovered Tracts have been so allocated a number of barrels of imputed newly discovered crude oil equal to the total number of barrels of crude oil allocable out of unit production to such Tracts in accordance with their Tract Participations; or

(b) there is no imputed newly discovered crude oil remaining to be allocated,

whichever occurs first.

Any imputed newly discovered crude oil in excess of the amount of oil allocable to a Tract in accordance with this Subsection 15.C. shall be termed excess imputed newly discovered crude oil.

SECTION 15.D. IMPUTED STRIPPER CRUDE OIL. Each Tract contributing stripper crude oil to the Unit Area, that is, each Tract certified as a stripper property for Windfall Profit Tax purposes prior to joining the Unit (Stripper Tract), shall be allocated imputed stripper crude oil in the proportion that the Tract Participation of such Tract bears to the total of the Tract Participations of all Stripper Tracts; provided, however, that imputed stripper crude oil allocated to any Tract under this Subsection 15.D. shall not exceed, in any month, the total number of barrels of crude oil allocable out of unit production to such Tract in accordance with its Tract Participation. In the event a Stripper Tract is so allocated a number of barrels of imputed stripper crude oil which is less than the total number of barrels of crude oil allocable out of unit production to such Tract in accordance with its Tract Participation, then such Stripper Tract shall be allocated any remaining unallocated imputed stripper crude oil in the proportion that the Tract Participation of such Tract bears to the total of the Tract Participations of all Stripper Tracts not previously so allocated the total number of barrels allocable out of unit production in accordance with their Tract Participations. This additional allocation process shall continue to be repeated, as outlined in the preceding sentence until such time as:

(a) all Stripper Tracts have been so allocated a number of barrels of imputed stripper crude oil equal to the total number of barrels of crude oil allocable out of unit production to such Tracts in accordance with their Tract Participations; or

(b) there is no imputed stripper crude oil remaining to be allocated,

whichever comes first.

Any imputed stripper crude oil in excess of the amount of oil allocable to a Tract in accordance with this Subsection 15.D. shall be termed excess imputed stripper crude oil.

SECTION 15.E. EXCESS IMPUTED NEWLY DISCOVERED CRUDE OIL. Each Tract shall be allocated any excess imputed newly discovered crude oil in the proportion that its Tract Participation bears to the total of the Tract Participations of all Tracts not previously allocated the total number of barrels of crude oil allocable to these Tracts out of unit production in accordance with the Tract Participations of such Tracts; provided, however, that excess imputed newly discovered crude oil allocated to each such Tract, when added to the total number of barrels of imputed newly discovered crude oil previously allocated to it, shall not exceed, in any month, the total number of barrels of oil allocable to it out of unit production in accordance with its Tract Participation.

SECTION 15.F. EXCESS IMPUTED STRIPPER CRUDE OIL. Each Tract shall be allocated any excess imputed Stripper crude oil in the proportion that its Tract Participation bears to the total of the Tract Participations of all Tracts not previously allocated the total number of crude oil barrels allocable to these Tracts out of unit production in accordance with the Tract Participations of such Tracts; provided, however, that excess imputed stripper crude oil allocated to each such Tract, when added to the total number of barrels of imputed stripper crude oil previously allocated to it, shall not exceed, in any month, the total number of barrels of oil allocable to it out of unit production in accordance with its Tract Participation.

SECTION 15.G. TAKING UNITIZED SUBSTANCES IN KIND. The Unitized Substances allocated to each Tract shall be delivered in kind to the respective parties entitled thereto by virtue of the ownership of oil and gas rights therein. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose within the Unitized Area, provided the same are so constructed, maintained and operated as not to interfere with Unit Operations. Subject to Section 17 hereof, any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party taking delivery. In the event any Working Interest Owner shall fail to take or otherwise adequately dispose of its proportionate share of the production from the Unitized Formation, then so long as such condition continues, Unit Operator, for the account and at the expense of the Working Interest Owner of the Tract or Tracts concerned, and in order to avoid curtailing the operation of the Unit Area, may, but shall not be required to, sell or otherwise dispose of such production to itself or to others, provided that all contracts of sale by Unit Operator of any other party's share of Unitized Substances shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such contract be for a period in excess of one year, and at not less than the prevailing market price in the area for like production, and the account of such Working Interest Owner shall be charged therewith as having received such production. The net proceeds, if any, of the Unitized Substances so disposed of by Unit Operator shall be paid to the Working Interest Owner of the Tract or Tracts concerned. Notwithstanding the foregoing, Unit Operator shall not make a sale into interstate commerce of any Working Interest Owner's share of gas production without first giving such Working Interest Owner sixty (60) days' notice of such intended sale.

Any Working Interest Owner receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any Tract, or receiving the proceeds therefrom if the same is sold or purchased by Unit Operator, shall be responsible for the payment of all royalty, overriding royalty and production payments due thereon, and each such party shall hold each other Working Interest Owner harmless against all claims, demands and causes of action by owners of such royalty, overriding royalty and production payments.

If, after the Effective Date of this Agreement, there is any Tract or Tracts that are subsequently committed hereto, as provided in Section 4 (Expansion) hereof, or any Tract or Tracts within the Unit Area not committed hereto as of the Effective Date hereof but which are subsequently committed hereto under the provisions of Section 14 (Tracts Qualified for Participation) and Section 32 (Nonjoinder and Subsequent Joinder); or if any Tract is excluded from this Agreement as provided for in Section 21 (Loss of Title), the schedule of participation as shown in Exhibit "B" shall be revised by the Unit Operator; and the revised Exhibit "B," upon approval by the Land Commissioner and the A.O., shall govern the allocation of production on and after the effective date thereof until a revised schedule is approved as hereinabove provided.

SECTION 16. OUTSIDE SUBSTANCES. If gas obtained from formations not subject to this Agreement is introduced into the Unitized Formation for use in repressuring, stimulating of production or increasing ultimate recovery which shall be in conformity with a Plan of Operation first approved by the Land Commission and the A.O., a like amount of gas with appropriate deduction for loss or depletion from any cause may be withdrawn from unit wells completed in the Unitized Formation royalty free as to dry gas, but not royalty free as to the products extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved Plan of Operator or as otherwise may be consented to or prescribed by the Land Commissioner and the A.O. as conforming to good petroleum engineering practices and provided further that such right of withdrawal shall terminate on the termination date of this Agreement.

SECTION 17. ROYALTY SETTLEMENT. The State of New Mexico and United States of America and all Royalty Owners who, under an existing contract, are entitled to take in kind a share of the substances produced from any Tract unitized hereunder, shall continue to be entitled to such right to take in kind their share of the Unitized Substances allocated to such Tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for Royalty not taken in kind shall be made by Working Interest Owners responsible therefor under existing contracts, Laws and regulations on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any Royalty due under the leases, except that such Royalty shall be computed on Unitized Substances as allocated to each Tract in accordance with the terms of this Agreement. With respect to Federal leases committed hereto on which the royalty rate depends upon the daily average production per well, such average production shall be determined in accordance with the operating regulations pertaining to Federal leases as though the committed Tracts were included in a single consolidated lease.

If the amount of production or the proceeds thereof accruing to any Royalty Owner (except the United States of America) in a Tract depends upon the average production per well or the average pipeline runs per well from such Tract during any period of time, then such production shall be determined from and after the effective date hereof by dividing the quantity of Unitized Substances allocated hereunder to such Tract during such period of time by the number of wells located thereon capable of producing Unitized Substances as of the Effective Date hereof, provided that any Tract not having any well so capable of producing Unitized Substances on the Effective Date hereof shall be considered as having one such well for the purpose of this provision.

All Royalty due the State of New Mexico and the United States of America and the other Royalty owners hereunder shall be computed and paid on the basis of all Unitized Substances allocated to the respective Tract or Tracts committed hereto, in lieu of actual production from such Tract or Tracts.

With the exception of Federal and State requirements to the contrary, Working Interest Owners may use or consume Unitized Substances for Unit Operations and no Royalty, overriding royalty, production or other payments shall be payable on account of Unitized Substances used, lost or consumed in Unit Operations.

Each Royalty Owner (other than the State of New Mexico and the United States of America) that executes this Agreement represents and warrants that it is the owner of a Royalty Interest in a Tract or Tracts within the Unit Area as its interest appears in Exhibit "B" attached hereto. If any Royalty Interest in a Tract or Tracts should be lost by title failure or otherwise in whole or in part, during the term of this Agreement, then the Royalty Interest of the party representing himself to be the owner thereof shall be reduced proportionately and the interests of all parties shall be adjusted accordingly.

SECTION 18. RENTAL SETTLEMENT. Rentals or minimum Royalties due on the leases committed hereto shall be paid by Working Interest Owners responsible therefor under existing contracts, laws and regulations provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum Royalty in lieu thereof, due under their leases. Rental for lands of the State of New Mexico subject to this Agreement shall be paid at the rate specified in the respective leases from the State of New Mexico. Rental or minimum Royalty for lands of the United States of America subject to this Agreement shall be paid at the rate specified in the respective leases from the United States of America, unless such rental or minimum Royalty is waived, suspended or reduced by law or by approval of the Secretary or his duly authorized representative.

SECTION 19. 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 Federal and State laws and regulations.

SECTION 20. DRAINAGE. The Unit Operator shall take all reasonable and prudent measures to prevent drainage of Unitized Substances from unitized land by wells on land not subject to this Agreement.

The Unit Operator, upon approval by the Working Interest Owners, the A.O. and the Land Commissioner, is hereby empowered to enter into a borderline agreement or agreements with working interest owners of adjoining lands not subject to this Agreement with respect to operation in the border area for the maximum economic recovery, conservation purposes and proper protection of the parties and interest affected.

SECTION 21. 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 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 State or Federal lands or leases, no payments of funds due the United States or the State of New Mexico shall be withheld, but such funds shall be deposited as directed by the A.O. or Land Commissioner (as the case may be) 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.

If the title or right of any party claiming the right to receive in kind all or any portion of the Unitized Substances allocated to a Tract is in dispute, Unit Operator at the direction of Working Interest Owners shall either:

(a) require that the party to whom such unitized Substances are delivered or to whom the proceeds thereof are paid furnish security for the proper accounting therefor to the rightful owner if the title or right of such party fails in whole or in part, or

(b) withhold and market the portion of Unitized Substances with respect to which title or right is in dispute, and impound the proceeds thereof until such time as the title or right thereto is established by a final judgment of a court of competent jurisdiction or otherwise to the satisfaction of Working Interest Owners, whereupon the proceeds so impounded shall be paid to the party rightfully entitled thereto.

Each Working Interest Owner shall indemnify, hold harmless, and defend all other Working Interest Owners against any and all claims by any party against the interest attributed to such Working Interest Owner on Exhibit "B."

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

SECTION 22. 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 and the Land Commissioner, respectively, shall and by their approval hereof, or by the approval hereof by their duly authorized representatives, do hereby establish, alter, change or revoke the drilling, producing, rental, minimum Royalty and Royalty requirements of Federal and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this Agreement.

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 Tract subject to this Agreement, regardless of whether there is any development of any Tract of the Unit Area, notwithstanding anything to the contrary in any lease, operating agreement or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.

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

(c) Suspension of drilling or producing operations within the Unit Area pursuant to direction or consent of the Land Commissioner and the A.O., or their duly authorized representatives, shall be deemed to constitute such suspension pursuant to such direction or consent as to each Tract within the Unitized Area.

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

(e) Any lease embracing lands of the State of New Mexico which is made subject to this Agreement shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof.

(f) Any lease embracing lands of the State of New Mexico having only a portion of its land committed hereto shall be segregated as to that portion committed and that not committed, and the terms of such lease shall apply separately to such segregated portions commencing as of the Effective Date hereof. Provided, however, that notwithstanding any of the provisions of this Agreement to the contrary, such lease (including both segregated portions) 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, or has heretofore been discovered in paying quantities on some part of the lands embraced in such lease committed to this Agreement or, so long as a portion of the Unitized Substances produced from the Unit Area is, under the terms of this Agreement, allocated to the portion of the lands covered by such lease committed to this Agreement, or, at any time during the term hereof, as to any lease that is then valid and subsisting and upon which the lessee or the Unit Operator is then engaged in bona fide drilling, reworking, or improved recovery operations on any part of the lands embraced in such lease, then the same as to all lands embraced therein shall remain in full force and effect so long as such operations are diligently prosecuted, and if they result in the production of oil or gas, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

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

SECTION 23. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto and their successors in interest until this Agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee or other successor in interest. No assignment or transfer of any Working Interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument or transfer; and no assignment or transfer of any Royalty Interest subject hereto shall be binding upon the Working Interest Owner responsible therefor until the first day of the calendar month after said Working Interest Owner is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument or transfer.

SECTION 24. EFFECTIVE DATE AND TERM. This Agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party and shall become effective on the first day of the calendar month next following the approval of this Agreement by the A.O., the Land Commissioner and the Commission.

If this Agreement does not become effective on or before October 1, 1990, it shall ipso facto expire on said date (hereinafter called "Expiration Date") and thereafter be of no further force or effect, unless prior thereto this Agreement has been executed or ratified by Working Interest Owners owning a combined Participation of at least seventy five percent (75%); and at least seventy-five percent (75%) of such Working Interest owners committed to this Agreement have decided to extend Expiration Date for a period not to exceed one (1) year (hereinafter called "Extended Expiration Date"). If Expiration Date is so extended and this Agreement does not become effective on or before Extended Expiration Date, it shall ipso facto expire on Extended Expiration Date and thereafter be of no further force and effect.

Unit Operator shall file for record within thirty (30) days after the Effective Date of this Agreement, in the office of the County Clerk of Eddy County, New Mexico, where a counterpart of this Agreement has become effective according to its terms and stating further the effective date.

The terms of this Agreement shall be for and during the time that Unitized Substances are produced from the unitized land and so long thereafter as drilling, reworking or other operations (including improved recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days unless sooner terminated as herein provided.

This Agreement may be terminated with the approval of the Land Commissioner and the A.O. by Working Interest Owners owning eighty percent (80%) of the Unit Participation then in effect whenever such Working Interest Owners determine that Unit Operations are no longer profitable, or in the interest of conservation. Upon approval, such termination shall be effective as of the first day of the month after said Working Interest Owner's determination. Notice of any such termination shall be filed by Unit Operator in the Office of the County Clerk of Eddy County, New Mexico, within thirty (30) days of the effective date of termination.

Upon termination of this Agreement, the parties hereto shall be governed by the terms and provisions of the leases and contracts affecting the separate Tracts just as if this Agreement has never been entered into.

Notwithstanding any other provision in the leases unitized under this Agreement, Royalty Owners hereby grant Working Interest Owners a period of six months after termination of this Agreement in which to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with Unit Operations.

SECTION 25. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION. All production and the disposal thereof shall be in conformity with allocations and quotas made or fixed by any duly authorized person or regulatory body under any Federal or State statute. The A.O. is hereby vested with authority to alter or modify from time to time, in his discretion, the rate of prospecting and development and within the limits made or fixed by the Division to alter or modify the quantity and rate of production under this Agreement, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification; provided, further, that no such alteration or modification shall be effective as to any land of the State of New Mexico as to the rate of prospecting and development in the absence of the specific written approval thereof by the Land Commissioner and as to any lands in the State of New Mexico or privately-owned lands subject to this Agreement or to the quantity and rate of production from such lands in the absence of specific written approval thereof by the Division.

Powers in this Section vested in the A.O. shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than fifteen (15) days from notice, and thereafter subject to administrative appeal before becoming final.

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

SECTION 27. APPEARANCES. Unit Operator shall have the right to appear for or on behalf of any interests affected hereby before the Land Commissioner, the Department, and the Division, and to appeal from any order issued under the rules and regulations of the Land Commissioner, the Department or the Division, or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Land Commissioner, the Department or the Division or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceeding.

SECTION 28. NOTICES. All notices, demands, objections or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if made in writing and personally delivered to the party or parties or sent by postpaid certified or registered mail, addressed to such party or parties at their last known address set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

SECTION 29. NO WAIVER OF CERTAIN RIGHTS. Nothing in this Agreement contained shall be construed as a Waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State wherein said Unitized Lands are located, or 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; provided, however, each party hereto covenants that it will not resort to any action to partition the unitized land or the Unit Equipment.

SECTION 30. EQUIPMENT AND FACILITIES NOT FIXTURES ATTACHED TO REALTY. Each Working Interest Owner has heretofore placed and used on its Tract or Tracts committed to this Agreement various well and lease equipment and other property, equipment and facilities. It is also recognized that additional equipment and facilities may hereafter be placed and used upon the Unitized Land as now or hereafter constituted. Therefore, for all purposes of this Agreement, any such equipment shall be considered to be personal property and not fixtures attached to realty. Accordingly, said well and lease equipment and personal property is hereby severed from the mineral estates affected by this Agreement, and it is agreed that any such equipment and personal property shall be and remain personal property of the Working Interest Owners for all purposes.

SECTION 31. UNAVOIDABLE DELAY. All obligations under this Agreement requiring the Unit Operator to commence or continue improved recovery operations or to operate on or produce Unitized Substances from any of the lands covered by this Agreement shall be suspended while, but only so long as, the Unit Operator, despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State or municipal law or agency, unavoidable accident, 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.

SECTION 32. NONJOINDER AND SUBSEQUENT JOINDER. Joinder by any Royalty Owner, at any time, must be accompanied by appropriate joinder of the corresponding Working Interest Owner in order for the interest of such Royalty Owner to be regarded as effectively committed. Joinder to this Agreement by a Working interest Owner, at any time, must be accompanied by appropriate joinder to the Unit Operating Agreement in order for such interest to be regarded as effectively committed to this Agreement.

Any oil or gas interest in the Unitized Formations not committed hereto prior to submission of this Agreement to the Land Commissioner and the A.O. for final approval may thereafter be committed hereto upon compliance with the applicable provisions of this Section and of Section 14 (Tracts Qualified for Participation) hereof, at any time up to the Effective Date hereof on the same basis of Tract Participation as provided in Section 13, by the owner or owners thereof subscribing, ratifying, or consenting in writing to this Agreement and, if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

It is understood and agreed, however, that from and after the Effective Date hereof the right of subsequent joinder as provided in this Section shall be subject to such requirements or approvals and on such basis as may be agreed upon by Working Interest Owners owning not less than sixty-five percent (65%) of the Unit Participation then in effect, and approved by the Land Commissioner and A. O. Such subsequent joinder by a proposed Working Interest Owner must be evidenced by his execution or ratification of this Agreement and the Unit Operating Agreement and, where State or Federal land is involved, such joinder must be approved by the Land Commissioner or A.O. Such joinder by a proposed Royalty Owner must be evidenced by his execution, ratification or consent of this Agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such proposed Royalty Owner. Except as may be otherwise herein provided, subsequent joinder to this Agreement shall be effective as of the first day of the month following the filing with the Land Commissioner and A.O. of duly executed counterparts of any and all documents necessary to establish effective commitment of any Tract or interest to this Agreement, unless objection to such joinder by the Land Commissioner or the A.O., is duly made sixty (60) days after such filing.

SECTION 33. COUNTERPARTS. This Agreement may be executed in any number of counterparts, no one of which needs to be executed by all parties and 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 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 land within the described Unit Area. Furthermore, this Agreement shall extend to and be binding on the parties hereto, their successors, heirs and assigns.

SECTION 34. JOINDER IN DUAL CAPACITY. Execution as herein provided by any party as either a Working Interest Owner or a Royalty Owner shall commit all interests owned or controlled by such party; provided, that if the party is the owner of a Working Interest, he must also execute the Unit Operating Agreement.

SECTION 35. TAXES. Each party hereto shall, for its own account, render and pay its share of any taxes levied against or measured by the amount or value of the Unitized Substances produced from the unitized land; provided, however, that if it is required or if it be determined that the Unit Operator or the several Working Interest Owners must pay or advance said taxes for the account of the parties hereto, it is hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed therefor by the parties hereto, including Royalty Owners, who may be responsible for the taxes on their respective allocated share of said Unitized Substances. No taxes shall be charged to the United States or to the State of New Mexico, nor to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

SECTION 36. NO PARTNERSHIP. The duties, obligations and liabilities of the parties hereto are intended to be several and not joint or collective. This Agreement is not intended to create, and shall not be construed to create, an association or trust, or to impose a partnership duty, obligation or liability with regard to any one or more of the parties hereto. Each party hereto shall be individually responsible for its own obligation as herein provided.

SECTION 37. PRODUCTION AS OF THE EFFECTIVE DATE. Unit Operator shall make a proper and timely gauge of all leases and other tanks within the Unit Area in order to ascertain the amount of merchantable oil above the pipeline connection, in such tanks as of 7:00 a.m. on the Effective Date hereof. All such oil which has then been produced in accordance with established allowables shall be and remain the property of the Working Interest Owner entitled thereto, the same as if the unit had not been formed; and the responsible Working Interest Owner shall promptly remove said oil from the unitized land. Any such oil not so removed shall be sold by Unit Operator for the account of such Working Interest Owners, subject to the payment of all Royalty to Royalty Owners under the terms hereof. The oil that is in excess of the prior allowable of the wells from which it was produced shall be regarded as Unitized Substances produced after Effective Date hereof.

If, as of the Effective Date hereof, any Tract is overproduced with respect to the allowable of the wells on that Tract and the amount of over-production has been sold or otherwise disposed of, such over-payment shall be regarded as a part of the Unitized Substances produced after the Effective Date hereof and shall be charged to such Tract as having been delivered to the parties entitled to Unitized Substances allocated to such Tract.

SECTION 38. NO SHARING OF MARKET. This Agreement is not intended to provide and shall not be construed to provide, directly or indirectly, for any cooperative refining, joint sale or marketing of Unitized Substances.

SECTION 39. STATUTORY UNITIZATION. If and when Working Interest owners owning at least seventy-five percent (75%) Unit Participation and Royalty Owners owning at least seventy-five percent (75%) Royalty Interest have become parties to this Agreement or have approved this Agreement in writing and such Working Interest Owners have also become parties to the Unit Operating Agreement, Unit Operator may make application to the Division for statutory unitization of the uncommitted interests pursuant to the Statutory Unitization Act (Chapter 65, Article 14, N.M.S. 1953 Annotated). If such application is made and statutory unitization is approved by the Division, then effective as of the date of the Division's order approving statutory unitization, this Agreement and/or the Unit Operating Agreement shall automatically be revised and/or amended in accordance with the following:

(1) Section 14 of this Agreement shall be revised by substituting for the entire said section the following:

"SECTION 14. TRACTS QUALIFIED FOR PARTICIPATION. On and after the Effective Date hereof, all Tracts within the Unit Area shall be entitled to participation in the production of Unitized Substances."

(2) Section 24 of this Agreement shall be revised by substituting for the first three paragraphs of said section the following:

"SECTION 24. EFFECTIVE DATE AND TERM. This Agreement shall become effective on the first day of the calendar month next following the effective date of the Division's order approving statutory unitization upon the terms and conditions of this Agreement, as amended (if any amendment is necessary) to conform to the Division's order; approval of this Agreement, as so amended, by the Land Commissioner; and the A.O. and the filing by Unit Operator of this Agreement or notice thereof for record in the office of the County Clerk of Eddy County, New Mexico. Unit Operator shall not file this Agreement or notice thereof for record, and hence this Agreement shall not become effective, unless within ninety (90) days after the date all other prerequisites for effectiveness of this Agreement have been satisfied, such filing is approved by Working Interest Owners owning a combined Unit Participation of at least sixty-five percent (65%) as to all Tracts within the Unit Area."

"Unit Operator shall, within thirty (30) days after the Effective Date of this Agreement, file for record in the office of the County Clerk of Eddy County, New Mexico, a certificate to the effect that this Agreement has become effective in accordance with its terms, therein identifying the Division's order approving statutory unitization and stating the Effective Date."

(3) This Agreement and/or the Unit Operating Agreement shall be amended in any and all respects necessary to conform to the Division's order approving statutory unitization.

Any and all amendments of this Agreement and/or the Unit Operating Agreement that are necessary to conform said agreements to the Division's order approving statutory unitization shall be deemed to be hereby approved in writing by the parties hereto without any necessity for further approval by said parties, except as follows:

(a) If any amendment of this Agreement has the effect of reducing any Royalty Owner's participation in the production of Unitized Substances, such Royalty Owner shall not be deemed to have hereby approved the amended agreement without the necessity of further approval in writing by said Royalty Owner; and

(b) If any amendment of this Agreement and/or the Unit Operating Agreement has the effect of reducing any Working Interest Owner's participation in the production of Unitized Substances or increasing such Working Interest Owner's share of Unit Expense, such Working Interest Owner shall not be deemed to have hereby approved the amended agreement without the necessity of further approval in writing by said Working Interest Owner.

Executed as of the day and year first above written.

ATTEST:

Steve Cromwell
Assistant Secretary

DEVON ENERGY CORPORATION (NEVADA)

By: _____
J. M. Lacey
Vice-President

STATE OF OKLAHOMA)
) SS.
COUNTY OF OKLAHOMA)

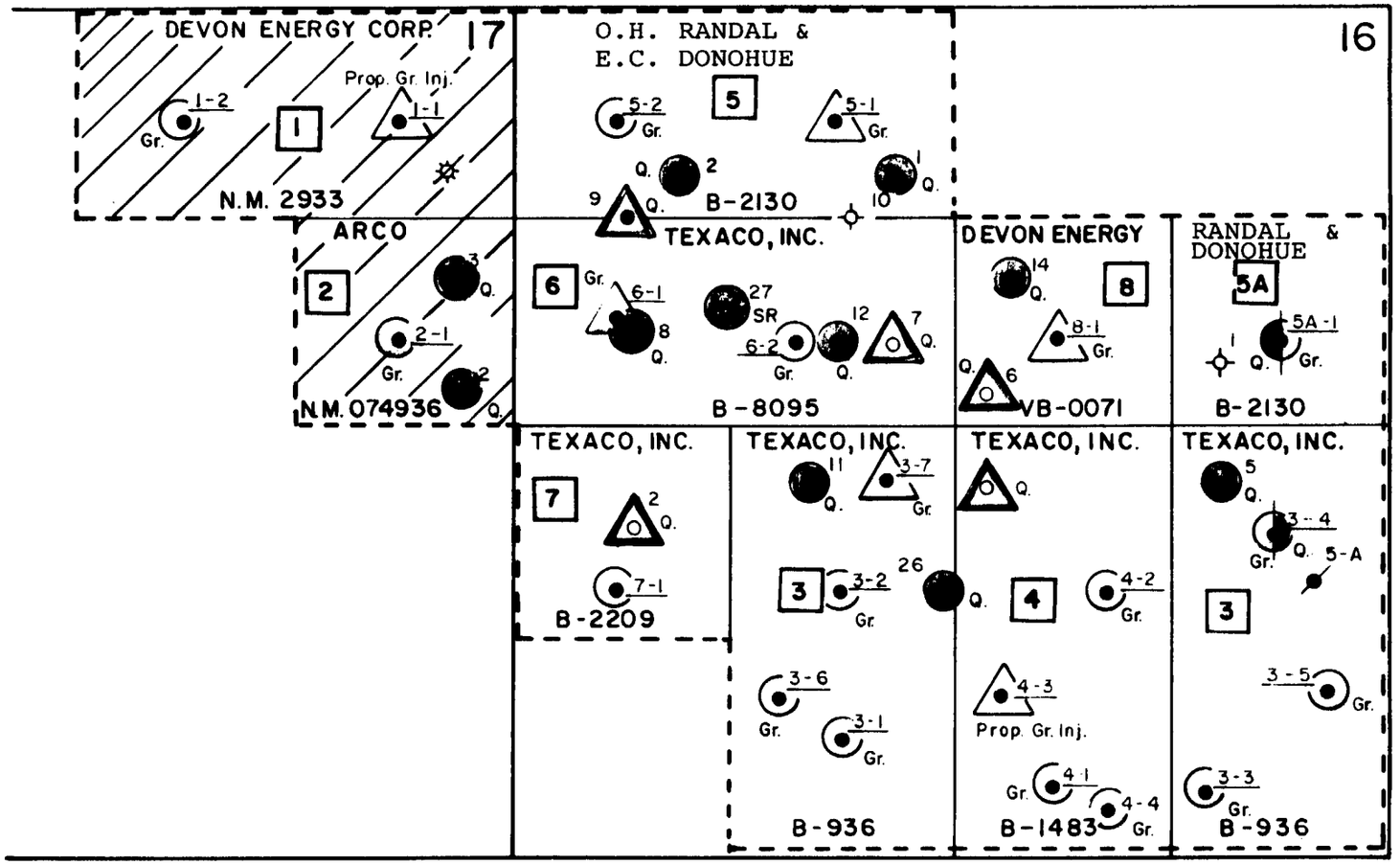
The foregoing instrument was acknowledged before me this 15th day of September, 1989, by J. M. Lacey, as Vice-President of Devon Energy Corporation (Nevada), on behalf of such corporation.

In witness whereof, I have set my hand and official seal.

Linda Wilkins
Notary Public

My commission expires:

June 11, 1992



T 17 S

R-30-E

Gr. INJECTOR WITH ZONE NOTED

FEDERAL LANDS

STATE LANDS

UNIT OUTLINE

3 TRACT NUMBER

Q. QUEEN PRODUCER

Gr. GRAYBURG PRODUCER

DEVON
ENERGY CORPORATION

EXHIBIT A

ETZ - STATE UNIT

Eddy Co., New Mexico

UNIT DETAIL MAP:

1''1,000'

5-89

EXHIBIT "B" to Etz State Unit Agreement dated September 9, 1989

TRACT NO.	DESCRIPTION	ACRES	LEASE NO. & EXPIRATION DATE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD	OVERRIDE OR PRODUCTION PAYMENT & PERCENTAGE	WORKING INTEREST OWNER - PERCENT	PARTICIPATION FACTOR
1	Federal Lands - T17S, R30E, Sec. 17 N/2 NE/4	80	N.M.2933 H.B.P	Schedule "A" attached to this Exhibit "B" contains royalty terms for this Oil and Gas Lease	Devon Energy Corporation	Collier Enterprises 1.00% Monica Morgan 3.125% Herman J. Ledbetter 3.125%	Devon Energy Corporation (Nevada)	.13909928
2	T17S, R30E, Sec. 17 SE/4 NE/4	40	N.M.074936 H.B.P.	Schedule "A" attached to this Exhibit "B" contains royalty terms for this Oil and Gas Lease	Atlantic Richfield Company	None	Devon Energy Corporation (Nevada)	.10154126
3	State of New Mexico Lands - T17S, R30E, Sec. 16 E/2 SE/4, E/2 SW/4	160	B-936-16 H.B.P.	12.50%	Texaco, Inc.	Teresa Johnson Testamentary Trust U/W of Dora Johnson MBank Ft. Worth N.A. .00625% City National Bank, Murray Fasken, et al Co-Trustees U/W of Alma Walsh Mallison Acct. No. 99-1035-00 .01875%	Devon Energy Corporation (Nevada)	.21898808
4	T17S, R30E, Sec. 16 W/2 SE/4	80	B-1483-16 H.B.P.	12.50%	Texaco, Inc.	Teresa Johnson Testamentary Trust U/W of Dora Johnson MBank Ft. Worth N.A. .00625% City National Bank, Murray Fasken, et al Co-Trustees U/W of Alma Walsh Mallison Acct. No. 99-1035-00 .01875%	Devon Energy Corporation (Nevada)	.13155601
5	T17S, R30E, Sec. 16 N/2 NW/4	80	B-2130-7A H.B.P	12.50%	O.H. Randel E.C. Donohue	Less than 14bbls p/day and separately as to less than 750 m.c.f. gas p/day The Estate of R. D. Collier .0273437% Wilma Donahue Moleen Trust .0068359% The Estate of E.C. Donahue .0068359% Fourteen to Twenty barrels p/day and separately as to 750 to 1,000 m.c.f. gas p/day The Estate of R. D. Collier .0410156% Wilma Donahue Moleen Trust .0102539% The Estate of E. C. Donahue .0102539% More than 20 bbls p/day and separately as to more than 1,000 m.c.f. gas p/day The Estate of R. D. Collier .0546875% Wilma Donahue Moleen Trust .0136719% The Estate of E. C. Donahue .0136719%	Devon Energy Corporation (Nevada)	.13197361 Tr.5

TRACT NO.	DESCRIPTION	ACRES	LEASE NO. & EXPIRATION DATE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD	OVERRIDE OR PRODUCTION PAYMENT & PERCENTAGE	WORKING INTEREST OWNER - PERCENT	PARTICIPATION FACTOR
5A	T17S, R30E, Sec. 16 SE/4 NE/4	40	B-2130-7A H.B.P.	12.50%	O.H. Randel E.C. Donohue	Less than 14 bbls p/day and separately as to less than 750 m.c.f. gas p/day Wilma Donahue Moleen Trust .0136718% The Estate of E. C. Donahue .0136718% 14 to 20 bbls oil p/day and and separately as to 750 to 1,000 m.c.f. gas p/day Wilma Donahue Moleen Trust .0205078% The Estate of E. C. Donahue .0205078% More than 20 bbls p/day and separately as to more than 1,000 m.c.f. gas p/day Wilma Donahue Moleen Trust .0273437% The Estate of E. C. Donahue .0273437%	Devon Energy Corporation (Nevada)	.08206046 TR 5A .21403407 Total TR5 & TR5A
5	T17S, R30E, Sec. 16 S/2 NW/4	80	B-8095-5 H.B.P.	12.50%	Texaco, Inc.	Teresa Johnson Testamentary Trust U/W of Dora Johnson MBank Ft. Worth, N.A. .00625% City National Bank, Murray Fasken, et al Co-Trustees U/W of Alma Walsh Mallison Acct. No. 99-1035-00 .01875%	Devon Energy Corporation (Nevada)	.05359999
7	T17S, R30E, Sec. 16 NW/4 SW/4	40	B-2209 -15 H.B.P.	12.50%	Texaco, Inc.	Teresa Johnson Testamentary Trust U/W of Dora Johnson MBank Ft. Worth, N.A. .00625% City National Bank, Murray Fasken, et al Co-Trustees U/W of Alma Walsh Mallison Acct. No. 99-1035-00 .01875%	Devon Energy Corporation (Nevada)	.04991498
8	T17S, R30E, Sec. 16 SW/4 NE/4	40	VB-0071 1-1-92	18.75%	Devon Energy Corporation (Nevada)	None	Devon Energy Corporation (Nevada)	.09126633
		640						1.00000000

Schedule "A" to Exhibit "B" to Etz State Unit Agreement dated September 9, 1989.

Royalty on Tract 1

As to oil production, royalty on production removed or sold from Tract 1 lands is as follows:

When average oil production for the month in barrels per well per day is:

OVER	NOT OVER	PERCENT OF ROYALTY
0	50	12.50
50	60	13.00
60	70	14.00
70	80	15.00
80	90	16.00
90	110	17.00
110	130	18.00
130	150	19.00
150	200	20.00
200	250	21.00
250	300	22.00
300	350	23.00
350	400	24.00
400		25.00

As to natural gas or casinghead gasoline and liquid products obtained from gas, royalty on production removed or sold from Tract 1 lands is 12.50% of the amount or value of the natural gas or casinghead gas and liquid products produced, said amount or value of liquid products to be based on the net, after allowance for the cost of manufacture when average production of gas per well per day for the month does not exceed 5,000,000 cubic feet, and 16.6667% of said amount or value when production of gas exceeds 5,000,000 cubic feet per well per day for the month.

Schedule "A" to Exhibit "B" to Etz State Unit Agreement.

Royalty on Tract 2

1) For all oil produced of 30° Baume or over:
On that portion of the average production per well not exceeding 20 barrels per day for the calendar month.....
12 1/2 percent
On that portion of the average production per well of more than 20 barrels and not more than 50 barrels per day for the calendar month
...16 2/3 percent
On that portion of the average production per well of more than 50 barrels and not more than 100 barrels per day for the calendar month
..20 percent
On that portion of the average production per well of more than 100 barrels and not more than 200 barrels per day for the calendar month
.. 25 percent
On that portion of the average production per well or more than 200 barrels per day for the calendar month .....
33 1/3 percent

2) For all oil produced of less than 30° Baume:
On that portion of the average production per well not exceeding 20 barrels per day for the calendar month .....
12 1/2 percent
On that portion of the average production per well of more than 20 barrels and not more than 50 barrels per day for the calendar month
..14 2/7 percent
On that portion of the average production per well of more than 50 barrels and not more than 100 barrels per day for the calendar month
..16 2/3 per cent
On that portion of the average production per well of more than 100 barrels and not more than 200 barrels per day for the calendar month
..20 percent
On that portion of the average production per well of more than 200 barrels per day for the calendar month .....
25 per cent

Only wells which have a commercial production during at least part of the month shall be considered in ascertaining the average production above provided for; and the Secretary of the Interior shall determine what are commercially productive wells under this provision.

3) On gas and casing-head gasoline:
On gas, whether same shall be gas from which the casing-head gasoline has been extracted or otherwise, 12 1/2 percent of the value thereof in the field where produced where the average production per day for the calendar month from the land leased is less than 3,000,000 cubic feet and 16 2/3 percent where the average daily production is 3,000,000 cubic feet or over.

(Cont'd.) Schedule "A" to Exhibit "B" to Etz State Unit Agreement.

Royalty on Tract 2

On casing-head gasoline, 16 2/3 per cent of the value of the casing-head gasoline extracted from the gas produced and sold, computed on the basis provided for in the operating regulations.

The value in the field where produced, of gas and casing-head gasoline, for royalty purposes, unless such gas or casing-head gasoline is disposed of under an approved sales contract or other method as provided in appropriate regulations of the Department of the Interior.

In cases where the gas produced and sold has a value both for casing-head gasoline content and as dry gas from which casing-head gasoline has been extracted, then the royalties above provided shall be paid on both of such values.

EXHIBIT "C" TO Btz State Unit
Agreement dated September 9, 1989.
Tract Participation Formulas and
Unitization Parameters for the Btz State Unit

LEASE	ACRES	% TOTAL	CURRENT OIL RATE (BOPD)	% TOTAL	NET ACRE-FT METEX	% TOTAL	NET ACRE-FT PREMIER	% TOTAL	NET ACRE-FT LOCO HILLS	% TOTAL	TOTAL NET ACRE-FT	% TOTAL
COLLIER FEDERAL (TR.1)	80	12.5%	1.738	4.7%	1,118	15.3%	1,453	23.1%	2,599	15.1%	5,170	16.7%
McINTYRE "D" (TR. 2)	40	6.3%	8.000	21.6%	615	8.4%	378	6.0%	1,304	7.6%	2,297	7.4%
BTZ STATE (TR. 3)	160	25.0%	6.881	18.6%	1,749	23.9%	1,176	18.7%	3,992	23.1%	6,917	22.4%
BTZ STATE "J" (TR. 4)	80	12.5%	7.405	20.0%	768	10.5%	850	13.5%	1,869	10.8%	3,487	11.3%
RANDAL STATE (TR. 5)	80	12.5%	3.000	8.1%	913	12.5%	1,090	17.3%	2,552	14.8%	4,555	14.8%
RANDAL STATE (TR. 5A)	40	6.3%	7.000	18.9%	335	4.6%	240	3.8%	1,101	6.4%	1,676	5.4%
BTZ STATE "A" (TR. 6)	40	6.3%	2.000	5.4%	385	5.3%	239	3.8%	988	5.7%	1,612	5.2%
BTZ STATE "B" (TR. 7)	40	6.3%	0.000	0.0%	394	5.4%	370	5.9%	1,162	6.7%	1,926	6.2%
BTZ STATE "C" (TR. 8)	80	12.5%	1.000	2.7%	1,035	14.2%	501	8.0%	1,700	9.8%	3,236	10.5%
	640	100.0%	37.024	100.0%	7,312	100.0%	6,297	100.0%	17,267	100.0%	30,876	100.0%

TRACT PARTICIPATION FORMULA

PARTICIPATION = 10% A/B + 20% C/D + 70% E/F

WHERE: A = TRACT SURFACE ACRES
B = TOTAL UNIT SURFACE ACRES
C = TRACT CURRENT OIL PRODUCTION (BOPD)
D = TOTAL UNIT OIL PRODUCTION (BOPD)
E = TRACT ACRE-FEET OF UNITIZED FORMATION
F = TOTAL UNIT ACRE-FEET OF UNITIZED FORMATION

TRACT PARTICIPATION

LEASE	PARTICIPATION FACTOR
COLLIER FEDERAL (TR.1)	0.13909928
McINTYRE "D" (TR. 2)	0.10154126
BTZ STATE (TR. 3)	0.21898808
BTZ STATE "J" (TR. 4)	0.13155601
RANDAL STATE (TR. 5)	0.13197361
RANDAL STATE (TR. 5A)	0.08206046
BTZ STATE "A" (TR. 6)	0.05359999
BTZ STATE "B" (TR. 7)	0.04991498
BTZ STATE "C" (TR. 8)	0.09126633
TOTAL. . . .	1.00000000

A.A.P.L. FORM 610-1982

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT
for the Etz State Unit

DATED

September 9, 1989,

OPERATOR Devon Energy Corporation (Nevada)

CONTRACT AREA T17S, R30E, Section 16: S/2 NE/4, NW/4, N/2 SW/4, SE/4 SW/4, SE/4
Section 17: N/2 NE/4, SE/4 NE/4

COUNTY ~~OR PARISH~~ OF Eddy **STATE OF** New Mexico

GUIDANCE IN THE PREPARATION OF THIS AGREEMENT:

1. Title Page - Fill in blanks as applicable.

2. Preamble, Page 1 - Enter name of Operator.

3. Article II - Exhibits:
   (a) Indicate Exhibits to be attached.
   (b) If it is desired that no reference be made to non-discrimination, the reference to Exhibit "F" should be deleted.

4. Article III.B. - Interests of Parties in Costs and Production - Enter royalty fraction as agreed to by parties.

5. Article IV.A. - Title Examination - Select option as agreed to by the parties.

6. Article IV.B. - Loss of Title - If "Joint Loss" of Title is desired, the following changes should be made:
   (a) Delete Articles IV.B.1 and IV.B.2.
   (b) Article IV.B.3 - Delete phrase "other than those set forth in Articles IV.B.1 and IV.B.2 above."
   (c) Article VII.E. - Change reference at end of the first grammatical paragraph from "Article IV.B.2" to "Article IV.B.3."
   (d) Article X. - Add as the concluding sentence - "All claims or suits involving title to any interest subject to this agreement shall be treated as a claim or a suit against all parties hereto."

7. Article V - Operator - Enter name of Operator.

8. Article VI.A - Initial Well:
   (a) Date of commencement of drilling.
   (b) Location of well.
   (c) Obligation depth.

9. Article VI.B.2.(b) - Subsequent Operations - Enter penalty percentage as agreed to by parties.

10. Article VI.C. - Taking Production in Kind - If a Gas Balancing Agreement is not in existence nor attached hereto as Exhibit "E", then use Alternate Page 8.

11. Article VII.D.1. - Limitation of Expenditures - Select option as agreed to by parties.

12. Article VII.D.3. - Limitation of Expenditures - Enter limitation of expenditure of Operator for single project and amount above which Operator may furnish information AFE.

13. Article IX. - Internal Revenue Code Election - Delete this article in the event the agreement is a Tax Partnership and Exhibit "G" is attached.

14. Article X. - Claims and Lawsuits - Enter claim limit as agreed to by parties.

15. Article XIII. - Term of Agreement:
   (a) Select Option as agreed to by parties.
   (b) If Option No. 2 is selected, enter agreed number of days in two (2) blanks.

16. Article XIV.B - Governing Law - Enter state as agreed to by parties.

17. Signature Page - Enter effective date.

TABLE OF CONTENTS

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Devon Energy Corporation (Nevada) _____, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators".

WITNESSETH:

WHEREAS, the parties to this agreement are owners of oil and gas leases and/or oil and gas interests in the land identified in Exhibit "A", and the parties hereto have reached an agreement to explore and develop these leases and/or oil and gas interests for the production of oil and gas to the extent and as hereinafter provided,

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

As used in this agreement, the following words and terms shall have the meanings here ascribed to them:

A. The term "oil and gas" shall mean oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.

B. The terms "oil and gas lease", "lease" and "leasehold" shall mean the oil and gas leases covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

~~C. The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Contract Area which are owned by parties to this agreement.~~

D. The term "Contract Area" shall mean all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".

E. The term "drilling unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Contract Area or as fixed by express agreement of the Drilling Parties.

F. The term "drillsite" shall mean the oil and gas lease or interest on which a proposed well is to be located.

G. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.

H. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

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

ARTICLE II.
EXHIBITS

The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

☒ A. Exhibit "A", shall include the following information:
(1) Identification of lands subject to this agreement,
(2) Restrictions, if any, as to depths, formations, or substances,
(3) Percentages or fractional interests of parties to this agreement,
(4) Oil and gas leases and/or oil and gas interests subject to this agreement,
(5) Addresses of parties for notice purposes. (6) List of all burdens against the Oil & Gas Leases on Exhibit and owners thereof.

☐ ~~B. Exhibit "B", Form of Lease.~~

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

☐ ~~E. Exhibit "E", Gas Balancing Agreement.~~

☒ F. ~~Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.~~ Exhibit "F" Natural Gas Price Rule.

☐ ~~G. Exhibit "G", Tax Partnership.~~

If any provision of any exhibit, except Exhibits "E" and "G", is inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

No unleased

~~If any~~ party owns an ~~oil and gas~~ interest in the Contract Area, ~~that interest shall be treated for all purposes of this agreement and during the term hereof as if it were covered by the form of oil and gas lease attached hereto as Exhibit "B", and the owner thereof shall be deemed to own both the royalty interest reserved in such lease and the interest of the lessee thereunder.~~

B. Interests of Parties in Costs and Production:

Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their interests are set forth in Exhibit "A". In the same manner, the parties shall also own all production of oil and gas from the Contract Area subject to the payment of royalties to the extent of the percentages set forth on Exhibit "A" attached hereto which shall be borne as hereinafter set forth.

Regardless of which party has contributed the lease(s) and/or oil and gas interest(s) hereto on which royalty is due and payable, each party ~~entitled to receive~~ taking a share of production of oil and gas from the Contract Area shall bear and shall pay or deliver, or cause to be paid or delivered, to the extent of its interest in such production, the royalty amount stipulated hereinabove and shall hold the other parties free from any liability therefor. No party shall ever be responsible, however, on a price basis higher than the price received by such party, to any other party's lessor or royalty owner, and if any such other party's lessor or royalty owner should demand and receive settlement on a higher price basis, the party contributing the affected lease shall bear the additional royalty burden attributable to such higher price.

Nothing contained in this Article III.B. shall be deemed an assignment or cross-assignment of interests covered hereby.

C. Excess Royalties, Overriding Royalties and Other Payments:

Unless changed by other provisions, if the interest of any party in any lease covered hereby is subject to any royalty, overriding royalty, production payment or other burden on production in excess of the amount stipulated in Article III.B., such party so burdened shall assume and alone bear all such excess obligations and shall indemnify and hold the other parties hereto harmless from any and all claims and demands for payment asserted by owners of such excess burden.

D. Subsequently Created Interests:

If any party should hereafter create an overriding royalty, production payment or other burden payable out of production attributable to its working interest hereunder, or if such a burden existed prior to this agreement and is not set forth in Exhibit "A", or or is not recorded in the records of the County Clerk of Eddy County, New Mexico was not disclosed in writing to all other parties prior to the execution of this agreement by all parties, or is not a jointly acknowledged and accepted obligation of all parties (any such interest being hereinafter referred to as "subsequently created interest" irrespective of the timing of its creation and the party out of whose working interest the subsequently created interest is derived being hereinafter referred to as "burdened party"), and:

1. If the burdened party is required under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the production attributable thereto, said other party, or parties, shall receive said assignment and or production free and clear of said subsequently created interest and the burdened party shall indemnify and save said other party, or parties, harmless from any and all claims and demands for payment asserted by owners of the subsequently created interest; and,

2. If the burdened party fails to pay, when due, its share of expenses chargeable hereunder, all provisions of Article VII.B. shall be enforceable against the subsequently created interest in the same manner as they are enforceable against the working interest of the burdened party.

ARTICLE IV.
TITLES

A. Title Examination:

Title examination shall be made on the drillsite of any proposed well prior to commencement of drilling operations or, if the Drilling Parties so request, title examination shall be made on the leases and/or oil and gas interests included, or planned to be included, in the drilling unit around such well. The opinion will include the ownership of the working interest, minerals, royalty, overriding royalty and production payments under the applicable leases. At the time a well is proposed, each party contributing leases and/or oil and gas interests to the drillsite, or to be included in such drilling unit, shall furnish to Operator all abstracts (including federal lease status reports), title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the examination of the title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or by outside attorneys. Copies of all title opinions shall be furnished to each party hereto. The cost incurred by Operator in this title program shall be borne as follows:

☐ Option No. 1: Costs incurred by Operator in procuring abstracts and title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be a part of the administrative overhead as provided in Exhibit "C", and shall not be a direct charge, whether performed by Operator's staff attorneys or by outside attorneys.

for legal expense of determination of matters under jurisdiction of the Energy and Minerals Department Oil and Gas Conservation Division State of New Mexico or other similar legal bodies or.

ARTICLE IV
continued

☐ Option No. 2: Costs incurred by Operator in procuring abstracts and fees paid outside attorneys for title examination (including preliminary, supplemental, shut-in gas royalty opinions and division order title opinions) shall be borne by the Drilling Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such interests appear in Exhibit "A". Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above functions.

Each party shall be responsible for securing curative matter and pooling amendments or agreements required in connection with leases or oil and gas interests contributed by such party. Operator shall be responsible for the preparation and recording of pooling designations or declarations as well as the conduct of hearings before governmental agencies for the securing of spacing or pooling orders. This shall not prevent any party from appearing on its own behalf at any such hearing.

No well shall be drilled on the Contract Area until after (1) the title to the drillsite or drilling unit has been examined as above provided, and (2) the title has been approved by the examining attorney or title has been accepted by all of the parties who are to participate in the drilling of the well.

B. Loss of Title:

~~1. Failure of Title. Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a~~ reduction of interest from that shown on Exhibit "A", the party contributing the affected lease or interest shall have ninety (90) days from final determination of title failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisition will not be subject to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining oil and gas leases and interests: and,

(a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid or incurred, but there shall be no additional liability on its part to the other parties hereto by reason of such title failure;

(b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has occurred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Contract Area by the amount of the interest lost;

(c) If the proportionate interest of the other parties hereto in any producing well theretofore drilled on the Contract Area is increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such interest (less costs and burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well;

(d) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has failed, pay in any manner any part of the cost of operation, development, or equipment, such amount shall be paid to the party or parties who bore the costs which are so refunded;

(e) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be borne by the party or parties whose title failed in the same proportions in which they shared in such prior production; and,

(f) No charge shall be made to the joint account for legal expenses, fees or salaries, in connection with the defense of the interest claimed by any party hereto, it being the intention of the parties hereto that each shall defend title to its interest and bear all expenses in connection therewith.

2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well payment, minimum royalty or royalty payment, is not paid or is erroneously paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to make the required payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, which acquisition will not be subject to Article VIII.B., the interests of the parties shall be revised on an acreage basis, effective as of the date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in the Contract Area on account of ownership of the lease or interest which has terminated. In the event the party who failed to make the required payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

(a) Proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost interest, on an acreage basis, up to the amount of unrecovered costs;

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

(c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.

3. Other Losses: All losses incurred, ~~other than those set forth in Articles IV.B.1. and IV.B.2. above~~, shall be joint losses and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of the Contract Area.

ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

Devon Energy Corporation (Nevada) shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained or liabilities incurred, except such as may result from gross negligence or willful misconduct.

B. Resignation or Removal of Operator and Selection of Successor:

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest hereunder in the Contract Area, or is no longer capable of serving as Operator, Operator shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the affirmative vote of two (2) or more Non-Operators owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. The successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A"; provided, however, if an Operator which has been removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was removed.

C. Employees:

The number of employees used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed shall be determined by Operator, and all such employees shall be the employees of Operator.

D. Drilling Contracts:

All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature.

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well: There is not an "Initial Well" pursuant to this Agreement.

~~On or before the day of 19 , Operator shall commence the drilling of a well for~~ oil and gas at the following location:

and shall thereafter continue the drilling of the well with due diligence to

unless granite or other practically impenetrable substance or condition in the hole, which renders further drilling impractical, is encountered at a lesser depth, or unless all parties agree to complete or abandon the well at a lesser depth.

Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.

ARTICLE VI
continued

If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the well as a dry hole, the provisions of Article VI.E.1. shall thereafter apply.

B. Subsequent Operations:

1. Proposed Operations: Should any party hereto desire to drill any well on the Contract Area ~~other than the well provided for in Article VI.A.,~~ or to rework, deepen or plug back a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities, the party desiring to drill, rework, deepen or plug back such a well shall give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days after receipt of the notice within which to notify the party wishing to do the work whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of a proposal to rework, plug back or drill deeper may be given by telephone and the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays. Failure of a party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation. Any notice or response given by telephone shall be promptly confirmed in writing.

If all parties elect to participate in such a proposed operation, Operator shall, within ninety (90) days after expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be), actually commence the proposed operation and complete it with due diligence at the risk and expense of all parties hereto; provided, however, said commencement date may be extended upon written notice of same by Operator to the other parties, for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such additional time is reasonably necessary to obtain permits from governmental authorities, surface rights (including rights-of-way) or appropriate drilling equipment, or to complete title examination or curative matter required for title approval or acceptance. Notwithstanding the force majeure provisions of Article XI, if the actual operation has not been commenced within the time provided (including any extension thereof as specifically permitted herein) and if any party hereto still desires to conduct said operation, written notice proposing same must be resubmitted to the other parties in accordance with the provisions hereof as if no prior proposal had been made.

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VII.D.1. (Option No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this Article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within ninety (90) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be) actually commence the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of the total interest of the parties approving such operation and its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A" or (b) carry its proportionate part of Non-Consenting Parties' interests, and failure to advise the proposing party shall be deemed an election under (a). In the event a drilling rig is on location, the time permitted for such a response shall not exceed a total of forty-eight (48) hours (inclusive of Saturday, Sunday and legal holidays). The proposing party, at its election, may withdraw such proposal if there is insufficient participation and shall promptly notify all parties of such decision.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well and restore the surface location at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk,

ARTICLE VI
continued

and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold, (after deducting production taxes, excise taxes, royalty, overriding royalty and other interests not excepted by Article III.D. payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

(a) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the wellhead connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that interest which would have been chargeable to such Non-Consenting Party had it participated in the well from the beginning of the operations; and

(b) 300 % of that portion of the costs and expenses of drilling, reworking, deepening, plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and 300 % of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

An election not to participate in the drilling or the deepening of a well shall be deemed an election not to participate in any reworking or plugging back operation proposed in such a well, or portion thereof, to which the initial Non-Consent election applied that is conducted at any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment account. Any such reworking or plugging back operation conducted during the recoupment period shall be deemed part of the cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties one hundred percent (100%) of that portion of the costs of the reworking or plugging back operation which would have been chargeable to such Non-Consenting Party had it participated therein. If such a reworking or plugging back operation is proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting Parties in said well.

During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, excise, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production not excepted by Article III.D.

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

Within sixty (60) days after the completion of any operation under this Article, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the party conducting the operations for the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of the well, together with a statement of the quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. In determining the quantity of oil and gas produced during any month, Consenting Parties shall use industry accepted methods such as, but not limited to, metering or periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased in determining when the interest of such Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-Consenting Party.

ARTICLE VI
continued

If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it, and, from and after such reversion, such Non-Consenting Party shall own the same interest in such well, the material and equipment in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have been entitled to had it participated in the drilling, reworking, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this agreement and the Accounting Procedure attached hereto.

Notwithstanding the provisions of this Article VI.B.2., it is agreed that without the mutual consent of all parties, no wells shall be completed in or produced from a source of supply from which a well located elsewhere on the Contract Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

~~The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A. except (a) as to Article VII.D.1. (Option No. 2), if selected, or (b) as to the reworking, deepening and plugging back of such initial well after it has been drilled to the depth specified in Article VI.A. if it shall thereafter prove to be a dry hole or if initially completed for production, ceases to produce in paying quantities.~~

3. Stand-By Time: When a well which has been drilled or deepened has reached its authorized depth and all tests have been completed, and the results thereof furnished to the parties, stand-by costs incurred pending response to a party's notice proposing a reworking, deepening, plugging back or completing operation in such a well shall be charged and borne as part of the drilling or deepening operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted, whichever first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms of the second grammatical paragraph of Article VI.B.2, shall be charged to and borne as part of the proposed operation, but if the proposal is subsequently withdrawn because of insufficient participation, such stand-by costs shall be allocated between the Consenting Parties in the proportion each Consenting Party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all Consenting Parties.

4. Sidetracking: Except as hereinafter provided, those provisions of this agreement applicable to a "deepening" operation shall also be applicable to any proposal to directionally control and intentionally deviate a well from vertical so as to change the bottom hole location (herein called "sidetracking"), unless done to straighten the hole or to drill around junk in the hole or because of other mechanical difficulties. Any party having the right to participate in a proposed sidetracking operation that does not own an interest in the affected well bore at the time of the notice shall, upon electing to participate, tender to the well bore owners its proportionate share (equal to its interest in the sidetracking operation) of the value of that portion of the existing well bore to be utilized as follows:

(a) If the proposal is for sidetracking an existing dry hole, reimbursement shall be on the basis of the actual costs incurred in the initial drilling of the well down to the depth at which the sidetracking operation is initiated.

(b) If the proposal is for sidetracking a well which has previously produced, reimbursement shall be on the basis of the well's salvable materials and equipment down to the depth at which the sidetracking operation is initiated, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning.

In the event that notice for a sidetracking operation is given while the drilling rig to be utilized is on location, the response period shall be limited to forty-eight (48) hours, exclusive of Saturday, Sunday and legal holidays; provided, however, any party may request and receive up to eight (8) additional days after expiration of the forty-eight (48) hours within which to respond by paying for all stand-by time incurred during such extended response period. If more than one party elects to take such additional time to respond to the notice, stand-by costs shall be allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing party's interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties. In all other instances the response period to a proposal for sidetracking shall be limited to thirty (30) days.

C. TAKING PRODUCTION IN KIND:

have the right to
Each party shall take in kind or separately dispose of its proportionate share of all oil and gas produced from the Contract Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil and gas for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party. Any party taking its share of production in kind shall be

ARTICLE VI
continued

required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in production from the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment directly from the purchaser thereof for its share of all production.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil and gas produced from the Contract Area, Operator shall have the right, subject to the revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others at any time and from time to time, for the account of the non-taking party at the best price obtainable in the area for such production. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a purchaser. Any purchase or sale by Operator of any other party's share of oil and gas shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1) year. Notwithstanding the foregoing, Operator shall not make a sale, including one into interstate commerce, of any other party's share of gas production without first giving such other party thirty (30) days notice of such intended sale.

D. Access to Contract Area and Information:

Each party shall have access to the Contract Area at all reasonable times, at its sole cost and risk to inspect or observe operations, and shall have access at reasonable times to information pertaining to the development or operation thereof, including Operator's books and records relating thereto. Operator, upon request, shall furnish each of the other parties with copies of all forms or reports filed with governmental agencies, daily drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month, and shall make available samples of any cores or cuttings taken from any well drilled on the Contract Area. The cost of gathering and furnishing information to Non-Operator, other than that specified above, shall be charged to the Non-Operator that requests the information.

E. Abandonment of Wells:

1. Abandonment of Dry Holes: Except for any well drilled or deepened pursuant to Article VI.B.2., any well which has been drilled or deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any party, or should any party fail to reply within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after receipt of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of the parties who participated in the cost of drilling or deepening such well. Any party who objects to plugging and abandoning such well shall have the right to take over the well and conduct further operations in search of oil and/or gas subject to the provisions of Article VI.B.

2. Abandonment of Wells that have Produced: Except for any well in which a Non-Consent operation has been conducted hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk and expense of all the parties hereto. If, within thirty (30) days after receipt of notice of the proposed abandonment of any well, all parties do not agree to the abandonment of such well, those wishing to continue its operation from the interval(s) of the formation(s) then open to production shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall assign the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all of its interest in the well and related equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. If the interest of the abandoning party is or includes an oil and gas interest, such party shall execute and deliver to the non-abandoning party or parties an oil and gas lease, limited to the interval or intervals of the formation or formations then open to production, for a term of one (1) year and so long thereafter as oil and/or gas is produced from the interval or intervals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit

ARTICLE VI
continued

"B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interests in the remaining portion of the Contract Area.

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon request, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well. Upon proposed abandonment of the producing interval(s) assigned or leased, the assignor or lessor shall then have the option to repurchase its prior interest in the well (using the same valuation formula) and participate in further operations therein subject to the provisions hereof.

3. Abandonment of Non-Consent Operations: The provisions of Article VI.E.1. or VI.E.2. above shall be applicable as between Consenting Parties in the event of the proposed abandonment of any well excepted from said Articles; provided, however, no well shall be permanently plugged and abandoned unless and until all parties having the right to conduct further operations therein have been notified of the proposed abandonment and afforded the opportunity to elect to take over the well in accordance with the provisions of this Article VI.E.

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the liens granted among the parties in Article VII.B. are given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render the parties liable as partners.

B. Liens and Payment Defaults:

Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and/or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in Exhibit "C". To the extent that Operator has a security interest under the Uniform Commercial Code of the state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Non-Operator in the payment of its share of expense, Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Non-Operator's share of oil and/or gas until the amount owed by such Non-Operator, plus interest, has been paid. Each purchaser shall be entitled to rely upon Operator's written statement concerning the amount of any default. Operator grants a like lien and security interest to the Non-Operators to secure payment of Operator's proportionate share of expense.

If any party fails or is unable to pay its share of expense within sixty (60) days after rendition of a statement therefor by Operator, the non-defaulting parties, including Operator, shall, upon request by Operator, pay the unpaid amount in the proportion that the interest of each such party bears to the interest of all such parties. Each party so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in the foregoing paragraph.

C. Payments and Accounting:

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the expense basis provided in Exhibit "C". Operator shall keep an accurate record of the joint account hereunder, showing expenses incurred and charges and credits made and received.

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

D. Limitation of Expenditures:

1. Drill or Deepen: Without the consent of all parties, no well shall be drilled or deepened, except any well drilled or deepened pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the drilling or deepening shall include:

ARTICLE VII
continued

☐ Option No. 1: All necessary expenditures for the drilling or deepening, testing, completing and equipping of the well, including necessary tankage and/or surface facilities.

☒ Option No. 2: All necessary expenditures for the drilling or deepening and testing of the well. When such well has reached its authorized depth, and all tests have been completed, and the results thereof furnished to the parties, Operator shall give immediate notice to the Non-Operators who have the right to participate in the completion costs. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect to participate in the setting of casing and the completion attempt. Such election, when made, shall include consent to all necessary expenditures for the completing and equipping of such well, including necessary tankage and/or surface facilities. Failure of any party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of the completion attempt. If one or more, but less than all of the parties, elect to set pipe and to attempt a completion, the provisions of Article VI.B.2. hereof (the phrase "reworking, deepening or plugging back" as contained in Article VI.B.2. shall be deemed to include "completing") shall apply to the operations thereafter conducted by less than all parties.

2. Rework or Plug Back: Without the consent of all parties, no well shall be reworked or plugged back except a well reworked or plugged back pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the reworking or plugging back of a well shall include all necessary expenditures in conducting such operations and completing and equipping of said well, including necessary tankage and/or surface facilities.

3. Other Operations: Without the consent of all parties, Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of fifteen thousand Dollars ($15,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares an authority for expenditure (AFE) for its own use, Operator shall furnish any Non-Operator so requesting an information copy thereof for any single project costing in excess of fifteen thousand Dollars ($ 15,000.00) but less than the amount first set forth above in this paragraph.

E. Rentals, Shut-in Well Payments and Minimum Royalties:

Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid by the party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to make said payments for and on behalf of all such parties. Any party may request, and shall be entitled to receive, proper evidence of all such payments. In the event of failure to make proper payment of any rental, shut-in well payment or minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which results from such non-payment shall be borne in accordance with the provisions of Article ~~IV.B.2~~ IV.B.3.

Operator shall notify Non-Operator of the anticipated completion of a shut-in gas well, or the shutting in or return to production of a producing gas well, at least five (5) days (excluding Saturday, Sunday and legal holidays), or at the earliest opportunity permitted by circumstances, prior to taking such action, but assumes no liability for failure to do so. In the event of failure by Operator to so notify Non-Operator, the loss of any lease contributed hereto by Non-Operator for failure to make timely payments of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

F. Taxes:

Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the parties hereto in accordance with the tax value generated by each party's working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in the manner provided in Exhibit "C".

If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final determination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes and any interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for the joint account, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "C".

Each party shall pay or cause to be paid all production, severance, excise, gathering and other taxes imposed upon or with respect to the production or handling of such party's share of oil and/or gas produced under the terms of this agreement.

ARTICLE VII
continued

G. Insurance:

At all times while operations are conducted hereunder, Operator shall comply with the workmen's compensation law of the state where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be as provided in Exhibit "C". Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the workmen's compensation law of the state where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event automobile public liability insurance is specified in said Exhibit "D", or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's automotive equipment.

ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

The leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole or in part unless all parties consent thereto.

However, should any party desire to surrender its interest in any lease or in any portion thereof, and the other parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not consenting to such surrender. If the interest of the assigning party is or includes an oil and gas interest, the assigning party shall execute and deliver to the party or parties not consenting to such surrender an oil and gas lease covering such oil and gas interest for a term of one (1) year and so long thereafter as oil and/or gas is produced from the land covered thereby, ~~such lease to be on the form attached hereto as Exhibit "B".~~ Upon such assignment or lease, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the interest assigned or leased and the operation of any well attributable thereto, and the assigning party shall have no further interest in the assigned or leased premises and its equipment and production other than the royalties retained in any lease made under the terms of this Article. The party assignee or lessee shall pay to the party assignor or lessor the reasonable salvage value of the latter's interest in any wells and equipment attributable to the assigned or leased acreage. The value of all material shall be determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment or lease is in favor of more than one party, the interest shall be shared by such parties in the proportions that the interest of each bears to the total interest of all such parties.

Any assignment, lease or surrender made under this provision shall not reduce or change the assignor's, lessor's or surrendering party's interest as it was immediately before the assignment, lease or surrender in the balance of the Contract Area; and the acreage assigned, leased or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement.

B. Renewal or Extension of Leases:

If any party secures a renewal of any oil and gas lease subject to this agreement, all other parties shall be notified promptly, and shall have the right for a period of thirty (30) days following receipt of such notice in which to elect to participate in the ownership of the renewal lease, insofar as such lease affects lands within the Contract Area, by paying to the party who acquired it their several proper proportionate shares of the acquisition cost allocated to that part of such lease within the Contract Area, which shall be in proportion to the interests held at that time by the parties in the Contract Area.

If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all parties elect to participate shall not be subject to this agreement.

Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein by the acquiring party.

The provisions of this Article shall apply to renewal leases whether they are for the entire interest covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease and shall not be subject to the provisions of this agreement.

The provisions in this Article shall also be applicable to extensions of oil and gas leases.

C. Acreage or Cash Contributions:

While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions

ARTICLE VIII
continued

said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the extent possible, be governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any acreage or cash contributions it may obtain in support of any well or any other operation on the Contract Area. The above provisions shall also be applicable to optional rights to earn acreage outside the Contract Area which are in support of a well drilled inside the Contract Area.

If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder, such consideration shall not be deemed a contribution as contemplated in this Article VIII.C.

D. Maintenance of Uniform Interest:

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interests covered by this agreement, no party shall sell, encumber, transfer or make other disposition of its interest in the leases embraced within the Contract Area and in wells, equipment and production unless such disposition covers either:

1. the entire interest of the party in all leases and equipment and production; or

2. an equal undivided interest in all leases and equipment and production in the Contract Area.

Every such sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement and shall be made without prejudice to the right of the other parties.

If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion, may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such party's interest within the scope of the operations embraced in this agreement; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

E. Waiver of Rights to Partition:

If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its undivided interest therein.

~~**F. Preferential Right to Purchase:**~~

~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to dispose of its interests by merger, reorganization, consolidation, or sale of all or substantially all of its assets to a subsidiary or parent company or to a subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.~~

ARTICLE IX.
INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any provision herein that the rights and liabilities hereunder are several and not joint or collective, or that this agreement and operations hereunder shall not constitute a partnership, if, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from operations hereunder can be adequately determined without the computation of partnership taxable income.

ARTICLE X.
CLAIMS AND LAWSUITS

Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure does not exceed Ten Thousand Dollars ($ 10,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the parties participating in the operation from which the claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder. 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.

ARTICLE XI.
FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make money payments, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable.

The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

The term "force majeure", as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

ARTICLE XII.
NOTICES

All notices authorized or required between the parties and required by any of the provisions of this agreement, unless otherwise specifically provided, shall be given in writing by mail or telegram, postage or charges prepaid, or by telex or telecopier and addressed to the parties to whom the notice is given at the addresses listed on Exhibit "A". The originating notice given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the mail or with the telegraph company, with postage or charges prepaid, or sent by telex or telecopier. Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other parties.

ARTICLE XIII.
TERM OF AGREEMENT

This agreement shall remain in full force and effect as to the oil and gas leases and/or oil and gas interests subject hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any lease or oil and gas interest contributed by any other party beyond the term of this agreement.

☒ Option No. 1: So long as the Etz State Unit is in force and effect. ~~any of the oil and gas leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal or otherwise.~~

☐ Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in production of oil and/or gas in paying quantities, this agreement shall continue in force so long as any such well or wells produce, or are capable of production, and for an additional period of _____ days from cessation of all production; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, reworking, deepening, plugging back, testing or attempting to complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is producing, or capable of producing oil and/or gas from the Contract Area, this agreement shall terminate unless drilling, deepening, plugging back or reworking operations are commenced within _____ days from the date of abandonment of said well.

It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination.

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

This agreement shall be subject to the conservation laws of the state in which the Contract Area is located, to the valid rules, regulations, and orders of any duly constituted regulatory body of said state; and to all other applicable federal, state, and local laws, ordinances, rules, regulations, and orders.

B. Governing Law:

This agreement and all matters pertaining hereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. ~~If the Contract Area is in two or more states, the law of the state of _____ shall govern.~~

C. Regulatory Agencies:

Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any rights, privileges, or obligations which Non-Operators may have under federal or state laws or under rules, regulations or orders promulgated under such laws in reference to oil, gas and mineral operations, including the location, operation, or production of wells, on tracts offsetting or adjacent to the Contract Area.

With respect to operations hereunder, Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or predecessor or successor agencies to the extent such interpretation or application was made in good faith. Each Non-Operator further agrees to reimburse Operator for any amounts applicable to such Non-Operator's share of production that Operator may be required to refund, rebate or pay as a result of such an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such incorrect interpretation or application.

Non-Operators authorize Operator to prepare and submit such documents as may be required to be submitted to the purchaser of any crude oil sold hereunder or to any other person or entity pursuant to the requirements of the "Crude Oil Windfall Profit Tax Act of 1980", as same may be amended from time to time ("Act"), and any valid regulations or rules which may be issued by the Treasury Department from time to time pursuant to said Act. Each party hereto agrees to furnish any and all certifications or other information which is required to be furnished by said Act in a timely manner and in sufficient detail to permit compliance with said Act.

~~ARTICLE XV.~~
~~OTHER PROVISIONS~~

SEE PAGE 14a FOR
ARTICLE XV OTHER PROVISIONS

ARTICLE XV

OTHER PROVISIONS

A. Notwithstanding anything to the contrary contained herein, or in the accounting procedure attached hereto as Exhibit "C", the parties to this agreement specifically agree that in no event during the term of this contract shall Operator be required to make more than one billing for the entire interest credited to each party on Exhibit "A". It is further agreed that if any ~~party to this agreement~~ (hereinafter referred to as "Selling Party") disposes of part of the interest credited to it on Exhibit "A", the Selling Party will be solely responsible for billing its assignee(s), and shall remain primarily liable to the other parties hereto for the interest or interests assigned and shall make prompt payment to Operator for the entire amount of statements and billings rendered to it or accountable to it by virtue of such interests as shown on Exhibit "A". It is further understood and agreed that if Selling Party disposes of all its interest as set out on Exhibit "A", whether to one or to several assignees, Operator shall continue to issue statements and billings to the Selling Party for the entire interest conveyed until such time as Selling Party has designated and qualified one assignee to receive the billing for the entire interest and such designated assignee has been approved and accepted by Operator.

In order to qualify one assignee to receive the billing for the entire interest credited to Selling Party on Exhibit "A", Selling Party shall furnish to Operator such information as may be requested, including, but not limited to, the following:

(a) Written notice to Operator of the conveyance followed by photostatic or certified copies of the recorded assignments as soon as available.

(b) The name of the assignee to be billed along with such assignee's written consent to receive statements and billings for the entire interest credited to Selling Party on Exhibit "A", hereto, and further, agreeing to handle any necessary sub-billings attributable to such interest in the event such designated assignee does not own the entire interest credited to Selling Party on Exhibit "A".

B. Any provision of this Agreement to the contrary notwithstanding, and without limiting any other provision of this Agreement (including, again without limitation Article V.A.), Operator shall not be liable to the other parties for any failure of Operator, except such failures as may result from willful misconduct, to comply with the requirements of any Federal, state or local ordinance, statute, law, rule, regulation or procedure, pertaining to the establishment of prices for oil, gas or other minerals, or to the classification of wells for such purpose, or pertaining to any other matter related to the regulation of entitlements, supply, demand, allocation, delivery, contracting for or pricing of oil, gas or other minerals, it being understood and agreed by all parties that compliance with current laws and regulations is subject to confusion and to numerous risks, uncertainties, conflicting opinions and burdensome filing requirements. Any liability for refund of sums obtained because the parties have been paid amounts in excess of lawful prices shall be borne severally by the parties to the same extent that such excess funds were paid to the parties.

C. All costs incurred by Operator in complying with the Natural Gas Policy Act of 1978, or in complying with Federal, state and local law for the obtaining and monitoring of any well classifications required in the Natural Gas Policy Act of 1978 or in complying with any laws administered by, or any rules or regulations promulgated by, through or under the United States Department of Energy, including consultant fees, and the cost and expense of record-keeping and accounting, shall be a direct charge, borne by the Joint Account as provided in Exhibit C, and shall not be included in administrative overhead under Part III of Exhibit "C".

D. If, during the drilling of any well being drilled hereunder, a bona fide dispute shall exist as to whether the proposed depth has been reached in such well (as for example, whether a well has been drilled to a depth sufficient to test a particular sand or formation or if the well has reached the stratigraphic equivalent of a particular depth), the option, of a majority in interest, and not in numbers, of the owners as shown by Exhibit "A" shall control and be binding upon all parties. If the parties are equally divided, the opinion of the Operator will control.

ARTICLE XVI.
MISCELLANEOUS

This agreement shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns.

This instrument may be executed in any number of counterparts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, this agreement shall be effective as of 9th day of September, 1989.

OPERATOR

DEVON ENERGY CORPORATION (Nevada)

Steve Cromwell
Asst Secretary

J. M. Lacey
Vice-President

NON-OPERATORS

EXHIBIT "A" to that certain Operating Agreement for the Etz State Unit, Devon Energy Corporation (Nevada), Operator dated September 9th, 1989

TRACT NO.	DESCRIPTION	ACRES	LEASE NO. & EXPIRATION DATE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD	OVERRIDE OR PRODUCTION PAYMENT & PERCENTAGE	WORKING INTEREST OWNER - PERCENT	PARTICIPATION FACTOR
1	Federal Lands - T17S, R30E, Sec. 17 N/2 NE/4	80	N.M.2933 H.B.P	Schedule "A" attached to this Exhibit "B" contains royalty terms for this Oil and Gas Lease	Devon Energy Corporation	Collier Enterprises 1.00% Monica Morgan 3.125% Herman J. Ledbetter 3.125%	Devon Energy Corporation (Nevada)	.13909928
2	T17S, R30E, Sec. 17 SE/4 NE/4	40	N.M.074936 H.B.P.	Schedule "A" attached to this Exhibit "B" contains royalty terms for this Oil and Gas Lease	Atlantic Richfield Company	None	Devon Energy Corporation (Nevada)	.10154126
3	State of New Mexico Lands - T17S, R30E, Sec. 16 E/2 SE/4, E/2 SW/4	160	B-936-16 H.B.P.	12.50%	Texaco, Inc.	Teresa Johnson Testamentary Trust U/W of Dora Johnson MBank Ft. Worth N.A. .00625% City National Bank, Murray Fasken, et al Co-Trustees U/W of Alma Walsh Mallison Acct. No. 99-1035-00 .01875%	Devon Energy Corporation (Nevada)	.21898808
4	T17S, R30E, Sec. 16 W/2 SE/4	80	B-1483-16 H.B.P.	12.50%	Texaco, Inc.	Teresa Johnson Testamentary Trust U/W of Dora Johnson MBank Ft. Worth N.A. .00625% City National Bank, Murray Fasken, et al Co-Trustees U/W of Alma Walsh Mallison Acct. No. 99-1035-00 .01875%	Devon Energy Corporation (Nevada)	.13155601
5	T17S, R30E, Sec. 16 N/2 NW/4	80	B-2130-7A H.B.P	12.50%	O.H. Randel E.C. Donohue	Less than 14bbls p/day and separately as to less than 750 m.c.f. gas p/day The Estate of R. D. Collier .0273437% Wilma Donahue Moleen Trust .0068359% The Estate of E.C. Donahue .0068359% Fourteen to Twenty barrels p/day and separately as to 750 to 1,000 m.c.f. gas p/day The Estate of R. D. Collier .0410156% Wilma Donahue Moleen Trust .0102539% The Estate of E. C. Donahue .0102539% More than 20 bbls p/day and separately as to more than 1,000 m.c.f. gas p/day The Estate of R. D. Collier .0546875% Wilma Donahue Moleen Trust .0136719% The Estate of E. C. Donahue .0136719%	Devon Energy Corporation (Nevada)	.13197361 Tr.5

TRACT NO.	DESCRIPTION	ACRES	LEASE NO. & EXPIRATION DATE	BASIC ROYALTY & PERCENTAGE	LESSEE OF RECORD	OVERRIDE OR PRODUCTION PAYMENT & PERCENTAGE	WORKING INTEREST OWNER - PERCENT	PARTICIPATION FACTOR
5A	T17S, R30E, Sec. 16 SE/4 NE/4	40	B-2130-7A H.B.P.	12.50%	O.H. Randel E.C. Donohue	Less than 14 bbls p/day and separately as to less than 750 m.c.f. gas p/day Wilma Donahue Moleen Trust .0136718% The Estate of E. C. Donahue .0136718% 14 to 20 bbls oil p/day and and separately as to 750 to 1,000 m.c.f. gas p/day Wilma Donahue Moleen Trust .0205078% The Estate of E. C. Donahue .0205078% More than 20 bbls p/day and separately as to more than 1,000 m.c.f. gas p/day Wilma Donahue Moleen Trust .0273437% The Estate of E. C. Donahue .0273437%	Devon Energy Corporation (Nevada)	.08206046 TR 5A .21403407 Total TR5 & TR5A
6	T17S, R30E, Sec. 16 S/2 NW/4	80	B-8095-5 H.B.P.	12.50%	Texaco, Inc.	Teresa Johnson Testamentary Trust U/W of Dora Johnson MBank Ft. Worth, N.A. .00625% City National Bank, Murray Fasken, et al Co-Trustees U/W of Alma Walsh Mallison Acct. No. 99-1035-00 .01875%	Devon Energy Corporation (Nevada)	.05359999
7	T17S, R30E, Sec. 16 NW/4 SW/4	40	B-2209 -15 H.B.P.	12.50%	Texaco, Inc.	Teresa Johnson Testamentary Trust U/W of Dora Johnson MBank Ft. Worth, N.A. .00625% City National Bank, Murray Fasken, et al Co-Trustees U/W of Alma Walsh Mallison Acct. No. 99-1035-00 .01875%	Devon Energy Corporation (Nevada)	.04991498
8	T17S, R30E, Sec. 16 SW/4 NE/4	40	VB-0071 1-1-92	18.75%	Devon Energy Corporation (Nevada)	None	Devon Energy Corporation (Nevada)	.09126633
		640						1.00000000

Schedule "A" to Exhibit "A" to Etz State Unit Operating Agreement dated September 9, 1989.

Royalty on Tract 1

As to oil production, royalty on production removed or sold from Tract 1 lands is as follows:

When average oil production for the month in barrels per well per day is:

OVER	NOT OVER	PERCENT OF ROYALTY
0	50	12.50
50	60	13.00
60	70	14.00
70	80	15.00
80	90	16.00
90	110	17.00
110	130	18.00
130	150	19.00
150	200	20.00
200	250	21.00
250	300	22.00
300	350	23.00
350	400	24.00
400		25.00

As to natural gas or casinghead gasoline and liquid products obtained from gas, royalty on production removed or sold from Tract 1 lands is 12.50% of the amount or value of the natural gas or casinghead gas and liquid products produced, said amount or value of liquid products to be based on the net, after allowance for the cost of manufacture when average production of gas per well per day for the month does not exceed 5,000,000 cubic feet, and 16.6667% of said amount or value when production of gas exceeds 5,000,000 cubic feet per well per day for the month.

Schedule "A" to Exhibit "A" to Etz State Unit Operating Agreement.

Royalty on Tract 2

1) For all oil produced of 30° Baume or over:
On that portion of the average production per well not exceeding 20 barrels per day for the calendar month.....
12 1/2 percent
On that portion of the average production per well of more than 20 barrels and not more than 50 barrels per day for the calendar month
...16 2/3 percent
On that portion of the average production per well of more than 50 barrels and not more than 100 barrels per day for the calendar month
..20 percent
On that portion of the average production per well of more than 100 barrels and not more than 200 barrels per day for the calendar month
.. 25 percent
On that portion of the average production per well or more than 200 barrels per day for the calendar month .....
33 1/3 percent

2) For all oil produced of less than 30° Baume:
On that portion of the average production per well not exceeding 20 barrels per day for the calendar month .....
12 1/2 percent
On that portion of the average production per well of more than 20 barrels and not more than 50 barrels per day for the calendar month
..14 2/7 percent
On that portion of the average production per well of more than 50 barrels and not more than 100 barrels per day for the calendar month
..16 2/3 per cent
On that portion of the average production per well of more than 100 barrels and not more than 200 barrels per day for the calendar month
..20 percent
On that portion of the average production per well of more than 200 barrels per day for the calendar month .....
25 per cent

Only wells which have a commercial production during at least part of the month shall be considered in ascertaining the average production above provided for; and the Secretary of the Interior shall determine what are commercially productive wells under this provision.

3) On gas and casing-head gasoline:
On gas, whether same shall be gas from which the casing-head gasoline has been extracted or otherwise, 12 1/2 percent of the value thereof in the field where produced where the average production per day for the calendar month from the land leased is less than 3,000,000 cubic feet and 16 2/3 percent where the average daily production is 3,000,000 cubic feet or over.

Schedule "A" to Exhibit "A" to Etz State Unit Operating Agreement.

Royalty on Tract 2

On casing-head gasoline, 16 2/3 per cent of the value of the casing-head gasoline extracted from the gas produced and sold, computed on the basis provided for in the operating regulations.

The value in the field where produced, of gas and casing-head gasoline, for royalty purposes, unless such gas or casing-head gasoline is disposed of under an approved sales contract or other method as provided in appropriate regulations of the Department of the Interior.

In cases where the gas produced and sold has a value both for casing-head gasoline content and as dry gas from which casing-head gasoline has been extracted, then the royalties above provided shall be paid on both of such values.

EXHIBIT " C "

Attached to and made a part of that certain Operating Agreement between Devon Energy Corporation (Nevada), as Operator of the Etz State Unit, Eddy 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.

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

A. 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 within fifteen (15) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

B. 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 prime rate in effect at NCNB Texas National Bank on the first day of the month in which delinquency occurs plus 1% 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. 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 a joint audit 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. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.

B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

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. **Ecological and Environmental**

Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or archaeological nature and pollution control procedures as required by applicable laws and regulations.

2. **Rentals and Royalties**

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

3. **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.

(4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from 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 3A of this Section II. Such costs under this Paragraph 3B 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 3A 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 3A and 3B of this Section II.

D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.

4. **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 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies.

5. **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.

6. **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 where like material is normally available or railway receiving point nearest the Joint Property 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 where like material is normally available, or railway receiving point nearest the Joint Property 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, the option to equalize or charge actual trucking cost is available when the actual charge is $400 or less excluding accessorial charges. The $400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

7. Services

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 10 of Section II and Paragraph i, ii, and iii, 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.

8. 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 gross investment less accumulated depreciation not to exceed _____ Twelve ____ percent (__12__%) 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 8A 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.

9. 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.

10. Legal Expense

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgements 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.

11. 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. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties hereto in accordance with the tax value generated by each party's working interest.

12. 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 Worker'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.

13. Abandonment and Reclamation

Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory authority.

14. Communications

Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.

15. 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 of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 3A, 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 be covered by the overhead rates, or
(X) shall not be covered by the overhead rates.

iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property:

( ) shall be covered by the overhead rates, or
(X) shall not 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 $ 3,100.00
(Prorated for less than a full month)

Producing Well Rate $ 310.00

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

(a) Drilling Well Rate

(1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.

(2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work 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 or other units used in workover, commence through date of rig or other unit release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive calendar 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 shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.

(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 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 10 of Section II and all salvage credits.

(b) Operating

_____ Percent (____ %) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 2 and 10 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 rig and crew capable of drilling to the producing interval on the Joint Property; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as operating.

2. Overhead - Major Construction

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

A. ___*_____ % of first $100,000 or total cost if less, plus

B. ___*_____ % of costs in excess of $100,000 but less than $1,000,000, plus

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

*to be negotiated

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 and artificial lift equipment shall be excluded.

3. Catastrophe Overhead

To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account for overhead based on the following rates:

A. _____ % of total costs through $100,000; plus

B. _____ % of total costs in excess of $100,000 but less than $1,000,000; plus

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

Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead provisions of this Section III shall apply.

4. 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 reasons, 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 basis exclusive of cash discounts:

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

(a) Tubular goods, sized 2⅜ inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.

(b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate truck rate shall be used.

(c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.

(d) Macaroni tubing (size less than 2⅜ inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

(2) Line Pipe

(a) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.

(b) Line pipe movements (except size 24 inch OD and larger with walls ¾ inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.

(c) Line pipe 24 inch OD and over and ¾ inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.

(d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.

(3) Other Material 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, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.

(4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2 A (1) and (2).

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

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

(2) Material used on and moved from the Joint Property

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

(3) Material not used on and moved from the Joint Property

At seventy-five percent (75%) of current new price as determined by Paragraph A.

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

C. Other Used Material

(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 A. 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

Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material under procedures normally used by Operator without prior approval of Non-Operators.

(a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.

(b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

(3) Condition E

Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally utilized by 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 or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph 1.A(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.

(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

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to 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, change of interest, or change of Operator 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. In cases involving a change of Operator, all Parties shall be governed by such inventory.

4. Expense of Conducting Inventories

A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.

B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

EXHIBIT "D"

The Operator shall carry insurance for the benefit of the joint account covering Operator's operations upon the Unit Area subject to the Operating Agreement to which this Exhibit "D" is attached as follows:

(a) Workmen's compensation insurance: In compliance with the workmen's compensation laws of the State of Texas, including employer's liability.

(b) Comprehensive general liability insurance, excluding products: A limit of $1,000,000.00 each occurrence for bodily injuries, $2,000,000.00 aggregate. Property damage liability limit being $1,000,000.00 each occurrence, $2,000,000.00 aggregate.

(c) Automobile public liability and property damage insurance. Limits of Bodily Injury $1,000,000.00 each person; $1,000,000.00 each occurrence; Property Damage - $1,000,000.00 each occurrence.

The Operator shall require its contracts and subcontractors working or performing services upon the Unit Area subject to the Operating Agreement to which this Exhibit "D" is attached to comply with the workmen's compensation laws of the State of Texas and to carry such other insurance and in such amounts as the Operator shall deem necessary.

EXHIBIT "F"

Attached to that certain Operating Agreement dated September 9, 1989, for Devon Energy Corporation (Nevada), as Operator of the Etz State Unit, Eddy County, New Mexico.

NATURAL GAS PRICE RULES

1. Operator shall file all Applications for Determination of Price Category required by the Natural Gas Policy Act (NGPA). Operator shall give notice of the filing of such Applications to all Non-Operators. If for any reason the Application for Determination of Price Category filed by the Operator is unsatisfactory to the Non-Operator, then such Non-Operator shall notify Operator of his dissatisfaction and the reasons therefor. If Operator and the dissatisfied Non-Operator are unable to reach an agreement as to the disputed Application for Determination of Price Category, then, if allowed by the appropriate jurisdictional agency such Non-Operator may file a separate Application for Determination of Price Category. The Non-Operator shall mail a copy of this Application to Operator and to all Non-Operators in the Contract Area.

2. Operator is hereby authorized to make any and all filings under the NGPA which can be made on behalf of Non-Operators under the NGPA and the regulations promulgated thereunder. Said filings shall include, but not be limited to, "interim collections" filings under Part 273 of the regulations implementing the NGPA.

3. Operator is authorized to employ counsel and technical experts which, in Operator's discretion, are reasonably necessary for preparation of any and all NGPA filings. All costs incurred in the preparation of such filings shall be deemed a cost and expense incurred in the operation of the Contract Area and shall be charged to the joint account and borne and paid by the parties to this Agreement in the proportions that their interests are shown on Exhibit "A".

4. All parties agree that due to variations in gas sales contracts covering sales made by different working interest owners in the well, or perhaps because of other reasons, the interest of a Non-Operator in the well to be drilled in the Contract Area may not be identical with the interest of the Operator. Accordingly, nothing in this Agreement shall limit the right of a Non-Operator to intervene in the NGPA determination process, or to file on his own behalf for "interim collections" under Part 273 of the regulations implementing the NGPA if said Non-Operator desires to protect his interest. In view of this right, Non-Operators agree that Operator shall not be required to represent the interest of a Non-Operator to the extent that it conflicts with the interest of the Operator.

5. In the event of an investigation or audit concerning the violation of state or federal statutory price ceilings on natural gas sales, Operator is given express authority to incur all reasonable fees and expenses, including, but not limited to legal and accounting fees, incident to the defense of such allegations. Such fees and expenses shall be deemed a cost and expense incurred in the operation of the Contract Area, and shall be charged to the joint account and borne and paid by the parties to this Agreement in the proportions that their interests are shown on Exhibit "A".

6. Operator shall have the authority to negotiate, settle, enter into Consent Orders, or otherwise resolve any overcharge allegations by the appropriate State Agency or by the Federal Energy Regulatory Commission, if in Operator's judgment such action is reasonably necessary for the proper resolution of said overcharge allegations. Operator shall additionally have the authority to initiate judicial proceedings or administrative proceedings within the Federal Energy Regulatory Commission for price relief or for clarification of the maximum lawful price which may be charged for natural gas sales, including but not limited to, declaratory judgments, exception relief, and clarification or interpretation of the regulations. All reasonable fees and expenses incurred incident to such proceedings shall be deemed a cost and expense incurred in the operation of the Contract Area and shall be charged to the joint account and borne and paid by the parties to this Agreement in the proportions that their interests are shown on Exhibit "A".

party, until it balances its gas account, shall be entitled to take or otherwise dispose of a volume of gas equal to fifty percent (50%) of each overproduced party's share of gas produced. If there is more than one underproduced party, such parties shall divide and take the foregoing percentage of each overproduced party's share of gas produced in the proportion that the interest of each such underproduced party bears to the total interest of all such underproduced parties taking additional gas.

G. In the event production of gas permanently ceases prior to the time the gas accounts of the parties have come into balance, each overproduced party shall account, by cash settlement, to each underproduced party in the following manner. Operator shall determine the cumulative volume of underproduction for each underproduced party and the cumulative volume of overproduction for each overproduced party. Each overproduced party shall pay to each underproduced party (in the proportion that the underproduction of each underproduced party bears to the total underproduction of all underproduced parties) an amount of money equal to the total amount received by the overproduced party for its overproduction during each period of overproduction, less severance taxes applicable to such gas paid by such party, and less a one-eighth (1/8) royalty thereon, and, where such overproduced party has had periods of underproduction (including periods during which other parties were making up their underproduction), less an amount equal to that which such overproduced party would have received for the volume of such underproduction (less a one-eighth (1/8) royalty) if it had taken or otherwise disposed of such volume when produced.

H. If more than one well is covered by this Operating Agreement, then the provisions of this Gas Balancing Agreement shall be applied separately to each well.

State of New Mexico

W.R. HUMPHRIES
COMMISSIONER

Commissioner of Public Lands

P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

November 1, 1989

Devon Energy Corporation
1500 Mid-America Tower
20 North Broadway
Oklahoma City, Oklahoma 73102-8260

OCD

ATTN: Mr. Carter Muire

RE: Etz State Unit

Gentlemen:

Please be advised there was a mistake on the letter we sent to you, dated October 24, 1989, that we would like to correct. In that letter we stated that Tract 7 was not committed to the Unit. However, the information in our files shows that Tract 7 is committed to the Unit Agreement of the Etz State Unit. We regret any inconvenience this may have caused.

In regard to your question regarding partially committed tracts within a State/Federal Unit area, the following State Land Office policy information should serve to clarify the participation of such tracts. First of all, a partially committed tract is defined as one in which the lessee of record has not ratified the Unit Agreement but the working interest and lessor have committed their interest. A partially committed lease is not subject to any benefit by unit operations unless there are actual operations and/or production on the lease itself or it is included within and receives an allocation of production from a participating area. Unitized drilling is permissible on a partially committed tract but if unitized production is obtained on the partially committed tract and a participating area is established, the working interest operator must allocate the entire production to the participating area and also pay the noncommitted parties their just royalty on a leasehold basis. It is our understanding that this is also the BLM policy for partially committed tracts within a Unit.

If you have any other questions, please do not hesitate to contact us.

Very truly yours,

W.R. HUMPHRIES
COMMISSIONER OF PUBLIC LANDS

BY: - Floyd Prando

FLOYD O. PRANDO, Director
Oil and Gas Division
(505) 827-5749

cc: BLM - Roswell
OCD
Unit Files

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

GARREY CARRUTHERS
GOVERNOR

September 7, 1989

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

Mr. Thomas Kellahin
Kellahin, Kellahin & Aubrey
Attorneys at Law
Post Office Box 2265
Santa Fe, New Mexico

Re: CASE NO. **9734**
ORDER NO. **R-8996**

Applicant:

Devon Energy Corporation

Dear Sir:

Enclosed herewith are two copies of the above-referenced Division order recently entered in the subject case.

Sincerely,

Florene Davidson

FLORENE DAVIDSON
OC Staff Specialist

Copy of order also sent to:

Hobbs OCD **x**
Artesia OCD **x**
Aztec OCD _____

Other _____

9734

State of New Mexico
Commissioner of Public Lands

RAY POWELL, M.S., D.V.M.
COMMISSIONER

310 OLD SANTA FE TRAIL P.O. BOX 1148

SANTA FE, NEW MEXICO 87504-1148

(505) 827-5760
FAX (505) 827-5766

SLO REF NO. OG-1382

March 21, 1994

Mack Energy Corporation
P.O. Box 1359
Artesia, New Mexico 88211-1359

Attn: Mr. James D. Brown, Jr.

Re: 1994 Plan of Development
ETZ State Unit
Eddy County, New Mexico

Gentlemen:

The Commissioner of Public Lands has this date approved the above captioned Plan of Development. Our approval is subject to like approval by all other appropriate agencies.

The possibility of drainage by wells outside of the Unit Area and the need for further development of the unit may exist. You will be contacted at a later date regarding these possibilities.

If you have any questions, or if we may be of further help, please contact Pete Martinez at (505) 827-5791.

Very truly yours,

RAY B. POWELL, M.S., D.V.M.
COMMISSIONER OF PUBLIC LANDS

BY: Floyd O Prando
FLOYD O. PRANDO, Director
Oil and Gas Division
(505) 827-5744

RBP/FOP/pm
cc: OCD-Roy Johnson
BLM

State of New Mexico
OFFICE OF THE
Commissioner of Public Lands
Santa Fe

JIM BACA
COMMISSIONER

P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

February 11, 1993

Mack Energy Corporation
P.O. Box 276
Artesia, New Mexico 88210

Attention: Land Department

Re: Designation of Successor Unit Operator
ETZ State Unit
Eddy County, New Mexico

Gentlemen:

The Oil Conservation Division has advised this office that Mack Energy Corporation has been designated as the successor unit operator of the ETZ State Unit, Eddy County, New Mexico.

Our records reflect that **Devon Energy Corporation** is still the operator of record for this unit. Pursuant to the terms of the ETZ State Unit Agreement, any change in unit operators must also be approved by the Commissioner of Public Lands.

In view of the above, please submit a resignation/designation of successor unit operator to this office for approval. If the change of operator is not filed with and approved by this office, you are operating the ETZ State Unit without authority.

Please submit the appropriate documents for designation of successor operator of the ETZ State Unit within sixty (60) days from receipt of this letter.

If you have any questions, or if we may be of further help, please contact Pete Martinez at (505) 827-5791.

Very truly yours,

JIM BACA
COMMISSIONER OF PUBLIC LANDS

BY: [signature] for FOP
FLOYD O. PRANDO, Director
Oil/Gas and Minerals Division
(505) 827-5744
JB/FOP/pm
encls.
cc: Reader File
BLM
OCD
Devon Energy Corporation

JIM BACA
COMMISSIONER

State of New Mexico

OFFICE OF THE

Commissioner of Public Lands

Santa Fe

P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

March 3, 1993

Losee, Carson, Haas & Carroll, P.A.
300 Yates Petroleum Building
P.O. Drawer 239
Artesia, New Mexico 88211-0239

Attn: Mr. James E. Haas

Re: Resignation-Designation of Successor Unit Operator
Etz State Unit
Eddy County, New Mexico

Dear Mr. Haas:

This office is in receipt of your letter of February 16, 1993, advising this office that Devon Energy Corporation has resigned as Unit Operator of the Etz State Unit, and Marbob Energy Corporation has been selected as the successor Unit Operator of said Unit.

The Commissioner of Public Lands has this date approved the resignation of Devon Energy Corporation and the Designation of Marbob Energy Corporation as the successor Unit Operator of this unit.

If you have any questions, or if we may be of further help, please contact Pete Martinez at (505) 827-5791.

Very truly yours,

JIM BACA
COMMISSIONER OF PUBLIC LANDS

BY: Floyd O. Prando

FLOYD O. PRANDO, Director
Oil/Gas and Minerals Division
(505) 827-5744
JB/FOP/pm
encls.
cc: Reader File
BLM
OCD
TRD
Devon Energy Company

JIM BACA
COMMISSIONER

State of New Mexico

OFFICE OF THE

Commissioner of Public Lands

Santa Fe

P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

SLO REF NO. OG-1264

March 17, 1993

Mack Energy Corporation
P.O. Box 1359
Artesia, New Mexico 88211-1359

Attn: Mr. James D. Brown, Jr.

Re: 1993 Plan of Development
ETZ State Unit
Eddy County, New Mexico

Gentlemen:

The Commissioner of Public Lands has this date approved the above captioned Plan of Development. Our approval is subject to like approval by all other appropriate agencies.

The possibility of drainage by wells outside of the Unit Area and the need for further development of the unit may exist. You will be contacted at a later date regarding these possibilities.

If you have any questions, or if we may be of further help, please contact Pete Martinez at (505) 827-5791.

Very truly yours,

JIM BACA
COMMISSIONER OF PUBLIC LANDS

BY: Floyd O Prando
FLOYD O. PRANDO, Director
Oil and Gas Division
(505) 827-5744

JB/FOP/pm
cc: OCD
BLM

MACK ENERGY CORPORATION

Post Office Box 1359
Artesia, New Mexico 88211-1359
(505) 748-1288

NMOCD

February 26, 1993

operator
ETZA
state, Fee

ASSIGNMENT CONTROL SLIP

DATE RECEIVED: 03-15-93

CONTROL NUMBER: 03/35

Please return this slip to _____ with file copy.

Bureau of Land Management
Roswell District Office
P.O. Box 1397
Roswell, New Mexico 88202-1397

ATTN: Mr. Armando Lopez
AD Minerals

RE: 1993 Plan of Operations
ETZ State Unit
T-17S, R-30E
Eddy County, New Mexico

Gentlemen:

Mack Energy Corporation took over from Marbob Energy Corporation effective August 1, 1992 as operator of the ETZ State Unit after Marbob had succeeded Devon Energy Corporation as operator of the unit. We hereby submit this Plan of Operation on behalf of the working interest owners.

During 1992 all wells were redesignated according to the attached schedule which compares the old tract and well number system and the new unit number system.

Also during 1992 the following well work was completed:

- #117 - Plugged and abandoned 11/11/92
- #119 - (Formerly ETZ State #26) Recompleted in Grayburg formation from 2556'-2807'; pumped 4 BOPD, 11/13/92
- #120 - (Formerly McIntyre D #3) Recompleted in Grayburg formation from 2527'-2764'; pumped 4 BOPD, 11/23/92

The status of the remaining wells were the same as in last years report.

All working interest owners of the ETZ State Unit have been provided with a copy of this Plan of Operations.

If this Plan of Operations meets with your approval, please so indicate by signing on the space provided on page two (2) and

return an approved copy of this plan in the enclosed self-addressed envelope.

Sincerely,

James D. Brown, Jr.

JDBJ:ss
Enclosures

Approved this 16 day of March, 1993
Bureau of Land Management
Oil & Gas Division

By: Amanda G. Hyer

Title: Assistant District Manager, Minerals

Lease: ETZ State Unit