CAMPBELL, CARR, BERGE
& SHERIDAN, P.A.
LAWYERS

MICHAEL B. CAMPBELL
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MARK F. SHERIDAN
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June 30, 1992

RECEIVED
JUN [illegible] 1992
OIL CONSERVATION DIVISION

Case 10515

HAND-DELIVERED

William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
State Land Office Building
Santa Fe, New Mexico 87503

Re: Application of Texaco Exploration and Production Inc. for Statutory Unitization, Lea County, New Mexico

Application of Texaco Exploration and Production Inc. for Approval of a Waterflood Project, Lea County, New Mexico

Dear Mr. LeMay:

Enclosed are drafts of legal advertisements for two cases which Texaco requests be advertised for hearing on July 23, 1992. Complete applications will be filed with the Division on July 1, 1992.

If you have questions concerning the enclosed, please advise.

Very truly yours,

WILLIAM F. CARR

WFC:mlh
Enclosures
cc w/enclosures: Mr. Mike Mullins
Texaco Exploration and Production Inc.
Post Office Box 3109
Midland, Texas 79702

CASE _____:

Application of Texaco Exploration and Production Inc. for statutory unitization, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an order unitizing, for the purpose of establishing an enhanced recovery project, all mineral interests from the top of the Glorieta formation to the top of the Blinebry formation, Vacuum-Glorieta Pool, underlying 2778.86 acres, more or less, of State and Fee lands in the following acreage:

TOWNSHIP 17 SOUTH, RANGE 34 EAST, N.M.P.M.

Section 24: SW/4; SW/4 NW/4; SW/4 SE/4
Section 25: All
Section 26: E/2 SE/4
Section 35: NE/4; N/2 SE/4; SE/4 SE/4
Section 36: All

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JUN 1997
OIL CONSERVATION DIVISION

TOWNSHIP 17 SOUTH, RANGE 35 EAST, N.M.P.M.

Section 30: Lots 1, 2, 3, 4 (W/2 W/2)
Section 31: Lots 1, 2, 3, 4 (W/2 W/2)

TOWNSHIP 18 SOUTH, RANGE 34 EAST, N.M.P.M.

Section 1: Lots 1, 2, 3, 4; S/2 NE/4
Section 2: Lot 1 (NE/4 NE/4)

TOWNSHIP 18 SOUTH, RANGE 35 EAST, N.M.P.M.

Section 6: Lots 1, 2, 3, 4, 5; SE/4 NW/4; S/2 NE/4 (N/2)

Said unit is to be designated the Vacuum Glorieta West Unit.

Among the matters to be considered at the hearing will be the necessity of unit operations; the designation of a unit operator; the designation of horizontal and vertical limits of the unit area; the determination of the fair, reasonable, and equitable allocation of production and costs of production, including capital investment, to each of the various tracts in the unit area; the determination of credits and charges to be made among the various owners in the unit area for their investment in wells and equipment; and such other matters as may be necessary and appropriate for carrying on efficient unit operations; including but not limited to, unit voting procedures, selection, removal or substitution of unit operator, and time of commencement and termination of unit operations. Applicant also requests that any such order issued in this case include a provision for carrying any non-consenting working interest owner within the unit area upon such terms and conditions to be determined by the Division as just and reasonable.

Said unit area is located _____.

CAMPBELL, CARR, BERGE
& SHERIDAN, P.A.
LAWYERS

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SANTA FE, NEW MEXICO 87504-2208
TELEPHONE (505) 988-4421
TELECOPIER (505) 983-6043

July 1, 1992

Case 10515

HAND-DELIVERED

William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
State Land Office Building
Santa Fe, New Mexico 87503

Re: In the Matter of the Application of Texaco Exploration and Production Inc. for Statutory Unitization of the Vacuum Glorieta West Unit Area, Lea County, New Mexico

Dear Mr. LeMay:

Enclosed in triplicate is the Application of Texaco Exploration and Production Inc. in the above-referenced case. Texaco Exploration and Production Inc. respectfully requests that this matter be placed on the docket for the July 23, 1992 Examiner hearings.

Very truly yours,

WILLIAM F. CARR

WFC:mlh
Enclosures
cc w/enclosures: Mr. Mike Mullins

BEFORE THE

OIL CONSERVATION DIVISION

NEW MEXICO DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES

IN THE MATTER OF THE APPLICATION
OF TEXACO EXPLORATION AND PRODUCTION INC.
FOR STATUTORY UNITIZATION OF THE
VACUUM GLORIETA WEST UNIT AREA,
LEA COUNTY, NEW MEXICO.

CASE NO. 10515

APPLICATION

TEXACO EXPLORATION AND PRODUCTION INC., ("Texaco"), pursuant to the provisions of the New Mexico Statutory Unitization Act (Sections 70-7-1 through 70-7-21, N.M.S.A. 1978 Comp.) hereby applies to the Oil Conservation Division for an order unitizing the Vacuum Glorieta West Unit, Lea County, New Mexico, and in support of its application states:

1. Texaco is a Delaware corporation authorized to transact business in the State of New Mexico and is engaged in the business of, among other things, producing and selling oil and gas.

2. Texaco seeks an order pursuant to the Statutory Unitization Act providing for unitized management, operation and further development of the proposed Vacuum Glorieta West Unit Area which consists of 2778.86 acres, more or less, of State and Fee lands located in Lea County, New Mexico, and is more particularly described as follows:

TOWNSHIP 17 SOUTH, RANGE 34 EAST, N.M.P.M.

Section 24: SW/4; SW/4 NW/4; SW/4 SE/4
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Section 2: Lot 1 (NE/4 NE/4)

TOWNSHIP 18 SOUTH, RANGE 35 EAST, N.M.P.M.

Section 6: Lots 1, 2, 3, 4, 5; SE/4 NW/4; S/2 NE/4 (N/2)

A map of the proposed Unit Area is attached to this application as Exhibit A.

3. The vertical limits of the formations to be included within the proposed Unit Area extends from an upper limit described as the top of the Glorieta formation to a lower limit at the base of the Paddock formation or the top of the Blinebry formation; the geologic markers having been previously found to occur at 5,838 feet and 6,235 feet on the type log for the Mobil Bridges State Well No. 95 located in the SE/4 SE/4 (Unit P) of Section 26, Township 17 South, Range 34 East, N.M.P.M., Lea County, New Mexico.

4. The portions of the formations involved in this application have been defined by development.

5. The type of operations to be conducted in this unit initially include secondary

recovery by means of waterflooding. At a later date, carbon dioxide flooding or other methods of secondary recovery may be conducted in the proposed unit.

6. Attached to this application as Exhibit "B" and incorporated herein is a copy of the proposed plan of unitization which Texaco considers fair, reasonable and equitable.

7. Attached to this application as Exhibit "C" and incorporated herein is a copy of the proposed operating plan covering the manner in which the unit will be supervised and managed and costs allocated and paid.

8. Texaco further states:

a. Unitized management, operating and further development of the portion of the Glorieta and Paddock formations, Vacuum Glorieta Pool, which is the subject of this application, is reasonably necessary in order to effectively carry on secondary recovery operations and to substantially increase the ultimate recovery of oil from the unitized portion of the pool.

b. Unitized methods of operation applied to this portion of the Vacuum Glorieta Pool are feasible, will prevent waste and will result with reasonable probability in the increased recovery of substantially more oil from the pool than would

otherwise be recovered.

c. The estimated additional costs, if any, of conducting such operations will not exceed the estimated value of additional oil recovered plus reasonable profit.

d. Unitization and adoption of unitized methods of operation will benefit the working interest owners and the royalty owners of the oil and gas rights within this portion of the pool.

e. Texaco, as operator, has made a good faith effort to secure voluntary unitization within the portion of the Vacuum Glorieta Pool affected by this application.

f. The participation formula contained in the unitization agreement allocates the produced and saved unitized hydrocarbons to the separately owned tracts in the Unit Area on a fair, reasonable and equitable basis.

9. Statutory unitization of the Vacuum Glorieta West Unit Area, Vacuum Glorieta Pool, is in the best interest of conservation, the prevention of waste and the protection of correlative rights.

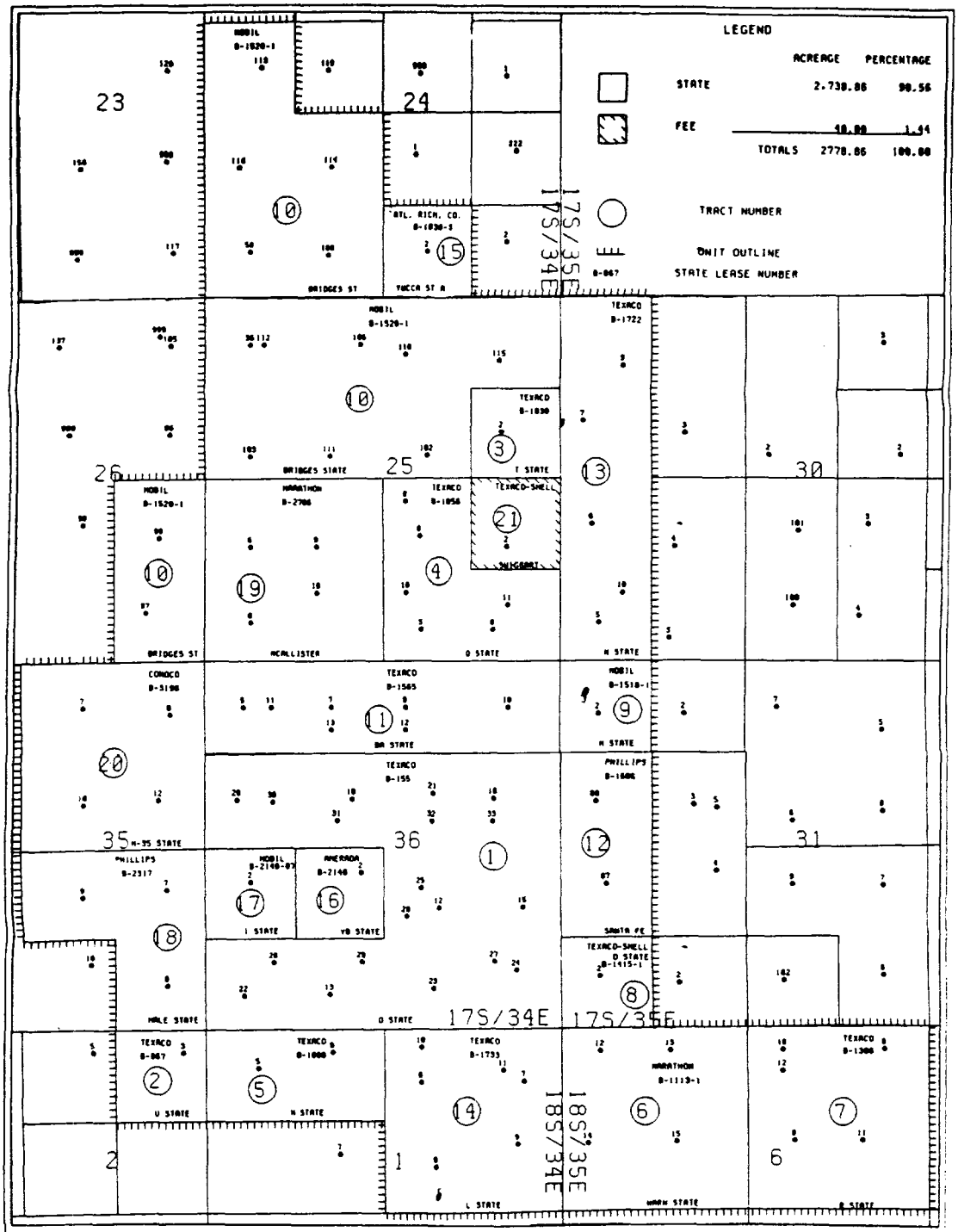
WHEREFORE, Texaco Exploration and Production Inc. respectfully requests that this application be set for hearing before a duly appointed Examiner of the Oil Conservation Division on July 23, 1992, and that, after notice and hearing as required by law and the rules of the Division, the Division enter its order granting this application statutorily unitizing the Vacuum Glorieta West Unit Area, Lea County, New Mexico.

Respectfully submitted,

CAMPBELL, CARR, BERGE
& SHERIDAN, P.A.

By: _____
WILLIAM F. CARR
Post Office Box 2208
Santa Fe, New Mexico 87504
Telephone: (505) 988-4421

ATTORNEYS FOR TEXACO EXPLORATION
AND PRODUCTION INC.



TEXACO MIDLAND PRODUCING
MIDLAND TEXAS U.S.A.

VACUUM GLORIETA WEST UNIT
LEA COUNTY, NEW MEXICO
EXHIBIT "A"

1"=1639' | M. MULLINS/R. GOON | 16-JAN-92

EXHIBIT "A"

BEFORE THE

OIL CONSERVATION DIVISION

NEW MEXICO DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES

IN THE MATTER OF THE APPLICATION
OF TEXACO EXPLORATION AND PRODUCTION INC.
FOR STATUTORY UNITIZATION OF THE
VACUUM GLORIETA WEST UNIT AREA,
LEA COUNTY, NEW MEXICO.

RECEIVED
JUL 01 1992
OIL CONSERVATION DIVISION

CASE NO. 10515

APPLICATION

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A map of the proposed Unit Area is attached to this application as Exhibit A.

3. The vertical limits of the formations to be included within the proposed Unit Area extends from an upper limit described as the top of the Glorieta formation to a lower limit at the base of the Paddock formation or the top of the Blinebry formation; the geologic markers having been previously found to occur at 5,838 feet and 6,235 feet on the type log for the Mobil Bridges State Well No. 95 located in the SE/4 SE/4 (Unit P) of Section 26, Township 17 South, Range 34 East, N.M.P.M., Lea County, New Mexico.

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6. Attached to this application as Exhibit "B" and incorporated herein is a copy of the proposed plan of unitization which Texaco considers fair, reasonable and equitable.

7. Attached to this application as Exhibit "C" and incorporated herein is a copy of the proposed operating plan covering the manner in which the unit will be supervised and managed and costs allocated and paid.

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d. Unitization and adoption of unitized methods of operation will benefit the working interest owners and the royalty owners of the oil and gas rights within this portion of the pool.

e. Texaco, as operator, has made a good faith effort to secure voluntary unitization within the portion of the Vacuum Glorieta Pool affected by this application.

f. The participation formula contained in the unitization agreement allocates the produced and saved unitized hydrocarbons to the separately owned tracts in the Unit Area on a fair, reasonable and equitable basis.

9. Statutory unitization of the Vacuum Glorieta West Unit Area, Vacuum Glorieta Pool, is in the best interest of conservation, the prevention of waste and the protection of correlative rights.

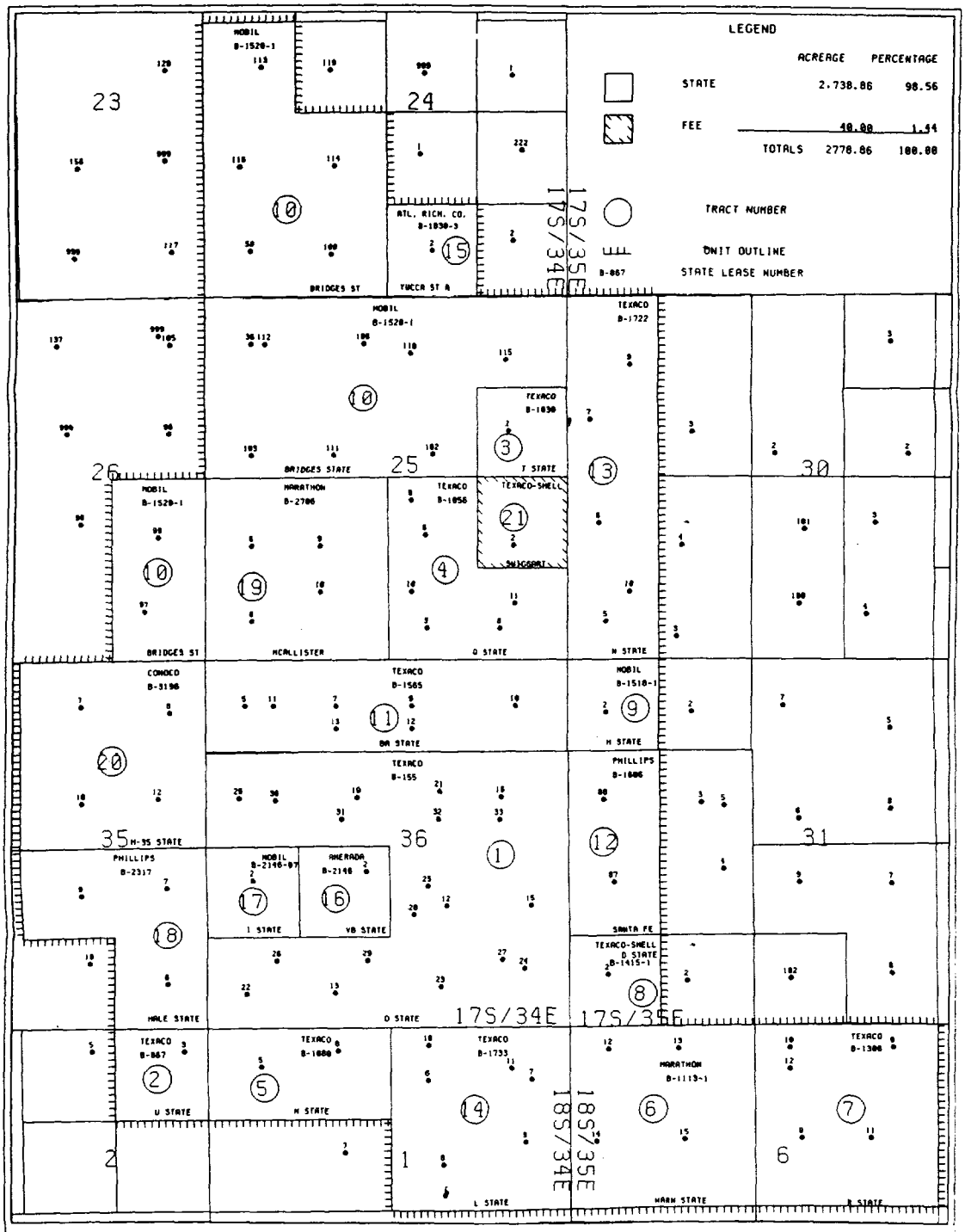
WHEREFORE, Texaco Exploration and Production Inc. respectfully requests that this application be set for hearing before a duly appointed Examiner of the Oil Conservation Division on July 23, 1992, and that, after notice and hearing as required by law and the rules of the Division, the Division enter its order granting this application statutorily unitizing the Vacuum Glorieta West Unit Area, Lea County, New Mexico.

Respectfully submitted,

CAMPBELL, CARR, BERGE
& SHERIDAN, P.A.

By: _____
WILLIAM F. CARR
Post Office Box 2208
Santa Fe, New Mexico 87504
Telephone: (505) 988-4421

ATTORNEYS FOR TEXACO EXPLORATION
AND PRODUCTION INC.



TEXACO MIDLAND PRODUCING
MIDLAND TEXAS U.S.A.

VACUUM GLORIETA WEST UNIT
LEA COUNTY, NEW MEXICO
EXHIBIT "A"

SCALE 1"=1639' | DRAWN M. MULLINS/R. GOON | DATE 16-JAN-92

EXHIBIT "A"

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE

VACUUM GLORIETA WEST UNIT AREA

LEA COUNTY, NEW MEXICO

EXHIBIT "B"

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
VACUUM GLORIETA WEST UNIT AREA
LEA COUNTY, NEW MEXICO

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Exhibit "A" (Map of Unit Area)
Exhibit "B" (Schedule of Ownership)
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UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
VACUUM GLORIETA WEST UNIT AREA
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of June, 1992, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as "parties hereto";

WITNESSETH THAT:

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 Commissioner of Public Lands of the State of New Mexico is authorized by law (Sec. 3, Chapter 88, Laws 1943) as amended by Sec. 1 of Chapter 162, Laws of 1951, (Chap. 19, Art. 10, Sec. 45, N. M. Statutes 1978 Annot.), to consent to and approve the development or operation of State lands under agreements made by lessees of State land jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field or area; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 1, Chap. 162, Laws of 1951; Chap. 19, Art. 10, Sec. 47, N.M. Stats. 1978 Annot.) 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 Energy and Minerals Department of the State of New Mexico is authorized by law (Chapter 72, Laws of 1935, as amended, being Sec. 70-2-1 et seq. N.M. Statutes 1978 Annotated) to approve this Agreement and the conservation provision hereof; and

WHEREAS, the parties hereto hold sufficient interests in the Vacuum Glorieta West Unit Area, comprised of the land hereinafter designated, to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to enable institution and consummation of secondary and/or enhanced oil recovery operations, conserve natural resources, prevent waste and secure other benefits obtainable through development and operation of the area subject to this Agreement under the terms, conditions, and limitations herein set forth.

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

SECTION 1. ENABLING ACT AND REGULATIONS: The oil and gas operating regulations in effect as of the Effective Date hereof governing drilling and producing operations, not inconsistent with the terms hereof or the laws of the State of New Mexico, are hereby accepted and made a part of this Agreement.

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

(a) "Unit Area" is defined as the land depicted on Exhibit "A" and described by Tracts in Exhibit "B" attached hereto and said land is hereby designated and recognized as constituting the Unit Area.

(b) "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 State of New Mexico.

(d) "Unitized Formation" is defined as that stratigraphic interval underlying the Unit Area found between the top of the Glorieta Formation and the base of the Paddock Formation. The top of the Glorieta Formation is defined as all points underlying the Unit Area correlative to the depth of 5,838 feet and the base of the Paddock Formation is defined as all points underlying the Unit Area correlative to the depth of 6,235 feet, both depths as identified on the Schlumberger Sonic Log for the Socony Mobil Bridges State Well No. 95, located in the SE/4 SE/4 (Unit P) of Section 26, Township 17 South, Range 34 East, NMPM, Lea County, New Mexico.

(e) "Unitized Substances" is defined as 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 or produced from the Unitized Formation.

(f) "Working Interest" is defined as an interest in Unitized Substances by virtue of a lease, operating agreement or otherwise, including a carried interest, which interest is chargeable with and obligated to pay or bear, either in cash or out of production or otherwise, all or a portion of the cost of drilling, developing, producing and operating the Unitized Formation. Any interest in Unitized Substances which is a Working Interest as of the date the owner thereof executes, ratifies or consents to this Agreement shall thereafter be treated as a Working Interest for all purposes of this Agreement.

(g) "Royalty Interest" is defined as a right to or interest in any portion of the Unitized Substances or proceeds thereof other than a Working Interest.

(h) "Working Interest Owner" is defined as a party hereto who owns a Working Interest.

(i) "Royalty Owner" is defined as a party hereto who owns a Royalty Interest.

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

(k) "Tract Participation" is defined as the percentages of Unitized Substances allocated hereunder to a Tract during Phase I and Phase II, as hereinafter defined. The Tract Participation of the Tracts within the Unit Area is shown on Exhibit "C" attached hereto.

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

(m) "Phase I" means that period of time beginning at 7:00 A.M. on the Effective Date hereof and continuing until 7:00 A.M. on the first day of the calendar month next following the date on which the cumulative oil production from the Unitized Formation underlying all of the Tracts described in Exhibit "A", from and after the Effective Date hereof or July 1, 1992, whichever occurs first, equals 2,175,000 barrels of oil, as determined from the oil production reports required by and submitted to the New Mexico Oil Conservation Division.

(n) "Phase II" means the remainder of the term of this Agreement after the end of Phase I.

(o) "Unit Operating Agreement" is defined as any agreement or agreements entered into, separately or collectively, by and between the Unit Operator and the Working Interest Owners as provided in Section 9, Accounting Provisions and Unit Operating Agreement, infra, and shall be styled "Unit Operating Agreement, Vacuum Glorieta West Unit Area, Lea County, New Mexico".

(p) "Unit Manager" is defined as the person or corporation appointed by the Unit 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 8, Successor Unit Operator, hereof.

(q) "Outside Substance" is defined as any substance obtained from any source other than the Unitized Formation and injected into the Unitized Formation.

SECTION 3. UNIT AREA: The area specified on the map attached hereto marked Exhibit "A" is hereby designated and recognized as constituting the Unit Area, containing 2778.86 acres, more or less.

Exhibit "A", to the extent known to the Unit Operator, shows the boundaries and identity of Tracts and leases in the Unit Area. Exhibit "B" attached hereto is a schedule showing, to the extent known to the Unit Operator, the acreage comprising each Tract and the percentage of ownership of each Working Interest Owner in 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 as are shown in said map or schedule as being owned by such party. Exhibit "C" attached hereto is a schedule showing the Tract Participation of each Tract in the Unit Area during Phase I and II, which Tract Participation has been calculated upon the basis of all tracts within the Unit Area being committed to this Agreement as of the Effective Date hereof.

Exhibits "A", "B", and "C" shall be revised by Unit Operator whenever changes render such revision necessary and not less than two (2) copies of such revision shall be filed with the Commissioner and the Division.

SECTION 4. EXPANSION: The Unit Area may, when practicable, be expanded to include therein any additional Tract or Tracts regarded as reasonably necessary or advisable for the purposes of this Agreement. 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 the Unit Area 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 Tract or Tracts proposed to be included in the Unit and/or affected by the proposed expansion, setting out the basis for admission, the Tract Participation proposed to be allocated to such Tract or Tracts, and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise), if Working Interest Owners having a combined Phase II Unit Participation of seventy-five percent (75%) or more have agreed to such Tract or Tracts being brought into the Unit Area, then Unit Operator shall, after preliminary concurrence by the Commissioner and the Division:

(1) 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 allocated thereto, and the proposed effective date thereof; and

(2) Furnish copies of said notice to the Commissioner and the Division, each Working Interest Owner and to the lessee and lessor whose interests are proposed to be committed, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objections to such proposed expansion; and

(3) File, upon the expiration of said thirty (30) day period as set out in Subsection (2) immediately above, with the Commissioner and the Division, the following: (a) Evidence of mailing copies of said notice of expansion; (b) An application for such expansion; (c) An instrument containing the appropriate joinders in compliance with the qualification requirements of Section 13, Tracts Qualified for Unit Participation, infra; and (d) Copies of any objections received.

The expansion shall, after due consideration of all pertinent information and upon approval by the Commissioner and Division, become effective as of the date prescribed in the notice thereof. 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.

There shall never be any retroactive allocation or adjustment of operating expenses or of interest in the Unitized Substances produced (or the proceeds of the sale thereof) by reason of an expansion of the Unit Area; provided, however, this limitation shall not prevent any adjustment of investment necessitated by such expansion.

SECTION 5. UNITIZED LAND AND UNITIZED SUBSTANCES: All land committed to this Agreement, as provided in Section 13, Tracts Qualified for Unit Participation, as to the Unitized Formation, defined in Section 2, Definitions, shall constitute land referred to herein as "Unitized Land" or "land subject to this Agreement". All oil and gas in the Unitized Formation in the Unitized Land are unitized under the terms of this Agreement and herein are called "Unitized Substances".

SECTION 6. UNIT OPERATOR: TEXACO EXPLORATION AND PRODUCTION INC. is hereby designated the Unit Operator, and by signing this instrument as Unit Operator, it 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, 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.

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 and the Commissioner and Division, 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 two (2) or more Working Interest Owners having in the aggregate eighty percent (80%) or more of the Phase II Unit Participation, exclusive of the Working Interest Owner who is the Unit Operator. Such removal shall be effective upon notice thereof to the Commissioner and Division.

In all such instances of 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 equipment, books and records, materials, appurtenances and any other assets used in conducting the Unit Operations, and owned by the Working Interest Owners (including any and all data and information which it might have gained or assembled by reason of its operation of the Unit Area), to the new duly qualified successor Unit Operator or to the Unit Manager if no such new Unit Operator is elected, to be used for the purpose of conducting Unit Operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment or appurtenances needed for the preservation of any wells. Nothing herein contained shall be construed to relieve or discharge any Unit Operator who resigns or is removed hereunder from any liability or duties accruing to or performable by it prior to the effective date of such resignation or removal.

SECTION 8. SUCCESSOR UNIT OPERATOR: Whenever 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 of a successor Unit Operator shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Commissioner and Division. If no successor Unit Operator is selected as herein provided, the Commissioner may declare this Agreement terminated.

In selecting a successor Unit Operator, the affirmative vote of three (3) or more Working Interest Owners having a total of sixty-five percent (65%) or more of the Phase II Unit Participation shall prevail; provided that if any one Working Interest Owner has a Phase II 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 additional Working Interest Owner having a total Phase II 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 Phase II 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 Unit 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. One true copy

of any Unit Operating Agreement executed pursuant to this Section shall be filed with the Commissioner.

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 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 therefor, 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 has been reasonably proven to be productive of Unitized Substances in paying quantities or is necessary for Unit Operations and that the object and purpose of this Agreement is to formulate and to put into effect a secondary enhanced oil recovery project in order to effect greater recovery of Unitized Substances, prevent waste and conserve natural resources. The parties hereto agree that the Unit Operator may, subject to the consent and approval of a plan of operation by the Working Interest Owners, the Division and the Commissioner, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil, liquefied petroleum gas, steam and any other substances or a combination of any said substances, whether produced from the Unitized Formation or not, and that the location of input wells and the rates of injection therein and the rate of production shall be governed by standards of good geological and petroleum engineering practices and conservation methods. Reasonable diligence shall be exercised by Unit Operator in complying with the obligations of any approved plan of operation. The parties hereto, to the extent they have the right so to do, hereby grant Unit Operator the right to use brine or water (or both) produced from any formation underlying the Unit Area for injection into the Unitized Formation; provided, however, that this grant of said right shall not preclude the use of brine or water (or both) produced from any formation other than the Unitized Formation for injection into formations other than the Unitized Formation. After commencement of secondary and/or enhanced oil recovery operations, Unit Operator shall furnish the Commissioner and the Division monthly injection and production reports for each well in the Unit. The Working Interest Owners, the Commissioner and the Division shall be furnished periodic reports on the progress of the plan of operation and any revisions or changes thereto necessary to meet changed conditions or to protect the interests of all parties to this Agreement; provided, however, that any major revisions of the plan of operation involving a basic deviation from the initial plan of operation shall be subject to the consent and approval of the Working Interest Owners, the Commissioner and Division.

The initial Plan of Operation shall be filed with the Commissioner and the Division concurrently with the filing of this Unit Agreement for final approval. Reasonable diligence shall be exercised in complying with the obligations of said plan of operation.

Notwithstanding anything to the contrary herein contained, the Unit Operator shall commence, if not already having done so, secondary recovery operations and/or enhanced oil recovery operations on the Unit Area not later than six (6) months after the Effective Date of this Agreement, or any extension thereof approved by the

Commissioner and Division or this Agreement shall terminate automatically in which latter event the Unit Operator shall notify all interested parties. After such operations are commenced, Unit Operator shall carry on such operations as would a reasonably prudent operator under the same or similar circumstances.

SECTION 12. TRACT PARTICIPATION: The percentages of Tract Participation set forth in Exhibit "C" for each Tract within the Unit Area have been calculated and determined for Phase I and Phase II hereof in accordance with the following formulas:

PHASE I
Tract Participation Percentage = (Equals):

7% A/B + 31% C/D + 17% E/F + 45% G/H

PHASE II
Tract Participation Percentage = (Equals):

10% A/B + 29% I/J + 13% E/F + 28% G/H + 20% K/L

A = The Tract surface acres in the Unit Area.

B = The total Unit Area surface acres.

C = The Tract remaining primary oil (in barrels) to be recovered from the Unitized Formation, as of January 1, 1990, as determined by the Proposed Vacuum Glorieta Unit Technical Committee in their November 1990 report.

D = The total Unit Area remaining primary oil (in barrels) to be recovered from the Unitized Formation, as of January 1, 1990, as determined by the Proposed Vacuum Glorieta Unit Technical Committee in their November 1990 report.

E = The Tract ultimate primary oil (in barrels) to be recovered from the Unitized Formation, as determined by the Proposed Vacuum Glorieta Unit Technical Committee in their November 1990 report.

F = The total Unit Area ultimate primary oil (in barrels) to be recovered from the Unitized Formation, as determined by the Proposed Vacuum Glorieta Unit Technical Committee in their November 1990 report.

G = The Tract oil production from the Unitized Formation for the twelve (12) months prior to January 1, 1990.

H = The total Unit Area oil production from the Unitized Formation for the twelve (12) months prior to January 1, 1990.

I = The Tract cumulative oil recovery from the Unitized Formation as of January 1, 1990.

J = The total Unit Area cumulative oil recovery from the Unitized Formation as of January 1, 1990.

K = The Tract volumetric original oil in place from the Unitized Formation, as determined by the Proposed Vacuum Glorieta Unit Technical Committee in their November 1990 report.

L = The total Unit Area volumetric original oil in place from the Unitized Formation, as determined by the Proposed Vacuum Glorieta Unit Technical Committee in their November 1990 report.

Such percentages of Tract Participation during Phase I and Phase II have been calculated upon the basis of all of said Tracts within the Unit Area being committed to this Agreement as of the Effective Date hereof, and such Tract Participation shall govern the allocation of all Unitized Substances produced after the Effective Date hereof, subject, however, to any revision or revisions of the Unit Area and Exhibit "C" in accordance with the provisions hereof.

In the event less than all of the Tracts are committed hereto as of the Effective Date hereof, Unit Operator shall promptly file with the Commissioner and Division at least two (2) copies of revised Exhibits "B" and "C" setting forth on Exhibit "C" the revised Tract Participations opposite each of the qualified tracts, which shall be calculated by using the tract factors and formula set forth hereinabove, but applying the same only to the qualified Tracts. The revised Exhibits "B" and "C" shall, effective as of the Effective Date of this Agreement, supersede the original Exhibits "B" and "C" attached hereto and shall thereafter govern the allocation of Unitized Substances unless disapproved by the Commissioner and Division within thirty (30) days after filing.

If, subsequent to the Effective Date of this Agreement, any additional tract becomes committed hereto under the provisions of Section 3, Unit Area, or Section 27, Non-joinder and Subsequent Joinder, or any committed tract is excluded herefrom under the provisions of Section 26, Loss of Title, Unit Operator shall revise said Exhibits "B" and "C" or the latest revision thereof to show the new percentage participations of the then committed tracts, which revised exhibit shall, upon its approval by the Commissioner and the Division, supersede, as of its effective date, the last previously effective Exhibits "B" and "C". In any such revision of Exhibit "C", the revised percentage participations of the respective tracts listed in the last previously effective Exhibit "C" shall remain in the same ratio one to another.

SECTION 13. TRACTS QUALIFIED FOR UNIT PARTICIPATION: On and after the Effective Date hereof, the Tracts within the Unit Area which shall be entitled to participate in the production of Unitized Substances therefrom shall be the Tracts within the Unit Area that are qualified as follows:

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

(b) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest therein have become parties hereto and as to which Royalty Owners owning less than seventy-five percent (75%) of the Royalty Interest therein have become parties hereto and, further, as to which:

(i) All Working Interest Owners in any such Tract have joined in a request for the commitment of such Tract to this Agreement, and

(ii) Seventy-five percent (75%) of the combined voting interest of Working Interest Owners in all Tracts meeting the requirements of Section 13(a) hereof have voted in favor of the commitment of such Tract.

For the purposes of this Section 13 (b), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in percent) which its aggregate Phase II Unit Participation in all Tracts qualifying under Section 13 (a) bears to the total Phase II Unit Participation of all Working Interest Owners in all Tracts qualifying under Section 13 (a), as such Unit Participation is determined from the Tract Participation set out in Exhibit "C".

(c) Each Tract as to which Working Interest Owners owning less than one hundred percent (100%) of the Working Interest therein have become parties hereto, regardless of the percentage of Royalty Interest therein which is committed hereto and, further, as to which:

(i) The Working Interest Owner operating any such Tract and all of the other Working Interest Owners in such Tract who have become parties hereto have joined in a request for the commitment of such Tract to this Agreement and have executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless the other Working Interest Owners in the Unit Area, their successors and assigns, against all claims and demands which may be made by the owners of Working Interest in such Tract who are not parties hereto and which arise out of the commitment of such Tract to this Agreement, and

(ii) Seventy-five percent (75%) of the combined voting interests of Working Interest Owners in all Tracts meeting the requirements of Section 13 (a) and (b) have voted in favor of the commitment of such Tract and acceptance of the indemnity agreement.

For the purposes of this Section 13 (c), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in percent) which its aggregate Phase II Unit Participation in all Tracts qualifying under Section 13 (a) and 13 (b) bears to the total Phase II Unit Participation of all Working Interest Owners in all Tracts qualifying under Section 13 (a) and (b), as such Unit Participation is determined from the Tract Participations set out in Exhibit "C". Upon the commitment of such a Tract to this Agreement, the Unit Participation that would have been attributed to the nonsubscribing owners of the Working Interest in such Tract, had they become parties to this Agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such Tract who have become parties to such agreements in proportion to their respective Working Interests in the Tract.

(d) Within sixty (60) days after the requirements for commencement of Phase II have been met, the Unit Operator will notify the Oil and Gas Division of the New Mexico State Land Office of such conversion to Phase II.

SECTION 14. ALLOCATION OF UNITIZED SUBSTANCES: All Unitized Substances produced and saved from the committed Tracts within the Unit Area (less, save and except any part of such Unitized Substances which is used in conformity with good operating practices on the Unit Area for drilling, operating, camp and other production, development and pressure maintenance purposes, or which is unavoidably lost) shall be apportioned among and allocated to the committed Tracts within the Unit Area in accordance with the Tract Participation effective hereunder during the respective periods, either Phase I or Phase II, in which such Unitized Substances were produced, as such Tract Participation is shown in Exhibit "C" or any revision thereof. The amount of Unitized Substances so allocated to each Tract, and only that amount (regardless of whether it be more or less than the amount of the actual production of Unitized Substances from the well or wells, if any, on such Tract) shall, for all intents, 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 hereto entitled to share in the production from such Tract in the same manner, in the same proportions, and upon the same conditions, as they would have participated and shared in the production from such Tract, or

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 heretofore provided shall be subsequently excluded from participation hereunder on account of depletion of Unitized Substances from such Tract.

If the Working Interest or the Royalty Interest in any Tract is, on or after the Effective Date hereof, divided with respect to separate parcels or portions of such Tract and owned severally by different persons, the Tract Participations assigned to such Tract shall, in the absence of a recordable instrument executed by all owners and furnished to Unit Operator fixing the divisions of ownership, be divided among such parcels or portions in proportion to the number of surface acres in each.

The Unitized Substances allocated to each Tract shall be delivered in kind to the respective Working Interest Owners and parties entitled thereto by virtue of the ownership of oil and gas rights therein or by purchase from such owners. Each Working Interest Owner and the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same as it sees fit. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose on the Unit Area, provided the same are so constructed, maintained and operated as not to interfere with operations carried on pursuant hereto or with operations upon or with regard to formations other than the Unitized Formation conducted within the Unit Area. Subject to Section 16, Royalty Settlement, 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 (excepting the State of New Mexico) receiving the same in kind.

If any party fails to take in kind or separately dispose of its proportionate share of Unitized Substances, Unit Operator shall have the right, for the time being and subject to revocation at will by the party owning the share, to purchase for its own account or sell to others such share at not less than the prevailing market price in the area for like production; 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 (1) year. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to the party entitled thereto.

Any party receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any Tract, or receiving the proceeds therefrom, shall be responsible for making payment of all royalty to the parties entitled thereto, and shall indemnify all parties hereto, including Unit Operator, against any liability for all royalties, overriding royalties, production payments, and all other payments chargeable against or payable out of such Unitized Substances or the proceeds therefrom.

SECTION 15. OIL IN LEASE TANKAGE ON EFFECTIVE DATE: Unit Operator shall make a proper and timely gauge of all lease 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 been produced legally shall be and remain the property of the Working Interest Owner entitled thereto the same as if the Unit had not been formed; and such Working Interest Owner shall promptly remove said oil from the Unit Area. Any such oil not so removed shall be sold by Unit Operator for the account of such Working Interest Owner, subject to the payment of all royalty to Royalty Owners under the terms and provisions of the Unit Agreement and any applicable lease or leases and other contracts. All such oil as is

in excess of the prior allowable of the well or wells from which the same was produced shall be regarded and treated the same as Unitized Substances produced after the Effective Date hereof. If, as of the Effective Date hereof, any Tract is overproduced with respect to the allowable of the well or wells on the Tract and the amount of such overproduction has been sold or otherwise disposed of, such overproduction shall be regarded and included as a part of the Unitized Substances produced after the Effective Date hereof and the amount thereof charged to such Tract as having been delivered to the persons entitled to Unitized Substances allocated to such Tract.

SECTION 16. ROYALTY SETTLEMENT: The State of New Mexico and all Royalty Owners who, under existing contracts, are entitled to take in kind a share of the substances produced from any Tract unitized hereunder, shall hereafter be entitled 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 Interests not taken in kind shall be made by Working Interest Owners responsible therefore, 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 their leases, except such Royalty shall be computed in accordance with the terms of this Unit Agreement.

If any Outside Substance, consisting of hydrocarbon natural gases or carbon dioxide or other nonhydrocarbon Outside Substance, is introduced into the Unitized Formation for use in pressure maintenance, stimulation of production or increasing ultimate recovery, which shall be in conformity with a plan first approved by the Commissioner and the Division, a like amount of such Outside Substance (to be accounted for on a FIFO basis) less appropriate deductions for loss from any cause, may be withdrawn from the Unitized Formation royalty free, except for Unitized Substances extracted therefrom; provided that such withdrawal shall be pursuant to such conditions and formula as may be prescribed or approved by the Commissioner and Division; provided further, that such right of withdrawal shall terminate on the termination of this Agreement. If any Outside Substance, which prior to injection is liquefied petroleum gas or other liquid hydrocarbon, is injected into the Unitized Formation for the purpose of increasing the ultimate recovery, which shall be in conformance with a plan first approved by the Commissioner and Division; part or all of such liquefied petroleum gas or other liquid hydrocarbon may be withdrawn royalty free pursuant to such conditions and formula as may be prescribed or approved by the Commissioner and Division.

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

SECTION 17. 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, or may be reduced or suspended under order of the Commissioner pursuant to applicable laws and regulations.

SECTION 18. 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 State laws and regulations. The use of fresh water

in waterflood operations is prohibited unless expressly approved by the Commissioner of Public Lands on the basis of excessive technological or financial burden.

SECTION 19. DRAINAGE: The Unit Operator shall take appropriate and adequate measures to prevent drainage of Unitized Substances from Unitized Lands by wells on land not subject to this Agreement, or, with consent of the Commissioner and pursuant to applicable regulations, pay a fair and reasonable compensatory royalty as determined by the Commissioner.

SECTION 20. 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 Commissioner, as to State leases, shall by his approval hereof, or by the approval hereof by his duly authorized representative, does hereby establish, alter, change or revoke the drilling, producing, rental, minimum royalty and royalty requirements of 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 and every part or separately owned Tract subject to this Agreement, regardless of whether there is any development of any particular part or Tract of the Unit Area, notwithstanding anything to the contrary in the 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, secondary recovery or enhanced oil recovery operations performed hereunder upon any Tract of Unitized Lands shall be accepted and deemed to be performed upon and for the benefit of each and every Tract, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on land therein embraced.

(c) Suspension of drilling or producing operations on all Unitized Land pursuant to direction or consent of the Commissioner and Division, or their duly authorized representatives, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every Tract of Unitized Lands.

(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 terms of this Agreement.

(e) Termination of this Agreement shall not affect any lease which, pursuant to the terms thereof or any applicable laws, shall continue in force and effect thereafter.

(f) Any lease which is made subject to this Agreement shall continue in force beyond the term provided therein as to the lands committed hereto as long as such lands remain subject hereto.

(g) 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 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 secondary 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, and so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

SECTION 21. COVENANTS RUN WITH LAND: The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this Agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee or other successor in interest. No assignment or transfer of any Working Interest 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 of 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 of transfer.

SECTION 22. 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 as of 7:00 A.M. on the first day of the month next following:

(a) The execution or ratification of this Agreement and the Unit Operating Agreement by Working Interest Owners having a combined Phase II Unit Participation of at least seventy-five percent (75%), and the execution or ratification of this Agreement by Royalty Owners owning a combined interest of at least seventy percent (70%) of the Phase II Royalty Interest in said Unit Area; and

(b) The approval of this Agreement by the Commissioner and the Division; and

(c) The filing of at least one (1) counterpart of this Agreement for record in the office of the County Clerk of Lea County, New Mexico, by the Unit Operator; and

(d) The filing in the office of the County Clerk of Lea County, New Mexico, of a certificate by Unit Operator to the effect that (a), (b) and (c) above have been accomplished, and stating the Effective Date hereof;

and provided, further, that if (a), (b), (c) and (d) above are not accomplished on or before January 1, 1993 , this Agreement shall terminate ipso facto on said date (hereinafter called "Termination Date") and thereafter be of no further force or effect, unless prior thereto this Agreement has been executed or ratified by Working Interest Owners having a combined Phase II Unit Participation of at least sixty-five percent (65%) and the Working Interest Owners having a combined Phase II Unit Participation of at least seventy-five percent (75%) committed to this Agreement have decided to extend the Termination Date for a period not to exceed one (1) year (hereinafter called "Extended Termination Date"). If said Termination Date is so extended and (a), (b), (c) and (d) above are not accomplished on or before said Extended Termination Date, this Agreement shall terminate ipso facto on said Extended Termination Date and thereafter be of no further force or effect.

The term of this Agreement shall be for and during the time that Unitized Substances are produced in paying quantities from the Unit Area and as long thereafter as diligent drilling, reworking or other operations (including secondary recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days, and as long thereafter as Unitized Substances are produced as aforesaid, unless sooner terminated by Working Interest Owners in the manner hereinafter provided.

This Agreement may be terminated at any time with the approval of the Commissioner by Working Interest Owners having at least eighty percent (80%) Phase II Unit Participation, as determined from Exhibit "C". Notice of such termination shall be given by Unit Operator to all parties hereto.

Unit Operator shall within thirty (30) days after the Termination Date of this Agreement, file for record in the office where a counterpart of this Agreement is recorded, a certificate to the effect that this Agreement has terminated according to its terms and stating further the Termination Date.

If not otherwise covered by the leases unitized under this Agreement, Royalty Owners hereby grant Working Interest Owners a period of six (6) 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 23. APPEARANCES: Unit Operator shall have the right to appear for or on behalf of any and all interests affected hereby before the Commissioner and the Division, and to appeal from any order issued under the rules and regulations of the Commissioner or the Division, or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Commissioner 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 proceedings.

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

SECTION 25. NO WAIVER OF CERTAIN RIGHTS: Nothing in this Agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State of New Mexico or rules 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 during the existence of this Agreement such party will not resort to any action at law or in equity to partition the Unit Area or the facilities used in the development or operation hereof and to that extent waives the benefits of all laws authorizing such partition.

SECTION 26. LOSS OF TITLE: In the event that any Tract ceases to have sufficient Working Interest Owners committed to this Agreement to meet the conditions of Section 13, Tracts Qualified for Unit Participation, because of failure of title of any party hereto, such Tract shall be automatically regarded as not committed to this Agreement, effective as of 7:00 A.M. on the first day of the calendar month in which the failure of title is finally determined; provided, however, that such Tract shall not be so regarded if said Tract can be requalified for admission under Section 13 within ninety (90) days after the date on which such title failure was finally determined.

If any such Tract cannot be so requalified, Unit Operator shall revise the schedule previously filed with the Commissioner setting forth the Tracts committed hereto, and Unit Operator shall revise Exhibit "C" to show the tracts in the Unit Area that remain committed hereto and the Tract Participation of each of said Tracts, which revised Tract Participation shall be calculated and determined on the basis that the Tract Participation of each of said Tracts shall remain in the same ratio one to the other. Copies of the revised schedule and exhibit shall be filed with the Commissioner and same shall be effective as of 7:00 A.M. on the first day of the calendar month in which such failure of title is finally determined.

If title to a Working Interest fails, the rights and obligations of Working Interest Owners by reason of such failure shall be governed by the Unit Operating Agreement. If title to a Royalty Interest fails, but the Tract to which it relates remains committed to this Agreement, the party whose title failed shall not be entitled to participate hereunder insofar as its participation is based on such lost Royalty Interest.

In the event of a dispute as to the title to any Working Interest or Royalty Interest subject hereto, payment or delivery on account thereof may be withheld without liability or interest until the dispute is finally settled; provided, that as to the State land or leases, no payments of funds due the State of New Mexico shall be withheld, but such funds shall be deposited as directed by the Commissioner to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

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

SECTION 27. NONJOINDER AND SUBSEQUENT JOINDER: As the objective of this Unit Agreement is to have lands in the Unit Area operated and entitled to participation under the terms hereof, it is agreed that, notwithstanding anything else herein, no joinder shall be considered a commitment to this Unit Agreement unless the Tract involved is qualified under Section 13 hereof, Tracts Qualified for Unit Participation. Joinder in the Unit Agreement by a Working Interest Owner, at any time, must be accompanied by appropriate joinder to the Unit Operating Agreement in order for the interest to be regarded as effectively committed to this Unit Agreement. Joinder by any owner of a Royalty Interest, at any time, must be accompanied by appropriate joinder by the corresponding Working Interest in order for the interest to be regarded as committed hereto.

Any oil or gas interest in the Unitized Formation in lands within

the Unit Area not committed hereto prior to final approval of this Agreement by the Commissioner may thereafter be committed hereto upon compliance with the applicable provisions of Section 13, Tracts Qualified for Unit Participation, hereof, within a period of two (2) months thereafter, on the same basis of participation as provided for in Section 12, Tract Participation, and set forth in Exhibit "C", by the owner or owners thereof subscribing 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 after two (2) months from 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 at least four (4) Working Interest Owners having a combined Phase II Unit Participation of not less than sixty-five percent (65%), provided that the Tract Participation of each previously committed Tract shall remain in the same ratio one to the other. Such joinder by a Working Interest Owner must be evidenced by its execution or ratification of this Unit Agreement and the Unit Operating Agreement. Such joinder by a Royalty Owner must be evidenced by its execution or ratification of this Unit 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 Royalty Owner. Except as may be otherwise herein provided, subsequent joinders shall be effective at 7:00 A.M. of the first day of the month following the filing with the Commissioner of duly executed documents necessary to establish effective commitment, unless reasonable objection to such joinder by the Commissioner is duly made within sixty (60) days after such filing. Notwithstanding any of the provisions to the contrary, all commitments of State of New Mexico land must be approved by the Commissioner.

SECTION 28. 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 lands within the above described Unit Area.

SECTION 29. JOINDER COMMITMENT: Execution as herein provided by any party either as a Working Interest Owner or as a Royalty Owner shall commit all interests that may be owned or controlled by such party.

SECTION 30. 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 such taxes shall be charged to the State of New Mexico or to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

SECTION 31. PERSONAL PROPERTY EXCEPTED: All lease and well equipment, materials and other facilities heretofore or hereafter placed by any of the Working Interest Owners on the lands covered hereby shall be deemed to be and shall remain personal property belonging to and may be removed by the Working Interest Owners. The rights and interest therein as among Working Interest Owners

are covered by the Unit Operating Agreement.

SECTION 32. 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 33. CORRECTION OF ERRORS: It is hereby agreed by all parties to this Agreement that Unit Operator is empowered to correct any mathematical or clerical errors which may exist in the pertinent exhibits to this Agreement; provided, however, that correction of any error other than mathematical or clerical shall be made by Unit Operator only after first having obtained approval of Working Interest Owners having a combined Phase II Unit Participation of sixty-five percent (65%) or more and the Commissioner.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the first date above written and have set opposite their respective names the date of execution.

UNIT OPERATOR AND WORKING INTEREST OWNER:

TEXACO EXPLORATION AND PRODUCTION INC.

By: _____
Attorney-In-Fact

Date of Execution:

_____

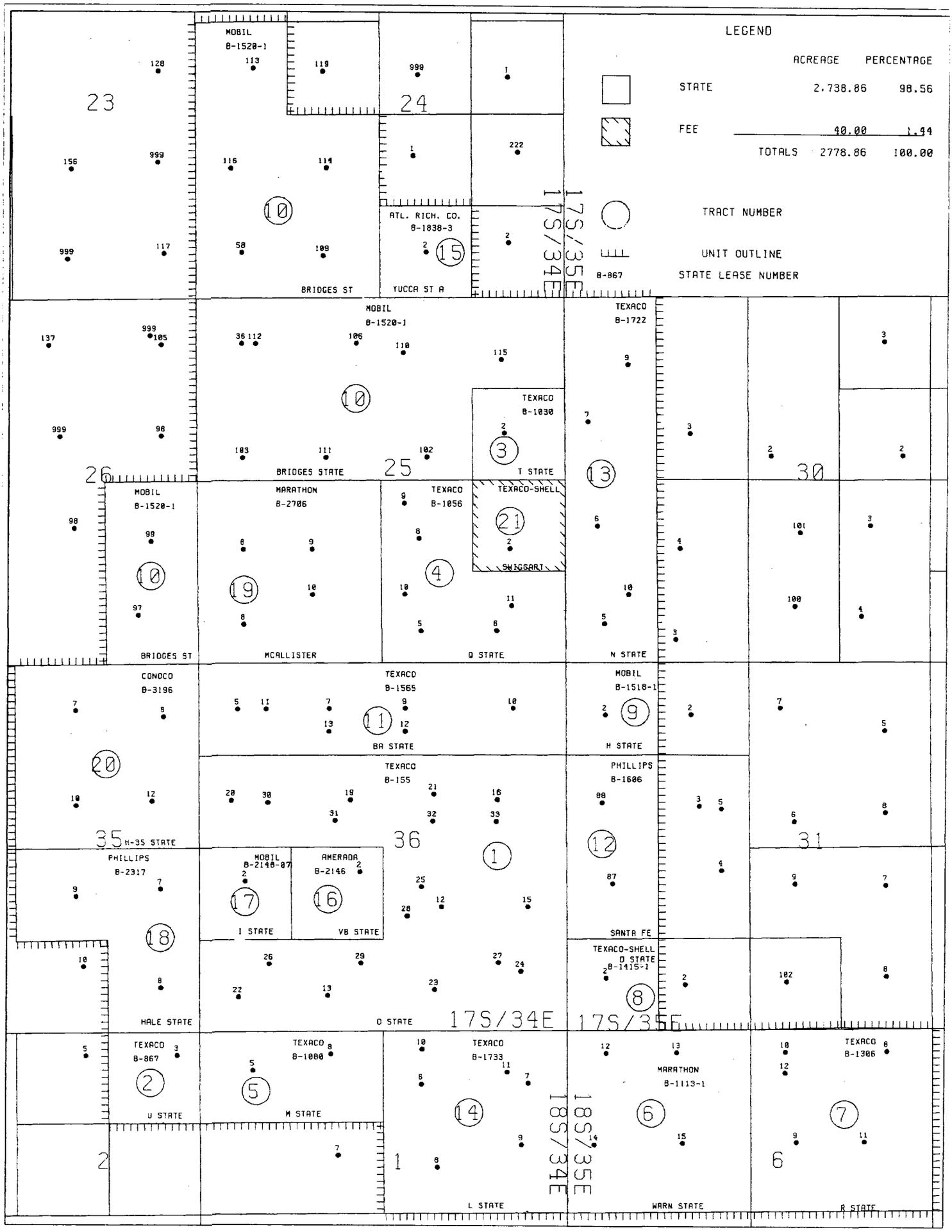
THE STATE OF TEXAS {
{
COUNTY OF MIDLAND {

The foregoing instrument was acknowledged before me this ___ day of _____, 1992, by _____, Attorney-in-Fact for Texaco Exploration and Production Inc., a Delaware Corporation, on behalf of said corporation.

My Commission Expires:

_____

_____
Notary Public in and for
the State of Texas



TEXACO MIDLAND PRODUCING

MIDLAND TEXAS U.S.A.

VACUUM GLORIETA WEST UNIT
LEA COUNTY, NEW MEXICO
EXHIBIT "A"

SCALE 1"=1639'	DRAWN M. MULLINS/R. GOON	DATE 16-JAN-92
DRAWING		

EXHIBIT "B"
SCHEDULE SHOWING ALL LANDS AND LEASES
WITHIN THE VACUUM GLORIETA WEST UNIT AREA
LEA COUNTY, NEW MEXICO

STATE LANDS

TRACT NO. AND TRACT NAME	DESCRIPTION OF LAND	ACRES	SERIAL NO. AND EFFECTIVE DATE	BASIC ROYALTY OWNER AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY OWNER AND PERCENTAGE	WORKING INTEREST OWNER AND PERCENTAGE	BENEFICIARY
1 NEW MEXICO "O" STATE	SW/4 NE/4, SE/4 NE/4, SW/4 NW/4, SE/4 NW/4, SW/4 SW/4, SE/4 SW/4, NE/4 SE/4, NW/4 SE/4, SW/4 SE/4, SE/4 SE/4 SECTION 36, T17S-R34E	400.00	B-155-6 HBP 08-14-31	COMMISSIONER OF PUBLIC LANDS NM 12.50	TEXACO EXPLORATION AND PRODUCTION INC. 100.00		TEXACO EXPLORATION AND PRODUCTION INC. 100.00	C.S.
2 NEW MEXICO "U" STATE	LOT 1, SECTION 2, T18S-R34E	40.92	B-867-2 HBP 05-06-32	COMMISSIONER OF PUBLIC LANDS NM 12.50	TEXACO EXPLORATION AND PRODUCTION INC. 100.00		TEXACO EXPLORATION AND PRODUCTION INC. 100.00	C.S.
3 NEW MEXICO "T"	SE/4 NE/4 SECTION 25, T17S-R34E	40.00	B-1030-2 HBP 07-11-32	COMMISSIONER OF PUBLIC LANDS NM 12.50	TEXACO EXPLORATION AND PRODUCTION INC. 100.00		TEXACO EXPLORATION AND PRODUCTION INC. 100.00	Mil. Inst.
4 NEW MEXICO "Q" STATE	NW/4 SE/4, SW/4 SE/4, SE/4 SE/4 SECTION 25, T17S-R34E	120.00	B-1056-2 HBP 07-16-32	COMMISSIONER OF PUBLIC LANDS NM 12.50	TEXACO EXPLORATION AND PRODUCTION INC. 100.00		TEXACO EXPLORATION AND PRODUCTION INC. 100.00	Mil. Inst.
5 NEW MEXICO "M"	LOTS 3, 4, SECTION 1, T18S-R34E	81.58	B-1080-2 HBP 07-30-32	COMMISSIONER OF PUBLIC LANDS NM 12.50	TEXACO EXPLORATION AND PRODUCTION INC. 100.00		TEXACO EXPLORATION AND PRODUCTION INC. 100.00	C.S.

EXHIBIT "B"
SCHEDULE SHOWING ALL LANDS AND LEASES
WITHIN THE VACUUM GLORIETA WEST UNIT AREA
LEA COUNTY, NEW MEXICO
STATE LANDS

TRACT NO. AND TRACT NAME	DESCRIPTION OF LAND	ACRES	SERIAL NO. AND EFFECTIVE DATE	BASIC ROYALTY OWNER AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY OWNER AND PERCENTAGE	WORKING INTEREST OWNER AND PERCENTAGE	BENEFICIARY
6 WARN STATE	LOTS 3, 4, 5, SE/4 NW/4 SECTION 6, T18S-R35E	154.94	B-1113-1 HBP 08-10-32	COMMISSIONER OF PUBLIC LANDS NM 12.50	MARATHON OIL COMPANY 100.00		MARATHON OIL COMPANY 100.00	C.S.
7 NEW MEXICO "R"	LOTS 1, 2, SW/4 NE/4, SE/4 NE/4 SECTION 6, T18S-R35E	160.00	B-1306-2 HBP 11-10-32	COMMISSIONER OF PUBLIC LANDS NM 12.50	TEXACO EXPLORATION AND PRODUCTION INC. 100.00		TEXACO EXPLORATION AND PRODUCTION INC. 100.00	C.S.
8 STATE "D"	LOT 4, SECTION 31, T17S-R35E	37.42	B-1415-2 HBP 12-03-32	COMMISSIONER OF PUBLIC LANDS NM 12.50	SHELL WESTERN E & P INC. 100.00		TEXACO EXPLORATION AND PRODUCTION INC. 100.00	C.S.
9 STATE "H"	LOT 1, SECTION 31, T17S-R35E	37.56	B-1518-1 HBP 12-21-32	COMMISSIONER OF PUBLIC LANDS NM 12.50	MOBIL PRODUCING TEXAS & NEW MEXICO INC. 100.00		MOBIL PRODUCING TEXAS & NEW MEXICO INC. 100.00	C.S.
10 BRIDGES STATE	SW/4, SW/4 NW/4 SECTION 24; NW/4, N/2 NE/4, SW/4 NE/4 SECTION 25; E/2 SE/4 SECTION 26; T17S-R34E	560.00	B-1520-1 HBP 12-21-32	COMMISSIONER OF PUBLIC LANDS NM 12.50	MOBIL PRODUCING TEXAS & NEW MEXICO INC. 100.00		MOBIL PRODUCING TEXAS & NEW MEXICO INC. 100.00	Sections 24 & 26 C.S. Section 25 Mil. Inst.

EXHIBIT "B"
SCHEDULE SHOWING ALL LANDS AND LEASES
WITHIN THE VACUUM GLORIETA WEST UNIT AREA
LEA COUNTY, NEW MEXICO

STATE LANDS

TRACT NO. AND TRACT NAME	DESCRIPTION OF LAND	ACRES	SERIAL NO. AND EFFECTIVE DATE	BASIC ROYALTY OWNER AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY OWNER AND PERCENTAGE	WORKING INTEREST OWNER AND PERCENTAGE	BENEFICIARY
11 STATE "BA"	NE/4 NE/4, NW/4 NE/4, NE/4 NW/4, NW/4 NW/4 SECTION 36, T17S-R34E	160.00	B-1565-8 HBP 12-29-32	COMMISSIONER OF PUBLIC LANDS NM 12.50	TEXACO EXPLORATION AND PRODUCTION INC. 100.00		TEXACO EXPLORATION AND PRODUCTION INC. 100.00	C.S.
12 SANTA FE	SW/4 NW/4, NW/4 SW/4 SECTION 31, T17S-R35E	74.98	B-1606 HBP 01-10-33	COMMISSIONER OF PUBLIC LANDS NM 12.50	PHILLIPS PETROLEUM COMPANY 100.00		PHILLIPS PETROLEUM COMPANY 100.00	C.S.
13 NEW MEXICO "N" STATE	LOTS 1, 2, 3, 4, SECTION 30, T17S-R35E	150.56	B-1722-2 HBP 02-13-33	COMMISSIONER OF PUBLIC LANDS NM 12.50	TEXACO EXPLORATION AND PRODUCTION INC. 100.00		TEXACO EXPLORATION AND PRODUCTION INC. 100.00	C.S.
14 NEW MEXICO "L" STATE	LOTS 1, 2, SW/4 NE/4, SE/4 NE/4 SECTION 1, T18S-R34E	160.90	B-1733-2 HBP 02-17-33	COMMISSIONER OF PUBLIC LANDS NM 12.50	TEXACO EXPLORATION AND PRODUCTION INC. 100.00		TEXACO EXPLORATION AND PRODUCTION INC. 100.00	C.S.
15 STATE "A"	SW/4 SE/4 SECTION 24, T17S-R34E	40.00	B-1838-3 HBP 03-31-33	COMMISSIONER OF PUBLIC LANDS NM 12.50	ATLANTIC RICHFIELD COMPANY 100.00	ARCO OIL AND GAS COMPANY 12.50	*TEXACO EXPLORATION AND PRODUCTION INC. 100.00 *TITLE CURATIVE IN PROGRESS INVOLVING WORKING INTEREST OWNERSHIP ONLY	C.S.

EXHIBIT "B"
SCHEDULE SHOWING ALL LANDS AND LEASES
WITHIN THE VACUUM GLORIETA WEST UNIT AREA
LEA COUNTY, NEW MEXICO

STATE LANDS

TRACT NO. AND TRACT NAME	DESCRIPTION OF LAND	ACRES	SERIAL NO. AND EFFECTIVE DATE	BASIC ROYALTY OWNER AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY OWNER AND PERCENTAGE	WORKING INTEREST OWNER AND PERCENTAGE	BENEFICIARY
16 STATE "VB"	NE/4 SW/4 SECTION 36, T17S-R34E	40.00	B-2146-6 HBP 09-19-33	COMMISSIONER OF PUBLIC LANDS NM 12.50	AMERADA HESS CORPORATION 100.00		AMERADA HESS CORPORATION 100.00	C.S.
17 STATE "I"	NW/4 SW/4 SECTION 36, T17S-R34E	40.00	B-2146-07 HBP 09-19-33	COMMISSIONER OF PUBLIC LANDS NM 12.50	MOBIL PRODUCING TEXAS & NEW MEXICO INC. 100.00		MOBIL PRODUCING TEXAS & NEW MEXICO INC. 100.00	C.S.
18 M. E. HALE	N/2 SE/4, SE/4 SE/4 SECTION 35, T17S-R34E	120.00	B-2317-1-A HBP 12-18-33	COMMISSIONER OF PUBLIC LANDS NM 12.50	PHILLIPS PETROLEUM COMPANY 100.00	CRESENT P. HALE FOUNDATION 6.25	PHILLIPS PETROLEUM COMPANY 100.00	Mil. Inst.
19 McALLISTER STATE	SW/4 SECTION 25, T17S-R34E	160.00	B-2706 HBP 05-28-34	COMMISSIONER OF PUBLIC LANDS NM 12.50	MARATHON OIL COMPANY 100.00		MARATHON OIL COMPANY 100.00	Mil. Inst.
20 STATE H-35	NE/4 SECTION 35, T17S-R34E	160.00	B-3196 HBP 08-10-34	COMMISSIONER OF PUBLIC LANDS NM 12.50	CONOCO INC. 100.00		CONOCO INC. 100.00	Mil. Inst.

20 STATE TRACTS - 2738.86 ACRES OR 98.56% OF UNIT AREA

EXHIBIT "B"
SCHEDULED SHOWING ALL LANDS AND LEASES
WITHIN THE VACUUM GLORIETA WEST UNIT AREA
LEA COUNTY, NEW MEXICO

FEE LANDS

TRACT NO. AND TRACT NAME	DESCRIPTION OF LAND	ACRES	LEASE STATUS	BASIC ROYALTY OWNER AND PERCENTAGE		OVERRIDING ROYALTY OWNER AND PERCENTAGE	WORKING INTEREST OWNER AND PERCENTAGE		BENEFICIARY
21 L. A. SWIGART	NE/4 SE/4 SECTION 25, T17S-R34E	40.00	HBP	STEPHANIE ALDEMIR SARA C. BURNS CHRISTINE CAMPOS NORMAN GROSS & MARJORIE G. GROSS KATHLEEN ROBBINS RONALD ROBBINS EARL J. WATERS	.0069444 .0312500 .0069444 .0312500 .0208334 .0069444 .0208334		TEXACO EXPLORATION AND PRODUCTION INC.	100.00	

1 FEE TRACT - 40 ACRES OR 1.44% OF UNIT AREA

RECAPITULATION

FEDERAL LANDS:	-0-	
STATE LANDS:	2738.86 ACRES OR	98.56%
FEE LANDS:	40.00 ACRES OR	1.44%
	2778.86 ACRES	100.00%

EXHIBIT "C"

SCHEDULE OF TRACT PARTICIPATION

VACUUM GLORIETA WEST UNIT AREA
LEA COUNTY, NEW MEXICO

TRACT NO.	PHASE I (%)	PHASE II (%)
1	28.0114	25.5486
2	0.1228	0.2866
3	1.2684	1.5268
4	4.7730	3.8195
5	0.8135	1.5612
6	9.6622	7.2109
7	1.5773	2.6784
8	0.4516	1.2675
9	0.3202	1.0711
10	9.4006	14.5533
11	8.5163	4.9520
12	0.7075	1.7495
13	1.7032	3.2078
14	4.2522	5.5855
15	0.2022	0.5513
16	9.4275	4.5077
17	1.5262	1.6332
18	2.7300	3.2850
19	5.9964	7.9976
20	8.1535	5.8708
21	0.3840	1.1357
TOTALS	**100.0000**	**100.0000**

UNIT OPERATING AGREEMENT

VACUUM GLORIETA WEST UNIT AREA

LEA COUNTY, NEW MEXICO

EXHIBIT "C"

UNIT OPERATING AGREEMENT
VACUUM GLORIETA WEST UNIT AREA
LEA COUNTY, NEW MEXICO

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UNIT OPERATING AGREEMENT

VACUUM GLORIETA WEST UNIT AREA

LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of June, 1992, by the parties who have signed the original of this instrument, a counterpart thereof or other instrument agreeing to be bound by the provisions hereof;

W I T N E S S E T H:

WHEREAS, the parties hereto, as Working Interest Owners have executed that certain agreement entitled "Unit Agreement for the Development and Operation of the Vacuum Glorieta West Unit Area, Lea County, New Mexico", hereinafter referred to as "Unit Agreement", and which, among other things, provides for a separate agreement to be made and entered into by and between Working Interest Owners to provide for Unit Operations herein defined;

NOW, THEREFORE, in consideration of the mutual agreements herein set forth, it is agreed as follows:

ARTICLE 1

CONFIRMATION OF UNIT AGREEMENT

1.1 Confirmation of Unit Agreement. The Unit Agreement is hereby confirmed and incorporated herein by reference and made a part of this Agreement. The definitions in the Unit Agreement are adopted for all purposes of this Agreement. In the event of any conflict between the Unit Agreement and this Agreement, the Unit Agreement shall prevail. For the purposes of this Agreement, the following additional definitions are incorporated to supplement those definitions set forth in Section 2 of the Unit Agreement:

(r) "Oil and Gas Rights" is defined as 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) "Unit Operator" is defined as the Working Interest Owner designated by the other Working Interest Owners under Section

6 of the Unit Agreement to conduct Unit Operations.

(t) "Unit Operations" is defined as any operation conducted pursuant to the Unit Agreement and this Agreement.

(u) "Unit Equipment" is defined as 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.

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

(w) "Effective Date" is defined as the date determined in accordance with Section 22 of the Unit Agreement.

ARTICLE 2

EXHIBITS

2.1 Exhibits. The following exhibits are incorporated herein by reference or attachment:

2.1.1 Exhibits "A", "B" and "C" of the Unit Agreement.

2.1.2 Exhibit "D", attached hereto, is a summary showing each Working Interest Owner's Phase I and Phase II Working Interest in each Tract, the percentage of total Phase I and Phase II Unit Participation attributable to each such interest, and the total Phase I and Phase II Unit Participation of each Working Interest Owner.

2.1.3 Exhibit "E", attached hereto, contains insurance provisions applicable to Unit Operations.

2.1.4 Exhibit "F", attached hereto, is the Accounting Procedure applicable to Unit Operations. In the event of conflict between this Agreement and Exhibit "F", this Agreement shall prevail.

2.1.5 Exhibit "G", attached hereto, contains Certificate of Compliance provisions provided for in Article 21.

2.1.6 Exhibit "H", attached hereto, is the Gas

Balancing Agreement applicable to Unit Operations.

2.1.7 Exhibit "I", attached hereto, contains a listing of the demand wells and locations.

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

2.3 Reference to Exhibits. When reference is made herein to an exhibit, it is to the exhibit as originally attached or, if revised, to the last revision.

ARTICLE 3

SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

3.1 Overall Supervision. Subject to the other terms and provisions of this Agreement and of the Unit Agreement, Working Interest Owners shall exercise overall supervision and control of all matters pertaining to the Unit Operations pursuant to this Agreement and the Unit Agreement. In the exercise of such power, each Working Interest Owner shall act solely in its own behalf in the capacity of an individual owner and not on behalf of the owners as an entirety.

3.2 Particular Powers and Duties. The Working Interest Owners, using the voting procedures given in Section 4.3, unless otherwise specifically provided in this Agreement or in the Unit Agreement, shall decide matters pertaining to Unit Operations which include, but are not limited to, the following:

3.2.1 Method of Operation. The kind, character and method of operation, including any type of pressure maintenance, secondary recovery or other enhanced recovery program to be employed.

3.2.2 Drilling of Wells. The drilling, deepening, or sidetracking of any well within the Unit Area for the production of Unitized Substances; and the drilling of any

well for injection, salt water disposal or for any other Unit purpose.

3.2.3 Well Workovers and Conversion of Wells. The reworking, recompleting or repairing of any well for the purpose of production of Unitized Substances reasonably estimated to require an expenditure in excess of the expenditure limitation specified in Section 3.2.4 hereinbelow and the abandonment or conversion of the use of any well from one purpose to another or the use of any such well for injection or any other purpose other than production. Unit Operator shall have the right to shut-in, temporarily abandon, or reactivate a well which was shut-in or temporarily abandoned to its former use, with notification to the Working Interest Owners, if doing so is reasonably estimated to require an expenditure not in excess of the expenditure limitation specified in Section 3.2.4 hereinbelow.

3.2.4 Expenditures. Making of any single expenditure in excess of fifty thousand dollars ($50,000.00), except as provided in Section 7.9 hereof; provided that approval by Working Interest Owners for the drilling, sidetracking, reworking, drilling deeper or plugging back of any well shall include approval of all necessary expenditures required therefor and for completing, testing and equipping the same, including necessary flow lines, separators and lease tankage and the authority for expenditure (AFE) for such work shall contain the estimated cost of all necessary expenditures.

3.2.5 Amendment of Overhead Rates. The overhead rates, as provided for in Section III of Exhibit "F" attached hereto, shall be amended from time to time by affirmative vote of the parties as set out in Section 4.3.2 hereof.

3.2.6 Disposition of Surplus Facilities. Selling or otherwise disposing of any major item of surplus unit material or equipment, if the current list price of new equipment similar thereto is twenty-five thousand dollars ($25,000.00) or more.

3.2.7 Appearance Before a Court or Regulatory Body. The designating of a representative to appear before any court or regulatory body in matters pertaining to Unit Operations; provided, however, that the authorization by Working Interest Owners of the designation of any such representatives shall not prevent any Working Interest Owner from appearing in person or from designating another representative in its own behalf.

3.2.8 Audit Exceptions. Any unresolved audit exceptions shall be provided for in accordance with COPAS Bulletin No. 3.

3.2.9 Assignments to Committees. The appointment or designation of committees or subcommittees necessary for the study of any problem in connection with Unit Operations.

3.2.10 Selection of Successor to Unit Operator. The selection of a successor to the Unit Operator.

3.2.11 Enlargement of Unit Area. The enlargement of the Unit Area.

3.2.12 Investment Adjustment. The adjustment and readjustment of investments.

3.2.13 Acquisition of Wells for Unit Operations. Acquisition of wells for Unit Operations.

3.2.14 Termination of Unit Agreement. The termination of the Unit Agreement.

ARTICLE 4

MANNER OF EXERCISING SUPERVISION

4.1 Designation of Representatives. Each Working Interest Owner shall advise Unit Operator in writing the names and addresses of its representative and alternate who are authorized to represent and bind it in respect to any matter pertaining to the development and operation of the Unit Area. Such representative or alternate may be changed from time to time by written notice to Unit Operator.

4.2 Meetings. All meetings of Working Interest Owners for the purpose of considering and acting upon any matter pertaining to

the development and operation of the Unit Area shall be called by Unit Operator upon its own motion or at the request of two or more Working Interest Owners having a total Unit Participation of not less than ten percent (10%). No meeting shall be called on less than fourteen (14) days' advance written notice, with agenda for the meeting attached, unless notice is waived by ninety percent (90%) or more of the Unit Participation. The Working Interest Owners attending such meeting shall not be prevented from amending items included in the agenda or from deciding such amended item or other items presented at such meeting. Any item proposed at a meeting that was not included on the agenda or any amended agenda item cannot be brought to a vote at said meeting, but will require approval by a poll vote or a subsequent meeting. The representative of Unit Operator shall be Chairman of each meeting.

4.3 Voting Procedure. Working Interest Owners shall act upon and determine all matters coming before them, as follows:

4.3.1 Voting Interest. Each Working Interest Owner shall have a voting interest equal to its Phase II Unit Participation, listed in Exhibit "D" attached hereto.

4.3.2 Vote Required. Unless otherwise provided herein or in the Unit Agreement, Working Interest Owners shall determine all matters by the affirmative vote of two (2) or more Working Interest Owners having a combined voting interest of at least seventy percent (70%); however, should any one Working Interest Owner have more than thirty percent (30%) voting interest, its negative vote or failure to vote shall not defeat a motion and such motion shall pass if approved by Working Interest Owners having a majority voting interest, unless one (1) or more additional Working Interest Owner, having a combined voting interest of at least five percent (5%), likewise vote against the motion or fail to vote. Unless otherwise specified in the AFE, work approved by a vote must be commenced within one (1) year of the approval date. If not commenced during this period, the work must be reproposed.

4.3.3 Vote at Meeting by Non-Attending Working Interest Owner. Any Working Interest Owner not represented at a meeting may vote on any item included in the agenda of the meeting by letter, telegram or facsimile machine, followed by U.S. Mail, addressed to the Chairman of the meeting, provided such vote is received prior to the submission of such item to vote. Such vote shall not be counted with respect to any item on the agenda which is amended at the meeting.

4.3.4 Poll Votes. Working Interest Owners may decide any matter by vote taken (without a meeting) by letter, telegram or facsimile machine, followed by U.S. Mail, provided the matter is first submitted in writing to each Working Interest Owner and no meeting on the matter is called, as provided in Section 4.2, within fourteen (14) days after such proposal is dispatched to Working Interest Owners. If a meeting is called within the fourteen (14) days, then the poll vote is canceled and the vote shall be held at the meeting. Such vote will be final and Unit Operator will give prompt notice of the results of such voting to all Working Interest Owners.

ARTICLE 5

INDIVIDUAL RIGHTS AND PRIVILEGES OF WORKING INTEREST OWNERS

5.1 Reservation of Rights. Working Interest Owners severally reserve to themselves all their rights, powers, authority and privileges, except as expressly otherwise provided in this Agreement and in the Unit Agreement.

5.2 Specific Rights. Each Working Interest Owner shall have, among others, the following specific rights and privileges:

5.2.1 Access to Unit Area. Access to the Unit Area, at all reasonable times, to inspect the operations hereunder and all wells and records and data pertaining thereto.

5.2.2 Reports by Request. The right to receive from Unit Operator, upon written request, copies of all reports to any governmental agency, reports of crude oil runs and stocks, inventory reports and all other data pertaining to Unit

Operations. The cost of gathering and furnishing data not ordinarily furnished by Unit Operator to all Working Interest Owners shall be charged solely to Working Interest Owners requesting the same.

5.2.3 Audits. The right to audit the accounts of Unit Operator according to the provisions of Exhibit "F".

ARTICLE 6

UNIT OPERATOR

6.1 Unit Operator. TEXACO EXPLORATION AND PRODUCTION INC. is hereby designated as the initial Unit Operator.

6.2 Resignation or Removal of Unit Operator. Unit Operator may resign at any time. Resignation or removal of Unit Operator shall be handled in accordance with and under the provisions of Section 7 of the Unit Agreement.

If the Unit Operator becomes insolvent, bankrupt, or is placed in receivership, it shall be deemed to have resigned without any action by Non-Operators. If a petition for relief under the federal bankruptcy laws is filed by or against Unit Operator, and the removal of the Unit Operator is prevented by the federal bankruptcy court, all Non-Operators and the Unit Operator shall comprise an interim operating committee to serve until Unit Operator has elected to reject or assume this Agreement pursuant to the Bankruptcy Code, and an election to reject this Agreement by Unit Operator as a debtor in possession, or by a trustee in bankruptcy, shall be deemed a resignation as Unit Operator without any action by Non-Operators, except the selection of a successor. During the period of time the operating committee controls Unit Operations, all actions shall require the approval of two (2) or more parties owning a majority of the Phase II Unit Participation.

If Unit Operator sells all of its interest in the Unit, it shall be deemed to have resigned without any action by Non-Operators. However, a merger or consolidation or the change of a corporate or partnership name or the sale or transfer to a subsidiary, parent company, a subsidiary of a parent company or an affiliate organization shall not be construed as a sale of all of

the Unit Operator's interest in the Unit Area.

6.3 Selection of Successor. Upon the resignation or removal of Unit Operator, a successor Unit Operator shall be selected by Working Interest Owners as provided in Section 8 of the Unit Agreement.

In the event no Working Interest Owner obtains the percentage necessary to become successor Unit Operator under Section 8 of the Unit Agreement, a Unit Manager shall be selected by a plurality of the Phase II Unit Participation and shall perform the duties of Unit Operator until a successor Unit Operator is elected.

6.4 Records and Information. The Unit Operator resigning or being removed shall give complete cooperation to the new Unit Operator or Unit Manager and shall deliver to its successor all records and information necessary to the discharge of the new Unit Operator's or Unit Manager's duties and obligations.

ARTICLE 7

POWERS AND DUTIES OF UNIT OPERATOR

7.1 Exclusive Rights to Operate Unit. Subject to the other provisions of this Agreement, and to the orders, directions and limitations rightfully given or imposed by Working Interest Owners, Unit Operator shall have the exclusive right and be obligated to conduct Unit Operations.

The parties, to the extent of their rights and interests, hereby grant to Unit Operator the right to use as much of the surface of the Unitized Land as may reasonably be necessary for Unit Operations.

7.2 Workmanlike Conduct. Unit Operator shall conduct all operations hereunder in a good and workmanlike manner and, in the absence of specific instructions from Working Interest Owners, shall have the right and duty to conduct such operations in the same manner as would a prudent operator under the same or in similar circumstances. Unit Operator shall freely consult with Working Interest Owners and keep them advised of all matters arising in connection with such operations which Unit Operator, in the exercise of its best judgment, considers important. Unit

Operator shall not be liable to Working Interest Owners for damages, unless such damages result from the gross negligence or willful misconduct of Unit Operator.

7.3 Liens and Encumbrances. Unit Operator shall reasonably endeavor to keep the land and leases in the Unit Area and the Unit Equipment free from all liens and encumbrances occasioned by its operations hereunder, except the liens of Unit Operator and Working Interest Owners granted hereunder.

7.4 Employees. The number of employees used by Unit Operator in conducting operations hereunder, the selection of such employees, the hours of labor and the compensation for services to be paid any and all such employees shall be determined by Unit Operator. Such employees shall be employed by Unit Operator.

7.5 Records. Unit Operator shall keep true and correct books, accounts and records of its operations hereunder.

7.6 Reports to Working Interest Owners. Unit Operator shall furnish to each Working Interest Owner periodic reports of the development and operation of the Unit Area.

7.7 Reports to Governmental Authorities. Unit Operator shall make all reports to governmental authorities that it has the duty to make as Unit Operator.

7.8 Engineering and Geological Information. Unit Operator shall furnish to each Working Interest Owner, upon written request, a copy of the logs of, and copies of engineering and geological data pertaining to, wells drilled for Unit Operations.

7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of fifty thousand dollars ($50,000.00) without prior approval of Working Interest Owners. This expenditure limit may be revised from time to time by an affirmative vote of two (2) or more Working Interest Owners having a combined voting interest then in effect of at least eighty percent (80%). If an emergency occurs, Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the

emergency and the action taken.

7.10 Wells Drilled by Unit Operator. All wells drilled by Unit Operator shall be at the usual rates prevailing in the area. Unit Operator may employ its own tools and equipment, but the charge therefor shall not exceed the prevailing rate in the area, and the work shall be performed by Unit Operator under the same terms and conditions as are usual in the area in contracts of independent contractors doing work of a similar nature.

7.11 Border Agreements. Unit Operator may, after approval by Working Interest Owners, enter into border agreements with respect to lands adjacent to the Unit Area for the purpose of coordinating operations.

ARTICLE 8

TAXES

8.1 Ad Valorem Taxes. Beginning with the first calendar year after the Effective Date hereof, Unit Operator shall make and file all necessary property tax renditions, whether on real or personal property, and returns with the proper taxing authorities with respect to all property of each Working Interest Owner used or held by Unit Operator for Unit Operations. Unit Operator shall settle assessments arising therefrom. All such property taxes shall be paid by Unit Operator and charged to the joint account; however, if the interest of a Working Interest Owner is subject to a separately assessed overriding royalty interest, production payment or other interest in excess of a one-eighth (1/8) royalty, such Working Interest Owner shall notify Unit Operator of such interest prior to the rendition date and shall be given credit for the reduction in taxes paid resulting therefrom. Any Working Interest Owner dissatisfied with any assessment of its interest in real or personal property shall have the right, at its own expense, and after due notice to the Unit Operator, to protest and resist any such assessment.

If the ad valorem taxes are based in whole or in part upon separate valuation of each party's Working Interest, then notwithstanding anything to the contrary herein, charges to the

joint account for ad valorem taxes shall be made and paid by the parties hereto in accordance with the percentage of tax value generated by each party's Working Interest.

8.2 Taxes and Assessments. Each Working Interest Owner shall pay or cause to be paid all production, severance, gathering and other taxes and assessments imposed upon or on account of the production or handling of its share of Unitized Substances.

8.3 Income Tax Election. Notwithstanding any provisions 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, then each of the Parties hereto elects to be excluded from the application of all of the provisions of Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1986, as permitted and authorized by Section 761 of the Code and regulations promulgated thereunder. Unit Operator is authorized and directed to execute on behalf of each of the Parties hereto such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Treasury Regulation 1.761. Should there be any requirement that each Party hereto 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. Each party hereto further agrees not to give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state in which the Unit Area is located or any future income tax law of the United States contain provisions similar to those in Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1986, under which an election similar to that provided by Section 761 of the Code is permitted, each of the Parties hereto agrees to make such election as may be

permitted or required by such laws. In making the foregoing election, each of the Parties states that the income derived by such Party from the operations under this Agreement can be adequately determined without the computation of partnership taxable income.

ARTICLE 9

INSURANCE

9.1 Insurance. Unit Operator, with respect to Unit Operations, shall:

(a) comply with the Workmen's Compensation Laws of the State of New Mexico,

(b) carry Employer's Liability and other insurance required by the laws of the State of New Mexico, and

(c) provide insurance as set forth in Exhibit "E".

ARTICLE 10

ADJUSTMENT OF INVESTMENTS

10.1 Personal Property Taken Over. Upon the Effective Date hereof, Working Interest Owners shall deliver to Unit Operator possession of:

10.1.1 Wells and Well Equipment. All useable wells and nonuseable wells, as defined in Section 11.2 hereof, that are capable of producing Unitized Substances as listed on Exhibit "I", together with the casing, tubing, and down-hole equipment up to and including all well head connections.

10.1.2 Lease and Operating Equipment. All surface lease and well operating equipment, including all associated noncontrollable items, salt water disposal wells and facility systems related to current production from the Unitized Formation which Working Interest Owners determine to be necessary or desirable for conducting Unit Operations and which appears on the approved list of major equipment to be inventoried into the joint account. In addition, that equipment that was removed from the inventory list by the pre-unitization operator with permission for the unit to use as long as needed prior to return to the pre-unitization

operator.

10.1.3 Records. A copy of all production and well records pertaining to any well which has historically or is currently producing from the Unitized Formation.

10.2 Inventory and Evaluation of Personal Property. Unit Operator shall prepare a list of each Working Interest Owner's current major equipment within the Unit Area that is to be inventoried into the joint account. A Working Interest Owner may remove any item(s) from his list only on the condition that the Unit may use it as long as needed prior to return. This list shall include all of a Working Interest Owner's current equipment being utilized in producing the Unitized Formation, except that an item(s) may be deleted from the list, by the Unit Operator, based upon a preliminary environmental assessment recommendation. The Unit Operator shall have until the actual inventory is performed to recommend deletion of additional items based upon revised environmental assessments. Working Interest Owners shall appoint an inventory committee which shall, as of the Effective Date hereof, or as soon thereafter as feasible, cause to be taken, under the supervision of the Unit Operator and at Unit Expense, joint physical inventories of all lease and well equipment on the inventory list, which inventories shall be used as a basis for determining the controllable items of equipment to be taken over by the Unit Operator hereunder. The Unit Operator shall notify each Working Interest Owner within each separate Tract at least fifteen (15) days prior to the taking of the inventory with respect to said Tract, so that each of said Working Interest Owners may make arrangements to be represented at the taking of the inventory. Such inventories shall include and be limited to those items of equipment normally considered controllable as recommended in the material classification manual in Bulletin No. 6 dated May, 1971, or any amendments thereto, published by the Petroleum Accountants Society of North America, except that certain items normally considered noncontrollable, such as sucker rods and other items as agreed upon by the Working Interest Owners may be included in the

inventories in order to insure a more equitable adjustment of investments. Immediately following completion, such inventories shall be priced in accordance with the provisions of Exhibit "F", Accounting Procedure, attached hereto and made a part hereof; such pricing shall be performed under the supervision of, by the personnel of and in the offices of the Unit Operator, with Working Interest Owners furnishing such additional pricing help as may be available and necessary. It is specifically provided that with respect to each well taken over for Unit Operations, no value shall be assigned to intangible drilling costs of such well or to the down-hole casing therein.

10.3 Inventory and Valuations. After completion of the inventory and evaluation of property in accordance with the provisions of Section 10.2, Unit Operator shall submit to each Working Interest Owner a copy of the inventory and valuations thereon together with a letter ballot for approval of such inventory and valuations. Within sixty (60) days after receipt of such inventory and valuations, each Working Interest Owner shall return such letter ballot to Unit Operator indicating its approval or disapproval thereof. It is agreed that such inventory and valuations shall be binding upon all parties if approved by Working Interest Owners owning at least seventy percent (70%) of the Working Interest in the Unit Area, based on Phase I Unit Participation.

10.4 Investment Adjustments. As soon as practicable after approval by Working Interest Owners of the inventory and valuations as provided in Section 10.3, each Working Interest Owner shall be credited with the value of its interest in all personal property so taken over by Unit Operator under Sections 10.1.1 and 10.1.2, and charged with an amount equal to that obtained by multiplying the total value of all such personal property so taken over by Unit Operator under Sections 10.1.1 and 10.1.2 by such Working Interest Owner's Phase I Unit Participation, as shown on Exhibit "D", attached hereto. If the charge against any Working Interest Owner is greater than the amount credited to such Working Interest Owner,

the resulting net charge shall be paid and in all other respects be treated as any other item of Unit Expense chargeable against such Working Interest Owner. If the credit to any Working Interest Owner is greater than the amount charged against such Working Interest Owner, the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above.

10.5 General Facilities. The acquisition of warehouses, warehouse stocks, lease houses, camps, facilities systems, and office building necessary for Unit Operations shall be by negotiation by and between the owners thereof and Unit Operator, subject to the approval of Working Interest Owners.

10.6 Ownership of Personal Property and Facilities. Each Working Interest Owner, individually, shall, by virtue hereof, own an undivided interest in all personal property and facilities taken over or otherwise acquired by Unit Operator pursuant to this Agreement equal to its then current Unit Participation, shown on Exhibit "D", attached hereto.

ARTICLE 11

WELLBORES

11.1 Demand Wells. Upon the Effective Date of Unitization, or thereafter as demanded by the Unit Operator pursuant to the Unit Plan of Operations, Working Interest Owners will provide a useable wellbore, as defined in Section 11.2, on each forty (40) acre location (proration unit) within the Unit Area, as specified in Exhibit "I" attached hereto. If any such forty (40) acre location is not provided with a useable wellbore upon demand, the owner or owners contributing the forty (40) acre location shall have the option for ninety (90) days to provide a useable wellbore. If a useable wellbore is not provided within the ninety (90) day period, the owner or owners contributing the forty (40) acre location shall within ten (10) days of the end of such ninety (90) day period remit a demand development charge of One Hundred Ninety Thousand Dollars ($190,000.00) to the Unit Operator to be applied toward the cost of drilling and casing a well on the deficient forty (40) acre

location. All costs of drilling and casing the well in excess of the One Hundred Ninety Thousand Dollars ($190,000.00) shall be charged to the joint account to be shared by all Working Interest Owners in proportion to their respective Phase II Unit Participation percentage. However, for any forty (40) acre location for which the expected remaining primary and predicted secondary reserves, as set forth on Exhibit "I", less actual production subsequent to January 1, 1990, is less than 65,000 STBO, the demand development charge will be proportionately reduced. In the event that an owner or owners fail to provide a required useable wellbore, and fail to pay the assessed demand development charges for each wellbore deficient location within the required time period, such owner or owners shall be in default of payment, and action shall be initiated in accordance with provisions of Section 12.5 of this Agreement. It is understood that there will be no demand development charge assessed to any forty (40) acre location (proration unit), that was not previously assessed, subsequent to five (5) years following the Effective Date of unitization.

The Working Interest Owners may approve the acceptance of a wellbore that does not meet all requirements of a useable wellbore as defined in Section 11.2, provided it will satisfactorily meet all initial Unit operating conditions. Should such a wellbore ever fail to yield desired operating conditions, with Working Interest Owner approval, the unitized interval will be abandoned at Unit Expense and the pre-unitization operator assessed a demand development charge for a replacement useable well. The demand development charge for such a replacement useable well will be One Hundred Ninety Thousand Dollars ($190,000.00) during the first two (2) years following the Effective Date of unitization, One Hundred Twenty-seven Thousand Dollars ($127,000.00) during the third year following the Effective Date of unitization, Eighty-five Thousand Dollars ($85,000.00) during the fourth year following the Effective Date of unitization, and Fifty-seven Thousand Dollars ($57,000.00) during the fifth year following the Effective Date of unitization.

There will be no demand development charge assessed to the pre-unitization operator for such a replacement useable well from and after five (5) years following the Effective Date of unitization. If, at the time that replacement is deemed necessary by the Working Interest Owners, the subject forty (40) acre location for which the expected remaining primary and predicted secondary reserves, as set forth on Exhibit "I", less actual production subsequent to January 1, 1990, has less than 65,000 STBO, the demand development charge for such a replacement useable well will be proportionately reduced.

11.2 Useable Wellbore Definition. Useable wellbores are defined as wells with a status as follows:

(1) Wells active on the Effective Date of unitization will be accepted as useable if no zones other than the unitized interval, or a portion thereof, are open and upon first entry by the Unit Operator the wellbore passes both a casing integrity test and a Bradenhead Integrity Test (hereinafter "Bradenhead Test"), defined as a test to insure that there is no gas or liquid flow nor any sustained pressure from any casing annulus, in accordance with the state policies for casing integrity and Bradenhead tests at the time of unitization. It is the responsibility of the present operator of each well to be included in the Unit, to install the risers and valves necessary to perform a Bradenhead Test. If zones above the unitized interval are open, the non-unitized zones must be cement squeezed to isolate the unitized interval, pressure tested in accordance with the state policy at the time of unitization, and cement in the production casing drilled out; or, if open-hole, a five inch or larger liner must be run and set with cement to the top of the unitized interval, and the casing tested above the unitized interval in accordance with the state policy at the time of unitization; or

(2) Wells closed-in or temporarily abandoned on the Effective Date of unitization will be accepted as useable if

no zones other than the unitized interval are open (as above) and the well is free of scale, junk, and debris to the depth of deepest production from the unitized interval prior to being closed in (the latest plugged back total depth from workovers in the unitized interval prior to shut-in). The well must pass a casing integrity test and a Bradenhead Test upon first entry by the Unit Operator in accordance with the state policy at the time of unitization; or

(3) Currently plugged and abandoned or recompleted wells that have previously produced from the unitized interval will be accepted as useable if they are restored to the unitized interval's last producing completion interval, are not open in non-unitized zones, are free of junk, scale and debris down to the latest plugged back total depth prior to cessation of production, and pass a casing integrity test and a Bradenhead Test upon first entry by the Unit Operator in accordance with the state policy at the time of unitization; or

(4) Alternate wells from existing wellbores will be accepted as useable if all non-unitized zones have been abandoned (deeper zones plugged back with a cast iron bridge plug or cement retainer capped with 35 feet of cement and pressure tested to 500 psi; shallower zones squeeze cemented, pressure tested and cement drilled out in the production casing), they penetrate the unitized interval, have sufficient casing size to be deepened and provide for a 5" liner or have at least 5-1/2" casing set in or through the Unitized Formation, are adequately cemented, and pass a casing integrity test and a Bradenhead Test upon first entry by the Unit Operator in accordance with the state policy at the time of unitization.

(5) Wells shall have a minimum of 5 1/2" casing or a 5" liner set in or through the unitized interval, except as provided in Section 11.1 hereof.

11.2.1 Wellbores Made Useable. After the Effective Date of Unitization, but prior to the time limitation as

described in Section 11.2.2 hereinbelow, the Unit Operator will notify wellbore owners of wells that are determined not to be in "Useable Condition". Within thirty (30) days of said notification, wellbore owners must advise the Unit Operator of their proposed plan to make the well "Useable". Wellbore owners may elect to perform workover operations to attempt to make a deficient well "Useable", but the Unit Operator reserves the right to review and approve any of the workover procedure(s). The Unit Operator must be notified at least five (5) days prior to commencement of workover operations and his representative permitted to witness the operations. If wellbore owners performing said workover operations fail to deliver a "Useable" wellbore within forty-five (45) days of the original notification from the Unit Operator, they shall abandon the unitized interval per state requirements and within ten (10) days remit the sum of One Hundred Ninety Thousand Dollars ($190,000.00), being the demand development charge, to the Unit Operator. The Working Interest Owners will not be liable for any cost or expense when work is performed by wellbore owners. However, for any forty (40) acre location for which the expected remaining primary and predicted secondary reserves, as set forth on Exhibit "I", less actual production subsequent to January 1, 1990, is less than 65,000 STBO, the demand development charge will be proportionately reduced.

Wellbore owners may request that remedial work required to make a wellbore "Useable" be performed by the Unit Operator. Following any such written request, the Unit Operator will review wellbore records to determine appropriate procedures and cost estimates. Should the Unit Operator determine the required remedial work is technically feasible and can be performed on a timely basis, then the Unit Operator may, at its sole discretion, agree to perform the required work. The wellbore owners shall bear the sole cost, risk, and expense of such remedial work, up to a maximum of One Hundred

Ninety Thousand Dollars ($190,000.00), otherwise known as the demand development charge. If the Unit Operator estimates that such remedial work will cost in excess of One Hundred Ninety Thousand Dollars ($190,000.00), an AFE for the amount of said excess will be submitted to Working Interest Owners for their approval prior to the start of the remedial work, with the excess amount being charged to the joint account, based on Phase II Unit Participation ownership. However, for any forty (40) acre location for which the expected remaining primary and predicted secondary reserves, as set forth on Exhibit "I", less actual production subsequent to January 1, 1990, is less than 65,000 STBO, the demand development charge will be proportionately reduced.

11.2.2 Wellbores Accepted as "Useable Wellbores". Any wellbore dedicated to the Unit shall not be accepted as a "Useable Wellbore" until it can be entered by the Unit Operator and assessed pursuant to Section 11.2. Any well not so assessed within two (2) years following the Effective Date of unitization shall then be deemed a "Useable Wellbore". It is to be understood that this two (2) year limitation for assessment shall not apply to those wellbores, accepted by the Working Interest Owners, that do not meet all requirements of a useable wellbore provided for in Section 11.1 hereinabove. Wellbore owners may, at their own expense, cause a test to be performed establishing a wellbore acceptable as a "Useable Wellbore" after the Effective Date of the Unit. The test procedure must be approved and the test witnessed by the Unit Operator as provided for in Section 11.2.1 herein.

ARTICLE 12

DEVELOPMENT AND OPERATING COSTS

12.1 Basis of Charge to Working Interest Owners. Subject to the provisions of Section 12.2 hereof, Unit Operator initially shall pay all Unit Expenses. Each Working Interest Owner shall reimburse Unit Operator for its share of Unit Expenses. All charges, credits, and accounting for Unit Expenses shall be in

accordance with Exhibit "F" attached hereto. All costs and expenses for equipment, drilling, conversion of wells for injection purposes, and construction of enhanced oil recovery facilities shall be "Investment Costs". Each Working Interest Owner's share of Investment Costs, during Phase I or Phase II, shall be the same as its Phase II Unit Participation. Each Working Interest Owner's share of monthly operating expenses during Phase I shall be the same as its Phase I Unit Participation, provided, however, that monthly direct operating expenses for the enhanced oil recovery system shall be the same as each Working Interest Owner's Phase II Unit Participation. Each Working Interest Owner's share of monthly operating costs and expenses during Phase II shall be the same as its Phase II Unit Participation.

12.2 Advance Billings. Unit Operator shall have the right, at its option, to require other Working Interest Owners to advance their respective proportionate share of estimated development and operating costs and expenses by submitting to such other Working Interest Owners, on or before the 15th day of any month, an itemized estimate of such costs and expenses for the succeeding month with a request for payment in advance. Within thirty (30) days thereafter, each such other Working Interest Owner shall pay to Unit Operator its proportionate part of such estimate. Adjustment between estimates and the actual costs shall be made by Unit Operator at the close of each calendar month, and the accounts of the Working Interest Owners shall be adjusted accordingly.

12.3 Commingling of Funds. Funds received by Unit Operator under this Agreement need not be segregated by Unit Operator or maintained by it as a separate fund, but may be commingled with its own funds.

12.4 Lien and Security Interest of Unit Operator and Working Interest Owners. Each Working Interest Owner grants to Unit Operator a lien upon its Oil and Gas Rights in each Tract, and a security interest in its share of Unitized Substances when extracted and its interest in all Unit Equipment, to secure payment of its share of Unit Expense, together with interest thereon at the

Prime rate set by Chase Manhattan Bank, New York, New York, for the same period + 1% per annum or the maximum contract rate permitted by the applicable usury laws in the State in which the joint property is located, whichever is the lesser, plus attorney's fees, court costs and other costs in connection with the collection of unpaid amounts. To the extent that Unit Operator has a security interest under the Uniform Commercial Code of the State, Unit 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 judgement by Unit 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 Working Interest Owner in the payment of its share of Unit Expense, Unit Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest, has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of any default. Unit Operator grants a like lien and security interest to the Working Interest Owners.

12.5 Unpaid Unit Expense. If any Working Interest Owner fails to pay its share of Unit Expense within sixty (60) days after rendition of a statement therefor by Unit Operator, each non-defaulting Working Interest Owner, including the Unit Operator as a Working Interest Owner, shall, upon request by Unit Operator, pay the unpaid amount as if it were Unit Expense in the proportion that the Unit Participation of each such Working Interest Owner bears to the Unit Participation of all such Working Interest Owners. A defaulting Working Interest Owner, after proper notification under the notice provisions herein contained, shall lose its voting interest (as defined in Section 4.3.1) during its period of default. Its voting rights shall be shared proportionally and exercised by each of the non-defaulting Working Interest Owners as

provided for in Section 4.3. Each Working Interest Owner paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in Section 12.4 of this Agreement.

12.6 Carved-Out Interest. If any Working Interest Owner shall, after executing this Agreement, create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its Working Interest, such carved-out interest shall be subject to the terms and provisions of this Agreement, specifically including, but without limitation, Section 12.4 hereof entitled "Lien and Security Interest of Unit Operator and Working Interest Owners." If the Working Interest Owner creating such carved-out interest (a) fails to pay any Unit Expense chargeable to such Working Interest Owner under this Agreement, and the production of Unitized Substances accruing to the credit of such Working Interest Owner is insufficient for that purpose, or (b) withdraws from this Agreement under the terms and provisions of Article 17 hereof, the carved-out interest shall be chargeable with a pro rata portion of all Unit Expense incurred hereunder, the same as though the carved-out interest were a Working Interest, and Unit Operator shall have the right to enforce against such carved-out interest the lien and all other rights granted in Section 12.4 for the purpose of collecting the Unit Expense chargeable to the carved-out interest.

12.7 Rentals. The Working Interest Owners in each Tract shall pay all rentals, minimum royalty, advance rentals or delay rentals due under the lease thereon and shall concurrently submit to the Unit Operator, upon written request, evidence of payment.

12.8 Budgets. Before or as soon as practical after the Effective Date, Unit Operator shall prepare a budget of estimated Unit Expense for the remainder of the calendar year, and, on or before the first day of each August thereafter, shall prepare a budget for the ensuing calendar year. A budget shall set forth the estimated Unit Expense by quarterly periods. Budgets shall be estimates only, and shall be adjusted or corrected by Working

Interest Owners and Unit Operator whenever an adjustment or correction is proper. A copy of each budget and adjusted budget shall be furnished promptly to each Working Interest Owner.

ARTICLE 13

NON-UNITIZED FORMATIONS

13.1 Right to Operate. Any Working Interest Owner that now has or hereafter acquires the right to drill for and produce oil, gas, or other minerals from a formation underlying the Unit Area other than the Unitized Formation, shall have the right to do so notwithstanding this Agreement or the Unit Agreement. In exercising the right, however, the Working Interest Owner shall exercise care to prevent unreasonable interference with Unit Operations. No Working Interest Owner other than Unit Operator shall produce Unitized Substances through any well drilled or operated by it. If any Working Interest Owner drills any well into or through the Unitized Formation, the Unitized Formation shall be protected in a manner satisfactory to other Working Interest Owners so that production of Unitized Substances will not be adversely affected.

13.2 Multiple Completions. No well now or hereafter completed in the Unitized Formation shall ever be completed as a multiple completion, unless such multiple completion and subsequent handling of the multiple completion is approved by Working Interest Owners in accordance with the voting procedure described in Section 4.3 of this Agreement.

ARTICLE 14

TITLES

14.1 Warranty and Indemnity. Each Working Interest Owner represents and warrants that it is the owner of the respective Working Interest as shown to be owned by it on appropriate Exhibits to this Agreement and hereby indemnifies and holds the other Working Interest Owners harmless from any loss or due to the failure, in whole or in part, of its title to any such interest, except failure of title arising out of operations hereunder; provided, however, that such indemnity and any liability for breach

of warranty shall be limited to an amount equal to the net value that had been received from the sale of Unitized Substances attributed hereunder to the interest as to which title failed. Each failure of title will be effective, insofar as this Agreement is concerned, as of the first day of the calendar month in which such failure is finally determined and there shall be no retroactive adjustment of Unit Expense or retroactive allocation of Unitized Substances or the proceeds therefrom as a result of title failure.

14.2 Failure of Title Because of Unit Operations. The failure of title to any Working Interest in any Tract because of Unit Operations, including nonproduction from such Tract, shall not change the Unit Participation of the Working Interest Owner whose title failed in relation to the Unit Participations of the other Working Interest Owners at the time of the title failure.

ARTICLE 15

LIABILITY, CLAIMS AND SUITS

15.1 Individual Liability. The duties, obligations, and liabilities of Working Interest Owners shall be several and not joint or collective; and nothing contained herein shall ever be construed as creating a partnership of any kind, joint venture or an association or trust between or among Working Interest Owners.

15.2 Settlements. Unit Operator may settle any single damage claim or suit involving Unit Operations if the expenditure does not exceed Twenty Thousand Dollars ($20,000.00) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, Working Interest Owners shall determine the further handling of the claim or suit, unless such authority is delegated to Unit Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit Expense, subject to such limitation as is set forth in Exhibit "F" (Article II.10.). If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations over which such Working Interest Owner individually has

no control because of the rights given Working Interest Owners and Unit Operator by this Agreement and Unit Agreement, the Working Interest Owner shall immediately notify Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

ARTICLE 16

NOTICES

16.1 Notices. All notices required hereunder shall be in writing and shall be deemed to have been properly served when sent by mail, telegram or facsimile machine followed by U.S. Mail, to the address of the representative of each Working Interest Owner as furnished to Unit Operator in accordance with Article 4 hereof.

ARTICLE 17

WITHDRAWAL OF WORKING INTEREST OWNER

17.1 Withdrawal. A Working Interest Owner may withdraw from this Agreement by transferring, without warranty of title either express or implied, to the Working Interest Owners who do not desire to withdraw, all its Oil and Gas Rights, exclusive of Royalty Interests, together with its interest in all Unit Equipment and in all wells used in Unit Operations, provided that such transfer shall not relieve such Working Interest Owner from any obligation or liability incurred prior to the first day of the month following receipt by Unit Operator of such transfer. The delivery of the transfer shall be made to Unit Operator for the transferees. The transferred interest shall be owned by the transferees in proportion to their respective Unit Participations. The transferees, in proportion to the respective interests so acquired, shall pay the transferor for its interest in Unit Equipment, the salvage value thereof less its share of the estimated cost of salvaging same and of plugging and abandoning and restoring the surface of all wells then being used or held for Unit Operations, as determined by Working Interest Owners. In the event such withdrawing owner's interest in the aforesaid salvage value is less than such owner's share of such estimated costs, the withdrawing owner, as a condition precedent to withdrawal, shall

pay the Unit Operator, for the benefit of Working Interest Owners succeeding to its interest, a sum equal to the deficiency. Within sixty (60) days after receiving delivery of the transfer, Unit Operator shall render a final statement to the withdrawing owner for its share of Unit Expense, including any deficiency in salvage value, as determined by Working Interest Owners, incurred as of the first day of the month following the date of receipt of the transfer. Provided all Unit Expense, including any deficiency hereunder, due from the withdrawing owner has been paid in full within thirty (30) days after the rendering of such final statement by the Unit Operator, the transfer shall be effective the first day of the month following its receipt by Unit Operator, and, as of such effective date, the withdrawing owner shall be relieved from all further obligations and liabilities hereunder and under the Unit Agreement, and the rights of the withdrawing Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred.

17.2 Limitation on Withdrawal. Notwithstanding anything set forth in Section 17.1, Working Interest Owners may refuse to permit the withdrawal of a Working Interest Owner if its Working Interest is burdened by any royalties, overriding royalties, production payment, net proceeds interest, carried interest, or any other interest created out of the Working Interest in excess of one-eighth (1/8th) of lessor's royalty, unless the other Working Interest Owners willing to accept the assignment agree to accept the Working Interest subject to such burdens.

ARTICLE 18

ABANDONMENT OF WELLS

18.1 Rights of Former Owners. If Working Interest Owners decide to permanently abandon any useable well completed in the Unitized Formation within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice of such fact to the Working Interest Owners of the Tract on which such well is located and said Working Interest Owners shall have the right and option for a period of sixty (60) days after receipt of such

notice to notify Unit Operator of their election to take over and own said well and to deepen or plug back said well to a formation other than the Unitized Formation. Within sixty (60) days after said Working Interest Owners have so notified Unit Operator of their desire to take over such well, they shall pay the Unit Operator, for credit to the joint account of the Working Interest Owners, the amount as estimated and fixed by Working Interest Owners to be the net salvage value of the equipment in and on said well, except casing and other equipment originally contributed at no cost, plus costs to seal off the Unitized Formation and perform casing integrity and Bradenhead tests. The Working Interest Owners of the Tract, by taking over the well, agree to seal off the Unitized Formation in a manner satisfactory to Working Interest Owners, and upon abandonment to plug the well in compliance with all applicable laws and regulations.

18.2 Plugging. In the event the Working Interest Owners of a Tract do not elect to take over a well located thereon which is proposed for abandonment, Unit Operator shall plug and abandon the well in accordance with applicable laws and regulations.

ARTICLE 19

EFFECTIVE DATE AND TERM

19.1 Effective Date. This Agreement shall become effective on the date and at the time the Unit Agreement becomes effective.

19.2 Term. This Agreement shall continue in full force and effect so long as the Unit Agreement remains in force and effect and thereafter until (a) all Unit wells have been abandoned and plugged or turned over to Working Interest Owners in accordance with Article 20 hereof, (b) all personal and real property acquired for the joint account of Working Interest Owners have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners, (c) all required surface and subsurface restoration has been performed, and (d) there has been a final accounting.

ARTICLE 20

ABANDONMENT OF OPERATIONS

20.1 Termination. Upon termination of the Unit Agreement, the following will occur:

20.1.1 Oil and Gas Rights. Oil and Gas Rights in and to each separate Tract shall no longer be affected by this Agreement, and thereafter the parties shall be governed by the terms and provisions of the leases, contracts, and other instruments affecting the separate Tracts.

20.1.2 Right to Operate. Working Interest Owners of any Tract desiring to take over and continue to operate a well or wells located thereon may do so by paying Unit Operator, for the credit of the joint account, the net salvage value, as determined by the Working Interest Owners, of the equipment in and on the well, except casing and other equipment originally contributed at no cost, and by agreeing to properly plug the well at such time as it is abandoned.

20.1.3 Salvaging Wells. Unit Operator shall salvage as much of the casing and equipment in or on wells not taken over by Working Interest Owners of separate Tracts as can economically and reasonably be salvaged, and shall cause the wells to be plugged and abandoned in compliance with applicable laws and regulations.

20.1.4 Cost of Abandonment. The cost of abandonment of Unit Operations shall be Unit Expense.

20.1.5 Distribution of Assets. Working Interest Owners shall share in the distribution of Unit Equipment, or the proceeds thereof, in proportion to their then current Unit Participations in effect.

ARTICLE 21

LAWS, REGULATIONS AND CERTIFICATE OF COMPLIANCE

21.1 Laws and Regulations. This Agreement and operations hereunder are subject to all valid laws and valid rules, regulations and orders of all regulatory bodies having jurisdiction and to all other applicable federal, state, and local laws,

ordinances, rules, regulations and orders, including those relating to environmental issues; and any provision of this Agreement found to be contrary to or inconsistent with any such law, ordinance, rule, regulation or order shall be deemed modified accordingly.

21.2 Certificate of Compliance. In the performance of work under this Agreement, the parties agree to comply and Unit Operator shall require each independent contractor to comply with provisions of Exhibit "G".

ARTICLE 22

GOVERNMENTAL REGULATIONS

22.1 Governmental Regulations. Working Interest Owners agree to release Unit Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Unit Operator's interpretation or application of rules, rulings, regulations or orders of any governmental agency or predecessor agencies to the extent Unit Operator's interpretation or application of such rules, rulings, regulations or orders were made in good faith. Working Interest Owners further agree to reimburse Unit Operator for their proportionate share of any amounts Unit Operator may be required to refund, rebate or pay as a result of an incorrect interpretation or application of the above noted rules, rulings, regulations or orders, together with their proportionate part of interest and penalties owing by Unit Operator as a result of such incorrect interpretation or application of such rules, rulings, regulations or orders to the extent that such incorrect interpretation or application was made in good faith.

ARTICLE 23

COUNTERPART EXECUTION

23.1 Counterpart Execution. 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 above described Unit Area. Furthermore, this Agreement shall extend to and be binding on the parties hereto, their successors, heirs and assigns.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement upon the respective dates indicated opposite their respective signatures.

UNIT OPERATOR:

TEXACO EXPLORATION AND PRODUCTION INC.

Date:_____ By:_____

STATE OF TEXAS }
COUNTY OF MIDLAND }

The foregoing instrument was acknowledged before me this ___ day of _____, 1992, by _____, as Attorney-in-Fact, of Texaco Exploration and Production Inc., a Delaware corporation, on behalf of said corporation.

_____
Notary Public in and for the State of Texas

My Commission Expires:

_____

EXHIBIT "D"
ATTACHED TO AND MADE A PART OF
THE VACUUM GLORIETA WEST UNIT AREA
UNIT OPERATING AGREEMENT
LEA COUNTY, NEW MEXICO

WORKING INTEREST OWNER
SUMMARY

WORKING INTEREST OWNER	UNIT TRACT NUMBER	TRACT PARTICIPATION FACTORS PHASE 1	PHASE 2
AMERADA HESS CORPORATION	16	9.4275	4.5077
	OWNER TOTALS:	**9.4275**	**4.5077**
CONOCO INC.	20	8.1535	5.8708
	OWNER TOTALS:	**8.1535**	**5.8708**
MARATHON OIL COMPANY	6	9.6622	7.2109
	19	5.9964	7.9976
	OWNER TOTALS:	**15.6586**	**15.2085**
MOBIL PRODUCING TEXAS & NEW MEXICO INC.	9	0.3202	1.0711
	10	9.4006	14.5533
	17	1.5262	1.6332
	OWNER TOTALS:	**11.2470**	**17.2576**
PHILLIPS PETROLEUM COMPANY	12	0.7075	1.7495
	18	2.7300	3.2850
	OWNER TOTALS:	**3.4375**	**5.0345**
TEXACO EXPLORATION AND PRODUCTION INC.	1	28.0114	25.5486
	2	0.1228	0.2866
	3	1.2684	1.5268
	4	4.7730	3.8195
	5	0.8135	1.5612
	7	1.5773	2.6784
	8	0.4516	1.2675
	11	8.5163	4.9520
	13	1.7032	3.2078
	14	4.2522	5.5855
	15	0.2022	0.5513
	21	0.3840	1.1357
	OWNER TOTALS:	**52.0759**	**52.1209**
	VGWU TOTAL:	**100.0000**	**100.0000**

EXHIBIT "E"

Attached to and made a part of that certain
Unit Operating Agreement, dated June 1, 1992,
by and between Texaco Exploration and Production Inc., as Unit Operator,and Non-Operators named therein, Lea County, New Mexico

Vacuum Glorieta West Unit Area
Lea County, New Mexico

INSURANCE PROVISIONS

1. Unit Operator shall carry insurance as follows for the benefit and protection of the Parties to this Agreement:

   a. Worker's Compensation Insurance in accordance with laws of governmental bodies having jurisdiction including, if applicable, United States Longshore and Harbor Worker's Compensation Act with Outer Continental Shelf Extension and Employer's Liability Insurance. Employers' Liability Insurance shall provide coverage of $100,000 per accident.

   b. Unit Operator may include the aforesaid risks under its qualified self-insurance program provided Unit Operator complies with applicable laws, and in such event, Unit Operator shall charge to the joint account, a premium determined by applying manual insurance rates to the payroll.

2. Unit Operator shall not be obligated or authorized to obtain or carry on behalf of the joint account any additional insurance covering the Parties or the operations to be conducted hereunder without the consent and agreement of all Parties. Each Party individually may acquire at its own expense such insurance as it deems proper to protect itself against claims, losses, or damages arising out of the joint operations provided that such insurance shall include a waiver of subrogation against the other Parties in respect of their interests hereunder. All uninsured losses and all damages to jointly owned property shall be borne by the Parties in proportion to their respective interests.

3. Unit Operator shall promptly notify non-operators in writing of any losses involving damage to a jointly owned property in excess of $100,000.

4. Unit Operator shall require all contractors engaged in operations under this Agreement to comply with the applicable Workmen's Compensation laws and to maintain such other insurance and in such amounts as Unit Operator deems necessary.

5. In the event less than all Parties participate in an operation conducted under the terms of this Agreement, then the insurance requirements and costs, as well as all losses, liabilities, and expenses incurred as the result of such operations, shall be the burden of the Party or Parties participating therein.

EXHIBIT " F "

Attached to and made a part of Unit Operating Agreement covering the Vacuum Glorieta West Unit Area, Lea County, New Mexico, dated June 1, 1992, by and between Texaco Exploration and Production Inc., as Unit Operator, and Amerada Hess Corporation, et al, as Non-Operators

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)~~ thirty (30) 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)~~ thirty (30) 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 The Chase Manhattan Bank, NY, NY 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:

   (XX) 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
   (XX) 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:

   (XX) shall be covered by the overhead rates, or
   ( ) 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 $ 5,070.00
      (Prorated for less than a full month)

      Producing Well Rate $ 507.00

      (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 $ 100,000.00:

A. 5 % of first $100,000 or total cost if less, plus

B. 3 % of costs in excess of $100,000 but less than $1,000,000, plus

C. 2 % of costs in excess of $1,000,000.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells 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. 5 % of total costs through $100,000; plus

B. 3 % of total costs in excess of $100,000 but less than $1,000,000; plus

C. 2 % 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 "G"

CERTIFICATE OF COMPLIANCE

Attached to and made a part of that
Unit Operating Agreement, dated June 1, 1992,
Vacuum Glorieta West Unit Area
Texaco Exploration and Production Inc.,
as Unit Operator, Lea County, New Mexico

Unless this Agreement is exempted by law, rule, regulation or order, Unit Operator shall comply with the following clauses contained in the Code of Federal Regulations (including any revision or redesignation thereof), which are incorporated herein by reference, the full text of which will be made available upon request:

48.C.F.R.	§52.222-35	(Disabled and Vietnam Veterans);
48.C.F.R.	§52.222-36	(Handicapped Workers);
48.C.F.R.	§52.222-26	(Equal Opportunity);
48.C.F.R.	§52.219-8 and -9	(Utilization of Small and Small Disadvantaged Business Concerns);
and		
48.C.F.R.	§52.219-13	(Utilization of Women-Owned Small Businesses).

Where required by law and unless previously provided, Unit Operator shall provide a Certificate of Non-Segregated Facilities to Non-Operator and shall require its contractors and subcontractors to so provide the same to the Unit Operator. Unit Operator agrees and covenants that none of its employees or employees of its contractors or subcontractors who provide services pursuant to this Agreement are unauthorized aliens as defined in the Immigration Reform and Control Act of 1986.

EXHIBIT " H "

GAS BALANCING AGREEMENT

Attached to and made a part of that certain Unit Operating Agreement, dated June 1, 1992, for the Vacuum Glorieta West Unit, Lea County, New Mexico. For the purpose of this Agreement, the working interest owners are sometimes hereinafter referred to as the "parties".

I. Definitions

A. "Affiliate" is any company that is controlled or wholly owned by another company. Spouses and the minor children of any parent shall also be deemed to be an affiliate for purposes of this Agreement.

B. "Alternate Price" is the price which shall apply for purposes of Article IV or Article V whenever a party has taken Gas for its account, but has not immediately sold the Gas or where a party hereto has sold its Gas to an Affiliate. Any Gas so taken or sold shall be valued at the monthly spot market price listed for the geographical area where the Unit is located as published by Inside F.E.R.C.'s Gas Market Report unless a party can show its valuation or affiliate sales price is representative of other arms' length transactions available in the area for the same production month(s) for gas of comparable quality. If a range of prices is published for the geographical area in question, then the value of the Gas shall be calculated by averaging the different prices listed for that geographical area. The Alternate Price shall be adjusted to reflect actual gathering, treating, transportation or other gas handling costs incurred by parties selling gas from the Unitized Formation. If Inside F.E.R.C.'s Gas Market Report ceases to list monthly spot market prices for the geographical area in question, then a similar publication shall be substituted by mutual consent of the parties.

C. "Balanced" is that condition which occurs when a party hereto has taken the same percentage of the cumulative volume of Gas production it is entitled to take pursuant to the terms of the Unit Agreement or when an Underproduced party hereto has had its Gas account balanced by one or more Overproduced parties hereto pursuant to the provisions of Article IV or Article V of this Agreement.

D. "Btu" means the amount of heat required to raise the temperature of one pound of water from fifty-eight and five-tenths degrees Fahrenheit (58.5°) to fifty-nine and five-tenths degrees Fahrenheit (59.5°) at a pressure of fourteen and sixty-five one hundredths (14.65) pounds per square inch absolute and dry.

E. "Gas" includes casinghead Gas (which is all Gas produced with crude oil) and natural Gas from Gas wells, but shall not include liquid hydrocarbons recovered by primary separation equipment.

F. "Overproduced" is the status of a party when the percentage of the cumulative volume of Gas taken by that party exceeds that party's percentage interest as established by the Unit Agreement for the cumulative volume of Gas produced from the Unitized Formation.

G. "Royalty Owner" shall include all owners of royalty, overriding royalties, production payments, and similar interest payable out of production.

H. "Underproduced" is the status of a party when the percentage of cumulative volume of Gas taken by that party is less than that party's percentage interest as established by the Unit Agreement for the cumulative volume of Gas produced from the Unitized Formation.

I. "Unit" is defined as the Vacuum Glorieta West Unit, Lea County, New Mexico.

J. "Unit Agreement" refers to the agreement entered into by the Royalty Owners and working interest owners in the Unitized Formation for the Vacuum Glorieta West Unit and approved by the New Mexico State Land Office and the New Mexico Oil Conservation Division.

K. "Unit Operating Agreement" refers to the agreement entered into by the working interest owners owning an interest in the Unitized Formation for the Vacuum Glorieta West Unit.

L. "Unit Operator" is defined to coincide with the definition for Unit Operator found in Section 2 of the Unit Agreement for the Vacuum Glorieta West Unit.

M. "Unitized Formation" is defined as that stratigraphic interval underlying the Unit Area found between the top of the Glorieta Formation and the base of the Paddock Formation. The top of the Glorieta Formation is defined as all points underlying the Unit Area correlative to the depth of 5,838 feet and the base of the Paddock Formation is defined as all points underlying the Unit Area correlative to the depth of 6,235 feet, both depths as identified on the Schlumberger Sonic log for the Socony Mobil Bridges State Well No. 95, located in the SE/4 SE/4 (Unit P) of Section 26, Township 17 South, Range 34 East, NMPM, Lea County, New Mexico.

II. **Application of this Agreement**

The working interest owners subject to the Unit Operating Agreement to which this Agreement is attached own the Gas produced from the Unitized Formation and are entitled to share in the production as stated in the Unit Agreement. In accordance with the terms of the Unit Agreement, each working interest owner shall have the right to take in kind or separately dispose of its proportionate share of Gas produced from the Unitized Formation. Whenever the Gas accounts of any of the parties hereto are Overproduced or Underproduced, then this Agreement shall be in full force and effect.

The Unit Operator shall administer the provisions of this Agreement. To the extent practicable, the Unit Operator shall cause deliveries to be made at such rates as may be required to give effect to the intent that the Gas production accounts of all parties are to be or become Balanced. In so doing, the Unit Operator shall not incur any liability to any non-operator.

III. **Storing and Making Up Gas Production**

A. Right to Take and Market Gas

During any period or periods when any party hereto does not take, has no market for, or the market of a party is not sufficient to take that party's full share of the Gas produced from any well located within the Unit, or such party's purchaser otherwise fails to take such party's share of Gas produced from the Unitized Formation, the other party or parties shall be entitled, but not required, to produce and take or deliver to their respective purchaser(s) each month the remaining available Gas.

Whenever more than one party wishes to take and/or market the share of Gas owned by another party that is not taking or selling its proportionate share, then, in the absence of any other agreement between them, those parties wishing to take and/or market the Gas shall only be entitled to take such additional amount that is in direct proportion to what their percentage interest bears to the total interest of all parties desiring to take the additional Gas.

All parties hereto shall share in and own the liquid hydrocarbons recovered from such Gas by primary separation equipment in accordance with their respective interests and subject to the terms of the Unit Operating Agreement, whether or not such parties are actually taking and/or marketing Gas at such time.

B. Making Up Underproduction

Each Underproduced Party shall be credited with Gas in storage equal to its percentage share of the total volume of Gas produced under this Agreement, less that portion of the Gas actually marketed or taken by such party and less that portion of Gas used in operations, vented, or lost.

Each Underproduced party shall endeavor to bring its taking of Gas into a Balanced condition. If the Unit Operator has an established Gas nomination procedure, then an Underproduced party may make up Gas consistent with the percentages listed below in this Article III (B), so long as it adheres to the Unit Operator's nomination procedure. If the Unit Operator has no nomination procedure in place and the Underproduced party has not taken Gas for one or more consecutive months immediately prior to the month in which it wishes to commence making up a share of its Underproduction, then the Underproduced party shall give at least thirty (30) days advance written notice to the Unit Operator prior to taking Gas.

An Underproduced party shall be entitled to take or deliver to a purchaser its full share of Gas produced from the Unitized Formation (less any used in operations, vented, or lost) plus, (i) for the months of March, April, May, June, July, August, September and October only of any calendar year or years during which this Agreement is in effect, an amount up to an additional fifty percent (50%) of the monthly quantity of Gas attributable to the Overproduced party or parties, or (ii) for the months of November, December, January and February only of any calendar year or years during which this Agreement may be in place, an amount up to an additional twenty percent (20%) of the monthly quantity of Gas attributable to the Overproduced party or parties. If more than one Underproduced party is entitled and desires to take additional Gas, they shall divide the additional Gas in direct proportion to what each such party's percentage interest bears to the total percentage interest of all Underproduced parties desiring to take the additional Gas. The first Gas made up in any Balancing of the accounts shall be considered to be the first Gas Underproduced.

C. Filing Monthly Statement of Gas Volumes Taken With Unit Operator

In the event Gas produced from the Unitized Formation is sold to two or more Gas purchasers, then, within sixty (60) days after the end of each calendar month, each party hereto shall supply a written statement of the volume and the Btu content of the Gas it took from the Unitized Formation and the identity of its Gas purchaser, if any, to the Unit Operator at the following address:

Texaco Exploration and Production Inc.

P. O. Box 3109

Midland, Texas 79702-3109

The above address may be changed from time to time and notice of such change of address shall be deemed to be received when sent by certified mail to each working interest owner's last known mailing address. The Unit Operator shall maintain appropriate accounting on a monthly and cumulative basis of the quantities of Gas each party is entitled to take and/or market and the quantities of Gas actually

taken and/or marketed by each of the parties. With respect to Gas purchased from or transported for more than one party by or through any pipeline connected to a Unit well, each party selling to or transporting through such pipeline shall furnish to the Unit Operator or cause the pipeline owner to furnish to the Unit Operator monthly volume statements showing the split of ownership through such pipeline's sales or pipeline inlet meter for each such well for each calendar month.

In the event Gas taken or sold from the Unitized Formation during any single production month results in an imbalance in the Gas production accounts of the parties hereto, or the accounts of the parties were previously not Balanced, then, within ninety (90) days after the end of each such calendar month, the Unit Operator shall furnish each party hereto a statement showing the then current status of the Overproduced and Underproduced accounts of all parties.

If any party hereto does not provide the Unit Operator with the monthly statement of volume and the Btu content of the Gas taken when required to do so by the terms of this Agreement, then each such party shall not have the right to balance its account pursuant to the provisions of cash balancing found in Article IV of this Agreement.

To determine respective volumes of Gas taken by separate Gas pipelines connected to Unit wells, measurement of Gas for overproduction and underproduction shall be accomplished by use of sales meters and lease measurement equipment which shall be in accordance with American Gas Association requirements.

Each party to this Agreement agrees that it will not utilize any information obtained hereunder for any purpose other than implementing or administering the terms of this Agreement.

D. Payment of Royalty and Production Taxes

At all times while Gas is produced from the Unitized Formation, unless otherwise required by any State or Federal law or regulations, each party shall pay, or cause to be paid, all royalty due and payable on its share of Gas production. Each party agrees to hold each other party harmless from any and all claims for royalty payments asserted by its royalty owners.

Each party taking Gas off the lease or delivering Gas to its Gas purchaser shall pay, or cause to be paid, all production and severance taxes due on all volumes of Gas it takes or sells to a Gas purchaser.

IV. Optional Cash Balancing in the Event of an Ownership Change

In the event an Overproduced party intends to sell, assign, exchange or otherwise transfer any of its interest in the Unitized Formation, it shall notify in writing, sent by certified mail, the other working interest owners in the Unit of such fact within forty-five (45) days prior to closing the transaction. Within twenty (20) days after receipt of the Overproduced party's notice of its intent to sell, assign, exchange or otherwise transfer its interest in the Unitized Formation, any Underproduced party may make a written demand upon the Overproduced party in question for cash settlement of the Underproduced party's share of the total Underproduction in the Unitized Formation, not to exceed the Overproduced party's Gas imbalance. If more than one Underproduced party wishes to cash balance its Gas account, then each Underproduced party shall have the right to receive cash settlement of its proportionate share of the total volume of Gas Underproduced by those Underproduced parties seeking a cash settlement until the Gas accounts of all Underproduced parties in question are Balanced or the amount of the Overproduced party's Gas imbalance is Balanced, whichever occurs first. The Unit Operator shall immediately be notified of any demand for cash settlement made pursuant to this Article. After a cash settlement has been made, the Unit Operator shall be immediately notified and the Gas balance accounts of the parties shall be adjusted accordingly. Any cash settlement made pursuant to this Article shall be on the same basis as is set forth in Article V(B) below.

The provisions of this Article shall not be applicable in the event an Overproduced party has mortgaged its interest, or disposed of its interest by merger, reorganization, consolidation, or sale of substantially all of its assets to a subsidiary or parent company, or to any company in which any parent or subsidiary owns a majority of the voting stock of such company.

V. Final Cash Balancing

A. Gas Imbalance

If, at termination of the Unit, an imbalance in Gas production exists between the parties, then a cash settlement shall be made among the parties for the total volume of the Gas imbalance.

B. Distribution of Final Gas Balancing Statement and Settlement of Cash Imbalance

Within one hundred twenty (120) days after termination of the Unit, the Unit Operator shall provide a final accounting of the Gas imbalance to all parties hereto. As part of the final accounting process, the Unit Operator shall calculate the amount of Gas (based on volume and Btu content, but not on price, and calculated on a monthly basis) that each Overproduced party owes to each Underproduced party. If there is more than one Underproduced party, then the total volume of Gas overproduced shall be divided among all of the Underproduced parties in proportion to their percentage interest in said Gas and each Overproduced party shall calculate its cash payment to each Underproduced party based on either:

1) the volume of Gas remaining in the Overproduced party's Gas account immediately after the last cash settlement made with any party or parties

hereto pursuant to the provisions of Article IV above, or

2) if there has been no prior cash settlement made pursuant to the provisions of Article IV above, then the actual proceeds received by the Overproduced party or parties for the Overproduced share of Gas.

Where applicable, the value of the Gas Overproduced shall be based on the Alternate Price established pursuant to Article I(B) above. Each Overproduced party shall make settlement directly to each Underproduced party.

Each Overproduced party shall cash settle with each Underproduced party within thirty (30) days after receipt from the Unit Operator of the statement showing the Overproduced party's volumetric and Btu content overproduction in the Unitized Formation. Payments made by an Overproduced party to an Underproduced party shall relieve the Overproduced party of liability to any other party for the sums actually paid. Unit Operator shall not be liable to any party for the failure of any Overproduced party to pay any amounts owed pursuant to the terms hereof.

VI. **Deductions From Cash Settlement**

When preparing a cash settlement with any Underproduced party hereto, an Overproduced party may deduct actual costs incurred for the following items, but only to the extent they have not been previously deducted from a previous cash settlement: gathering and transportation charges, compression, dehydration and any applicable treating charges, production and severance taxes paid by, or on behalf of, such Overproduced party. Royalty payments may be deducted from such proceeds attributable to the overproduction only if actually paid to royalty owners by, or on behalf of, an Overproduced party, and then only to the extent the amount of royalty paid is not in excess of the royalty owners' entitled share of royalty.

VII. **Miscellaneous**

A. Term

This Agreement shall remain in effect until the Gas balance accounts between the parties are settled in full, and the two year audit period provided for in Article VII(E) below has ended. This agreement shall inure to the benefit of and be binding upon the parties hereto, their heirs, successors, legal representatives and assigns.

B. Intent of the Parties

Subject to the provisions of Article IV above, it is the intent of the parties to only cash balance the Gas imbalance of the parties hereto when the Unit is terminated.

C. Expenses

Nothing herein shall change or affect each party's obligation to pay its proportionate share of all costs and liabilities incurred in operations pursuant to the Unit Operating Agreement.

D. Interest

No interest shall be payable in any cash settlement made pursuant to the provisions of this Agreement except in the event an Overproduced party fails to remit payment to an Underproduced party within forty-five (45) days after the Unit Operator has mailed notice to said Overproduced party that an Underproduced party wishes to cash balance pursuant to the provisions of Article IV or Article V(B) above. If payment is not made to the Underproduced party within said forty-five (45) day period, interest shall accrue on the unpaid balance at a rate of two percent (2%) above the prime rate at Chase Manhattan Bank of New York City, New York, or any successor bank, or the maximum interest rate allowed by law in the jurisdiction where the Unit is located, whichever is the lesser percentage, from a date commencing forty-five (45) days after the Unit Operator has mailed notice to the Overproduced party until payment is actually made by the Overproduced party.

E. Audits

Notwithstanding any provision to the contrary found in the Unit Operating Agreement or any other exhibit attached thereto, any party hereto shall have the right to audit the records of any other party hereto for the following length of time:

> For any cash payment made pursuant to the provisions of this Agreement, each party hereto shall have the right for a period of two (2) years following the date of the final cash settlement to audit the records, related to price and volume of all Gas taken or sold, including Btu adjustments, of any other party hereto.

Each party hereto agrees to retain information on the volume of Gas taken or sold each month from the Unitized Formation, the Btu content of such Gas, and the price per MCF it received for such Gas for the period of time stated immediately above.

F. Well Tests

Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its Gas purchaser up to one hundred percent of the entire well stream of any well producing from the Unitized Formation to meet a deliverability test required by its Gas purchaser, provided such tests are reasonable in light of overall industry standards.

G. Monitoring of Takes of Production

Each party shall at all times use its best efforts to regulate its takes and deliveries from each Gas well producing from the Unitized Formation so that, where applicable, the Unit will not be shut-in for overproducing the allowable assigned to it by the regulatory body having jurisdiction. Additionally, each party shall

communicate, as necessary, the contents of this Agreement to its respective Gas purchaser(s) or transporter(s) and shall monitor its deliveries to its respective Gas purchaser(s) or transporter(s) so as to ensure to the greatest extent practicable that its Gas purchaser(s) or transporter(s) does not take Gas in excess of the quantities provided for herein.

H. Monies Subject to Refund
In any cash settlement made pursuant to the terms of this Agreement, that portion of the monies received by an Overproduced party which is subject to refund by order of the Federal Energy Regulatory Commission ("FERC") or any other governmental authority may be withheld by the Overproduced party until such prices are fully approved by the governmental agency in question, unless an Underproduced party furnishes a corporate undertaking acceptable to the Overproduced party or parties agreeing to hold the Overproduced party or parties harmless from financial loss due to the pending refund. If any refund is required by any governmental authority after a cash settlement has been made pursuant to the terms of this Agreement, each party hereto agrees to account for its respective share of such refund.

I. Sales to an Affiliate, Valuation of Stored Gas or Gas Used Off Lease
If an Overproduced party has sold Gas to an Affiliate, stored Gas or used Gas off lease, then for the purposes of Article IV and Article V of this Agreement, any Gas so sold, stored or used off lease shall be valued at the Alternate Price as such term is defined in Article I(B) of this Agreement.

J. Attorney Fees and Court Costs
The prevailing party in any lawsuit brought to enforce any provision of this Agreement shall be entitled to receive reimbursement from the losing party for all court costs and reasonable attorney fees incurred in connection with said lawsuit.

K. Governing Law
This Agreement and all matters pertaining hereto, including, but not limited to, matters of performance, non-performance, breach, remedies, rights, duties, and the interpretation or construction, shall be construed and enforced in accordance with the laws of the jurisdiction in which the Unit is located.

L. Overproduced Party Shall Notify Unit Operator that Payment Has Been Made
Within thirty (30) days after an Overproduced party has paid an Underproduced party for all or a portion of the value of the Overproduced party's overproduction pursuant to the provisions of Article IV or Article V(B) of this Agreement, the Overproduced party shall notify the Unit Operator in writing of the volume of Gas (expressed in MCF and the corresponding Btu content) covered by the payment and the party to whom such payment was made so the Unit Operator may maintain a current and accurate gas balancing statement for all parties.

EXHIBIT "I"
DEMAND WELLS AND LOCATIONS

UNIT OPERATING AGREEMENT
VACUUM GLORIETA WEST UNIT

Former Operator	Former Lease Name	Well No.	Location U	Sec	Tn	Rg	Nov 1990 Tech Committee Report: Remaining Primary as of 1/1/90 (STB)	Predicted Secondary Recovery (STB)	Remaining Primary Plus Predicted Secondary (STB)	Anticipated Useable Well	Glorieta Completion Status (June 1991)
Amerada Hess	State VB	2	K	36	17	34	429,035	247,420	676,455	Yes	Pumping
Conoco	State H-35	7	B	35	17	34	0	33,471	33,471	Yes	Pumping
Conoco	State H-35	8	A	35	17	34	89,753	69,898	159,651	Yes	Pumping
Conoco	State H-35	10	G	35	17	34	0	91,901	91,901	No	P & A
Conoco	State H-35	12	H	35	17	34	160,500	94,746	255,245	*	Pumping
Marathon	McAllister State	6	L	25	17	34	13,124	99,366	112,491	Yes	Pumping
Marathon	McAllister State	8	M	25	17	34	73,729	116,432	190,161	Yes	Pumping
Marathon	McAllister State	9	K	25	17	34	1,150	128,189	129,338	Yes	Pumping
Marathon	McAllister State	10	N	25	17	34	26,246	61,522	87,767	Yes	Pumping
Marathon	Warn State AC 2	12	D	6	18	35	316,980	157,950	474,930	*	Pumping
Marathon	Warn State AC 2	13	C	6	18	35	86,707	143,561	230,268	*	Pumping
Marathon	Warn State AC 2	14	E	6	18	35	9,700	179,812	189,512	Yes	Shut-in
Marathon	Warn State AC 2	15	F	6	18	35	0	68,230	68,230	*	Shut-in
Mobil	Bridges State	112,36	D	25	17	34	0	107,949	107,949	Yes(36)	Shut-in
Mobil	Bridges State	58	M	24	17	34	0	83,975	83,975	Yes	Pumping
Mobil	Bridges State	97	P	26	17	34	0	69,375	69,375	Yes	Shut-in
Mobil	Bridges State	99	I	26	17	34	0	85,160	85,160	Yes	Shut-in
Mobil	Bridges State	102	G	25	17	34	24,925	118,525	143,449	*	Pumping
Mobil	Bridges State	103	E	25	17	34	32,430	88,078	120,507	*	Pumping
Mobil	Bridges State	106	C	25	17	34	67,109	115,458	182,567	*	Pumping
Mobil	Bridges State	109	N	24	17	34	0	67,135	67,135	No	Abo Unit Well
Mobil	Bridges State	110	B	25	17	34	32,988	134,118	167,106	Yes	Pumping
Mobil	Bridges State	111	F	25	17	34	63	180,880	180,944	Yes	Pumping
Mobil	Bridges State	113	E	24	17	34	659	40,123	40,782	Yes	Pumping
Mobil	Bridges State	114	K	24	17	34	31,620	47,313	78,933	Yes	Pumping
Mobil	Bridges State	115	A	25	17	34	0	125,032	125,032	No	P & A
Mobil	Bridges State	116	L	24	17	34	0	68,887	68,887	No	Abo Unit Well
Mobil	State H	2	D	31	17	35	0	130,664	130,664	*	Shut-in
Mobil	State I	2	L	36	17	34	58,968	198,198	257,166	Yes	Pumping
Phillips	Hale State	7	I	35	17	34	2,530	142,814	145,344	*	Pumping
Phillips	Hale State	8	P	35	17	34	0	81,216	81,216	No	GB/SA Well
Phillips	Hale State	9	J	35	17	34	0	63,352	63,352	Yes	Pumping
Phillips	Santa Fe Batt 2	87	L	31	17	35	0	131,594	131,594	No	WC/ABO Well
Phillips	Santa Fe Batt 2	88	E	31	17	35	5,666	146,692	152,358	*	Pumping
Texaco	Shell Swigart	2	I	25	17	34	0	90,001	90,001	Yes	Shut-in
Texaco	Shell State D	2	M	31	17	35	1,275	190,108	191,383	Yes	Pumping
Texaco	State BA	5, 11	D	36	17	34	50,641	150,210	200,851	Yes(11)	Pumping
Texaco	State BA	7,13	C	36	17	34	391,922	78,706	470,627	Yes(13)	Pumping
Texaco	State BA	9, 12	B	36	17	34	12,981	90,915	103,896	Yes(12)	Pumping
Texaco	State BA	10	A	36	17	34	8,405	108,834	117,239	Yes	Shut-in
Texaco	State L	6,10	B	1	18	34	30,953	79,208	110,161	Yes(10)	Pumping
Texaco	State L	7,11	A	1	18	34	17,646	132,079	149,725	Yes(11)	Shut-in
Texaco	State L	8y	G	1	18	34	0	29,441	29,441	**	P & A
Texaco	State L	9	H	1	18	34	14,857	126,674	141,532	*	Shut-in
Texaco	State M	5	D	1	18	34	0	44,756	44,756	*	Shut-in
Texaco	State M	8	C	1	18	34	5,630	46,035	51,665	*	Pumping
Texaco	State N	5,10	M	30	17	35	24,639	171,987	196,626	Yes(10)	Pumping
Texaco	State N	6	L	30	17	35	0	87,336	87,336	*	Shut-in
Texaco	State N	7	E	30	17	35	12,058	86,385	98,442	*	Pumping
Texaco	State N	9	D	30	17	35	0	49,573	49,573	**	P & A
Texaco	State O	13, 29	N	36	17	34	24,322	248,447	272,769	Yes(29)	Pumping
Texaco	State O	15	I	36	17	34	0	156,975	156,975	*	Shut-in
Texaco	State O	16,33	H	36	17	34	35,913	110,437	146,350	Yes(33)	Pumping
Texaco	State O	19,31	F	36	17	34	120,496	124,997	245,492	Yes(31)	Pumping
Texaco	State O	20,30y	E	36	17	34	13,407	143,557	156,964	Yes(30y)	Pumping
Texaco	State O	21,32	G	36	17	34	294,567	149,923	444,489	Yes(32)	Pumping
Texaco	State O	22,26	M	36	17	34	0	209,872	209,872	Yes(26)	Pumping
Texaco	State O	23	O	36	17	34	87,263	221,912	309,174	*	Pumping
Texaco	State O	24,27	P	36	17	34	0	268,538	268,538	Yes(27)	Pumping
Texaco	State O	12,25,28	J	36	17	34	0	274,095	274,095	Yes(28)	Pumping
Texaco	State Q	5,10	O	25	17	34	85,770	83,292	169,062	Yes(10)	Pumping
Texaco	State Q	6,11	P	25	17	34	0	111,063	111,063	Yes(11)	Pumping
Texaco	State Q	8,9	J	25	17	34	101,535	119,203	220,738	Yes(9)	Pumping
Texaco	State R Nct 1	8	A	6	18	35	0	77,490	77,490	*	Shut-in
Texaco	State R Nct 1	9	G	6	18	35	6,835	50,292	57,126	*	Pumping
Texaco	State R Nct 1	10,12	B	6	18	35	0	165,934	165,934	Yes(12)	Shut-in
Texaco	State R Nct 1	11	H	6	18	35	22,996	38,619	61,615	*	Shut-in
Texaco	State T	2	H	25	17	34	31,108	93,355	124,463	*	Shut-in
Texaco	State U	3	A	2	18	34	0	34,617	34,617	*	Shut-in
Texaco	Yucca State	2	O	24	17	34	0	120,294	120,294	*	Pumping

* Denotes well be accepted in accordance with Section 11.1 of the Vacuum Glorieta West Unit Operating Agreement

** Denotes demand location with insufficient economical predicted reserves to warrant replacement; however, after Effective Date hereof, Working Interest Owners may deem that a replacement well is necessary in accordance with Section 11.1 of the Vacuum Glorieta West Unit Operating Agreement