CASE 7309: GULF OIL CORPORATION FOR APPROVAL OF THE SOUTH SHUGART DEEP UNIT AREA, EDDY COUNTY, NEW MEXICO

Case No.

7309

Application

Transcripts

Small Exhibits

ETC

Unit Name SOUTH SHUGART DEEP UNIT-EXPLORATORY
Operator GULF OIL CORPORATION
County EDDY COUNTY, NEW MEXICO

OCP

DATE APPROVED	OCC CASE NO. 7309 / OCC ORDER NO. R-6752	EFFECTIVE DATE	TOTAL ACREAGE	STATE	FEDERAL	INDIAN-FEE	SEGREGATION CLAUSE	TERM
Commissioner 9/16/81	Commission 8/7/81	October 27, 1981	3,806.08	320.00	3,486.08	-0- -0-	Modified	5yrs.
USGS 10/27/81								

UNIT AREA

TOWNSHIP 18 SOUTH, RANGE 31 EAST N.M.P.M.

Section 31:	S/2
Section 32:	S/2
Section 33:	S/2

TOWNSHIP 19 SOUTH, RANGE 31 EAST N.M.P.M.

Section 4:	All
Section 5:	All
Section 6:	All
Section 7:	N/2
Section 8:	N/2
Section 9:	N/2

TERMINATED

APP: 1-10-84 EFF: 4-1-83

FOR FAILURE TO SUBMIT A COMMERCIAL DETERMINATION & DRILL THEIR 2ND WELL ON TIME

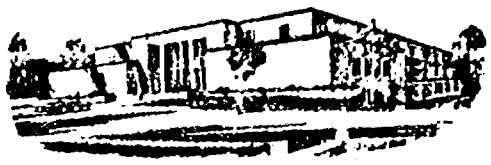
Unit Name SOUTH SHUGART DEEP UNIT-EXPLORATORY
Operator GULF OIL CORPORATION
County Eddy County, New Mexico

STATE TRACT NO.	LEASE NO.	INSTI-TUTION	SEC.	TWP.	RGE.	SUBSECTION	RATIFIED DATE	RATIFIED ACRES	ACREAGE NOT RATIFIED	LESSEE
27	E-6947-2	C.S.	32	18S	31E	SE/4SW/4	NOT COMMITTED		40.00	Chambers & Kennedy
28	E-6947-7	C.S.	32	18S	31E	E/2SE/4	NOT COMMITTED		80.00	Tenneco West, Inc.
29	E-6947-9	C.S.	32	18S	31E	W/2SE/4, NE/4SW/4	NOT COMMITTED		120.00	Southland Royalty Co.
30	E-10001-2	C.S.	32	18S	31E	SW/4SW/4	9/2/81	40.00		Southland Royalty Co.
31	V-21	C.S.	32	18S	31E	NW/4SW/4	NOT COMMITTED		40.00	Yates Petroleum Corp.

TERMINATED
APP: 1-10-84 EFF: 4-1-83

#7309

State of New Mexico



Commissioner of Public Lands

JIM BACA
COMMISSIONER

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

January 10, 1984

Gulf Oil Company
P. O. Box 1150
Midland, Texas 79702

Re: Termination of
South Shugart Deep Unit
Eddy County, New Mexico

ATTENTION: Mr. Clarke Evans

Gentlemen:

The Bureau of Land Management has notified this office that the South Shugart Deep Unit, Eddy County, New Mexico has been terminated.

Our records reflect that you were granted a six-month extension until March 31, 1983, in which to evaluate the initial test well and submit the information for a commercial determination or commence drilling operations on the second unit well.

Your letter of March 17, 1983 indicates that it is your understanding that since Gulf has no additional drilling plans in the South Shugart Deep Unit at the current time, the unit will terminate under its own terms.

As per Section 9 of said unit, please be advised that inasmuch as all unit operations have ceased and in the absence of an acceptable showing by you that the South Shugart Deep Unit is capable of producing unitized substances in paying quantities the unit is considered to have terminated effective as of April 1, 1983.

Please notify all interested parties of this action.

Very truly yours,

JIM BACA
COMMISSIONER OF PUBLIC LANDS

BY:
RAY D. GRAHAM, Director
Oil and Gas Division
AC 505/827-5744

JB/RDG/pm
cc: OCD-Santa Fe, New Mexico
BLM-Albuquerque, New Mexico
BLM-Roswell, New Mexico Attn: Mr. Armando Lopez

Unit Name SOUTH SHUGART DEEP UNIT-EXPLORATORY
Operator GULF OIL CORPORATION
County EDDY COUNTY, NEW MEXICO

OCD

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Commissioner 9/16/81 USGS 10/27/81	Commission 8/7/81	October 27, 1981	3,806.08	320.00	3,486.08	-0- -0-	Modified	5yrs.

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TOWNSHIP 19 SOUTH, RANGE 31 EAST N.M.P.M.

Section 4:	All
Section 5:	All
Section 6:	All
Section 7:	N/2
Section 8:	N/2
Section 9:	N/2

Unit Name SOUTH SHUGART DEEP UNIT-EXPLORATORY
Operator GULF OIL CORPORATION
County Eddy County, New Mexico

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31	V-21	C.S.	32	18S	31E	NW/4SW/4	NOT COMMITTED		40.00	Yates Petroleum Corp.

State of New Mexico

Commissioner of Public Lands

ALEX J. ARMIJO
COMMISSIONER

December 9, 1981

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

Gulf Oil Exploration and Production Co.
P. O. Box 1150
Midland, Texas 79701

7309

Re: Consent and Ratification
South Sugart Deep Unit
Eddy County, New Mexico

ATTENTION: Mr. Mickey F. Cohlmia

Gentlemen:

We are in receipt of your letter dated November 25, 1981, along with a Consent and Ratification to the captioned unit agreement executed by Exxon Corporation.

We have this date accepted Exxon's ratification and have filed it in our unit file.

Please advise this office when Tenneco West's ratification for this unit will be sent in so that Tract Nos. 28 and 29 can be fully committed under a subsequent Joinder.

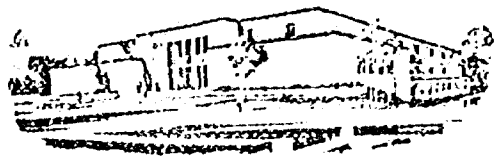
Very truly yours,

ALEX J. ARMIJO
COMMISSIONER OF PUBLIC LANDS

BY:
RAY D. GRAHAM, Director
Oil and Gas Division
AC 505/827-2748

AJA/RDG/pm
cc: OCD-Santa Fe, New Mexico
USGS-Albuquerque, New Mexico

State of New Mexico



Commissioner of Public Lands

ALEX J. ARMIJO
COMMISSIONER

September 16, 1981

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

Gulf Oil Exploration & Production Co.
P. O. Box 1150
Midland, Texas 79701

Re: South Shugart Deep Federal Unit
Chaves County, New Mexico

7309

ATTENTION: Mr. Mickey F. Cohlmia

Gentlemen:

The Commissioner of Public lands has this date given final approval to the South Shugart Deep Federal Unit. Our approval is subject to like approval by the United States Geological Survey.

Our approval is given with the understanding that all tracts are committed to the unit except the following: Tract 2, Tract 12, Tract 15, Tract 26, Tract 27, Tract 28, Tract 29 and Tract 31. Tract No. 29 being 50% committed will not qualify this acreage in the unit.

The following are some corrections that need to be made and should be re-submitted.

1. Please submit another set of ratifications for our duplicate file.

2. Exhibit "A" must be revised to show the changes made on Exhibit "B".

3. Exhibit "B" will need the following changes.

   a. Tract 26 should show description as being in section 7.

   b. Tract 27 Lessee of Record for E-6947-2 is Chambers & Kennedy, a Co-Partnership comprised of C. Fred Chambers and W. D. Kennedy.

   c. Tract 28 Lessee of Record for E-6947-7 is Tenneco West Inc. and Exxon Corp.

   d. Tract 29 Lessee of Record for E-6947-9 is Southland Royalty Company

Enclosed are Five (5) Certificates of Approval.

When re-submitting your revised Exhibits "A" and "B" please remit a Ninety ($90.00) Dollar filing fee.

Very truly yours,

ALEX J. ARMIJO
COMMISSIONER OF PUBLIC LANDS

BY:
RAY D. GRAHAM, Director
Oil and Gas Division
AC 505/827-2748

AJA/RDG/pm
encls.
cc: OCD-Santa Fe, New Mexico
USGS-Albuquerque, New Mexico

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
29 July 1981

EXAMINER HEARING

IN THE MATTER OF:

Application of Gulf Oil Corporation for a unit agreement, Eddy County, New Mexico. CASE 7309

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Division: Ernest L. Padilla, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant: William V. Kastler, Esq.
The Gulf Companies
P. O. Box 3725
Houston, Texas 77001

I N D E X

M. F. COHLMIA

Direct Examination by Mr. Kastler 3

PATRICK T. GORDON

Direct Examination by Mr. Kastler 11

E X H I B I T S

Applicant Exhibit One-A, Unit Agreement 6

Applicant Exhibit One-B, Plat 6

Applicant Exhibit Two, Operating Agreement 10

Applicant Exhibit Three, Structure Map 12

Applicant Exhibit Four, Structure Map 12

Applicant Exhibit Five, Comments and prognosis 13

MR. STAMETS: We'll call next Case 7309.

MR. PADILLA: Application of Gulf Oil Corporation for a unit agreement, Eddy County, New Mexico.

MR. KASTLER: Mr. Examiner, I'm Bill Kastler from Houston, Texas, representing Gulf Oil Corporation.

Our witnesses in this case today are Mr. Mickey Cohlmia and Mr. Pat Gordon.

Will the witnesses please stand and be sworn?

(Witnesses sworn.)

M. F. COHLMIA

being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. KASTLER:

Q. Will you please state your name, your place of residence, your employer, and your present position?

A. My name is Mickey Frank Cohlmia. I live in Midland, Texas. I'm employed by Gulf Oil and I'm presently a Senior Land Agent.

Q. Have you ever appeared previous to this

case as a witness before the New Mexico Oil Conservation Division?

A. No, sir.

Q. What training and background have you had prior to becoming a Senior Land Agent for Gulf?

A. I'm a 1968 graduate of McMurray College in Abilene, Texas, having received a Bachelor of Business Administration degree.

Thereafter, in early '69 I went to work for Gulf in the marketing department and in the past thirteen years I've held various sales and sales related functions, including the real estate assignment.

Most recently, in November of 1980 I transferred into the Exploration Department as a Senior Land Agent in our Trade Negotiations unit, which is my present position.

Q. Are you personally familiar with Gulf's application for approval of the South Shugart Deep Unit Area and with the background leading up to this application?

A. Yes, sir.

MR. KASTLER: Mr. Examiner, I request Mr. Cohlmia's qualifications be accepted.

MR. STAMETS: They are.

Q. Mr. Cohlmia, where is the South Shugart

Unit situated? And how large a unit is it?

A. It's located approximately 26.4 northeast of Carlsbad and is comprised of 3806.08 acres.

Q. Is the unit area presently producing at a shallow depth?

A. Yes, sir, it is, in the Shugart Field. I believe it's Queen.

Q. The Queen. Now, what formation and what minimal depth will the initial test well for the unit be drilled to?

A. Our primary objective is the Morrow at about 14,000 feet.

Q. Where will the unitized area begin? At what depth?

A. At below 5000 feet.

Q. All right. Is Gulf the largest single working interest owner in the unit area?

A. Yes, sir.

Q. Will Gulf, therefor, become the unit operator?

A. Yes, we will.

Q. Has Gulf proposed a conventional unit and unit operating agreement?

A. Yes, We have.

MR. KASTLER: At this time, Mr. Examiner, I'd like the witness to identify Gulf's Exhibit One, the proposed unit agreement, with sub-exhibits A and B, and Gulf's Exhibit Two, the proposed unit agreement, both of which were prepared by Gulf and primarily by Mr. Cohlmia.

A. I'm looking at a plat, which is our Exhibit One-A, showing the unit boundary, the tract numbers, the lease numbers, and our proposed well location, in the west half of Section 4, 1980 feet from the west line and 1980 feet from the north line.

MR. STAMETS: I believe that that's been marked Exhibit One-B.

MR. KASTLER: Is it B?

A. Yes, sir, that's correct. We marked the unit agreement Exhibit One-A.

Q. Does the Exhibit One, the unit operating agreement, then follow the model form of Federal operating agreements for an undivided interest of an exploratory unit?

A. Yes, sir, it has.

Q. Was it previously submitted to the U. S. Geological Survey?

A. Yes, it was.

Q. And also to the New Mexico State Land Office?

A. That's correct.

Q. Has it received preliminary approval from both of those agencies?

A. Yes, sir, it has.

Q. Was the approval by the New Mexico State Land office conditional upon anything?

A. Upon the approval of the Oil Conservation Division hearing, yes, sir.

Q. All right. Have you testified where the present well is to be situated?

A. Yes, sir, I have.

Q. Can you identify, looking at Exhibit One-B.

A. Yes, sir.

Q. Can you identify the percentage of all working interest owners who have agreed to commit their Federal and State leases to this unit?

A. Yes, sir, we have approximately 87 percent commitment at this time.

Q. Where are those working interest owners situated who did not commit?

A. Primarily in the south half of Sections 31, 32, and 33, and these are the areas contained -- the south half of Section 32 contains the State acreage and there are many shallow Queen Sands wells in these areas.

Q. But they're all located up in the northeast corner, or the north and northeast section of the unit?

A. That's correct.

Q. Does Gulf consider the non-joinder of these parties will present any particular obstacle to unit development?

A. No, sir, we don't.

Q. May the others join in the future if they so desire?

A. Yes, they may.

Q. What early expiration dates exist within this unit?

A. We have one early expiration date, being 10-31-81, which we show as Tract 1 on Exhibit One-C, and that's the earliest.

Q. So therefor, your initial well must be commenced prior to November 1st?

A. That's correct.

Q. Are there any privately owned lands in the unit?

A. No, sir.

Q. Are any of the leases burdened with special stipulations or conditions, such as reclamation projects, or anything of that kind?

A. No, sir, they're not.

Q. What is the dry hole cost of the proposed Morrow well?

A. Approximately $800,000.

Q. Is there any other formation which might be tested if the conditions are favorable?

A. Yes, sir. We might want to look at the Devonian.

Q. What's the dry hole cost of a Devonian well in this area?

A. Approximately $930,000.

Q. Now, Mr. Cohlmia, I'd like to direct your attention to the unit operating agreement, which is Gulf's Exhibit Number Two. Is this a divided or an undivided interest operating agreement?

A. It's an undivided interest.

Q. By undivided you mean that the participation of parties in costs -- in costs and in benefits is treated much the same as if it were a single lease?

A. That's correct.

Q. Is this unit operating agreement a conventional form of operating agreement?

A. Yes, sir, it is.

Q. Does it provide voting rights for the

working interest owners?

A. Yes, sir.

Q. For the removal of the unit operator and the selection of a successor?

A. Yes, it does.

Q. Does it provide for participation on an acreage basis?

A. Yes, sir.

Q. And, if necessary, for nonconsent operations?

A. Yes, sir.

Q. Were Exhibits One and Two prepared by you or under your direction and supervision?

A. Yes, they were.

MR. KASTLER: Mr. Examiner, this concludes my questions of Mr. Cohlmia on direct examination. I would like to move at this time that Exhibits One and Two, and the sub-exhibits attached to One, be admitted into evidence.

MR. STAMETS: These exhibits will be admitted.

Are there any questions of this witness? He may be excused.

MR. KASTLER: Mr. Pat T. Gordon is our

next witness.

PATRICK T. GORDON

being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. KASTLER:

Q. Will you please state your full name, your residence, by whom you're employed, and in what capacity?

A. My name is Patrick T. Gordon. I live in Midland, Texas. I work for Gulf Oil Corporation, and I'm a Senior Regional Geologist.

Q. Are you familiar with all of the geological aspects of Gulf's application for approval of the South Shugart Deep Unit agreement?

A. Yes, sir, I am.

Q. Have you previously qualified as an expert witness before the New Mexico Oil Conservation Division?

A. Yes, sir, I have.

MR. KASTLER: Are Mr. Gordon's qualifications acceptable?

MR. STAMETS: They are.

Q. Mr. Gordon, please refer to what is

identified as Gulf's Exhibit Number Three and state what is shown there.

A. Exhibit Number Three is a structure map on the top of the Morrow formation in 18 South, 31 East, and 19 South, 31 East. It shows a structure over the unit area at about -8000 subsea depth. And this structure, we feel, should be comparable to the two structures shown to the north in 18 South, 31 East, which are productive from the Morrow; the Morrow wells that are productive are shown in green dots, and those fields are the Shugart Field and North Shugart Field Morrow, and we feel like the structure that we have shown in the unit area will be comparable in production in the Morrow formation.

Q. Thank you. Please refer to Exhibit Four now and tell me what plans, if any, does Gulf have to test a deeper formation?

A. Exhibit Four is a structure map on the Devonian formation. We feel like a structure is evident on the unit outline in this area. It is comparable in structural relationship to the structure located 2-1/2 miles northwest in the Shugart -- the Devonian is productive in the Shugart Field in Section 27. There are two Devonian producers in that field and we feel like testing the Devonian at our proposed location should give us a Devonian producer, or a good

chance.

Q. Thank you. Do you have anything else to offer in support of this approval?

A. Exhibit Five shows a geologic comments and prognosis. It's essentially a summary of what I've just said concerning Exhibits Three and Four, and it also gives expected formation tops which we hope to encounter in the initial test.

Q. Were Exhibits Three, Four, and Five prepared by you or under your direction and supervision?

A. Yes, sir, they were.

MR. KASTLER: This concludes my direct examination of Mr. Gordon, and I move at this time Exhibits Three, Four, and Five be admitted.

MR. STAMETS: These exhibits will be admitted.

Are there any questions of this witness? He may be excused.

Anything further in this case?

The case will be taken under advisement.

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 7309, heard by me on 7-29, 1981.

Richard L. Stamm, Examiner
Oil Conservation Division

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARING

SANTA FE, NEW MEXICO

Hearing Date JULY 29, 1981 Time: 9:00 A.M.

NAME	REPRESENTING	LOCATION
De Rasso Foor	Blackwood & Nichols Co. LTD	Durango, Co.
William F. Carr	Campbell, Byrd and Black	Santa Fe
Bill Kastler	Gulf Oil Corp.	Houston
Pat A. Gordon	"	Midland
Mickey Cohlmia	"	"
J. L. Lewis	Phillips Petroleum	Odessa
B. J. Luck	Phillips Petroleum	Odessa
Joe V Peacock	" "	"
JAMES M. APPELT	AMOCO PROD. CO.	HOUSTON
Allen D. Oertel	Amoco Prod. Co.	Houston
Bob Hulen	BYRAM	Santa Fe
Paul W. Burchell	El Paso Natural Gas Co.	El Paso
David Easterwright	Amoco	Houston
Chris J Roper	Amoco	"
Paul C. Thompson		
GARY L. PAULSON	NORTHWEST PIPELINE	FARMINGTON
VINTON PIERCE	AMOCO PROD. CO	DENVER
	" " "	"
	Phillips Tire	Odessa, Tx

NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARING

SANTA FE, NEW MEXICO

Hearing Date JULY 29, 1981 Time: 9:00 A.M.

NAME	REPRESENTING	LOCATION
J.W. Laul	New Mexico State Land Office	Santa Fe
[illegible]	U.S.G.S.	Roswell
R.C. Maynard	USGS	Alb.
W. Kellerlin	Kellerlin & Kellerlin	Santa Fe
J.J. Echohawk	The El Paso Co	Santa Fe
S. Chavez	O.C.D.	Artesia
Jeff Edmiston	"	"
Frank O. Elliott	Elliott Oil Co.	Roswell
Kevin H. McCord.	KM Production	Farmington
W.B. Daniel III	Mitchell Energy	Houston, Tx
Linda Wright	Mitchell Energy	Houston, Tx
DANIEL C. RENOULT	ENSERCH EXPLORATION, INC	MIDLAND
Dan Fischer	Enserch Exploration, Inc.	Midland

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO
29 July 1981

EXAMINER HEARING

IN THE MATTER OF:

Application of Gulf Oil Corporation for a unit agreement, Eddy County, New Mexico. CASE 7309

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

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For the Oil Conservation Division: Ernest L. Padilla, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant: William V. Kastler, Esq.
The Gulf Companies
P. O. Box 3725
Houston, Texas 77001

I N D E X

M. F. COHLMIA

Direct Examination by Mr. Kastler 3

PATRICK T. GORDON

Direct Examination by Mr. Kastler 11

E X H I B I T S

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Applicant Exhibit One-B, Plat 6

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Our witnesses in this case today are Mr. Mickey Cohlmia and Mr. Pat Gordon.

Will the witnesses please stand and be sworn?

(Witnesses sworn.)

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A. My name is Mickey Frank Cohlmia. I live in Midland, Texas. I'm employed by Gulf Oil and I'm presently a Senior Land Agent.

Q. Have you ever appeared previous to this

case as a witness before the New Mexico Oil Conservation Division?

A. No, sir.

Q. What training and background have you had prior to becoming a Senior Land Agent for Gulf?

A. I'm a 1968 graduate of McMurray College in Abilene, Texas, having received a Bachelor of Business Administration degree.

Thereafter, in early '69 I went to work for Gulf in the marketing department and in the past thirteen years I've held various sales and sales related functions, including the real estate assignment.

Most recently, in November of 1980 I transferred into the Exploration Department as a Senior Land Agent in our Trade Negotiations unit, which is my present position.

Q. Are you personally familiar with Gulf's application for approval of the South Shugart Deep Unit Area and with the background leading up to this application?

A. Yes, sir.

MR. KASTLER: Mr. Examiner, I request Mr. Cohlmia's qualifications be accepted.

MR. STAMETS: They are.

Q. Mr. Cohlmia, where is the South Shugart

Unit situated? And how large a unit is it?

A. It's located approximately 26.4 northeast of Carlsbad and is comprised of 3806.08 acres.

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A. I'm looking at a plat, which is our Exhibit One-A, showing the unit boundary, the tract numbers, the lease numbers, and our proposed well location, in the west half of Section 4, 1980 feet from the west line and 1980 feet from the north line.

MR. STAMETS: I believe that that's been marked Exhibit One-B.

MR. KASTLER: Is it B?

A. Yes, sir, that's correct. We marked the unit agreement Exhibit One-A.

Q. Does the Exhibit One, the unit operating agreement, then follow the model form of Federal operating agreements for an undivided interest of an exploratory unit?

A. Yes, sir, it has.

Q. Was it previously submitted to the U. S. Geological Survey?

A. Yes, it was.

Q. And also to the New Mexico State Land Office?

A. That's correct.

Q. Has it received preliminary approval from both of those agencies?

A. Yes, sir, it has.

Q. Was the approval by the New Mexico State Land office conditional upon anything?

A. Upon the approval of the Oil Conservation Division hearing, yes, sir.

Q. All right. Have you testified where the present well is to be situated?

A. Yes, sir, I have.

Q. Can you identify, looking at Exhibit One-B.

A. Yes, sir.

Q. Can you identify the percentage of all working interest owners who have agreed to commit their Federal and State leases to this unit?

A. Yes, sir, we have approximately 87 percent commitment at this time.

Q. Where are those working interest owners situated who did not commit?

A. Primarily in the south half of Sections 31, 32, and 33, and these are the areas contained -- the south half of Section 32 contains the State acreage and there are many shallow Queen Sands wells in these areas.

Q. But they're all located up in the northeast corner, or the north and northeast section of the unit?

A. That's correct.

Q. Does Gulf consider the non-joinder of these parties will present any particular obstacle to unit development?

A. No, sir, we don't.

Q. May the others join in the future if they so desire?

A. Yes, they may.

Q. What early expiration dates exist within this unit?

A. We have one early expiration date, being 10-31-81, which we show as Tract 1 on Exhibit One-C, and that's the earliest.

Q. So therefor, your initial well must be commenced prior to November 1st?

A. That's correct.

Q. Are there any privately owned lands in the unit?

A. No, sir.

Q. Are any of the leases burdened with special stipulations or conditions, such as reclamation projects, or anything of that kind?

A. No, sir, they're not.

Q. What is the dry hole cost of the proposed Morrow well?

A. Approximately $800,000.

Q. Is there any other formation which might be tested if the conditions are favorable?

A. Yes, sir. We might want to look at the Devonian.

Q. What's the dry hole cost of a Devonian well in this area?

A. Approximately $930,000.

Q. Now, Mr. Cohlmia, I'd like to direct your attention to the unit operating agreement, which is Gulf's Exhibit Number Two. Is this a divided or an undivided interest operating agreement?

A. It's an undivided interest.

Q. By undivided you mean that the participation of parties in costs -- in costs and in benefits is treated much the same as if it were a single lease?

A. That's correct.

Q. Is this unit operating agreement a conventional form of operating agreement?

A. Yes, sir, it is.

Q. Does it provide voting rights for the

working interest owners?

A. Yes, sir.

Q. For the removal of the unit operator and the selection of a successor?

A. Yes, it does.

Q. Does it provide for participation on an acreage basis?

A. Yes, sir.

Q. And, if necessary, for nonconsent oper-ations?

A. Yes, sir.

Q. Were Exhibits One and Two prepared by you or under your direction and supervision?

A. Yes, they were.

MR. KASTLER: Mr. Examiner, this concludes my questions of Mr. Cohlmia on direct examination. I would like to move at this time that Exhibits One and Two, and the sub-exhibits attached to One, be admitted into evidence.

MR. STAMETS: These exhibits will be admitted.

Are there any questions of this witness? He may be excused.

MR. KASTLER: Mr. Pat T. Gordon is our

next witness.

PATRICK T. GORDON

being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. KASTLER:

Q. Will you please state your full name, your residence, by whom you're employed, and in what capacity?

A. My name is Patrick T. Gordon. I live in Midland, Texas. I work for Gulf Oil Corporation, and I'm a Senior Regional Geologist.

Q. Are you familiar with all of the geological aspects of Gulf's application for approval of the South Shugart Deep Unit agreement?

A. Yes, sir, I am.

Q. Have you previously qualified as an expert witness before the New Mexico Oil Conservation Division?

A. Yes, sir, I have.

MR. KASTLER: Are Mr. Gordon's qualifications acceptable?

MR. STAMETS: They are.

Q. Mr. Gordon, please refer to what is

identified as Gulf's Exhibit Number Three and state what is shown there.

A. Exhibit Number Three is a structure map on the top of the Morrow formation in 18 South, 31 East, and 19 South, 31 East. It shows a structure over the unit area at about -8000 subsea depth. And this structure, we feel, should be comparable to the two structures shown to the north in 18 South, 31 East, which are productive from the Morrow; the Morrow wells that are productive are shown in green dots, and those fields are the Shugart Field and North Shugart Field Morrow, and we feel like the structure that we have shown in the unit area will be comparable in production in the Morrow formation.

Q. Thank you. Please refer to Exhibit Four now and tell me what plans, if any, does Gulf have to test a deeper formation?

A. Exhibit Four is a structure map on the Devonian formation. We feel like a structure is evident on the unit outline in this area. It is comparable in structural relationship to the structure located 2-1/2 miles northwest in the Shugart -- the Devonian is productive in the Shugart Field in Section 27. There are two Devonian producers in that field and we feel like testing the Devonian at our proposed location should give us a Devonian producer, or a good

chance.

Q. Thank you. Do you have anything also to offer in support of this approval?

A. Exhibit Five shows a geologic comments and prognosis. It's essentially a summary of what I've just said concerning Exhibits Three and Four, and it also gives expected formation tops which we hope to encounter in the initial test.

Q. Were Exhibits Three, Four, and Five prepared by you or under your direction and supervision?

A. Yes, sir, they were.

MR. KASTLER: This concludes my direct examination of Mr. Gordon, and I move at this time Exhibits Three, Four, and Five be admitted.

MR. STAMETS: These exhibits will be admitted.

Are there any questions of this witness? He may be excused.

Anything further in this case?

The case will be taken under advisement.

(Hearing concluded.)

SALLY W. BOYD, C.S.R.
Rt. 1 Box 193-B
Santa Fe, New Mexico 87501
Phone (505) 455-7409

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. _____, heard by me on _____ 19____.

_____, Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

BRUCE KING
GOVERNOR

LARRY KEHOE
SECRETARY

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87501
(505) 827-2434

August 7, 1981

Mr. William Kastler, Attorney
Gulf Oil Corporation
Box 2100
Houston, Texas 77001

Re: CASE NO. 7309
ORDER NO. ~~R-6752~~

Applicant:

Gulf Oil Corporation

Dear Sir:

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

Yours very truly,

JOE D. RAMEY
Director

JDR/fd

Copy of order also sent to:

Hobbs OCD x
Artesia OCD x
Aztec OCD

Other

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 7309
Order No. R-6752

APPLICATION OF GULF OIL CORPORATION
FOR APPROVAL OF THE SOUTH SHUGART
DEEP UNIT AGREEMENT, EDDY COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on July 29, 1981, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 7th day of August, 1981, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Gulf Oil Corporation, seeks approval of the South Shugart Deep Unit Agreement covering 3,806.08 acres, more or less, of State and Federal lands described as follows:

EDDY COUNTY, NEW MEXICO
TOWNSHIP 18 SOUTH, RANGE 31 EAST, NMPM
Section 31: S/2
Section 32: S/2
Section 33: S/2

TOWNSHIP 19 SOUTH, RANGE 31 EAST, NMPM
Sections 4, 5, and 6: All
Section 7: N/2
Section 8: N/2
Section 9: N/2

(3) That all plans of development and operation and creations, expansions, or contractions of participating areas or expansions or contractions of the unit area, should be submitted to the Director of the Division for approval.

(4) That approval of the proposed unit agreement should promote the prevention of waste and the protection of correlative rights within the unit area.

IT IS THEREFORE ORDERED:

(1) That the South Shugart Deep Unit Agreement is hereby approved.

(2) That the plan contained in said unit agreement for the development and operation of the unit area is hereby approved in principle as a proper conservation measure; provided, however, that notwithstanding any of the provisions contained in said unit agreement, this approval shall not be considered as waiving or relinquishing, in any manner, any right, duty, or obligation which is now, or may hereafter be, vested in the Division to supervise and control operations for the exploration and development of any lands committed to the unit and production of oil or gas therefrom.

(3) That the unit operator shall file with the Division an executed original or executed counterpart of the unit agreement within 30 days after the effective date thereof; that in the event of subsequent joinder by any party or expansion or contraction of the unit area, the unit operator shall file with the Division within 30 days thereafter counterparts of the unit agreement reflecting the subscription of those interests having joined or ratified.

(4) That all plans of development and operation, all unit participating areas and expansions and contractions thereof, and all expansions or contractions of the unit area, shall be submitted to the Director of the Oil Conservation Division for approval.

(5) That this order shall become effective upon the approval of said unit agreement by the Commissioner of Public Lands for the State of New Mexico and the Director of the United States Geological Survey; that this order shall terminate ipso facto upon the termination of said unit agreement; and that the last unit operator shall notify the Division immediately in writing of such termination.

(6) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

JOE D. RAMEY
Director

SEAL

fd/

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
EXHIBIT NO. I A
CASE NO. 7309
Submitted by Gulf O. L.
Hearing Date 7-29-81

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
SOUTH SHUGART DEEP UNIT AREA
COUNTY OF EDDY
STATE OF NEW MEXICO
NO. _____

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

WITNESSETH:

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

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

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

WHEREAS, the Oil Conservation Division of the State of New Mexico Energy and Minerals Department is authorized by an Act of Legislature (Chapters 70 and 71, New Mexico Statutes 1978, Annotated) to approve this agreement and the conservation provisions hereof; and,

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

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

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

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

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

Township 18 South, Range 31 East		Township 19 South, Range 31 East	
Section 31:	S/2	Section 4: All	Section 7: N/2
Section 32:	S/2	Section 5: All	Section 8: N/2
Section 33:	S/2	Section 6: All	Section 9: N/2

limited as to depth below 5,000' beneath the surfac
containing 3,806.17 acres, more or less, in Eddy County, New Mexico. Exhibit "A" attached hereto is a map showing the unit area and the boundaries and indentity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage, in kind of ownership of oil and gas interests in all land in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the unit area render such revision necessary when requested by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor," or when requested by the Commissioner of Public Lands of the State of New Mexico, hereinafter referred to as "Land Commissioner," and not less than five (5) copies of the revised Exhibits shall be filed with the Supervisor and one (1) copy thereof shall be filed with the Land Commissioner, and one (1) copy with the Oil Conservation Division of the New Mexico Energy and Minerals Department, hereinafter referred to as "Division".

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

(a) Unit Operator, on its own motion or on demand of the Director of the Geological Survey, hereinafter referred to as "Director", or on demand of the Land Commissioner, after preliminary concurrence by the Director, shall prepare a notice of proposed expansion or contraction describing the contemplated changes in the boundaries of the unit area, the reasons therefor, and the proposed effective date thereof, preferably, the first day of a month subsequent to the date of notice.

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

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

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

(e) All legal subdivisions of land (i.e., 40 acres by Government survey or its nearest lot or tract equivalent; in instances of irregular surveys unusually large lots or tracts shall be considered in multiples of 40 acres or the nearest aliquot equivalent thereof), no parts of which are entitled to be in a participating area on or before the fifth anniversary of the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of said fifth anniversary, and such lands shall no longer be a part of the unit area and shall no longer be subject to this agreement, unless diligent drilling operations are in progress on unitized lands not entitled to participation on said fifth anniversary, in which event all such lands shall remain subject hereto for so long as such drilling operations

are continued diligently, with not more than 90 days' time elapsing between the completion of one such well and the commencement of the next such well. All legal subdivisions of lands not entitled to be in a participating area within 10 years after the effective date of the first initial participating area approved under this agreement shall be automatically eliminated from this agreement as of said tenth anniversary. All lands proved productive by diligent drilling operations after the aforesaid five-year period shall become participating in the same manner as during said five-year period. However, when such diligent drilling operations cease, all non-participating lands shall be automatically eliminated effective as of the 91st day thereafter. The Unit Operator shall within 90 days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the Supervisor and the Land Commissioner and promptly notify all parties in interest.

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

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

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

4. UNIT OPERATOR. GULF OIL CORPORATION is hereby designated as Unit Operator and by signature hereto as Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development, and production of unitized substances as herein provided.

Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in the capacity and not as an owner of interest in unitized substances, and the term "working-interest owner" when used shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

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

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

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

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

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

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

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

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

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

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit Operator is not the sole owner of working interests, costs, and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working-interest owners and the

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

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

9. DRILLING TO DISCOVERY. Within six (6) months after the effective date hereof, the Unit Operator shall begin to drill an adequate test well at a location approved by the Supervisor, if on Federal land, or by the Land Commissioner, if on State land, or by the Division if on Fee lands, unless on such effective date a well is being drilled conformably with the terms hereof, and thereafter continue such drilling diligently until the Pennsylvanian-Morrow formation has been tested, or until at a lesser depth unitized substances shall be discovered which can be produced in paying

quantities (to-wit: quantities sufficient to repay the costs of drilling, completing and producing operations, with a reasonable profit) or the Unit Operator shall, at any time, establish to the satisfaction of the Supervisor if on Federal land, or the Land Commissioner if on State land, or the Division if on Fee land, that further drilling of said well would be unwarranted or impracticable; provided, however, that Unit Operator shall not, in any event, be required to drill said well to a depth in excess of 14,000 feet. Until the discovery of a deposit of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling diligently one well at a time, allowing not more than six (6) months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of said Supervisor if it be on Federal land or of the Land Commissioner if on State land, or the Division if on Fee land, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section. The Director and Land Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when, in their opinion, such action is warranted.

Upon failure to commence any well provided for in the section within the time allowed, including any extension of time granted by the Supervisor and the Land Commissioner, this agreement will automatically terminate; upon failure to continue drilling diligently any well commenced hereunder, the Supervisor and the Land Commissioner may, after 15-days notice to the Unit Operator, declare this unit agreement terminated.

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within six (6) months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the Supervisor, and the Land Commissioner, and State Division an acceptable plan of development and operation for the unitized land which, when approved by the Supervisor, the Land Commissioner, and State Division, shall contitute the further drilling and operating obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit

Operator shall submit for the approval of the Supervisor, the Land Commissioner, and State Division a plan for an additional specified period for the development and operation of the unitized land.

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

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

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

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

Plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of development. The Supervisor and the Land Commissioner are authorized to grant a reasonable extension of the six-month period herein prescribed for submission of an initial plan of development where such action is justified because of unusual conditions or circumstances. After completion hereunder of a well capable of producing any unitized substance in paying quantities, no further wells, except such as may be necessary to afford protection against operations not under this agreement and such as may be specifically approved by the Supervisor, the Land Commissioner, and State Division, shall be drilled except in accordance with a plan of development approved as herein provided.

11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of producing unitized substances in paying quantities or as soon thereafter as required by the Supervisor, the Land Commissioner, or the State Division, the Unit Operator shall submit for approval by the Supervisor, the Land Commissioner and State Division a schedule, based on subdivisions of the public-land survey or aliquot parts thereof, of all land then regarded as reasonably proved to be productive in paying quantities; all lands in said schedule on approval of the Supervisor, the Land Commissioner, and State Division to constitute a participating area, effective

as of the date of completion of such well or the effective date of this unit agreement, whichever is later. The acreages of both Federal and non-Federal lands shall be based upon appropriate computations from the courses and distances shown on the last approved public-land survey as of the effective date of each initial participating area. Said schedule shall also set forth the percentage of unitized substances to be allocated as herein provided to each tract in the participating area so established, and shall govern the allocation of production commencing with the effective date of the participating area. A separate participating area shall be established for each separate pool or deposit of unitized substances or for any group thereof which is produced as a single pool or zone, and any two or more participating areas so established may be combined into one, on approval of the Supervisor, the Land Commissioner, and the State Division. When production from two or more participating areas, so established, is subsequently found to be from a common pool or deposit said participating areas shall be combined into one, effective as of such appropriate date as may be approved or prescribed by the Supervisor, the Land Commissioner, and State Division. The participating area or areas so established shall be revised from time to time, subject to like approval, to include additional land then regarded as reasonably proved to be productive in paying quantities or necessary for unit operations, or to exclude land then regarded as reasonably proved not to be productive in paying quantities and the schedule of allocation percentages shall be revised accordingly. The effective date of any revision shall be the first of the month in which is obtained the knowledge or information on which such revision is predicated, provided, however, that a more appropriate effective date may be used if justified by the Unit Operator and approved by the Supervisor, the Land Commissioner, and State Division. No land shall be excluded from a participating area on account of depletion of the unitized substances, except that any participating area established under the provisions of this unit agreement shall terminate automatically whenever all completions in the formation on which the participating area is based are abandoned.

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

In the absence of agreement at any time between the Unit Operator and the Supervisor, the Land Commissioner, and State Division as to the proper definition or redefinition of a participating area, or until a participating area has, or areas

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

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

12. ALLOCATION OF PRODUCTION. All unitized substances produced from each participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, camp, and other production or development purposes, for repressuring or recycling in accordance with a plan of development approved by the Supervisor, Land Commissioner, and State Division, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land of the participating area established for such production and, for the purpose of determining any benefits accruing under this agreement, each such tract of unitized land shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land in said participating area, except that allocation of production hereunder for purposes other than for settlement of the royalty, overriding royalty, or payment out of production obligations of the respective working-interest owners shall be on the basis prescribed in the unit operating agreement whether in conformity with the basis of allocation herein set forth or otherwise. It is hereby

agreed that production of unitized substances from a participating area shall be allocated as provided herein regardless of whether any wells are drilled on any particular part or tract of said participating area. If any gas produced from one participating area is used for repressuring or recycling purposes in another participating area, the first gas withdrawn from such last-mentioned participating area for sale during the life of this agreement shall be considered to be the gas so transferred until an amount equal to that transferred shall be so produced for sale and such gas shall be allocated to the participating area from which initially produced as such area was last defined at the time of such final production.

13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATION. Any party hereto owning or controlling the working interest in any unitized land having thereon a regular well location may with the approval of the Supervisor and the Land Commissioner, and Division, at such party's sole risk, costs, and expense, drill a well to test any formation for which a participating area has not been established or to test any formation for which a participating area has been established if such location is not within said participating area, unless within 90 days of receipt of notice from said party of his intention to drill the well the Unit Operator elects and commences to drill such a well in like manner as other wells are drilled by the Unit Operator under this agreement.

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

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

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

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

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

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

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

15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases committed hereto shall be paid by working-interest owners responsible therefor under existing contracts, laws, and regulations, provided that nothing herein contained shall

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

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

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

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

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

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

all leases, subleases, and contracts are particularly modified in accordance with the following:

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

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

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

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

(e) Any Federal lease for a fixed term of twenty (20) years or any renewal thereof or any part of such lease which is made subject to this agreement shall continue in force beyond the term provided therein until the termination hereof. Any other Federal lease committed hereto shall continue in force beyond the term so provided therein or by law as to the land committed so long as such lease remains subject hereto, provided that production is had in paying quantities under this unit agreement prior to the expiration date of the term of such lease, or in the event actual drilling operations are commenced on unitized land, in accordance with the provisions of this agreement, prior to the end of the primary term of such lease and are being diligently prosecuted at that time, such lease shall be extended for two years and so long thereafter as oil or gas is produced in paying quantities in

accordance with the provisions of the Mineral Leasing Act Revision of 1960.

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

(g) Any lease embracing lands of the State of New Mexico which is made subject to this agreement, shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof, provided that drilling operations on the initial test well are commenced prior to the expiration date of any State lease within the unit area, subject to the provisions of subsection (e) of Section 2 and subsection (i) of this Section 18.

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

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

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

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

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

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

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

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

(c) a valuable discovery of unitized substances has been made or accepted on unitized land during said initial term or any extension thereof, in which event the agreement shall remain in effect for such term and so long as unitized substances can be produced as to federal lands, and are being produced as to State lands, in quantities sufficient to pay for the cost of producing same from

wells on unitized land within any participating area established hereunder and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as unitized substances so discovered are produced as aforesaid, or

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

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

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

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

22. APPEARANCES. Unit Operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Department of the Interior and the Commissioner of Public Lands and to appeal from orders issued under the regulations of said Department or Land Commissioner or to apply for relief from any of said regulations or in any proceedings

relative to operations before the Department of the Interior or the Land Commissioner or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his own expense to be heard in any such proceeding.

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

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

25. UNAVOIDABLE DELAY. All obligations under this agreement requiring the Unit Operator to commence or continue drilling or to operate on or produce unitized substances from any of the lands covered by this agreement shall be suspended while the Unit Operator despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State, or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not. No unit obligation which is suspended under this section shall become due less than thirty (30) days after it has been determined that the suspension is no longer applicable. Determination of creditable "Unavoidable Delay" time shall be made by the unit operator subject to approval of the Supervisor and the Land Commissioner.

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

27. LOSS OF TITLE. In the event title to any tract of unitized lands shall fail and the true owner cannot be induced to join in this unit agreement,

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

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

28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw said tract from this agreement by written notice delivered to the Supervisor, the Land Commissioner, the State Division, and the Unit Operator prior to the approval of this agreement by the Supervisor and Land Commissioner. Any oil or gas interests in lands within the unit area not committed hereto prior to submission of this agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest is a working interest, by the owner of such interest also subscribing to the unit operating agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working-interest owner is subject to such requirements or approvals, if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final approval hereof, joinder by a non-working interest owner must be consented to in writing by the working-interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. A non-working interest may not be committed to this unit unless the corresponding working interest is committed hereto. Joinder to the unit agreement by a working interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, if more than one committed working-interest owner is involved, in order for the interest to be regarded as committed to this unit agreement. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the

first day of the month following the filing with the Supervisor, the Land Commissioner, and the State Division of duly executed counterparts of all or any papers necessary to establish effective commitment of any tract to this agreement unless objection to such joinder is duly made within sixty (60) days by the Supervisor, the Land Commissioner, or State Division, provided, however, that as to State lands all subsequent joinders must be approved by the Land Commissioner.

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

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

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

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

(1) Accept those working-interests rights subject to this agreement and the unit operating agreement; or

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

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

If the fee owner of the unitized substances does not accept the working-interest rights subject to this agreement and the unit operating agreement or lease, such lands as above-provided within six (6) months after the surrendered or for-

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

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

UNIT OPERATOR AND LESSEE OF RECORD

ATTEST:

GULF OIL CORPORATION

By: _____

By: _____
Attorney-in-Fact

STATE OF _____)

COUNTY OF _____) ss

The foregoing instrument was acknowledged before me this _____ day of _____, 198____, by _____ who is _____ of _____ corporation, for and on behalf of said Corporation.

My Commission Expires:

_____

_____
Notary Public

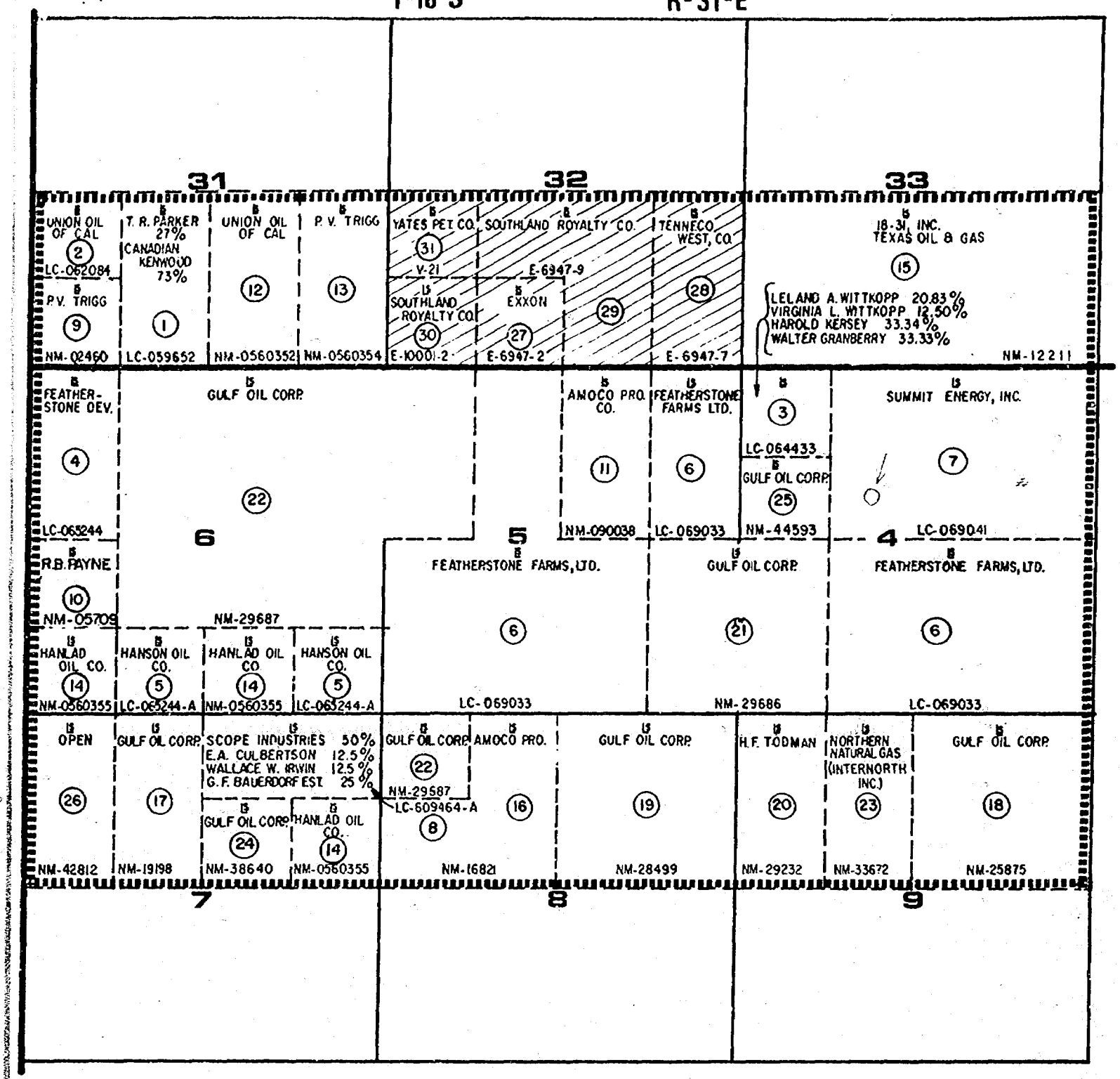


EXHIBIT "A"

T-19-S R-31-E

SOUTH SUGART DEEP UNIT
EDDY COUNTY, NEW MEXICO

STATE LEASE
FEDERAL LEASE
UNIT OUT-LINE
④ TRACT NUMBER

Tract Numbers

1. LC-059652
2. LC-062084
3. LC-064433
4. LC-065244
5. LC-065244-A
6. LC-069033
7. LC-069041
8. LC-069464-A
9. NM-02460
10. NM-05709
11. NM-09003-B
12. NM-0560352
13. NM-0560354
14. NM-0560355
15. NM-12211
16. NM-16821
17. NM-19198
18. NM-25875
19. NM-28499
20. NM-29232
21. NM-29686
22. NM-29687
23. NM-33672
24. NM-38640
25. NM-44593
26. NM-42812 - Open Federal
27. E-6947-2
28. E-6947-7
29. E-6947-9
30. E-10001-2
31. V-21

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
EXHIBIT NO. I-B
CASE NO. 7309
Submitted by GULF OIL
Hearing Date 7-29-81

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
EXHIBIT NO. I-E
CASE NO. 7309
Submitted by GULF OIL
Hearing Date 7-29-82

EXHIBIT "B"
SCHEDULE OF LANDS AND LEASES
PROPOSED SOUTH SHUGART DEEP UNIT
EDDY COUNTY, NEW MEXICO

TRACT NUMBER	DESCRIPTION OF LANDS	ACRES	SERIAL NUMBER AND EXPIRATION DATE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
1	T-18-S, R-31-E Section 31: E/2 SW/4	80.00	LC-059652 10-31-81	USA 12.5%	T. R. Parker 27% Canadian Kenwood Co. 73%	None	T. R. Parker 27% Canadian Kenwood Co. 73%
2	T-18-S, R-31-E Section 31: Lot 3	35.78	LC-062084 HBP	USA 12.5%	Union Oil Co. of CA 100%	None	Union Oil of CA 100%
3	T-19-S, R-31-E Section 4: Lot 4	39.60	LC-064433 HBP	USA 12.5%	Leland A. Wittkopp 20.83% Virginia L. Wittkopp 12.50% Harold Kersey 33.34% Walter Granberry 33.33%	Virgina Nickson Beers Ned Nickson Joseph Richard Nickson 2.50% Lora Nickson 2.50% (Undetermined) 1.00%	Leland A. Wittkopp 20.83% Virginia L. Wittkopp 12.50% Harold Kersey 33.34% Walter Granberry 33.33%
4	T-19-S, R-31-E Section 6: Lots 4,5	72.09	LC-065244 HBP	USA 12.5%	Featherstone Develop. Corp. - 100%	None	Featherstone Develop. Corp. 100%
5	T-19-S, R-31-E Section 6: SE/4 SE/4, SE/4 SW/4	80.00	LC-065244-A HBP	USA 12.5%	Hanson Oil Corp. 100%	L. B. Hodges 1/2 of 1% Ernest & Beulah Hanson 5.75%	Hanson Oil Corp. 100%
6	T-19-S, R-31-E Section 4: SE/4, E/2 SW/4 Section 5: Lots 1, 3, SE/4 NE/4, SE/4 NW/4, W/2 SE/4, SW/4	639.22	LC-069033 HBP	USA 12.5%	Featherstone Farms, LTD 100%	None	Featherstone Farms, LTD 100%
7	T-19-S, R-31-E Section 4: Lots 1, 2, 3, S/2 NE/4, SE/4 NW/4	238.90	LC-069041 HBP	USA 12.5%	Summit Energy, Inc. 100%	None	Summit Energy, Inc. 100%

TRACT NUMBER	DESCRIPTION OF LANDS	ACRES	SERIAL NUMBER AND EXPIRATION DATE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE	
8	T-19-S, R-31-E Section 7: N/2 NE/4	80.00	LC-069464-A HBP	USA 12.5%	Scope Industries 50% E. A. Culbertson 12.50% Wallace W. Irwin 12.50% George F. Bauerdorf Estate 25%	(Undetermined) - 5%	Scope Industries E. A. Culbertson Wallace W. Irwin George F. Bauerdorf Estate	50% 12.50% 12.50% 25%
9	T-18-S, R-31-E Section 31: Lot 4	35.86	NM-02460 HBP	USA 12.5%	Pauline V. Trigg 100%	None	Pauline V. Trigg	100%
10	T-19-S, R-31-E Section 6: Lot 6	36.31	NM-05709 HBP	USA 12.5%	Robert B. Payne 100%	John N. Eddy 3%	Robert B. Payne	100%
11	T-19-S, R-31-E Section 5: Lot 2, SW/4 NE/4	79.60	NM-09003-B HBP	USA 12.5%	Amoco Production Co. 100%	Elsie G. & B. R. Gorman - Prod. pmt. of $500 P/A out of 5%	Amoco Production Co.	100%
12	T-18-S, R-31-E Section 31: W/2 SE/4	80.00	NM-0560352 10-31-81	USA 12.5%	Union Oil Co. of CA 100%	Mercury Oil Co. - 5%	Union Oil Co. of CA	100%
13	T-18-S, R-31-E Section 31: E/2 SE/4	80.00	NM-0560354 Held by Unit	USA 12.5%	Pauline V. Trigg 100%	None	Pauline V. Trigg	100%
14	T-19-S, R-31-E Section 6: SW/4 SE/4 Lot 7 Section 7: SE/4 NE/4	116.48	NM-0560355 HBP	USA 12.5%	Hanlad Oil Corp. 100%	John N. & Consuelo B. Eddy-3%	Hanlad Oil Corp.	100%
15	T-18-S, R-31-E Section 33: S/2	320.00	NM-12211 HBP	USA 12.5%	18-31, Inc. 50% Texas Oil & Gas 50%	Mercury Oil Co. 5%	18-31, Inc. Texas Oil & Gas	50% 50%
16	T-19-S, R-31-E Section 8: E/2 NW/4, SW/4 NW/4	120.00	NM-16821 10-31-82	USA 12.5%	Amoco Production Co. 100%	Bruce G. Bumgarner 5% Dwane A. Hathaway 1.25%	Amoco Production Co.	100%

TRACT NUMBER	DESCRIPTION OF LANDS	ACRES	SERIAL NUMBER AND EXPIRATION DATE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE	
17	T-19-S, R-31-E Section 7: E/2 NW/4	80.00	NM-19198 9-30-83	USA 12.5%	Gulf Oil Corporation 100%	Panos Investment Co. 5%	Gulf Oil Corp.	100%
18	T-19-S, R-31-E Section 9: NE/4	160.00	NM-25875 8-31-85	USA 12.5%	Gulf Oil Corporation 100%	Virginia S. & A. W. Rutter, Jr.-5%	Gulf Oil Corp.	100%
19	T-19-S, R-31-E Section 8: NE/4	160.00	NM-28499 9-30-86	USA 12.5%	Gulf Oil Corporation 100%	Elizabeth Hannifin 5%	Gulf Oil Corp.	100%
20	T-19-S, R-31-E Section 9: W/2 NW/4	80.00	NM-29232	USA	H. F. Todman	None	H. F. Todman	100%
21	T-19-S, R-31-E Section 4: W/2 SW/4 Section 5: E/2 SE/4	160.00	NM-29686 2-28-87	USA 12.5%	Gulf Oil Corporation 100%	None	Gulf Oil Corp.	100%
22	T-19-S, R-31-E Section 5: Lot 4, SW/4 NW/4 Section 6: Lots 1, 2, 3, S/2 NE/4, SE/4 NW/4, N/2 SE/4, NE/4 SW/4 Section 8: NW/4 NW/4	478.80	NM-29687 2-28-87	USA 12.5%	Gulf Oil Corporation 100%	None	Gulf Oil Corp.	100%
23	T-19-S, R-31-E Section 9: E/2 NW/4	80.00	NM-33672 7-31-88	USA 12.5%	Northern Natural Gas Co. 100%	Cynthia B. & Sam Glasser - 5%	Inter North Inc.	100%
24	T-19-S, R-31-E Section 7: SW/4 NE/4	40.00	NM-38640 2-28-90	USA 12.5%	Gulf Oil Corporation 100%	None	Gulf Oil Corp.	100%
25.	T-19-S, R-31-E Section 4: SE/4 NW/4	40.00	NM-44593	USA 12.5%	Gulf Oil Corporation 100%	None	Gulf Oil Corp.	100%
26.	Open	73.44	NM-42812	USA	None	None	None	None

Total

TRACT NUMBER	DESCRIPTION OF LANDS	ACRES	SERIAL NUMBER AND EXPIRATION DATE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
27	T-18-S, R-31-E Section 32: SE/4 SW/4	40.00	E-6947-2 HBP	State of NM 12.5%	Exxon Co. USA. 100%	None	Exxon Co. USA. 100%
28	T-18-S, R-31-E Section 32: E/2 SE/4	80.00	E-6947-7 HBP	State of NM 12.5%	Tenneco West, Inc. 100%	None	Tenneco West, Inc. 100%
29	T-18-S, R-31-E Section 32: W/2 SE/4, NE/4 SW/4	120.00	E-6947-9 HBP	State of NM 12.5%	Southland Royalty Co. 100%	None	Southland Royalty Co. 100%
30	T-18-S, R-31-E Section 32: SW/4 SW/4	40.00	E-10001-2 HBP	State of NM 12.5%	Southland Royalty Co. 100%	None	Southland Royalty Co. 100%
31	T-18-S, R-31-E Section 32: NW/4 SW/4	40.00	V-21 6-1-81	State of NM 12.5%	Yates Petroleum Corp. 100%	None	Yates Petroleum Corp. 100%
Total		320 Acres State Lands, 8.4074% of the Unit Area					

II

A.A.P.L. FORM 610 - 1977

MODEL FORM OPERATING AGREEMENT

SOUTH SHUGART DEEP
UNIT

OPERATING AGREEMENT

DATED

_____, 19___,

OPERATOR GULF OIL CORPORATION

CONTRACT AREA T-18-S, R-31-E, N.M.P.M.
Sections: 31: S/2 32: S/2
33: S/2

T-19-S, R-31-E, N.M.P.M.
Sections: 4, 5, 6, All
Sections: 7: N/2, 8: N/2
9: N/2

COUNTY ~~OR PARISH~~ OF EDDY STATE OF NEW MEXICO

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AMERICAN ASSOCIATION OF PETROLEUM LANDMEN
APPROVED FORM. A.A.P.L. NO. 610 - 1977 REVISED
MAY BE ORDERED DIRECTLY FROM THE PUBLISHER
KRAFTBILT PRODUCTS, BOX 800, TULSA, OK 74101

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
EXHIBIT NO. II
CASE NO. 7309
Submitted by Gulf Oil
Hearing Date 7-29-81

GUIDANCE IN THE PREPARATION OF THIS AGREEMENT:

1. Title Page - Fill in blank as applicable.

2. Preamble, Page 1 - Name of Operator.

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

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

5. Article IV.B - Loss of Title - If "Joint Loss" of Title is desired, the following changes should be made:
   (a) Delete Articles IV.B.1 and IV.B.2.
   (b) Article IV.B.3 - Delete phrase "other than those set forth in Articles IV.B.1 and IV.B.2 above."
   (c) Article VII.F. - Change reference at end of the first grammatical paragraph from "Article IV.B.2" to "Article IV.B.3."

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

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

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

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

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

11. Article VII.E. - Royalties, Overriding Royalties and Other Payments - Enter royalty fraction as agreed to by parties.

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

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

14. Signature Page - Enter effective date.

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between GULF OIL CORPORATION, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators". This Agreement is a companion instrument to the Unit Agreement for the development and operation of the South Shugart Deep Unit Area, effective as of the effective date thereof, and in the event of any conflict between this agreement and the said Unit Agreement, the terms and provisions of the Unit Agreement shall be controlling. The term "Operator" herein is synonymous with "Unit Operator", and the term "Contract Area" herein is synonymous with "Unit Area" as those terms are defined and used in the said Unit Agreement.

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

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

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

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

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

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

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

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

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

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

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

ARTICLE II.
EXHIBITS

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

☒ A. Exhibit "A", shall include the following information:
(1) Identification of lands subject to agreement,
(2) Restrictions, if any, as to depths or formations,
(3) Percentages or fractional interests of parties to this agreement,
~~(4) Oil and gas leases and/or oil and gas interests subject to this agreement,~~
(5) Addresses of parties for notice purposes.

~~☐ B. Exhibit "B", Form of Lease.~~

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

☒ E. Exhibit "E", Gas Balancing Agreement.

☒ F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.

☒ G. Exhibit "G", Tax Partnership.

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

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

If any party owns an unleased oil and gas interest in the Contract Area, that interest shall be treated for the purpose of this agreement and during the term hereof as if it were a leased interest under the form of oil and gas lease attached as Exhibit "B". As to such interest, the owner shall receive royalty on production as prescribed in the form of oil and gas lease attached hereto as Exhibit "B". Such party shall, however, be subject to all of the provisions of this agreement relating to lessees, to the extent that it owns the lessee interest.

B. Interest of Parties in Costs and Production:

Exhibit "A" lists all of the parties and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and material acquired in operations on the Contract Area shall be owned by the parties as their interests are shown in Exhibit "A". All production of oil and gas from the Contract Area, subject to the payment of lessor's royalties ~~which will be borne by the Joint Account,~~ shall also be owned by the parties in the same manner during the term hereof; provided, however, this shall not be deemed an assignment or cross-assignment of interests covered hereby.

ARTICLE IV.
TITLES

A. Title Examination:

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

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

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

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

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

B. Loss of Title:

1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a reduction of interest from that shown on Exhibit "A", this agreement, nevertheless, shall continue in force as to all remaining oil and gas leases and interests, and

(a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development

or operating costs which it may have theretofore paid, but there shall be no monetary liability on its part to the other parties hereto for drilling, development, operating or other similar costs by reason of such title failure; and

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

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

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

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

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

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

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

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

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

3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall not be considered failure of title but shall be joint losses and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of the Contract Area.

ARTICLE V.
OPERATOR

A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

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

One of the operating forms approved by the American Association of Petroleum Landmen

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

~~1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice~~ thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest in the Contract Area, or is no longer capable of serving as Operator, it shall cease to be Operator without any action by Non-Operator, except the selection of a successor. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the affirmative vote of two (2) or more Non-Operators owning a majority interest based on ownership as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of six (6) months after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the Parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. If the Operator that is removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of the ~~Operator that was removed.~~

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before six (6) months from the effective date of the Unit Agreement, Operator shall commence the drilling of a well for oil and gas at the following location: Operators choice within the W/2 of Section 4, T-19-S, R-31-E, N. M. P. M., Eddy County, New Mexico,

and shall thereafter continue the drilling of the well with due diligence to a depth sufficient, to completely test the Pennsylvanian - Morrow formation, provided however, that the Unit Operator shall not in any event be required to drill said well to a depth in excess of 14,000 feet,

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

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

If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the well as a dry hole, it shall first secure the consent of all parties and shall plug and abandon same as provided in Article VI.E.1. hereof.

B. Subsequent Operations:

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

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VI.E.1. elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within sixty (60) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the twenty-four hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest of the parties approving such operation, and (b) its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within twenty-four hours ~~(exclusive of Saturday, Sunday or legal holidays)~~, after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A", or (b) carry its proportionate part of Non-Consenting Parties' interest. The proposing party, at its election, may withdraw such proposal if there is insufficient participation, and shall promptly notify all parties of such decision.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold (after deducting production taxes, royalty, overriding royalty and other interests existing on the effective date hereof, payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

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

(b) 300% of that portion of the costs and expenses of drilling reworking, deepening, or plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and

300% of that portion of the cost of newly acquired equipment in the well (to and including the well-head connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

Gas production attributable to any Non-Consenting Party's relinquished interest shall be sold, at the election of the Consenting Party, either to the Consenting Party's purchaser or to the Non-Consenting Party's purchaser. If any sale is made to the Non-Consenting Party's purchaser such Non-Consenting Party shall direct its purchaser to remit the proceeds receivable from such sale directly to the Consenting Party until the amounts provided for in this Article are recovered from the Non-Consenting Party's relinquished interest.

During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production.

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

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

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

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

The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A. except (a) when Option 2, Article VII.D.1., has been selected, or (b) to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article VI.A.

C. Right to Take Production in Kind:

See Article XV. A. and C.

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

party taking its share of production in kind shall be required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

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

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

In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines and or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with any Gas Balancing Agreement between the parties hereto, whether such Agreement is attached as Exhibit "E", or is a separate Agreement.

D. Access to Contract Area and Information:

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

E. Abandonment of Wells:

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

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

vals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Contract Area.

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon request, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well.

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

See Article XV. B.

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

B. Liens and Payment Defaults:

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

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

C. Payments and Accounting:

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

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

D. Limitation of Expenditures:

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

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

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

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

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Twenty-Five Thousand ---------- Dollars ($ 25,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of Fifteen Thousand ---------- Dollars ($ 15,000.00).

E. Royalties, Overriding Royalties and Other Payments:

See Article XV. C.

~~Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of~~ _____ due on its share of production and shall hold the other parties free from any liability therefor. If the interest of any party in ~~any~~ oil and gas lease covered by this agreement is subject to any royalty, ~~overriding royalty~~, production payment, or other charge over and above the aforesaid ~~royalty~~, such party shall assume and alone bear all such obligations and shall account ~~for or cause to be accounted for, such interest to the owners thereof.~~

No party shall ever be responsible, on any price basis higher than the price received by such party, to any other party's lessor or royalty owner; and if any such other party's lessor or royalty owner should demand and receive settlements on a higher price basis, the party contributing such lease shall bear the royalty burden insofar as such higher price is concerned.

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

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

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

of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

G. Taxes:

Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. Operator shall bill other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

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

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

H. Insurance:

At all times while operations are conducted hereunder, Operator shall comply with the Workmen's Compensation Law of the State where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be an amount equivalent to the premium which would have been paid had such insurance been obtained. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the Workmen's Compensation Law of the State where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event Automobile Public Liability Insurance is specified in said Exhibit "D", or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's fully owned automotive equipment.

ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

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

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

be shared by the parties assignee in the proportions that the interest of each bears to the interest of all parties assignee.

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

B. Renewal or Extension of Leases:

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

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

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

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

~~The provisions in this Article shall apply also and in like manner to extensions of oil and gas leases.~~

C. Acreage or Cash Contributions:

While this agreement is in force, if any party contracts for a contribution of cash toward the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and accept such tender, such acreage shall not become a part of the Contract Area. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the Contract Area.

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

D. Subsequently Created Interest:

Notwithstanding the provisions of Article VIII.E. and VIII.G., if any party hereto shall, subsequent to execution of this agreement, create an overriding royalty, production payment, or net proceeds interest, which such interests are hereinafter referred to as "subsequently created interest", such subsequently created interest shall be specifically made subject to all of the terms and provisions of this agreement, as follows:

1. If non-consent operations are conducted pursuant to any provision of this agreement, and the party conducting such operations becomes entitled to receive the production attributable to the interest out of which the subsequently created interest is derived, such party shall receive same free and clear of such subsequently created interest. The party creating same shall bear and pay all such subsequently created interests and shall indemnify and hold the other parties hereto free and harmless from any and all liability resulting therefrom.

2. If the owner of the interest from which the subsequently created interest is derived (1) fails to pay, when due, its share of expenses chargeable hereunder, or (2) elects to abandon a well under provisions of Article VI.E. hereof, or (3) elects to surrender a lease under provisions of Article VIII.A. hereof, the subsequently created interest shall be chargeable with the pro rata portion of all expenses hereunder in the same manner as if such interest were a working interest. For purposes of collecting such chargeable expenses, the party or parties who receive assignments as a result of (2) or (3) above shall have the right to enforce all provisions of Article VII.B. hereof against such subsequently created interest.

E. Maintenance of Uniform Interest:

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

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

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

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

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

F. Waiver of Right to Partition:

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

G. Preferential Right to Purchase:

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

ARTICLE IX.
INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any 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, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No

such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from Operations hereunder can be adequately determined without the computation of partnership taxable income. The tax election in Exhibit "G" is exercised by the Tax Partnership described in Article XV, S, (3) as an entity and not by the members of the Tax Partnership in their individual capacities.

ARTICLE X.
CLAIMS AND LAWSUITS

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

ARTICLE XI.
FORCE MAJEURE

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

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

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

ARTICLE XII.
NOTICES

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

ARTICLE XIII.
TERM OF AGREEMENT

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

~~☐ Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal or otherwise, and/or so long as oil and/or gas production continues from any lease or oil and gas interest.~~

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

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

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law: SEE ARTICLE XV. F. and XV. G.

The essential validity of this agreement and all matters pertaining thereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state where most of the land in the Contract Area is located shall govern.

ARTICLE XV.
OTHER PROVISIONS

A..

Each party electing to take in kind or separately dispose of its proportionate share of the production from the Contract area shall keep accurate records of the volume, selling price, royalty and taxes relative to its share of production. Non-Operators shall, upon request, furnish Operator with true and complete copies of the records required to be kept hereunder whenever, under the terms of this agreement or any agreement executed in connection herewith, it is necessary for Operator to obtain said information. Any information furnished to Operator hereunder shall be used by Operator only to the extent necessary to carry out its duties as Operator and shall otherwise be kept confidential.

B.

It is not the intention of the parties that this contract is made or intended for the benefit of any third person.

C.

For the purpose of this agreement as between the parties hereto, the royalty interest is and shall be treated as 1/8th, and the working interest of the parties hereto shall be treated as 7/8ths, and all oil and gas, including casinghead gas and condensates produced from the contract area attributable to the working interest covered by this agreement shall be owned in the proportions shown in Exhibit "A".

It is recognized by the parties hereto that in addition to each party's share of working interest production as shown in Exhibit "A", such party shall have the right, subject to existing contracts, to market the royalty gas attributable to each lease which it contributes to the Contract Area and to receive payments due for such royalty gas produced from or allocated to such lease or leases. It is

agreed that, regardless of whether each party markets or contracts for its share of gas, including the royalty gas under the leases which it contributed to the Contract Area, such party agrees to pay or cause to be paid to the royalty owners under its lease or leases the proceeds attributable to their respective royalty interest and to hold all other parties hereto harmless for its failure to do so.

It is understood by and between the parties hereto that if any of them is obligated to pay any lessor royalties at a rate in excess of the usual 1/8th royalty or to pay to anyone any overriding royalty, payments out of production, net profit obligations, carried interests, or any other outstanding obligations now existing or hereafter coming into existence against any of the parties hereto, or their respective interests, or with respect to the respective interests in the production from the above described land, all such royalties, obligations and payments by which any of the parties hereto is now bound or may hereafter become bound shall remain the obligation of the respective party or parties, as the case may be, and shall be paid and satisfied in each instance, unless otherwise paid and satisfied, out of the interest of the obligated party in the 7/8ths working interest set forth above.

D.

~~If the Operator is required hereunder to pay ad valorem taxes 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 percentage of tax ~~value generated by each party's working interest.~~

~~E. Anything to the contrary notwithstanding, the following shall apply to the~~ renewal or extension of leases as to the undeveloped portions of the unit:

(1) Renewal or Extension by Original Lease Owner

If the party who committed a lease to this agreement, which party is referred to as the "original lease owner", shall renew such lease prior to or within six (6) months after the expiration date of such lease, such party shall thereby own or retain its original interest and title in said lease and all parties' working interest in the Contract Area shall remain unchanged, unless such renewal lease covers less area or less interest than was covered by said lease at the time of its expiration, in which event the interest of the parties will be adjusted accordingly.

(2) Renewal or Extension by Other Than Original Lease Owner

If any working interest owner other than the original lease owner renews a lease committed to this agreement prior to or within six (6) months after the expiration date of such lease, whether such renewal lease is for the entire interest covered by the expiring lease or covers only a portion of its area or an interest therein, the renewing party shall furnish the original lease owner an itemized statement of the full costs and expenses or renewing such lease. The original lease owner shall have sixty (60) days after the receipt of such itemized statement within which to reimburse the renewing party in full for such costs and expenses of renewing such lease, and promptly execute an assignment of such renewal lease to the original lease owner. If such renewal lease covers the same area and the same interest as the expiring lease, then the interests of all parties' working interest in the Contract Area shall remain unchanged; otherwise, the interests of all the parties will be adjusted accordingly.

(3) Original Lease Owner Does Not Elect to Reimburse

If the original lease owner does not elect to reimburse the renewing party for such costs and expenses of renewing such lease within sixty (60) days after receipt of such statement, such lease shall then be promptly offered by the renewing party to all of the working interest owners on a pro rata basis provided each such owner agrees to pay his proportionate part of the renewal costs. Such renewal costs shall be borne in proportion to the interest held at that time by the parties in the Contract Area, and such party or parties shall receive an assignment of the renewal lease from the renewing party in proportion to their interest in the Contract Area. Such right to pay renewal costs and to share in the assignment of said lease must be exercised within sixty (60) days after receipt of such notice from the renewing party. If all parties to this agreement elect to share in the renewal costs and to receive an assignment of such ~~renewal lease in proportion to their current interest,~~

~~(3) Original Lease Owner Does Not Elect to Reimburse (Continued)~~

then such lease shall again become subject to this agreement and the interest of all parties' working interest in the Contract Area shall remain unchanged.

(4) If All Parties Do Not Elect to Reimburse

If one or more parties to this agreement elect not to reimburse the renewing party and to receive an assignment of their proportionate interest in such renewal lease, then such renewal lease shall not be or become subject to this agreement unless all parties to this agreement consent in writing to such lease being subject to this agreement and all parties consent to adjusting their percentages of participation in the Contract Area.

(5) Individual Loss

If any party secures the renewal of a lease subject to this agreement, the loss of which was an individual loss, such lease shall again become subject to this agreement and to the rights of the original lease owner under Subsections XV E (1) and XV E (2) hereof, subject only to an adjustment of percentages as required. However, the provisions of Subsections XV E (3) and XV E (4) shall not be applicable hereto and shall not apply to any such individual loss.

(6) Renewal Lease Defined

A renewal lease as used in Article XV E hereof shall mean any lease taken before the expiration of its predecessor lease, or any lease taken or contracted for within six (6) months after the expiration of an existing lease. Any lease taken or contracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease.

(7) Article XV E also Applies to Extensions

The provisions of Article XV E (a) through (e) shall also apply in like manner to extensions of leases and where not in conflict or in contradiction, the terms "renewal" and the term "extension" as used in said Article XV E shall have the same meaning.

F. TERM

This agreement shall remain in force for a period of one (1) year from and after the effective date of the Unit Agreement, and as long thereafter as the Unit Agreement is in effect. In the event of termination of the Unit Agreement for any reason as to all or any part of the land now or hereafter included in the Unit Area, this agreement shall continue in full force and effect with respect to any land as to which the Unit Agreement terminates which is included in any drilling unit or proration unit for any unabandoned well which has been drilled or commenced pursuant to this agreement, and as long thereafter a s oil and gas, or either of them is produced from the Unit Area, or any part thereof, or as long as producing, drilling or reworking operations are conducted thereon with no cessation of more than sixty (60) consecutive days, or as long as any lease committed to the Unit remains in effect by the payment of shut-in gas royalties on a gas well situated upon the Unit Area or any portion thereof. This agreement shall constitute a covenant running with the committed interests and shall be binding upon and insure to the benefit of the parties hereto, their successors and assigns. In the event of the termination of the Unit Agreement as to part of the land included in such Unit Agreement, the lands remaining subject to the Unit Agreement will also remain subject to this Operating Agreement.

G. It is understood that this contract may not be canceled, terminated or suspended for noncompliance with the Nondiscrimination Clause set forth in Exhibit "F" attached hereto until a final determination of noncompliance has been made by the Director, Office of Federal Contract Compliance, U. S. Department of Labor, as authorized in Executive Order No. 11246 of September 24, 1965.

H. CASING POINT ELECTION

It is specifically understood that consent to the drilling or deepening of a well shall not be deemed as consent to the setting of casing and a completion attempt. After any well drilled pursuant to this agreement has

H. CASING POINT ELECTION (CONTINUED)

reached its authorized depth, Operator shall give immediate notice to parties bearing costs of drilling to said depth. The parties receiving such notice shall have twenty-four (24) hours in which to elect whether or not they desire to set casing and to participate in a completion attempt. Failure of a party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of a completion attempt. If all of the parties election to plug and abandon the well, Operator shall plug and abandon same at the expense of said parties. If one or more, but less than all, of said parties elect to set pipe and attempt completion, the provisions of Section 9 shall apply to the operations thereafter conducted by less than all parties.

I. REQUIRED WELLS

For the purpose of this article a well shall be deemed a required well if the drilling thereof is required by the final order of an authorized representative of the Department of Interior. Such an order shall be deemed final upon expiration of the time allowed for appeal therefrom without the commencement of appropriate appeal proceedings or, if such proceedings are commenced within said time, upon the final dispostion of the appeal. Whenever Unit Operator receives any such order, it shall promptly mail a copy thereof to each of the other parties; if any such order is appealed, the party appealing shall give prompt written notice thereof to each of the other parties, and upon final disposition of the appeal, Unit Operator shall give each of the other parties prompt written notice of the result thereof.

Any party desiring to drill, or participate in the drilling of, a required well shall give to Unit Operator written notice thereof within thirty (30) days after the order requiring such well becomes final or within such lesser time as may be required by such order. If such notice is given within said period, Unit Operator shall drill the required well for the account of the party or parties giving such notice, who shall bear all costs incurred therein; the rights and obligations of such party or parties with respect to the ownership of such well, the operating rights therein, the available production therefrom and the bearing of costs incurred therein shall be the same as if the well had been drilled for the account of such party or parties under Article VI B 2, "Additional Wells."

If no party elects to drill a required well within the period allowed for such election, and if any of the following alternatives are available, the first such alternative which is available shall be followed:

a. If compensatory royalties may be paid in lieu of drilling the well and if payment thereof is authorized by the parties within said period, Unit Operator shall pay such compensatory royalties; or

b. If the drilling of the well may be avoided, without other penalty, by contraction of the Unit Area through exclusion of lands not then within a participating area, Unit Operator shall make reasonable effort to effect such contraction with the approval of the Director; or

c. If unitized substances have not theretofore been discovered in paying quantities within the Unit Area, the parties shall join in termination of the Unit Agreement in accordance with its provisions.

If none of the foregoing alternatives are available, Unit Operator shall drill the required well for the account of all the parties, each of whom shall bear that percentage of all costs incurred therein which is equal to its participating interest.

J. COMPENSATORY ROYALTIES

Whenever demand is made in accordance with the Unit Agreement for the drilling of a well for the protection of the Unit Area from drainage, or for the payment of compensatory royalties in lieu thereof, Unit Operator shall give written notice thereof to each party. If payment of such compensatory

J. COMPENSATORY ROYALTIES (CONTINUED)

royalties is approved by the parties, Unit Operator shall make payment hereof. All payments so made by Unit Operator shall be charged as costs and borne by the parties in proportion to their respective participating interests. If payment of compensatory royalties is not approved by the parties, then the rights and obligations of the parties shall be governed by Article XV I, "Required Wells."

~~K. UNCOMMITED ROYALTY~~

Should an owner of a royalty interest in any tract fail to become a party to the Unit Agreement and, as a result thereof, the actual royalty interest payments with respect to such tract are more or less than the royalty interest payments computed on the basis of the unitized substances that are allocated to such tract under the Unit Agreement, to the extent provided below, the difference shall be borne by or inure to the benefit of working interest owners, in proportion to their respective unit participation.

The difference to be borne by or inure to the benefit of working interest owners shall not exceed an amount computed on the basis of 1/8th of the difference between the unitized substances allocated to the tract and the unitized substances produced from the tract. Such adjustments shall be made by charges and credits to the joint account. Any uncommitted royalty interest in excess of 1/8th shall be borne solely by the working interest owner contributing such interest.

L. MANNER OF EXERCISING SUPERVISION

For projects exceeding Operator's expenditure limits and for other operational procedures not covered by this Operating Agreement, the following procedures shall apply.

Each working interest owner shall in writing inform Unit Operator of the names and addresses of its representative and alternate who are authorized to represent and bind such working interest owner in all duly called meetings with respect to Unit operations. The representative or alternate may be changed from time to time by written notice to Unit Operator.

All meetings of working interest owners shall be called by Unit Operator upon its own motion or at the request of two (2) or more working interest owners having a total percentage participation in the initial well after payout and all subsequent wells of not less than ten percent (10%). No meeting shall be called on less than fourteen (14) days' advance written notice, with agenda for the meeting attached. Working interest owners who attend the meeting shall not be prevented from amending items included in the agenda or from deciding the amended item or other items presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.

Working interest owners shall decide all matters coming before them as follows:

a. Each working interest owner shall have a voting interest computed by dividing its leasehold acreage material to the issue at hand by the total committed acreage.

b. Except as may otherwise be provided herein or in the Unit Agreement, working interest owners shall act upon and determine all matters coming before them by the affirmative vote of two (2) or more working interest owners having a total of sixty percent (60%) or more of the total voting interest in the Unit; provided that, if any one working interest owner has a voting interest of more than forty percent (40%), its negative vote or failure to vote shall not defeat the matter being voted on if such matter is supported by a majority of the voting interest unless such working interest owner is supported by the vote of one or more other working interest owners having a total voting interest of at least five percent (5%), and such resulting vote shall be binding on all parties.

c. Any working interest owner who is not represented at a meeting may vote either by written proxy or by letter or telegram addressed

L. MANNER OF EXERCISING SUPERVISION (CONTINUED)

c. (Continued) to the representative of the Unit Operator, provided such letter or telegram is received prior to the submission of such item to vote. If the vote is by letter or telegram, such vote shall not be counted with respect to any item on the agenda which has been materially changed at the meeting.

d. Working interest owners may vote on and decide, by letter or telegram, any matter submitted in writing to working interest owners, if no meeting is requested, as provided in this article, within seven (7) days after the proposal is received by working interest owners. Unit Operator will give prompt notice of the results of the voting to all working interest owners.

e. Any expenditure occurring as a result of vote will be billed to joint account and paid by all parties in accordance with their respective working interest ownership in the Unit Area.

M. ESTABLISHMENT, REVISION AND CONSOLIDATION OF PARTICIPATING AREA

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

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

If the proposal does not receive the approval of such Working Interest Owners, then the Unit Operator shall submit a revised proposal taking into account the objections made to the first proposal. If no proposal received the approval of said Working Interest Owners within thirty (30) days from the submission of the first proposal, the Unit Operator shall then file with the Supervisor and the Land Commissioner a proposal reflecting as nearly as practicable the various views expressed by the affected Working Interest Owners.

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

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

N. MISCELLANEOUS

It is understood that all references made herein to the respective parties shall, where applicable, include the singular or the plural, as the case may be, and use of any pronoun herein shall, where applicable, cover the masculine, feminine and neuter, as the case may be. It is further understood and agreed that the headings used in this agreement are inserted for convenience only and shall be disregarded in construing this agreement.

In the event of conflict between the Unit Agreement and this Unit Operating Agreement, the terms and conditions of the Unit Agreement shall control.

O. DEPARTMENT OF ENERGY REGULATIONS

Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or predecessor agencies to the extent Operator's interpretation or application of such rules, rulings, regulations or orders were made in good faith. Non-Operators further agree to reimburse Operator for their proportionate share of any amounts

O. DEPARTMENT OF ENERGY REULATIONS (CONTINUED)

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 the Non-Operators' proportionate part of interest and penalties owing by Operator as a result of such incorrect interpretation or application of such rules, rulings, regulations or orders.

~~P. PARTICIPATION IN COST OF INITIAL TEST WELL~~

~~who presently own interests in the contract area, are contributing a portion of~~ such interests to the drilling of the Initial Test Well, and will hereinafter be referred to as the "Contributing Party" whether one or more. The Contributing Party's share of the Initial Test Well will be paid for by Gulf Oil Corporation %, and
%, who will be referred to as "Earning Party" whether one or more.

In consideration of payment of expenses set forth in Exhibit "A-2" hereof, performance of all the terms and provisions of this agreement, and completion of the Initial Test Well as a well capable of producing oil or gas in paying quantities (quantities sufficient to return the cost of operating the well and a reasonable profit), the Earning Party shall earn oil and gas rights in the Contract Area equal to (a) the entire present interest of the Contributing Party in the largest participating area initially assigned by the New Mexico Oil Conservation Commission to the Initial Test Well which is first completed as a producing oil or gas well, and (b) an undivided 1/2 of the present interest of the Contributing Party in the Contract Area outside of the participating area. The Contributing Party, in proportion to the interest in the Contract Area, excepts and reserves from the participating area, a total overriding royalty, subject to proportionate reduction, equal to 1/16 of 8/8ths of the oil and gas produced, saved and marketed from the participating areas. This total overriding royalty shall include and absorb all overriding royalties and other obligations payable out of production from the Participating Area. After the earning Party has earned an interest in the Contract Area as provided hereinabove, and upon request of the Earning Party, the Contributing Party shall execute and deliver assignments of operating rights, without warranties of title, confirming the oil and gas operating rights earned.

Upon payout of the initial test well, the Contriubting Party's overriding royalty interest shall terminate, the the Contributing Party shall be entitled to a forty percent (40%) working interest, proportionately reduced, in the contract area. Payout of the initial test well shall be deemed to have occurred when proceeds of all production from the initial test well (after deducting the gross production taxes, royalty, overriding royalty, and other interests payable out of or measured by such share of the production) shall equal 100% of the cost incurred in drilling, deepening, plugging back, reworking; completing and equipping (excluding any costs beyond the wellhead connection) such well, and 100% of the cost beyond the wellhead connection, such as tanks, separators and flow lines, together with 100% of the cost of operation thereof during such time, such cost to be determined in accordance with the provisions of the Accounting Procedure (Exhibit "C") of the Operating Agreement referred to above.

Within thirty (30) days after Operator has recovered all drilling and completion costs attributable to the initial test well and said well has paid out, Operator shall notify the Contributing Party of such fact. The Contributing Party's working interest shall become effective at 7:00 A.M. on the first day following the day the well pays out, and all operations on any subsequent well on the contract area shall be governed by the ~~provisions of the Operating Agreement of even date herewith.~~

~~P. PARTICIPATION IN COST OF INITIAL TEST WELL~~

~~hereinafter referred to as Contributing Party,~~ own leasehold estate rights in the following described land:

Such land is situated in the contract area. Contributing Party is farming out its interest in the above described land to Gulf Oil Corporation.

In consideration of payment of expenses as set forth in Exhibit "A" hereof, performance of all the terms and provisions of this agreement, and completion of the initial test well as a well capable of producing oil or gas in paying quantities (quantities sufficient to return the cost of operating the well and a reasonable profit), the Earning Party shall earn from Contributing Party the following described rights in the proportions described above:

1. 100% of Contributing Party's leasehold estate rights in the initial test well proration unit.

2. 60% of Contributing Party's leasehold estate rights in the contract area located outside of the initial test well proration unit.

3. 100% of any right Contributing Party may have to share in production from the initial test well.

Notwithstanding the foregoing, the Contributing Party shall receive out of the initial test well a cost free interest in production equal to 1/16 of 8/8ths of all oil and gas produced, saved and marketed from the initial test well, proportionately reduced by the percentage of the Contract Area which was committed by contributing parties (determined on an acreage basis) as further set forth in Exhibit "A" hereto. After the Earning Party has earned an interest in the Contract Area as provided herein above, and upon request of the Earning Party, the Contributing Party shall execute and deliver assignments of such rights without warranties of title, confirming that such rights were earned.

Upon payout of the initial test well, as described below, the Contributing Party shall have the option, to be exercised within 30 days of the receipt of the notice described below, to terminate its 1/16 of 8/8ths, proportionately reduced, cost free interest in production from the initial test well, and fully participate in the initial test well, receiving its share of production and paying its share of costs, as set out in Exhibit "A" hereto. In the event Contributing Party owned leasehold estate rights in the proration unit of the initial test well, and pursuant to the terms of this agreement assigned 100% of such rights in such proration unit to Earning Parties, then upon making the election to fully participate, as provided above, Earning Party shall reassign to Contributing Party an undivided 40% of the leasehold estate rights which were ~~previously assigned by the contributing party to earning party~~.

P. PARTICIPATION IN COST OF INITIAL TEST WELL (CONTINUED)

Payout of the initial test well shall be deemed to have occured when proceeds of all production from the initial test well (after deducting gross production taxes, royalty, overriding royalty, and other interests payable out of or measured by such share of production) shall equal 100% of the costs incurred in drilling, deepening, plugging back, reworking, completing and equipping such well (including any costs beyond the well head connection such as tanks, separators and flow lines), together with 100% of the costs of operation thereof during such time, such cost to be determined in accordance with the provisions of the accounting procedures (Exhibit "C") of this Operating Agreement.

Within 30 days after operator has recovered all drilling and completion costs attributable to the initial test well and said well has paid out, operator shall notify the contributing party of such fact. If the contributing party makes the election provided for above, such election shall become effective at 7 a.m. on the first day following the day the well pays out.

Q. PLANS OF DEVELOPMENT

Each plan for the development and operation of the Contract Area which is submitted by Operator to the Supervisor in accordance with the Unit Agreement shall make provision only for such drilling, deepening and plugging back operations and such other projects as Operator has been authorized to conduct by the parties chargeable with the costs incurred therein.

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

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

If a drilling, deepening, or plugging back operation which is authorized by all the parties of which any of the parties have elected to perform in accordance with article VI B is not provided for in the then current plan of development as approved by the Supervisor, Operator shall either (a) request the Supervisor to approve an amendment to such plan which will provide for the conduct of such operation, or (b) request the Supervisor to consent to such operation if his consent is sufficient.

If any such plan as approved by the Supervisor provides for the cessation of any drilling or other operations therein provided for on the happening of a contingency and if such contingency occurs, Operator shall promptly cease such drilling or other operations and shall not incur any additional costs in connection therewith unless and until such drilling or other operations are again authorized in accordance with this agreement by the parties chargeable with such costs.

R.

~~1. Operator agrees to comply with all laws and lawful regulations applicable~~ to any activities carried out in the name of or on behalf of any one or more of the parties to this agreement under the provisions of this agreement and/or any amendments to it.

2. Operator agrees that all financial settlements, billings and reports rendered to any one or more of the parties to this agreement, as provided for in this agreement and/or any amendments to it, will, to the best of its knowledge and belief, reflect properly the facts about all activities and transactions handled for the account of such party or parties, which data may be relied upon as being complete and accurate in any further recording and reporting made by such party or parties for whatever purpose.

3. Operator agrees to notify the other parties to this agreement promptly upon discovery of any instance where the Operator fails to comply with the provision (1) above or where Operator has reason to believe ~~data covered by (2) above is no longer accurate and complete.~~

F A R M O U T A G R E E M E N T

This Article XV. S. shall constitute an agreement between _____, _____, and _____, hereinafter referred to as "Earning Party or Parties", as the case may be, and _____, _____, and _____, hereinafter referred to as "Contributing Party or Parties", as the case may be. In consideration for the Earning Parties' bearing the entire costs attributable to the Contributing Parties' share of the costs of drilling, testing, completing, and operating the Initial Well in the respective proportions of _____, _____, and _____; it is agreed as follows:

(1) When and if the Initial Well has been completed as a Commercially Productive Well, the Contributing Parties shall execute and deliver to the Earning Parties the following described assignment:

> An assignment covering all rights, title and interest of the Contributing Parties in and to that portion of the Contract Area included within the drilling unit around the Initial Well
> _____
> _____
> _____
> to the Earning Parties in the respective shares as shown above, but reserving to the Contributing Parties _____
> _____
> _____,
> an overriding royalty interest of _____, proportionately reduced, said overriding royalty interest being each Earning Party's proportionate share of _____ of all production from the Initial Well which is attributable to the interest in the Contract Area initially owned by the Contributing Parties. Said assignment shall provide that each Contributing Party shall have an option after payout to convert its said overriding royalty interest to a proportionate share of _____, said working interest being share of _____ of all production from the Initial Well which is attributable to the interest in the Contract Area initially owned by each Contributing Party.

Payout of the Initial Well shall be deemed to have occurred when proceeds of production from the Initial Well (after deducting the gross production taxes, royalty, overriding royalty, and other interests payable out of or measured by such share of the production which on the date of this assignment burden the leasehold estate assigned) shall equal 100% of the costs incurred in drilling, deepening, plugging back, reworking, completing and equipping such well, including all costs beyond the wellhead connection, such as tanks, separators and flow lines, together with the costs of operation thereof during such time of payout, all of such costs to be determined in accordance with the provisions of the Accounting Procedure (Exhibit "C") of the Operating Agreement referred to above.

If, in the drilling of the Initial Well, Earning Parties encounter a drilling condition or substance before reaching the depth or formation specified in Article VI herein, which cannot be overcome by means or methods customarily used by prudent Operators in the area, then and in such event, the Initial Well may be plugged and abandoned at the depth at which the substance or condition is encountered and Earning Parties are hereby granted and given an option to commence and drill a substitute well for the Initial Well. The actual drilling of any such substitute well shall be commenced within 45 days from the date the Initial Well is plugged and abandoned and shall be staked at a location of Earning Parties' choice on the Contract Area. Any such substitute well shall be drilled to the same depth and under the same terms and conditions as are applicable to the Initial Well, and when so drilled, shall be considered for all purposes to be the Initial Well.

Within thirty (30) days after payout of the Initial Well the Operator shall notify all Earning and Contributing Parties of such fact. The Contributing Parties shall have 60 days from receipt of such notice to notify the Earning Parties in writing whether or not they have elected to convert their respective overriding royalty interests into the said working interests.

If any Contributing Party fails to so notify the Earning Parties within said 60-day period, it will be conclusively presumed that the Contributing Party has elected to retain its overriding royalty interest in that portion of the Contract Area included within the drilling unit around the Initial Well and in the production from the Initial Well, rather than to convert same to a working interest. Upon Contributing Parties' election to convert its overriding royalty interest to a working interest, the Contributing Parties' working interest shall become effective at 7:00 A.M. on the first day following the day the well pays out. If any or all of the Contributing Parties elect to convert to a working interest, the Earning and Contributing Parties shall execute such instruments as are appropriate to effectuate such conversion of record with such conversion becoming effective the first day after payout of the Initial Well.

(2) When and if the Initial Well has been completed as a Commercially Productive Well, the Contributing Parties shall also execute and deliver to the Earning Parties the following described assignment:

An assignment conveying _____ of the rights, title and interest of the Contributing Parties _____

_____

_____

in the Initial Well in and to all of the Contract Area, except for that portion which is included within the drilling unit around the Initial Well, to _____

_____

_____

_____

_____.

(3) "Tax Partnership": The Contributing and Earning Parties hereby agree that they are tax partners and will be bound by the Tax Partnership Agreement attached hereto as Exhibit "G" and incorporated herein by reference for all purposes.

ARTICLE XVI.
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of _____ day of _____, 19____.

OPERATOR

GULF OIL CORPORATION

_____ By: _____
Attorney-in-Fact

NON-OPERATORS

ATTEST: UNION OIL COMPANY OF CALIFORNIA

_____ By: _____
Secretary Title:

ATTEST: CANADIAN KENWOOD COMPANY

_____ By: _____
Secretary Title:

ATTEST: 18-31, INC.

_____ By: _____
Secretary Title:

ATTEST: SOUTHLAND ROYALTY COMPANY

_____ By: _____
Secretary Title:

ATTEST: YATES PETROLEUM CORPORATION

_____ By: _____
Secretary Title:

ATTEST: EXXON COMPANY, U.S.A.

_____ By: _____
Secretary Title:

ATTEST: FEATHERSTONE DEVELOPMENT CORPORATION

_____ By: _____
Secretary Title:

ATTEST:

_____
Secretary

HANSON OIL CORPORATION

By: _____
Title:

ATTEST:

_____
Secretary

FEATHERSTONE FARMS, LTD.

By: _____
Title:

ATTEST:

_____
Secretary

HANLAD OIL CORPORATION

By: _____
Title:

ATTEST:

_____
Secretary

SUMMIT ENERGY, INC.

By: _____
Title:

ATTEST:

_____
Secretary

AMOCO PRODUCTION COMPANY

By: _____
Title:

ATTEST:

_____
Secretary

INTERNORTH EXPLORATION & PRODUCTION

By: _____
Title:

ATTEST:

_____
Secretary

SCOPE INDUSTRIES

By: _____
Title:

ATTEST:

_____
Secretary

REPUBLIC NATIONAL BANK

By: _____
Title:

_____
PAULINE V. TRIGG

_____
T. R. PARKER

_____
LELAND A. WITTKAPP

Second page of signature page of Operating Agreement covering S/2 of Sections 31, 32, and 33, T-18-S, R-31-E, N. M. P. M.; all of Sections 4, 5, and 6, and N/2 of Sections 7, 8, and 9, T-19-S, R-31-E, N. M. P. M., Eddy County, New Mexico.

VIRGINIA L. WITTKAPP

WALTER GRANBERRY

HOWARD F. TODMAN

HAROLD KERSEY

MARIAN CULBERTSON

WALLACE W. IRVIN

THELMA BAUERDORF

CONSTANCE B. CARTWRIGHT

ANNE GANNON DERFUS

BEVERLY PAYNE HORTON

WILLIAM G. PAYNE

ROBERT C. PAYNE

Third page of signature page of Operating Agreement covering S/2 of Sections 31, 32, and 33, T-18-S, R-31-E, N. M. P. M.; all of Section 4, 5, and 6, and N/2 of Sections 7, 8, and 9, T-19-S, R-31-E, N. M. P. M., Eddy County, New Mexico.

EXHIBIT "A"

Attached to and made a part of the Operating Agreement between GULF OIL CORPORATION as "Operator", and AMOCO PRODUCTION COMPANY, et al, as "Non-Operator".

Eddy County, New Mexico

(1) Identification of lands subject to agreement:

S/2 of Sections 31, 32, 33, T-18-S, R-31-E, N. M. P. M., and all of Sections 4, 5, 6; the N/2 of Sections 7, 8, and 9, N. M. P. M., Eddy County, New Mexico.

(2) Restrictions, if any, as to depths or formations:

(3) Percentages or fractional interests of parties to this agreement:

(4) Oil and gas leases and/or oil and gas interests subject to this agreement:

(5) Addresses of parties for notice purposes:

EXHIBIT "C"

Attached to and made a part of Operating Agreement between GULF OIL CORPORATION as "Operator", and AMOCO PRODUCTION COMPANY, et al as "Non-Operator", Eddy County, New Mexico.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

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

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

5. Audits

A. Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

6. Approval by Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

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

2. Labor

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

(2) Salaries and related expenses of Supervisors in the field below Area Superintendent.

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

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.

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

3. Employee Benefits

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty- six percent (26%), or percent most recently recommended by the Council of Petroleum Accounts Societies of North America.

4. Material

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

5. Transportation

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

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

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

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

6. Services

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

7. Equipment and Facilities Furnished by Operator

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

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

8. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

9. Legal Expense

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

10. Taxes

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

11. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Workmen's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

12. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

( ) Percentage Basis, Paragraph 1B.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 2A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the Overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

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

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate $ 3,950.00

Producing Well Rate $ 395.00

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

(a) Drilling Well Rate

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

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

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

(b) Producing Well Rates

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

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

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

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

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

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

B. Overhead - Percentage Basis

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

(a) Development

_____ Percent (%) of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 9 of Section II and all salvage credits.

(b) Operating

_____ Percent (%) of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

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

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of $25,000 :

A. 5 % of total costs if such costs are more than $ 25,000 but less than $ 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.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells shall be excluded.

3. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

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

(2) Line Pipe

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

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

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

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

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

(2) Material moved from the Joint Property

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

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

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

C. Other Used Material (Condition C and D)

(1) Condition C

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

(2) Condition D

All other Material, including junk, shall be priced at a value commensurate with its use or at prevailing prices. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose. Operator may dispose of Condition D Material under procedures normally utilized by the Operator without prior approval of Non-Operators.

D. Obsolete Material

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

E. Pricing Conditions

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

(2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished by Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, Inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

Special Inventories may be taken whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory.

4. Expense of Conducting Periodic Inventories

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

EXHIBIT "D"

Attached to and made a part of the Operating Agreement between GULF OIL CORPORATION, as "Operator", and AMOCO PRODUCTION COMPANY, et al, as "Non-Operator".

INSURANCE COVERAGE

(a) Workmen's Compensation Insurance and Employers' Liability Insurance in accordance with the laws of the state in which the Contract Area is situated;

and,

(b) Comprehensive General Public Liability in the following amounts:

Bodily Injury:	$150,000.00 each person $300,000.00 each accident
Property Damage:	$100,000.00 each accident, with the exception of the first $5,000.00 loss which is self-insured $200,000.00 aggregate

The $5,000.00 self-insured property damage loss incident to each accident shall be charged to the Joint Account.

EXHIBIT "E"

Attached to and made a part of Operating Agreement
between GULF OIL CORPORATION
as "Operator"
and AMOCO PRODUCTION COMPANY, et al
as "Non-Operator"

GAS STORAGE AND BALANCING AGREEMENT

The parties to the Operating Agreement to which this agreement is attached own the working interest in the gas rights underlying the Contract Area covered by such agreement in accordance with the percentages of participation as set forth in Exhibit "A" to the Operating Agreement.

In accordance with the terms of the Operating Agreement, each party thereto has the right, subject to existing contracts, to take its share of gas produced from the Contract Area and market the same. In the event any of the parties hereto is not at any time taking or marketing its share of gas or has contracted to sell its share of gas produced from the Contract Area to a purchaser which does not at any time while this agreement is in effect take the full share of gas attributable to the interest of such party, the terms of this agreement shall automatically become effective.

During the period or periods when any party hereto has no market or fails to take its share of gas produced from any proration unit within the Contract Area, or its purchaser does not take its full share of gas produced from such proration unit, the other parties shall be entitled to produce each month one hundred percent (100%) of the allowable gas production assigned to such proration unit by the State regulatory body having jurisdiction and shall be entitled to take and deliver to its or their purchaser all of such gas production. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser.

On a cumulative basis, each party not taking or marketing its full share of the gas produced shall be credited with gas in storage equal to its full share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost, and less that portion such party took or delivered to its purchaser. The Operator will maintain a current account of the gas balance between the parties and will furnish all parties hereto monthly statements showing the total quantity of gas produced, the amount used in lease operations, vented or lost, the total quantity of liquid hydrocarbons recovered therefrom, and the monthly and cumulative over and under account of each party.

At all times while gas is produced from the Contract Area, each party hereto will make settlement with the respective royalty owners to whom they are each accountable, just as if each party were taking or delivering to a purchaser its share, and its share only, of total gas production exclusive of gas used in lease operations, vented or lost. Each party hereto agrees to hold each other party harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable.

The term "royalty owner" shall include owners of royalty, overriding royalties, production payments and similar interests.

After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its full share of the gas produced from a proration unit under which it has gas in storage less such party's share of gas used in operations, vented or lost. In addition to such share, each party, including the Operator, until it has recovered its gas in storage and balanced the gas account as to its interest, shall be entitled to take or deliver to its purchaser a share of gas determined by multiplying fifty percent (50%) of the interest in the current gas production of the party or parties without gas in storage by a fraction, the numerator of which is the interest in the proration unit of such party with gas in storage and the denominator of which is the total percentage interest in such proration unit of all parties with gas in storage currently taking or delivering to a purchaser.

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

Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser its full share of the allowable gas production to meet the deliverability tests required by its purchaser.

Should production of gas from a proration unit be permanently discontinued before the gas account is balanced, settlement will be made between the underproduced and overproduced parties. In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced party or parties attributable to the overproduction which said overproduced party received, less applicable taxes theretofore paid, at the applicable price defined below for the latest delivery of a volume of gas equal to that for which settlement is made. For gas, the price of which is not regulated by federal, state, or other governmental authorities, the price basis shall be the price received for the sale of the gas. For gas, the price of which is subject to regulation by federal, state or other governmental authorities, the price basis shall be the rate collected, from time to time, which is not subject to possible refund, as provided by the Federal Energy Regulatory Commission or any other governmental authority pursuant to final order or settlement applicable to gas sold from such well, plus any additional collected amount which is not ultimately required to be refunded by such authority, such additional collected amount to be accounted for at such time as final determination is made with respect thereto.

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

This agreement shall constitute a separate agreement as to each proration unit within the Contract Area and shall become effective in accordance with its terms and shall remain in force and effect as long as the Operating Agreement to which it is attached remains in effect, and shall inure to the benefit of and be binding upon the parties hereto, their successors, legal representatives and assigns.

EXHIBIT "F"

Attached to and made a part of the Operating Agreement between GULF OIL CORPORATION, as "Operator", and AMOCO PRODUCTION COMPANY, et al, as "Non-Operator".

NONDISCRIMINATION CLAUSE

GULF OIL CORPORATION, hereinafter referred to as Operator, is a "contractor" within the meaning of Executive Order No. 11246 dealing with nondiscrimination and equal employment opportunity.

AMOCO PRODUCTION COMPANY, et al, hereinafter called "contractor" in this exhibit, agrees, unless exempt therefrom, to comply with all applicable provisions of Executive Order No. 11246, as amended by Executive Order No. 11375, all applicable provisions of which are incorporated herein by reference, and (a) if contractor has more than fifty (50) employees or a contract with Operator in excess of $10,000.00, contractor must file Standard Form 100 (EEO-1), or (b) if contractor has fifty (50) or more employees and a contract of $50,000.00 or more, contractor is required to develop a written "Affirmative Action Compliance Program" for each of its establishments according to the Rules and Regulations published by the United States Department of Labor in 41 C.F.R., Chapter 60. Further, contractor hereby certifies that it does not now and will not maintain any facilities provided for its employees in a segregated manner or permit its employees to perform their services at any location under its control where segregated facilities are maintained, as such segregated facilities are defined in Title 41, Chapter 60-1.8, Code of Federal Regulations, revised as of 1/1/69, unless exempt therefrom. Contractor further warrants that no other law, regulation or ordinance of the United States, or any state, or any governmental authority or agency has been violated in the manufacture, procurement or sale of any goods furnished, work performed or service rendered pursuant to this contract.

The contractor agrees, to the extent applicable, to comply with the affirmative action clause and the regulations of the Department of Labor issued pursuant to the Vietnam Era Veterans Readjustment Assitance Act of 1974, as set forth in 41 C.F.R. 60-250, which are incorporated herein by reference.

The contractor agrees, to the extent applicable, to comply with the affirmative action clause and the regulations of the Department of Labor issued pursuant to the Rehabilitation Act of 1973, as set forth in 41 C.F.R. 60-741, which are incorporated herein by reference.

EXHIBIT "G"

Attached to and made a part of the Operating Agreement, executed by Gulf Oil Corporation, Operator, and Amoco Production Company, et al, Non-Operator, effective the _____ day of _____, 19___.

TAX PARTNERSHIP AGREEMENT

The parties recognize that this agreement creates a partnership for Federal and State income tax purposes and such parties do hereby agree not to elect to be excluded from the application of Subchapter K of Chapter I of Subtitle A of the United States Internal Revenue Code of 1954, as amended, or any similar State statute. All parties agree that the necessary Federal and State partnership income tax returns shall be filed covering operations under this agreement and Operator agrees to use its best efforts in the preparation and filing of the partnership tax returns and in making any appropriate elections on such returns, acting on behalf of itself and the other parties hereto, but in so doing, Operator shall incur no liability to any other party with regard to such returns or elections and shall make no charges for performance of any administrative or professional service in connection with the keeping of records or the filing of returns. Each party agrees to provide Operator with all information readily available from regularly maintained accounting records. Operator shall submit copies of all returns to the other parties forty-five (45) days before the due date to permit review and approval prior to filing. Operator is hereby granted authority to make the following elections under United States Internal Revenue laws and regulations and any similar State statutes:

a. To elect to adopt the calendar year as the annual accounting period;

b. To elect to adopt the accrual method of accounting;

c. To elect to expense all intangible drilling and development costs;

d. To elect to compute the allowance for depreciation utilizing the shortest life permissible under the Asset Depreciation Range System;

e. To elect to deduct advance royalties from gross income for the year the advance royalties are paid or accrued; and,

f. To make such other elections as may be approved by the parties.

The parties further agree that for United States income tax purposes, the gains and losses from sales, abandonments and other disposition of property and all classes of costs, expenses, and credits, including depreciation and depletion, shall be shared and accounted for as follows:

a. All production and intangible drilling and development costs and other classes of costs and expenses shall be allocated as deductions to each party in accordance with its respective contributions to such costs;

b. Depreciation on tangible equipment shall be allocated to each party in accordance with its contributions to the adjusted basis of such equipment, as such adjusted basis is defined in the Internal Revenue Code of 1954, as amended, and any similar State statute;

c. Deductions for depletion shall be computed by the parties as follows:

(1) If eligible for percentage or cost depletion, the depletion deduction shall be computed by each of the parties separately. Percentage depletion shall be calculated under IRC Section 613A, (b) "Exemption for Certain Domestic Gas Wells", or IRC Section 613A, (c) "Independent Procedures and Royalty Owners", whichever is applicable.

(2) The partnership basis in oil or gas properties shall be allocated to each party in accordance with its respective contribution to such cost depletion base. Each partner shall maintain an individual basis account and compute its own allowance for either percentage depletion or cost depletion on all its properties. The depletion allowance deducted by the partners shall be treated as a reduction of the basis of the partnership property. In addition, each partner shall furnish its percentage or cost depletion calculation to Operator annually.

(3) Each party shall take into account for its depletion calculation such party's share of production, gross income, royalty obligations, expenses, contributions to the unadjusted cost basis of the joint property, all adjustments to basis and depletion allowance deductions reducing such party's basis.

d. Such investment credit as shall be allowed by Section 38 of the Internal Revenue Code of 1954, as amended, as well as any other credits shall be allocated to the parties in accordance with their respective contributions to the cost thereof.

e. Gains and losses from each sale, abandonment or other disposition of property (other than oil, gas or other hydrocarbon substances) will be allocated to the parties in such manner as will reflect the gains and losses that would have been includable in their respective income tax returns if such property was held by the parties outside this agreement. The computations shall take into account each party's share of the proceeds derived from each sale or other disposition of such property during the year, selling expenses and the parties' respective contributions to the unadjusted cost basis of such property, less any allowed or allowable depreciation, depletion, amortization, credits or other deductions which have been allocated to each party with respect to such property as provided in this paragraph.

It is the intent of the parties that these provisions be limited in their application to matters relating to Federal and State taxes based on income and shall not in any way change, amend or affect the substantive rights and obligations of the parties otherwise contained herein. It is not the purpose or intention of the parties hereto to create any partnership, mining partnership or association other than as above provided, and neither this agreement nor the authorizations hereunder shall be construed as creating any such relationship. Furthermore, nothing in this agreement shall be construed as providing directly or indirectly, for any joint or cooperative refining or marketing or sale of any party's interest in oil and gas or the products therefrom.

GEOLOGIC COMMENTS AND PROGNOSIS

Re: South Shugart Deep Federal Unit
Section 5, T-19-S, R-31-E
Eddy County, New Mexico

The recommended South Shugart Deep Federal Unit area is in east central Eddy County, New Mexico, about 25 miles northeast of the city of Carlsbad. The prospect is named after the Shugart field immediately adjacent to the north. The unit is on the northern edge of the Delaware Basin, along the southern rim of the Northwest Shelf. Gulf Oil Exploration and Production Company proposes to drill a 13,500' well located in the NW/4 of Section 5, T-19-S, R-31-E, to penetrate the Morrow, but not to exceed 14,000'.

The South Shugart Deep Prospect is expected to produce oil and gas from the Devonian, gas from the Morrow sands, oil from the Strawn and oil and gas from the Wolfcamp, Bone Spring, and from the Artesia Group. The expected productive limit of both the Devonian and Morrow structural trap is shown on the included Subsurface Structure Maps. The proposed unit outline is dictated by the configuration of the lowest closing contour on both the Devonian and Morrow horizon. The unit is to include the S/2 of Sections 31, 32, 33 of T-18-S, R-31-E, all of Sections 4, 5, 6, and the N/2 of Sections 7, 8, 9, of T-19-S, R-31-E.

Devonian production is restricted to the Shugart Field immediately adjacent to the north from a fault bounded horst at the Devonian horizon. We feel as though a similar situation occurs within the proposed unit area. Sands of the Morrow formation are productive in the area as indiscrete bodies. The sands are generally productive where they are porous and cross structural highs. Numerous wells within three miles of the proposed unit are productive from the Devonian and Morrow zones. Two distinctive nearby wells; the Amoco No. 1 Greenwood Unit in Section 27, T-19-S, R-31-E has made over 17 BCF and 950,000 BBL from the Devonian and the Gulf No. 1 Littlefield 'EM' Federal ~~in Section 20,~~ T-19-S, R-31-E flowed at 3,300 MCFGPD from the Atoka and 14,900 MCFGPD from the Morrow.

Expected formation tops are as follows:

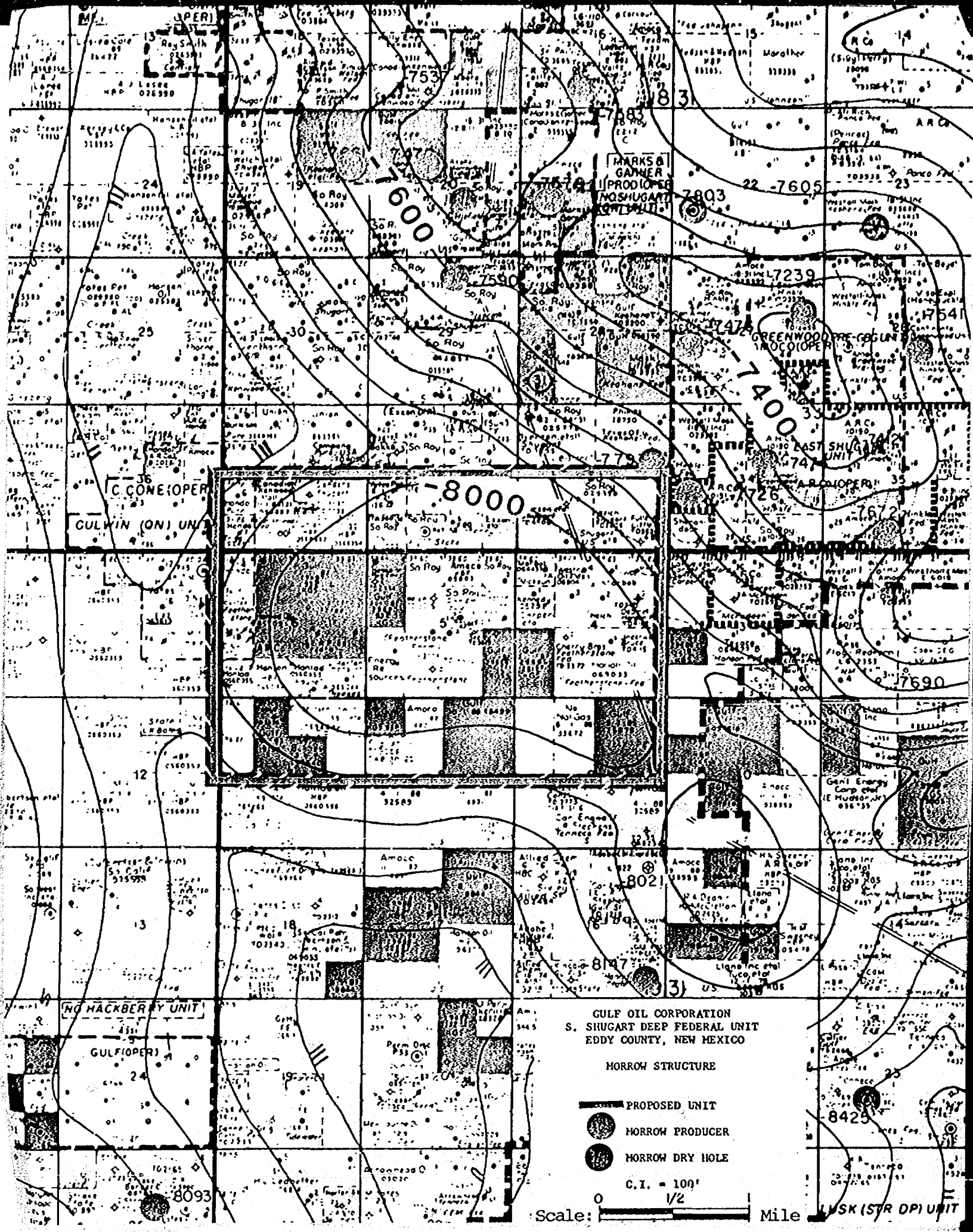
Rustler	800 feet
Yates	2,500 feet
Delaware Mtn. Group	4,400 feet
Bone Spring Limestone	6,600 feet
Third Bone Spring Sand	9,800 feet
Cisco	10,200 feet
Canyon	10,400 feet
Strawn	10,700 feet
Atoka	11,000 feet
Morrow Limestone	11,300 feet
Chester	12,300 feet
Devonian	13,000 feet

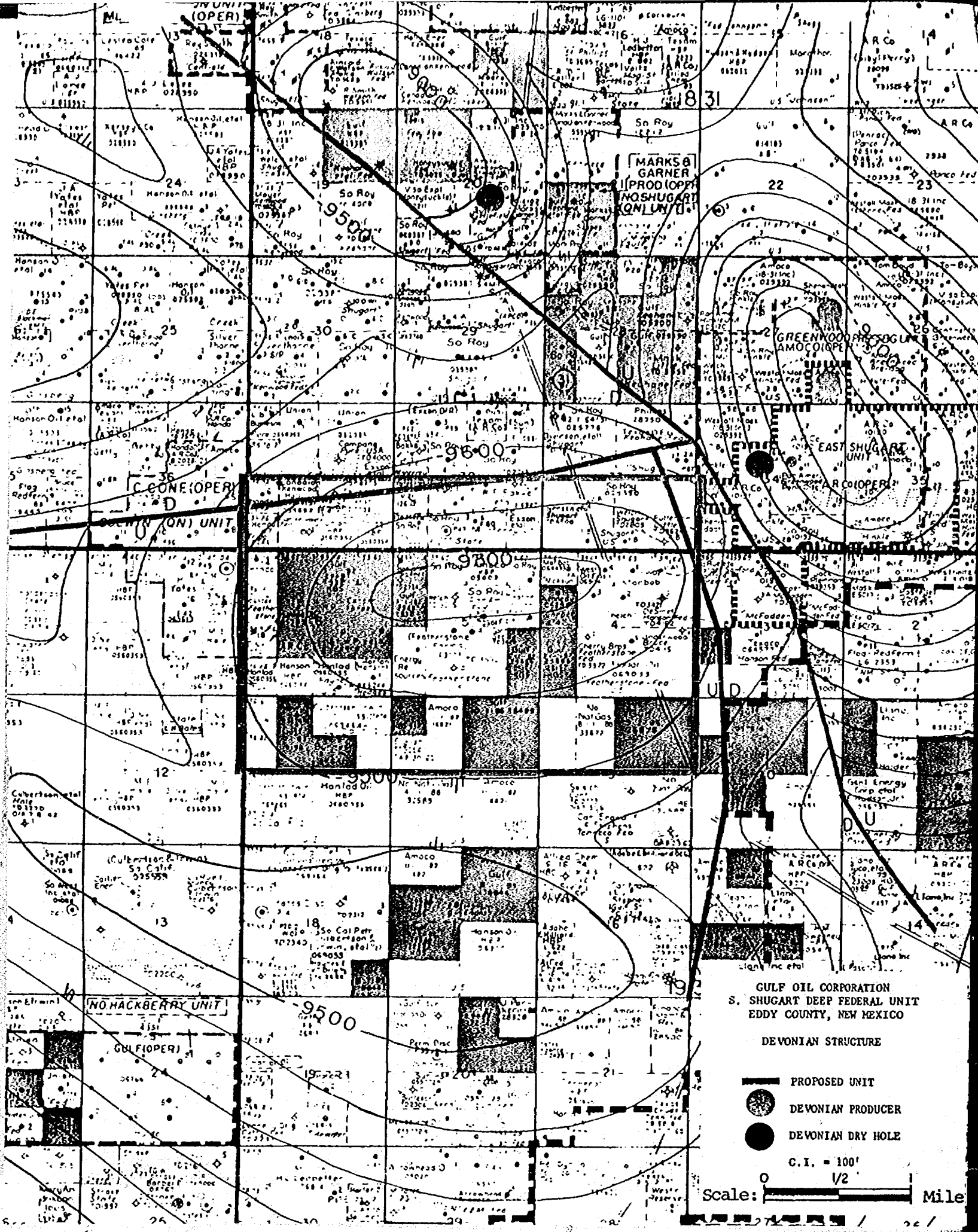
BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
EXHIBIT NO. 5
CASE NO. 7309
Submitted by Gulf
Hearing Date 7/29/81

We would appreciate your keeping the accompanying geological map and report confidential.

P. T. Gordon, Senior Regional Geologist
W. B. Stone, Geologist
Gulf Oil Exploration and Production Co.

WBS/dn
Attachment


-7600
-7400
-8000
MARKS & GARNER PROD (OPER) NO SHUGART (ATOKA) UNIT
GREENWOOD PRE-CBG UNIT
EAST SHUGART UNIT
C CONE (OPER)
CULWIN (ON) UNIT
NO HACKBERRY UNIT
GULF (OPER)
GULF OIL CORPORATION
S. SHUGART DEEP FEDERAL UNIT
EDDY COUNTY, NEW MEXICO
MORROW STRUCTURE
PROPOSED UNIT
MORROW PRODUCER
MORROW DRY HOLE
C.I. = 100'
Scale: 0 1/2 Mile
LUSK (STR DP) UNIT


GULF OIL CORPORATION
S. SHUGART DEEP FEDERAL UNIT
EDDY COUNTY, NEW MEXICO
DEVONIAN STRUCTURE
PROPOSED UNIT
DEVONIAN PRODUCER
DEVONIAN DRY HOLE
C.I. = 100'
Scale: 0 1/2 Mile
NO HACKBERRY UNIT
GULF (OPER)
C CONE (OPER)
MARKS & GARNER (PROD) (OPER) NO SHUGART (ON) UNIT
GREENWOOD PRESTON UNIT AMOCO (OPER)
EAST SHUGART UNIT
A R Co (OPER)
9800
9900
9500
9600
9300
9200

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
EXHIBIT NO. 5
CASE NO. 7309
Submitted by Gulf Oil
Hearing Date 7-29-81

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
SOUTH SHUGART DEEP UNIT AREA
COUNTY OF EDDY
STATE OF NEW MEXICO
NO. _____

THIS AGREEMENT, entered into as of the ___day of _____, 19__ by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto,"

WITNESSETH:

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

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

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

WHEREAS, the Oil Conservation Division of the State of New Mexico Energy and Minerals Department is authorized by an Act of Legislature (Chapters 70 and 71, New Mexico Statutes 1978, Annotated) to approve this agreement and the conservation provisions hereof; and,

WHEREAS, the parties hereto hold sufficient interests in the _____ _____Unit Area covering the land hereinafter described to give reasonably effective control of operations therein;

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

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

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

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

Township 18 South, Range 31 East		Township 19 South, Range 31 East		
Section 31:	S/2	Section 4:	All	Section 7: N/2
Section 32:	S/2	Section 5:	All	Section 8: N/2
Section 33:	S/2	Section 6:	All	Section 9: N/2

limited as to depth below 5,000' beneath the surfac
containing 3,806.17 acres, more or less, in Eddy County, New Mexico. Exhibit "A" attached hereto is a map showing the unit area and the boundaries and indentity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage, in kind of ownership of oil and gas interests in all land in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the unit area render such revision necessary when requested by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor," or when requested by the Commissioner of Public Lands of the State of New Mexico, hereinafter referred to as "Land Commissioner," and not less than five (5) copies of the revised Exhibits shall be filed with the Supervisor and one (1) copy thereof shall be filed with the Land Commissioner, and one (1) copy with the Oil Conservation Division of the New Mexico Energy and Minerals Department, hereinafter referred to as "Division".

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

(a) Unit Operator, on its own motion or on demand of the Director of the Geological Survey, hereinafter referred to as "Director", or on demand of the Land Commissioner, after preliminary concurrence by the Director, shall prepare a notice of proposed expansion or contraction describing the contemplated changes in the boundaries of the unit area, the reasons therefor, and the proposed effective date thereof, preferably, the first day of a month subsequent to the date of notice.

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

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

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

(e) All legal subdivisions of land (i.e., 40 acres by Government survey or its nearest lot or tract equivalent; in instances of irregular surveys unusually large lots or tracts shall be considered in multiples of 40 acres or the nearest aliquot equivalent thereof), no parts of which are entitled to be in a participating area on or before the fifth anniversary of the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of said fifth anniversary, and such lands shall no longer be a part of the unit area and shall no longer be subject to this agreement, unless diligent drilling operations are in progress on unitized lands not entitled to participation on said fifth anniversary, in which event all such lands shall remain subject hereto for so long as such drilling operations

are continued diligently, with not more than 90 days' time elapsing between the completion of one such well and the commencement of the next such well. All legal subdivisions of lands not entitled to be in a participating area within 10 years after the effective date of the first initial participating area approved under this agreement shall be automatically eliminated from this agreement as of said tenth anniversary. All lands proved productive by diligent drilling operations after the aforesaid five-year period shall become participating in the same manner as during said five-year period. However, when such diligent drilling operations cease, all non-participating lands shall be automatically eliminated effective as of the 91st day thereafter. The Unit Operator shall within 90 days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the Supervisor and the Land Commissioner and promptly notify all parties in interest.

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

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

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

4. UNIT OPERATOR. GULF OIL CORPORATION is hereby designated as Unit Operator and by signature hereto as Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development, and production of unitized substances as herein provided.

Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in the capacity and not as an owner of interest in unitized substances, and the term "working-interest owner" when used shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

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

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

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

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

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

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

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

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

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

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit Operator is not the sole owner of working interests, costs, and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working-interest owners and the

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

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

9. DRILLING TO DISCOVERY. Within six (6) months after the effective date hereof, the Unit Operator shall begin to drill an adequate test well at a location approved by the Supervisor, if on Federal land, or by the Land Commissioner, if on State land, or by the Division if on Fee lands, unless on such effective date a well is being drilled conformably with the terms hereof, and thereafter continue such drilling diligently until the Pennsylvanian-Morrow formation has been tested, or until at a lesser depth unitized substances shall be discovered which can be produced in paying

quantities (to-wit: quantities sufficient to repay the costs of drilling, completing and producing operations, with a reasonable profit) or the Unit Operator shall, at any time, establish to the satisfaction of the Supervisor if on Federal land, or the Land Commissioner if on State land, or the Division if on Fee land, that further drilling of said well would be unwarranted or impracticable; provided, however, that Unit Operator shall not, in any event, be required to drill said well to a depth in excess of 14,000 feet. Until the discovery of a deposit of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling diligently one well at a time, allowing not more than six (6) months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of said Supervisor if it be on Federal land or of the Land Commissioner if on State land, or the Division if on Fee land, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section. The Director and Land Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when, in their opinion, such action is warranted.

Upon failure to commence any well provided for in the section within the time allowed, including any extension of time granted by the Supervisor and the Land Commissioner, this agreement will automatically terminate; upon failure to continue drilling diligently any well commenced hereunder, the Supervisor and the Land Commissioner may, after 15-days notice to the Unit Operator, declare this unit agreement terminated.

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within six (6) months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the Supervisor, and the Land Commissioner, and State Division an acceptable plan of development and operation for the unitized land which, when approved by the Supervisor, the Land Commissioner, and State Division, shall contitute the further drilling and operating obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit

Operator shall submit for the approval of the Supervisor, the Land Commissioner, and State Division a plan for an additional specified period for the development and operation of the unitized land.

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

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

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

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

Plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of development. The Supervisor and the Land Commissioner are authorized to grant a reasonable extension of the six-month period herein prescribed for submission of an initial plan of development where such action is justified because of unusual conditions or circumstances. After completion hereunder of a well capable of producing any unitized substance in paying quantities, no further wells, except such as may be necessary to afford protection against operations not under this agreement and such as may be specifically approved by the Supervisor, the Land Commissioner, and State Division, shall be drilled except in accordance with a plan of development approved as herein provided.

11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of producing unitized substances in paying quantities or as soon thereafter as required by the Supervisor, the Land Commissioner, or the State Division, the Unit Operator shall submit for approval by the Supervisor, the Land Commissioner and State Division a schedule, based on subdivisions of the public-land survey or aliquot parts thereof, of all land then regarded as reasonably proved to be productive in paying quantities; all lands in said schedule on approval of the Supervisor, the Land Commissioner, and State Division to constitute a participating area, effective

as of the date of completion of such well or the effective date of this unit agreement, whichever is later. The acreages of both Federal and non-Federal lands shall be based upon appropriate computations from the courses and distances shown on the last approved public-land survey as of the effective date of each initial participating area. Said schedule shall also set forth the percentage of unitized substances to be allocated as herein provided to each tract in the participating area so established, and shall govern the allocation of production commencing with the effective date of the participating area. A separate participating area shall be established for each separate pool or deposit of unitized substances or for any group thereof which is produced as a single pool or zone, and any two or more participating areas so established may be combined into one, on approval of the Supervisor, the Land Commissioner, and the State Division. When production from two or more participating areas, so established, is subsequently found to be from a common pool or deposit said participating areas shall be combined into one, effective as of such appropriate date as may be approved or prescribed by the Supervisor, the Land Commissioner, and State Division. The participating area or areas so established shall be revised from time to time, subject to like approval, to include additional land then regarded as reasonably proved to be productive in paying quantities or necessary for unit operations, or to exclude land then regarded as reasonably proved not to be productive in paying quantities and the schedule of allocation percentages shall be revised accordingly. The effective date of any revision shall be the first of the month in which is obtained the knowledge or information on which such revision is predicated, provided, however, that a more appropriate effective date may be used if justified by the Unit Operator and approved by the Supervisor, the Land Commissioner, and State Division. No land shall be excluded from a participating area on account of depletion of the unitized substances, except that any participating area established under the provisions of this unit agreement shall terminate automatically whenever all completions in the formation on which the participating area is based are abandoned.

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

In the absence of agreement at any time between the Unit Operator and the Supervisor, the Land Commissioner, and State Division as to the proper definition or redefinition of a participating area, or until a participating area has, or areas

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

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

12. ALLOCATION OF PRODUCTION. All unitized substances produced from each participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, camp, and other production or development purposes, for repressuring or recycling in accordance with a plan of development, approved by the Supervisor, Land Commissioner, and State Division, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land of the participating area established for such production and, for the purpose of determining any benefits accruing under this agreement, each such tract of unitized land shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land in said participating area, except that allocation of production hereunder for purposes other than for settlement of the royalty, overriding royalty, or payment out of production obligations of the respective working-interest owners shall be on the basis prescribed in the unit operating agreement whether in conformity with the basis of allocation herein set forth or otherwise. It is hereby

agreed that production of unitized substances from a participating area shall be allocated as provided herein regardless of whether any wells are drilled on any particular part or tract of said participating area. If any gas produced from one participating area is used for repressuring or recycling purposes in another participating area, the first gas withdrawn from such last-mentioned participating area for sale during the life of this agreement shall be considered to be the gas so transferred until an amount equal to that transferred shall be so produced for sale and such gas shall be allocated to the participating area from which initially produced as such area was last defined at the time of such final production.

13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATION. Any party hereto owning or controlling the working interest in any unitized land having thereon a regular well location may with the approval of the Supervisor and the Land Commissioner, and Division, at such party's sole risk, costs, and expense, drill a well to test any formation for which a participating area has not been established or to test any formation for which a participating area has been established if such location is not within said participating area, unless within 90 days of receipt of notice from said party of his intention to drill the well the Unit Operator elects and commences to drill such a well in like manner as other wells are drilled by the Unit Operator under this agreement.

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

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

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

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

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

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

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

15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases committed hereto shall be paid by working-interest owners responsible therefor under existing contracts, laws, and regulations, provided that nothing herein contained shall

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

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

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

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

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

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

all leases, subleases, and contracts are particularly modified in accordance with the following:

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

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

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

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

(e) Any Federal lease for a fixed term of twenty (20) years or any renewal thereof or any part of such lease which is made subject to this agreement shall continue in force beyond the term provided therein until the termination hereof. Any other Federal lease committed hereto shall continue in force beyond the term so provided therein or by law as to the land committed so long as such lease remains subject hereto, provided that production is had in paying quantities under this unit agreement prior to the expiration date of the term of such lease, or in the event actual drilling operations are commenced on unitized land, in accordance with the provisions of this agreement, prior to the end of the primary term of such lease and are being diligently prosecuted at that time, such lease shall be extended for two years and so long thereafter as oil or gas is produced in paying quantities in

accordance with the provisions of the Mineral Leasing Act Revision of 1960.

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

(g) Any lease embracing lands of the State of New Mexico which is made subject to this agreement, shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof, provided that drilling operations on the initial test well are commenced prior to the expiration date of any State lease within the unit area, subject to the provisions of subsection (e) of Section 2 and subsection (i) of this Section 18.

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

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

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

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

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

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

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

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

(c) a valuable discovery of unitized substances has been made or accepted on unitized land during said initial term or any extension thereof, in which event the agreement shall remain in effect for such term and so long as unitized substances can be produced as to federal lands, and are being produced as to State lands, in quantities sufficient to pay for the cost of producing same from

wells on unitized land within any participating area established hereunder and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as unitized substances so discovered are produced as aforesaid, or

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

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

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

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

22. APPEARANCES. Unit Operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Department of the Interior and the Commissioner of Public Lands and to appeal from orders issued under the regulations of said Department or Land Commissioner or to apply for relief from any of said regulations or in any proceedings

relative to operations before the Department of the Interior or the Land Commissioner or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his own expense to be heard in any such proceeding.

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

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

25. UNAVOIDABLE DELAY. All obligations under this agreement requiring the Unit Operator to commence or continue drilling or to operate on or produce unitized substances from any of the lands covered by this agreement shall be suspended while the Unit Operator despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State, or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not. No unit obligation which is suspended under this section shall become due less than thirty (30) days after it has been determined that the suspension is no longer applicable. Determination of creditable "Unavoidable Delay" time shall be made by the unit operator subject to approval of the Supervisor and the Land Commissioner.

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

27. LOSS OF TITLE. In the event title to any tract of unitized lands shall fail and the true owner cannot be induced to join in this unit agreement,

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

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

28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw said tract from this agreement by written notice delivered to the Supervisor, the Land Commissioner, the State Division, and the Unit Operator prior to the approval of this agreement by the Supervisor and Land Commissioner. Any oil or gas interests in lands within the unit area not committed hereto prior to submission of this agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest is a working interest, by the owner of such interest also subscribing to the unit operating agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working-interest owner is subject to such requirements or approvals, if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final approval hereof, joinder by a non-working interest owner must be consented to in writing by the working-interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. A non-working interest may not be committed to this unit unless the corresponding working interest is committed hereto. Joinder to the unit agreement by a working-interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, if more than one committed working-interest owner is involved, in order for the interest to be regarded as committed to this unit agreement. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the

first day of the month following the filing with the Supervisor, the Land Commissioner, and the State Division of duly executed counterparts of all or any papers necessary to establish effective commitment of any tract to this agreement unless objection to such joinder is duly made within sixty (60) days by the Supervisor, the Land Commissioner, or State Division, provided, however, that as to State lands all subsequent joinders must be approved by the Land Commissioner.

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

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

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

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

(1) Accept those working-interests rights subject to this agreement and the unit operating agreement; or

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

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

If the fee owner of the unitized substances does not accept the working-interest rights subject to this agreement and the unit operating agreement or lease, such lands as above-provided within six (6) months after the surrendered or for-

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

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

UNIT OPERATOR AND LESSEE OF RECORD

ATTEST:

GULF OIL CORPORATION

By: _____

By: _____
Attorney-in-Fact

STATE OF _____)

COUNTY OF _____) ss

The foregoing instrument was acknowledged before me this _____ day of _____, 198___, by _____ who is _____ of _____ _____ corporation, for and on behalf of said Corporation.

My Commission Expires:

_____

_____
Notary Public

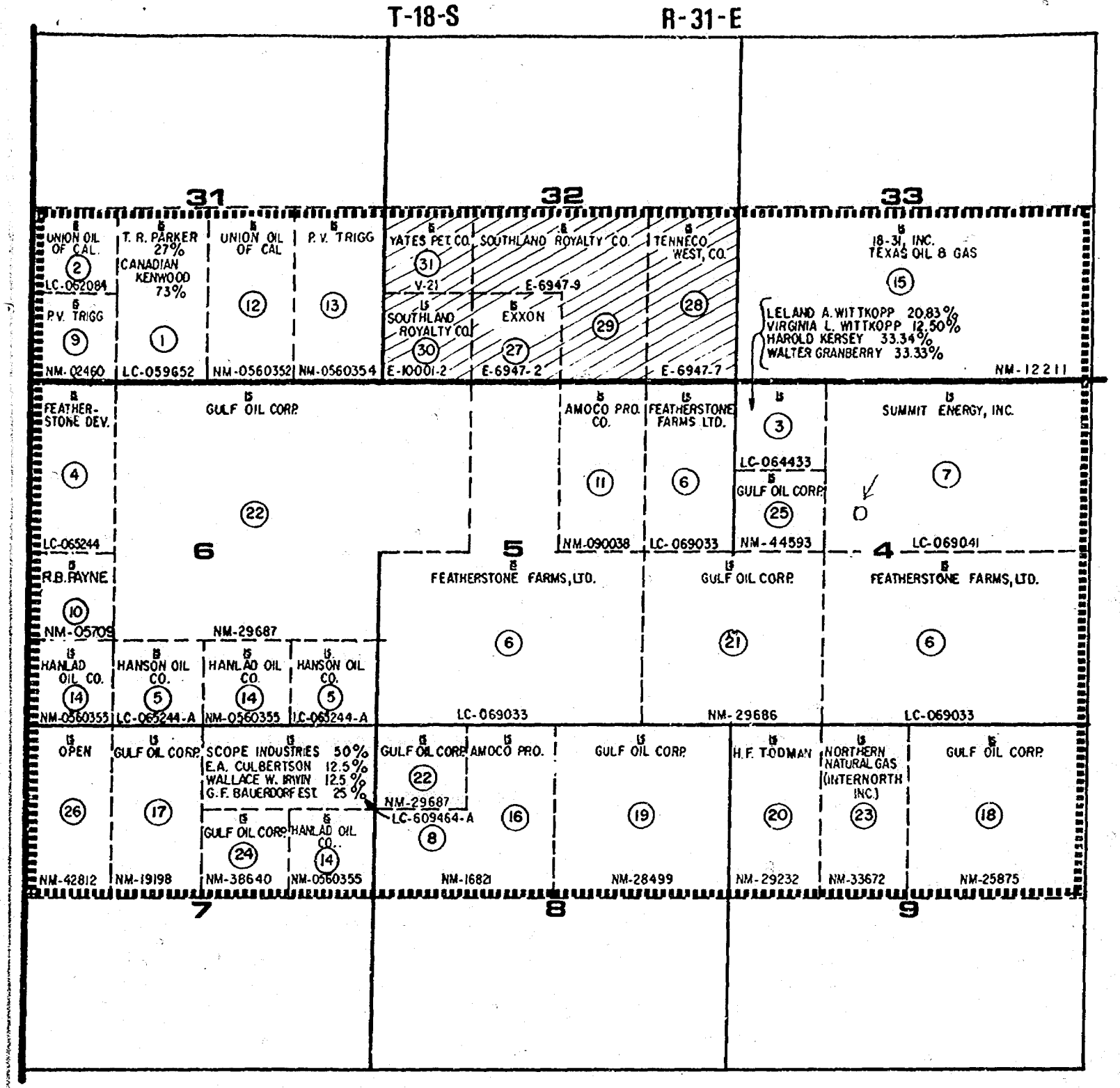


EXHIBIT "A"

T-19-S R-31-E

SOUTH SUGART DEEP UNIT
EDDY COUNTY, NEW MEXICO

STATE LEASE
FEDERAL LEASE
UNIT OUT-LINE
④ TRACT NUMBER

Tract Numbers

1. LC-059652
2. LC-062084
3. LC-064433
4. LC-065244
5. LC-065244-A
6. LC-069033
7. LC-069041
8. LC-069464-A
9. NM-02460
10. NM-05709
11. NM-09003-B
12. NM-0560352
13. NM-0560354
14. NM-0560355
15. NM-12211
16. NM-16821
17. NM-19198
18. NM-25875
19. NM-28499
20. NM-29232
21. NM-29686
22. NM-29687
23. NM-33672
24. NM-38640
25. NM-44593
26. NM-42812 - Open Federal
27. E-6947-2
28. E-6947-7
29. E-6947-9
30. E-10001-2
31. V-21

BEFORE EXAMINER STAMETS.
OIL CONSERVATION DIVISION
EXHIBIT NO. I-B
CASE NO. 7309
Submitted by Gulf Oil
Hearing Date 7-29-81

EXHIBIT "B"
SCHEDULE OF LANDS AND LEASES
PROPOSED SOUTH SHUGART DEEP UNIT
EDDY COUNTY, NEW MEXICO

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
EXHIBIT NO. 3 I-C
CASE NO. 7309
Submitted by Gulf Oil
Hearing Date 7-29-87

TRACT NUMBER	DESCRIPTION OF LANDS	ACRES	SERIAL NUMBER AND EXPIRATION DATE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE
1	T-18-S, R-31-E Section 31: E/2 SW/4	80.00	LC-059652 10-31-81	USA 12.5%	T. R. Parker 27% Canadian Kenwood Co. 73%	None	T. R. Parker 27% Canadian Kenwood Co. 73%
2	T-18-S, R-31-E Section 31: Lot 3	35.78	LC-062084 HBP	USA 12.5%	Union Oil Co. of CA 100%	None	Union Oil of CA 100%
3	T-19-S, R-31-E Section 4: Lot 4	39.60	LC-064433 HBP	USA 12.5%	Leland A. Wittkopp 20.83% Virginia L. Wittkopp 12.50% Harold Kersey 33.34% Walter Granberry 33.33%	Virgina Nickson Beers Ned Nickson Joseph Richard Nickson 2.50% Lora Nickson 2.50% (Undetermined) 1.00%	Leland A. Wittkopp 20.83% Virginia L. Wittkopp 12.50% Harold Kersey 33.34% Walter Granberry 33.33%
4	T-19-S, R-31-E Section 6: Lots 4,5	72.09	LC-065244 HBP	USA 12.5%	Featherstone Develop. Corp. - 100%	None	Featherstone Develop. Corp. 100%
5	T-19-S, R-31-E Section 6: SE/4 SE/4, SE/4 SW/4	80.00	LC-065244-A HBP	USA 12.5%	Hanson Oil Corp. 100%	L. B. Hodges 1/2 of 1% Ernest & Beulah Hanson 5.75%	Hanson Oil Corp. 100%
6	T-19-S, R-31-E Section 4: SE/4, E/2 SW/4 Section 5: Lots 1, 3, SE/4 NE/4, SE/4 NW/4, W/2 SE/4, SW/4	639.22	LC-069033 HBP	USA 12.5%	Featherstone Farms, LTD 100%	None	Featherstone Farms, LTD 100%
7	T-19-S, R-31-E Section 4: Lots 1, 2, 3, S/2 NE/4, SE/4 NW/4	238.90	LC-069041 HBP	USA 12.5%	Summit Energy, Inc. 100%	None	Summit Energy, Inc. 100%

TRACT NUMBER	DESCRIPTION OF LANDS	ACRES	SERIAL NUMBER AND EXPIRATION DATE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE	
8	T-19-S, R-31-E Section 7: N/2 NE/4	80.00	LC-069464-A HBP	USA 12.5%	Scope Industries 50% E. A. Culbertson 12.50% Wallace W. Irwin 12.50% George F. Bauerdorf Estate 25%	(Undetermined) - 5%	Scope Industries E. A. Culbertson Wallace W. Irwin George F. Bauerdorf Estate	50% 12.50% 12.50% 25%
9	T-18-S, R-31-E Section 31: Lot 4	35.86	NM-02460 HBP	USA 12.5%	Pauline V. Trigg 100%	None	Pauline V. Trigg	100%
10	T-19-S, R-31-E Section 6: Lot 6	36.31	NM-05709 HBP	USA 12.5%	Robert B. Payne 100%	John N. Eddy 3%	Robert B. Payne	100%
11	T-19-S, R-31-E Section 5: Lot 2, SW/4 NE/4	79.60	NM-09003-B HBP	USA 12.5%	Amoco Production Co. 100%	Elsie G. & B. R. Gorman - Prod. pmt. of $500 P/A out of 5%	Amoco Production Co.	100%
12	T-18-S, R-31-E Section 31: W/2 SE/4	80.00	NM-0560352 10-31-81	USA 12.5%	Union Oil Co. of CA 100%	Mercury Oil Co. - 5%	Union Oil Co. of CA	100%
13	T-18-S, R-31-E Section 31: E/2 SE/4	80.00	NM-0560354 Held by Unit	USA 12.5%	Pauline V. Trigg 100%	None	Pauline V. Trigg	100%
14	T-19-S, R-31-E Section 6: SW/4 SE/4 Lot 7 Section 7: SE/4 NE/4	116.48	NM-0560355 HBP	USA 12.5%	Hanlad Oil Corp. 100%	John N. & Consuelo B. Eddy-3%	Hanlad Oil Corp.	100%
15	T-18-S, R-31-E Section 33: S/2	320.00	NM-12211 HBP	USA 12.5%	18-31, Inc. 50% Texas Oil & Gas 50%	Mercury Oil Co. 5%	18-31, Inc. Texas Oil & Gas	50% 50%
16	T-19-S, R-31-E Section 8: E/2 NW/4, SW/4 NW/4	120.00	NM-16821 10-31-82	USA 12.5%	Amoco Production Co. 100%	Bruce G. Bumgarner 5% Dwane A. Hathaway 1.25%	Amoco Production Co.	100%

TRACT NUMBER	DESCRIPTION OF LANDS	ACRES	SERIAL NUMBER AND EXPIRATION DATE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE	
17	T-19-S, R-31-E Section 7: E/2 NW/4	80.00	NM-19198 9-30-83	USA 12.5%	Gulf Oil Corporation 100%	Panos Investment Co. 5%	Gulf Oil Corp.	100%
18	T-19-S, R-31-E Section 9: NE/4	160.00	NM-25875 8-31-85	USA 12.5%	Gulf Oil Corporation 100%	Virginia S. & A. W. Rutter, Jr.-5%	Gulf Oil Corp.	100%
19	T-19-S, R-31-E Section 8: NE/4	160.00	NM-28499 9-30-86	USA 12.5%	Gulf Oil Corporation 100%	Elizabeth Hannifin 5%	Gulf Oil Corp.	100%
20	T-19-S, R-31-E Section 9: W/2 NW/4	80.00	NM-29232	USA	H. F. Todman	None	H. F. Todman	100%
21	T-19-S, R-31-E Section 4: W/2 SW/4 Section 5: E/2 SE/4	160.00	NM-29686 2-28-87	USA 12.5%	Gulf Oil Corporation 100%	None	Gulf Oil Corp.	100%
22	T-19-S, R-31-E Section 5: Lot 4, SW/4 NW/4 Section 6: Lots 1, 2, 3, S/2 NE/4, SE/4 NW/4, N/2 SE/4, NE/4 SW/4 Section 8: NW/4 NW/4	478.80	NM-29687 2-28-87	USA 12.5%	Gulf Oil Corporation 100%	None	Gulf Oil Corp.	100%
23	T-19-S, R-31-E Section 9: E/2 NW/4	80.00	NM-33672 7-31-88	USA 12.5%	Northern Natural Gas Co. 100%	Cynthia B. & Sam Glasser - 5%	Inter North Inc.	100%
24	T-19-S, R-31-E Section 7: SW/4 NE/4	40.00	NM-38640 2-28-90	USA 12.5%	Gulf Oil Corporation 100%	None	Gulf Oil Corp.	100%
25.	T-19-S, R-31-E Section 4: SE/4 NW/4	40.00	NM-44593	USA 12.5%	Gulf Oil Corporation 100%	None	Gulf Oil Corp.	100%
26.	Open	73.44	NM-42812	USA	None	None	None	None
Total								

TRACT NUMBER	DESCRIPTION OF LANDS	ACRES	SERIAL NUMBER AND EXPIRATION DATE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE	
27	T-18-S, R-31-E Section 32: SE/4 SW/4	40.00	E-6947-2 HBP	State of NM 12.5%	Exxon Co. USA. 100%	None	Exxon Co. USA.	100%
28	T-18-S, R-31-E Section 32: E/2 SE/4	80.00	E-6947-7 HBP	State of NM 12.5%	Tenneco West, Inc. 100%	None	Tenneco West, Inc.	100%
29	T-18-S, R-31-E Section 32: W/2 SE/4, NE/4 SW/4	120.00	E-6947-9 HBP	State of NM 12.5%	Southland Royalty Co. 100%	None	Southland Royalty Co.	100%
30	T-18-S, R-31-E Section 32: SW/4 SW/4	40.00	E-10001-2 HBP	State of NM 12.5%	Southland Royalty Co. 100%	None	Southland Royalty Co.	100%
31	T-18-S, R-31-E Section 32: NW/4 SW/4	40.00	V-21 6-1-81	State of NM 12.5%	Yates Petroleum Corp. 100%	None	Yates Petroleum Corp.	100%
Total		320 Acres State Lands, 8.4074% of the Unit Area						

A.A.P.L. FORM 610 - 1977

MODEL FORM OPERATING AGREEMENT

SOUTH SHUGART DEEP
UNIT

OPERATING AGREEMENT

DATED

_____, 19___,

OPERATOR GULF OIL CORPORATION

CONTRACT AREA T-18-S, R-31-E, N.M.P.M.
Sections: 31: S/2 32: S/2
33: S/2

T-19-S, R-31-E, N.M.P.M.
Sections: 4, 5, 6, All
Sections: 7: N/2, 8: N/2
9: N/2

COUNTY ~~OR PARISH~~ OF EDDY STATE OF NEW MEXICO

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AMERICAN ASSOCIATION OF PETROLEUM LANDMEN
APPROVED FORM. A.A.P.L. NO. 610 - 1977 REVISED
MAY BE ORDERED DIRECTLY FROM THE PUBLISHER
KRAFTBILT PRODUCTS, BOX 800, TULSA, OK 74101

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
EXHIBIT NO. II
CASE NO. 7309
Submitted by GULF OIL
Hearing Date 7-29-81

GUIDANCE IN THE PREPARATION OF THIS AGREEMENT:

1. Title Page - Fill in blank as applicable.

2. Preamble, Page 1 - Name of Operator.

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

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

5. Article IV.B - Loss of Title - If "Joint Loss" of Title is desired, the following changes should be made:
   (a) Delete Articles IV.B.1 and IV.B.2.
   (b) Article IV.B.3 - Delete phrase "other than those set forth in Articles IV.B.1 and IV.B.2 above."
   (c) Article VII.F. - Change reference at end of the first grammatical paragraph from "Article IV.B.2" to "Article IV.B.3."

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

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

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

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

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

11. Article VII.E. - Royalties, Overriding Royalties and Other Payments - Enter royalty fraction as agreed to by parties.

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

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

14. Signature Page - Enter effective date.

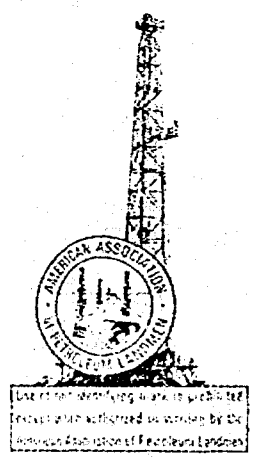


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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between GULF OIL CORPORATION, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators". This Agreement is a companion instrument to the Unit Agreement for the development and operation of the South Shugart Deep Unit Area, effective as of the effective date thereof, and in the event of any conflict between this agreement and the said Unit Agreement, the terms and provisions of the Unit Agreement shall be controlling. The term "Operator" herein is synonymous with "Unit Operator", and the term "Contract Area" herein is synonymous with "Unit Area" as those terms are defined and used in the said Unit Agreement.

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

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

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

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

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

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

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

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

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

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

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

ARTICLE II.
EXHIBITS

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

☒ A. Exhibit "A", shall include the following information:
(1) Identification of lands subject to agreement,
(2) Restrictions, if any, as to depths or formations,
(3) Percentages or fractional interests of parties to this agreement,
~~(4) Oil and gas leases and/or oil and gas interests subject to this agreement,~~
(5) Addresses of parties for notice purposes.

~~☐ B. Exhibit "B", Form of Lease.~~

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

☒ E. Exhibit "E", Gas Balancing Agreement.

☒ F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.

☒ G. Exhibit "G", Tax Partnership.

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

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

If any party owns an unleased oil and gas interest in the Contract Area, that interest shall be treated for the purpose of this agreement and during the term hereof as if it were a leased interest under the form of oil and gas lease attached as Exhibit "B". As to such interest, the owner shall receive royalty on production as prescribed in the form of oil and gas lease attached hereto as Exhibit "B". Such party shall, however, be subject to all of the provisions of this agreement relating to lessees, to the extent that it owns the lessee interest.

B. Interest of Parties in Costs and Production:

Exhibit "A" lists all of the parties and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and material acquired in operations on the Contract Area shall be owned by the parties as their interests are shown in Exhibit "A". All production of oil and gas from the Contract Area, subject to the payment of lessor's royalties ~~which will be borne by the Joint Account,~~ shall also be owned by the parties in the same manner during the term hereof; provided, however, this shall not be deemed an assignment or cross-assignment of interests covered hereby.

ARTICLE IV.
TITLES

A. Title Examination:

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

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

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

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

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

B. Loss of Title:

1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a reduction of interest from that shown on Exhibit "A", this agreement, nevertheless, shall continue in force as to all remaining oil and gas leases and interests, and

(a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development

or operating costs which it may have theretofore paid, but there shall be no monetary liability on its part to the other parties hereto for drilling, development, operating or other similar costs by reason of such title failure; and

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

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

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

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

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

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

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

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

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

3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall not be considered failure of title but shall be joint losses and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of the Contract Area.

ARTICLE V.
OPERATOR

A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

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

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

~~1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice~~ thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest in the Contract Area, or is no longer capable of serving as Operator, it shall cease to be Operator without any action by Non-Operator, except the selection of a successor. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the affirmative vote of two (2) or more Non-Operators owning a majority interest based on ownership as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of six (6) months after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the Parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. If the Operator that is removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of the ~~Operator that was removed.~~

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before six (6) months from the effective date of the Unit Agreement, Operator shall commence the drilling of a well for oil and gas at the following location: Operators choice within the W/2 of Section 4, T-19-S, R-31-E, N. M. P. M., Eddy County, New Mexico,

and shall thereafter continue the drilling of the well with due diligence to a depth sufficient, to completely test the Pennsylvanian - Morrow formation, provided however, that the Unit Operator shall not in any event be required to drill said well to a depth in excess of 14,000 feet,

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

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

If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the well as a dry hole, it shall first secure the consent of all parties and shall plug and abandon same as provided in Article VI.E.1. hereof.

B. Subsequent Operations:

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

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VI.E.1. elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within sixty (60) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the twenty-four hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest of the parties approving such operation, and (b) its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within twenty-four hours ~~(exclusive of Saturday, Sunday or legal holidays)~~ after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A", or (b) carry its proportionate part of Non-Consenting Parties' interest. The proposing party, at its election, may withdraw such proposal if there is insufficient participation, and shall promptly notify all parties of such decision.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold (after deducting production taxes, royalty, overriding royalty and other interests existing on the effective date hereof, payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

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

(b) 300 % of that portion of the costs and expenses of drilling reworking, deepening, or plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and

300% of that portion of the cost of newly acquired equipment in the well (to and including the well-head connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

Gas production attributable to any Non-Consenting Party's relinquished interest shall be sold, at the election of the Consenting Party, either to the Consenting Party's purchaser or to the Non-Consenting Party's purchaser. If any sale is made to the Non-Consenting Party's purchaser such Non-Consenting Party shall direct its purchaser to remit the proceeds receivable from such sale directly to the Consenting Party until the amounts provided for in this Article are recovered from the Non-Consenting Party's relinquished interest.

During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production.

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

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

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

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

The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A. except (a) when Option 2, Article VII.D.1., has been selected, or (b) to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article VI.A.

C. Right to Take Production in Kind:

See Article XV. A. and C.

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

party taking its share of production in kind shall be required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

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

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

In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines and or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with any Gas Balancing Agreement between the parties hereto, whether such Agreement is attached as Exhibit "E", or is a separate Agreement.

D. Access to Contract Area and Information:

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

E. Abandonment of Wells:

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

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

vals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Contract Area.

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon request, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well.

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:
See Article XV. B.

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

B. Liens and Payment Defaults:

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

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

C. Payments and Accounting:

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

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

D. Limitation of Expenditures:

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

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

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

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

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Twenty-Five Thousand ---------- Dollars ($ 25,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of Fifteen Thousand ---------- Dollars ($ 15,000.00).

E. Royalties, Overriding Royalties and Other Payments:

See Article XV. C.

~~Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of~~ _____ due on its share of production and shall hold the other parties free from any liability therefor. If the interest of any party in any oil and gas lease covered by this agreement is subject to any royalty, overriding royalty, production payment, or other charge over and above the aforesaid royalty, such party shall assume and alone bear all such obligations and shall account ~~for or cause to be accounted for, such interest to the owners thereof.~~

No party shall ever be responsible, on any price basis higher than the price received by such party, to any other party's lessor or royalty owner; and if any such other party's lessor or royalty owner should demand and receive settlements on a higher price basis, the party contributing such lease shall bear the royalty burden insofar as such higher price is concerned.

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

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

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

of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

G. Taxes:

Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. Operator shall bill other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

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

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

H. Insurance:

At all times while operations are conducted hereunder, Operator shall comply with the Workmen's Compensation Law of the State where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be an amount equivalent to the premium which would have been paid had such insurance been obtained. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the Workmen's Compensation Law of the State where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event Automobile Public Liability Insurance is specified in said Exhibit "D", or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's fully owned automotive equipment.

ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

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

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

be shared by the parties assignee in the proportions that the interest of each bears to the interest of all parties assignee.

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

B. Renewal or Extension of Leases:

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

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

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

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

~~The provisions in this Article shall apply also and in like manner to extensions of oil and gas leases.~~

C. Acreage or Cash Contributions:

While this agreement is in force, if any party contracts for a contribution of cash toward the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and accept such tender, such acreage shall not become a part of the Contract Area. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the Contract Area.

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

D. Subsequently Created Interest:

Notwithstanding the provisions of Article VIII.E. and VIII.G., if any party hereto shall, subsequent to execution of this agreement, create an overriding royalty, production payment, or net proceeds interest, which such interests are hereinafter referred to as "subsequently created interest", such subsequently created interest shall be specifically made subject to all of the terms and provisions of this agreement, as follows:

1. If non-consent operations are conducted pursuant to any provision of this agreement, and the party conducting such operations becomes entitled to receive the production attributable to the interest out of which the subsequently created interest is derived, such party shall receive same free and clear of such subsequently created interest. The party creating same shall bear and pay all such subsequently created interests and shall indemnify and hold the other parties hereto free and harmless from any and all liability resulting therefrom.

2. If the owner of the interest from which the subsequently created interest is derived (1) fails to pay, when due, its share of expenses chargeable hereunder, or (2) elects to abandon a well under provisions of Article VI.E. hereof, or (3) elects to surrender a lease under provisions of Article VIII.A. hereof, the subsequently created interest shall be chargeable with the pro rata portion of all expenses hereunder in the same manner as if such interest were a working interest. For purposes of collecting such chargeable expenses, the party or parties who receive assignments as a result of (2) or (3) above shall have the right to enforce all provisions of Article VII.B. hereof against such subsequently created interest.

E. Maintenance of Uniform Interest:

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

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

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

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

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

F. Waiver of Right to Partition:

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

G. Preferential Right to Purchase:

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

ARTICLE IX.
INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any 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, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No

such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from Operations hereunder can be adequately determined without the computation of partnership taxable income. The tax election in Exhibit "G" is exercised by the Tax Partnership described in Article XV, S, (3) as an entity and not by the members of the Tax Partnership in their individual capacities.

ARTICLE X.
CLAIMS AND LAWSUITS

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

ARTICLE XI.
FORCE MAJEURE

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

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

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

ARTICLE XII.
NOTICES

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

ARTICLE XIII.
TERM OF AGREEMENT

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

~~☐ Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal or otherwise, and/or so long as oil and/or gas production continues from any lease or oil and gas interest.~~

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

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

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law: SEE ARTICLE XV. F. and XV. G.

The essential validity of this agreement and all matters pertaining thereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state where most of the land in the Contract Area is located shall govern.

ARTICLE XV.
OTHER PROVISIONS

A.

Each party electing to take in kind or separately dispose of its proportionate share of the production from the Contract area shall keep accurate records of the volume, selling price, royalty and taxes relative to its share of production. Non-Operators shall, upon request, furnish Operator with true and complete copies of the records required to be kept hereunder whenever, under the terms of this agreement or any agreement executed in connection herewith, it is necessary for Operator to obtain said information. Any information furnished to Operator hereunder shall be used by Operator only to the extent necessary to carry out its duties as Operator and shall otherwise be kept confidential.

B.

It is not the intention of the parties that this contract is made or intended for the benefit of any third person.

C.

For the purpose of this agreement as between the parties hereto, the royalty interest is and shall be treated as 1/8th, and the working interest of the parties hereto shall be treated as 7/8ths, and all oil and gas, including casinghead gas and condensates produced from the contract area attributable to the working interest covered by this agreement shall be owned in the proportions shown in Exhibit "A".

It is recognized by the parties hereto that in addition to each party's share of working interest production as shown in Exhibit "A", such party shall have the right, subject to existing contracts, to market the royalty gas attributable to each lease which it contributes to the Contract Area and to receive payments due for such royalty gas produced from or allocated to such lease or leases. It is

agreed that, regardless of whether each party markets or contracts for its share of gas, including the royalty gas under the leases which it contributed to the Contract Area, such party agrees to pay or cause to be paid to the royalty owners under its lease or leases the proceeds attributable to their respective royalty interest and to hold all other parties hereto harmless for its failure to do so.

It is understood by and between the parties hereto that if any of them is obligated to pay any lessor royalties at a rate in excess of the usual 1/8th royalty or to pay to anyone any overriding royalty, payments out of production, net profit obligations, carried interests, or any other outstanding obligations now existing or hereafter coming into existence against any of the parties hereto, or their respective interests, or with respect to the respective interests in the production from the above described land, all such royalties, obligations and payments by which any of the parties hereto is now bound or may hereafter become bound shall remain the obligation of the respective party or parties, as the case may be, and shall be paid and satisfied in each instance, unless otherwise paid and satisfied, out of the interest of the obligated party in the 7/8ths working interest set forth above.

D.

~~If the Operator is required hereunder to pay ad valorem taxes 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 percentage of tax ~~value generated by each party's working interest.~~

~~E. Anything to the contrary notwithstanding, the following shall apply to the~~ renewal or extension of leases as to the undeveloped portions of the unit:

(1) Renewal or Extension by Original Lease Owner

If the party who committed a lease to this agreement, which party is referred to as the "original lease owner", shall renew such lease prior to or within six (6) months after the expiration date of such lease, such party shall thereby own or retain its original interest and title in said lease and all parties' working interest in the Contract Area shall remain unchanged, unless such renewal lease covers less area or less interest than was covered by said lease at the time of its expiration, in which event the interest of the parties will be adjusted accordingly.

(2) Renewal or Extension by Other Than Original Lease Owner

If any working interest owner other than the original lease owner renews a lease committed to this agreement prior to or within six (6) months after the expiration date of such lease, whether such renewal lease is for the entire interest covered by the expiring lease or covers only a portion of its area or an interest therein, the renewing party shall furnish the original lease owner an itemized statement of the full costs and expenses or renewing such lease. The original lease owner shall have sixty (60) days after the receipt of such itemized statement within which to reimburse the renewing party in full for such costs and expenses of renewing such lease, and promptly execute an assignment of such renewal lease to the original lease owner. If such renewal lease covers the same area and the same interest as the expiring lease, then the interests of all parties' working interest in the Contract Area shall remain unchanged; otherwise, the interests of all the parties will be adjusted accordingly.

(3) Original Lease Owner Does Not Elect to Reimburse

If the original lease owner does not elect to reimburse the renewing party for such costs and expenses of renewing such lease within sixty (60) days after receipt of such statement, such lease shall then be promptly offered by the renewing party to all of the working interest owners on a pro rata basis provided each such owner agrees to pay his proportionate part of the renewal costs. Such renewal costs shall be borne in proportion to the interest held at that time by the parties in the Contract Area, and such party or parties shall receive an assignment of the renewal lease from the renewing party in proportion to their interest in the Contract Area. Such right to pay renewal costs and to share in the assignment of said lease must be exercised within sixty (60) days after receipt of such notice from the renewing party. If all parties to this agreement elect to share in the renewal costs and to receive an assignment of such ~~renewal lease in proportion to their current interest,~~

(3) Original Lease Owner Does Not Elect to Reimburse (Continued)

then such lease shall again become subject to this agreement and the interest of all parties' working interest in the Contract Area shall remain unchanged.

(4) If All Parties Do Not Elect to Reimburse

If one or more parties to this agreement elect not to reimburse the renewing party and to receive an assignment of their proportionate interest in such renewal lease, then such renewal lease shall not be or become subject to this agreement unless all parties to this agreement consent in writing to such lease being subject to this agreement and all parties consent to adjusting their percentages of participation in the Contract Area.

(5) Individual Loss

If any party secures the renewal of a lease subject to this agreement, the loss of which was an individual loss, such lease shall again become subject to this agreement and to the rights of the original lease owner under Subsections XV E (1) and XV E (2) hereof, subject only to an adjustment of percentages as required. However, the provisions of Subsections XV E (3) and XV E (4) shall not be applicable hereto and shall not apply to any such individual loss.

(6) Renewal Lease Defined

A renewal lease as used in Article XV E hereof shall mean any lease taken before the expiration of its predecessor lease, or any lease taken or contracted for within six (6) months after the expiration of an existing lease. Any lease taken or contracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease.

(7) Article XV E also Applies to Extensions

The provisions of Article XV E (a) through (e) shall also apply in like manner to extensions of leases and where not in conflict or in contradiction, the terms "renewal" and the term "extension" as used in said Article XV E shall have the same meaning.

F. TERM

This agreement shall remain in force for a period of one (1) year from and after the effective date of the Unit Agreement, and as long thereafter as the Unit Agreement is in effect. In the event of termination of the Unit Agreement for any reason as to all or any part of the land now or hereafter included in the Unit Area, this agreement shall continue in full force and effect with respect to any land as to which the Unit Agreement terminates which is included in any drilling unit or proration unit for any unabandoned well which has been drilled or commenced pursuant to this agreement, and as long thereafter a s oil and gas, or either of them is produced from the Unit Area, or any part thereof, or as long as producing, drilling or reworking operations are conducted thereon with no cessation of more than sixty (60) consecutive days, or as long as any lease committed to the Unit remains in effect by the payment of shut-in gas royalties on a gas well situated upon the Unit Area or any portion thereof. This agreement shall constitute a covenant running with the committed interests and shall be binding upon and insure to the benefit of the parties hereto, their successors and assigns. In the event of the termination of the Unit Agreement as to part of the land included in such Unit Agreement, the lands remaining subject to the Unit Agreement will also remain subject to this Operating Agreement.

G. It is understood that this contract may not be canceled, terminated or suspended for noncompliance with the Nondiscrimination Clause set forth in Exhibit "F" attached hereto until a final determination of noncompliance has been made by the Director, Office of Federal Contract Compliance, U. S. Department of Labor, as authorized in Executive Order No. 11246 of September 24, 1965.

H. CASING POINT ELECTION

It is specifically understood that consent to the drilling or deepening of a well shall not be deemed as consent to the setting of casing and a completion attempt. After any well drilled pursuant to this agreement has

H. CASING POINT ELECTION (CONTINUED)

reached its authorized depth, Operator shall give immediate notice to parties bearing costs of drilling to said depth. The parties receiving such notice shall have twenty-four (24) hours in which to elect whether or not they desire to set casing and to participate in a completion attempt. Failure of a party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of a completion attempt. If all of the parties election to plug and abandon the well, Operator shall plug and abandon same at the expense of said parties. If one or more, but less than all, of said parties elect to set pipe and attempt completion, the provisions of Section 9 shall apply to the operations thereafter conducted by less than all parties.

I. REQUIRED WELLS

For the purpose of this article a well shall be deemed a required well if the drilling thereof is required by the final order of an authorized representative of the Department of Interior. Such an order shall be deemed final upon expiration of the time allowed for appeal therefrom without the commencement of appropriate appeal proceedings or, if such proceedings are commenced within said time, upon the final dispostion of the appeal. Whenever Unit Operator receives any such order, it shall promptly mail a copy thereof to each of the other parties; if any such order is appealed, the party appealing shall give prompt written notice thereof to each of the other parties, and upon final disposition of the appeal, Unit Operator shall give each of the other parties prompt written notice of the result thereof.

Any party desiring to drill, or participate in the drilling of, a required well shall give to Unit Operator written notice thereof within thirty (30) days after the order requiring such well becomes final or within such lesser time as may be required by such order. If such notice is given within said period, Unit Operator shall drill the required well for the account of the party or parties giving such notice, who shall bear all costs incurred therein; the rights and obligations of such party or parties with respect to the ownership of such well, the operating rights therein, the available production therefrom and the bearing of costs incurred therein shall be the same as if the well had been drilled for the account of such party or parties under Article VI B 2, "Additional Wells."

If no party elects to drill a required well within the period allowed for such election, and if any of the following alternatives are available, the first such alternative which is available shall be followed:

a. If compensatory royalties may be paid in lieu of drilling the well and if payment thereof is authorized by the parties within said period, Unit Operator shall pay such compensatory royalties; or

b. If the drilling of the well may be avoided, without other penalty, by contraction of the Unit Area through exclusion of lands not then within a participating area, Unit Operator shall make reasonable effort to effect such contraction with the approval of the Director; or

c. If unitized substances have not theretofore been discovered in paying quantities within the Unit Area, the parties shall join in termination of the Unit Agreement in accordance with its provisions.

If none of the foregoing alternatives are available, Unit Operator shall drill the required well for the account of all the parties, each of whom shall bear that percentage of all costs incurred therein which is equal to its participating interest.

J. COMPENSATORY ROYALTIES

Whenever demand is made in accordance with the Unit Agreement for the drilling of a well for the protection of the Unit Area from drainage, or for the payment of compensatory royalties in lieu thereof, Unit Operator shall give written notice thereof to each party. If payment of such compensatory

J. COMPENSATORY ROYALTIES (CONTINUED)

royalties is approved by the parties, Unit Operator shall make payment hereof. All payments so made by Unit Operator shall be charged as costs and borne by the parties in proportion to their respective participating interests. If payment of compensatory royalties is not approved by the parties, then the rights and obligations of the parties shall be governed by Article XV I, "Required Wells."

~~K. UNCOMMITTED ROYALTY~~

Should an owner of a royalty interest in any tract fail to become a party to the Unit Agreement and, as a result thereof, the actual royalty interest payments with respect to such tract are more or less than the royalty interest payments computed on the basis of the unitized substances that are allocated to such tract under the Unit Agreement, to the extent provided below, the difference shall be borne by or inure to the benefit of working interest owners, in proportion to their respective unit participation.

The difference to be borne by or inure to the benefit of working interest owners shall not exceed an amount computed on the basis of 1/8th of the difference between the unitized substances allocated to the tract and the unitized substances produced from the tract. Such adjustments shall be made by charges and credits to the joint account. Any uncommitted royalty interest in excess of 1/8th shall be borne solely by the working interest owner contributing such interest.

L. MANNER OF EXERCISING SUPERVISION

For projects exceeding Operator's expenditure limits and for other operational procedures not covered by this Operating Agreement, the following procedures shall apply.

Each working interest owner shall in writing inform Unit Operator of the names and addresses of its representative and alternate who are authorized to represent and bind such working interest owner in all duly called meetings with respect to Unit operations. The representative or alternate may be changed from time to time by written notice to Unit Operator.

All meetings of working interest owners shall be called by Unit Operator upon its own motion or at the request of two (2) or more working interest owners having a total percentage participation in the initial well after payout and all subsequent wells of not less than ten percent (10%). No meeting shall be called on less than fourteen (14) days' advance written notice, with agenda for the meeting attached. Working interest owners who attend the meeting shall not be prevented from amending items included in the agenda or from deciding the amended item or other items presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.

Working interest owners shall decide all matters coming before them as follows:

a. Each working interest owner shall have a voting interest computed by dividing its leasehold acreage material to the issue at hand by the total committed acreage.

b. Except as may otherwise be provided herein or in the Unit Agreement, working interest owners shall act upon and determine all matters coming before them by the affirmative vote of two (2) or more working interest owners having a total of sixty percent (60%) or more of the total voting interest in the Unit; provided that, if any one working interest owner has a voting interest of more than forty percent (40%), its negative vote or failure to vote shall not defeat the matter being voted on if such matter is supported by a majority of the voting interest unless such working interest owner is supported by the vote of one or more other working interest owners having a total voting interest of at least five percent (5%), and such resulting vote shall be binding on all parties.

c. Any working interest owner who is not represented at a meeting may vote either by written proxy or by letter or telegram addressed

L. MANNER OF EXERCISING SUPERVISION (CONTINUED)

c. (Continued) to the representative of the Unit Operator, provided such letter or telegram is received prior to the submission of such item to vote. If the vote is by letter or telegram, such vote shall not be counted with respect to any item on the agenda which has been materially changed at the meeting.

d. Working interest owners may vote on and decide, by letter or telegram, any matter submitted in writing to working interest owners, if no meeting is requested, as provided in this article, within seven (7) days after the proposal is received by working interest owners. Unit Operator will give prompt notice of the results of the voting to all working interest owners.

e. Any expenditure occurring as a result of vote will be billed to joint account and paid by all parties in accordance with their respective working interest ownership in the Unit Area.

M. ESTABLISHMENT, REVISION AND CONSOLIDATION OF PARTICIPATING AREA

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

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

If the proposal does not receive the approval of such Working Interest Owners, then the Unit Operator shall submit a revised proposal taking into account the objections made to the first proposal. If no proposal received the approval of said Working Interest Owners within thirty (30) days from the submission of the first proposal, the Unit Operator shall then file with the Supervisor and the Land Commissioner a proposal reflecting as nearly as practicable the various views expressed by the affected Working Interest Owners.

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

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

N. MISCELLANEOUS

It is understood that all references made herein to the respective parties shall, where applicable, include the singular or the plural, as the case may be, and use of any pronoun herein shall, where applicable, cover the masculine, feminine and neuter, as the case may be. It is further understood and agreed that the headings used in this agreement are inserted for convenience only and shall be disregarded in construing this agreement.

In the event of conflict between the Unit Agreement and this Unit Operating Agreement, the terms and conditions of the Unit Agreement shall control.

O. DEPARTMENT OF ENERGY REGULATIONS

Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or predecessor agencies to the extent Operator's interpretation or application of such rules, rulings, regulations or orders were made in good faith. Non-Operators further agree to reimburse Operator for their proportionate share of any amounts

O. DEPARTMENT OF ENERGY REULATIONS (CONTINUED)

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 the Non-Operators' proportionate part of interest and penalties owing by Operator as a result of such incorrect interpretation or application of such rules, rulings, regulations or orders.

~~P. PARTICIPATION IN COST OF INITIAL TEST WELL~~

~~who presently own interests in the contract area, are contributing a portion of~~ such interests to the drilling of the Initial Test Well, and will hereinafter be referred to as the "Contributing Party" whether one or more. The Contributing Party's share of the Initial Test Well will be paid for by Gulf Oil Corporation %, and
%, who will be referred to as "Earning Party" whether one or more.

In consideration of payment of expenses set forth in Exhibit "A-2" hereof, performance of all the terms and provisions of this agreement, and completion of the Initial Test Well as a well capable of producing oil or gas in paying quantities (quantities sufficient to return the cost of operating the well and a reasonable profit), the Earning Party shall earn oil and gas rights in the Contract Area equal to (a) the entire present interest of the Contributing Party in the largest participating area initially assigned by the New Mexico Oil Conservation Commission to the Initial Test Well which is first completed as a producing oil or gas well, and (b) an undivided 1/2 of the present interest of the Contributing Party in the Contract Area outside of the participating area. The Contributing Party, in proportion to the interest in the Contract Area, excepts and reserves from the participating area, a total overriding royalty, subject to proportionate reduction, equal to 1/16 of 8/8ths of the oil and gas produced, saved and marketed from the participating areas. This total overriding royalty shall include and absorb all overriding royalties and other obligations payable out of production from the Participating Area. After the earning Party has earned an interest in the Contract Area as provided hereinabove, and upon request of the Earning Party, the Contributing Party shall execute and deliver assignments of operating rights, without warranties of title, confirming the oil and gas operating rights earned.

Upon payout of the initial test well, the Contriubting Party's overriding royalty interest shall terminate, the the Contributing Party shall be entitled to a forty percent (40%) working interest, proportionately reduced, in the contract area. Payout of the initial test well shall be deemed to have occurred when proceeds of all production from the initial test well (after deducting the gross production taxes, royalty, overriding royalty, and other interests payable out of or measured by such share of the production) shall equal 100% of the cost incurred in drilling, deepening, plugging back, reworking; completing and equipping (excluding any costs beyond the wellhead connection) such well, and 100% of the cost beyond the wellhead connection, such as tanks, separators and flow lines, together with 100% of the cost of operation thereof during such time, such cost to be determined in accordance with the provisions of the Accounting Procedure (Exhibit "C") of the Operating Agreement referred to above.

Within thirty (30) days after Operator has recovered all drilling and completion costs attributable to the initial test well and said well has paid out, Operator shall notify the Contributing Party of such fact. The Contributing Party's working interest shall become effective at 7:00 A.M. on the first day following the day the well pays out, and all operations on any subsequent well on the contract area shall be governed by the ~~provisions of the Operating Agreement of even date herewith.~~

~~P. PARTICIPATION IN COST OF INITIAL TEST WELL~~

~~hereinafter referred to as Contributing Party,~~ own leasehold estate rights in the following described land:

Such land is situated in the contract area. Contributing Party is farming out its interest in the above described land to Gulf Oil Corporation.

In consideration of payment of expenses as set forth in Exhibit "A" hereof, performance of all the terms and provisions of this agreement, and completion of the initial test well as a well capable of producing oil or gas in paying quantities (quantities sufficient to return the cost of operating the well and a reasonable profit), the Earning Party shall earn from Contributing Party the following described rights in the proportions described above:

1. 100% of Contributing Party's leasehold estate rights in the initial test well proration unit.

2. 60% of Contributing Party's leasehold estate rights in the contract area located outside of the initial test well proration unit.

3. 100% of any right Contributing Party may have to share in production from the initial test well.

Notwithstanding the foregoing, the Contributing Party shall receive out of the initial test well a cost free interest in production equal to 1/16 of 8/8ths of all oil and gas produced, saved and marketed from the initial test well, proportionately reduced by the percentage of the Contract Area which was committed by contributing parties (determined on an acreage basis) as further set forth in Exhibit "A" hereto. After the Earning Party has earned an interest in the Contract Area as provided herein above, and upon request of the Earning Party, the Contributing Party shall execute and deliver assignments of such rights without warranties of title, confirming that such rights were earned.

Upon payout of the initial test well, as described below, the Contributing Party shall have the option, to be exercised within 30 days of the receipt of the notice described below, to terminate its 1/16 of 8/8ths, proportionately reduced, cost free interest in production from the initial test well, and fully participate in the initial test well, receiving its share of production and paying its share of costs, as set out in Exhibit "A" hereto. In the event Contributing Party owned leasehold estate rights in the proration unit of the initial test well, and pursuant to the terms of this agreement assigned 100% of such rights in such proration unit to Earning Parties, then upon making the election to fully participate, as provided above, Earning Party shall reassign to Contributing Party an undivided 40% of the leasehold estate rights which were ~~previously assigned by the contributing party to earning party~~.

~~P. PARTICIPATION IN COST OF INITIAL TEST WELL (CONTINUED)~~

~~Payout of the initial test well shall be deemed to have~~ occured when proceeds of all production from the initial test well (after deducting gross production taxes, royalty, overriding royalty, and other interests payable out of or measured by such share of production) shall equal 100% of the costs incurred in drilling, deepening, plugging back, reworking, completing and equipping such well (including any costs beyond the well head connection such as tanks, separators and flow lines), together with 100% of the costs of operation thereof during such time, such cost to be determined in accordance with the provisions of the accounting procedures (Exhibit "C") of this Operating Agreement.

Within 30 days after operator has recovered all drilling and completion costs attributable to the initial test well and said well has paid out, operator shall notify the contributing party of such fact. If the contributing party makes the election provided for above, such election shall become effective at 7 a.m. ~~on the first day following the day the well pays out.~~

Q. PLANS OF DEVELOPMENT

Each plan for the development and operation of the Contract Area which is submitted by Operator to the Supervisor in accordance with the Unit Agreement shall make provision only for such drilling, deepening and plugging back operations and such other projects as Operator has been authorized to conduct by the parties chargeable with the costs incurred therein.

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

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

If a drilling, deepening, or plugging back operation which is authorized by all the parties of which any of the parties have elected to perform in accordance with article VI B is not provided for in the then current plan of development as approved by the Supervisor, Operator shall either (a) request the Supervisor to approve an amendment to such plan which will provide for the conduct of such operation, or (b) request the Supervisor to consent to such operation if his consent is sufficient.

If any such plan as approved by the Supervisor provides for the cessation of any drilling or other operations therein provided for on the happening of a contingency and if such contingency occurs, Operator shall promptly cease such drilling or other operations and shall not incur any additional costs in connection therewith unless and until such drilling or other operations are again authorized in accordance with this agreement by the parties chargeable with such costs.

R.

~~1. Operator agrees to comply with all laws and lawful regulations applicable~~ to any activities carried out in the name of or on behalf of any one or more of the parties to this agreement under the provisions of this agreement and/or any amendments to it.

2. Operator agrees that all financial settlements, billings and reports rendered to any one or more of the parties to this agreement, as provided for in this agreement and/or any amendments to it, will, to the best of its knowledge and belief, reflect properly the facts about all activities and transactions handled for the account of such party or parties, which data may be relied upon as being complete and accurate in any further recording and reporting made by such party or parties for whatever purpose.

3. Operator agrees to notify the other parties to this agreement promptly upon discovery of any instance where the Operator fails to comply with the provision (1) above or where Operator has reason to believe ~~data covered by (2) above is no longer accurate and complete.~~

F A R M O U T A G R E E M E N T

This Article XV. S. shall constitute an agreement betweer. _____, _____, and _____, hereinafter referred to as "Earning Party or Parties", as the case may be, and _____, _____, and _____, hereinafter referred to as "Contributing Party or Parties", as the case may be. In consideration for the Earning Parties' bearing the entire costs attributable to the Contributing Parties' share of the costs of drilling, testing, completing, and operating the Initial Well in the respective proportions of _____, _____, and _____; it is agreed as follows:

(1) When and if the Initial Well has been completed as a Commercially Productive Well, the Contributing Parties shall execute and deliver to the Earning Parties the following described assignment:

> An assignment covering all rights, title and interest of the Contributing Parties in and to that portion of the Contract Area included within the drilling unit around the Initial Well
>
> _____
>
> _____
>
> _____
>
> to the Earning Parties in the respective shares as shown above, but reserving to the Contributing Parties _____
>
> _____
>
> _____,
>
> an overriding royalty interest of _____, proportionately reduced, said overriding royalty interest being each Earning Party's proportionate share of _____ of all production from the Initial Well which is attributable to the interest in the Contract Area initially owned by the Contributing Parties. Said assignment shall provide that each Contributing Party shall have an option after payout to convert its said overriding royalty interest to a proportionate share of _____, said working interest being share of _____ of all production from the Initial Well which is attributable to the interest in the Contract Area initially owned by each Contributing Party.

Payout of the Initial Well shall be deemed to have occurred when proceeds of production from the Initial Well (after deducting the gross production taxes, royalty, overriding royalty, and other interests payable out of or measured by such share of the production which on the date of this assignment burden the leasehold estate assigned) shall equal 100% of the costs incurred in drilling, deepening, plugging back, reworking, completing and equipping such well, including all costs beyond the wellhead connection, such as tanks, separators and flow lines, together with the costs of operation thereof during such time of payout, all of such costs to be determined in accordance with the provisions of the Accounting Procedure (Exhibit "C") of the Operating Agreement referred to above.

If, in the drilling of the Initial Well, Earning Parties encounter a drilling condition or substance before reaching the depth or formation specified in Article VI herein, which cannot be overcome by means or methods customarily used by prudent Operators in the area, then and in such event, the Initial Well may be plugged and abandoned at the depth at which the substance or condition is encountered and Earning Parties are hereby granted and given an option to commence and drill a substitute well for the Initial Well. The actual drilling of any such substitute well shall be commenced within 45 days from the date the Initial Well is plugged and abandoned and shall be staked at a location of Earning Parties' choice on the Contract Area. Any such substitute well shall be drilled to the same depth and under the same terms and conditions as are applicable to the Initial Well, and when so drilled, shall be considered for all purposes to be the Initial Well.

Within thirty (30) days after payout of the Initial Well the Operator shall notify all Earning and Contributing Parties of such fact. The Contributing Parties shall have 60 days from receipt of such notice to notify the Earning Parties in writing whether or not they have elected to convert their respective overriding royalty interests into the said working interests.

If any Contributing Party fails to so notify the Earning Parties within said 60-day period, it will be conclusively presumed that the Contributing Party has elected to retain its overriding royalty interest in that portion of the Contract Area included within the drilling unit around the Initial Well and in the production from the Initial Well, rather than to convert same to a working interest. Upon Contributing Parties' election to convert its overriding royalty interest to a working interest, the Contributing Parties' working interest shall become effective at 7:00 A.M. on the first day following the day the well pays out. If any or all of the Contributing Parties elect to convert to a working interest, the Earning and Contributing Parties shall execute such instruments as are appropriate to effectuate such conversion of record with such conversion becoming effective the first day after payout of the Initial Well.

(2) When and if the Initial Well has been completed as a Commercially Productive Well, the Contributing Parties shall also execute and deliver to the Earning Parties the following described assignment:

An assignment conveying _____ of the rights, title and interest of the Contributing Parties _____

_____

_____

in the Initial Well in and to all of the Contract Area, except for that portion which is included within the drilling unit around the Initial Well, to _____

_____

_____

_____.

(3) "Tax Partnership": The Contributing and Earning Parties hereby agree that they are tax partners and will be bound by the Tax Partnership Agreement attached hereto as Exhibit "G" and incorporated herein by reference for all purposes.

ARTICLE XVI.
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of _____day of_____, 19____.

OPERATOR

GULF OIL CORPORATION

_____ By:_____
Attorney-in-Fact

NON-OPERATORS

ATTEST: UNION OIL COMPANY OF CALIFORNIA

_____ By:_____
Secretary Title:

ATTEST: CANADIAN KENWOOD COMPANY

_____ By:_____
Secretary Title:

ATTEST: 18-31, INC.

_____ By:_____
Secretary Title:

ATTEST: SOUTHLAND ROYALTY COMPANY

_____ By:_____
Secretary Title:

ATTEST: YATES PETROLEUM CORPORATION

_____ By:_____
Secretary Title:

ATTEST: EXXON COMPANY, U.S.A.

_____ By:_____
Secretary Title:

ATTEST: FEATHERSTONE DEVELOPMENT CORPORATION

_____ By:_____
Secretary Title:

Signature Page to Operating Agreement covering S/2 of Sections 31, 32, and 33, T-18-S, R-31-E, N.M.P.M.; all of Sections 4, 5, and 6, and N/2 of Sections 7, 8, and 9, T-19-S, R-31-E, N.M.P.M., Eddy County, New Mexico.

ATTEST:

_____
Secretary

HANSON OIL CORPORATION

By: _____
Title:

ATTEST:

_____
Secretary

FEATHERSTONE FARMS, LTD.

By: _____
Title:

ATTEST:

_____
Secretary

HANLAD OIL CORPORATION

By: _____
Title:

ATTEST:

_____
Secretary

SUMMIT ENERGY, INC.

By: _____
Title:

ATTEST:

_____
Secretary

AMOCO PRODUCTION COMPANY

By: _____
Title:

ATTEST:

_____
Secretary

INTERNORTH EXPLORATION & PRODUCTION

By: _____
Title:

ATTEST:

_____
Secretary

SCOPE INDUSTRIES

By: _____
Title:

ATTEST:

_____
Secretary

REPUBLIC NATIONAL BANK

By: _____
Title:

_____
PAULINE V. TRIGG

_____
T. R. PARKER

_____
LELAND A. WITTKAPP

Second page of signature page of Operating Agreement covering S/2 of Sections 31, 32, and 33, T-18-S, R-31-E, N. M. P. M.; all of Sections 4, 5, and 6, and N/2 of Sections 7, 8, and 9, T-19-S, R-31-E, N. M. P. M., Eddy County, New Mexico.

VIRGINIA L. WITTKAPP

WALTER GRANBERRY

HOWARD F. TODMAN

HAROLD KERSEY

MARIAN CULBERTSON

WALLACE W. IRVIN

THELMA BAUERDORF

CONSTANCE B. CARTWRIGHT

ANNE GANNON DERFUS

BEVERLY PAYNE HORTON

WILLIAM G. PAYNE

ROBERT C. PAYNE

Third page of signature page of Operating Agreement covering S/2 of Sections 31, 32, and 33, T-18-S, R-31-E, N. M. P. M.; all of Section 4, 5, and 6, and N/2 of Sections 7, 8, and 9, T-19-S, R-31-E, N. M. P. M., Eddy County, New Mexico.

EXHIBIT "A"

Attached to and made a part of the Operating Agreement between GULF OIL CORPORATION as "Operator", and AMOCO PRODUCTION COMPANY, et al, as "Non-Operator".

Eddy County, New Mexico

(1) Identification of lands subject to agreement:

S/2 of Sections 31, 32, 33, T-18-S, R-31-E, N. M. P. M., and all of Sections 4, 5, 6; the N/2 of Sections 7, 8, and 9, N. M. P. M., Eddy County, New Mexico.

(2) Restrictions, if any, as to depths or formations:

(3) Percentages or fractional interests of parties to this agreement:

(4) Oil and gas leases and/or oil and gas interests subject to this agreement:

(5) Addresses of parties for notice purposes:

EXHIBIT "C"

Attached to and made a part of Operating Agreement between GULF OIL CORPORATION as "Operator", and AMOCO PRODUCTION COMPANY, et al as "Non-Operator", Eddy County, New Mexico.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

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

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

5. Audits

A. Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

6. Approval by Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

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

2. Labor

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

(2) Salaries and related expenses of Supervisors in the field below Area Superintendent.

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

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.

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

3. Employee Benefits

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty- six percent (26%), or percent most recently recommended by the Council of Petroleum Accounts Societies of North America.

4. Material

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

5. Transportation

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

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

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

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

6. Services

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

7. Equipment and Facilities Furnished by Operator

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

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

8. Damages and Losses to Joint Property

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

9. Legal Expense

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

COPIES

10. Taxes

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

11. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Workmen's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

12. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

( ) Percentage Basis, Paragraph 1B.

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 2A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the Overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

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

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate $ 3,950.00

Producing Well Rate $ 395.00

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

(a) Drilling Well Rate

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

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

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

(b) Producing Well Rates

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

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

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

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

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

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

B. Overhead - Percentage Basis

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

(a) Development

_____ Percent (%) of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 9 of Section II and all salvage credits.

(b) Operating

_____ Percent (%) of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

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

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of $25,000 :

A. 5 % of total costs if such costs are more than $ 25,000 but less than $ 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.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells shall be excluded.

3. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

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

(2) Line Pipe

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

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

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

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

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

(2) Material moved from the Joint Property

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

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

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

C. Other Used Material (Condition C and D)

(1) Condition C

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

(2) Condition D

All other Material, including junk, shall be priced at a value commensurate with its use or at prevailing prices. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose. Operator may dispose of Condition D Material under procedures normally utilized by the Operator without prior approval of Non-Operators.

D. Obsolete Material

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

E. Pricing Conditions

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

(2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished by Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, Inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

Special Inventories may be taken whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory.

4. Expense of Conducting Periodic Inventories

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

EXHIBIT "D"

Attached to and made a part of the Operating Agreement between GULF OIL CORPORATION, as "Operator", and AMOCO PRODUCTION COMPANY, et al, as "Non-Operator".

INSURANCE COVERAGE

(a) Workmen's Compensation Insurance and Employers' Liability Insurance in accordance with the laws of the state in which the Contract Area is situated;

and,

(b) Comprehensive General Public Liability in the following amounts:

Bodily Injury:	$150,000.00 each person $300,000.00 each accident
Property Damage:	$100,000.00 each accident, with the exception of the first $5,000.00 loss which is self-insured $200,000.00 aggregate

The $5,000.00 self-insured property damage loss incident to each accident shall be charged to the Joint Account.

EXHIBIT "E"

Attached to and made a part of Operating Agreement
between GULF OIL CORPORATION
as "Operator"
and AMOCO PRODUCTION COMPANY, et al
as "Non-Operator"

GAS STORAGE AND BALANCING AGREEMENT

The parties to the Operating Agreement to which this agreement is attached own the working interest in the gas rights underlying the Contract Area covered by such agreement in accordance with the percentages of participation as set forth in Exhibit "A" to the Operating Agreement.

In accordance with the terms of the Operating Agreement, each party thereto has the right, subject to existing contracts, to take its share of gas produced from the Contract Area and market the same. In the event any of the parties hereto is not at any time taking or marketing its share of gas or has contracted to sell its share of gas produced from the Contract Area to a purchaser which does not at any time while this agreement is in effect take the full share of gas attributable to the interest of such party, the terms of this agreement shall automatically become effective.

During the period or periods when any party hereto has no market or fails to take its share of gas produced from any proration unit within the Contract Area, or its purchaser does not take its full share of gas produced from such proration unit, the other parties shall be entitled to produce each month one hundred percent (100%) of the allowable gas production assigned to such proration unit by the State regulatory body having jurisdiction and shall be entitled to take and deliver to its or their purchaser all of such gas production. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser.

On a cumulative basis, each party not taking or marketing its full share of the gas produced shall be credited with gas in storage equal to its full share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost, and less that portion such party took or delivered to its purchaser. The Operator will maintain a current account of the gas balance between the parties and will furnish all parties hereto monthly statements showing the total quantity of gas produced, the amount used in lease operations, vented or lost, the total quantity of liquid hydrocarbons recovered therefrom, and the monthly and cumulative over and under account of each party.

At all times while gas is produced from the Contract Area, each party hereto will make settlement with the respective royalty owners to whom they are each accountable, just as if each party were taking or delivering to a purchaser its share, and its share only, of total gas production exclusive of gas used in lease operations, vented or lost. Each party hereto agrees to hold each other party harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable.

The term "royalty owner" shall include owners of royalty, overriding royalties, production payments and similar interests.

After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its full share of the gas produced from a proration unit under which it has gas in storage less such party's share of gas used in operations, vented or lost. In addition to such share, each party, including the Operator, until it has recovered its gas in storage and balanced the gas account as to its interest, shall be entitled to take or deliver to its purchaser a share of gas determined by multiplying fifty percent (50%) of the interest in the current gas production of the party or parties without gas in storage by a fraction, the numerator of which is the interest in the proration unit of such party with gas in storage and the denominator of which is the total percentage interest in such proration unit of all parties with gas in storage currently taking or delivering to a purchaser.

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

Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser its full share of the allowable gas production to meet the deliverability tests required by its purchaser.

Should production of gas from a proration unit be permanently discontinued before the gas account is balanced, settlement will be made between the underproduced and overproduced parties. In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced party or parties attributable to the overproduction which said overproduced party received, less applicable taxes theretofore paid, at the applicable price defined below for the latest delivery of a volume of gas equal to that for which settlement is made. For gas, the price of which is not regulated by federal, state, or other governmental authorities, the price basis shall be the price received for the sale of the gas. For gas, the price of which is subject to regulation by federal, state or other governmental authorities, the price basis shall be the rate collected, from time to time, which is not subject to possible refund, as provided by the Federal Energy Regulatory Commission or any other governmental authority pursuant to final order or settlement applicable to gas sold from such well, plus any additional collected amount which is not ultimately required to be refunded by such authority, such additional collected amount to be accounted for at such time as final determination is made with respect thereto.

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

This agreement shall constitute a separate agreement as to each proration unit within the Contract Area and shall become effective in accordance with its terms and shall remain in force and effect as long as the Operating Agreement to which it is attached remains in effect, and shall inure to the benefit of and be binding upon the parties hereto, their successors, legal representatives and assigns.

EXHIBIT "F"

Attached to and made a part of the Operating Agreement between GULF OIL CORPORATION, as "Operator", and AMOCO PRODUCTION COMPANY, et al, as "Non-Operator".

NONDISCRIMINATION CLAUSE

GULF OIL CORPORATION, hereinafter referred to as Operator, is a "contractor" within the meaning of Executive Order No. 11246 dealing with nondiscrimination and equal employment opportunity.

AMOCO PRODUCTION COMPANY, et al, hereinafter called "contractor" in this exhibit, agrees, unless exempt therefrom, to comply with all applicable provisions of Executive Order No. 11246, as amended by Executive Order No. 11375, all applicable provisions of which are incorporated herein by reference, and (a) if contractor has more than fifty (50) employees or a contract with Operator in excess of $10,000.00, contractor must file Standard Form 100 (EEO-1), or (b) if contractor has fifty (50) or more employees and a contract of $50,000.00 or more, contractor is required to develop a written "Affirmative Action Compliance Program" for each of its establishments according to the Rules and Regulations published by the United States Department of Labor in 41 C.F.R., Chapter 60. Further, contractor hereby certifies that it does not now and will not maintain any facilities provided for its employees in a segregated manner or permit its employees to perform their services at any location under its control where segregated facilities are maintained, as such segregated facilities are defined in Title 41, Chapter 60-1.8, Code of Federal Regulations, revised as of 1/1/69, unless exempt therefrom. Contractor further warrants that no other law, regulation or ordinance of the United States, or any state, or any governmental authority or agency has been violated in the manufacture, procurement or sale of any goods furnished, work performed or service rendered pursuant to this contract.

The contractor agrees, to the extent applicable, to comply with the affirmative action clause and the regulations of the Department of Labor issued pursuant to the Vietnam Era Veterans Readjustment Assitance Act of 1974, as set forth in 41 C.F.R. 60-250, which are incorporated herein by reference.

The contractor agrees, to the extent applicable, to comply with the affirmative action clause and the regulations of the Department of Labor issued pursuant to the Rehabilitation Act of 1973, as set forth in 41 C.F.R. 60-741, which are incorporated herein by reference.

EXHIBIT "G"

Attached to and made a part of the Operating Agreement, executed by Gulf Oil Corporation, Operator, and Amoco Production Company, et al, Non-Operator, effective the _____ day of _____, 19___.

TAX PARTNERSHIP AGREEMENT

The parties recognize that this agreement creates a partnership for Federal and State income tax purposes and such parties do hereby agree not to elect to be excluded from the application of Subchapter K of Chapter I of Subtitle A of the United States Internal Revenue Code of 1954, as amended, or any similar State statute. All parties agree that the necessary Federal and State partnership income tax returns shall be filed covering operations under this agreement and Operator agrees to use its best efforts in the preparation and filing of the partnership tax returns and in making any appropriate elections on such returns, acting on behalf of itself and the other parties hereto, but in so doing, Operator shall incur no liability to any other party with regard to such returns or elections and shall make no charges for performance of any administrative or professional service in connection with the keeping of records or the filing of returns. Each party agrees to provide Operator with all information readily available from regularly maintained accounting records. Operator shall submit copies of all returns to the other parties forty-five (45) days before the due date to permit review and approval prior to filing. Operator is hereby granted authority to make the following elections under United States Internal Revenue laws and regulations and any similar State statutes:

a. To elect to adopt the calendar year as the annual accounting period;

b. To elect to adopt the accrual method of accounting;

c. To elect to expense all intangible drilling and development costs;

d. To elect to compute the allowance for depreciation utilizing the shortest life permissible under the Asset Depreciation Range System;

e. To elect to deduct advance royalties from gross income for the year the advance royalties are paid or accrued; and,

f. To make such other elections as may be approved by the parties.

The parties further agree that for United States income tax purposes, the gains and losses from sales, abandonments and other disposition of property and all classes of costs, expenses, and credits, including depreciation and depletion, shall be shared and accounted for as follows:

a. All production and intangible drilling and development costs and other classes of costs and expenses shall be allocated as deductions to each party in accordance with its respective contributions to such costs;

b. Depreciation on tangible equipment shall be allocated to each party in accordance with its contributions to the adjusted basis of such equipment, as such adjusted basis is defined in the Internal Revenue Code of 1954, as amended, and any similar State statute;

c. Deductions for depletion shall be computed by the parties as follows:

(1) If eligible for percentage or cost depletion, the depletion deduction shall be computed by each of the parties separately. Percentage depletion shall be calculated under IRC Section 613A, (b) "Exemption for Certain Domestic Gas Wells", or IRC Section 613A, (c) "Independent Procedures and Royalty Owners", whichever is applicable.

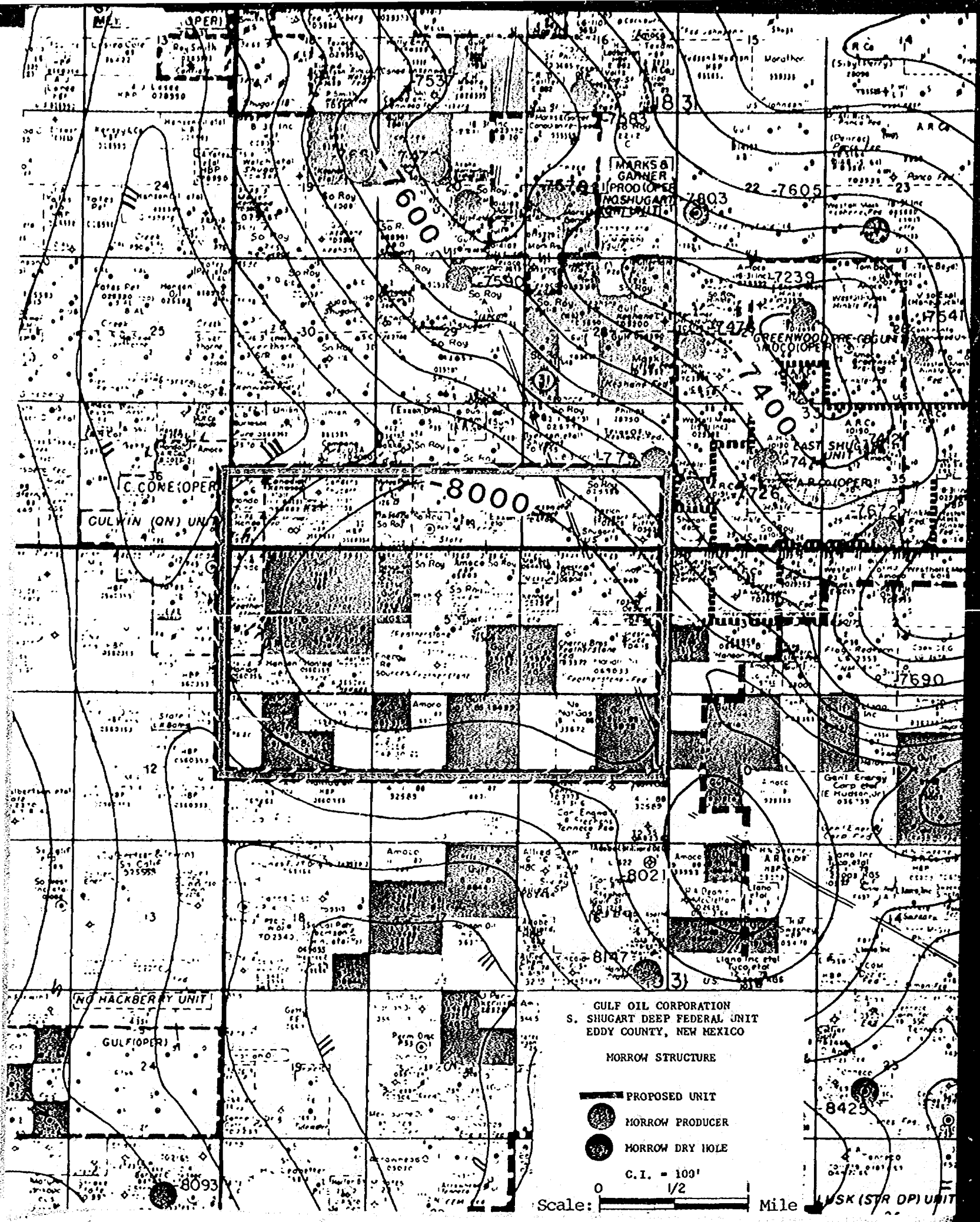
(2) The partnership basis in oil or gas properties shall be allocated to each party in accordance with its respective contribution to such cost depletion base. Each partner shall maintain an individual basis account and compute its own allowance for either percentage depletion or cost depletion on all its properties. The depletion allowance deducted by the partners shall be treated as a reduction of the basis of the partnership property. In addition, each partner shall furnish its percentage or cost depletion calculation to Operator annually.

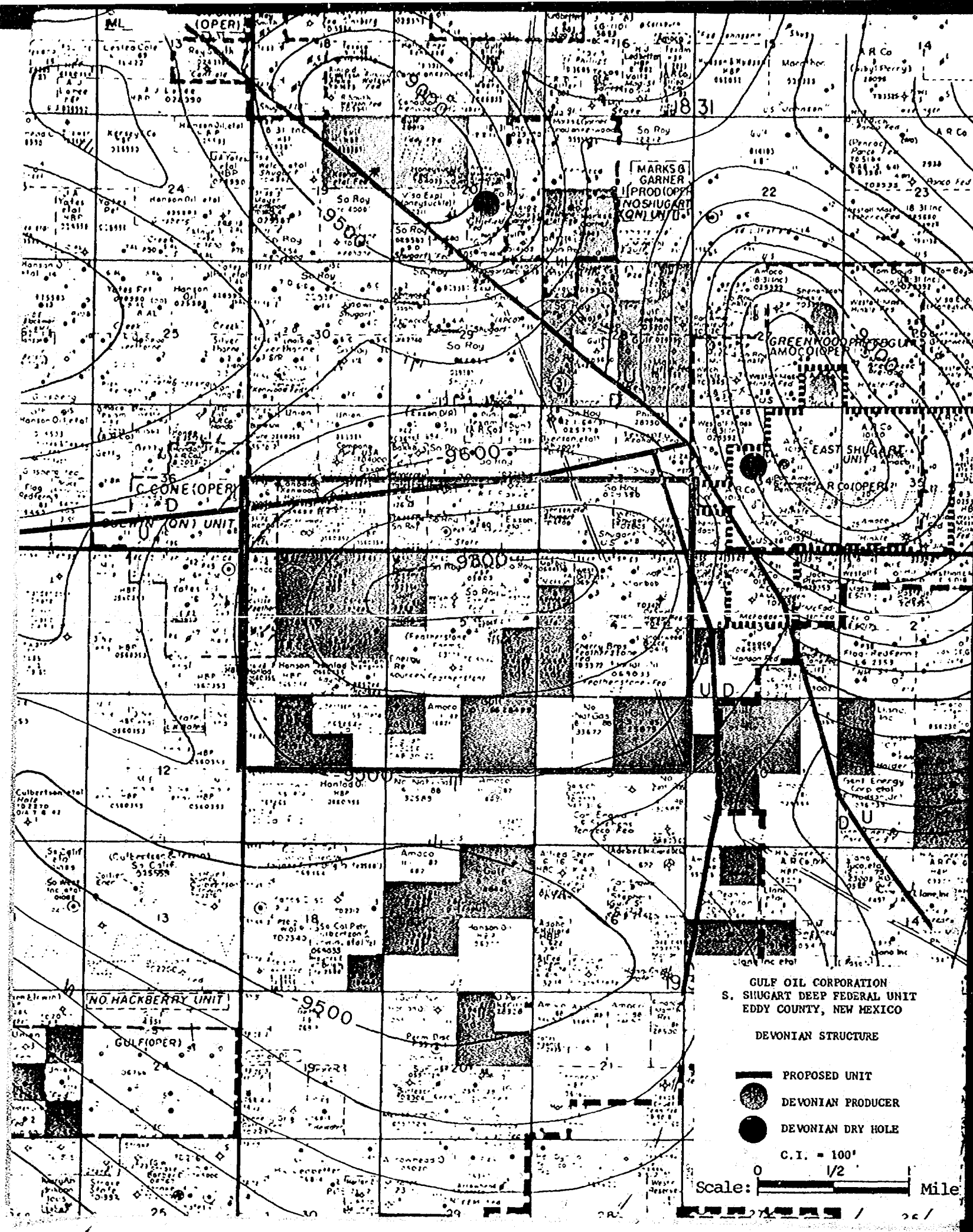
(3) Each party shall take into account for its depletion calculation such party's share of production, gross income, royalty obligations, expenses, contributions to the unadjusted cost basis of the joint property, all adjustments to basis and depletion allowance deductions reducing such party's basis.

d. Such investment credit as shall be allowed by Section 38 of the Internal Revenue Code of 1954, as amended, as well as any other credits shall be allocated to the parties in accordance with their respective contributions to the cost thereof.

e. Gains and losses from each sale, abandonment or other disposition of property (other than oil, gas or other hydrocarbon substances) will be allocated to the parties in such manner as will reflect the gains and losses that would have been includable in their respective income tax returns if such property was held by the parties outside this agreement. The computations shall take into account each party's share of the proceeds derived from each sale or other disposition of such property during the year, selling expenses and the parties' respective contributions to the unadjusted cost basis of such property, less any allowed or allowable depreciation, depletion, amortization, credits or other deductions which have been allocated to each party with respect to such property as provided in this paragraph.

It is the intent of the parties that these provisions be limited in their application to matters relating to Federal and State taxes based on income and shall not in any way change, amend or affect the substantive rights and obligations of the parties otherwise contained herein. It is not the purpose or intention of the parties hereto to create any partnership, mining partnership or association other than as above provided, and neither this agreement nor the authorizations hereunder shall be construed as creating any such relationship. Furthermore, nothing in this agreement shall be construed as providing directly or indirectly, for any joint or cooperative refining or marketing or sale of any party's interest in oil and gas or the products therefrom.


-7600
-7400
-8000
C. CONE (OPER)
CULWIN (ON) UNIT
MARKS & GARNER (PROD) (OPER)
NO SHUGART
GREENWOOD PRE-GRAYBURG UNIT
AMOCO (OPER)
EAST SHUGART UNIT
ARCO (OPER)
NO HACKBERRY UNIT
GULF (OPER)
GULF OIL CORPORATION
S. SHUGART DEEP FEDERAL UNIT
EDDY COUNTY, NEW MEXICO
MORROW STRUCTURE
PROPOSED UNIT
MORROW PRODUCER
MORROW DRY HOLE
C.I. = 100'
0 1/2
Scale: Mile
USK (STR DP) UNIT


GULF OIL CORPORATION
S. SHUGART DEEP FEDERAL UNIT
EDDY COUNTY, NEW MEXICO
DEVONIAN STRUCTURE
PROPOSED UNIT
DEVONIAN PRODUCER
DEVONIAN DRY HOLE
C.I. = 100'
Scale: 0 1/2 Mile
NO. HACKBERRY UNIT
GULF (OPER)
C CONE (OPER)
MARKS & GARNER PROD (OPER)
NO SHUGART UNIT
EAST SHUGART UNIT
GREENWOOD-PREBBLE UNIT
AMOCO (OPER)
-9500
-9600
-9800
-9900

GEOLOGIC COMMENTS AND PROGNOSIS

Re: South Shugart Deep Federal Unit
Section 5, T-19-S, R-31-E
Eddy County, New Mexico

The recommended South Shugart Deep Federal Unit area is in east central Eddy County, New Mexico, about 25 miles northeast of the city of Carlsbad. The prospect is named after the Shugart field immediately adjacent to the north. The unit is on the northern edge of the Delaware Basin, along the southern rim of the Northwest Shelf. Gulf Oil Exploration and Production Company proposes to drill a 13,500' well located in the NW/4 of Section 5, T-19-S, R-31-E, to penetrate the Morrow, but not to exceed 14,000'.

The South Shugart Deep Prospect is expected to produce oil and gas from the Devonian, gas from the Morrow sands, oil from the Strawn and oil and gas from the Wolfcamp, Bone Spring, and from the Artesia Group. The expected productive limit of both the Devonian and Morrow structural trap is shown on the included Subsurface Structure Maps. The proposed unit outline is dictated by the configuration of the lowest closing contour on both the Devonian and Morrow horizon. The unit is to include the S/2 of Sections 31, 32, 33 of T-18-S, R-31-E, all of Sections 4, 5, 6, and the N/2 of Sections 7, 8, 9, of T-19-S, R-31-E.

Devonian production is restricted to the Shugart Field immediately adjacent to the north from a fault bounded horst at the Devonian horizon. We feel as though a similar situation occurs within the proposed unit area. Sands of the Morrow formation are productive in the area as indiscrete bodies. The sands are generally productive where they are porous and cross structural highs. Numerous wells within three miles of the proposed unit are productive from the Devonian and Morrow zones. Two distinctive nearby wells; the Amoco No. 1 Greenwood Unit in Section 27, T-19-S, R-31-E has made over 17 BCF and 950,000 BBL from the Devonian and the Gulf No. 1 Littlefield 'EM' Federal in Section 20, T-19-S, R-31-E flowed at 3,300 MCFGPD from the Atoka and 14,900 MCFGPD from the Morrow.

Expected formation tops are as follows:

Rustler	800 feet
Yates	2,500 feet
Delaware Mtn. Group	4,400 feet
Bone Spring Limestone	6,600 feet
Third Bone Spring Sand	9,800 feet
Cisco	10,200 feet
Canyon	10,400 feet
Strawn	10,700 feet
Atoka	11,000 feet
Morrow Limestone	11,300 feet
Chester	12,300 feet
Devonian	13,000 feet

We would appreciate your keeping the accompanying geological map and report confidential.

P. T. Gordon, Senior Regional Geologist
W. B. Stone, Geologist
Gulf Oil Exploration and Production Co.

WBS/dn
Attachment

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
EXHIBIT NO. 5
CASE NO. 7309
Submitted by Gulf
Hearing Date 7/29/81

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
EXHIBIT NO. I
CASE NO. 7309
Submitted by Gulf Oil
Hearing Date 7-29-81

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE
SOUTH SHUGART DEEP UNIT AREA
COUNTY OF EDDY
STATE OF NEW MEXICO
NO. _____

THIS AGREEMENT, entered into as of the ____day of _____, 19__ by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto,"

WITNESSETH:

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

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

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

WHEREAS, the Oil Conservation Division of the State of New Mexico Energy and Minerals Department is authorized by an Act of Legislature (Chapters 70 and 71, New Mexico Statutes 1978, Annotated) to approve this agreement and the conservation provisions hereof; and,

WHEREAS, the parties hereto hold sufficient interests in the _____ _____Unit Area covering the land hereinafter described to give reasonably effective control of operations therein;

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

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

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

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

Township 18 South, Range 31 East

Section 31: S/2
Section 32: S/2
Section 33: S/2

Township 19 South, Range 31 East

Section 4: All
Section 5: All
Section 6: All
Section 7: N/2
Section 8: N/2
Section 9: N/2

limited as to depth below 5,000' beneath the surfac
containing 3,806.17 acres, more or less, in Eddy County, New Mexico. Exhibit "A" attached hereto is a map showing the unit area and the boundaries and indentity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage, in kind of ownership of oil and gas interests in all land in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the unit area render such revision necessary when requested by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor," or when requested by the Commissioner of Public Lands of the State of New Mexico, hereinafter referred to as "Land Commissioner," and not less than five (5) copies of the revised Exhibits shall be filed with the Supervisor and one (1) copy thereof shall be filed with the Land Commissioner, and one (1) copy with the Oil Conservation Division of the New Mexico Energy and Minerals Department, hereinafter referred to as "Division".

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

(a) Unit Operator, on its own motion or on demand of the Director of the Geological Survey, hereinafter referred to as "Director", or on demand of the Land Commissioner, after preliminary concurrence by the Director, shall prepare a notice of proposed expansion or contraction describing the contemplated changes in the boundaries of the unit area, the reasons therefor, and the proposed effective date thereof, preferably, the first day of a month subsequent to the date of notice.

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

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

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

(e) All legal subdivisions of land (i.e., 40 acres by Government survey or its nearest lot or tract equivalent; in instances of irregular surveys unusually large lots or tracts shall be considered in multiples of 40 acres or the nearest aliquot equivalent thereof), no parts of which are entitled to be in a participating area on or before the fifth anniversary of the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of said fifth anniversary, and such lands shall no longer be a part of the unit area and shall no longer be subject to this agreement, unless diligent drilling operations are in progress on unitized lands not entitled to participation on said fifth anniversary, in which event all such lands shall remain subject hereto for so long as such drilling operations

are continued diligently, with not more than 90 days' time elapsing between the completion of one such well and the commencement of the next such well. All legal subdivisions of lands not entitled to be in a participating area within 10 years after the effective date of the first initial participating area approved under this agreement shall be automatically eliminated from this agreement as of said tenth anniversary. All lands proved productive by diligent drilling operations after the aforesaid five-year period shall become participating in the same manner as during said five-year period. However, when such diligent drilling operations cease, all non-participating lands shall be automatically eliminated effective as of the 91st day thereafter. The Unit Operator shall within 90 days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the Supervisor and the Land Commissioner and promptly notify all parties in interest.

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

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

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

4. UNIT OPERATOR. GULF OIL CORPORATION is hereby designated as Unit Operator and by signature hereto as Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development, and production of unitized substances as herein provided.

Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in the capacity and not as an owner of interest in unitized substances, and the term "working-interest owner" when used shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

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

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

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

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

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

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

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

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

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

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit Operator is not the sole owner of working interests, costs, and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working-interest owners and the

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

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

9. DRILLING TO DISCOVERY. Within six (6) months after the effective date hereof, the Unit Operator shall begin to drill an adequate test well at a location approved by the Supervisor, if on Federal land, or by the Land Commissioner, if on State land, or by the Division if on Fee lands, unless on such effective date a well is being drilled conformably with the terms hereof, and thereafter continue such drilling diligently until the Pennsylvanian-Morrow formation has been tested, or until at a lesser depth unitized substances shall be discovered which can be produced in paying

quantities (to-wit: quantities sufficient to repay the costs of drilling, completing and producing operations, with a reasonable profit) or the Unit Operator shall, at any time, establish to the satisfaction of the Supervisor if on Federal land, or the Land Commissioner if on State land, or the Division if on Fee land, that further drilling of said well would be unwarranted or impracticable; provided, however, that Unit Operator shall not, in any event, be required to drill said well to a depth in excess of 14,000 feet. Until the discovery of a deposit of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling diligently one well at a time, allowing not more than six (6) months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of said Supervisor if it be on Federal land or of the Land Commissioner if on State land, or the Division if on Fee land, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section. The Director and Land Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when, in their opinion, such action is warranted.

Upon failure to commence any well provided for in the section within the time allowed, including any extension of time granted by the Supervisor and the Land Commissioner, this agreement will automatically terminate; upon failure to continue drilling diligently any well commenced hereunder, the Supervisor and the Land Commissioner may, after 15-days notice to the Unit Operator, declare this unit agreement terminated.

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within six (6) months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the Supervisor, and the Land Commissioner, and State Division an acceptable plan of development and operation for the unitized land which, when approved by the Supervisor, the Land Commissioner, and State Division, shall contitute the further drilling and operating obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit

Operator shall submit for the approval of the Supervisor, the Land Commissioner, and State Division a plan for an additional specified period for the development and operation of the unitized land.

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

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

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

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

Plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of development. The Supervisor and the Land Commissioner are authorized to grant a reasonable extension of the six-month period herein prescribed for submission of an initial plan of development where such action is justified because of unusual conditions or circumstances. After completion hereunder of a well capable of producing any unitized substance in paying quantities, no further wells, except such as may be necessary to afford protection against operations not under this agreement and such as may be specifically approved by the Supervisor, the Land Commissioner, and State Division, shall be drilled except in accordance with a plan of development approved as herein provided.

11. PARTICIPATION AFTER DISCOVERY. - Upon completion of a well capable of producing unitized substances in paying quantities or as soon thereafter as required by the Supervisor, the Land Commissioner, or the State Division, the Unit Operator shall submit for approval by the Supervisor, the Land Commissioner and State Division a schedule, based on subdivisions of the public-land survey or aliquot parts thereof, of all land then regarded as reasonably proved to be productive in paying quantities; all lands in said schedule on approval of the Supervisor, the Land Commissioner, and State Division to constitute a participating area, effective

as of the date of completion of such well or the effective date of this unit agreement, whichever is later. The acreages of both Federal and non-Federal lands shall be based upon appropriate computations from the courses and distances shown on the last approved public-land survey as of the effective date of each initial participating area. Said schedule shall also set forth the percentage of unitized substances to be allocated as herein provided to each tract in the participating area so established, and shall govern the allocation of production commencing with the effective date of the participating area. A separate participating area shall be established for each separate pool or deposit of unitized substances or for any group thereof which is produced as a single pool or zone, and any two or more participating areas so established may be combined into one, on approval of the Supervisor, the Land Commissioner, and the State Division. When production from two or more participating areas, so established, is subsequently found to be from a common pool or deposit said participating areas shall be combined into one, effective as of such appropriate date as may be approved or prescribed by the Supervisor, the Land Commissioner, and State Division. The participating area or areas so established shall be revised from time to time, subject to like approval, to include additional land then regarded as reasonably proved to be productive in paying quantities or necessary for unit operations, or to exclude land then regarded as reasonably proved not to be productive in paying quantities and the schedule of allocation percentages shall be revised accordingly. The effective date of any revision shall be the first of the month in which is obtained the knowledge or information on which such revision is predicated, provided, however, that a more appropriate effective date may be used if justified by the Unit Operator and approved by the Supervisor, the Land Commissioner, and State Division. No land shall be excluded from a participating area on account of depletion of the unitized substances, except that any participating area established under the provisions of this unit agreement shall terminate automatically whenever all completions in the formation on which the participating area is based are abandoned.

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

In the absence of agreement at any time between the Unit Operator and the Supervisor, the Land Commissioner, and State Division as to the proper definition or redefinition of a participating area, or until a participating area has, or areas

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

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

12. ALLOCATION OF PRODUCTION. All unitized substances produced from each participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, camp, and other production or development purposes, for repressuring or recycling in accordance with a plan of development approved by the Supervisor, Land Commissioner, and State Division, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land of the participating area established for such production and, for the purpose of determining any benefits accruing under this agreement, each such tract of unitized land shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land in said participating area, except that allocation of production hereunder for purposes other than for settlement of the royalty, overriding royalty, or payment out of production obligations of the respective working-interest owners shall be on the basis prescribed in the unit operating agreement whether in conformity with the basis of allocation herein set forth or otherwise. It is hereby

agreed that production of unitized substances from a participating area shall be allocated as provided herein regardless of whether any wells are drilled on any particular part or tract of said participating area. If any gas produced from one participating area is used for repressuring or recycling purposes in another participating area, the first gas withdrawn from such last-mentioned participating area for sale during the life of this agreement shall be considered to be the gas so transferred until an amount equal to that transferred shall be so produced for sale and such gas shall be allocated to the participating area from which initially produced as such area was last defined at the time of such final production.

13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATION. Any party hereto owning or controlling the working interest in any unitized land having thereon a regular well location may with the approval of the Supervisor and the Land Commissioner, and Division, at such party's sole risk, costs, and expense, drill a well to test any formation for which a participating area has not been established or to test any formation for which a participating area has been established if such location is not within said participating area, unless within 90 days of receipt of notice from said party of his intention to drill the well the Unit Operator elects and commences to drill such a well in like manner as other wells are drilled by the Unit Operator under this agreement.

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

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

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

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

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

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

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

15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases committed hereto shall be paid by working-interest owners responsible therefor under existing contracts, laws, and regulations, provided that nothing herein contained shall

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

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

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

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

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

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

all leases, subleases, and contracts are particularly modified in accordance with the following:

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

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

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

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

(e) Any Federal lease for a fixed term of twenty (20) years or any renewal thereof or any part of such lease which is made subject to this agreement shall continue in force beyond the term provided therein until the termination hereof. Any other Federal lease committed hereto shall continue in force beyond the term so provided therein or by law as to the land committed so long as such lease remains subject hereto, provided that production is had in paying quantities under this unit agreement prior to the expiration date of the term of such lease, or in the event actual drilling operations are commenced on unitized land, in accordance with the provisions of this agreement, prior to the end of the primary term of such lease and are being diligently prosecuted at that time, such lease shall be extended for two years and so long thereafter as oil or gas is produced in paying quantities in

accordance with the provisions of the Mineral Leasing Act Revision of 1960.

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

(g) Any lease embracing lands of the State of New Mexico which is made subject to this agreement, shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof, provided that drilling operations on the initial test well are commenced prior to the expiration date of any State lease within the unit area, subject to the provisions of subsection (e) of Section 2 and subsection (i) of this Section 18.

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

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

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

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

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

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

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

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

(c) a valuable discovery of unitized substances has been made or accepted on unitized land during said initial term or any extension thereof, in which event the agreement shall remain in effect for such term and so long as unitized substances can be produced as to federal lands, and are being produced as to State lands, in quantities sufficient to pay for the cost of producing same from

wells on unitized land within any participating area established hereunder and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as unitized substances so discovered are produced as aforesaid, or

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

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

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

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

22. APPEARANCES. Unit Operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Department of the Interior and the Commissioner of Public Lands and to appeal from orders issued under the regulations of said Department or Land Commissioner or to apply for relief from any of said regulations or in any proceedings

relative to operations before the Department of the Interior or the Land Commissioner or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his own expense to be heard in any such proceeding.

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

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

25. UNAVOIDABLE DELAY. All obligations under this agreement requiring the Unit Operator to commence or continue drilling or to operate on or produce unitized substances from any of the lands covered by this agreement shall be suspended while the Unit Operator despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State, or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not. No unit obligation which is suspended under this section shall become due less than thirty (30) days after it has been determined that the suspension is no longer applicable. Determination of creditable "Unavoidable Delay" time shall be made by the unit operator subject to approval of the Supervisor and the Land Commissioner.

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

27, LOSS OF TITLE. In the event title to any tract of unitized lands shall fail and the true owner cannot be induced to join in this unit agreement,

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

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

28. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw said tract from this agreement by written notice delivered to the Supervisor, the Land Commissioner, the State Division, and the Unit Operator prior to the approval of this agreement by the Supervisor and Land Commissioner. Any oil or gas interests in lands within the unit area not committed hereto prior to submission of this agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest is a working interest, by the owner of such interest also subscribing to the unit operating agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working-interest owner is subject to such requirements or approvals, if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final approval hereof, joinder by a non-working interest owner must be consented to in writing by the working-interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. A non-working interest may not be committed to this unit unless the corresponding working interest is committed hereto. Joinder to the unit agreement by a working-interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, if more than one committed working-interest owner is involved, in order for the interest to be regarded as committed to this unit agreement. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the

first day of the month following the filing with the Supervisor, the Land Commissioner, and the State Division of duly executed counterparts of all or any papers necessary to establish effective commitment of any tract to this agreement unless objection to such joinder is duly made within sixty (60) days by the Supervisor, the Land Commissioner, or State Division, provided, however, that as to State lands all subsequent joinders must be approved by the Land Commissioner.

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

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

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

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

(1) Accept those working-interests rights subject to this agreement and the unit operating agreement; or

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

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

If the fee owner of the unitized substances does not accept the working-interest rights subject to this agreement and the unit operating agreement or lease, such lands as above-provided within six (6) months after the surrendered or for-

feited working-interest rights become vested in the fee owner, the benefits and obligations of operations accruing to such lands under this agreement and the unit operating agreement shall be shared by the remaining owners of unitized working interests in accordance with their respective working interest ownerships, and such owners of working interests shall compensate the fee owner of unitized substances in such lands by paying sums equal to the rentals, minimum royalties, and royalties applicable to such lands under the lease in effect when the lands were unitized.

An appropriate accounting and settlement shall be made, for all benefits accruing to or payments and expenditures made or incurred on behalf of such surrendered or forfeited working interest subsequent to the date of surrender or forfeiture, and payment of any moneys found to be owing by such an accounting shall be made as between the parties within thirty (30) days. In the event no unit operating agreement is in existence and a mutually acceptable agreement between the proper parties thereto cannot be consummated, the Supervisor may prescribe such reasonable and equitable agreement as he deems warranted under the circumstances.

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

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

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

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

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

UNIT OPERATOR AND LESSEE OF RECORD

ATTEST: GULF OIL CORPORATION

By: _____ By: _____
Attorney-in-Fact

STATE OF _____)

COUNTY OF _____) ss

The foregoing instrument was acknowledged before me this _____ day of _____, 198___, by _____ who is _____ of _____ corporation, for and on behalf of said Corporation.

My Commission Expires:

_____ _____
Notary Public

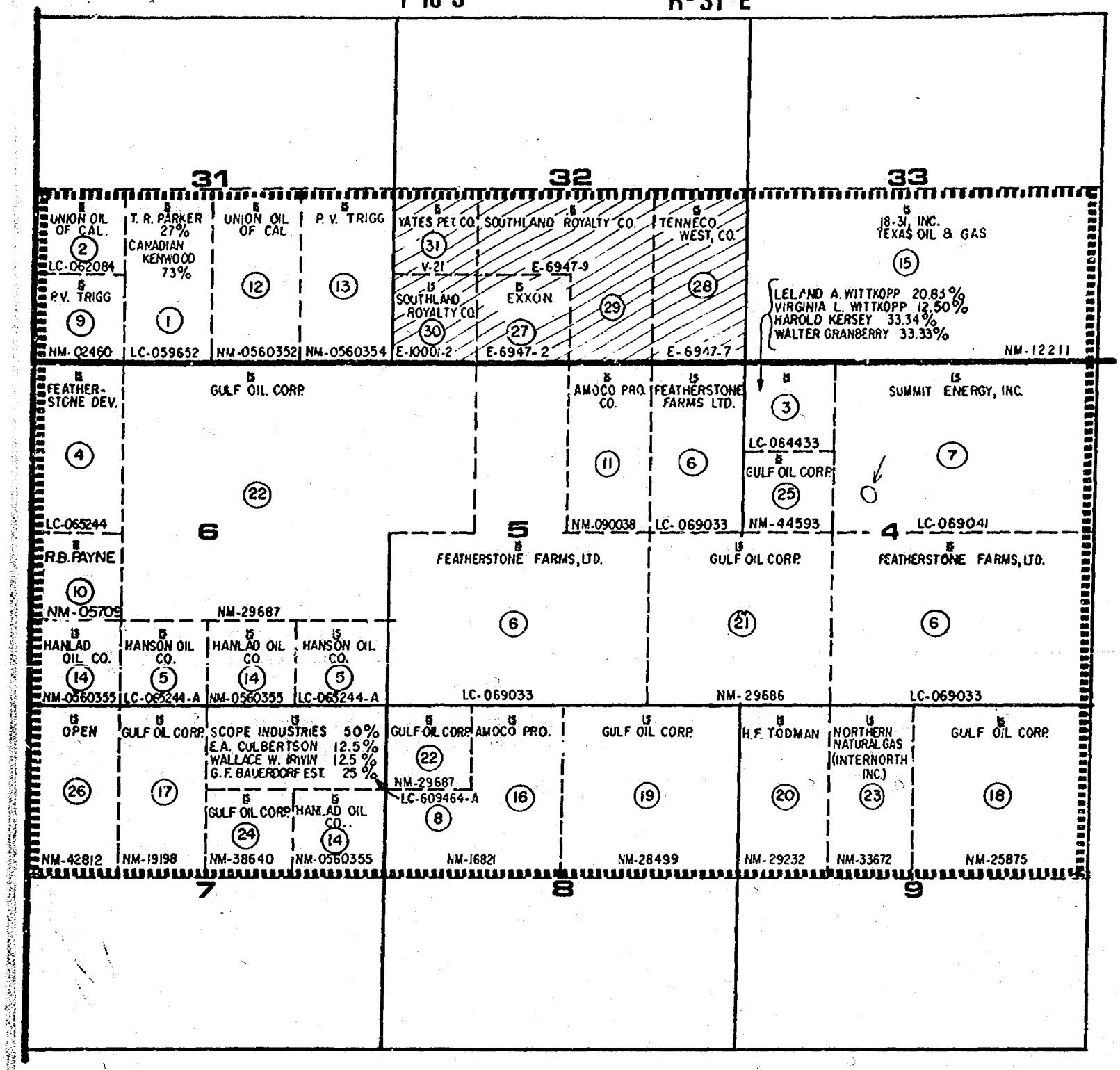


EXHIBIT "A"

T-19-S R-31-E

SOUTH SUGART DEEP UNIT
EDDY COUNTY, NEW MEXICO

STATE LEASE
FEDERAL LEASE
UNIT OUT-LINE
④ TRACT NUMBER

Tract Numbers

1. LC-059652
2. LC-062084
3. LC-064433
4. LC-065244
5. LC-065244-A
6. LC-069033
7. LC-069041
8. LC-069464-A
9. NM-02460
10. NM-05709
11. NM-09003-B
12. NM-0560352
13. NM-0560354
14. NM-0560355
15. NM-12211
16. NM-16821
17. NM-19198
18. NM-25875
19. NM-28499
20. NM-29232
21. NM-29686
22. NM-29687
23. NM-33672
24. NM-38640
25. NM-44593
26. NM-42812 - Open Federal
27. E-6947-2
28. E-6947-7
29. E-6947-9
30. E-10001-B
31. V-21

BEFORE EXAMINER STATE S
OIL CONSERVATION
EXHIBIT
CASE NO. 7309
Submitted by GULF OIL
Hearing Date 7-29-81

EXHIBIT "B"
SCHEDULE OF LANDS AND LEASES
PROPOSED SOUTH SHUGART DEEP UNIT
EDDY COUNTY, NEW MEXICO

TRACT NUMBER	DESCRIPTION OF LANDS	ACRES	SERIAL NUMBER AND EXPIRATION DATE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE	
1	T-18-S, R-31-E Section 31: E/2 SW/4	80.00	LC-059652 10-31-81	USA 12.5%	T. R. Parker 27% Canadian Kenwood Co. 73%	None	T. R. Parker Canadian Kenwood Co.	27% 73%
2	T-18-S, R-31-E Section 31: Lot 3	35.78	LC-062084 HBP	USA 12.5%	Union Oil Co. of CA 100%	None	Union Oil of CA	100%
3	T-19-S, R-31-E Section 4: Lot 4	39.60	LC-064433 HBP	USA 12.5%	Leland A. Wittkopp 20.83% Virginia L. Wittkopp 12.50% Harold Kersey 33.34% Walter Granberry 33.33%	Virgina Nickson Beers Ned Nickson Joseph Richard Nickson 2.50% Lora Nickson 2.50% (Undetermined) 1.00%	Leland A. Wittkopp Virginia L. Wittkopp Harold Kersey Walter Granberry	20.83% 12.50% 33.34% 33.33%
4	T-19-S, R-31-E Section 6: Lots 4,5	72.09	LC-065244 HBP	USA 12.5%	Featherstone Develop. Corp. - 100%	None	Featherstone Develop. Corp.	100%
5	T-19-S, R-31-E Section 6: SE/4 SE/4, SE/4 SW/4	80.00	LC-065244-A HBP	USA 12.5%	Hanson Oil Corp. 100%	L. B. Hodges 1/2 of 1% Ernest & Beulah Hanson 5.75%	Hanson Oil Corp.	100%
6	T-19-S, R-31-E Section 4: SE/4, E/2 SW/4 Section 5: Lots 1, 3, SE/4 NE/4, SE/4 NW/4, W/2 SE/4, SW/4	639.22	LC-069033 HBP	USA 12.5%	Featherstone Farms, LTD 100%	None	Featherstone Farms, LTD	100%
7	T-19-S, R-31-E Section 4: Lots 1, 2, 3, S/2 NE/4, SE/4 NW/4	238.90	LC-069041 HBP	USA 12.5%	Summit Energy, Inc. 100%	None	Summit Energy, Inc.	100%

TRACT NUMBER	DESCRIPTION OF LANDS	ACRES	SERIAL NUMBER AND EXPIRATION DATE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE	
8	T-19-S, R-31-E Section 7: N/2 NE/4	80.00	LC-069464-A HBP	USA 12.5%	Scope Industries 50% E. A. Culbertson 12.50% Wallace W. Irwin 12.50% George F. Bauerdorf Estate 25%	(Undetermined) - 5%	Scope Industries E. A. Culbertson Wallace W. Irwin George F. Bauerdorf Estate	50% 12.50% 12.50% 25%
9	T-18-S, R-31-E Section 31: Lot 4	35.86	NM-02460 HBP	USA 12.5%	Pauline V. Trigg 100%	None	Pauline V. Trigg	100%
10	T-19-S, R-31-E Section 6: Lot 6	36.31	NM-05709 HBP	USA 12.5%	Robert B. Payne 100%	John N. Eddy 3%	Robert B. Payne	100%
11	T-19-S, R-31-E Section 5: Lot 2, SW/4 NE/4	79.60	NM-09003-B HBP	USA 12.5%	Amoco Production Co. 100%	Elsie G. & B. R. Gorman - Prod. pmt. of $500 P/A out of 5%	Amoco Production Co.	100%
12	T-18-S, R-31-E Section 31: W/2 SE/4	80.00	NM-0560352 10-31-81	USA 12.5%	Union Oil Co. of CA 100%	Mercury Oil Co. - 5%	Union Oil Co. of CA	100%
13	T-18-S, R-31-E Section 31: E/2 SE/4	80.00	NM-0560354 Held by Unit	USA 12.5%	Pauline V. Trigg 100%	None	Pauline V. Trigg	100%
14	T-19-S, R-31-E Section 6: SW/4 SE/4 Lot 7 Section 7: SE/4 NE/4	116.48	NM-0560355 HBP	USA 12.5%	Hanlad Oil Corp. 100%	John N. & Consuelo B. Eddy-3%	Hanlad Oil Corp.	100%
15	T-18-S, R-31-E Section 33: S/2	320.00	NM-12211 HBP	USA 12.5%	18-31, Inc. 50% Texas Oil & Gas 50%	Mercury Oil Co. 5%	18-31, Inc. Texas Oil & Gas	50% 50%
16	T-19-S, R-31-E Section 8: E/2 NW/4, SW/4 NW/4	120.00	NM-16821 10-31-82	USA 12.5%	Amoco Production Co. 100%	Bruce G. Bumgarner 5% Dwane A. Hathaway 1.25%	Amoco Production Co.	100%

TRACT NUMBER	DESCRIPTION OF LANDS	ACRES	SERIAL NUMBER AND EXPIRATION DATE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE	
17	T-19-S, R-31-E Section 7: E/2 NW/4	80.00	NM-19198 9-30-83	USA 12.5%	Gulf Oil Corporation 100%	Panos Investment Co. 5%	Gulf Oil Corp.	100%
18	T-19-S, R-31-E Section 9: NE/4	160.00	NM-25875 8-31-85	USA 12.5%	Gulf Oil Corporation 100%	Virginia S. & A. W. Rutter, Jr.-5%	Gulf Oil Corp.	100%
19	T-19-S, R-31-E Section 8: NE/4	160.00	NM-28499 9-30-86	USA 12.5%	Gulf Oil Corporation 100%	Elizabeth Hannifin 5%	Gulf Oil Corp.	100%
20	T-19-S, R-31-E Section 9: W/2 NW/4	80.00	NM-29232	USA	H. F. Todman	None	H. F. Todman	100%
21	T-19-S, R-31-E Section 4: W/2 SW/4 Section 5: E/2 SE/4	160.00	NM-29686 2-28-87	USA 12.5%	Gulf Oil Corporation 100%	None	Gulf Oil Corp.	100%
22	T-19-S, R-31-E Section 5: Lot 4, SW/4 NW/4 Section 6: Lots 1, 2, 3, S/2 NE/4, SE/4 NW/4, N/2 SE/4, NE/4 SW/4 Section 8: NW/4 NW/4	478.80	NM-29687 2-28-87	USA 12.5%	Gulf Oil Corporation 100%	None	Gulf Oil Corp.	100%
23	T-19-S, R-31-E Section 9: E/2 NW/4	80.00	NM-33672 7-31-88	USA 12.5%	Northern Natural Gas Co. 100%	Cynthia B. & Sam Glasser - 5%	Inter North Inc.	100%
24	T-19-S, R-31-E Section 7: SW/4 NE/4	40.00	NM--38640 2-28-90	USA 12.5%	Gulf Oil Corporation 100%	None	Gulf Oil Corp.	100%
25.	T-19-S, R-31-E Section 4: SE/4 NW/4	40.00	NM--44593	USA 12.5%	Gulf Oil Corporation 100%	None	Gulf Oil Corp.	100%
26.	Open	73.44	NM--42812	USA	None	None	None	None

Total

TRACT NUMBER	DESCRIPTION OF LANDS	ACRES	SERIAL NUMBER AND EXPIRATION DATE	BASIC ROYALTY AND PERCENTAGE	LESSEE OF RECORD AND PERCENTAGE	OVERRIDING ROYALTY AND PERCENTAGE	WORKING INTEREST AND PERCENTAGE	
27	T-18-S, R-31-E Section 32: SE/4 SW/4	40.00	E-6947-2 HBP	State of NM 12.5%	Exxon Co. USA. 100%	None	Exxon Co. USA.	100%
28	T-18-S, R-31-E Section 32: E/2 SE/4	80.00	E-6947-7 HBP	State of NM 12.5%	Tenneco West, Inc. 100%	None	Tenneco West, Inc.	100%
29	T-18-S, R-31-E Section 32: W/2 SE/4, NE/4 SW/4	120.00	E-6947-9 HBP	State of NM 12.5%	Southland Royalty Co. 100%	None	Southland Royalty Co.	100%
30	T-18-S, R-31-E Section 32: SW/4 SW/4	40.00	E-10001-2 HBP	State of NM 12.5%	Southland Royalty Co. 100%	None	Southland Royalty Co.	100%
31	T-18-S, R-31-E Section 32: NW/4 SW/4	40.00	V-21 6-1-81	State of NM 12.5%	Yates Petroleum Corp. 100%	None	Yates Petroleum Corp.	100%
Total	320 Acres State Lands, 8.4074% of the Unit Area							

A.A.P.L. FORM 610 - 1977

MODEL FORM OPERATING AGREEMENT

SOUTH SHUGART DEEP
UNIT

OPERATING AGREEMENT

DATED

_____, 19___,

OPERATOR GULF OIL CORPORATION

CONTRACT AREA T-18-S, R-31-E, N.M.P.M.
Sections: 31: S/2 32: S/2
33: S/2

T-19-S, R-31-E, N.M.P.M.
Sections: 4, 5, 6, All
Sections: 7: N/2, 8: N/2
9: N/2

COUNTY ~~OR PARISH~~ OF EDDY STATE OF NEW MEXICO

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AMERICAN ASSOCIATION OF PETROLEUM LANDMEN
APPROVED FORM. A.A.P.L. NO. 610 - 1977 REVISED
MAY BE ORDERED DIRECTLY FROM THE PUBLISHER
KRAFTBILT PRODUCTS, BOX 800, TULSA, OK 74101

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
EXHIBIT NO. II
CASE NO. 7309
Submitted by Gulf Oil
Hearing Date 7-29-81

GUIDANCE IN THE PREPARATION OF THIS AGREEMENT:

1. Title Page - Fill in blank as applicable.

2. Preamble, Page 1 - Name of Operator.

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

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

5. Article IV.B - Loss of Title - If "Joint Loss" of Title is desired, the following changes should be made:
   (a) Delete Articles IV.B.1 and IV.B.2.
   (b) Article IV.B.3 - Delete phrase "other than those set forth in Articles IV.B.1 and IV.B.2 above."
   (c) Article VII.F. - Change reference at end of the first grammatical paragraph from "Article IV.B.2" to "Article IV.B.3."

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

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

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

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

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

11. Article VII.E. - Royalties, Overriding Royalties and Other Payments - Enter royalty fraction as agreed to by parties.

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

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

14. Signature Page - Enter effective date.

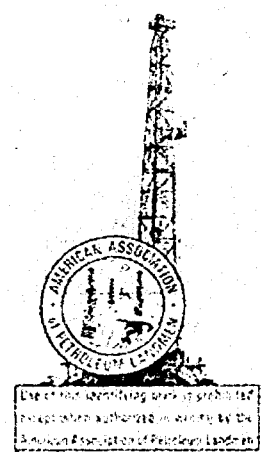


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AMERICAN ASSOCIATION OF PROFESSIONAL LANDMEN

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between GULF OIL CORPORATION, hereinafter designated and referred to as "Operator", and the signatory party or parties other than Operator, sometimes hereinafter referred to individually herein as "Non-Operator", and collectively as "Non-Operators". This Agreement is a companion instrument to the Unit Agreement for the development and operation of the South Shugart Deep Unit Area, effective as of the effective date thereof, and in the event of any conflict between this agreement and the said Unit Agreement, the terms and provisions of the Unit Agreement shall be controlling. The term "Operator" herein is synonymous with "Unit Operator", and the term "Contract Area" herein is synonymous with "Unit Area" as those terms are defined and used in the said Unit Agreement.

WITNESSETH:

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.
DEFINITIONS

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

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

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

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

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

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

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

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

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

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

ARTICLE II.
EXHIBITS

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

☒ A. Exhibit "A", shall include the following information:
(1) Identification of lands subject to agreement,
(2) Restrictions, if any, as to depths or formations,
(3) Percentages or fractional interests of parties to this agreement,
~~(4) Oil and gas leases and/or oil and gas interests subject to this agreement,~~
(5) Addresses of parties for notice purposes.

~~☐ B. Exhibit "B", Form of Lease.~~

☒ C. Exhibit "C", Accounting Procedure.

☒ D. Exhibit "D", Insurance.

☒ E. Exhibit "E", Gas Balancing Agreement.

☒ F. Exhibit "F", Non-Discrimination and Certification of Non-Segregated Facilities.

☒ G. Exhibit "G", Tax Partnership.

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

ARTICLE III.
INTERESTS OF PARTIES

A. Oil and Gas Interests:

If any party owns an unleased oil and gas interest in the Contract Area, that interest shall be treated for the purpose of this agreement and during the term hereof as if it were a leased interest under the form of oil and gas lease attached as Exhibit "B". As to such interest, the owner shall receive royalty on production as prescribed in the form of oil and gas lease attached hereto as Exhibit "B". Such party shall, however, be subject to all of the provisions of this agreement relating to lessees, to the extent that it owns the lessee interest.

B. Interest of Parties in Costs and Production:

Exhibit "A" lists all of the parties and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne and paid, and all equipment and material acquired in operations on the Contract Area shall be owned by the parties as their interests are shown in Exhibit "A". All production of oil and gas from the Contract Area, subject to the payment of lessor's royalties ~~which will be borne by the Joint Account,~~ shall also be owned by the parties in the same manner during the term hereof; provided, however, this shall not be deemed an assignment or cross-assignment of interests covered hereby.

ARTICLE IV.
TITLES

A. Title Examination:

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

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

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

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

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

B. Loss of Title:

1. Failure of Title: Should any oil and gas interest or lease, or interest therein, be lost through failure of title, which loss results in a reduction of interest from that shown on Exhibit "A", this agreement, nevertheless, shall continue in force as to all remaining oil and gas leases and interests, and

(a) The party whose oil and gas lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development

or operating costs which it may have theretofore paid, but there shall be no monetary liability on its part to the other parties hereto for drilling, development, operating or other similar costs by reason of such title failure; and

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

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

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

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

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

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

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

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

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

3. Other Losses: All losses incurred, other than those set forth in Articles IV.B.1. and IV.B.2. above, shall not be considered failure of title but shall be joint losses and shall be borne by all parties in proportion to their interests. There shall be no readjustment of interests in the remaining portion of the Contract Area.

ARTICLE V.
OPERATOR

A. DESIGNATION AND RESPONSIBILITIES OF OPERATOR:

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

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

~~1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice~~ thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest in the Contract Area, or is no longer capable of serving as Operator, it shall cease to be Operator without any action by Non-Operator, except the selection of a successor. Operator may be removed if it fails or refuses to carry out its duties hereunder, or becomes insolvent, bankrupt or is placed in receivership, by the affirmative vote of two (2) or more Non-Operators owning a majority interest based on ownership as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of Operator. Such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of six (6) months after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator, a successor Operator shall be selected by the Parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. If the Operator that is removed fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A", and not on the number of parties remaining after excluding the voting interest of the ~~Operator that was removed.~~

C. Employees:

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

D. Drilling Contracts:

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

ARTICLE VI.
DRILLING AND DEVELOPMENT

A. Initial Well:

On or before six (6) months from the effective date of the Unit Agreement, Operator shall commence the drilling of a well for oil and gas at the following location: Operators choice within the W/2 of Section 4, T-19-S, R-31-E, N. M. P. M., Eddy County, New Mexico,

and shall thereafter continue the drilling of the well with due diligence to a depth sufficient, to completely test the Pennsylvanian - Morrow formation, provided however, that the Unit Operator shall not in any event be required to drill said well to a depth in excess of 14,000 feet,

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

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

If, in Operator's judgment, the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the well as a dry hole, it shall first secure the consent of all parties and shall plug and abandon same as provided in Article VI.E.1. hereof.

B. Subsequent Operations:

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

2. Operations by Less than All Parties: If any party receiving such notice as provided in Article VI.B.1. or VI.E.1. elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, within sixty (60) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the twenty-four hour period where the drilling rig is on location, as the case may be) actually commence work on the proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party, the Consenting Parties shall either: (a) request Operator to perform the work required by such proposed operation for the account of the Consenting Parties, or (b) designate one (1) of the Consenting Parties as Operator to perform such work. Consenting Parties, when conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this agreement.

If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the applicable notice period, shall advise the Consenting Parties of (a) the total interest of the parties approving such operation, and (b) its recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party, within twenty-four hours ~~(exclusive of Saturday, Sunday or legal holidays)~~ after receipt of such notice, shall advise the proposing party of its desire to (a) limit participation to such party's interest as shown on Exhibit "A", or (b) carry its proportionate part of Non-Consenting Parties' interest. The proposing party, at its election, may withdraw such proposal if there is insufficient participation, and shall promptly notify all parties of such decision.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this Article results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well and share of production therefrom until the proceeds of the sale of such share, calculated at the well, or market value thereof if such share is not sold (after deducting production taxes, royalty, overriding royalty and other interests existing on the effective date hereof, payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

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

(b) 300 % of that portion of the costs and expenses of drilling reworking, deepening, or plugging back, testing and completing, after deducting any cash contributions received under Article VIII.C., and

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300% of that portion of the cost of newly acquired equipment in the well (to and including the well-head connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

Gas production attributable to any Non-Consenting Party's relinquished interest shall be sold, at the election of the Consenting Party, either to the Consenting Party's purchaser or to the Non-Consenting Party's purchaser. If any sale is made to the Non-Consenting Party's purchaser such Non-Consenting Party shall direct its purchaser to remit the proceeds receivable from such sale directly to the Consenting Party until the amounts provided for in this Article are recovered from the Non-Consenting Party's relinquished interest.

During the period of time Consenting Parties are entitled to receive Non-Consenting Party's share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all production, severance, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to Non-Consenting Party's share of production.

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

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

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

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

The provisions of this Article shall have no application whatsoever to the drilling of the initial well described in Article VI.A. except (a) when Option 2, Article VII.D.1., has been selected, or (b) to the reworking, deepening and plugging back of such initial well, if such well is or thereafter shall prove to be a dry hole or non-commercial well, after having been drilled to the depth specified in Article VI.A.

C. Right to Take Production in Kind:

See Article XV. A. and C.

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

party taking its share of production in kind shall be required to pay for only its proportionate share of such part of Operator's surface facilities which it uses.

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

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

In the event one or more parties' separate disposition of its share of the gas causes split-stream deliveries to separate pipelines and/or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportionate share of total gas sales to be allocated to it, the balancing or accounting between the respective accounts of the parties shall be in accordance with any Gas Balancing Agreement between the parties hereto, whether such Agreement is attached as Exhibit "E", or is a separate Agreement.

D. Access to Contract Area and Information:

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

E. Abandonment of Wells:

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

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

vals of the formation or formations covered thereby, such lease to be on the form attached as Exhibit "B". The assignments or leases so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Contract Area to the aggregate of the percentages of participation in the Contract Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Contract Area.

Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open other than the royalties retained in any lease made under the terms of this Article. Upon request, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well.

ARTICLE VII.
EXPENDITURES AND LIABILITY OF PARTIES

A. Liability of Parties:

See Article XV. B.

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

B. Liens and Payment Defaults:

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

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

C. Payments and Accounting:

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

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

D. Limitation of Expenditures:

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

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

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

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

3. Other Operations: Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Twenty-Five Thousand ---------- Dollars ($ 25,000.00) except in connection with a well, the drilling, reworking, deepening, completing, recompleting, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the emergency to the other parties. If Operator prepares "Authority for Expenditures" for its own use, Operator, upon request, shall furnish copies of its "Authority for Expenditures" for any single project costing in excess of Fifteen Thousand ---------- Dollars ($ 15,000.00).

E. Royalties, Overriding Royalties and Other Payments:

See Article XV. C.

~~Each party shall pay or deliver, or cause to be paid or delivered, all royalties to the extent of~~ _____ due on its share of production and ~~shall hold the~~ other parties free from any liability therefor. If the interest of any party ~~in any~~ oil and gas lease covered by this agreement is subject to any royalty, ~~overriding royalty~~, production payment, or other charge over and above the aforesaid ~~royalty~~, such party shall assume and alone bear all such obligations and shall account ~~for or cause to be accounted for, such interest to the owners thereof.~~

No party shall ever be responsible, on any price basis higher than the price received by such party, to any other party's lessor or royalty owner; and if any such other party's lessor or royalty owner should demand and receive settlements on a higher price basis, the party contributing such lease shall bear the royalty burden insofar as such higher price is concerned.

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

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

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

of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article IV.B.3.

G. Taxes:

Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on leases and oil and gas interests contributed by such Non-Operator. If the assessed valuation of any leasehold estate is reduced by reason of its being subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes resulting therefrom shall inure to the benefit of the owner or owners of such leasehold estate, and Operator shall adjust the charge to such owner or owners so as to reflect the benefit of such reduction. Operator shall bill other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

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

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

H. Insurance:

At all times while operations are conducted hereunder, Operator shall comply with the Workmen's Compensation Law of the State where the operations are being conducted; provided, however, that Operator may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be an amount equivalent to the premium which would have been paid had such insurance been obtained. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as outlined in Exhibit "D", attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Contract Area to comply with the Workmen's Compensation Law of the State where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event Automobile Public Liability Insurance is specified in said Exhibit "D", or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's fully owned automotive equipment.

ARTICLE VIII.
ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

A. Surrender of Leases:

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

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

be shared by the parties assignee in the proportions that the interest of each bears to the interest of all parties assignee.

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

B. Renewal or Extension of Leases:

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

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

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

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

~~The provisions in this Article shall apply also and in like manner to extensions of oil and gas leases.~~

C. Acreage or Cash Contributions:

While this agreement is in force, if any party contracts for a contribution of cash toward the drilling of a well or any other operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the proportions said Drilling Parties shared the cost of drilling the well. If all parties hereto are Drilling Parties and accept such tender, such acreage shall become a part of the Contract Area and be governed by the provisions of this agreement. If less than all parties hereto are Drilling Parties and accept such tender, such acreage shall not become a part of the Contract Area. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the Contract Area.

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

D. Subsequently Created Interest:

Notwithstanding the provisions of Article VIII.E. and VIII.G., if any party hereto shall, subsequent to execution of this agreement, create an overriding royalty, production payment, or net proceeds interest, which such interests are hereinafter referred to as "subsequently created interest", such subsequently created interest shall be specifically made subject to all of the terms and provisions of this agreement, as follows:

1. If non-consent operations are conducted pursuant to any provision of this agreement, and the party conducting such operations becomes entitled to receive the production attributable to the interest out of which the subsequently created interest is derived, such party shall receive same free and clear of such subsequently created interest. The party creating same shall bear and pay all such subsequently created interests and shall indemnify and hold the other parties hereto free and harmless from any and all liability resulting therefrom.

2. If the owner of the interest from which the subsequently created interest is derived (1) fails to pay, when due, its share of expenses chargeable hereunder, or (2) elects to abandon a well under provisions of Article VI.E. hereof, or (3) elects to surrender a lease under provisions of Article VIII.A. hereof, the subsequently created interest shall be chargeable with the pro rata portion of all expenses hereunder in the same manner as if such interest were a working interest. For purposes of collecting such chargeable expenses, the party or parties who receive assignments as a result of (2) or (3) above shall have the right to enforce all provisions of Article VII.B. hereof against such subsequently created interest.

E. Maintenance of Uniform Interest:

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

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

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

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

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

F. Waiver of Right to Partition:

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

G. Preferential Right to Purchase:

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

ARTICLE IX.
INTERNAL REVENUE CODE ELECTION

This agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto. Notwithstanding any 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, each party hereby affected elects to be excluded from the application of all of the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761. Should there be any requirement that each party hereby affected give further evidence of this election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. No

such party shall give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is permitted, each party hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each such party states that the income derived by such party from Operations hereunder can be adequately determined without the computation of partnership taxable income. The tax election in Exhibit "G" is exercised by the Tax Partnership described in Article XV. S.(3) as an entity and not by the members of the Tax Partnership in their individual capacities.

ARTICLE X.
CLAIMS AND LAWSUITS

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

ARTICLE XI.
FORCE MAJEURE

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

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

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

ARTICLE XII.
NOTICES

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

ARTICLE XIII.
TERM OF AGREEMENT

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

~~☐ Option No. 1: So long as any of the oil and gas leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal or otherwise, and/or so long as oil and/or gas production continues from any lease or oil and gas interest.~~

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

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

ARTICLE XIV.
COMPLIANCE WITH LAWS AND REGULATIONS

A. Laws, Regulations and Orders:

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

B. Governing Law: SEE ARTICLE XV. F., and XV. G.

The essential validity of this agreement and all matters pertaining thereto, including, but not limited to, matters of performance, non-performance, breach, remedies, procedures, rights, duties and interpretation or construction, shall be governed and determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states, the law of the state where most of the land in the Contract Area is located shall govern.

ARTICLE XV.
OTHER PROVISIONS

A.

Each party electing to take in kind or separately dispose of its proportionate share of the production from the Contract area shall keep accurate records of the volume, selling price, royalty and taxes relative to its share of production. Non-Operators shall, upon request, furnish Operator with true and complete copies of the records required to be kept hereunder whenever, under the terms of this agreement or any agreement executed in connection herewith, it is necessary for Operator to obtain said information. Any information furnished to Operator hereunder shall be used by Operator only to the extent necessary to carry out its duties as Operator and shall otherwise be kept confidential.

B.

It is not the intention of the parties that this contract is made or intended for the benefit of any third person.

C.

For the purpose of this agreement as between the parties hereto, the royalty interest is and shall be treated as 1/8th, and the working interest of the parties hereto shall be treated as 7/8ths, and all oil and gas, including casinghead gas and condensates produced from the contract area attributable to the working interest covered by this agreement shall be owned in the proportions shown in Exhibit "A".

It is recognized by the parties hereto that in addition to each party's share of working interest production as shown in Exhibit "A", such party shall have the right, subject to existing contracts, to market the royalty gas attributable to each lease which it contributes to the Contract Area and to receive payments due for such royalty gas produced from or allocated to such lease or leases. It is

agreed that, regardless of whether each party markets or contracts for its share of gas, including the royalty gas under the leases which it contributed to the Contract Area, such party agrees to pay or cause to be paid to the royalty owners under its lease or leases the proceeds attributable to their respective royalty interest and to hold all other parties hereto harmless for its failure to do so.

It is understood by and between the parties hereto that if any of them is obligated to pay any lessor royalties at a rate in excess of the usual 1/8th royalty or to pay to anyone any overriding royalty, payments out of production, net profit obligations, carried interests, or any other outstanding obligations now existing or hereafter coming into existence against any of the parties hereto, or their respective interests, or with respect to the respective interests in the production from the above described land, all such royalties, obligations and payments by which any of the parties hereto is now bound or may hereafter become bound shall remain the obligation of the respective party or parties, as the case may be, and shall be paid and satisfied in each instance, unless otherwise paid and satisfied, out of the interest of the obligated party in the 7/8ths working interest set forth above.

D.

~~If the Operator is required hereunder to pay ad valorem taxes 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 percentage of tax ~~value generated by each party's working interest.~~

~~E. Anything to the contrary notwithstanding, the following shall apply to the~~ renewal or extension of leases as to the undeveloped portions of the unit:

(1) Renewal or Extension by Original Lease Owner

If the party who committed a lease to this agreement, which party is referred to as the "original lease owner", shall renew such lease prior to or within six (6) months after the expiration date of such lease, such party shall thereby own or retain its original interest and title in said lease and all parties' working interest in the Contract Area shall remain unchanged, unless such renewal lease covers less area or less interest than was covered by said lease at the time of its expiration, in which event the interest of the parties will be adjusted accordingly.

(2) Renewal or Extension by Other Than Original Lease Owner

If any working interest owner other than the original lease owner renews a lease committed to this agreement prior to or within six (6) months after the expiration date of such lease, whether such renewal lease is for the entire interest covered by the expiring lease or covers only a portion of its area or an interest therein, the renewing party shall furnish the original lease owner an itemized statement of the full costs and expenses or renewing such lease. The original lease owner shall have sixty (60) days after the receipt of such itemized statement within which to reimburse the renewing party in full for such costs and expenses of renewing such lease, and promptly execute an assignment of such renewal lease to the original lease owner. If such renewal lease covers the same area and the same interest as the expiring lease, then the interests of all parties' working interest in the Contract Area shall remain unchanged; otherwise, the interests of all the parties will be adjusted accordingly.

(3) Original Lease Owner Does Not Elect to Reimburse

If the original lease owner does not elect to reimburse the renewing party for such costs and expenses of renewing such lease within sixty (60) days after receipt of such statement, such lease shall then be promptly offered by the renewing party to all of the working interest owners on a pro rata basis provided each such owner agrees to pay his proportionate part of the renewal costs. Such renewal costs shall be borne in proportion to the interest held at that time by the parties in the Contract Area, and such party or parties shall receive an assignment of the renewal lease from the renewing party in proportion to their interest in the Contract Area. Such right to pay renewal costs and to share in the assignment of said lease must be exercised within sixty (60) days after receipt of such notice from the renewing party. If all parties to this agreement elect to share in the renewal costs and to receive an assignment of such ~~renewal lease in proportion to their current interest,~~

(3) Original Lease Owner Does Not Elect to Reimburse (Continued)

then such lease shall again become subject to this agreement and the interest of all parties' working interest in the Contract Area shall remain unchanged.

(4) If All Parties Do Not Elect to Reimburse

If one or more parties to this agreement elect not to reimburse the renewing party and to receive an assignment of their proportionate interest in such renewal lease, then such renewal lease shall not be or become subject to this agreement unless all parties to this agreement consent in writing to such lease being subject to this agreement and all parties consent to adjusting their percentages of participation in the Contract Area.

(5) Individual Loss

If any party secures the renewal of a lease subject to this agreement, the loss of which was an individual loss, such lease shall again become subject to this agreement and to the rights of the original lease owner under Subsections XV E (1) and XV E (2) hereof, subject only to an adjustment of percentages as required. However, the provisions of Subsections XV E (3) and XV E (4) shall not be applicable hereto and shall not apply to any such individual loss.

(6) Renewal Lease Defined

A renewal lease as used in Article XV E hereof shall mean any lease taken before the expiration of its predecessor lease, or any lease taken or contracted for within six (6) months after the expiration of an existing lease. Any lease taken or contracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease.

(7) Article XV E also Applies to Extensions

The provisions of Article XV E (a) through (e) shall also apply in like manner to extensions of leases and where not in conflict or in contradiction, the terms "renewal" and the term "extension" as used in said Article XV E shall have the same meaning.

F. TERM

This agreement shall remain in force for a period of one (1) year from and after the effective date of the Unit Agreement, and as long thereafter as the Unit Agreement is in effect. In the event of termination of the Unit Agreement for any reason as to all or any part of the land now or hereafter included in the Unit Area, this agreement shall continue in full force and effect with respect to any land as to which the Unit Agreement terminates which is included in any drilling unit or proration unit for any unabandoned well which has been drilled or commenced pursuant to this agreement, and as long thereafter a s oil and gas, or either of them is produced from the Unit Area, or any part thereof, or as long as producing, drilling or reworking operations are conducted thereon with no cessation of more than sixty (60) consecutive days, or as long as any lease committed to the Unit remains in effect by the payment of shut-in gas royalties on a gas well situated upon the Unit Area or any portion thereof. This agreement shall constitute a covenant running with the committed interests and shall be binding upon and insure to the benefit of the parties hereto, their successors and assigns. In the event of the termination of the Unit Agreement as to part of the land included in such Unit Agreement, the lands remaining subject to the Unit Agreement will also remain subject to this Operating Agreement.

G. It is understood that this contract may not be canceled, terminated or suspended for noncompliance with the Nondiscrimination Clause set forth in Exhibit "F" attached hereto until a final determination of noncompliance has been made by the Director, Office of Federal Contract Compliance, U. S. Department of Labor, as authorized in Executive Order No. 11246 of September 24, 1965.

H. CASING POINT ELECTION

It is specifically understood that consent to the drilling or deepening of a well shall not be deemed as consent to the setting of casing and a completion attempt. After any well drilled pursuant to this agreement has

H. CASING POINT ELECTION (CONTINUED)

reached its authorized depth, Operator shall give immediate notice to parties bearing costs of drilling to said depth. The parties receiving such notice shall have twenty-four (24) hours in which to elect whether or not they desire to set casing and to participate in a completion attempt. Failure of a party receiving such notice to reply within the period above fixed shall constitute an election by that party not to participate in the cost of a completion attempt. If all of the parties election to plug and abandon the well, Operator shall plug and abandon same at the expense of said parties. If one or more, but less than all, of said parties elect to set pipe and attempt completion, the provisions of Section 9 shall apply to the operations thereafter conducted by less than all parties.

I. REQUIRED WELLS

For the purpose of this article a well shall be deemed a required well if the drilling thereof is required by the final order of an authorized representative of the Department of Interior. Such an order shall be deemed final upon expiration of the time allowed for appeal therefrom without the commencement of appropriate appeal proceedings or, if such proceedings are commenced within said time, upon the final dispostion of the appeal. Whenever Unit Operator receives any such order, it shall promptly mail a copy thereof to each of the other parties; if any such order is appealed, the party appealing shall give prompt written notice thereof to each of the other parties, and upon final disposition of the appeal, Unit Operator shall give each of the other parties prompt written notice of the result thereof.

Any party desiring to drill, or participate in the drilling of, a required well shall give to Unit Operator written notice thereof within thirty (30) days after the order requiring such well becomes final or within such lesser time as may be required by such order. If such notice is given within said period, Unit Operator shall drill the required well for the account of the party or parties giving such notice, who shall bear all costs incurred therein; the rights and obligations of such party or parties with respect to the ownership of such well, the operating rights therein, the available production therefrom and the bearing of costs incurred therein shall be the same as if the well had been drilled for the account of such party or parties under Article VI B 2, "Additional Wells."

If no party elects to drill a required well within the period allowed for such election, and if any of the following alternatives are available, the first such alternative which is available shall be followed:

a. If compensatory royalties may be paid in lieu of drilling the well and if payment thereof is authorized by the parties within said period, Unit Operator shall pay such compensatory royalties; or

b. If the drilling of the well may be avoided, without other penalty, by contraction of the Unit Area through exclusion of lands not then within a participating area, Unit Operator shall make reasonable effort to effect such contraction with the approval of the Director; or

c. If unitized substances have not theretofore been discovered in paying quantities within the Unit Area, the parties shall join in termination of the Unit Agreement in accordance with its provisions.

If none of the foregoing alternatives are available, Unit Operator shall drill the required well for the account of all the parties, each of whom shall bear that percentage of all costs incurred therein which is equal to its participating interest.

J. COMPENSATORY ROYALTIES

Whenever demand is made in accordance with the Unit Agreement for the drilling of a well for the protection of the Unit Area from drainage, or for the payment of compensatory royalties in lieu thereof, Unit Operator shall give written notice thereof to each party. If payment of such compensatory

J. COMPENSATORY ROYALTIES (CONTINUED)

royalties is approved by the parties, Unit Operator shall make payment hereof. All payments so made by Unit Operator shall be charged as costs and borne by the parties in proportion to their respective participating interests. If payment of compensatory royalties is not approved by the parties, then the rights and obligations of the parties shall be governed by Article XV I, "Required Wells."

~~K. UNCOMMITTED ROYALTY~~

Should an owner of a royalty interest in any tract fail to become a party to the Unit Agreement and, as a result thereof, the actual royalty interest payments with respect to such tract are more or less than the royalty interest payments computed on the basis of the unitized substances that are allocated to such tract under the Unit Agreement, to the extent provided below, the difference shall be borne by or inure to the benefit of working interest owners, in proportion to their respective unit participation.

The difference to be borne by or inure to the benefit of working interest owners shall not exceed an amount computed on the basis of 1/8th of the difference between the unitized substances allocated to the tract and the unitized substances produced from the tract. Such adjustments shall be made by charges and credits to the joint account. Any uncommitted royalty interest in excess of 1/8th shall be borne solely by the working interest owner contributing such interest.

L. MANNER OF EXERCISING SUPERVISION

For projects exceeding Operator's expenditure limits and for other operational procedures not covered by this Operating Agreement, the following procedures shall apply.

Each working interest owner shall in writing inform Unit Operator of the names and addresses of its representative and alternate who are authorized to represent and bind such working interest owner in all duly called meetings with respect to Unit operations. The representative or alternate may be changed from time to time by written notice to Unit Operator.

All meetings of working interest owners shall be called by Unit Operator upon its own motion or at the request of two (2) or more working interest owners having a total percentage participation in the initial well after payout and all subsequent wells of not less than ten percent (10%). No meeting shall be called on less than fourteen (14) days' advance written notice, with agenda for the meeting attached. Working interest owners who attend the meeting shall not be prevented from amending items included in the agenda or from deciding the amended item or other items presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.

Working interest owners shall decide all matters coming before them as follows:

a. Each working interest owner shall have a voting interest computed by dividing its leasehold acreage material to the issue at hand by the total committed acreage.

b. Except as may otherwise be provided herein or in the Unit Agreement, working interest owners shall act upon and determine all matters coming before them by the affirmative vote of two (2) or more working interest owners having a total of sixty percent (60%) or more of the total voting interest in the Unit; provided that, if any one working interest owner has a voting interest of more than forty percent (40%), its negative vote or failure to vote shall not defeat the matter being voted on if such matter is supported by a majority of the voting interest unless such working interest owner is supported by the vote of one or more other working interest owners having a total voting interest of at least five percent (5%), and such resulting vote shall be binding on all parties.

c. Any working interest owner who is not represented at a meeting may vote either by written proxy or by letter or telegram addressed

L. MANNER OF EXERCISING SUPERVISION (CONTINUED)

c. (Continued) to the representative of the Unit Operator, provided such letter or telegram is received prior to the submission of such item to vote. If the vote is by letter or telegram, such vote shall not be counted with respect to any item on the agenda which has been materially changed at the meeting.

d. Working interest owners may vote on and decide, by letter or telegram, any matter submitted in writing to working interest owners, if no meeting is requested, as provided in this article, within seven (7) days after the proposal is received by working interest owners. Unit Operator will give prompt notice of the results of the voting to all working interest owners.

e. Any expenditure occurring as a result of vote will be billed to joint account and paid by all parties in accordance with their respective working interest ownership in the Unit Area.

M. ESTABLISHMENT, REVISION AND CONSOLIDATION OF PARTICIPATING AREA

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

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

If the proposal does not receive the approval of such Working Interest Owners, then the Unit Operator shall submit a revised proposal taking into account the objections made to the first proposal. If no proposal received the approval of said Working Interest Owners within thirty (30) days from the submission of the first proposal, the Unit Operator shall then file with the Supervisor and the Land Commissioner a proposal reflecting as nearly as practicable the various views expressed by the affected Working Interest Owners.

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

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

N. MISCELLANEOUS

It is understood that all references made herein to the respective parties shall, where applicable, include the singular or the plural, as the case may be, and use of any pronoun herein shall, where applicable, cover the masculine, feminine and neuter, as the case may be. It is further understood and agreed that the headings used in this agreement are inserted for convenience only and shall be disregarded in construing this agreement.

In the event of conflict between the Unit Agreement and this Unit Operating Agreement, the terms and conditions of the Unit Agreement shall control.

O. DEPARTMENT OF ENERGY REGULATIONS

Non-Operators agree to release Operator from any and all losses, damages, injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation or application of rules, rulings, regulations or orders of the Department of Energy or predecessor agencies to the extent Operator's interpretation or application of such rules, rulings, regulations or orders were made in good faith. Non-Operators further agree to reimburse Operator for their proportionate share of any amounts

O. DEPARTMENT OF ENERGY REULATIONS (CONTINUED)

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 the Non-Operators' proportionate part of interest and penalties owing by Operator as a result of such incorrect interpretation or application of such rules, rulings, regulations or orders.

~~P. PARTICIPATION IN COST OF INITIAL TEST WELL~~

~~who presently own interests in the contract area, are contributing a portion of~~ such interests to the drilling of the Initial Test Well, and will hereinafter be referred to as the "Contributing Party" whether one or more. The Contributing Party's share of the Initial Test Well will be paid for by Gulf Oil Corporation %, and
%, who will be referred to as "Earning Party" whether one or more.

In consideration of payment of expenses set forth in Exhibit "A-2" hereof, performance of all the terms and provisions of this agreement, and completion of the Initial Test Well as a well capable of producing oil or gas in paying quantities (quantities sufficient to return the cost of operating the well and a reasonable profit), the Earning Party shall earn oil and gas rights in the Contract Area equal to (a) the entire present interest of the Contributing Party in the largest participating area initially assigned by the New Mexico Oil Conservation Commission to the Initial Test Well which is first completed as a producing oil or gas well, and (b) an undivided 1/2 of the present interest of the Contributing Party in the Contract Area outside of the participating area. The Contributing Party, in proportion to the interest in the Contract Area, excepts and reserves from the participating area, a total overriding royalty, subject to proportionate reduction, equal to 1/16 of 8/8ths of the oil and gas produced, saved and marketed from the participating areas. This total overriding royalty shall include and absorb all overriding royalties and other obligations payable out of production from the Participating Area. After the earning Party has earned an interest in the Contract Area as provided hereinabove, and upon request of the Earning Party, the Contributing Party shall execute and deliver assignments of operating rights, without warranties of title, confirming the oil and gas operating rights earned.

Upon payout of the initial test well, the Contriubting Party's overriding royalty interest shall terminate, the the Contributing Party shall be entitled to a forty percent (40%) working interest, proportionately reduced, in the contract area. Payout of the initial test well shall be deemed to have occurred when proceeds of all production from the initial test well (after deducting the gross production taxes, royalty, overriding royalty, and other interests payable out of or measured by such share of the production) shall equal 100% of the cost incurred in drilling, deepening, plugging back, reworking; completing and equipping (excluding any costs beyond the wellhead connection) such well, and 100% of the cost beyond the wellhead connection, such as tanks, separators and flow lines, together with 100% of the cost of operation thereof during such time, such cost to be determined in accordance with the provisions of the Accounting Procedure (Exhibit "C") of the Operating Agreement referred to above.

Within thirty (30) days after Operator has recovered all drilling and completion costs attributable to the initial test well and said well has paid out, Operator shall notify the Contributing Party of such fact. The Contributing Party's working interest shall become effective at 7:00 A.M. on the first day following the day the well pays out, and all operations on any subsequent well on the contract area shall be governed by the ~~provisions of the Operating Agreement of even date herewith.~~

~~P. PARTICIPATION IN COST OF INITIAL TEST WELL~~

~~hereinafter referred to as Contributing Party,~~ own leasehold estate rights in the following described land:

Such land is situated in the contract area. Contributing Party is farming out its interest in the above described land to Gulf Oil Corporation.

In consideration of payment of expenses as set forth in Exhibit "A" hereof, performance of all the terms and provisions of this agreement, and completion of the initial test well as a well capable of producing oil or gas in paying quantities (quantities sufficient to return the cost of operating the well and a reasonable profit), the Earning Party shall earn from Contributing Party the following described rights in the proportions described above:

1. 100% of Contributing Party's leasehold estate rights in the initial test well proration unit.

2. 60% of Contributing Party's leasehold estate rights in the contract area located outside of the initial test well proration unit.

3. 100% of any right Contributing Party may have to share in production from the initial test well.

Notwithstanding the foregoing, the Contributing Party shall receive out of the initial test well a cost free interest in production equal to 1/16 of 8/8ths of all oil and gas produced, saved and marketed from the initial test well, proportionately reduced by the percentage of the Contract Area which was committed by contributing parties (determined on an acreage basis) as further set forth in Exhibit "A" hereto. After the Earning Party has earned an interest in the Contract Area as provided herein above, and upon request of the Earning Party, the Contributing Party shall execute and deliver assignments of such rights without warranties of title, confirming that such rights were earned.

Upon payout of the initial test well, as described below, the Contributing Party shall have the option, to be exercised within 30 days of the receipt of the notice described below, to terminate its 1/16 of 8/8ths, proportionately reduced, cost free interest in production from the initial test well, and fully participate in the initial test well, receiving its share of production and paying its share of costs, as set out in Exhibit "A" hereto. In the event Contributing Party owned leasehold estate rights in the proration unit of the initial test well, and pursuant to the terms of this agreement assigned 100% of such rights in such proration unit to Earning Parties, then upon making the election to fully participate, as provided above, Earning Party shall reassign to Contributing Party an undivided 40% of the leasehold estate rights which were ~~previously assigned by the contributing party to earning party~~.

P. PARTICIPATION IN COST OF INITIAL TEST WELL (CONTINUED)

~~Payout of the initial test well shall be deemed to have~~ occured when proceeds of all production from the initial test well (after deducting gross production taxes, royalty, overriding royalty, and other interests payable out of or measured by such share of production) shall equal 100% of the costs incurred in drilling, deepening, plugging back, reworking, completing and equipping such well (including any costs beyond the well head connection such as tanks, separators and flow lines), together with 100% of the costs of operation thereof during such time, such cost to be determined in accordance with the provisions of the accounting procedures (Exhibit "C") of this Operating Agreement.

Within 30 days after operator has recovered all drilling and completion costs attributable to the initial test well and said well has paid out, operator shall notify the contributing party of such fact. If the contributing party makes the election provided for above, such election shall become effective at 7 a.m. ~~on the first day following the day the well pays out.~~

Q. PLANS OF DEVELOPMENT

Each plan for the development and operation of the Contract Area which is submitted by Operator to the Supervisor in accordance with the Unit Agreement shall make provision only for such drilling, deepening and plugging back operations and such other projects as Operator has been authorized to conduct by the parties chargeable with the costs incurred therein.

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

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

If a drilling, deepening, or plugging back operation which is authorized by all the parties of which any of the parties have elected to perform in accordance with article VI B is not provided for in the then current plan of development as approved by the Supervisor, Operator shall either (a) request the Supervisor to approve an amendment to such plan which will provide for the conduct of such operation, or (b) request the Supervisor to consent to such operation if his consent is sufficient.

If any such plan as approved by the Supervisor provides for the cessation of any drilling or other operations therein provided for on the happening of a contingency and if such contingency occurs, Operator shall promptly cease such drilling or other operations and shall not incur any additional costs in connection therewith unless and until such drilling or other operations are again authorized in accordance with this agreement by the parties chargeable with such costs.

R.

~~1. Operator agrees to comply with all laws and lawful regulations applicable~~ to any activities carried out in the name of or on behalf of any one or more of the parties to this agreement under the provisions of this agreement and/or any amendments to it.

2. Operator agrees that all financial settlements, billings and reports rendered to any one or more of the parties to this agreement, as provided for in this agreement and/or any amendments to it, will, to the best of its knowledge and belief, reflect properly the facts about all activities and transactions handled for the account of such party or parties, which data may be relied upon as being complete and accurate in any further recording and reporting made by such party or parties for whatever purpose.

3. Operator agrees to notify the other parties to this agreement promptly upon discovery of any instance where the Operator fails to comply with the provision (1) above or where Operator has reason to believe ~~data covered by (2) above is no longer accurate and complete.~~

F A R M O U T A G R E E M E N T

This Article XV. S. shall constitute an agreement between _____, _____, and _____, hereinafter referred to as "Earning Party or Parties", as the case may be, and _____, _____, and _____, hereinafter referred to as "Contributing Party or Parties", as the case may be. In consideration for the Earning Parties' bearing the entire costs attributable to the Contributing Parties' share of the costs of drilling, testing, completing, and operating the Initial Well in the respective proportions of _____, _____, and _____; it is agreed as follows:

(1) When and if the Initial Well has been completed as a Commercially Productive Well, the Contributing Parties shall execute and deliver to the Earning Parties the following described assignment:

> An assignment covering all rights, title and interest of the Contributing Parties in and to that portion of the Contract Area included within the drilling unit around the Initial Well
>
> _____
>
> _____
>
> _____
>
> to the Earning Parties in the respective shares as shown above, but reserving to the Contributing Parties _____
>
> _____
>
> _____,
>
> an overriding royalty interest of _____, proportionately reduced, said overriding royalty interest being each Earning Party's proportionate share of _____ of all production from the Initial Well which is attributable to the interest in the Contract Area initially owned by the Contributing Parties. Said assignment shall provide that each Contributing Party shall have an option after payout to convert its said overriding royalty interest to a proportionate share of _____, said working interest being share of _____ of all production from the Initial Well which is attributable to the interest in the Contract Area initially owned by each Contributing Party.

Payout of the Initial Well shall be deemed to have occurred when proceeds of production from the Initial Well (after deducting the gross production taxes, royalty, overriding royalty, and other interests payable out of or measured by such share of the production which on the date of this assignment burden the leasehold estate assigned) shall equal 100% of the costs incurred in drilling, deepening, plugging back, reworking, completing and equipping such well, including all costs beyond the wellhead connection, such as tanks, separators and flow lines, together with the costs of operation thereof during such time of payout, all of such costs to be determined in accordance with the provisions of the Accounting Procedure (Exhibit "C") of the Operating Agreement referred to above.

If, in the drilling of the Initial Well, Earning Parties encounter a drilling condition or substance before reaching the depth or formation specified in Article VI herein, which cannot be overcome by means or methods customarily used by prudent Operators in the area, then and in such event, the Initial Well may be plugged and abandoned at the depth at which the substance or condition is encountered and Earning Parties are hereby granted and given an option to commence and drill a substitute well for the Initial Well. The actual drilling of any such substitute well shall be commenced within 45 days from the date the Initial Well is plugged and abandoned and shall be staked at a location of Earning Parties' choice on the Contract Area. Any such substitute well shall be drilled to the same depth and under the same terms and conditions as are applicable to the Initial Well, and when so drilled, shall be considered for all purposes to be the Initial Well.

Within thirty (30) days after payout of the Initial Well the Operator shall notify all Earning and Contributing Parties of such fact. The Contributing Parties shall have 60 days from receipt of such notice to notify the Earning Parties in writing whether or not they have elected to convert their respective overriding royalty interests into the said working interests.

If any Contributing Party fails to so notify the Earning Parties within said 60-day period, it will be conclusively presumed that the Contributing Party has elected to retain its overriding royalty interest in that portion of the Contract Area included within the drilling unit around the Initial Well and in the production from the Initial Well, rather than to convert same to a working interest. Upon Contributing Parties' election to convert its overriding royalty interest to a working interest, the Contributing Parties' working interest shall become effective at 7:00 A.M. on the first day following the day the well pays out. If any or all of the Contributing Parties elect to convert to a working interest, the Earning and Contributing Parties shall execute such instruments as are appropriate to effectuate such conversion of record with such conversion becoming effective the first day after payout of the Initial Well.

(2) When and if the Initial Well has been completed as a Commercially Productive Well, the Contributing Parties shall also execute and deliver to the Earning Parties the following described assignment:

An assignment conveying _____ of the rights, title and interest of the Contributing Parties _____

_____

_____

in the Initial Well in and to all of the Contract Area, except for that portion which is included within the drilling unit around the Initial Well, to _____

_____

_____

_____.

(3) "Tax Partnership": The Contributing and Earning Parties hereby agree that they are tax partners and will be bound by the Tax Partnership Agreement attached hereto as Exhibit "G" and incorporated herein by reference for all purposes.

ARTICLE XVI.
MISCELLANEOUS

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

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

IN WITNESS WHEREOF, this agreement shall be effective as of _____ day of _____, 19____.

OPERATOR

GULF OIL CORPORATION

_____ By: _____
Attorney-in-Fact

NON-OPERATORS

ATTEST: UNION OIL COMPANY OF CALIFORNIA

_____ By: _____
Secretary Title:

ATTEST: CANADIAN KENWOOD COMPANY

_____ By: _____
Secretary Title:

ATTEST: 18-31, INC.

_____ By: _____
Secretary Title:

ATTEST: SOUTHLAND ROYALTY COMPANY

_____ By: _____
Secretary Title:

ATTEST: YATES PETROLEUM CORPORATION

_____ By: _____
Secretary Title:

ATTEST: EXXON COMPANY, U.S.A.

_____ By: _____
Secretary Title:

ATTEST: FEATHERSTONE DEVELOPMENT CORPORATION

_____ By: _____
Secretary Title:

Signature Page to Operating Agreement covering S/2 of Sections 31, 32, and 33, T-18-S, R-31-E, N.M.P.M.; all of Sections 4, 5, and 6, and N/2 of Sections 7, 8, and 9, T-19-S, R-31-E, N.M.P.M., Eddy County, New Mexico.

ATTEST:

HANSON OIL CORPORATION

_____
Secretary

By: _____
Title:

ATTEST:

FEATHERSTONE FARMS, LTD.

_____
Secretary

By: _____
Title:

ATTEST:

HANLAD OIL CORPORATION

_____
Secretary

By: _____
Title:

ATTEST:

SUMMIT ENERGY, INC.

_____
Secretary

By: _____
Title:

ATTEST:

AMOCO PRODUCTION COMPANY

_____
Secretary

By: _____
Title:

ATTEST:

INTERNORTH EXPLORATION & PRODUCTION

_____
Secretary

By: _____
Title:

ATTEST:

SCOPE INDUSTRIES

_____
Secretary

By: _____
Title:

ATTEST:

REPUBLIC NATIONAL BANK

_____
Secretary

By: _____
Title:

_____
PAULINE V. TRIGG

_____
T. R. PARKER

_____
LELAND A. WITTKAPP

Second page of signature page of Operating Agreement covering S/2 of Sections 31, 32, and 33, T-18-S, R-31-E, N. M. P. M.; all of Sections 4, 5, and 6, and N/2 of Sections 7, 8, and 9, T-19-S, R-31-E, N. M. P. M., Eddy County, New Mexico.

VIRGINIA L. WITTKAPP

WALTER GRANBERRY

HOWARD F. TODMAN

HAROLD KERSEY

MARIAN CULBERTSON

WALLACE W. IRVIN

THELMA BAUERDORF

CONSTANCE B. CARTWRIGHT

ANNE GANNON DERFUS

BEVERLY PAYNE HORTON

WILLIAM G. PAYNE

ROBERT C. PAYNE

Third page of signature page of Operating Agreement covering S/2 of Sections 31, 32, and 33, T-18-S, R-31-E, N. M. P. M.; all of Section 4, 5, and 6, and N/2 of Sections 7, 8, and 9, T-19-S, R-31-E, N. M. P. M., Eddy County, New Mexico.

EXHIBIT "A"

Attached to and made a part of the Operating Agreement between GULF OIL CORPORATION as "Operator", and AMOCO PRODUCTION COMPANY, et al, as "Non-Operator".

Eddy County, New Mexico

(1) Identification of lands subject to agreement:

S/2 of Sections 31, 32, 33, T-18-S, R-31-E, N. M. P. M., and all of Sections 4, 5, 6; the N/2 of Sections 7, 8, and 9, N. M. P. M., Eddy County, New Mexico.

(2) Restrictions, if any, as to depths or formations:

(3) Percentages or fractional interests of parties to this agreement:

(4) Oil and gas leases and/or oil and gas interests subject to this agreement:

(5) Addresses of parties for notice purposes:

EXHIBIT "C"

Attached to and made a part of Operating Agreement between GULF OIL CORPORATION as "Operator", and AMOCO PRODUCTION COMPANY, et al as "Non-Operator", Eddy County, New Mexico.

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

"Joint Property" shall mean the real and personal property subject to the agreement to which this Accounting Procedure is attached.

"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.

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

"Operator" shall mean the party designated to conduct the Joint Operations.

"Non-Operators" shall mean the parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

"Controllable Material" shall mean Material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be made unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

5. Audits

A. Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

6. Approval by Non-Operators

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

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. **Rentals and Royalties**

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

2. **Labor**

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

   (2) Salaries and related expenses of Supervisors in the field below Area Superintendent.

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

   B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

   C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.

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

3. **Employee Benefits**

   Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed twenty- six percent (26%), or percent most recently recommended by the Council of Petroleum Accounts Societies of North America.

4. **Material**

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

5. **Transportation**

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

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

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

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

6. **Services**

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

7. **Equipment and Facilities Furnished by Operator**

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

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

8. **Damages and Losses to Joint Property**

   All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

9. **Legal Expense**

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

10. Taxes

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

11. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Workmen's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

12. Other Expenditures

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

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 2A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the Overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

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

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate $ 3,950.00
Producing Well Rate $ 395.00

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

(a) Drilling Well Rate

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

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

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

(b) Producing Well Rates

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

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

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

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

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

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

B. Overhead - Percentage Basis

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

(a) Development

_____ Percent (%) of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 9 of Section II and all salvage credits.

(b) Operating

_____ Percent (%) of the cost of Operating the Joint Property exclusive of costs provided under Paragraphs 1 and 9 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

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

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of $25,000 :

A. 5 % of total costs if such costs are more than $ 25,000 but less than $ 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.

Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single project shall not be treated separately and the cost of drilling and workover wells shall be excluded.

3. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

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

(2) Line Pipe

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

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

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

B. Good Used Material (Condition B)

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

(1) Material moved to the Joint Property

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

(2) Material moved from the Joint Property

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

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

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

C. Other Used Material (Condition C and D)

(1) Condition C

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

(2) Condition D

All other Material, including junk, shall be priced at a value commensurate with its use or at prevailing prices. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose. Operator may dispose of Condition D Material under procedures normally utilized by the Operator without prior approval of Non-Operators.

D. Obsolete Material

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

E. Pricing Conditions

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

(2) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

3. Premium Prices

Whenever Material is not readily obtainable at published or listed prices because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within ten days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished by Operator

Operator does not warrant the Material furnished. In case of defective Material, credit shall not be passed to the Joint Account until adjustment has been received by Operator from the manufacturers or their agents.

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

At reasonable intervals, Inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

Special Inventories may be taken whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory.

4. Expense of Conducting Periodic Inventories

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

EXHIBIT "D"

Attached to and made a part of the Operating Agreement between GULF OIL CORPORATION, as "Operator", and AMOCO PRODUCTION COMPANY, et al, as "Non-Operator".

INSURANCE COVERAGE

(a) Workmen's Compensation Insurance and Employers' Liability Insurance in accordance with the laws of the state in which the Contract Area is situated;

and,

(b) Comprehensive General Public Liability in the following amounts:

Bodily Injury:	$150,000.00 each person $300,000.00 each accident
Property Damage:	$100,000.00 each accident, with the exception of the first $5,000.00 loss which is self-insured $200,000.00 aggregate

The $5,000.00 self-insured property damage loss incident to each accident shall be charged to the Joint Account.

EXHIBIT "E"

Attached to and made a part of Operating Agreement
between GULF OIL CORPORATION
as "Operator"
and AMOCO PRODUCTION COMPANY, et al
as "Non-Operator"

GAS STORAGE AND BALANCING AGREEMENT

The parties to the Operating Agreement to which this agreement is attached own the working interest in the gas rights underlying the Contract Area covered by such agreement in accordance with the percentages of participation as set forth in Exhibit "A" to the Operating Agreement.

In accordance with the terms of the Operating Agreement, each party thereto has the right, subject to existing contracts, to take its share of gas produced from the Contract Area and market the same. In the event any of the parties hereto is not at any time taking or marketing its share of gas or has contracted to sell its share of gas produced from the Contract Area to a purchaser which does not at any time while this agreement is in effect take the full share of gas attributable to the interest of such party, the terms of this agreement shall automatically become effective.

During the period or periods when any party hereto has no market or fails to take its share of gas produced from any proration unit within the Contract Area, or its purchaser does not take its full share of gas produced from such proration unit, the other parties shall be entitled to produce each month one hundred percent (100%) of the allowable gas production assigned to such proration unit by the State regulatory body having jurisdiction and shall be entitled to take and deliver to its or their purchaser all of such gas production. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser.

On a cumulative basis, each party not taking or marketing its full share of the gas produced shall be credited with gas in storage equal to its full share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost, and less that portion such party took or delivered to its purchaser. The Operator will maintain a current account of the gas balance between the parties and will furnish all parties hereto monthly statements showing the total quantity of gas produced, the amount used in lease operations, vented or lost, the total quantity of liquid hydrocarbons recovered therefrom, and the monthly and cumulative over and under account of each party.

At all times while gas is produced from the Contract Area, each party hereto will make settlement with the respective royalty owners to whom they are each accountable, just as if each party were taking or delivering to a purchaser its share, and its share only, of total gas production exclusive of gas used in lease operations, vented or lost. Each party hereto agrees to hold each other party harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable.

The term "royalty owner" shall include owners of royalty, overriding royalties, production payments and similar interests.

After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its full share of the gas produced from a proration unit under which it has gas in storage less such party's share of gas used in operations, vented or lost. In addition to such share, each party, including the Operator, until it has recovered its gas in storage and balanced the gas account as to its interest, shall be entitled to take or deliver to its purchaser a share of gas determined by multiplying fifty percent (50%) of the interest in the current gas production of the party or parties without gas in storage by a fraction, the numerator of which is the interest in the proration unit of such party with gas in storage and the denominator of which is the total percentage interest in such proration unit of all parties with gas in storage currently taking or delivering to a purchaser.

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

Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser its full share of the allowable gas production to meet the deliverability tests required by its purchaser.

Should production of gas from a proration unit be permanently discontinued before the gas account is balanced, settlement will be made between the underproduced and overproduced parties. In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced party or parties attributable to the overproduction which said overproduced party received, less applicable taxes theretofore paid, at the applicable price defined below for the latest delivery of a volume of gas equal to that for which settlement is made. For gas, the price of which is not regulated by federal, state, or other governmental authorities, the price basis shall be the price received for the sale of the gas. For gas, the price of which is subject to regulation by federal, state or other governmental authorities, the price basis shall be the rate collected, from time to time, which is not subject to possible refund, as provided by the Federal Energy Regulatory Commission or any other governmental authority pursuant to final order or settlement applicable to gas sold from such well, plus any additional collected amount which is not ultimately required to be refunded by such authority, such additional collected amount to be accounted for at such time as final determination is made with respect thereto.

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

This agreement shall constitute a separate agreement as to each proration unit within the Contract Area and shall become effective in accordance with its terms and shall remain in force and effect as long as the Operating Agreement to which it is attached remains in effect, and shall inure to the benefit of and be binding upon the parties hereto, their successors, legal representatives and assigns.

EXHIBIT "F"

Attached to and made a part of the Operating Agreement between GULF OIL CORPORATION, as "Operator", and AMOCO PRODUCTION COMPANY, et al, as "Non-Operator".

NONDISCRIMINATION CLAUSE

GULF OIL CORPORATION, hereinafter referred to as Operator, is a "contractor" within the meaning of Executive Order No. 11246 dealing with nondiscrimination and equal employment opportunity.

AMOCO PRODUCTION COMPANY, et al, hereinafter called "contractor" in this exhibit, agrees, unless exempt therefrom, to comply with all applicable provisions of Executive Order No. 11246, as amended by Executive Order No. 11375, all applicable provisions of which are incorporated herein by reference, and (a) if contractor has more than fifty (50) employees or a contract with Operator in excess of $10,000.00, contractor must file Standard Form 100 (EEO-1), or (b) if contractor has fifty (50) or more employees and a contract of $50,000.00 or more, contractor is required to develop a written "Affirmative Action Compliance Program" for each of its establishments according to the Rules and Regulations published by the United States Department of Labor in 41 C.F.R., Chapter 60. Further, contractor hereby certifies that it does not now and will not maintain any facilities provided for its employees in a segregated manner or permit its employees to perform their services at any location under its control where segregated facilities are maintained, as such segregated facilities are defined in Title 41, Chapter 60-1.8, Code of Federal Regulations, revised as of 1/1/69, unless exempt therefrom. Contractor further warrants that no other law, regulation or ordinance of the United States, or any state, or any governmental authority or agency has been violated in the manufacture, procurement or sale of any goods furnished, work performed or service rendered pursuant to this contract.

The contractor agrees, to the extent applicable, to comply with the affirmative action clause and the regulations of the Department of Labor issued pursuant to the Vietnam Era Veterans Readjustment Assitance Act of 1974, as set forth in 41 C.F.R. 60-250, which are incorporated herein by reference.

The contractor agrees, to the extent applicable, to comply with the affirmative action clause and the regulations of the Department of Labor issued pursuant to the Rehabilitation Act of 1973, as set forth in 41 C.F.R. 60-741, which are incorporated herein by reference.

EXHIBIT "G"

Attached to and made a part of the Operating Agreement, executed by Gulf Oil Corporation, Operator, and Amoco Production Company, et al, Non-Operator, effective the _____ day of _____, 19___.

TAX PARTNERSHIP AGREEMENT

The parties recognize that this agreement creates a partnership for Federal and State income tax purposes and such parties do hereby agree not to elect to be excluded from the application of Subchapter K of Chapter I of Subtitle A of the United States Internal Revenue Code of 1954, as amended, or any similar State statute. All parties agree that the necessary Federal and State partnership income tax returns shall be filed covering operations under this agreement and Operator agrees to use its best efforts in the preparation and filing of the partnership tax returns and in making any appropriate elections on such returns, acting on behalf of itself and the other parties hereto, but in so doing, Operator shall incur no liability to any other party with regard to such returns or elections and shall make no charges for performance of any administrative or professional service in connection with the keeping of records or the filing of returns. Each party agrees to provide Operator with all information readily available from regularly maintained accounting records. Operator shall submit copies of all returns to the other parties forty-five (45) days before the due date to permit review and approval prior to filing. Operator is hereby granted authority to make the following elections under United States Internal Revenue laws and regulations and any similar State statutes:

a. To elect to adopt the calendar year as the annual accounting period;

b. To elect to adopt the accrual method of accounting;

c. To elect to expense all intangible drilling and development costs;

d. To elect to compute the allowance for depreciation utilizing the shortest life permissible under the Asset Depreciation Range System;

e. To elect to deduct advance royalties from gross income for the year the advance royalties are paid or accrued; and,

f. To make such other elections as may be approved by the parties.

The parties further agree that for United States income tax purposes, the gains and losses from sales, abandonments and other disposition of property and all classes of costs, expenses, and credits, including depreciation and depletion, shall be shared and accounted for as follows:

a. All production and intangible drilling and development costs and other classes of costs and expenses shall be allocated as deductions to each party in accordance with its respective contributions to such costs;

b. Depreciation on tangible equipment shall be allocated to each party in accordance with its contributions to the adjusted basis of such equipment, as such adjusted basis is defined in the Internal Revenue Code of 1954, as amended, and any similar State statute;

c. Deductions for depletion shall be computed by the parties as follows:

(1) If eligible for percentage or cost depletion, the depletion deduction shall be computed by each of the parties separately. Percentage depletion shall be calculated under IRC Section 613A, (b) "Exemption for Certain Domestic Gas Wells", or IRC Section 613A, (c) "Independent Procedures and Royalty Owners", whichever is applicable.

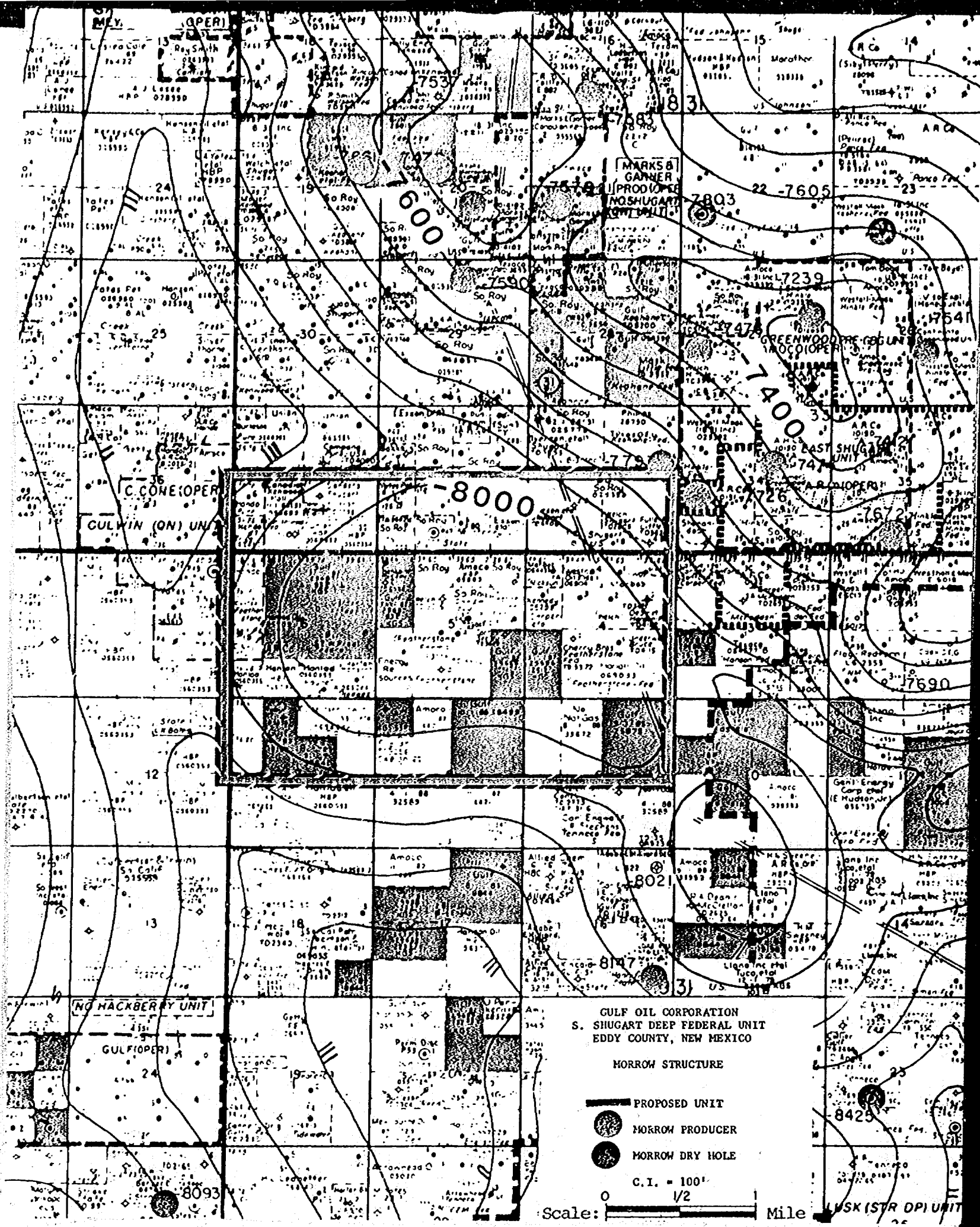
(2) The partnership basis in oil or gas properties shall be allocated to each party in accordance with its respective contribution to such cost depletion base. Each partner shall maintain an individual basis account and compute its own allowance for either percentage depletion or cost depletion on all its properties. The depletion allowance deducted by the partners shall be treated as a reduction of the basis of the partnership property. In addition, each partner shall furnish its percentage or cost depletion calculation to Operator annually.

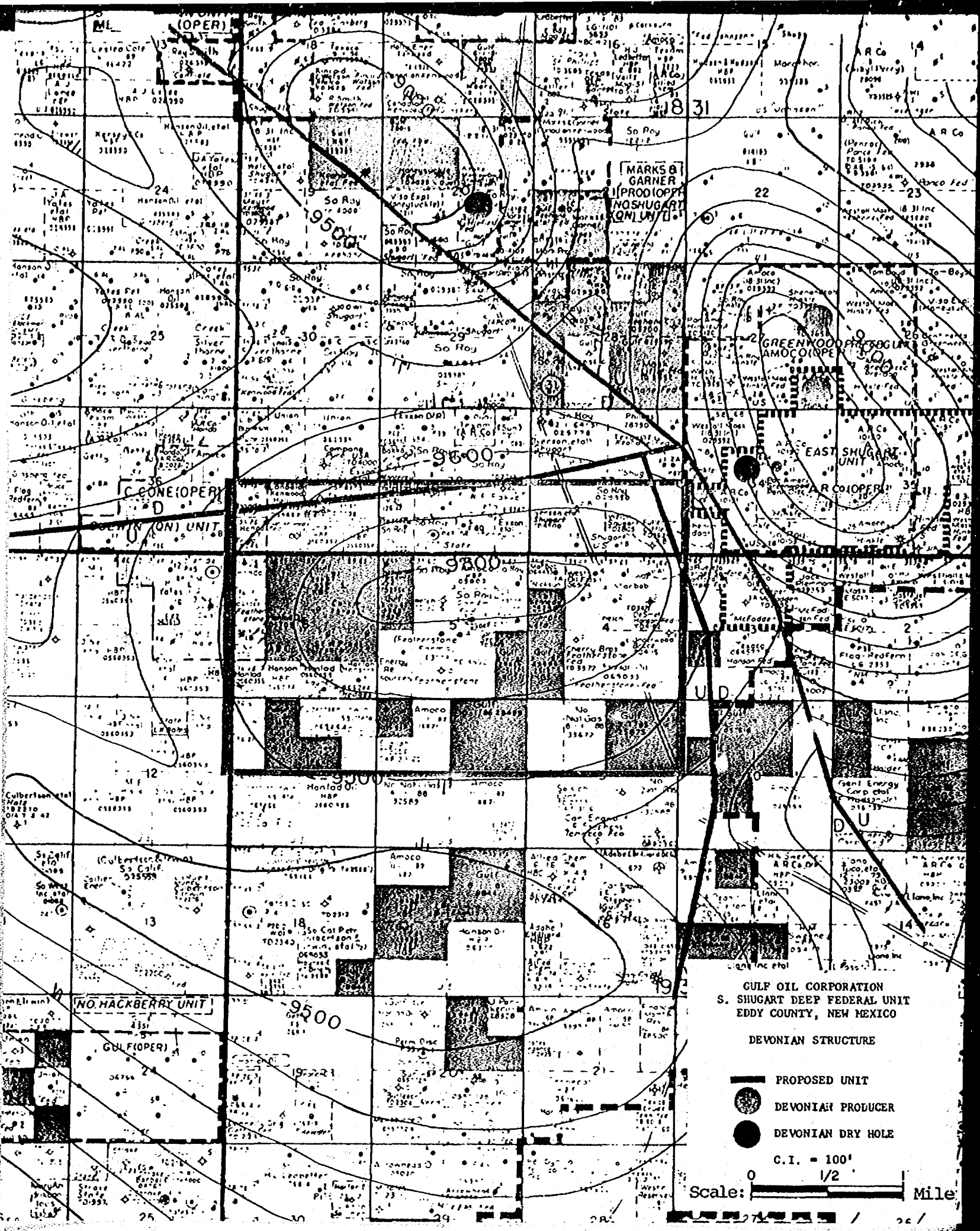
(3) Each party shall take into account for its depletion calculation such party's share of production, gross income, royalty obligations, expenses, contributions to the unadjusted cost basis of the joint property, all adjustments to basis and depletion allowance deductions reducing such party's basis.

d. Such investment credit as shall be allowed by Section 38 of the Internal Revenue Code of 1954, as amended, as well as any other credits shall be allocated to the parties in accordance with their respective contributions to the cost thereof.

e. Gains and losses from each sale, abandonment or other disposition of property (other than oil, gas or other hydrocarbon substances) will be allocated to the parties in such manner as will reflect the gains and losses that would have been includable in their respective income tax returns if such property was held by the parties outside this agreement. The computations shall take into account each party's share of the proceeds derived from each sale or other disposition of such property during the year, selling expenses and the parties' respective contributions to the unadjusted cost basis of such property, less any allowed or allowable depreciation, depletion, amortization, credits or other deductions which have been allocated to each party with respect to such property as provided in this paragraph.

It is the intent of the parties that these provisions be limited in their application to matters relating to Federal and State taxes based on income and shall not in any way change, amend or affect the substantive rights and obligations of the parties otherwise contained herein. It is not the purpose or intention of the parties hereto to create any partnership, mining partnership or association other than as above provided, and neither this agreement nor the authorizations hereunder shall be construed as creating any such relationship. Furthermore, nothing in this agreement shall be construed as providing directly or indirectly, for any joint or cooperative refining or marketing or sale of any party's interest in oil and gas or the products therefrom.


-7600
-7400
-8000
CULWIN (ON) UNIT
NO HACKBERRY UNIT
GREENWOOD PRE-CISCO UNIT
GULF OIL CORPORATION
S. SHUGART DEEP FEDERAL UNIT
EDDY COUNTY, NEW MEXICO
MORROW STRUCTURE
PROPOSED UNIT
MORROW PRODUCER
MORROW DRY HOLE
C.I. = 100'
Scale: 0 1/2 1 Mile


(OPER)
MARKS & GARNER (PROD)(OPR)
NO SHUGART (ON) UNIT
GREENWOOD FED COM
AMOCO (OPER)
EAST SHUGART UNIT
ARCO (OPER)
C CONE (OPER)
OWEN (ON) UNIT
NO. HACKBERRY UNIT
GULF (OPER)
9500
9600
9700
9800
9900
GULF OIL CORPORATION
S. SHUGART DEEP FEDERAL UNIT
EDDY COUNTY, NEW MEXICO
DEVONIAN STRUCTURE
PROPOSED UNIT
DEVONIAN PRODUCER
DEVONIAN DRY HOLE
C.I. = 100'
0 1/2
Scale: Mile

GEOLOGIC COMMENTS AND PROGNOSIS

Re: South Shugart Deep Federal Unit
Section 5, T-19-S, R-31-E
Eddy County, New Mexico

The recommended South Shugart Deep Federal Unit area is in east central Eddy County, New Mexico, about 25 miles northeast of the city of Carlsbad. The prospect is named after the Shugart field immediately adjacent to the north. The unit is on the northern edge of the Delaware Basin, along the southern rim of the Northwest Shelf. Gulf Oil Exploration and Production Company proposes to drill a 13,500' well located in the NW/4 of Section 8, T-19-S, R-31-E, to penetrate the Morrow, but not to exceed 14,000'.

The South Shugart Deep Prospect is expected to produce oil and gas from the Devonian, gas from the Morrow sands, oil from the Strawn and oil and gas from the Wolfcamp, Bone Spring, and from the Artesia Group. The expected productive limit of both the Devonian and Morrow structural trap is shown on the included Subsurface Structure Maps. The proposed unit outline is dictated by the configuration of the lowest closing contour on both the Devonian and Morrow horizon. The unit is to include the S/2 of Sections 31, 32, 33 of T-18-S, R-31-E, all of Sections 4, 5, 6, and the N/2 of Sections 7, 8, 9, of T-19-S, R-31-E.

Devonian production is restricted to the Shugart Field immediately adjacent to the north from a fault bounded horst at the Devonian horizon. We feel as though a similar situation occurs within the proposed unit area. Sands of the Morrow formation are productive in the area as indiscrete bodies. The sands are generally productive where they are porous and cross structural highs. Numerous wells within three miles of the proposed unit are productive from the Devonian and Morrow zones. Two distinctive nearby wells; the Amoco No. 1 Greenwood Unit in Section 27, T-19-S, R-31-E has made over 17 BCF and 950,000 BBL from the Devonian and the Gulf No. 1 Littlefield 'EM' Federal in Section 20, T-19-S, R-31-E flowed at 3,300 MCFGPD from the Atoka and 14,900 MCFGPD from the Morrow.

Expected formation tops are as follows:

Rustler	800 feet
Yates	2,500 feet
Delaware Mtn. Group	4,400 feet
Bone Spring Limestone	6,600 feet
Third Bone Spring Sand	9,800 feet
Cisco	10,200 feet
Canyon	10,400 feet
Strawn	10,700 feet
Atoka	11,000 feet
Morrow Limestone	11,300 feet
Chester	12,300 feet
Devonian	13,000 feet

We would appreciate your keeping the accompanying geological map and report confidential.

P. T. Gordon, Senior Regional Geologist
W. B. Stone, Geologist
Gulf Oil Exploration and Production Co.

WBS/dn
Attachment

BEFORE EXAMINER STAMETS
OIL CONSERVATION DIVISION
EXHIBIT NO. 5
CASE NO. 7309
Submitted by Gulf
Hearing Date 7/29/81

Docket No. 23-81

Dockets Nos. 25-81 and 26-81 are tentatively set for August 12 and 26, 1981. Applications for hearing must be filed at least 22 days in advance of hearing date.

DOCKET: COMMISSION HEARING - MONDAY - JULY 20, 1981

OIL CONSERVATION COMMISSION - 9 A.M. - ROOM 205
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

CASE 6892: (DE NOVO)

Application of Merrion & Bayless for compulsory pooling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the South Blanco-Pictured Cliffs Pool underlying the SW/4 of Section 27, Township 24 North, Range 2 West, to be dedicated to a well to be drilled at a standard location thereon. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision. Also to be considered will be the designation of applicant as operator of the well and a charge for risk involved in drilling said well.

Upon application of Merrion & Bayless, this case will be heard De Novo pursuant to the provisions of Rule 1220.

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Docket No. 24-81

DOCKET: EXAMINER HEARING - WEDNESDAY - JULY 29, 1981

9 A.M. - OIL CONSERVATION DIVISION CONFERENCE ROOM,
STATE LAND OFFICE BUILDING, SANTA FE, NEW MEXICO

The following cases will be heard before Richard L. Stamets, Examiner, or Daniel S. Nutter, Alternate Examiner:

CASE 7309: Application of Gulf Oil Corporation for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the South Shugart Deep Unit Area, comprising 3,806 acres, more or less, of State and Federal lands in Townships 18 and 19 South, Range 31 East.

CASE 7310: Application of Amoco Production Company for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval for the El Alto Grande Unit Area, comprising 2,560 acres, more or less, of Federal lands in Township 22 South, Ranges 33 and 34 East.

CASE 7311: Application of Amoco Production Company for a unit agreement, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the Big Sinks Federal Exploratory Unit Area, comprising 3,520 acres, more or less, of State and Federal lands in Townships 25 and 26 South, Range 31 East.

CASE 7280: (Continued from July 15, 1981, Examiner Hearing)

Application of Northwest Pipeline Corporation for a dual completion and downhole commingling, Rio Arriba County. New Mexico. Applicant, in the above-styled cause, seeks authority to dually complete its Rosa Unit Well No. 77 located in Unit L of Section 33, Township 31 North, Range 5 West, to produce gas from the Mesaverde formation and commingled Gallup and Dakota production through separate strings of tubing.

CASE 7312: Application of Phillips Petroleum Company for downhole commingling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Atoka and Morrow production in the wellbore of its Malaga A Well No. 2 located in Unit D of Section 2, Township 24 South, Range 28 East, Malaga Field.

CASE 7313: Application of Phillips Petroleum Company for downhole commingling, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Atoka and Morrow production in the wellbore of its Drag A Well No. 1 located in Unit C of Section 18, Township 23 South, Range 27 East, South Carlsbad Field.

CASE 7314: Application of Elliott Oil Company for downhole commingling, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks approval for the downhole commingling of Gallup, Dakota, and Mesaverde production in the wellbore of its ORA Well No. 1 located in Unit E of Section 21, Township 25 North, Range 3 West.

Gulf Oil Exploration and Production Company

R. E. Griffith
MANAGER LAND, SOUTHWEST DISTRICT

P. O. Box 1150
Midland, TX 79701

RECEIVED
JUN 26 1981
OIL CONSERVATION DIVISION
SANTA FE

June 17, 1981

RE: Examiners Hearing
South Shugart Deep Unit
EDDY COUNTY, New Mexico

State of New Mexico
Energy and Minerals Department
Oil Conservation Division
Post Office Box 2086
Santa Fe, New Mexico 87501

Case 7309

Attention: Mr. Joe Ramey

Gentlemen:

This letter will confirm our request to schedule a hearing on your July 29th, 1981 Examiners Docket to consider Gulf Oil Corporation's request for approval of the captioned Exploratory Unit which is more particularly outlined as follows:

Unit Name:	South Shugart Deep
Operator:	Gulf Oil Corporation
Leases:	State and Federal
Gross Acreage:	3,806.08
Location:	T-18-S and 19-S, R-31-E Eddy County, New Mexico

If you have any questions, please contact Mr. Mickey Cohlmia of our Trade Negotiations Unit at (915) 685-4804.

Yours very truly,

SAM H. MARTIN
Senior Land Agent

MFC/sdn

Gulf
A DIVISION OF GULF OIL CORPORATION

dr/

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 7309

Order No. R-6752

APPLICATION OF GULF OIL CORPORATION
FOR APPROVAL OF THE SOUTH SHUGART DEEP
UNIT AGREEMENT, EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on July 29, 19 81, at Santa Fe, New Mexico, before Examiner Richard L. Stamets

NOW, on this _____ day of _____, 19 81, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

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

Sections 4, 5, and 6 : All
Sections 7, 8, and 9 : N/2

APPLICATION OF GULF OIL CORPORATION
FOR APPROVAL OF THE SOUTH SHUGART DEEP
UNIT AGREEMENT, EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on July 29, 19 81, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this ____ day of _____, 19 81, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Gulf Oil Corporation, seeks approval of the South Shugart Deep Unit Agreement covering 3,806.08 acres, more or less, of State, Federal and ~~Fee~~ lands described as follows:

EDDY COUNTY, NEW MEXICO

Township 18 South, Range 31 East, NMPM
Section 21: S/2
Section 32: S/2
Section 33: S/2

Township 19 South, Range 31 East, NMPM
Sections 4, 5, and 6: All
Section 7: N/2
Section 8: N/2
Section 9: N/2

(3) That all plans of development and operation and creations, expansions, or contractions of participating areas or expansions or contractions of the unit area, should be submitted to the Director of the Division for approval.

(4) That approval of the proposed unit agreement should promote the prevention of waste and the protection of correlative rights within the unit area.

IT IS THEREFORE ORDERED:

(1) That the South Shugart Deep Unit Agreement is hereby approved.

(2) That the plan contained in said unit agreement for the development and operation of the unit area is hereby approved in principle as a proper conservation measure; provided, however, that notwithstanding any of the provisions contained in said unit agreement, this approval shall not be considered as waiving or relinquishing, in any manner, any right, duty, or obligation which is now, or may hereafter be, vested in the Division to supervise and control operations for the exploration and development of any lands committed to the unit and production of oil or gas therefrom.

(3) That the unit operator shall file with the Division an executed original or executed counterpart of the unit agreement within 30 days after the effective date thereof; that in the event of subsequent joinder by any party or expansion or contraction of the unit area, the unit operator shall file with the Division within 30 days thereafter counterparts of the unit agreement reflecting the subscription of those interests having joined or ratified.

(4) That all plans of development and operation, all unit participating areas and expansions and contractions thereof, and all expansions or contractions of the unit area, shall be submitted to the Director of the Oil Conservation Division for approval.

(5) That this order shall become effective upon the approval of said unit agreement by the Commissioner of Public Lands for

State of New Mexico and the Director of the United States Geological Survey; that this order shall terminate ipso facto upon the termination of said unit agreement; and that the last unit operator shall notify the Division immediately in writing of such termination.

(6) That jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

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