

UNIT OPERATING AGREEMENT

MYERS LANGLIE-MATTIX UNIT
LEA COUNTY, NEW MEXICO

INDEX

<u>Article</u>		<u>Page</u>
1	CONFIRMATION OF UNIT AGREEMENT	1
1.1	Confirmation of Unit Agreement	1
2	EXHIBITS	1
2.1	Exhibits	1
2.1.1	Exhibits "A", "B" and "C"	1
2.1.2	Exhibit "D"	1
2.1.3	Exhibit "E"	2
2.1.4	Exhibit "F"	2
2.2	Revision of Exhibits	2
3	SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS	2
3.1	Over-all Supervision	2
3.2	Specific Authorities and Duties	2
3.2.1	Method of Operation	2
3.2.2	Drilling of Wells	2
3.2.3	Well Recompletions and Change of Status	2
3.2.4	Expenditures	3
3.2.5	Disposition of Unit Equipment	3
3.2.6	Appearance Before a Court or Regulatory Agency	3
3.2.7	Audits	3
3.2.8	Inventories	3
3.2.9	Technical Services	3
3.2.10	Assignments to Committees	3
3.2.11	Removal of Unit Operator and the Selection of a Successor	3
3.2.12	Enlargement of the Unit Area	4
3.2.13	Adjustment and Readjustment of Investments	4
3.2.14	Termination of the Unit Agreement	4
4	MANNER OF EXERCISING SUPERVISION	4
4.1	Designation of Representatives	4
4.2	Meetings	4
4.3	Voting Procedure	4
4.3.1	Voting Interest	4
4.3.2	Vote Required	4
4.3.3	Vote at Meeting by Non-attending Working Interest Owners	5
4.3.4	Poll Votes	5
5	INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS	5
5.1	Reservation of Rights	5
5.2	Specific Rights	5
5.2.1	Access to Unit Area	5
5.2.2	Reports	5
6	UNIT OPERATOR	5
6.1	Unit Operator	5
6.2	Resignation or Removal	6
6.3	Selection of Successor	6

<u>Article</u>		<u>Page</u>
7	AUTHORITIES AND DUTIES OF UNIT OPERATOR	6
7.1	Exclusive Right to Operate Unit	6
7.2	Workmanlike Conduct	6
7.3	Liens and Encumbrances	6
7.4	Employees	6
7.5	Records	6
7.6	Reports to Working Interest Owners	6
7.7	Reports to Governmental Authorities	6
7.8	Engineering and Geological Information	7
7.9	Expenditures	7
7.10	Wells Drilled by Unit Operator	7
8	TAXES	7
8.1	Ad Valorem Taxes	7
8.2	Other Taxes	8
9	INSURANCE	8
9.1	Insurance	8
10	ADJUSTMENT OF INVESTMENTS	8
10.1	Personal Property Taken Over	8
10.1.1	Wells and Casing	9
10.1.2	Well and Lease Equipment	9
10.1.3	Records	9
10.2	Assessment in Lieu of Usable Well	9
10.2.1	Schedule I - Assessments	9
10.2.2	Schedule II - Assessments	10
10.2.3	Schedule III - Assessments	10
10.3	Inventory	11
10.4	Inventory Evaluation and Approval	11
10.5	Adjustment of Investment	12
10.6	Removal of Non-Unit Equipment	13
10.7	General Facilities	13
10.8	Ownership of Personal Property and Facilities	13
11	UNIT EXPENSE	13
11.1	Basis of Charges to Working Interest Owners	13
11.1.1	Operating Expense	13
11.1.2	Capital Expenditures	13
11.2	Budgets	14
11.3	Advance Billings	14
11.4	Commingling of Funds	14
11.5	Lien of Unit Operator and Working Interest Owners	14
11.6	Unpaid Unit Expense	15
11.7	Uncommitted Royalty	15
12	NON-UNITIZED FORMATIONS	16
12.1	Right to Operate	16
12.2	Multiple Completions - Limitations	16
12.3	Joint Operations Provided For	16
12.3.1	Rights of Unit Operator and Allocation of Cost Between Unitized and Non-Unitized Operations	16
12.3.2	Subsequent Completion in Formation Other than Unitized Formation	17
12.3.3	Workovers or Other Similar Operations in Multiply-Completed Wells	17
12.3.4	Maintenance of Casing	18
12.3.5	Replacement Wells	18
12.3.6	Communications Between Formations	18
12.3.7	Abandonment	19
13	TITLES	19
13.1	Warranty and Indemnity	19
13.2	Failure Because of Unit Operations	19

<u>Page</u>		<u>Page</u>
	LIABILITY, CLAIMS, AND SUITS	20
4.1	Individual Liability	20
14.2	Settlements	20
15	INTERNAL REVENUE PROVISION	20
15.1	Internal Revenue Provision	20
16	NOTICES	21
16.1	Notices	21
17	WITHDRAWAL OF WORKING INTEREST OWNER	21
17.1	Withdrawal	21
18	CREATION OF NEW INTEREST	22
18.1	Creation of New Interest	22
19	ABANDONMENT OF WELLS	22
19.1	Rights of Former Owners	22
19.2	Plugging	23
20	FORCE MAJEURE	23
20.1	Force Majeure	23
21	EFFECTIVE DATE AND TERM	23
21.1	Effective Date	23
21.2	Term	23
22	ABANDONMENT OF OPERATIONS	24
22.1	Termination	24
22.1.1	Oil and Gas Rights	24
22.1.2	Right to Operate	24
22.1.3	Salvaging Wells	24
22.1.4	Cost of Salvaging	24
	COUNTERPART EXECUTION	24
23.1	Execution by Separate Counterparts of Ratifications	24
24	SUCCESSORS AND ASSIGNS	24
24.1	Successors and Assigns	24
	Exhibit "D" (Participation Percentages by Working Interest Owners)	
	Exhibit "E" (Accounting Procedure)	
	Exhibit "F" (Assessments)	

UNIT OPERATING AGREEMENT
MYERS LANGLIE-MATTIX UNIT
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the first day of January, 1973, by and between the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof;

W I T N E S S E T H:

WHEREAS, the parties hereto as Working Interest Owners have executed, as of the date hereof, an agreement entitled "Unit Agreement, Myers Langlie-Mattix Unit, Lea County, New Mexico", herein referred to as "Unit Agreement", which, among other things, provides for a separate agreement to be entered into by Working Interest Owners to provide for the development and operation of the Unit Area;

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

ARTICLE 1

CONFIRMATION OF UNIT AGREEMENT

1.1 Confirmation of Unit Agreement. The Unit Agreement is hereby confirmed and by reference made a part of this agreement. The definitions in the Unit Agreement are adopted for all purposes of this agreement. If there is any conflict between the Unit Agreement and this agreement, the Unit Agreement shall govern.

ARTICLE 2

EXHIBITS

2.1 Exhibits. The following exhibits are incorporated herein and made a part hereof.

2.1.1 Exhibits A, B & C of the Unit Agreement are incorporated herein by reference.

2.1.2 Exhibit D attached hereto, is a schedule showing the Unit Participations of each Working Interest Owner for Phase I and Phase II of Unit Operations. Exhibit D or a revision thereof, shall not be conclusive as to the information therein except it

shall be used as showing the Unit Participations of the Working Interest Owners for purposes of this agreement until shown to be in error or revised as herein authorized.

2.1.3 Exhibit E, attached hereto, is the Accounting Procedure applicable to the development and operation of the Unit Area; in the event of conflict between this agreement and Exhibit D, this agreement shall prevail.

2.1.4 Exhibit F, attached hereto are the assessments which may be made against the working interest owners of certain non-usable wells listed thereon as provided in Article 10. In the event the tracts for any of the wells listed in Exhibit "F" fail to qualify for inclusion in the Unit on the effective date hereof, Exhibit "F" shall be revised to delete each such well and its assessment.

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

ARTICLE 3

SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

3.1 Over-all Supervision. Working Interest Owners shall exercise over-all supervision and control of all matters pertaining to unit operations pursuant to this agreement and the Unit Agreement. In the exercise of such authority, each Working Interest Owner shall act solely in its own behalf in the capacity of an individual owner and not on behalf of the owners as an entirety.

3.2 Specific Authorities and Duties. The matters with respect to which the Working Interest Owners shall decide and take action shall include, but not be limited to, the following:

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

3.2.2 Drilling of Wells. The drilling of any well within the Unit Area whether for production of Unitized Substances, for use as an injection well, or for other purposes.

3.2.3 Well Recompletions and Change of Status. The recompletion, abandonment, or change of status of any well, or the use of any well for in-

jection or for other purposes.

3.2.4 Expenditures. The making of any single expenditure in excess of Fifteen Thousand Dollars (\$15,000.00); provided that, approval by Working Interest Owners of the drilling, reworking, deepening, or plugging back of any well shall include approval of all necessary expenditures required therefor, and for completing, testing, and equipping the same, including necessary flow lines, separators, and lease tankage.

3.2.5 Disposition of Unit Equipment. The selling or otherwise disposing of any major item of surplus Unit equipment, if the current list price of new equipment similar thereto is Three Thousand and Five Hundred Dollars (\$3,500.00) or more.

3.2.6 Appearance Before a Court or Regulatory Agency. The designating of a representative to appear before any court or regulatory agency in matters pertaining to Unit Operations; provided that, such designation shall not prevent any Working Interest Owner at its own expense from appearing in person or from designating another representative in its own behalf.

3.2.7 Audits. The auditing of the accounts of Unit Operator pertaining to unit operations hereunder; provided that, the audits shall:

(a) not be conducted more than once each year except upon the resignation or removal of Unit Operator.

(b) be made at the expense of all Working Interest Owners other than the Working Interest Owner designated as Unit Operator;

and

(c) be made upon not less than thirty (30) days' written notice to Unit Operator.

3.2.8 Inventories. The taking of periodic inventories under the terms of Exhibit E.

3.2.9 Technical Services. The authorizing of charges to the joint account for services by consultants or Unit Operator's technical personnel not covered by the overhead charges provided by Exhibit E.

3.2.10 Assignments to Committees. The appointment of committees to study any problems in connection with Unit Operations.

3.2.11 Removal of Unit Operator and the Selection of a Successor.

3.2.12 Enlargement of the Unit Area.

3.2.13 Adjustment and Readjustment of Investments.

3.2.14 Termination of the Unit Agreement.

ARTICLE 4

MANNER OF EXERCISING SUPERVISION

4.1 Designation of Representatives. Each Working Interest Owner shall in writing inform Unit Operator of the names and addresses of the representative and alternate who are authorized to represent and bind such Working Interest Owner with respect to Unit Operations. The representative or alternate may be changed from time to time by written notice to Unit Operator.

4.2 Meetings. All meetings of the Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of one or more Working Interest Owners having a total Unit Participation of not less than ten percent (10%). No meeting shall be called on less than fourteen (14) days' advance written notice, with agenda for the meeting attached. 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.

4.3 Voting Procedure. Working Interest Owners shall decide all matters coming before them as follows:

4.3.1 Voting Interest. Each Working Interest Owner shall have a voting interest equal to its Unit Participation in effect at the time such vote is taken.

4.3.2 Vote Required. 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 three (3) or more Working Interest Owners having a combined Voting Interest of at least sixty-five percent (65%), provided that, should any one Working Interest Owner own more than thirty-five percent (35%) Voting Interest, its negative vote or failure to vote shall not defeat a motion and such motion shall pass if such motion is approved by a majority of the Voting Interest, and such affirmative vote shall be controlling on all parties.

4.3.3 Vote at Meeting by Non-attending Working Interest

Owners. Any Working Interest Owner not represented at a meeting may vote on any item included in the agenda of the meeting by letter or telegram addressed to the chairman of the meeting provided such vote is received prior to the submission of such item to vote. Such vote shall not be counted with respect to any item on the agenda which is amended at the meeting.

4.3.4 Poll Votes. Working Interest Owners may 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 Section 4.2, within ten (10) days after the proposal is sent to Working Interest Owners. Unit Operator will give prompt notice of the results of the voting to all Working Interest Owners.

ARTICLE 5

INDIVIDUAL RIGHTS
OF WORKING INTEREST OWNERS

5.1 Reservation of Rights. Working Interest Owners severally

reserve to themselves all their rights, except as otherwise provided in this agreement and the Unit Agreement.

5.2 Specific Rights. Each Working Interest Owner shall have,

among others, the following specific rights:

5.2.1 Access to Unit Area. Access to the Unit Area at

all reasonable times to inspect Unit operations, all wells, and the records and data pertaining thereto.

5.2.2 Reports. The right to receive from Unit Operator,

upon written request, copies of all reports to any governmental agency, reports of crude oil runs and stocks, inventory reports, and all other information pertaining to Unit operations. The cost of gathering and furnishing information not ordinarily furnished by Unit Operator to all Working Interest Owners shall be charged to the Working Interest Owner who requests the information.

ARTICLE 6

UNIT OPERATOR

6.1 Unit Operator. SKELLY OIL COMPANY is hereby designated

as Unit Operator.

6.2 Resignation or Removal. Unit Operator may resign or be removed at any time under procedures prescribed in Section 7 of the Unit Agreement.

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

ARTICLE 7

AUTHORITIES AND DUTIES OF UNIT OPERATOR

7.1 Exclusive Right to Operate Unit. Subject to the provisions of this agreement and to instructions from Working Interest Owners, Unit Operator shall have the exclusive right and be obligated to conduct Unit Operations.

7.2 Workmanlike Conduct. Unit Operator shall conduct Unit Operations in a good and workmanlike manner as would a prudent operator under the same or similar circumstances. Unit Operator shall freely consult with Working Interest Owners and keep them informed of all matters which Unit Operator, in the exercise of its best judgment, considers important. Unit Operator shall not be liable to Working Interest Owners for damages, unless such damages result from its gross negligence or willful misconduct.

7.3 Liens and Encumbrances. Unit Operator shall endeavor to keep the lands and leases in the Unit Area free from all liens and encumbrances occasioned by Unit Operations, except the lien as outlined in Section 11.5.

7.4 Employees. The number of employees used by Unit Operator in conducting unit operations, their selection, hours of labor, and compensation shall be determined by Unit Operator. Such employees shall be the employees of Unit Operator.

7.5 Records. Unit Operator shall keep correct books, accounts, and records of Unit Operations hereunder and shall permit any party hereto to examine all records of same at any reasonable time.

7.6 Reports to Working Interest Owners. Unit Operator shall furnish to Working Interest Owners periodic reports of Unit Operations as prescribed by the Working Interest Owners.

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

make as Unit Operator.

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

7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of Fifteen Thousand Dollars (\$15,000.00) without prior approval of Working Interest Owners. If an emergency occurs, Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the emergency and the action taken.

7.10 Wells Drilled by Unit Operator. All wells drilled by Unit Operator shall be at the usual rates prevailing in the area. Unit Operator may employ its own tools and equipment under terms and conditions approved by Working Interest Owners.

ARTICLE 8

TAXES

8.1 Ad Valorem Taxes. Unit Operator shall, beginning with the first calendar year after the effective date hereof, make and file for ad valorem tax purposes all necessary renditions and returns with the proper taxing authorities or governmental subdivisions covering all real and personal property of each Working Interest Owner within the unitized land and used or held by Unit Operator in connection with the development and operation of the Unitized Formation. Any Working Interest Owner dissatisfied with any proposed rendition or assessment of its interest in real or personal property, shall have the right, at its own expense, to protest and resist the same. All such ad valorem taxes due and payable on account of real and personal property of each Working Interest Owner in, on and under the unitized land which is used in connection with Unit Operations shall be paid by Unit Operator for the joint account in the same manner as other costs and expenses of Unit Operations; provided, that if the interest of a Working Interest Owner is subject to separately assessed overriding royalty interest, production payment, or other interest in excess of 1/8th royalty, such Working Interest Owner shall be given credit for the reduction in taxes paid resulting therefrom.

Tr. No.	Description of Land	No. of Acres	Serial No. and Lease Expiration Date	Basic Royalty Owner and Percentage	Leasee of Record and Percentage	Overriding Royalty Owner and Percentage	Working Interest Owner and Percentage
35	T23S - R37E Sec. 32: N/2 SW/4	80.00	D-1167-12 H.B.P.	State of New Mexico-All	Shell Oil Company - 100%	None	E1 Paso Natural Gas Company- 100.00000%
36	T23S - R37E Sec. 32: S/2 SW/4	80.00	B-165-1 H.B.P.	State of New Mexico-All	Texaco Inc. - 100%	None	Texaco Inc. - 100.00000%
37	T23S - R37E Sec. 32: S/2 SE/4	80.00	B-85-11 H.B.P.	State of New Mexico-All	Amerada Hess Corp. - 100%	None	Amerada Hess Corporation - 50.00000% Skelly Oil Company - 50.00000%
38	T23S - R37E Sec. 32: N/2 SE/4	80.00	B-1377 H.B.P.	State of New Mexico-All	Skelly Oil Company - 100%	None	Amerada Hess Corporation - 50.00000% Skelly Oil Company - 50.00000%
39	T24S - R37E Sec. 2: Lot 3, SE/4 NW/4	79.37	B-9974-3 H.B.P.	State of New Mexico-All	Phillips Petroleum Co. - 100%	None	Skelly Oil Company - 100.00000%
40	T24S - R37E Sec. 2: Lot 4, SW/4 NW/4, N/2 SW/4	159.39	B-9974-0r1g. Dec. 10, 1962 H.B.P.	State of New Mexico-All	Phillips Petroleum Co. - 100%	None	Skelly Oil Company -
41	T24S - R37E Sec. 2: S/2 SW/4	80.00	B-9974-0r1g. H.B.P.	State of New Mexico-All	Phillips Petroleum Co. - 100%	Robert E. Strippling - 2.05078% James H. Steedman - 2.05078%	Skelly Oil Company - 100.00000%
42	T24S - R37E Sec. 2: Lot 2, SW/4 NE/4	79.35	B-9694 H.B.P.	State of New Mexico-All	Skelly Oil Company - 100%	None	Skelly Oil Company - 100.00000%

Thirteen (13) State Tracts Totaling 1598.11 Acres - 16.10401% of Unit Area

Tr. No.	Description of Land	No. of Acres	Serial No. and Lease Expiration Date	Basic Royalty Owner and Percentage	Lease of Record and Percentage	Overriding Royalty Owner and Percentage	Working Interest Owner and Percentage
43	T335 - R36E Sec. 25: NW/4 NE/4	40.00	Nov. 28, 1948				
				<u>FEE LANDS</u>			
				Atlantic Richfield Co. - 5.059387%	Petroleum Corporation of Texas - 100%	None	Petroleum Corporation of Texas - 50.000007%
				Olive Hill - 0.195317%			Reserve Oil & Gas Company - 50.000007%
				Mark Campbell - 0.390637%			
				C. H. Crifer - 0.195317%			
				Central Bank & Tr. of East. of Hrs. - Frank P. Faulk - 0.195317%			
				Fluor Corporation - 3.125007%			
				Ima Hays - 1.562507%			
				W. C. Hentzler - 0.048837%			
				C. Jinkins - 1.562507%			
				Hina O. Lankford - 1.562507%			
				Arne S. Hohl - 0.195317%			
				J. Hiram Moore - 0.048837%			
				Fannie McIntire - 0.024422%			
				Wury Margaret Parr - 0.024422%			

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

ARTICLE 9

INSURANCE

9.1 Insurance. Unit Operator, at all times while conducting operations hereunder, shall purchase or provide protection for the benefit of the parties hereto, comparable to that afforded under standard form policies of insurance as follows:

- (1) Workmen's Compensation and Employers' Liability insurance providing benefits in accordance with the laws of the State of New Mexico.
- (2) General Public Liability Insurance with Bodily Injury limits of \$100,000 per person and \$300,000 per accident and a Property Damage limit of \$100,000 per accident.
- (3) Automobile Public Liability Insurance with Bodily Injury limits of \$100,000 per person and \$300,000 per accident and a Property Damage limit of \$50,000.

Unit Operator shall charge the joint account an amount not to exceed the premium applicable to the protection provided in Paragraphs 1 and 2 above.

Unit Operator shall not provide any other kinds of insurance for the benefit of the parties hereto except with mutual written consent of the parties.

Insurance requirements for contractors or sub-contractors shall be left to the judgment of Unit Operator.

Should Skelly Oil Company cease to be Unit Operator hereunder, any new Unit Operator shall carry Workmen's Compensation Insurance and General Public Liability and Automobile Public Liability and Property Damage Insurance with limits as above specified or as mutually agreed upon by the parties hereto.

ARTICLE 10

ADJUSTMENT OF INVESTMENTS

10.1 Personal Property Taken Over. Upon execution of this agreement by the respective Working Interest Owners, each elects that its wells as shown on Exhibit "A" are hereby committed to the Unit. Upon the effective

date hereof, but subject to Article 12 and the other provisions of this Article 10, said Working Interest Owners shall deliver to Unit Operator the following:

10.1.1 Wells and Casing. All those wells shown on Exhibit "A" in Usable Condition together with that portion of all wells completed or to be completed by the Unit Operator in the Unitized Formation, which are used or usable in whole or in part for production of Unitized Substances or for injection or other purposes together with the casing therein above the base of the Unitized Formation. In dual completion wells, Unit Operator shall take over an undivided one-half interest in the casing to the base of the Unitized Formation where the Unitized Formation lies above the other formation in which the well is completed. Where the other formation in which the well is completed lies above the Unitized Formation, Unit Operator shall take over an undivided one-half interest in the casing to the base of the other formation and a full interest below said point.

10.1.2 Well and Lease Equipment. The tubing in each such well, the wellhead connections thereon, and all other lease and operating equipment that is used in the operation of such wells and which the Working Interest Owners then determine may be necessary or desirable for conducting Unit Operations.

10.1.3 Records. A copy of all production and well records that pertain to such delivered wells.

10.2 Assessment in Lieu of Usable Well. Each of the Working Interest Owners named in Exhibit "F", in lieu of delivering to the Unit the wells listed thereon in Usable Condition as of the effective date hereof, does herewith bind itself and agree to the following:

10.2.1 Schedule I - Assessments. Each of the Working Interest Owners listed under Schedule I of Exhibit "F" will deliver its wells listed thereunder to Unit Operator on the effective date hereof, and each shall pay its proportionate share of any remedial work approved by the Working Interest Owners and done to make any Schedule I well a Usable Well, based on the ratio that its total assessments under Schedule I for its wells which are not Usable Wells on the effective date hereof bears to the total assessments under Schedule I for all the wells listed thereon which are not Usable Wells on the effective date hereof. Unit Operator shall bill each Working Interest Owner who is obligated hereunder

from time to time for its share of the cost of remedial work as such work is performed. Installation of casing to the top of the Langlie-Mattix formation shall be initiated only after approval by the Working Interest Owners as provided in Article 4 of this agreement; provided, however, that if such casing is not installed within two years after the effective date of this agreement, said installation shall be at the expense of all Working Interest Owners rather than those listed in Schedule I of Exhibit "F". In no event shall any Working Interest Owner be separately assessed hereunder an amount in excess of the total assessments under Schedule I shown opposite its wells which are not Usable Wells on the effective date of this agreement. Any costs in excess of those separately assessed hereunder shall be charged as Unit expense.

10.2.2 Schedule II - Assessments. The Working Interest Owners of those wells listed under Schedule II of Exhibit "F" may retain for their own use, as to formations other than the Unitized Formation, the wells listed thereunder. Any Working Interest Owner who fails to deliver as a Usable Well on the effective date of this agreement any of the wells listed under Schedule II of Exhibit "F" shall be assessed in lieu thereof the amount set forth opposite such well. The assessment may be paid in cash, for credit to the joint account, within thirty (30) days after Phase II becomes effective, or may be paid out of sixty percent (60%) of the production allocated to the tract, under Phase II, on which such well is located.

10.2.3 Schedule III - Assessments. Working Interest Owners may, at any time after the effective date hereof, determine that those wells listed under Schedule III of Exhibit "F" which have not been completed as Usable Wells prior to the effective date hereof, need to be completed as Usable Wells. When such determination is made, Unit Operator shall make appropriate written demands on the Working Interest Owners of the wells determined necessary. Within thirty (30) days after such demand, each Working Interest Owner upon whom demand is made shall advise Unit Operator of its election as to the following:

- A. Within ninety (90) days after demand as provided above, each Working Interest Owner upon whom demand is made shall complete and equip, at its sole cost,

risk and expense, a Usable Well. Upon delivery to Unit Operator of a Usable Well, an inventory and adjustment of investment shall be effected in accordance with the other provisions of this Article 10.

- B. Working Interest Owners upon whom demand is made under this Section 10.2.3 may, in lieu of furnishing a Usable Well, elect to pay in cash to the Unit Operator, for credit to the joint account, the amount shown under Schedule III of Exhibit "F" opposite the well for which demand is made. Payment shall be made within thirty (30) days after receipt of demand for a Usable Well.

10.3 Inventory. On the effective date hereof, or as soon thereafter as feasible, Working Interest Owners shall, at Unit expense, inventory the personal property taken over under Section 10.1 above. Such inventory shall be limited to controllable material as defined by the "Material Classification Manual", 1967 Print, issued by the Council of Petroleum Accountants Societies of North America; provided however, that for adjustment purposes only, sucker rods, down-hole pumps and other items as agreed upon by the Working Interest Owners will be treated the same as controllable equipment. Although all casing shall be included in full detail in the inventory, the value of the casing for adjustment purposes shall be zero. Noncontrollable items which are omitted from the inventory shall, nevertheless, be taken over by the Unit if in use on the property. As to any Tract, Unit Operator shall notify each Working Interest Owner therein at least ten (10) days prior to the taking of the inventory with respect to such Tract, so that each of said Working Interest Owners may make arrangements to be represented at the taking of the inventory. Failure of a Working Interest Owner to be represented at the taking of the inventory shall, nevertheless, bind such Working Interest Owner to accept the inventory taken by representatives of the other Working Interest Owners.

10.4 Inventory Evaluation and Approval. Unit Operator shall furnish for approval by Working Interest Owners an inventory reflecting the following:

- (a) A list of controllable material and equipment, except for material and equipment required for production from non-unitized

formations, deemed necessary or desirable for Unit Operations. The material and equipment so listed shall be valued at eighty percent (80%) of the price basis prescribed for material in Paragraph 2 of Article IV of Exhibit "E", the applicable conditions to be indicated on the inventory; provided, however, that material and equipment not classified to be in condition B or C as specified in Paragraph 2 of Article IV of Exhibit E shall not be taken over by Unit Operator except by special agreement with the owners of said equipment as approved by the Working Interest Owners.

(b) A list of material and equipment serving the Unitized Formation deemed necessary by the Unit Operator for the temporary convenience of the Unit. Said material and equipment shall be retained on a loan basis for a period of time not to exceed six (6) months from and after the effective date of this agreement unless individual arrangement has been made for the further use thereof.

(c) A list of the material and equipment which, although taken over by Unit Operator, is not, as of date of submission of said inventory for Working Interest Owner approval, deemed necessary or desirable for Unit Operations.

10.5 Adjustment of Investment. Upon approval by the Working Interest Owners of the inventory evaluation referred to in Section 10.4 hereof, each Working Interest Owner shall be credited with the value as determined in accordance with Section 10.4 (a) above, of its interest in all material and equipment taken over by Unit Operator under Section 10.1 of this agreement and charged with an amount equal to that obtained by multiplying the total value of all such material and equipment taken over by Unit Operator by such Working Interest Owner's Phase II Unit Participation. If the charge against any Working Interest Owner is greater than the amount credited to such Working Interest Owner, the resulting net charge shall be paid and in all other respects be treated as any other item of Unit expense chargeable against such Working Interest Owner. If the credit to any Working Interest Owner is greater than the amount charged against such Working Interest Owner, the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above.

10.6 Removal of Non-Unit Equipment. Upon approval by the Working Interest Owners of the inventory referred to in Section 10.4 hereof, the material and equipment listed as surplus as provided in Section 10.4 (c) shall be reclaimed by the owner thereof and may be removed from the Unit Area at any time or shall be removed within a reasonable time after the owners of such property have been requested to do so by Unit Operator unless said material and equipment are necessary for use by the owners thereof in the operation or development of horizons not unitized under the Unit Agreement and this agreement. Material and equipment listed under Section 10.4 (b) shall be reclaimed and removed by the owner thereof on request of Unit Operator.

10.7 General Facilities. The acquisition of warehouses, warehouse stocks, lease houses, camps, facility systems, and office buildings necessary for Unit Operations shall be by negotiation by the owners thereof and Unit Operator, subject to the approval of Working Interest Owners based upon their respective Phase II Unit Participations. There shall be no adjustment for lease roads or appurtenances thereto.

10.8 Ownership of Personal Property and Facilities. Each Working Interest Owner shall, by virtue hereof, own an undivided interest in all personal property and facilities taken over or otherwise acquired by Unit Operator pursuant to this agreement, and said undivided interest shall be equal to its Phase II Unit Participation.

ARTICLE 11

UNIT EXPENSE

11.1 Basis of Charges to Working Interest Owners. Unit Operator initially shall pay and discharge all costs and expenses incurred in the development and operation of the Unit Area. Each Working Interest Owner shall reimburse Unit Operator for its proportionate share of all such costs and expenses as follows:

11.1.1 Operating Expense. Beginning at 7:00 A.M., on the effective date hereof, all operating expenses shall be shared by Working Interest Owners in accordance with their respective Unit Participation as set out in Exhibit "D" which are in effect at the time said expenses are incurred.

11.1.2 Capital Expenditures. Beginning at 7:00 A.M., on the effective date hereof, and thereafter during the life of this agreement, all capital expenditures for development and for the purchase and

Installation of material classified as investment items shall be shared by Working Interest Owners in accordance with their respective Phase II Unit Participations as set out in Exhibit "D".

All charges, credits and accounting for costs and expenses shall be governed by Exhibit "E" or, when applicable, the provisions of Section 11.1.2 hereof.

11.2 Budgets. Before or as soon as practical after the effective date hereof, Unit Operator shall prepare a budget of estimated costs and expenses for the remainder of the calendar year, and on or before the first day of each October thereafter shall prepare a budget of estimated costs and expenses for the ensuing calendar year. Such budgets shall set forth the estimated costs and expenses by quarterly periods. Budgets so prepared shall be estimates only and shall be subject to adjustment and correction by Working Interest Owners and Unit Operator from time to time whenever it shall appear that an adjustment or correction is proper. A copy of such budget and adjusted budget shall be promptly furnished each Working Interest Owner.

11.3 Advance Billings. Unit Operator shall have the right to require Working Interest Owners to advance their respective shares of estimated Unit expense by submitting to Working Interest Owners, on or before the 15th day of any month, an itemized estimate thereof for the succeeding month, with a request for payment in advance. Within fifteen (15) days thereafter, each Working Interest Owner shall pay to Unit Operator its share of such estimate. Adjustments between estimated and actual Unit Expense shall be made by Unit Operator at the close of each calendar month, and the accounts of Working Interest Owners shall be adjusted accordingly.

11.4 Commingling of Funds. No funds received by Unit Operator under this agreement need be segregated or maintained by it as a separate fund, but may be commingled with its own funds.

11.5 Lien of Unit Operator and Working Interest Owners. Each Working Interest Owner grants to Unit Operator a lien upon its oil and gas rights in each Tract, its share of Unitized Substances when produced, and its interest in all Unit equipment, as security for payment of its share of Unit expense, together with interest thereon at the rate of ten percent (10%) per annum. Unit Operator shall have the right to bring suit to enforce collection of such indebtedness with or without seeking foreclosure of the

lien. In addition, upon default by any Working Interest Owner in the payment of its share of Unit expense, Unit Operator, without prejudice to other existing remedies, shall have the right to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest as aforesaid, has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of any default. Unit Operator grants a like lien to the Working Interest Owners.

11.6 Unpaid Unit Expense. If any Working Interest Owner fails to pay its share of Unit expense within sixty (60) days after rendition of a statement therefor by Unit Operator, each Working Interest Owner agrees, upon request by Unit Operator, to pay its proportionate part of the unpaid share of Unit expense of the defaulting Working Interest Owner. The Working Interest Owners that pay the share of Unit expense of a defaulting Working Interest Owner shall be reimbursed by the Unit Operator for the amount so paid, plus any interest collected thereon, upon receipt by Unit Operator of any past due amount collected from the defaulting Working Interest Owner. Any Working Interest Owner so paying a defaulting Working Interest Owner's share of Unit expense shall be subrogated to the lien and rights herein granted Unit Operator.

11.7 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, the difference shall be borne by or inure to the benefit of Working Interest Owners in proportion to their respective Unit Participations; however, 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 one-eighth (1/8) 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. If the interest of such Royalty Owner is an overriding royalty interest, production payment or other interest conveyed out of a Working Interest, the obligation to make the payment or to otherwise satisfy such Royalty Owner shall be the sole obligation of the Working Interest Owner or Owners whose interest is burdened thereby.

ARTICLE 12

NON-UNITIZED FORMATIONS

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

12.2 Multiple Completions - Limitations. There shall be no wells in the Unit Area completed in more than two producing formations, one of which is the Unitized Formation, except under such terms and conditions as may be agreed upon by the Working Interest Owners.

12.3 Joint Operations Provided For. Multiply completed wells shall be handled as follows:

12.3.1 Rights of Unit Operator and Allocation of Cost Between Unitized and Non-Unitized Operations. Unit Operator shall have the right to operate that portion of multiply-completed wells which were delivered to it pursuant to Article 10 above for production of Unitized Substances or as injection wells or for any other purpose pursuant to or in connection with the Unit operations provided for herein. The Working Interest Owner or Owners who own Oil and Gas Rights to any formation other than the Unitized Formation wherein any such multiply-completed well is situated, hereinafter called "Other Operator", shall have the right at its sole cost, risk and expense to operate that portion of such well which it has retained for the production of oil and gas from such formation other than the Unitized Formation, hereinafter called "Other Formation". The cost and expense of operating a multiply-completed well as to the Unitized Formation and keeping and maintaining the personal property delivered to Unit Operator pursuant to Article 10, save and except for casing, shall be borne entirely by the Working Interest Owners of the

Unit the same as if such well were a single completion in the Unitized Formation.

Except where circumstances and conditions warrant otherwise, Unit Operator shall be entitled to install tubing of a size equal to the tubing installed and used for the Other Formation, it being the intention hereby to provide that Unit operations shall not be subordinated to a secondary or inferior status.

12.3.2 Subsequent Completion in Formation Other than Unitized Formation. No well in which the Unit owns a partial or full interest may be subsequently completed or recompleted in another formation without the consent of the Working Interest Owners.

12.3.3 Workovers or Other Similar Operations in Multiphase-Completed Wells. If either the Unit Operator or Other Operator should desire to conduct a workover, reconditioning or other operation which would result in any interruption or cessation of operations being conducted in, upon or with respect to such well by the other party, then the party desiring to undertake such operation shall first notify the other party in writing at least fifteen (15) days prior to commencing the proposed operation, setting out a complete and detailed description thereof. After the expiration of the fifteen (15) day period, or sooner if mutually agreeable, the party desiring to undertake such operations may proceed in accordance with its proposal subject to any amendments or changes which have been mutually agreed upon by the parties during the fifteen (15) day period. Such operations shall be performed in a good and workmanlike manner and, except as hereinafter provided with respect to casing, at the sole cost, risk and expense of the party undertaking the work. The party undertaking the work shall at his sole cost, risk and expense make all reasonable efforts to restore the formation operated by the other party to the same working condition and status of performance which existed prior to undertaking the work. Except for gross negligence or willful misconduct, the party undertaking such work shall not be liable beyond the duty imposed by the preceding sentence hereof or responsible for any damages to or loss of production from the formation operated by the party not desiring to undertake the work, nor shall such undertaking party be liable for any damage to the well or the casing.

12.3.4 Maintenance of Casing. In the event any casing repairs become necessary with respect to a multiply-completed well which are not the result of workovers or other similar operations hereinabove provided for, the Unit Operator and Other Operator shall pay the cost of such repairs in the following proportions: If the Unitized Formation lies below the other formation in which the well is completed, the Unit Operator and the Other Operator shall share equally the cost of any casing repairs necessary to the base of the other said formation and the cost of any repairs necessary from the base of the other said formation to the base of the Unitized Formation shall be borne solely by the Unit Operator; If the Unitized Formation lies above the other formation in which the well is completed, the Unit Operator and the Other Operator shall share equally the costs of any necessary repairs to the base of the Unitized Formation and the cost of any repairs necessary below the base of the Unitized Formation shall be borne solely by the Other Operator.

12.3.5 Replacement Wells. If as a consequence of any deeper drilling, workover or repairs, a replacement well has been proposed by the Unit Operator, either the Working Interest Owners or the Other Operator may elect whether or not to participate in the drilling of such replacement well as a multiple-completion well. In the event such a replacement well is to be drilled, the cost of drilling the same to the base of the Unitized Formation shall be borne by the Working Interest Owners and the Other Operator in equal shares, if the Unitized Formation lies above the other formation in which the well is completed, and the cost of drilling said replacement well below the Unitized Formation shall be borne by the Other Operator. If the Unitized Formation lies below the other formation in which said replacement well is to be completed the cost of drilling the same to the base of the other formation will be borne by the Working Interest Owners and the Other Operator in equal shares, and the cost of drilling said replacement well below the base of the other formation shall be borne by the Working Interest Owners. The Working Interest Owners and Other Operator shall each pay their respective completion costs in any such replacement well.

12.3.6 Communications Between Formations. Unit Operator shall be responsible for checking communications between the Unitized Formation and any other Formation; provided, however, the Other Operator shall be

notified at least twenty-four (24) hours prior to the taking of any packer leakage tests and be permitted to have a representative present if they should so desire. The cost of any operation performed to remedy communication between zones will be borne equally by and between the Working Interest Owners and the Other Operator, or Operators, of such communicating zone or zones.

12.3.7 Abandonment. If either party should desire at any time to abandon one of its operations in any multiply-completed well and salvage its material and equipment therefrom, such party shall be bound to give the other party at least a fifteen (15) day notice in writing prior to making such abandonment and shall otherwise proceed as provided above in Section 12.3.3, subject however to the terms and provisions of Section 22.1. If both parties mutually agree to abandon the well, the cost of such abandonment shall be shared equally.

ARTICLE 13

TITLES

13.1 Warranty and Indemnity. Each Working Interest Owner represents and warrants that it is the owner of the respective Working Interests set forth opposite its name in Exhibit "B" of the Unit Agreement, and hereby agrees to indemnify and hold harmless the other Working Interest Owners from any loss due to failure, in whole or in part, of its title to any such interest, except failure of title arising out of Unit Operations; provided that, such indemnity and warranty shall be limited to an amount equal to the net value that has been received from the sale or receipt of Unitized Substances attributed to the interest as to which title failed. Each failure of title will be deemed to be effective, insofar as this agreement is concerned, as of the first day of the calendar month in which such failure is finally determined, and there shall be no retroactive adjustment of Unit expense, or retroactive allocation of Unitized Substances or the proceeds therefrom, as a result of title failure.

13.2 Failure Because of Unit Operations. The failure of title to any Working Interest in any Tract by reason of Unit Operations, including non-production from such Tract, shall not change the Unit Participation of the Working Interest Owner whose title failed in relation to the Unit Participations of the other Working Interest Owners at the time of the title failure.

ARTICLE 14

LIABILITY, CLAIMS, AND SUITS

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

14.2 Settlements. Unit Operator may settle any single damage claim or suit involving Unit Operations but not involving an expenditure in excess of Two Thousand Dollars (\$2,000.00), provided the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above specified amount, Working Interest Owners shall assume and take over the further handling of the claim or suit unless such authority is expressly delegated to Unit Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of Unit expense. If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations and over which such Working Interest Owner individually has no control because of the rights given Working Interest Owners and Unit Operator by this agreement and the Unit Agreement, the Working Interest Owner shall immediately notify the Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

ARTICLE 15

INTERNAL REVENUE PROVISION

15.1 Internal Revenue Provision. Each Working Interest Owner hereby elects that it and the operations covered by this agreement be excluded from the application of Subchapter K of Chapter 1 of Sub-title A of the Internal Revenue Code of 1954, or such portion thereof as the Secretary of the Treasury of the United States or his delegate shall permit by election to be excluded therefrom. Unit Operator is hereby authorized and directed to execute on behalf of each Working Interest Owner such additional or further evidence of the election as may be required by regulations issued under said Subchapter K. Should the regulations require each party to execute such further evidence, each Working Interest Owner agrees to execute or join in the execution thereof. The election hereby made and the other provisions of this paragraph shall apply in like manner to

applicable state laws, regulations, and rulings now in effect or hereafter enacted that have an effect similar to the federal provisions referred to herein.

ARTICLE 16

NOTICES

16.1 Notices. All notices required hereunder shall be in writing and shall be deemed to have been properly served when sent by mail or telegram to the address of the representative of each Working Interest Owner as furnished to Unit Operator in accordance with Section 4.1 hereof.

ARTICLE 17

WITHDRAWAL OF WORKING INTEREST OWNER

17.1 Withdrawal. If any Working Interest Owner so desires, it may withdraw from this agreement by conveying, assigning and transferring, without warranty of title either express or implied, to the other Working Interest Owners who do not desire to withdraw herefrom, all of the former's right, title and interest in and to its lease or leases or other operating rights in the Unit Area insofar as said lease, leases or rights pertain to the Unitized Formation, together with the withdrawing Working Interest Owner's interest in all wells, pipe lines, casing, injection equipment, facilities and other personal property used in conjunction with the development and operation of the Unit Area; provided, however, that such transfer, assignment or conveyance shall not relieve said Working Interest Owner from any obligation or liability incurred prior to the date of the execution and delivery thereof. The interest so transferred, assigned and conveyed shall be taken and owned by the other Working Interest Owners in proportion to their respective Phase II Unit Participations. After the execution and delivery of such transfer, assignment or conveyance; the withdrawing Working Interest Owner shall be relieved from all further obligations and liability hereunder and under the Unit Agreement. Thereupon, the right of such Working Interest Owner to any benefits subsequently accruing hereunder and under the Unit Agreement shall cease; provided, that upon delivery of said transfer, assignment or conveyance, the assignees (in the ratio of the respective interests so acquired) shall pay to the assignor for its interest in all jointly owned equipment, casing and other personal property the fair net salvage value thereof, less its proportionate share of the costs of terminating the Unit, as same are

determined and fixed by Working Interest Owners. This Section shall not prevent a Working Interest Owner from assigning, conveying or otherwise transferring its interest, in whole or in part, provided such assignment, conveyance or transfer is made subject to the terms of this agreement and the Unit Agreement.

ARTICLE 18

CREATION OF NEW INTEREST

18.1 Creation of New Interest. If any Working Interest Owner shall, after executing this agreement, create any overriding royalty, production payment, or other similar interest, hereafter referred to as "new interest", out of its interest subject to this agreement, such new interest shall be subject to all the terms and provisions of this agreement. In the event the Working Interest Owner owning the interest from which the new interest was created withdraws from this agreement under the terms of Article 17, or fails to pay any expenses and costs chargeable to it under this agreement and the production to the credit of such Working Interest Owner is insufficient for that purpose, the owner of the new interest will be liable for the pro rata portion of all costs and expenses for which the original Working Interest Owner creating such new interest would have been liable by virtue of his ownership of the new interest had the same not been transferred. In this event, the lien provided in Section 11.5 may be enforced against such new interest. If the owner of the new interest bears a portion of the costs and expenses or the same is enforced against such new interest, the owner of the new interest will be subrogated to the rights of the Unit Operator with respect to the interest primarily chargeable with such costs and expenses.

11

ARTICLE 19

ABANDONMENT OF WELLS

19.1 Rights of Former Owners. If Working Interest Owners decide to abandon permanently any well within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice thereof to the Working Interest Owners of the Tract on which the well is located, and they shall have the option for a period of ninety (90) days after the sending of such notice to notify Unit Operator in writing of their election to take over and own the well. Within ten (10) days after the Working Interest Owners of the Tract have notified Unit Operator of their election to take over the well, they shall pay Unit Operator, for credit to the

joint account, the amount estimated by Working Interest Owners to be the net salvage value of the casing and equipment in and on the well. The Working Interest Owners of the Tract, by taking over the well, agree to seal off effectively and protect the Unitized Formation, and upon abandonment to plug the well in compliance with applicable laws and regulations.

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

ARTICLE 20

FORCE MAJEURE

20.1 Force Majeure. In the event any party hereto is rendered unable, wholly or in part, by force majeure to carry out its obligations under this contract, other than the obligations to make payment of money due hereunder, it is agreed that upon such party's giving notice and reasonably full particulars of force majeure in writing or by telegraph to the other parties hereto within a reasonable time after the occurrence of the cause relied upon, then the obligations of the party giving the notice, so far as they are affected by force majeure, shall be suspended during the continuance of any liability so caused, but for no longer period; and the cause of the force majeure shall, so far as possible, be remedied with all reasonable dispatch. The term "force majeure" as employed herein shall mean any cause not reasonably within the control of the party claiming suspension.

ARTICLE 21

EFFECTIVE DATE AND TERM

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

21.2 Term. This agreement shall continue in effect so long as the Unit Agreement remains in effect, and thereafter until (a) all Unit wells have been abandoned and plugged or turned over to Working Interest Owners in accordance with Article 22; (b) all Unit equipment and real property acquired for the joint account have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners; and (c) there has been a final accounting.

ARTICLE 22

ABANDONMENT OF OPERATIONS

22.1 Termination. Upon termination of the Unit Agreement, the following shall occur:

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

22.1.2 Right to Operate. Working Interest Owners of any tract that desire to take over and continue to operate wells located thereon may do so by paying Unit Operator, for credit to the joint account, the net salvage value of the casing and equipment in and on the wells taken over, as estimated by Working Interest Owners, and by agreeing to plug properly each well at such time as it is abandoned.

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

22.1.4 Cost of Salvaging. Working Interest Owners shall share the cost of salvaging, liquidation or other distribution of assets and properties used in Unit Operations in proportion to their respective Unit Participations as set out in Exhibit D.

ARTICLE 23

COUNTERPART EXECUTION

23.1 Execution by Separate Counterparts of Ratifications. This agreement may be executed in any number of counterparts and each counterpart so executed shall have the same force and effect as an original instrument and as if all of the parties to the aggregate counterparts had signed the same instrument; or, it may be ratified by a separate instrument in writing referring to this agreement. Each such ratification shall have the force and effect of an executed counterpart and of adopting by reference all provisions hereof.

ARTICLE 24

SUCCESSORS AND ASSIGNS

24.1 Successors and Assigns. The provisions hereof shall be covenants running with the lands, leases, and interests covered hereby,

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

IN WITNESS WHEREOF, this agreement is executed as of the date first above written.

ATTEST:

SKELLY OIL COMPANY

Assistant Secretary

By _____
Vice President

Date of Signature:

STATE OF OKLAHOMA)
) SS
COUNTY OF TULSA)

The foregoing instrument was acknowledged before me this _____
day of _____, 19____ by _____,
Vice President of SKELLY OIL COMPANY, a Delaware corporation, on behalf
of said corporation.

My Commission expires:

Notary Public

EXHIBIT "D"
 UNIT OPERATING AGREEMENT
 MYERS LANGLIE-MATTIX UNIT
LEA COUNTY, NEW MEXICO

<u>Working Interest Owner</u>	<u>P E R C E N T</u>	
	<u>Phase I</u>	<u>Phase II</u>
Allied Chemical Corporation	.59869	1.01166
Amerada Hess Corporation	6.17699	6.21268
Arlene S. Anthony	0.00000	0.08288
Amoco Production Company	6.21201	5.34004
Atlantic Richfield Company	5.26996	9.53544
Frank Bateman	.20003	.26117
George R. Bentley	.02816	.01469
O. A. Bourg Drilling Company	.16486	.05131
Tom Brown Drilling Company	.49459	.15392
W. K. Byrom	1.55489	.84458
Chevron Oil Company	.76773	.64851
Cities Service Oil Company	2.01056	1.64622
Ralph L. Clarke	1.22629	.73075
Margaret B. Clay	.84250	.75051
Clay Trusts 618-1, 2 & 3	.81434	.73583
W. J. Clay	0.00000	.01777
Conka Production Company	.20424	.09398
Continental-Emasco Company	1.16195	.58852
Continental Oil Company	1.73554	2.06825
Crown Central Petroleum Corporation	.67790	.88783
R. DeChicchis Estate	.65945	.20523
Mrs. V. M. Donnelly	.41299	.62812
Chas. A. Dore	0.00000	.00209
Clara Dwyer Estate	.05261	.04186
F. W. Dye Estate	.18428	.28249
Elder Estate	1.31890	.41046
El Paso Natural Gas Company	0.00000	.08618
Flag-Redfern Oil Company	2.41669	1.18850
Fluor Corporation	.09902	.10012
Gackle Oil Company	1.00774	.90204
General Crude Oil Company	.31562	.25116
Getty Oil Company	.46205	.22939
Great Western Drilling Company	2.88702	2.54868
Gulf Oil Corporation	7.68827	10.87787
John H. Hendrix	.25581	.23951
Lamar Hunt	1.03064	1.51044
N. B. Hunt	2.06130	3.02090
W. H. Hunt	1.03066	1.51046
Johnson & French	.45264	.56001
Aubrey Kenyon	.05685	.05322
Michael L. Klein	.25581	.23950
F. D. & Lillian B. Jones	0.00000	.00084
C. B. King Estate	.36857	.56499
Frank D. Lortscher	0.00000	.24864
Ralph Love Estate	.74190	.57950
Management Trust Company	.30232	.27061
Blanche McCallister	.29047	.13893
R. G. McPherson	.41688	.23877
Merchants National Bank of Terre Haute	.02816	.01469
Gertrude C. Mitchell	.05260	.04186
Mobil Oil Corporation	.84166	.66977
Petroleum Corporation of Texas	.31649	.13537
W. A. Pruett	0.00000	.00104
Charles B. Read	.10421	.05969
Reserve Oil and Gas Company	.82849	.86361
Resler and Sheldon	3.93863	1.47473
Herbert J. Schmitz	0.00000	.19891
Charles T. Scott, Jr.	0.00000	.08288
Robert C. Scott	0.00000	.08288
T. J. Sivley	.19074	.38752
Skelly Oil Company	12.53466	13.36943
R. L. Summers	.16599	.08407

<u>Working Interest Owner</u>	<u>P E R C E N T</u>	
	<u>Phase I</u>	<u>Phase II</u>
Superior Oil Company	0.00000	.00648
Texaco Inc.	8.80313	10.28603
Texas Pacific Oil Company	16.89701	12.96196
J. E. Warren	.18428	.28249
Pinn Watson	.20423	.09398
Unleased Interest	<u>0.00000</u>	<u>.27556</u>
TOTAL	100.00000	100.00000

EXHIBIT " E "

Recommended by the Council of Petroleum Accountants Societies of North America. Except as modified under: Sec. I Par. 3 Sec. II Par. 3 and 5 Sec. III Par. 3B(6) and 3C Par. 2A(1) and 3A Sec. IV

Attached to and made a part of Unit Operating Agreement Myers Langlie-Mattix Unit Lea 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. "Operator" shall mean the party designated to conduct the Joint Operations. "Non-Operators" shall mean the nonoperating parties, whether one or more. "Joint Account" shall mean the account showing the charges and credits accruing because of the Joint Operations and which are to be shared by the Parties. "Parties" shall mean Operator and Non-Operators. "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. Conflict with Agreement

In the event of a conflict between the provisions of this Accounting Procedure and the provisions of the agreement to which this Accounting Procedure is attached, the provisions of the agreement shall control.

3. Collective Action by Non-Operators

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

4. Statements and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of costs and expenses, for the preceding month. Such bills will be accompanied by statements reflecting the total charges and credits as set forth under Subparagraph C below:

A. Statement in detail of all charges and credits to the Joint Account.

B. Statement of all charges and credits to the Joint Account, summarized by appropriate classifications indicative of the nature thereof.

Statement of all charges and credits to the Joint Account summarized by appropriate classifications indicative of the nature thereof, except that items of Controllable Material and unusual charges and credits shall be detailed.

Payment and Advances 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 ten per cent (10%) 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.

6. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operators 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 the Joint Property as provided for in Section VII.

7. 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 accounting hereunder 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 adjustment of accounts as provided for in Paragraph 6 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.

II. DIRECT CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the Joint Account with the following items:

1. Rentals and Royalties

Delay or other rentals and royalties when such rentals and royalties are paid by Operator for the Joint Account of the Parties.

2. Labor

A. Salaries and wages of Operator's employees directly engaged on the Joint Property in the conduct of the Joint Operations, and salaries or wages of technical employees who are temporarily assigned to and directly employed on the Joint Property.

B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to the employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III; except that in the case of those employees only a pro rata portion of whose salaries and wages are chargeable to the Joint Account under Paragraph 1 of Section III, not more than the same pro rata portion of the benefits and allowances herein provided for shall be charged to the Joint Account. Cost 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 and Paragraph 1 of Section III. If percentage assessment is used, the rate shall be based on the Operator's past experience.

EXHIBIT "P"
UNIT OPERATING AGREEMENT
MYERS LANGLIE-MATTIX UNIT
LEA COUNTY, NEW MEXICO

ASSESSMENTS

<u>Tract No.</u>	<u>Well Location</u>	<u>Lease Name and Well No.</u> <u>Working Interest Owner(s)</u>	<u>W.I. Owner(s)</u> <u>Assessment</u>
<u>SCHEDULE I</u>			
76	<u>Sec. 9-T24S-R37E</u> SE/4 NW/4	<u>Imperial Royalty No. 1</u> Ralph Clarke	\$ 6,098.00
70	<u>Sec. 8-T24S-R37E</u> NE/4 SW/4	<u>Cooper No. 1</u> Continental Oil Company	\$ 6,906.00
6	<u>Sec. 12-T24S-R36E</u> SW/4 NW/4	<u>Vaughn A-12 Fed. No. 1</u> Atlantic Richfield Company Chevron Oil Company Continental Oil Company Amoco Production Company	\$ 1,456.50 1,456.50 1,456.50 <u>1,456.50</u> \$ 5,826.00
33	<u>Sec. 36-T23S-R36E</u> SE/4 SE/4	<u>J. R. Holt B-State No. 2</u> Gulf Oil Corporation	\$ 5,872.00
12	<u>Sec. 10-T24S-R37E</u> NW/4 SE/4	<u>Mattix B Fed. No. 2</u> L. Hunt N. B. Hunt W. H. Hunt	\$ 1,473.25 2,946.50 <u>1,473.25</u> \$ 5,893.00
12	SE/4 SW/4	<u>Mattix B Fed. No. 3</u> L. Hunt N. B. Hunt W. H. Hunt	\$ 1,455.75 2,911.50 <u>1,455.75</u> \$ 5,823.00
13	<u>Sec. 10-T24S-R37E</u> SE/4 NW/4	<u>Mattix B-10 No. 1</u> L. Hunt N. B. Hunt W. H. Hunt	\$ 1,476.00 2,952.00 <u>1,476.00</u> \$ 5,904.00
44	<u>Sec. 25-T23S-R36E</u> NE/4 NE/4	<u>Carter No. 1</u> Mrs. V. M. Donnelly Reserve Oil & Gas Company	\$ 3,659.00 <u>3,659.00</u> \$ 7,318.00
80	<u>Sec. 9-T24S-R37E</u> SE/4 NE/4	<u>Lee Carter No. 1</u> Atlantic Richfield Company	\$ 6,408.00
74	<u>Sec. 9-T24S-R37E</u> SW/4 NW/4	<u>Fowler Hair No. 2</u> Atlantic Richfield Company	\$ 6,423.00
66	<u>Sec. 12-T24S-R36E</u> SE/4 SE/4	<u>Toby No. 1</u> Atlantic Richfield Company	\$ 6,448.00
32	<u>Sec. 36-T23S-R36E</u> NW/4 SE/4	<u>Mexico D No. 1</u> Skelly Oil Company	\$ 5,843.00
32	SW/4 SE/4	<u>Mexico D No. 2</u> Skelly Oil Company	\$ 5,843.00
68	<u>Sec. 7-T24S-R37E</u> SW/4 SW/4	<u>Toby No. 1</u> Skelly Oil Company	\$ 6,307.00

Exhibit "F"
 Meyers Langlie-Mattix Unit
 e Two

<u>Tract No.</u>	<u>Well Location</u>	<u>Lease Name and Well No. Working Interest Owner(s)</u>	<u>W.I. Owner(s) Assessment</u>
14	<u>Sec. 31-T23S-R37E</u> NW/4 SE/4	<u>Blinebry "A" (NCT-1) No. 1</u> Texaco Inc.	\$ 5,825.00
15	<u>Sec. 31-T23S-R37E</u> NE/4 SW/4	<u>Blinebry "B" (NCT-1) No. 3</u> Texaco Inc.	\$ 5,824.00
TOTAL			\$ 98,561.00

SCHEDULE II

27	<u>Sec. 9-T24S-R37E</u> NW/4 SW/4	<u>C. Meyers B Fed. No. 13</u> Amoco Production Company	\$ 1,642.00
28	<u>Sec. 7-T24S-R37E</u> SW/4 NE/4	<u>C. Meyers B Fed. No. 10</u> Amoco Production Company	\$ 1,240.00
28	<u>Sec. 6-T24S-R37E</u> NW/4 NE/4	<u>C. Meyers B Fed. No. 11</u> Amoco Production Company	\$ 1,266.00
47	<u>Sec. 31-T23S-R37E</u> NE/4 NE/4	<u>Cowden "C" 1-A</u> Gackle Oil Company	\$ 4,794.00
63	<u>Sec. 3-T24S-R37E</u> NW/4 SW/4	<u>S. J. Carr No. 1</u> Gulf Oil Corporation	\$ 5,642.00
35	<u>Sec. 32-T23S-R37E</u> NW/4 SW/4	<u>State JL No. 1</u> El Paso Natural Gas Company	\$ 2,939.00
3	<u>Sec. 34-T23S-R37E</u> NE/4 NW/4	<u>Blinebry B Fed. No. 3</u> Texas Pacific Oil Company	\$ 958.00

SCHEDULE III

30	<u>Sec. 35-T23S-R36E</u> SE/4 NW/4	<u>State LMT No. 2</u> Amerada Hess Corporation	\$ 15,313.00
27	<u>Sec. 4-T24S-R37E</u> SW/4 SW/4	<u>Myers B Fed. No. 2</u> Amoco Production Company	\$ 63,834.00
64	<u>Sec. 12-T24S-R36E</u> SE/4 NW/4	<u>Cooper No. 2</u> Atlantic Richfield Company	\$ 15,563.00
7	<u>Sec. 28-T23S-R37E</u> NE/4 SW/4	<u>Stuart 29 Fed. No. 2</u> Continental Oil Company	\$ 17,736.00
34	<u>Sec. 32-T23S-R37E</u> NW/4 NW/4	<u>Leonard B State No. 2</u> Great Western Drilling Company	\$ 29,075.00
58	<u>Sec. 6-T24S-R37E</u> NE/4 NW/4	<u>Carter Eaves "A" No. 1</u> Gulf Oil Corporation Cities Service Oil Company Blanche McCallister Blanche McCallister, et al	\$ 14,494.00 9,662.00 2,415.00 2,416.00 \$ 28,987.00
3	<u>Sec. 29-T23S-R37E</u> NW/4 NW/4	<u>LaMunyon Fed. No. 4</u> Gulf Oil Corporation	\$ 10,791.00
71	<u>Sec. 8-T24S-R37E</u> SW/4 SW/4	<u>Fowler Hair No. 1</u> Gulf Oil Corporation	\$ 17,768.00