Amended:

APPLICATION FOR APPROVAL OF THE SOUTHEAST VACUUM UNIT AGREEMENT
LEA COUNTY, NEW MEXICO

To the Honorable, the Oil Conservation Commission of the State of New Mexico

1. Formal application is hereby made for the approval by the Oil Conservation Commission of the Southeast Vacuum Unit Agreement, dated October 17, 1944, and subscribed by Stanolind Oil and Gas Company and The Pure Oil Company. All of the land embraced in the unit area is land of the State of New Mexico. Stanolind Oil and Gas Company is the sole lessee and owner of the 1760 acres of State leases situated within the unit area described as being held by it. The Pure Oil Company is likewise the sole leasehold owner of the 560 acres of land within the unit area described in the unit agreement as being held by it. Magnolia Petroleum Company is the owner of the State lease on the Northwest Quarter (NW/4) of Section 16 and Gulf Oil Corporation is the owner of a State lease on the West Half of the Northwest Quarter (W/2 NW/4) of Section 9. Magnolia Petroleum Company and Gulf Oil Corporation have not decided to become parties to the Unit Agreement, therefore approximately ninety-one per cent (91%) of the land embraced in or which should be embraced in the unit area has been committed to the agreement. Section 18 of the agreement makes possible the subsequent addition of these other parties to the unit agreement if they should at some subsequent time decide to become parties thereto and proper arrangements can be made therefor.

(a) This agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy in that the combination and pooling of the working interests in the several tracts embraced within this area will avoid duplicate and competitive drilling and will secure unified operation by one management. Unity of management assures uniformity in compliance with all necessary conservation practices prescribed or approved by the Oil Conservation Commission and uniformity in procedures in carrying out such practices. The State is at the same time in the position to require all necessary drilling and production to fully develop the land to the extent believed to be necessary to secure the best interest of the State.

(b) The State of New Mexico will receive its fair share of the oil and gas produced under this agreement for the reason that the State is the sole Royalty Owner in the entire unit area.

(c) All rentals and royalties will be paid to the Commissioner of Public Lands and distribution can be made by him to the several funds of the

several State Institutions to which income should be credited.

(d) The agreement fully protects, preserves and secures all statutory powers of the Oil Conservation Commission.

(e) The parties signatory thereto are the sole owners of all interests in the land committed to this agreement.

2. A complete geological map and report is tendered herewith for the confidential file of the Oil Conservation Commission. It is to be noted by Section 20 of this agreement that the term of this agreement is for five (5) years after the effective date thereof and so long thereafter as oil or gas is produced and it is asked that the term of the State leases be so extended and modified to conform to the term of this unit agreement. Application is concurrently being made to the Commissioner of Public Lands of the State of New Mexico for the approval of this agreement. There is filed herewith an original executed copy of this agreement and a photostatic copy thereof.

Herewith the applicant respectfully requests that notice be given and hearing be held and that the Oil Conservation Commission approve this agreement.

Respectfully submitted,

STANOLIND OIL AND GAS COMPANY

By R. E. Nelson Jr.

STATE OF OKLAHOMA)
) SS:
COUNTY OF TULSA)

R. E. NELSON, JR., of lawful age, being duly sworn, on oath deposes and says that he is the Supervisor of Unitization of Stanolind Oil and Gas Company; that he has read the foregoing application and knows the contents thereof and states that the matters and things therein set forth are true to the best of his information and belief.

R. E. Nelson Jr.

Subscribed and sworn to before me this 31st day of November, A. D., 1944.

My commission expires MY COMMISSION EXPIRES MAY 24, 1948

Virginia B. Herman
Notary Public

LARGE FORMAT EXHIBIT HAS BEEN REMOVED AND IS LOCATED IN THE NEXT FILE

THIS CONTRACT, made this 17th day of October, A.D. 1944, by and between STANOLIND OIL AND GAS COMPANY, a corporation, hereinafter called "Stanolind", and THE PURE OIL COMPANY, a corporation, hereinafter called "Pure";

W I T N E S S E T H:

WHEREAS, Pure is the owner of valid and subsisting oil and gas leases covering lands of the State of New Mexico described as follows:

> The South Half (S/2) of Section Eight (8), and the East Half of the Northwest Quarter (E/2 NW/4), and the Southwest Quarter (SW/4) of Section Nine (9), Township Eighteen (18) South, Range Thirty-six (36) East, Lea County, New Mexico; embracing 560 acres, more or less; and

WHEREAS, Stanolind is the holder of valid and subsisting oil and gas leases covering lands of the State of New Mexico described as follows:

> The North Half (N/2) of Section Eight (8), and the East Half (E/2) of Section Nine (9), and the East Half (E/2) and the Southwest Quarter (SW/4) of Section Sixteen (16), and all of Section Seventeen (17) Township and Range aforesaid, embracing 1760 acres, more or less; and

WHEREAS, the parties hereto desire to unitize said lands under the provisions of the laws of New Mexico, therefor.

NOW, THEREFORE, in consideration of the mutual promises herein contained, the parties hereto do expressly agree as follows:

1. LAWS: This agreement is made subject to Chapter Sixty Nine, New Mexico Statutes Annotated, 1941, and Chapter Eighty-eight of the New Mexico Session Laws of 1943, and the regulations made thereunder.

2. UNITIZED SUBSTANCES: All deposits of oil, gas, casinghead gasoline, and kindred substances in and under and that

may be produced from the above described lands are hereby unitized under the provisions of this agreement.

3. UNIT OPERATOR: Stanolind is hereby designated as Unit Operator hereunder, and all references herein made to the Operator shall refer to Stanolind acting in that capacity, and all references herein to Working Interest Owners shall refer to both parties hereto in that capacity. The Operator is hereby granted the right of possession of all of the above described land for the purpose of operating the same under the terms and conditions of this agreement and of the underlying leases, and except as below provided, shall have the control and management of the operations under this agreement. There shall be no cross-assignment of leasehold titles or estates. All operations conducted hereunder shall be in conformity with law and all valid regulations and lawful orders issued thereunder. In the event that Stanolind resigns as unit operator or disposes of all of its working interest Pure shall have the first right and option upon Fifteen (15) days notice to become the unit operator. In the event that Pure fails to elect to become the unit operator within said time then the working interest owners shall designate a new operator. As soon as the new operator shall take over operations, but in no event later than Sixty (60) days after the resignation of Stanolind, Stanolind shall be relieved of the duties and obligations as operator hereunder.

4. LIMITATIONS UPON OPERATOR: Operator shall not do any of the following things without the consent of both Working Interest Owners:

a. Locate or drill, either with its own tools or through the agency of a drilling contractor, any well or wells, except as provided in Section 11 hereof, provided that consent to

drill any well shall be full authority to make all necessary expenditures to drill, complete, and equip the same including any necessary lease tankage;

b. Make any other proposed expenditure in excess of $5,000.00;

c. Adopt any secondary recovery method or make any other radical change in the method of operation;

d. Abandon any well or wells;

e. Dispose of any major items of surplus materials;

f. Admit additional lands to participation hereunder, but Operator may admit such lands on such consent and on consent of the Oil Conservation Commission.

The Operator shall carry such workmen's compensation and other insurance as the Working Interest Owners shall prescribe.

In addition thereto the Working Interest Owners shall have the right to advise and consult with the Operator generally with respect to the conduct of said operations.

5. TEST WELL: Within three months after this plan has been executed by the parties hereto and approved by the Commissioner of Public Lands of New Mexico and by the Oil Conservation Commission of New Mexico, Operator will commence operations for a test well upon the approximate center of the Northeast Quarter of the Northeast Quarter (NE/4 NE/4) of Section Seventeen (17) aforesaid, and will thereafter commence and prosecute the drilling of said well with reasonable diligence to a depth of 8500 feet unless oil or gas in paying quantities, water in the San Andres formation, or granite or other impenetrable substance is encountered at a lesser depth.

6. COST OF OPERATIONS: The cost of all operations for exploring and testing the land for oil, gas and kindred substances, and producing, storing and marketing the same shall be advanced and paid by the Operator and charged to the Working Interest Owners in proportion as the number of acres contributed to this contract by each bears to the total number of acres subject to this contract. The manner of making and collecting such charges and other details respecting said operations shall be handled as provided in the Accounting Procedure attached hereto and marked Exhibit "A". Reference therein to the "Non-Operators" shall be deemed to refer to the Working Interest Owners in their capacity as such.

7. EFFECT OF UNITIZATION: The parties, by their execution hereof, and the State of New Mexico, by the approval hereof by the Commissioner of Public Lands and the Oil Conservation Commission, agree and consent that all leases to the extent that they apply to the lands embraced in this contract shall be deemed to be and constitute one lease; that the term of all of said leases is hereby extended to conform to the term of this unit contract; that the terms and conditions of each of said leases are hereby modified to the extent necessary to make the same conform to the provisions hereof, but otherwise each lease shall be and remain in full force and effect, and that drilling and production on any lease shall be deemed to be and constitute drilling and production on all leases within the meaning of such lease.

8. ALLOCATION OF PRODUCTION: The parties, by their execution hereof, and the State of New Mexico, by the approval hereof by the Commissioner of Public Lands and the Oil Conservation Commission, agree and consent that the production from all wells drilled on the above described land except that used by the Operator for development, operating and camp purposes on the unit area, shall be allocated to each lease in proportion as the number of acres committed to this agreement out of each lease bears to the total acreage committed thereto.

9. ROYALTIES AND RENTALS: The State of New Mexico, by

the approval hereof by the Commissioner of Public Lands and the Oil Conservation Commission, agrees and consents that royalties shall be paid at lease rates upon the production allocated to each lease above set out instead of upon the production taken from wells drilled on the individual lease; that unitized substances produced hereunder and injected into any formation for cycling or repressuring operations hereunder shall be free from royalty charge; that if Operator injects gas obtained from outside sources into any formation for repressuring, stimulation of production, or increasing ultimate recovery in its operations hereunder, a like amount of gas may be withdrawn from the formation royalty free as to dry gas but not as to the products extracted therefrom, provided such program is approved by the Oil Conservation Commission. Operator shall pay for the account of the Working Interest Owners all royalties due the State of New Mexico under the terms of the several leases as modified hereby. Each party hereto shall pay and bear all rentals due under its leases.

10. DISPOSAL OF PRODUCTION: Each party hereto shall always have the right at any time upon Thirty (30) days advance notice to the Operator to receive its allocated share of the production in kind, after deduction of the state royalty, and separately dispose thereof, provided that the party shall provide all facilities necessary for such deliveries in kind and pay all additional cost occasioned in making separate delivery. Otherwise the Operator shall have the right to sell and dispose of said production, or to purchase the same for its own account at not less than the prevailing field market price. Operator shall make settlement with the Working Interest Owners in cash for their respective shares of the proceeds of sale not later than the last day of each month for the production sold during the preceding calendar month, and shall accompany said payment with a statement as to the quantity and value of such production.

11. OPTION AS TO DRILLING: After the drilling of the first well hereinabove provided for, in the event any Working Interest Owner should refuse to consent to the drilling of any subsequent well upon the above described land within Ten (10)

days after receiving notice from the Operator or the other Working Interest Owners of the location at which and the depth to which it is desired that such well be drilled, then the Working Interest Owner desiring to drill such well shall have the right to drill the same at its sole cost and expense, and any non-consenting Working Interest Owner shall be relieved from contributing to the cost, expense and risk of the drilling of such well. If such well is non-productive it shall be abandoned at the sole cost and expense of the Working Interest Owner who drilled it. If said well is a producer, the party who drilled the well shall have the right to continue to operate the well for its own special account and at its own risk and expense, and to appropriate the entire working interest share of the non-participating party therefrom until the producing party shall have recovered therefrom one-and-one-half times what otherwise would have been the share of the non-participating party in the cost of drilling and equipping the well had he participated in the drilling of the well in the first instance, plus the non-participating party's full share of the cost of operating the well to date of reimbursement. Upon such reimbursement having been obtained by the drilling party out of the above described part of the production the operation of said well shall be turned over to the Operator and the well shall thereafter be operated for the joint account of the parties hereto, and all physical equipment for which reimbursement has been obtained shall become the property of the parties hereto, proportionate to their interest.

12. TITLES: Each party has submitted to the other satisfactory evidence of title to its leasehold interest in the above described lands respectively owned by each upon the basis of which evidence the interest of said parties hereunder is hereby and shall remain fixed.

13. ASSIGNMENT: No assignment or other transfer shall be made by either party of less than the full and undivided working interest and leasehold title of the party in all land committed by said party hereto, or less than the entire interest of the party derived by, through, and under this contract without the written consent of the other party first had and obtained. In the event any Working Interest Owner desires to sell all or any part of his interest in the lands covered hereby, the other Working Interest Owner hereto shall have a preferential right to purchase the same; provided either party may assign or transfer its interest hereunder and in the lands above described to a subsidiary or parent company of such party without regard to the provisions of this section. In such event the selling party shall promptly communicate to the other Working Interest Owner the offer received by it from a purchaser ready, willing, and able to purchase the same, together with the name and address of such purchaser, and the other Working Interest Owner shall thereupon have an option for a period of Ten (10) days after receipt of said notice to purchase said interest at the same price as that offered by the outside purchaser.

Except as hereinabove expressly provided, the covenants herein contained shall be deemed to run with the land and shall inure to the benefit of and be binding upon the successors and assigns of the parties hereto.

14. SURRENDER: Either party hereto desiring to surrender all or any portion of any lease or leases committed to this agreement as to which there is at that time no existing drilling or other obligation which accrued after the date of the execution of this agreement, shall give to the other Working Interest Owner Thirty (30) days notice of such intention; in which event such other Working Interest Owner shall within Thirty (30) days from the date of the giving of such notice

consent to the release of such lease or leases or portion thereof, or shall within such Thirty (30) day period advise such notifying party of its refusal to consent to the surrender of such lease or leases or portion thereof. In the event the party so notified refuses to consent to such surrender, then the notifying party shall forthwith execute and deliver to such other party an assignment of such lease or leases or portion thereof covered by such notice, and notifying party shall be promptly paid at the then salvage value for its proportionate share of all salvable casing and other material and equipment located on that portion of the leased premises covered by such assignment. That portion of any lease or leases which is released or assigned as in this paragraph provided shall from and after the date of such release or assignment be excluded from the operation of this agreement to the same extent as though it had never been included.

15. TERMINATION: At any time after the completion of the first test well provided for herein, this agreement may be terminated by mutual agreement of the parties hereto upon notice being served on the Commissioner of Public Lands and the Oil Conservation Commission. On the termination of this agreement all leases shall revert to the status which they then would otherwise have occupied had this unit agreement not been entered into. In the event this contract is terminated under the provisions of this section, or upon the expiration of the term hereof as provided in Section 20, an accounting with respect to the material, equipment, structures and facilities used in and about the joint operation shall be had between the Working Interest Owners and disposition thereof shall be made as provided in the Accounting Procedure hereto attached.

16. SEVERAL LIABILITY: The obligations of the parties hereto shall be deemed to be several and not joint. The

relationship of the parties hereto shall not be construed to be and constitute a partnership.

17. WAR EMERGENCY: The Operator shall incur no forfeiture, penalty or other liability on account of any default committed by it in the performance of this contract or the underlying leases, so long and to the extent that performance is prevented by any act of duly constituted public authority, or by war, insurrection, strike, riot, act of God, or other cause beyond the control of the Operator.

18. SUBSEQUENT JOINDER: The owners or operators of State Leases on the W/2 NW/4 Section 9 and the NW/4 Section 16, Township 18-S, Range 36-E, Lea County, New Mexico, who have not executed the plan prior to the effective date hereof may be permitted, at a later date, to become parties to this contract upon obtaining the consent of the Working Interest Owners who are then parties hereto and upon making satisfactory reimbursement to such Working Interest Owners for their respective share in cost and risk of past development, proportionate to the interest in production which they will thereafter acquire by becoming a party hereto. In the event that one or more additional persons become parties hereto, an operating committee shall be appointed consisting of a representative of each Working Interest Owner who shall have voting power proportionate to the representation of his principal. Operator's representative shall be chairman of the committee and the committee may arrange for regular or special meetings or the Operator may poll the committee for its vote on any question in the absence of a meeting. The majority vote shall govern the action of the committee unless any party holds the majority of interest, in which event his representative's vote shall require the concurrence of

one other representative to constitute the majority vote. In the event of the appointment of a committee, the functions of the parties hereto set out in Sections 4 and 15 hereof shall be exercised by the Operating Committee and the other provisions of this contract shall automatically be modified to the extent necessary to conform hereto.

19. TAXES: Operator shall render, for ad valorem tax purposes, the entire leasehold rights and interests covered by this contract and all physical property located thereon or used in connection therewith, or such part thereof as may be subject to ad valorem taxation under existing laws, or which may be made subject to taxation under future laws, and shall pay, for the benefit of the joint account, all such ad valorem taxes at the time and in the manner required by law which may be assessed upon or against all or any portion of such leasehold rights and interests and the physical property located thereon or used in connection therewith. Operator shall bill each Working Interest Owner for its proportionate share of such tax payments as provided by the Accounting Procedure hereto attached.

In the event any taxable valuation is assessed upon or against said property or any portion thereof, which Operator deems to be unreasonable, it shall be the duty of Operator to protest said taxable valuation within the time and manner as prescribed by law, and prosecute such protest to a final determination unless the parties agree to abandon such protest prior to final determination. When any such protested valuation of such property shall have been determined, Operator shall pay, for the joint account, the taxes thereon, together with any interest or penalty accrued by reason of such protest, and bill each Working Interest Owner for its proportionate share of such payments in accordance with the Accounting Procedure hereto attached.

20. TERM: This contract shall become effective on the first day of the calendar month next ensuing after it has been executed by the parties hereto and approved by the Commissioner of Public Lands and the Oil Conservation Commission, and, unless sooner terminated as provided in Section 15, shall endure for the term of five (5) years from and after the effective date thereof, and so long thereafter as oil, gas, casinghead gas or gasoline or kindred hydrocarbon substances shall be produced from any part of the unit area; provided that this unit contract shall not terminate on account of any temporary suspension of production caused by well accidents or other causes over which the Operator has no control, or on account of any temporary suspension granted by the Commissioner of Public Lands or by the Oil Conservation Commission.

IN WITNESS WHEREOF the parties hereto have executed this contract the day and year first above written.

WITNESS:

_____

STANOLIND OIL AND GAS COMPANY

By E. T. Bullard
Vice President

ATTEST:

Assistant Secretary

APPROVED
NOV ala
KWS
4-6-39
Lyle
935

WITNESS:
H. W. Buckhaus

THE PURE OIL COMPANY

By
Manager Texas Producing Division

ATTEST:

Assistant Secretary

STATE OF OKLAHOMA }
} SS
COUNTY OF TULSA }

On this 31st day of October, A.D. 1944, before me appeared E. F. BULLARD, to me personally known who, being by my duly sworn, did say that he is Vice President of STANOLIND OIL AND GAS COMPANY, and that the seal affixed to said instrument is the company seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation, by authority of its Board of Directors, and the said E. F. BULLARD acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Notarial Seal the day and year first above written.

My commission expires MY COMMISSION EXPIRES MAY 24, 1948

Virginia B. Keenan
Notary Public

STATE OF TEXAS }
TARRANT COUNTY } SS:

On this 17th day of October, A.D., 1944, before me appeared R. W. McILVAIN, JR., to me personally known who, being by me duly sworn, did say that he is Manager Texas Producing Division of THE PURE OIL COMPANY, and that the seal affixed to said instrument is the company seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation, by authority of its Board of Directors, and the said R. W. McILVAIN, JR. acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Notarial Seal the day and year first above written.

My commission expires June 14, 1945.

A. W. Bradshaw
Notary Public

APPROVED THIS ____ DAY OF _____,
A.D., 1944

_____
COMMISSIONER OF PUBLIC LANDS OF
THE STATE OF NEW MEXICO

APPROVED THIS ____ DAY OF _____,
A.D., 1944

THE OIL CONSERVATION COMMISSION OF
THE STATE OF NEW MEXICO

By_____

FORM 260—2-39

EXHIBIT "A"

ACCOUNTING PROCEDURE

The Operator shall bill the Non-Operators on or before the last day of each month for their proportionate share of costs and expenditures less proper credits for any miscellaneous income received for the joint account during the preceding calendar month. Itemized statements shall accompany such bills. Operator's monthly billing to each Non-Operator shall reflect credit for any amounts advanced to cover development and operating costs for that particular calendar month; and if the amount advanced was in excess of the actual expenditure made, Operator's billing shall be accompanied by check to refund the credit balance reflected. If actual expenditures exceed the amount advanced, each party shall pay its proportionate share of such deficit within fifteen days after the receipt of billing. If payment is not made within such time, the unpaid balance shall bear interest at the rate of 6 per cent per annum until paid. Payment of any such bill shall not prejudice the right of any party to protest or question the correctness thereof.

Operator shall have and be entitled to a prior lien on all the rights and interests of Non-Operator in said lease, the production therefrom, and the material and equipment thereon, to secure the payment by Non-Operator of his proportion of costs, charges and expenses of developing and operating the joint lease as herein provided.

Operator shall furnish Non-Operator with copies of well logs of each well drilled on the joint lease; and on request, Non-Operator shall be furnished samples of cuttings from the formations drilled.

Non-Operator shall have access to the joint lease premises, and to all books and records pertaining to said joint operation for the purpose of inspection at all reasonable times.

The joint account shall not be charged with any expenditures or contributions made by the Operator toward an employees' stock purchase, group life insurance, pension, retirement, bonus, or other employees' benefit plan, except such expenditures or contributions as are imposed or required by Governmental authority.

I.—DEVELOPMENT AND OPERATING CHARGES:

Operator shall charge the joint lease account with the following items:

(1) Delay rentals, when such rentals are paid by the Operator for the joint lease account. Royalties, when not to be paid direct to Royalty Owners by the purchasers of the oil, gas, casinghead gas or other products of the lease.

(2) Labor, teaming, and other services necessary for the development, maintenance and operation of the property.

(3) Materials, equipment and supplies purchased, and/or furnished by Operator from its warehouse stocks or from its other leases for use on the joint lease. Insofar as is reasonably practical and consistent with efficient and economical operation, only such materials shall be purchased for or transferred to the joint lease as are required for immediate use, and the accumulation of warehouse and/or lease stock on the joint property shall be avoided.

(4) Moving material to the joint lease from Vendor's or from Operator's warehouse in the district, or from other leases of Operator; but in either of the last events, the distance charged to the joint lease shall not exceed the distance from the nearest reliable supply store or railway receiving point, except by special agreement with Non-Operator.

(5) Moving surplus materials from the joint lease to outside Vendees, if sold f.o.b. destination, or minor returns to Operator's warehouse; but charge against the joint lease account for moving major surplus materials to Operator's warehouse, shall not exceed the cost of moving such material to the nearest reliable supply store or railway receiving point, except by special agreement with Non-Operator; and no charge shall be made to joint lease account for moving materials to other leases belonging to Operator, except by special agreement with Non-Operator.

(6) Use of and service by Operator's exclusively owned equipment and utilities at rates not exceeding those prevailing in the district where the joint lease is located unless definitely stated under Section II, "Basis of Charges to Joint Account."

(7) Damages or losses incurred by fire, flood, storm or other accidental or natural causes.

(8) All costs and expenses of litigation, or legal services otherwise, necessary or expedient for the protection of the joint interests, including attorney's fees and expenses as hereinafter provided, together with all judgments obtained against the joint account or the subject matter of this agreement; actual expenses incurred by any party or parties hereto in securing evidence for the purpose of defending against any action or claim prosecuted or urged against the joint account or the subject matter of this agreement.

(a) If a majority of the interests hereunder shall so agree, actions or claims affecting the joint interests hereunder, may be handled by the legal staff of one or more of the parties hereto, and a charge commensurate with the services rendered may be made against the joint lease account, but no such charge shall be made until approved by the legal department of or attorneys for the respective parties hereto.

(b) Fees and expenses of outside attorneys shall not be charged to the joint lease account unless authorized by a vote of the majority of the interests hereunder.

(9) All taxes of every kind and nature (except income taxes, and except gross production taxes not required by law to be paid by the Operator) assessed upon or in connection with the properties which are the subject of this agreement, the production therefrom or the operation thereof, and which taxes have been paid by the operator. ~~Upon timely notice given by any Non-Operator, the Operator shall, on behalf of the Non-Operator giving such notice, protest the payment of such Non-Operator's share of any such tax or taxes so paid, but Operator shall have no further obligation with respect to such protested tax payment.~~

(10) Premiums for workmen's compensation, contractor's public liability and employers' liability insurance on the joint lease operations, and/or public liability and property damage insurance on jointly owned automotive equipment operated for the joint lease, if any such insurance carried or required to be carried for the joint account; together with all expenditures incurred and paid in settlement of claims or judgments, not recovered from the insurance carrier to fully discharge all liability of Operator ensuing from an accident occuring on or in connection with operations for the benefit of the joint lease.

(11) If no insurance is carried or required to be carried on any or all of the above or other risks, all actual expenditures incurred and paid by the Operator in settlement of any and all losses, claims, damages, judgments, and any other expenses including legal services shall be charged to the joint lease account.

(12) A proportionate share of the salaries and expenses of Operator's District Superintendent and other general District Employees serving the lease, whose time is not allocated directly to the lease, and a proportionate share of maintaining and operating a District Office in conducting the management of operations on the joint lease and other leases owned and operated by Operator in the same locality, such charges to be apportioned to all leases served in the ratios of direct labor payroll charges, numbers of wells, or on some other equitable basis consistent with Operator's accounting practice.

(13) Camp Expense: The expense of providing and maintaining on or in the vicinity of the joint lease all necessary camps, housing facilities for employees, and boarding employees, if necessary. When leases other than the joint lease are served by these facilities, then an equitable distribution of expense including depreciation, or a fair monthly rental in lieu of the investment, maintenance and operating cost of buildings and camp equipment, shall be prorated against all leases served.

(14) Handling Charges: To cover the cost of handling material into and in the warehouse, a handling charge not in excess of 5% of the net cost of the material, new or second-hand, placed upon the lease from the Operator's warehouse may be assessed against the joint account; except that,

(a) On new tubular goods (2" and over), tanks, derricks, boilers, engines, compressors, pumps, and other major items of equipment, no handling charge shall be assessed against the joint account;

(b) On second-hand tubular goods (2" and over), tanks, derricks, boilers, engines, compressors, pumps, and other major items of equipment, a handling charge not in excess of 2½% of the net cost may be assessed against the joint account.

15) Overhead charges, which shall be in lieu of any charges for any part of the compensation or salaries paid to managing officers and employees of the Operator, including the division superintendent, the entire staff and expenses of the division office, and any portion of the office expense of the principal business office of the Operator, but are not in lieu of district or field office expenses incurred in developing and operating any such properties, or any other expenses of the Operator incurred in the development and operation of said leases; and the Operator shall have the right to assess against the properties covered hereby, the following overhead charges:

(a) $100.00 per well per month for each drilling well, beginning on the date the well is spudded and terminating when it is on production or is plugged, as the case may be; except that no charge shall be made during suspension of drilling operations for 15 or more consecutive days.

(b) $ 25.00 per well per month for the first 5 producing wells.

(c) $ 15.00 per well per month for the second 5 producing wells.

(d) $ 10.00 per well per month for all producing wells over 10.

The above overhead schedule on producing wells shall be applied to individual leases; provided that where leases covered by this agreement are operated as a unitized project in the interest of economic development the schedule shall be applied to the total number of wells irrespective of individual leases.

In connection with overhead charges, the status of wells shall be as follows:

In-put or key wells shall be included in overhead schedule the same as producing oil wells.

Salt water disposal wells shall not be included in overhead schedule.

Producing gas wells shall be included in overhead schedule the same as producing oil wells.

Wells permanently shut down but on which plugging operations are deferred, shall be dropped from overhead schedule at the time the shutdown is effected. When such wells are plugged, overhead shall be charged at the producing well rate during time required for the plugging operation.

Wells being plugged back or drilled deeper shall be included in overhead schedule the same as drilling wells.

Various wells may be shut down temporarily and later replaced on production. If and when a well is shut down and not produced or worked upon for a period of a full calendar month, it shall not be included on the overhead schedule for such month.

The above specific overhead rates may be amended from time to time by agreement between Operator and Non-Operator if, in practice, they are found to be insufficient or excessive.

(16) Any other items of cost and expense incurred by Operator for the necessary and proper development, equipment and operation of the joint lease.

II.—BASIS OF CHARGES TO JOINT ACCOUNT:

(1) Outside Purchases: All materials and equipment purchased and all service procured from outside sources will be charged at their actual cost to Operator after deducting any and all trade and/or cash discounts actually allowed off invoices or received by Operator.

(2) New Materials furnished by Operator (Condition "A").

New Materials transferred to lease from Operator's warehouse or other leases shall be priced f.o.b. the nearest supply store or railway receiving point, at replacement cost of the same kind of materials. This will include large equipment such as tanks, rigs, pumps, boilers and engines. All tubular goods (2" and over) will be charged on the basis of mill-shipment, or carload price. Other materials, where the replacement cost cannot be readily ascertained, may, for the purpose of consistency and convenience, be charged on the basis of a reputable Supply Company's Preferential List Price, f.o.b. nearest supply store or railway receiving point to the lease, prevailing on the date of transfer of the materials to the lease. Cash discounts shall not be included in calculating cost prices of such transferred materials.

(3) Second-Hand Materials furnished by Operator (Condition "B" and "C").

(a) Tubular goods (2" and over), fittings, registered machinery, and other equipment which is in sound and serviceable condition at date of transfer, will be classed as Condition "B" and charged at 75% of the price of new materials, in accordance with the provisions of Paragraph (2) above.

(b) Tanks, derricks, and buildings or other equipment involving erection costs on the joint lease, will be charged on a basis not to exceed 75% of knocked-down new price for similar materials.

(c) Other materials and supplies, hardware, building materials, and similar items, in sound, serviceable condition, will be classed as condition "B" and charged at 75% of the price of new materials, in accordance with the provisions of paragraph (2) above.

(d) Other second-hand materials, such as units of machinery or other equipment that is serviceable, but substantially not good enough to be considered first-class second-hand material when transferred to the lease, will be classed as Condition "C" and charged at 50% of new price.

(e) There may also be cases when some items of equipment, due to their unusual condition, should be arbitrarily priced at an appraised figure.

(4) Warranty of Materials Furnished by Operator: Operator does not warrant the materials furnished by it from its warehouse or other leases beyond or back of the dealer's or manufacturer's guaranty; and in case of defective materials, credit shall not be passed until adjustment has been received by it from the manufacturers or their agents.

(5) Operator's Exclusively Owned Facilities: The following rates shall apply to service rendered to the lease by facilities owned exclusively by Operator:

(a) Water service, fuel gas, teaming, power, and compressor service: At rates commensurate with the cost of providing and furnishing such service to the joint lease, but not exceeding rates currently prevailing in the field where the joint lease is located.

(b) Automotive Equipment: At rates commensurate with cost of ownership and operation and in line with schedule of rates adopted as recommended uniform standardized charges against joint lease account and revised from time to time by the Petroleum Motor Transport Association. Automotive rates shall include cost of oil, gas, repairs and other operating expenses and depreciation, and charges shall be based on use in actual service on, or in connection with, the joint lease operations.

(c) Automotive Well Servicing Units: In the event automotive well servicing units are furnished complete with tools and equipment, the rate charged shall be determined in keeping with the cost of ownership, operation, maintenance and depreciation of same.

(d) A fair rate shall be charged for the use of drilling and cleaning out tools and any other items of Operator's fully owned machinery or equipment which shall be ample to cover maintenance, repairs, depreciation, and the service furnished the joint lease.

(e) Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

III.—DISPOSAL OF LEASE EQUIPMENT AND MATERIALS:

The Operator shall be under no obligation to purchase interest of Non-Operator in surplus new or second-hand materials or equipment on the joint lease. Upon request of Operator, Non-Operator shall participate in a division in kind. Rigs, tanks, buildings and other major items of surplus equipment shall not be removed by Operator to its full interest warehouse or lease without the approval of Non-Operator. Operator shall not sell major items of jointly owned equipment to a third party without giving Non-Operator an opportunity either to purchase same at the price offered or to take its share of equipment in kind.

(1) Materials purchased by Operator shall be credited by it to the joint lease account and included in the monthly statement of operations for the month in which the materials are removed from the lease.

(2) Materials purchased by Non-Operator shall be invoiced by Operator, and paid for by Non-Operator to Operator immediately following receipt of invoice and delivery of materials. The Operator will thereupon immediately pass credit to the joint lease account and include same in the monthly statement of operations for the month in which the materials were paid for by Non-Operator.

(3) Division of materials in kind, if made between Operator and Non-Operator shall be in proportion to their respective interests in the joint lease. Each party will thereupon be charged individually with the value of the materials received or receivable by it, and corresponding credits will be made to the joint lease account by Operator, and both credits shall appear in the same monthly operating statement.

(4) Sales to outsiders of materials or equipment from the joint lease shall be credited by Operator to the joint lease account at the full amount collected by him from Vendee. Any claims by Vendee for defective materials or otherwise shall be charged back to the joint lease account.

IV.—BASIS OF PRICING MATERIALS TRANSFERRED FROM JOINT LEASE:

Materials and equipment purchased by either Operator or Non-Operator, or divided in kind between them, unless otherwise agreed, shall be valued on the following basis of condition and price. (New price as used in the following paragraphs shall have the same meaning and application as that used above in numbered Paragraph (2) under "Basis of Charges to Joint Account" for materials furnished by Operator.)

(1) New Materials: (Condition "A") being new equipment or supplies purchased or procured for the lease, but never used thereon; at 100% of current new prices.

(2) Good Second-Hand Materials: (Condition "B") being good serviceable materials which are further usable without repair, at: (a) 75% of current new prices, if they were originally new materials when charged to the lease:

(b) 75% of current new prices less 25% depreciation for their usage on and service to the joint lease, if materials were originally charged to the lease as second-hand at 75% of new prices.

(3) Other Used Materials: (Condition "C") being materials further usable for their original function only after repair and reconditioning; at 50% of current new prices.

(4) Bad Order Materials: (Condition "D") being materials not further usable for their original function, but for possible other service; at 25% of current new prices.

(5) Junk: (Condition "E") being obsolete and unserviceable materials; at prevailing junk prices in the district. Where practicable, junk will be disposed of at the lease.

(6) Temporarily Used Materials: When the use of certain items of equipment on the joint lease was only temporary, and the time of actual use thereon does not justify the deduction of depreciation as listed in Paragraph (2-b), such materials will be priced on a basis that will leave a net charge against the lease account consistent with the service rendered and adequate for the time the materials were in use.

V.—INVENTORIES:

(1) Periodic inventories shall be taken by Operator of the materials and equipment on the joint lease, which shall include such materials and equipment as are ordinarily considered controllable by operators of oil and gas properties.

(2) Notice of intention to take inventory shall be given by Operator to Non-Operator a week before any inventory is to begin, so that Non-Operator may be represented when any inventory is taken.

(3) Failure of Non-Operator to be represented at the physical inventory shall bind him to accept the inventory taken by Operator who shall in that event furnish Non-Operator with a copy thereof.

(4) Reconciliation of inventory with charges to the joint lease acount shall be made by each party at interest, and a list of overages and shortages shall be jointly determined by Operator and Non-Operator.

(5) Inventory adjustments shall be made by Operator on the Joint lease account for overages and shortages, but Operator shall only be held accountable to Non-Operator for shortages due to lack of reasonable diligence.

OK
T.E.

THIS CONTRACT, made this 17th day of October, A.D. 1944, by and between STANOLIND OIL AND GAS COMPANY, a corporation, hereinafter called "Stanolind", and THE PURE OIL COMPANY, a corporation, hereinafter called "Pure";

W I T N E S S E T H:

WHEREAS, Pure is the owner of valid and subsisting oil and gas leases covering lands of the State of New Mexico described as follows:

> The South Half (S/2) of Section Eight (8), and the East Half of the Northwest Quarter (E/2 NW/4), and the Southwest Quarter (SW/4) of Section Nine (9), Township Eighteen (18) South, Range Thirty-six (36) East, Lea County, New Mexico; embracing 560 acres, more or less; and

WHEREAS, Stanolind is the holder of valid and subsisting oil and gas leases covering lands of the State of New Mexico described as follows:

> The North Half (N/2) of Section Eight (8), and the East Half (E/2) of Section Nine (9), and the East Half (E/2) and the Southwest Quarter (SW/4) of Section Sixteen (16), and all of Section Seventeen (17) Township and Range aforesaid, embracing 1760 acres, more or less; and

WHEREAS, the parties hereto desire to unitize said lands under the provisions of the laws of New Mexico, therefor.

NOW, THEREFORE, in consideration of the mutual promises herein contained, the parties hereto do expressly agree as follows:

1. LAWS: This agreement is made subject to Chapter Sixty Nine, New Mexico Statutes Annotated, 1941, and Chapter Eighty-eight of the New Mexico Session Laws of 1943, and the regulations made thereunder.

2. UNITIZED SUBSTANCES: All deposits of oil, gas, casinghead gasoline, and kindred substances in and under and that

may be produced from the above described lands are hereby unitized under the provisions of this agreement.

3. UNIT OPERATOR: Stanolind is hereby designated as Unit Operator hereunder, and all references herein made to the Operator shall refer to Stanolind acting in that capacity, and all references herein to Working Interest Owners shall refer to both parties hereto in that capacity. The Operator is hereby granted the right of possession of all of the above described land for the purpose of operating the same under the terms and conditions of this agreement and of the underlying leases, and except as below provided, shall have the control and management of the operations under this agreement. There shall be no cross-assignment of leasehold titles or estates. All operations conducted hereunder shall be in conformity with law and all valid regulations and lawful orders issued thereunder. In the event that Stanolind resigns as unit operator or disposes of all of its working interest Pure shall have the first right and option upon Fifteen (15) days notice to become the unit operator. In the event that Pure fails to elect to become the unit operator within said time then the working interest owners shall designate a new operator. As soon as the new operator shall take over operations, but in no event later than Sixty (60) days after the resignation of Stanolind, Stanolind shall be relieved of the duties and obligations as operator hereunder.

4. LIMITATIONS UPON OPERATOR: Operator shall not do any of the following things without the consent of both Working Interest Owners:

a. Locate or drill, either with its own tools or through the agency of a drilling contractor, any well or wells, except as provided in Section 11 hereof, provided that consent to

drill any well shall be full authority [illegible] make all necessary expenditures to drill, complete, and equip the same including the necessary lease tankage;

b. Make any other proposed expenditure in excess of $5,000.00;

c. Adopt any secondary recovery method or make any other radical change in the method of operation;

d. Abandon any well or wells;

e. Dispose of any major items of surplus materials;

f. Admit additional lands to participation hereunder, but Operator may admit such lands on such consent and on consent of the Oil Conservation Commission.

The Operator shall carry such workmen's compensation and other insurance as the Working Interest Owners shall prescribe.

In addition thereto the Working Interest Owners shall have the right to advise and consult with the Operator generally with respect to the conduct of said operations.

5. TEST WELL: Within three months after this plan has been executed by the parties hereto and approved by the Commissioner of Public Lands of New Mexico and by the Oil Conservation Commission of New Mexico, Operator will commence operations for a test well upon the approximate center of the Northeast Quarter of the Northeast Quarter (NE/4 NE/4) of Section Seventeen (17) aforesaid, and will thereafter commence and prosecute the drilling of said well with reasonable diligence to a depth of 5500 feet unless oil or gas in paying quantities, water in the San Andres formation, or granite or other impenetrable substance is encountered at a lesser depth.

6. COST OF OPERATIONS: The cost of all operations for exploring and testing the land for oil, gas and kindred substances, and producing, storing and marketing the same shall be advanced and paid by the Operator and charged to the Working Interest Owners in proportion as the number of acres contributed to this contract by each bears to the total number of acres subject to this contract. The manner of making and collecting such charges and other details respecting said operations shall be handled as provided in the Accounting Procedure attached hereto and marked Exhibit "B". Reference therein to the "Non-Operators" shall be deemed to refer to the Working Interest Owners in their capacity as such.

7. EFFECT OF UNITIZATION: The parties, by their execution hereof, and the State of New Mexico, by the approval hereof by the Commissioner of Public Lands and the Oil Conservation Commission, agree and consent that all leases to the extent that they apply to the lands embraced in this contract shall be deemed to be and constitute one lease; that the term of all of said leases is hereby extended to conform to the term of this unit contract; that the terms and conditions of each of said leases are hereby modified to the extent necessary to make the same conform to the provisions hereof, but otherwise each lease shall be and remain in full force and effect, and that drilling and production on any lease shall be deemed to be and constitute drilling and production on all leases within the meaning of such lease.

8. ALLOCATION OF PRODUCTION: The parties, by their execution hereof, and the State of New Mexico, by the approval hereof by the Commissioner of Public Lands and the Oil Conservation Commission, agree and consent that the production from all wells drilled on the above described land except that used by the Operator for development, operating and camp purposes on the unit area, shall be allocated to each lease in proportion as the number of acres committed to this agreement out of each lease bears to the total acreage committed thereto.

9. ROYALTIES AND RENTALS: The State of New Mexico, by

the approval hereof by the Commissioner of Public Lands and the Oil Conservation Commission, agrees and covenants that royalties shall be paid at lease rates upon the production from each tract of the lease above set out instead of upon the production from the well or wells drilled on the individual lease; that unitized substances produced hereunder and injected into any formation for cycling, pressuring or other like operations hereunder shall be free from royalty; that in the event Operator injects gas obtained from outside sources into any formation for repressuring, stimulation of production, or increasing the ultimate recovery in its operations hereunder, a like amount of such gas may be withdrawn from the formation royalty free as to the State, but not as to the products extracted therefrom, provided such withdrawal is approved by the Oil Conservation Commission. Operator shall pay for the account of the Working Interest Owners all royalties due the State of New Mexico under the terms of the respective leases as modified hereby. Each party hereto shall pay or cause to be paid all rentals due under its leases.

10. DISPOSAL OF PRODUCTION: Each party hereto shall always have the right at any time upon Thirty (30) days advance notice to the Operator to receive its allocated share of the production in kind, after deduction of the state royalty, and separately dispose thereof, provided that the party shall provide all facilities necessary for such deliveries in kind and pay any additional cost occasioned in making separate delivery. Otherwise the Operator shall have the right to sell and dispose of said production, or to purchase the same for its own account at not less than the prevailing field market price. Operator shall make settlement with the Working Interest Owners in cash for their respective shares of the proceeds of sale not later than the last day of each month for the production sold during the preceding calendar month and shall accompany said payment with a statement as to the quantity and value of such production.

11. OPTION AS TO DRILLING: After the drilling of the first well hereinabove provided for, in the event any Working Interest Owner should refuse to consent to the drilling of any subsequent well upon the above described land within Ten (10)

days after receiving notice from the Operator or the other Working Interest Owners of the location at which and the depth to which it is desired that such well be drilled, then the Working Interest Owner desiring to drill such well shall have the right to drill the same at its sole cost and expense, and any non-consenting Working Interest Owner shall be relieved from contributing to the cost, expense and risk of the drilling of such well. If such well is non-productive it shall be abandoned at the sole cost and expense of the Working Interest Owner who drilled it. If said well is a producer, the party who drilled the well shall have the right to continue to operate the well for its own special account and at its own risk and expense, and to appropriate the entire working interest share of the non-participating party therefrom until the producing party shall have recovered therefrom one-and-one-half times what otherwise would have been the share of the non-participating party in the cost of drilling and equipping the well had he participated in the drilling of the well in the first instance, plus the non-participating party's full share of the cost of operating the well to date of reimbursement. Upon such reimbursement having been obtained by the drilling party out of the above described part of the production the operation of said well shall be turned over to the Operator and the well shall thereafter be operated for the joint account of the parties hereto, and all physical equipment for which reimbursement has been obtained shall become the property of the parties hereto, proportionate to their interest.

12. TITLES: Each party has submitted to the other satisfactory evidence of title to its leasehold interest in the above described lands respectively owned by each upon the basis of which evidence the interest of said parties hereunder is hereby and shall remain fixed.

13. ASSIGNMENT: No assignment or other transfer shall be made by either party of less than the full and undivided working interest and leasehold title of the party in all land committed by said party hereto, or less than the entire interest of the party derived by, through, and under this contract without the written consent of the other party first had and obtained. In the event any Working Interest Owner desires to sell all or any part of his interest in the lands covered hereby, the other Working Interest Owner hereto shall have a preferential right to purchase the same; provided either party may assign or transfer its interest hereunder and in the lands above described to a subsidiary or parent company of such party without regard to the provisions of this section. In such event the selling party shall promptly communicate to the other Working Interest Owner the offer received by it from a purchaser ready, willing, and able to purchase the same, together with the name and address of such purchaser, and the other Working Interest Owner shall thereupon have an option for a period of Ten (10) days after receipt of said notice to purchase said interest at the same price as that offered by the outside purchaser.

Except as hereinabove expressly provided, the covenants herein contained shall be deemed to run with the land and shall inure to the benefit of and be binding upon the successors and assigns of the parties hereto.

14. SURRENDER: Either party hereto desiring to surrender all or any portion of any lease or leases committed to this agreement as to which there is at that time no existing drilling or other obligation which accrued after the date of the execution of this agreement, shall give to the other Working Interest Owner Thirty (30) days notice of such intention; in which event such other Working Interest Owner shall within Thirty (30) days from the date of the giving of such notice

consent to the release of such lease or leases or portion thereof, or shall within such Thirty (30) day period advise such notifying party of its refusal to consent to the surrender of such lease or leases or portion thereof. In the event the party so notified refuses to consent to such surrender, then the notifying party shall forthwith execute and deliver to such other party an assignment of such lease or leases or portion thereof covered by such notice, and notifying party shall be promptly paid at the then salvage value for its proportionate share of all salvable casing and other material and equipment located on that portion of the leased premises covered by such assignment. That portion of any lease or leases which is released or assigned as in this paragraph provided shall from and after the date of such release or assignment be excluded from the operation of this agreement to the same extent as though it had never been included.

15. TERMINATION: At any time after the completion of the first test well provided for herein, this agreement may be terminated by mutual agreement of the parties hereto upon notice being served on the Commissioner of Public Lands and the Oil Conservation Commission. On the termination of this agreement all leases shall revert to the status which they then would otherwise have occupied had this unit agreement not been entered into. In the event this contract is terminated under the provisions of this section, or upon the expiration of the term hereof as provided in Section 20, an accounting with respect to the material, equipment, structures and facilities used in and about the joint operation shall be had between the Working Interest Owners and disposition thereof shall be made as provided in the Accounting Procedure hereto attached.

16. SEVERAL LIABILITY: The obligations of the parties hereto shall be deemed to be several and not joint. The

relationship of the parties hereto shall not be construed to and constitute a partnership.

17. WAR EMERGENCY: The Operator shall incur no forfeiture, penalty or other liability on account of any default committed by it in the performance of this contract or the underlying leases, so long and to the extent that performance is prevented by any act of duly constituted public authority, or by war, insurrection, strike, riot, act of God, or other cause beyond the control of the Operator.

18. SUBSEQUENT JOINDER: The owners or operators of State Leases on the W/2 NW/4 Section 9 and the NW/4 Section 16, Township 18-S, Range 36-E, Lea County, New Mexico, who have not executed the plan prior to the effective date hereof may be permitted, at a later date, to become parties to this contract upon obtaining the consent of the Working Interest Owners who are then parties hereto and upon making satisfactory reimbursement to such Working Interest Owners for their respective share in cost and risk of past development, proportionate to the interest in production which they will thereafter acquire by becoming a party hereto. In the event that one or more additional persons become parties hereto, an operating committee shall be appointed consisting of a representative of each Working Interest Owner who shall have voting power proportionate to the representation of his principal. Operator's representative shall be chairman of the committee and the committee may arrange for regular or special meetings or the Operator may poll the committee for its vote on any question in the absence of a meeting. The majority vote shall govern the action of the committee unless any party holds the majority of interest, in which event his representative's vote shall require the concurrence of

one other representative to constitute the majority vote. In the event of the appointment of a committee, the functions of the parties hereto set out in Sections 4 and 15 hereof shall be exercised by the Operating Committee and the other provisions of this contract shall automatically be modified to the extent necessary to conform hereto.

19. TAXES: Operator shall render, for ad valorem tax purposes, the entire leasehold rights and interests covered by this contract and all physical property located thereon or used in connection therewith, or such part thereof as may be subject to ad valorem taxation under existing laws, or which may be made subject to taxation under future laws, and shall pay, for the benefit of the joint account, all such ad valorem taxes at the time and in the manner required by law which may be assessed upon or against all or any portion of such leasehold rights and interests and the physical property located thereon or used in connection therewith. Operator shall bill each Working Interest Owner for its proportionate share of such tax payments as provided by the Accounting Procedure hereto attached.

In the event any taxable valuation is assessed upon or against said property or any portion thereof, which Operator deems to be unreasonable, it shall be the duty of Operator to protest said taxable valuation within the time and manner as prescribed by law, and prosecute such protest to a final determination unless the parties agree to abandon such protest prior to final determination. When any such protested valuation of such property shall have been determined, Operator shall pay, for the joint account, the taxes thereon, together with any interest or penalty accrued by reason of such protest, and bill each Working Interest Owner for its proportionate share of such payments in accordance with the Accounting Procedure hereto attached.

20. TERM: This contract shall [illegible] the first day of the calendar month next ensu[illegible] been executed by the parties hereto and [illegible] missioner of Public Lands and the Oil Conser[illegible] and, unless sooner terminated as provided in [illegible] endure for the term of five (5) years from and [illegible] date thereof, and so long thereafter as oil, gas, [illegible] or gasoline or kindred hydrocarbon substances shall [illegible] from any part of the unit area; provided that [illegible] shall not terminate on account of any temporary [illegible] production caused by well accidents or other causes [illegible] the Operator has no control, or on account of any [illegible] suspension granted by the Commissioner of Public [illegible] the Oil Conservation Commission.

IN WITNESS WHEREOF the parties hereto have [illegible] contract the day and year first above written.

WITNESS:

____

STANOLIND OIL AND GAS CO[illegible]

By [signature]
Vice President

ATTEST:

[signature]
[illegible] Secretary

WITNESS:

H. W. Bradshaw

THE PURE OIL COMPANY

By [signature]
Manager Texas Producing [illegible]
Division

ATTEST:

[signature]
Assistant Secretary

STATE OF OKLAHOMA)
) SS
COUNTY OF TULSA)

On this 31st day of October, A.D. 1944, before me appeared E. F. BULLARD, to me personally known who, being by my duly sworn, did say that he is Vice President of STANOLIND OIL AND GAS COMPANY, and that the seal affixed to said instrument is the company seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation, by authority of its Board of Directors, and the said E. F. BULLARD acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Notarial Seal the day and year first above written.

My commission expires MY COMMISSION EXPIRES MAY 24, 1948

Virginia B. Hermann
Notary Public

STATE OF TEXAS)
TARRANT COUNTY) SS:

On this 17th day of October, A.D., 1944, before me appeared R. W. McILVAIN, JR., to me personally known who, being by me duly sworn, did say that he is Manager Texas Producing Division of THE PURE OIL COMPANY, and that the seal affixed to said instrument is the company seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation, by authority of its Board of Directors, and the said R. W. McILVAIN, JR. acknowledged said instrument to be the free act and deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Notarial Seal the day and year first above written.

My commission expires June 1, 1945.

H. W. Bradshaw H. W. BRADSHAW
Notary Public

APPROVED THIS ____ DAY OF _____,
A.D., 1944

_____
COMMISSIONER OF PUBLIC LANDS OF
THE STATE OF NEW MEXICO

APPROVED THIS ____ DAY OF _____,
A.D., 1944

THE OIL CONSERVATION COMMISSION OF
THE STATE OF NEW MEXICO

By_____

III.—DISPOSAL OF LEASE EQUIPMENT AND MATERIALS:

The Operator shall be under no obligation to purchase interest of Non-Operator in surplus new or second-hand materials or equipment on the joint lease. Upon request of Operator, Non-Operator shall participate in a division in kind. Rigs, tanks, buildings and other major items of surplus equipment shall not be removed by Operator to its full interest warehouse or lease without the approval of Non-Operator. Operator shall not sell major items of jointly owned equipment to a third party without giving Non-Operator an opportunity either to purchase same at the price offered or to take its share of equipment in kind.

(1) Materials purchased by Operator shall be credited by it to the joint lease account and included in the monthly statement of operations for the month in which the materials are removed from the lease.

(2) Materials purchased by Non-Operator shall be invoiced by Operator, and paid for by Non-Operator to Operator immediately following receipt of invoice and delivery of materials. The Operator will thereupon immediately pass credit to the joint lease account and include same in the monthly statement of operations for the month in which the materials were paid for by Non-Operator.

(3) Division of materials in kind, if made between Operator and Non-Operator shall be in proportion to their respective interests in the joint lease. Each party will thereupon be charged individually with the value of the materials received or receivable by it, and corresponding credits will be made to the joint lease account by Operator, and both credits shall appear in the same monthly operating statement.

(4) Sales to outsiders of materials or equipment from the joint lease shall be credited by Operator to the joint lease account at the full amount collected by him from Vendee. Any claims by Vendee for defective materials or otherwise shall be charged back to the joint lease account.

IV.—BASIS OF PRICING MATERIALS TRANSFERRED FROM JOINT LEASE:

Materials and equipment purchased by either Operator or Non-Operator, or divided in kind between them, unless otherwise agreed, shall be valued on the following basis of condition and price. (New price as used in the following paragraphs shall have the same meaning and application as that used above in numbered Paragraph (2) under "Basis of Charges to Joint Account" for materials furnished by Operator.)

(1) New Materials: (Condition "A") being new equipment or supplies purchased or procured for the lease, but never used thereon; at 100% of current new prices.

(2) Good Second-Hand Materials: (Condition "B") being good serviceable materials which are further usable without repair, at: (a) 75% of current new prices, if they were originally new materials when charged to the lease:

(b) 75% of current new prices less 25% depreciation for their usage on and service t the joint lease, if materials were originally charged to the lease as second-hand at 75% of new prices.

(3) Other Used Materials: (Condition "C") being materials further usable for their original function only after repair and reconditioning; at 50% of current new prices.

(4) Bad Order Materials: (Condition "D") being materials not further usable for their original function, but for possible other service; at 25% of current new prices.

(5) Junk: (Condition "E") being obsolete and unserviceable materials; at prevailing junk prices in the district. Where practicable, junk will be disposed of at the lease.

(6) Temporarily Used Materials: When the use of certain items of equipment on the joint lease was only temporary, and the time of actual use thereon does not justify the deduction of depreciation as listed in Paragraph (2-b), such materials will be priced on a basis that will leave a net charge against the lease account consistent with the service rendered and adequate for the time the materials were in use.

V.—INVENTORIES:

(1) Periodic inventories shall be taken by Operator of the materials and equipment on the joint lease, which shall include such materials and equipment as are ordinarily considered controllable by operators of oil and gas properties.

(2) Notice of intention to take inventory shall be given by Operator to Non-Operator a week before any inventory is to begin, so that Non-Operator may be represented when any inventory is taken.

(3) Failure of Non-Operator to be represented at the physical inventory shall bind him to accept the inventory taken by Operator who shall in that event furnish Non-Operator with a copy thereof.

(4) Reconciliation of inventory with charges to the joint lease acount shall be made by each party at interest, and a list of overages and shortages shall be jointly determined by Operator and Non-Operator.

(5) Inventory adjustments shall be made by Operator on the Joint lease account for overages and shortages, but Operator shall only be held accountable to Non-Operator for shortages due to lack of reasonable diligence.

OK CEP

FORM 260—2-39

EXHIBIT "A"

ACCOUNTING PROCEDURE

The Operator shall bill the Non-Operators on or before the last day of each month for their proportionate share of costs and expenditures less proper credits for any miscellaneous income received for the joint account during the preceding calendar month. Itemized statements shall accompany such bills. Operator's monthly billing to each Non-Operator shall reflect credit for any amounts advanced to cover development and operating costs for that particular calendar month; and if the amount advanced was in excess of the actual expenditure made, Operator's billing shall be accompanied by check to refund the credit balance reflected. If actual expenditures exceed the amount advanced, each party shall pay its proportionate share of such deficit within fifteen days after the receipt of billing. If payment is not made within such time, the unpaid balance shall bear interest at the rate of 6 per cent per annum until paid. Payment of any such bill shall not prejudice the right of any party to protest or question the correctness thereof.

Operator shall have and be entitled to a prior lien on all the rights and interests of Non-Operator in said lease, the production therefrom, and the material and equipment thereon, to secure the payment by Non-Operator of his proportion of costs, charges and expenses of developing and operating the joint lease as herein provided.

Operator shall furnish Non-Operator with copies of well logs of each well drilled on the joint lease; and on request, Non-Operator shall be furnished samples of cuttings from the formations drilled.

Non-Operator shall have access to the joint lease premises, and to all books and records pertaining to said joint operation for the purpose of inspection at all reasonable times.

The joint account shall not be charged with any expenditures or contributions made by the Operator toward an employees' stock purchase, group life insurance, pension, retirement, bonus, or other employees' benefit plan, except such expenditures or contributions as are imposed or required by Governmental authority.

1.—DEVELOPMENT AND OPERATING CHARGES:

Operator shall charge the joint lease account with the following items:

(1) Delay rentals, when such rentals are paid by the Operator for the joint lease account. Royalties, when not to be paid direct to Royalty Owners by the purchasers of the oil, gas, casinghead gas or other products of the lease.

(2) Labor, teaming, and other services necessary for the development, maintenance and operation of the property.

(3) Materials, equipment and supplies purchased, and/or furnished by Operator from its warehouse stocks or from its other leases for use on the joint lease. Insofar as is reasonably practical and consistent with efficient and economical operation, only such materials shall be purchased for or transferred to the joint lease as are required for immediate use, and the accumulation of warehouse and/or lease stock on the joint property shall be avoided.

(4) Moving material to the joint lease from Vendor's or from Operator's warehouse in the district, or from other leases of Operator; but in either of the last events, the distance charged to the joint lease shall not exceed the distance from the nearest reliable supply store or railway receiving point, except by special agreement with Non-Operator.

(5) Moving surplus materials from the joint lease to outside Vendees, if sold f.o.b. destination, or minor returns to Operator's warehouse; but charge against the joint lease account for moving major surplus materials to Operator's warehouse, shall not exceed the cost of moving such material to the nearest reliable supply store or railway receiving point, except by special agreement with Non-Operator; and no charge shall be made to joint lease account for moving materials to other leases belonging to Operator, except by special agreement with Non-Operator.

(6) Use of and service by Operator's exclusively owned equipment and utilities at rates not exceeding those prevailing in the district where the joint lease is located unless definitely stated under Section II, "Basis of Charges to Joint Account."

(7) Damages or losses incurred by fire, flood, storm or other accidental or natural causes.

(8) All costs and expenses of litigation, or legal services otherwise, necessary or expedient for the protection of the joint interests, including attorney's fees and expenses as hereinafter provided, together with all judgments obtained against the joint account or the subject matter of this agreement; actual expenses incurred by any party or parties hereto in securing evidence for the purpose of defending against any action or claim prosecuted or urged against the joint account or the subject matter of this agreement.

(a) If a majority of the interests hereunder shall so agree, actions or claims affecting the joint interests hereunder, may be handled by the legal staff of one or more of the parties hereto, and a charge commensurate with the services rendered may be made against the joint lease account, but no such charge shall be made until approved by the legal department of or attorneys for the respective parties hereto.

(b) Fees and expenses of outside attorneys shall not be charged to the joint lease account unless authorized by a vote of the majority of the interests hereunder.

(9) All taxes of every kind and nature (except income taxes, and except gross production taxes not required by law to be paid by the Operator) assessed upon or in connection with the properties which are the subject of this agreement, the production therefrom or the operation thereof, and which taxes have been paid by the operator. ~~Upon timely notice given by any Non-Operator, the Operator shall, on behalf of the Non-Operator giving such notice, protest the payment of such Non-Operator's share of any such tax or taxes so paid, but Operator shall have no further obligation with respect to such protested tax payment.~~

(10) Premiums for workmen's compensation, contractor's public liability and employers' liability insurance on the joint lease operations, and/or public liability and property damage insurance on jointly owned automotive equipment operated for the joint lease, if any such insurance carried or required to be carried for the joint account; together with all expenditures incurred and paid in settlement of claims or judgments, not recovered from the insurance carrier to fully discharge all liability of Operator ensuing from an accident occuring on or in connection with operations for the benefit of the joint lease.

(11) If no insurance is carried or required to be carried on any or all of the above or other risks, all actual expenditures incurred and paid by the Operator in settlement of any and all losses, claims, damages, judgments, and any other expenses including legal services shall be charged to the joint lease account.

(12) A proportionate share of the salaries and expenses of Operator's District Superintendent and other general District Employees serving the lease, whose time is not allocated directly to the lease, and a proportionate share of maintaining and operating a District Office in conducting the management of operations on the joint lease and other leases owned and operated by Operator in the same locality, such charges to be apportioned to all leases served in the ratios of direct labor payroll charges, numbers of wells, or on some other equitable basis consistent with Operator's accounting practice.

(13) Camp Expense: The expense of providing and maintaining on or in the vicinity of the joint lease all necessary camps, housing facilities for employees, and boarding employees, if necessary. When leases other than the joint lease are served by these facilities, then an equitable distribution of expense including depreciation, or a fair monthly rental in lieu of the investment, maintenance and operating cost of buildings and camp equipment, shall be prorated against all leases served.

(14) Handling Charges: To cover the cost of handling material into and in the warehouse, a handling charge not in excess of 5% of the net cost of the material, new or second-hand, placed upon the lease from the Operator's warehouse may be assessed against the joint account; except that,

(a) On new tubular goods (2" and over), tanks, derricks, boilers, engines, compressors, pumps, and other major items of equipment, no handling charge shall be assessed against the joint account;

(b) On second-hand tubular goods (2" and over), tanks, derricks, boilers, engines, compressors, pumps, and other major items of equipment, a handling charge not in excess of 2½% of the net cost may be assessed against the joint account.

(15) Overhead charges, which shall be in lieu of any charges for any part of the compensation or salaries paid to managing officers and employees of the Operator, including the division superintendent, the entire staff and expenses of the division office, and any portion of the office expense of the principal business office of the Operator, but are not in lieu of district or field office expenses incurred in developing and operating any such properties, or any other expenses of the Operator incurred in the development and operation of said leases; and the Operator shall have the right to assess against the properties covered hereby, the following overhead charges:

(a) $ 100.00 per well per month for each drilling well, beginning on the date the well is spudded and terminating when it is on production or is plugged, as the case may be; except that no charge shall be made during suspension of drilling operations for 15 or more consecutive days.

(b) $ 25.00 per well per month for the first 5 producing wells.

(c) $ 15.00 per well per month for the second 5 producing wells.

(d) $ 10.00 per well per month for all producing wells over 10 .

The above overhead schedule on producing wells shall be applied to individual leases; provided that where leases covered by this agreement are operated as a unitized project in the interest of economic development the schedule shall be applied to the total number of wells irrespective of individual leases.

In connection with overhead charges, the status of wells shall be as follows:

In-put or key wells shall be included in overhead schedule the same as producing oil wells.

Salt water disposal wells shall not be included in overhead schedule.

Producing gas wells shall be included in overhead schedule the same as producing oil wells.

Wells permanently shut down but on which plugging operations are deferred, shall be dropped from overhead schedule at the time the shutdown is effected. When such wells are plugged, overhead shall be charged at the producing well rate during time required for the plugging operation.

Wells being plugged back or drilled deeper shall be included in overhead schedule the same as drilling wells.

Various wells may be shut down temporarily and later replaced on production. If and when a well is shut down and not produced or worked upon for a period of a full calendar month, it shall not be included on the overhead schedule for such month.

The above specific overhead rates may be amended from time to time by agreement between Operator and Non-Operator if, in practice, they are found to be insufficient or excessive.

(16) Any other items of cost and expense incurred by Operator for the necessary and proper development, equipment and operation of the joint lease.

II.—BASIS OF CHARGES TO JOINT ACCOUNT:

(1) Outside Purchases: All materials and equipment purchased and all service procured from outside sources will be charged at their actual cost to Operator after deducting any and all trade and/or cash discounts actually allowed off invoices or received by Operator.

(2) New Materials furnished by Operator (Condition "A").

New Materials transferred to lease from Operator's warehouse or other leases shall be priced f.o.b. the nearest supply store or railway receiving point, at replacement cost of the same kind of materials. This will include large equipment such as tanks, rigs, pumps, boilers and engines. All tubular goods (2" and over) will be charged on the basis of mill-shipment, or carload price. Other materials, where the replacement cost cannot be readily ascertained, may, for the purpose of consistency and convenience, be charged on the basis of a reputable Supply Company's Preferential List Price, f.o.b. nearest supply store or railway receiving point to the lease, prevailing on the date of transfer of the materials to the lease. Cash discounts shall not be included in calculating cost prices of such transferred materials.

(3) Second-Hand Materials furnished by Operator (Condition "B" and "C").

(a) Tubular goods (2" and over), fittings, registered machinery, and other equipment which is in sound and serviceable condition at date of transfer, will be classed as Condition "B" and charged at 75% of the price of new materials, in accordance with the provisions of Paragraph (2) above.

(b) Tanks, derricks, and buildings or other equipment involving erection costs on the joint lease, will be charged on a basis not to exceed 75% of knocked-down new price for similar materials.

(c) Other materials and supplies, hardware, building materials, and similar items, in sound, serviceable condition, will be classed as condition "B" and charged at 75% of the price of new materials, in accordance with the provisions of paragraph (2) above.

(d) Other second-hand materials, such as units of machinery or other equipment that is serviceable, but substantially not good enough to be considered first-class second-hand material when transferred to the lease, will be classed as Condition "C" and charged at 50% of new price.

(e) There may also be cases when some items of equipment, due to their unusual condition, should be arbitrarily priced at an appraised figure.

(4) Warranty of Materials Furnished by Operator: Operator does not warrant the materials furnished by it from its warehouse or other leases beyond or back of the dealer's or manufacturer's guaranty; and in case of defective materials, credit shall not be passed until adjustment has been received by it from the manufacturers or their agents.

(5) Operator's Exclusively Owned Facilities: The following rates shall apply to service rendered to the lease by facilities owned exclusively by Operator:

(a) Water service, fuel gas, teaming, power, and compressor service: At rates commensurate with the cost of providing and furnishing such service to the joint lease, but not exceeding rates currently prevailing in the field where the joint lease is located.

(b) Automotive Equipment: At rates commensurate with cost of ownership and operation and in line with schedule of rates adopted as recommended uniform standardized charges against joint lease account and revised from time to time by the Petroleum Motor Transport Association. Automotive rates shall include cost of oil, gas, repairs and other operating expenses and depreciation, and charges shall be based on use in actual service on, or in connection with, the joint lease operations.

(c) Automotive Well Servicing Units: In the event automotive well servicing units are furnished complete with tools and equipment, the rate charged shall be determined in keeping with the cost of ownership, operation, maintenance and depreciation of same.

(d) A fair rate shall be charged for the use of drilling and cleaning out tools and any other items of Operator's fully owned machinery or equipment which shall be ample to cover maintenance, repairs, depreciation, and the service furnished the joint lease.

(e) Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.