UNIT AGREEMENT

THIS AGREEMENT, made and entered into by and between the Commissioner of Public Lands of the State of New Mexico, herein referred to as "Commissioner" or "Lessor", and Amerada Petroleum Corporation and Gulf Oil Corporation, herein referred to respectively as "Amerada" and "Gulf", or collectively as "Lessees",

W I T N E S S E T H: THAT

WHEREAS, Gulf is the owner of an oil and gas lease covering, among other lands, a full interest in SE/4 SE/4 of Section 34-11S-33E, Lea County, New Mexico; and

WHEREAS, Amerada is the owner of an oil and gas lease covering, among other lands, a full interest in NE/4 SE/4 Section 34-11S-33E, Lea County, New Mexico; and

WHEREAS, the State of New Mexico, acting by and through its Commissioner of Public Lands, is the Lessor under both of said oil and gas leases; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico has heretofore, on May 1, 1951, entered its order establishing the E/2 of SE/4 of Section 34-11S-33E, as one 80-acre proration unit for the Bagley-Siluro-Devonian pool; and

WHEREAS, for the purposes of more properly conserving the oil and gas resources of the State, the Lessees desire to develop and operate the above described severally owned leases as a unit for the production of oil and gas from all formations underlying said land; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized to consent to and approve the development or operation of State lands under agreements made by lessees of State land, where such agreements provide for the unit operation or development of part or all of any oil or gas pool, field or area; and

Ex. 3

UNIT AGREEMENT

THIS AGREEMENT, made and entered into by and between the Commissioner of Public Lands of the State of New Mexico, herein referred to as "Commissioner" or "Lessor", and Amerada Petroleum Corporation and Gulf Oil Corporation, herein referred to respectively as "Amerada" and "Gulf", or collectively as "Lessees",

W I T N E S S E T H: THAT

WHEREAS, Gulf is the owner of an oil and gas lease covering, among other lands, a full interest in SE/4 SE/4 of Section 34-11S-33E, Lea County, New Mexico; and

WHEREAS, Amerada is the owner of an oil and gas lease covering, among other lands, a full interest in NE/4 SE/4 Section 34-11S-33E, Lea County, New Mexico; and

WHEREAS, the State of New Mexico, acting by and through its Commissioner of Public Lands, is the Lessor under both of said oil and gas leases; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico has heretofore, on May 1, 1951, entered its order establishing the E/2 of SE/4 of Section 34-11S-33E, as one 80-acre proration unit for the Bagley-Siluro-Devonian pool; and

WHEREAS, for the purposes of more properly conserving the oil and gas resources of the State, the Lessees desire to develop and operate the above described severally owned leases as a unit for the production of oil and gas from all formations underlying said land; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized to consent to and approve the development or operation of State lands under agreements made by lessees of State land, where such agreements provide for the unit operation or development of part or all of any oil or gas pool, field or area; and

E 1, 3

WHEREAS, the Oil Conservation Commission of the State of New Mexico is authorized to approve such agreement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein provided, it is agreed as follows:

1. UNIT AREA: The following described land is hereby designated the "Unit Area":

E/2 SE/4 Section 34-11S-33E
Lea County, New Mexico.

2. UNITIZED SUBSTANCES: All oil, gas and casinghead gas produced from any and all formations underlying the Unit Area is unitized under this agreement and is called "unitized substances".

3. UNIT OPERATOR: Amerada Petroleum Corporation is hereby designated as Unit Operator and shall have exclusive charge of the development and operation of the Unit Area. Nothing herein, however, shall be construed to transfer title to any oil and gas lease, it being understood that Unit Operator, in such capacity, shall exercise the rights of possession of the lessees of the Unit Area for the purposes herein specified.

4. DRILLING AND DEVELOPMENT: If Unit Operator has not already commenced operations for the drilling of the well hereinafter referred to, it shall within thirty (30) days after the effective date hereof commence operations for the drilling of a well located in the center of the SE/4 SE/4 Section 34, T11S-R33E, Lea County, New Mexico, and thereafter drill such well with due diligence to a depth sufficient to test the Devonian formation found at the approximate depth of 11,000 feet unless unitized substances are found in paying quantities at a lesser depth or an impenetrable substance encountered.

All covenants express or implied in each lease covering the Unit Area shall be applicable to the Unit Area as an entirety as if covered by one lease and shall govern the subsequent development and operation of the Unit Area.

8. LEASES AMENDED TO CONFORM: The terms and provisions of all oil and gas leases covering the Unit Area upon approval hereof by the Commissioner shall be, and the same are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect.

9. TERM: This agreement shall become effective as of the date of approval by the Commissioner hereinafter set out and shall remain in force as long as the leases contributed by both parties are in force as to the acreage within the Unit Area and any extensions or renewals thereof.

IN WITNESS WHEREOF, the parties hereto have executed this agreement this 12th day of March, 1952, in triplicate.

STATE OF NEW MEXICO

Date of Approval:

By_____
Guy Shepard,
Commissioner of Public Lands

L E S S O R

BK

ATTEST:

Assistant Secretary

AMERADA PETROLEUM CORPORATION

By_____
Vice President

Execution Date:

March 14, 1952

GULF OIL CORPORATION

ATTEST:

Assistant Secretary

By_____
Vice President

Execution Date:

March 13, 1952

L E S S E E S

THE STATE OF OKLAHOMA }

COUNTY OF TULSA }

On this 14th day of March, 1952, before me personally appeared E. H. McCOLLOUGH, to me personally known, who, being by me duly sworn, did say that he is Vice President of AMERADA PETROLEUM CORPORATION, and that the seal affixed to the foregoing instrument is the corporate 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 said _____ 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 official seal on this the day and year first above written.

My commission expires October 25, 1952

J. Burdette Wilson
Notary Public in and for
Tulsa County, Oklahoma

THE STATE OF TEXAS }

COUNTY OF TARRANT }

On this 13 day of March, 1952, before me personally appeared F. J. ADAMS, to me personally known, who, being by me duly sworn, did say that he is Vice President of GULF OIL CORPORATION, and that the seal affixed to the foregoing instrument is the corporate 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 said F. J. ADAMS 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 official seal on this the day and year first above written.

B. R. JORDAN

B. R. Jordan
Notary Public in and for
Tarrant County, Texas

RELB:mbl
3-12-52

4

5. ALLOCATION OF PRODUCTION AND PAYMENT OF ROYALTY: For the purpose of determining the payment of royalties due Lessor under the terms of the leases committed to this agreement all production of unitized substances obtained from any part of the Unit Area shall be allocated to the respective leases covering said Unit Area in the proportion that the acreage interest of each lease within the Unit Area bears to the entire acreage interest of the Unit Area, with the same effect as if that proportion of unitized substances so allocated to each lease was obtained from wells drilled thereon. The royalties payable for said production allocated to each oil and gas lease comprising the Unit Area shall be computed and paid on the basis of the proportionate amount of unitized substances allocated to the respective leases and in the manner provided for the payment of royalty described in each of said leases.

6. RENTAL PAYMENT: All rentals due the State of New Mexico shall be paid by the respective lease owners in accordance with the terms of their leases.

7. EFFECT OF DRILLING AND PRODUCTION: It is agreed that the commencement, drilling, completion and operation of a well on any part of the Unit Area shall for all purposes be considered as the commencement, drilling, completion and operation of a well on each tract included within the Unit Area under the terms and provisions of each and all of the oil and gas leases comprising the Unit Area, and that production of oil, gas and casinghead gas from any part of the Unit Area shall be deemed to be production of such substances under the terms of each and all of said leases with the same force and effect as if said production was obtained from a well located on the land covered by each of said leases within the Unit Area.

OPERATING AGREEMENT

THIS AGREEMENT, made and entered into this 25th day of February, 1952, by and between Amerada Petroleum Corporation, hereinafter called "Amerada" or "Operator", and Gulf Oil Corporation, hereinafter called "Gulf", or "Nonoperator",

W I T N E S S E T H: THAT

WHEREAS, Amerada is the owner of an oil and gas lease of record from the State of New Mexico covering a full interest in NE/4 SE/4 of Section 34-11S-33E, Lea County, New Mexico, containing 40 acres; and

WHEREAS, Gulf is the owner of an oil and gas lease of record from the State of New Mexico covering a full interest in SE/4 SE/4 Section 34-11S-33E, Lea County, New Mexico; and

WHEREAS, the parties desire to enter into an agreement for the joint development and operation for oil and gas purposes of the following described land hereinafter for convenience called "Unit Area", to-wit:

E/2 SE/4 Section 34-11S-33E,
Lea County, New Mexico,
containing 80 acres.

NOW, THEREFORE, for and in consideration of the mutual covenants and agreements herein contained, it is agreed as follows:

1. TITLES AND APPROVAL OF UNIT AGREEMENT BY STATE: As soon as possible after the execution of this agreement, but not later than ten (10) days, each party shall deliver to the other such abstracts and copies of all title opinions of their respective attorneys, and such other title papers as they may have in their files. Both parties shall have a period of twenty (20) days from the receipt of said title papers within which to approve or disapprove title to said land. In the event title is rejected by either party, then this contract shall cease

and terminate and each party hereto shall be relieved of all further obligations hereunder. If titles are accepted as hereinabove provided, should the title to any lease thereafter fail, in whole or in part, or should any lease covered by this agreement terminate for any reason, then the loss of title shall be borne by the parties in the proportion of their ownership as hereinafter set out.

Upon execution of this agreement by both parties, Operator shall make application to the Commissioner of Public Lands of the State of New Mexico and to the Oil Conservation Commission of said state for approval of a unit agreement, the terms of which shall be mutually agreed upon by the parties hereto, for the purpose of pooling the royalty interests under the Unit Area. If either said Commissioner or said Commission refuses to approve such Unit Agreement, this contract shall not terminate but shall continue in force under the provisions of subsection (b) of article 4 hereof, following the exchange of assignments therein provided for.

2. OWNERSHIP OF PROPERTIES AND PRODUCTION: All oil, gas, casinghead gas and other minerals that may be produced from the Unit Area and all casing, personal property, material and leasehold equipment located or to be located on the Unit Area (the cost of which is chargeable to the joint account of the parties hereto under the provisions of this agreement and of "Exhibit A" hereto attached and which is used for or in connection with operations for oil or gas on the Unit Area) shall be owned by the parties hereto in the following proportions, to-wit:

Amerada Petroleum Corporation	1/2
Gulf Oil Corporation	1/2

In the event the interest of either party is subject to any overriding royalty interest, production payment or carried interest, or royalty in excess of 1/8, then the entire burden

of such obligation shall be borne by the party contributing such interest and shall be paid out of his proportionate share of the oil, gas and casinghead gas produced from the Unit Area.

3. OPERATOR: Amerada shall be the Operator of the Unit Area for the joint account of the parties hereto in the proportions set out above, and Amerada shall have the exclusive control and direction of the drilling, completion, operation and abandonment of any and all wells in the Unit Area. Such operating rights shall not be assignable by Amerada and should Amerada dispose of all of its leasehold interest, then Gulf shall have the option of determining the Operator under the terms of this agreement.

4. INITIAL WELL:

(a) Amerada shall, within thirty (30) days after the execution of this contract, and may at any time after its execution commence operations for the drilling of a well to be located in the center of the SE/4 SE/4 Section 34-11S-33E, Lea County, New Mexico, and thereafter drill such well with due diligence to a depth sufficient to test the Siluro-Devonian formation found at the approximate depth of 11,000 feet unless granite or some impenetrable substance is encountered at a lesser depth. During the drilling of said well Amerada agrees to test adequately and properly all prospective oil and gas zones encountered, and to make an electrical survey of the well to the total depth and to furnish Nonoperator with a copy of the electrical log. Such well shall be drilled, tested, completed, or plugged and abandoned if a dry hole, at the joint cost and expense of the parties hereto in proportion of their participation set out above. Such costs and expenses shall be paid in accordance with the Accounting Procedure attached hereto.

(b) If the Commissioner of Public Lands or the Oil Conservation Commission of the State of New Mexico should deny

the application for pooling of royalty interests under the land herein affected, then the parties hereto agree to exchange assignments of their respective leases to the end that each will own an undivided one-half (1/2) interest in the NE/4 SE/4 Section 34, and in the SE/4 SE/4 Section 34-11S-33E, Lea County, New Mexico.

(c) Each of the parties hereto recognizes the fact that each of the leases above described is a separate lease covering State of New Mexico lands and that the terms thereof can in no sense, in the event of the exchange of assignments provided for in subsection (b) above, be modified by the within agreement insofar as the obligations imposed by each lease is concerned, but the parties hereto agree between themselves that the leasehold rights in each of the leases shall, in the event of an exchange of assignments, be owned in the undivided proportions set forth in subsection (b) and shall be developed and operated in accordance with the terms and provisions of this agreement.

5. ADDITIONAL WELLS: Except for the initial well above provided, no well shall be drilled and no project shall be undertaken by the Operator on the Unit Area which involves a capital expenditure in excess of Twenty-five Hundred Dollars ($2500.00) without the consent of Nonoperator. But approval of the drilling of a well shall include all expenses for the drilling, equipping and completion of such well, including necessary flowlines, separators, and lease tankage.

In the event the parties hereto cannot agree upon the drilling of said well, then the party desiring to drill may do so at its own cost, risk and expense, and in the event of production, it shall be entitled to receive all of the proceeds from the sale of the production from such well after deducting

all royalty interests, overriding royalty interests and production payments, if any, and taxes until said drilling party shall have received from the proceeds of the sale of such production an amount equal to the total operating expense thereof plus one and one-half times the total cost of drilling, testing, completing and equipping said well, including the completion into stock tanks if an oil well or into the separator if a gas well. Thereafter such well, the equipment thereon and therein, and the production therefrom shall be owned by the parties hereto in equal shares and all further operations thereon and in connection therewith shall be conducted by the Operator for the joint benefit and at the joint expense of the parties hereto pursuant to the provisions of this agreement. If any such well fails to produce oil, gas or other minerals in commercial quantities, the party drilling same shall cause it to be properly plugged and abandoned at its sole cost and expense and shall not be entitled to any credit or reimbursement from the other party or from the joint account for or on account of the drilling of such dry hole.

It is further understood that all wells drilled for the joint account of the parties hereto on the Unit Area pursuant to the terms of this agreement shall be drilled at a rate consistent with the prevailing price in the field.

6. COSTS AND EXPENSES: All costs and expenses in connection with the development and operation of the Unit Area under the terms of this agreement shall be borne by the parties hereto in proportion of their respective ownership as hereinabove set out.

Operator shall advance and pay all costs and expenses actually incurred in the drilling and completion of said initial well and the further development and operation of the Unit Area

and Operator shall bill Nonoperator for its proportion thereof, and Nonoperator shall make payment therefor to Operator, all as set forth in "Exhibit A", designated "Accounting Procedure", attached hereto and made a part hereof.

Nonoperator agrees at the request of Operator to furnish on a tonnage basis the equivalent of one-half (1/2) of all casing and tubing that may be required for the drilling and completion of all wells drilled on the Unit Area. All tubular goods furnished by either party hereto shall be charged to the joint account according to the provisions of the Accounting Procedure for such materials furnished by Operator.

7. DISPOSITION OF PRODUCTION: Nonoperator shall always have the continuing right and privilege at any time of receiving in kind or of separately disposing of its proportionate share of all production obtained from the Unit Area and receiving the proceeds thereof. Such party shall pay or cause to be paid all applicable royalty thereon and shall pay any extra expense and furnish any extra equipment and tankage necessary for taking said production.

In the event Nonoperator shall fail to exercise the right of receiving in kind or separately disposing of its respective proportionate share of the production as above provided, then the Operator, during such time Nonoperator fails to exercise said right, shall have the right to market such production in the same manner as its own and for not less than the prevailing market price.

Any contract for the sale or disposal of Nonoperator's share of the production by Operator shall always be subject to revocation at will by such Nonoperator as above provided.

Operator shall have the right to use so much of the production from the Unit Area as may be necessary in the drilling and operation of any well or wells drilled thereon.

8. ABANDONMENT OF WELLS: No well that is producing from the Unit Area shall be abandoned without the mutual consent of both parties. If the parties are unable to agree upon abandonment of any such well, then the party not desiring to abandon shall pay to the other party its proportionate part of the value of the material and equipment in and on such well, determined in accordance with the "Accounting Procedure" attached hereto and marked "Exhibit A", less the cost of salvaging, and upon receipt of said sum the party desiring to abandon said well shall assign to the other party its interest in the well and the leasehold estate in the land surrounding the well as to the horizon from which said well is producing to the extent of the proration unit for such well established for such well by the rules, regulations or orders of the New Mexico Oil Conservation Commission or by Federal authority.

9. SURRENDER OF LEASES: No lease covered by this agreement shall be surrendered in whole or in part except by mutual consent of the parties hereto. However, if either party desires to surrender its lease and the other party does not, the party desiring to surrender shall, at the request of the other party, assign to the other party its lease as to the Unit Area. Such assignment or surrender shall not affect the liability of either party hereto for the completion of any well previously authorized to be drilled or other obligations incurred hereunder prior thereto.

10. SALE OF INTEREST: Should either party desire to sell its lease covering the Unit Area and there is a purchaser ready, willing and able to purchase said lease for a bona fide consideration, the other party shall have the option for a period of ten (10) days after notice to purchase or acquire such lease for the same consideration. If the option is not exercised within ten (10) days, then the party so desiring to sell may do

so, provided, however, that this shall not apply to mergers, consolidation or reorganization or sale of all of the assets of any of the parties to this agreement.

11. REPORTS AND INFORMATION: Operator agrees to furnish to Nonoperator for each well drilled under this agreement in advance of commencing drilling operations a detailed estimate of expenditure for Nonoperator's approval. During the drilling of the well Operator shall furnish daily drilling reports and samples of cores and cuttings if requested. For each producing well, or lease, Operator shall furnish to Nonoperator monthly gauge reports and copies of run tickets and tank tables. In addition, Operator agrees to furnish Nonoperator upon request all information about the joint operations which is available to Operator and is necessary for the intelligent handling of the joint operations.

12. INSURANCE: Operator shall at all times while operations are conducted on the joint property carry insurance to indemnify, protect and save the parties hereto harmless as follows:

(a) Workmen's Compensation insurance in accordance with the laws of the State of New Mexico;

(b) Public Liability Insurance with limits of not less than $100,000 as to any one person, and $300,000 as to any one accident;

(c) Automobile Public Liability Insurance with limits of not less than $50,000 as to any one person, and $50,000 as to any one accident; and Automobile Property Damage Insurance with a limit of not less than $5,000.

No other insurance is to be carried and each party hereto shall assume its own risk covering its respective interest on all other insurable risks. Operator shall not be liable to Nonoperator for any loss accruing to it by reason of Operator's inability to procure or maintain the insurance mentioned above. Operator

agrees that if at any time during the term of this agreement it is unable to maintain or obtain such insurance, it will immediately notify Nonoperator of that fact.

13. DELAY RENTALS: Each party shall pay all delay rentals which may become due and payable under the terms and provisions of the leases which it has contributed hereto.

14. LIEN: Operator shall have a prior lien on all of the rights and interests of Nonoperator in the Unit Area, the production therefrom and the material and equipment therein, to secure the payment by Nonoperator of its respective proportions of the costs, charges and expenses of developing and operating the Unit Area as herein provided.

15. LIABILITY: Operator shall not be liable for any loss of property or time because of war, strikes, storms, floods, or from failure to drill wells, if said failure is due to causes beyond its control, provided, however, that it shall at all times use reasonable diligence in an effort to comply with the provisions of this contract. Should any of the contingencies referred to in this paragraph occur, Operator shall keep Nonoperator currently advised of the cause of the delay and shall confer with Nonoperator as to a possible elimination of such cause in the event Nonoperator can be of assistance in this connection.

16. RELATIONSHIP OF PARTIES: The rights and obligations of the parties hereto shall be several and not joint or collective. Each party shall be responsible for only its obligations as set forth herein and shall be liable only for its proportionate share of developing and operating the Unit Area.

17. TERM: Subject to the provisions of Paragraph 1 hereof, this agreement shall remain in force for the life of the oil and gas leases which are subjected hereto, and any extensions or renewals thereof.

18. **NOTICES**: All notices to be given under the terms of this agreement to Operator shall be given by telegram or mail addressed to:

Amerada Petroleum Corporation
Beacon Building
Tulsa, Oklahoma

All notices to be given to Nonoperator shall be in like manner addressed to:

Gulf Oil Corporation
Life of America Building
Fort Worth, Texas

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first indicated above.

AMERADA PETROLEUM CORPORATION

ATTEST:

By _____
Vice President

Assistant Secretary

OPERATOR

GULF OIL CORPORATION

ATTEST:

By _____
Vice President

Assistant Secretary

NONOPERATOR

THE STATE OF OKLAHOMA |

COUNTY OF TULSA |

On this 28 day of February, 1952, before me personally appeared E. H. McCullough, to me personally known, who, being by me duly sworn, did say that he is Vice President of Amerada Petroleum Corporation, and that the seal affixed to the foregoing instrument is the corporate 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 said E. H. McCullough 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 official seal on this the day and year first above written.

Dorothea Bowman
Notary Public in and for
Tulsa County, Oklahoma.

My commission expires January 13, 1954

THE STATE OF TEXAS |

COUNTY OF TARRANT |

On this 25th day of February, 1952, before me personally appeared F. J. ADAMS, to me personally known, who, being by me duly sworn, did say that he is Vice President of Gulf Oil Corporation, and that the seal affixed to the foregoing instrument is the corporate 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 said F. J. Adams 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 official seal on this the day and year first above written.

B. R. Jordan B. R. JORDAN
Notary Public in and for
Tarrant County, Texas

RELB:mbl
2-22-52

601 ROSS MARTIN CO. TULSA 1, OKLAHOMA

EXHIBIT "A"

Model Form-PASO-1949-1

Attached to and made a part of OPERATING AGREEMENT
BETWEEN AMERADA PETROLEUM CORPORATION AND
GULF OIL CORPORATION

ACCOUNTING PROCEDURE

(UNIT AND JOINT LEASE OPERATIONS)

I. GENERAL PROVISIONS

1. **Definitions**
The term "joint property" as herein used shall be construed to mean the subject area covered by the agreement to which this "Accounting Procedure" is attached.
The term "Operator" as herein used shall be construed to mean the party designated to conduct the development and operation of the leased premises for the joint account
The term "Non-Operator" as herein used shall be construed to mean any one or more of the non-operating parties.

2. **Statements and Billings**
Operator shall bill Non-Operator on or before the last day of each month for its proportionate share of costs and expenditures during the preceding month. Such bills will be accompanied by statements, reflecting the total costs and charges as set forth under Sub-Paragraph A 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.
C. Statements, as follows:
(1) Detailed statement of material ordinarily considered controllable by Operators of oil and gas properties;
(2) Statement of all other charges and credits to the joint account summarized by appropriate classifications indicative of the nature thereof; and
(3) Statement of any other receipts and credits.

3. **Payments by Non-Operator**
Each party shall pay its proportion of all such bills within fifteen (15) days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest at the rate of six per cent (6%) per annum until paid.

4. **Audits**
Payment of any such bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof. All statements rendered to Non-Operator by Operator during any calendar year shall be conclusively presumed to be true and correct after eighteen months following the close of any such calendar year, unless within said eighteen months period Non-Operator takes written exception thereto and makes claim on Operator for adjustment. Failure on the part of Non-Operator to make claim on Operator for adjustment within such period shall establish the correctness thereof and preclude the filing of exceptions thereto or the making of claims for adjustment thereon. 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, within eighteen months next following the close of any calendar year. Non-Operator shall have six months next following the examination of the Operator's records within which to take written exception to and make any and all claims on Operator. The provisions of this paragraph shall not prevent adjustments resulting from the physical inventory of property as provided for in Section VI, Inventories, hereof.

II. DEVELOPMENT AND OPERATING CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the joint account with the following items:

1. **Rentals and Royalties**
Delay or other rentals, when such rentals are paid by Operator for the joint account; royalties, when not paid direct to royalty owners by the purchaser of the oil, gas, casinghead gas, or other products.

2. **Labor, Transportation, and Services**
Labor, transportation, and other services necessary for the development, maintenance, and operation of the joint property. Labor shall include (A) Operator's cost of vacation, sickness and disability benefits of employees, and expenditures or contributions imposed or assessed by governmental authority applicable to such labor, and (B) Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of like nature, applicable to Operator's field payroll; provided that the charges under Part (B) of this paragraph shall not exceed five per cent (5%) of the total of such labor charged to the joint account.

3. **Material**
Material, equipment, and supplies purchased or furnished by Operator, for use of the joint property. So far as it is reasonably practical and consistent with efficient and economical operation, only such material shall be purchased for or transferred to the joint property as required for immediate use, and the accumulation of surplus stocks shall be avoided.

4. **Moving Material to Joint Property**
Moving material to the joint property from Vendor's or from Operator's warehouse in the district or from the other properties of Operator, but in either of the last two events no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where such material is available, except by special agreement with Non-Operator.

5. **Moving Surplus Material from Joint Property**
Moving surplus material from the joint property to outside vendees, if sold f.o.b. destination, or minor returns to Operator's warehouse or other storage point. No charge shall be made to the joint account for moving major surplus material to Operator's warehouse or other storage point for a distance greater than the distance to the nearest reliable supply store or railway receiving point, except by special agreement with Non-Operator; and no charge shall be made to the joint account for moving material to other properties belonging to Operator, except by special agreement with Non-Operator.

6. **Use of Operator's Equipment and Facilities**
Use of and service by Operator's exclusively owned equipment and facilities as provided in Paragraph 4, of Section III, "Basis of Charges to Joint Account."

7. **Damages and Losses**
Damages or losses incurred by fire, flood, storm, or any other cause not controllable by Operator through the exercise of reasonable diligence. Operator shall furnish Non-Operator written notice of damage or losses incurred by fire, storm, flood, or other natural or accidental causes as soon as practicable after report of the same has been received by Operator.

8. **Litigation, Judgments, and Claims**
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 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 account unless authorized by the majority of the interests hereunder.

9. **Taxes**
All taxes of every kind and nature 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 for the benefit of the parties hereto.

10. **Insurance**
   A. Premiums paid for insurance carried for the benefit of the joint account, together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including legal services, not recovered from insurance carrier.
   B. If no insurance is required to be carried, all actual expenditures incurred and paid by Operator in settlement of any and all losses, claims, damages, judgments, and any other expenses, including legal services, shall be charged to the joint account.

11. **District and Camp Expense**
A proportionate share of the salaries and expenses of Operator's District Superintendent and other general district or field employees serving the joint property, whose time is not allocated direct to the joint property, and a proportionate share of maintaining and operating a district office and all necessary camps, including housing facilities for employees if necessary, in conducting the operations on the joint property and other leases owned and operated by Operator in the same locality. The expense of, less any revenue from, these facilities shall include depreciation or a fair monthly rental in lieu of depreciation on the investment. Such charges shall be apportioned to all leases served on some equitable basis consistent with Operator's accounting practice.

12. **Overhead**
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 Operator, including the division superintendent, the entire staff and expenses of the division office located at Fort Worth, Texas, and any portion of the office expense of the principal business office located at Tulsa, Oklahoma, but which are not in lieu of district or field office expenses incurred in operating any such properties, or any other expenses of Operator incurred in the development and operation of said properties; and Operator shall have the right to assess against the joint property covered hereby the following overhead charges:
   A. $ 250.00 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 the suspension of drilling operations for fifteen (15) or more consecutive days.
   B. $ 50.00 per well per month for the first five (5) producing wells.
   C. $ 35.00 per well per month for the second five (5) producing wells.
   D. $ 25.00 per well per month for all producing wells over ten (10).
   E. In connection with overhead charges, the status of wells shall be as follows:
      (1) In-put or key wells shall be included in overhead schedule the same as producing oil wells.
      (2) Producing gas wells shall be included in overhead schedule the same as producing oil wells.
      (3) 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 the time required for the plugging operation.
      (4) Wells being plugged back or drilled deeper shall be included in overhead schedule the same as drilling wells.
      (5) Various wells may be shut down temporarily and later replaced on production. If and when a well is shut down (other than for proration) and not produced or worked upon for a period of a full calendar month, it shall not be included in the overhead schedule for such month.
      (6) Salt water disposal wells shall not be included in overhead schedule.

F. The above overhead schedule on producing wells shall be applied to individual leases; provided that, whenever 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.

G. 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.

13. **Warehouse Handling Charges**

None

14. **Other Expenditures**

Any other expenditure incurred by Operator for the necessary and proper development, maintenance, and operation of the joint property.

III. BASIS OF CHARGES TO JOINT ACCOUNT

1. **Purchases**

Material and equipment purchased and service procured shall be charged at price paid by Operator, after deduction of all discounts actually received.

2. **Material Furnished by Operator**

Material required for operations shall be purchased for direct charge to joint account whenever practicable, except that Operator may furnish such material from Operator's stocks under the following conditions:

A. New Material (Condition "A")

(1) New material transferred from Operator's warehouse or other properties shall be priced f. o. b. the nearest reputable supply store or railway receiving point, where such material is available, at current replacement cost of the same kind of material. This will include material such as tanks, rigs, pumps, sucker rods, boilers, and engines. Tubular goods (2" and over), shall be priced on carload basis effective at date of transfer and f. o. b. railway receiving point nearest the joint account operation, regardless of quantity transferred. at published U.S. mill prices

(2) Other material shall be priced on basis of a reputable supply company's Preferential Price List effective at date of transfer and f. o. b. the store or railway receiving point nearest the joint account operation where such material is available.

(3) Cash discount shall not be allowed.

B. Used Material (Condition "B" and "C")

(1) Material which is in sound and serviceable condition and is suitable for reuse without reconditioning shall be classed as Condition "B" and priced at 75% of new price.

(2) Material which cannot be classified as Condition "B" but which,

(a) After reconditioning will be further serviceable for original function as good second hand material (Condition "B"), or

(b) Is serviceable for original function but substantially not suitable for reconditioning,

shall be classed as Condition "C" and priced at 50% of new price.

(3) Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use.

(4) Tanks, derricks, buildings, and other equipment involving erection costs shall be charged at applicable percentage of knocked-down new price.

3. **Warranty of Material Furnished by Operator**

Operator does not warrant the material furnished beyond or back of the dealer's or manufacturer's guaranty; and, in case of defective material, credit shall not be passed until adjustment has been received by Operator from the manufacturers or their agents.

4. **Operator's Exclusively Owned Facilities**

The following rates shall apply to service rendered to the joint account by facilities owned exclusively by Operator:

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

B. Automotive Equipment: Rates commensurate with cost of ownership and operation. Such rates should generally be in line with schedule of rates adopted by the Petroleum Motor Transport Association, or some other recognized organization, as recommended uniform charges against joint account operations and revised from time to time. Automotive rates shall include cost of oil, gas, repairs, insurance, and other operating expense and depreciation; and charges shall be based on use in actual service on, or in connection with, the joint account operations. Truck, tractor, and pulling unit rates shall include wages and expenses of driver.

C. 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 property; provided that such charges shall not exceed those currently prevailing in the field where the joint property is located.

D. Whenever requested, Operator shall inform Non-Operator in advance of the rates it proposes to charge.

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

IV. DISPOSAL OF LEASE EQUIPMENT AND MATERIAL

The Operator shall be under no obligation to purchase interest of Non-Operator in surplus new or secondhand material. Derricks, tanks, buildings, and other major items shall not be removed by Operator from the joint property without the approval of Non-Operator. Operator shall not sell major items of material to an outside party without giving Non-Operator an opportunity either to purchase same at the price offered or to take Non-Operator's share in kind.

1. **Material Purchased by Operator**
Material purchased by Operator shall be credited to the joint account and included in the monthly statement of operations for the month in which the material is removed from the joint property.

2. **Material Purchased by Non-Operator**
Material purchased by Non-Operator shall be invoiced by Operator and paid for by Non-Operator to Operator immediately following receipt of invoice. The Operator shall pass credit to the joint account and include the same in the monthly statement of operations.

3. **Division in Kind**
Division of material in kind, if made between Operator and Non-Operator, shall be in proportion to their respective interests in such material. Each party will thereupon be charged individually with the value of the material received or receivable by each party and corresponding credits will be made by the Operator to the joint account, and such credits shall appear in the monthly statement of operations.

4. **Sales to Outsiders**
Sales to outsiders of material from the joint property shall be credited by Operator to the joint account at the net amount collected by Operator from Vendee. Any claims by Vendee for defective material or otherwise shall be charged back to the joint account, if and when paid by Operator.

V. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operator or divided in kind, unless otherwise agreed, shall be valued on the following basis:

1. **New Price Defined**
New price as used in the following paragraphs shall have the same meaning and application as that used above in Section III, "Basis of Charges to Joint Account."

2. **New Material**
New material (Condition "A"), being new material procured for the joint account but never used thereon, at 100% of current new price.

3. **Good Used Material**
Good used material (Condition "B"), being used material in sound and serviceable condition, suitable for reuse without reconditioning,
   A. At 75% of current new price if material was charged to joint account as new, or
   B. At 75% of current new price less depreciation consistent with their usage on and service to the joint property, if material was originally charged to the joint property as secondhand at 75% of new price.

4. **Other Used Material**
Used Material (Condition "C"), being used material which
   A. After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or
   B. Is serviceable for original function but substantially not suitable for reconditioning,
at 50% of current new price.

5. **Bad-Order Material**
Used material (Condition "D"), being material which cannot be classified as Condition "B" or Condition "C", shall be priced at a value commensurate with its use.

6. **Junk**
Junk (Condition "E"), being obsolete and scrap material, at prevailing prices.

7. **Temporarily Used Material**
When the use of material is of a temporary nature and its service to the joint account does not justify the reduction in price as provided in Paragraph 3B, above, such material shall be priced on a basis that will leave a net charge to the joint account consistent with the value of the service rendered.

VI. INVENTORIES

1. **Periodic Inventories**
Periodic inventories shall be taken by Operator of the joint account material, which shall include all such material as is ordinarily considered controllable by operators of oil and gas properties.

2. **Notice**
Notice of intention to take inventory shall be given by Operator at least ten days before any inventory is to begin, so that Non-Operator may be represented when any inventory is taken.

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

4. **Reconciliation of Inventory**
Reconciliation of inventory with charges to the joint account 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. **Adjustment of Inventory**
Inventory adjustments shall be made by Operator with the joint account for overages and shortages, but Operator shall only be held accountable to Non-Operator for shortages due to lack of reasonable diligence.

6. **Special Inventories**
Special inventories may be taken, at the expense of the purchaser, whenever there is any sale or change of interest in the joint property, and it shall be the duty of the party selling to notify all other parties hereto as quickly as possible after the transfer of interest takes place. In such cases both the seller and the purchaser shall be represented and shall be governed by the inventory so taken.