Executed Originals withdrawn by permission of Commission 9/3.

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
Shell EXHIBIT No. 1
CASE 996

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION
OF THE BOGLE FARMS UNIT AREA
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the _____ day of January, 1956, by and between the parties subscribing, ratifying, or consenting hereto, hereinafter referred to as the "parties hereto";

W I T N E S S E T H:

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

WHEREAS, the Commissioner of Public Lands of the State of New Mexico (hereinafter referred to as the "Commissioner") is authorized by Acts of the Legislature (Sec. 3, Chap. 88, Laws 1943, as amended by Sec. 1, Chap. 162, Laws 1951) to consent to and approve the development or operation of State Lands under agreements made by lessees of State Lands jointly or severally with other lessees where such agreements provide for the unit operation or development of part of or all of any oil or gas pool, field or area; and,

WHEREAS, the Oil Conservation Commission of the State of New Mexico (hereinafter referred to as the "Commission") is authorized by Act of Legislature (Chap. 72, Laws 1935) to approve this agreement and the conservation provisions hereof; and,

WHEREAS, the parties hereto own the entire working interest in the Bogle Farms Unit Area covering the land hereinafter described, and therefore have effective control of operations therein; and,

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

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

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

> The South Half (S/2) of Section 9; All of Section 16; the East Half (E/2) of Section 17; the East Half (E/2) of Section 20; and All of Section 21, Township 11 South, Range 34 East, Lea County, New Mexico, containing 2240 acres, more or less.

Exhibit "A" attached hereto is a map showing the unit area and the boundaries and identity of the tracts and leases in said area. Exhibit "B" attached hereto is a schedule showing the acreage, percentage, and kind of ownership of the oil and gas interests in all land in the unit area; however, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in the unit area require such revision, or whenever requested by the Commissioner.

The above described unit area, when practicable, shall be expanded to include therein any additional tract or

tracts regarded as reasonably necessary or advisable for the purposes of this agreement. Such expansion shall be effected in the following manner:

(a) Unit Operator, on its own motion or on demand of the Commissioner, shall prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the unit area, the reasons therefor, and the proposed effective date thereof.

(b) Said notice shall be delivered to the Commissioner and copies thereof mailed to the last known address of each working interest owner, lessee, and lessor having an interest in the unit area, advising that thirty (30) days will be allowed for submission to the Unit Operator of any objections.

(c) Upon expiration of the thirty (30) day period provided in the preceding item (b) hereof, Unit Operator shall file with the Commissioner evidence of mailing of the notice of expansion and a copy of any objections thereto which have been filed with the Unit Operator.

(d) After due consideration of all pertinent information, the expansion shall become effective as of the date prescribed in the notice thereof, if and after (1) the same shall have been approved by the Commissioner and (2) the owner of each leasehold which has been added to the unit by reason of said expansion shall have executed the within and foregoing unit agreement and a counterpart of the operating agreement covering said unit area, and shall have reimbursed each of the parties hereto on a mutually agreeable basis, for such owner's proportionate share of all costs and expenses theretofore incurred in developing and operating the

unit area; provided, however, that, except by mutual consent of all parties hereto, no such expansion of the unit area shall be approved unless (1) each lease or interest therein which is proposed to be added to the unit area shall have been proved by actual drilling to be productive of oil or gas in commercial quantities; and (2) such expansion is approved by the owners of one hundred per cent (100%) of the oil and gas leasehold interest in and to the unit area on a surface acreage basis.

All land committed to this agreement shall constitute land referred to herein as "unit area", "unitized land" or "land subject to this agreement".

2. UNITIZED SUBSTANCES. All oil, gas, natural gasoline and associated fluid hydrocarbons in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

3. UNIT OPERATOR. Skelly Oil Company, a Delaware corporation, is hereby designated as Unit Operator and by signature hereto commits to this agreement all interests in unitized substances vested in it as set forth in Exhibit "B", and agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interests in unitized substances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

4. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time, provided that a successor Unit Operator has been selected and approved and has agreed to accept the duties and responsibilities of the Unit Operator effective upon the relinquishment of such duties and responsibilities by the retiring Unit Operator. The resignation of the Unit Operator shall not release the Unit Operator from any liability or any default by it hereunder occurring prior to the effective date of its resignation.

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

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

5. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall resign as Unit Operator or shall be removed as hereinabove provided, the owners of the working interests according to their respective acreage interests in all unitized land shall by majority vote select a successor Unit Operator; provided that, if a majority but less than sixty-five percent (65%) of the working interests qualified to vote are owned by one party to this agreement, a concurring vote of sufficient additional parties, so as to constitute in the aggregate not less than sixty-five percent (65%) of the total working interest, shall be required to select a new operator. Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Commissioner. If no successor Unit Operator is selected and qualified as herein provided, the Commissioner at his election may declare this unit agreement terminated.

6. ACCOUNTING PROVISIONS. The Unit Operator shall pay in the first instance all costs and expenses incurred in conducting unit operations hereunder, and such costs and expenses so paid by the Unit Operator shall be apportioned among and borne by the owners of working interests and the Unit Operator reimbursed in accordance with the operating agreement heretofore entered into by and between the Unit Operator and the owners of working interests.

7. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto which are necessary or convenient for

prospecting for, producing, storing, allocating, and distributing of the unitized substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said Unit Operator and, together with this agreement, shall constitute and define the rights, privileges, and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

8. DRILLING TO DISCOVERY. Within sixty (60) days after the effective date hereof the Unit Operator shall, unless it has already done so, commence operations upon a test well for oil and gas at a location in the approximate center of the Southwest Quarter (SW/4) of the Southwest Quarter (SW/4) of Section 16, Township 11 South, Range 34 East, Lea County, New Mexico, and shall prosecute the drilling thereof with due diligence to test the Devonian formation expected to be encountered at the approximate depth of 13,500 feet unless unitized substances shall be discovered at a lesser depth which can be produced in paying quantities or unless some formation or condition is encountered at a lesser depth which, in the judgment of the parties hereto, would make further drilling inadvisable or impracticable.

Any well commenced or completed prior to the effective date of this agreement upon the unit area and drilled to the depth provided herein for the drilling of said test well

shall be considered as complying with the drilling requirements hereof. Upon failure to comply with the drilling provisions of this section, the Commissioner may, after reasonable notice to the Unit Operator and to each working interest owner at his or its last known address, declare this unit agreement terminated.

9. PARTICIPATION AND ALLOCATION AFTER DISCOVERY. Upon completion of a well capable of producing unitized substances in paying quantities, the owners of working interests shall participate in the production therefrom and in all other producing wells which may be drilled pursuant hereto in the proportions that their respective leasehold interests on an acreage basis bears to the total number of acres committed to the unit agreement, and such unitized substances (except any part thereof used for production or development purposes hereunder, or unavoidably lost) shall be deemed to have been produced from each of the oil and gas leases committed to this agreement; and, without limiting the legal effect of the production of such unitized substances under the provisions of Chap. 88, Laws 1943, as amended by Chap. 162, Laws 1951, production from a unit well located on a lease committed to this agreement shall be considered as production from that portion of the acreage covered by such lease lying outside the unit area as well as that portion of such acreage included within the unit; and for the purpose of determining any benefits accruing under this agreement and the distribution of the royalty payable to the State of New Mexico each separate lease shall have allocated to it such percentage of said production as the number of acres in each lease included within the unit bears to the total number of acres committed hereto.

Notwithstanding any provision contained herein to the contrary, each working interest owner shall have the right and privilege, upon the payment or securing the payment of the royalty interest thereon, of receiving in kind or of separately disposing of its proportionate share of the gas and oil saved from the unit area; provided, however, that in the event of the failure or neglect of a non-operator to exercise the right and privilege of receiving in kind or of separately disposing of its proportionate share of said production, Operator shall during such time as such party elects not to receive in kind or to sell and dispose of its proportionate share of production, have the right to purchase any such oil or gas for its own account at not less than the prevailing market price; or Operator may sell the same to others, in which event each of the parties hereto shall be entitled to receive payment direct for its share of the proceeds of all oil and gas so sold. In the event of such sale, each of the parties shall execute proper division orders or contracts of sale, and in such event as to any proposed contract of sale requiring delivery for a period in excess of that usually demanded by a purchaser of production of like grade and quantity in the area or in excess of one (1) year, the contract must be approved or accepted by the other party or parties. Any extra expenditure incurred by reason of the delivery of such proportionate part of the production to any party shall be borne by such party.

10. ROYALTY AND RENTAL PAYMENT. All royalties due the State of New Mexico under the terms of the leases committed to this agreement shall be computed and paid on the basis of all unitized substances allocated to the respective leases

committed hereto; provided, however, the State shall be entitled to take in kind its share of the unitized substances allocated to the respective leases, and in such case the Unit Operator shall make deliveries of any royalty oil so taken in accordance with the terms of the respective leases.

If Unit Operator introduces gas obtained from sources other than the unitized substances into any producing formation for the purpose of repressuring, stimulating or increasing the ultimate recovery of unitized substances therefrom, a like amount of gas, if available, with due allowance for loss or depletion from any cause may be withdrawn from the formation into which the gas was introduced royalty free as to dry gas but not as to the products extracted therefrom; provided, that such withdrawal shall be at such time as may be provided in a plan of operations consented to by the Commissioner and approved by the Commission as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

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

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

12. DRAINAGE. The Unit Operator shall take such appropriate and adequate measures consistent with those of a

reasonably prudent operator to protect the unitized lands from drainage from wells on lands adjacent thereto.

13. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions and provisions of all leases, subleases, operating agreements and other contracts relating to the exploration, drilling, development or operation for oil or gas of the lands committed to this agreement shall, upon approval hereof by the Commissioner, be, and the same are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, and so that the length of the secondary term as to such lands will be extended, insofar as necessary, to coincide with the term of this agreement but otherwise to remain in full force and effect in accordance with the provisions thereof. Each lease committed to this agreement shall continue in force beyond the term provided therein so long as this agreement remains in effect, provided drilling operations upon the initial test well provided for herein shall have been commenced or said well is in the process of being drilled by the Unit Operator prior to the expiration of the shortest term lease committed to this agreement. Termination of this agreement shall not affect any lease which pursuant to the terms thereof or any applicable law shall continue in full force and effect thereafter.

14. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer, or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the

grantee, transferee, or other successor in interest. No assignment or transfer of any working, royalty or other interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, photostatic or certified copy of the instrument of transfer.

15. EFFECTIVE DATE AND TERM. This agreement shall become effective (1) upon execution of this agreement, prior to February 1, 1956, by working interest owners in the Unit Area owning one hundred percent (100%) of the working interest therein on an acreage basis, and (2) upon approval by the Commissioner, and same shall terminate in two (2) years after such date unless (a) such date of expiration is extended by the Commissioner, (b) or development operations are then being conducted on lands comprising the unit area, or (c) a discovery of unitized substances has been made on unitized land during said initial term or any extension thereof in which case this agreement shall remain in effect so long as unitized substances can be produced from the unitized land in paying quantities, and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as the unitized substances so discovered can be produced as aforesaid. This agreement may be terminated at any time after said two-year period or any extensions thereof, by not less than one hundred percent (100%) on an acreage basis of the owners of the working interests signatory hereto with the approval of the Commissioner; provided (1) production of unitized substances in commercial quantities has not been

obtained from the unit area, or, having been obtained, has ceased; and (2) development operations are not then being conducted.

16. RATE OF PRODUCTION. All production and the disposal thereof shall be in conformity with allocations, allotments and quotas made or fixed by the Commission and in conformity with all applicable laws and lawful regulations.

17. APPEARANCES. Unit Operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Commissioner of Public Lands and the New Mexico Oil Conservation Commission and to appeal from orders issued under the regulations of the Commissioner or Commission or to apply for relief from any of said regulations or in any proceedings relative to operations pending before the Commissioner or Commission; provided, however, that any other interested party shall also have the right at his own expense to appear and to participate in any such proceeding.

18. NOTICES. All notices that are required or authorized to be given hereunder except as otherwise specifically provided for herein, shall be given in writing by United States mail or Western Union Telegram, postage or charges prepaid, and addressed to the party to whom such notice is given as follows:

Skelly Oil Company
Skelly Building
Tulsa, Oklahoma

The Superior Oil Company
Midland, Texas

The originating notice to be given under any provision hereof shall be deemed given when received by the party to whom such notice is directed, and the time for such party to give any response thereto shall run from the date the originating notice is received. The second or any subsequent notice shall be deemed given when deposited in the United States Post Office or with Western Union Telegraph Company, with postage or charges prepaid.

19. UNAVOIDABLE DELAY. All obligations under this agreement requiring the Unit Operator to commence or continue drilling or to operate on or produce unitized substances from any of the lands covered by this agreement shall be suspended while, but only so long as, the Unit Operator despite the exercise of due care and diligence is prevented from complying with such obligations, in whole or in part, by strikes, war, acts of God, Federal, State, or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

20. LOSS OF TITLE. In the event title to any tract or unitized land or substantial interest therein shall fail and the true owner cannot be induced to join the unit agreement so that such tract is not committed to this agreement or the operation thereof hereunder becomes impracticable as a result thereof, such tract may be eliminated from the unitized area. In the event of a dispute as to the title to any royalty, working or other interest subject thereto, the Unit Operator may withhold payment or delivery of the

allocated portion of the unitized substances involved on account thereof without liability for interest until the dispute is finally settled, provided that no payments of funds due the State of New Mexico shall be withheld. Unit Operator as such is relieved from any responsibility for any defect or failure of any title hereunder.

21. SUBSEQUENT JOINDER. Any oil or gas interest in lands within the unit area not committed hereto prior to the submission of this agreement for final approval either by the Commission or Commissioner may be committed hereto by the owner or owners of such rights subscribing or consenting to this agreement or executing a ratification thereof, and if such owner is also a working interest owner, by subscribing to any operating agreement affecting the allocation of costs of exploration, development and operation. After operations are commenced hereunder, the right of subsequent joinder by a working interest owner shall be subject to all of the requirements of any applicable operating agreement between the working interest owners relative to the allocation of costs of exploration, development and operation. A subsequent joinder shall be effective as of the first day of the month following the filing with the Commissioner and the Commission of duly executed counterparts of the instrument or instruments committing the interest of such owner to this agreement.

22. EXISTING OPERATING AGREEMENT. In the event of any inconsistency or conflict between this unit agreement and the contemporaneous operating agreement entered into by and between the Unit Operator and the owners of working interests, this unit agreement, to that extent only, shall prevail.

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

IN WITNESS WHEREOF, the undersigned parties hereto have caused this agreement to be executed as of the dates of their respective acknowledgments hereto.

ATTEST:

SKELLY OIL COMPANY

APPROVED AS TO FORM:

_____
Assistant Secretary

By _____
Vice-President

ATTEST:

THE SUPERIOR OIL COMPANY

_____
Secretary

By _____
President

STATE OF OKLAHOMA)

COUNTY OF TULSA)

On this _____ day of _____, 1956, before me personally appeared _____, to me personally known, who, being by me duly sworn did say that he is the Vice-President of SKELLY OIL COMPANY, 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.

_____
Notary Public

My commission expires:

_____

STATE OF _____)

COUNTY OF _____)

On this _____ day of _____, 1956, before me personally appeared _____, to me personally known, who being by me duly sworn did say that he is the _____ President of THE SUPERIOR OIL COMPANY, 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.

_____
Notary Public

My commission expires:

_____

N-718B SKELLY

OPERATING AGREEMENT

BEFORE THE
OIL CONSERVATION COMMISSION
SANTA FE, NEW MEXICO
Skelly EXHIBIT No. 1
CASE 996

AGREEMENT entered into on this _____ day of January, 1956, by and between SKELLY OIL COMPANY, a Delaware corporation, hereinafter designated as "Operator," and the undersigned party or parties other than Operator, WITNESSETH THAT:

WHEREAS, said parties are the owners of oil and gas interests or oil and gas leases as set forth in and covering lands described in "Exhibit A," attached hereto and made a part hereof; and

WHEREAS, it is desired to enter into an operating agreement with respect to such interests;

NOW, THEREFORE, it is agreed as follows:

1

Subject to the terms and conditions hereinafter set forth the following land (hereinafter referred to as "the premises"), to-wit:

The South Half (S/2) of Section 9; All of Section 16; the East Half (E/2) of Section 20; and All of Section 21, Township 11 South, Range 34 East, Lea County, New Mexico, containing 2240 acres, more or less,

Executed original withdrawn by Skelly with consent of Commission 9/4

shall be developed and operated for oil and gas purposes by Operator.

2

Each party hereto represents to all other parties hereto that he or it, as the case may be, owns and has good title to the oil and gas interest(s) or lease(s) shown in "Exhibit A" as belonging to him or it which, under Section 3 hereof, is or are made subject to this agreement, and in the event of loss or failure of title to such interest, or any part thereof, agrees:

(a) that he or it shall hold the other parties hereto harmless from and shall indemnify them against all loss, cost, damage and expense which may result from or in any manner arise because of the delivery to such other parties of production, if any, obtained hereunder from the portion of the premises covered by such lost or failed interest(s) or lease(s) or by the payment, if any, to such other parties of the proceeds derived from the sale of any such production therefrom, prior to the date said loss or failure of title is finally determined, and

(b) that his or its interest in and to the production obtained from the premises subject hereto shall be reduced in proportion to such loss or failure of his or its title as of the date such loss or failure of title is finally determined; provided, that such revision of ownership interest shall not be retroactive as to operating costs and expenses incurred or as to revenue or production obtained prior to such date, but if said party has not recouped out of his share of production from the premises covered by this agreement or in some other manner his part of said costs and expenses of developing and operating said premises to said date, then he shall be entitled to continue to receive the same proportionate part which had theretofore been credited to him by reason of his ownership of such lost or failed title of the production from the producing wells, if any, then on said premises, and any well or wells then being completed or being drilled thereon for the joint account until he shall have been thereby reimbursed for a like proportionate part of such previously unrecouped costs and expenses.

The term "loss or failure of title," as used hereinabove, shall not include any loss or failure of title resulting from the termination of any interest because of nonproduction or the cessation of production from or under such interest or through forfeiture thereof for failure to comply with a covenant to develop or protect such interest against drainage.

3

The respective interests of the parties hereto which are subjected to this agreement are set forth in "Exhibit A" attached hereto and made a part hereof. If any interest listed in "Exhibit A" hereof is shown by such exhibit to be an unleased interest in oil and gas rights, then such unleased interest shall be treated for all of the purposes of this agreement as if it were an oil and gas lease covering such unleased interest on a form providing for the usual and customary one-eighth (⅛) royalty and containing the usual and customary "lesser interest clause." This agreement shall in no way affect the right of the owner of any such unleased interest to receive an amount or share of production equivalent to the royalty which would be payable or due if such unleased interest were subject to an oil and gas lease as provided in the preceding sentence.

4

All costs, expenses and liabilities accruing or resulting from the operation of the premises pursuant to this agreement shall be shared and borne and all production of oil and gas from said land, subject to the payment of applicable royalties thereon, and all materials and equipment acquired pursuant hereto, shall be owned by the parties hereto in the following respective proportions:

Skelly Oil Company	57.143%
The Superior Oil Company	42.857%

5

Operator shall have full control of the premises subjected hereto and, subject to the provisions hereof, shall conduct and manage the development and operation of said premises for the production of oil and gas therefrom. Operator shall pay and discharge all costs and expenses incurred pursuant hereto, and shall charge each of the parties hereto with his or its respective proportionate share upon the cost and expense basis provided for in the Accounting Procedure attached hereto, marked "Exhibit B" and made a part hereof. Each party hereto other than Operator will promptly pay Operator such costs as are hereunder chargeable to him or it.

6

If any of the mineral interests or any of the oil and gas leases held by the parties on the premises covered hereby be subject to any overriding royalty, production payment, or other charge in addition to or other than the usual one-eighth (⅛) royalty, the party contributing any such mineral interest or lease shall, at his or its sole cost and expense, bear, assume, and discharge any such overriding royalty, production payment, or other charge and his or its share of the production or the proceeds thereof shall be subject thereto.

7

(a) Each party holding an oil and gas lease subjected to this agreement shall, before the due date, pay all delay rentals or shut-in royalties as the case may be, which may become due under the lease or leases contributed by him or it, and each party paying such rentals or royalties shall, within ten (10) days after same have been paid, but at least ten (10) days prior to the due date, notify Operator of such payment. Operator shall furnish similar information as to its own lease(s) to any party hereto who requests such information. The burden of paying such rentals or shut-in royalties shall fall entirely upon the party required to make payment thereof hereunder. In event of failure to make proper payment of any delay rental or shut-in royalty through mistake or oversight where such rental or royalty is required to continue the lease in force and such failure results in the termination of the lease or a part interest therein (it being understood that any such failure shall not be regarded as a title failure within the meaning of any other section of this agreement), there shall be no money liability for such reason on the part of the party failing to make such payment. In the event any lease subject hereto or any interest therein terminates for non-payment of delay rental or shut-in

royalty, the party owning such lease shall make a bona fide effort to secure a new lease covering the same interest and make same subject to this agreement and in event of failure to secure such new lease within a reasonable time the interests of the parties hereto shall be revised so that the party failing to make such payment will not be credited with production or charged with costs and expenses by reason of his or its ownership of the lease or part interest therein which so terminated.

(b) In the event this agreement is conditioned upon approval or acceptance of titles and provides that any loss or failure thereof shall be borne and shared proportionately by the parties hereto (which condition and provision, if they be herein contained, are set forth in Section 2 hereof) all delay rentals or shut-in royalties paid as required by paragraph (a) of this Section 7 shall be borne by the parties hereto in the proportions set forth in Section 4 hereof, and each of the parties shall be billed for his or its share thereof.

8

Without the consent of parties hereto whose interests aggregate at least one hundred per cent (100%) of the total interests subject to this agreement —

(a) No well shall be drilled on the premises except any well expressly provided for by this agreement and except any well drilled pursuant to the provisions of Section 9 hereof; and

(b) No expenditure in excess of $5,000.00 shall be made by Operator in developing or operating the premises or for capital investment except in connection with a well the drilling of which has been previously authorized pursuant to this agreement; provided, however, that in case of explosion, fire, flood, or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency and to safeguard life and property, but Operator shall, as promptly as possible, report the emergency to the other parties hereto.

9

Should the parties hereto whose interests aggregate the percentage of total interest prescribed in Section 8 above fail to agree upon the drilling of any particular well on the premises subject hereto, then the party or parties desiring to drill such well (hereinafter called "consenting parties") shall give the other party or parties (hereinafter called "non-consenting parties") written notice thereof specifying the proposed depth or formation to be tested, the location of such well (which location shall conform to the well-spacing program, if any, for the specified depth or formation), and the estimated cost of such well, and advising of all dry hole commitments obtained in connection therewith, and specifying a date (not less than thirty (30) days from the date of such notice) on or before which non-consenting parties shall in writing advise the consenting parties of their election either to consent or not to consent to the drilling of such well and to participate in the cost thereof. Each non-consenting party who in due time shall have so given his written consent thereto shall thereupon become a consenting party, but those who in due time communicate their dissent or fail or decline to make any response, shall continue to be non-consenting parties. If at the expiration of said specified date the aggregate interest of those consenting does not equal said prescribed percentage, then the consenting parties, in order to be entitled to the benefits of this section hereinafter set forth, shall at their sole cost, expense and risk commence the drilling of such well at the specified location within sixty (60) days thereafter, and with due diligence continue the drilling thereof to the proposed depth or formation, and such well shall conform to all rules and regulations prescribed by authorities having jurisdiction in the premises. If any such well be drilled and completed as a dry hole or non-paying well, then the entire cost and expense of the drilling, abandoning and plugging of such dry hole or non-paying well, and all liabilities accruing or resulting therefrom, shall be borne and paid by the consenting parties. If oil and/or gas be encountered in paying quantities in any such well at the depth or in the formation specified in the written notice of the party drilling same or at any other depth or in any other formation production from which at the location of said well will not interfere or conflict with the operation of an existing producing well of the parties, it shall be completed and equipped for production by the consenting parties at their risk, cost and expense, and then delivered to and operated by Operator. Upon the commencement of any such well within the time and at the location specified, but subject to the conditions and right of reverter provided for in this section, consenting parties — in addition to owning their respective proportionate interests as provided in Section 4 hereof — shall also own and be entitled to receive in proportion to their said respective interests what would have been the interest and share of each non-consenting party in such well, the leasehold operating rights in connection therewith, the equipment therein and thereon, and share of production therefrom, and shall bear and be liable for what would have been such non-consenting party's part of the costs and expenses of drilling, completing, equipping and operating said well had all parties hereto consented to the drilling thereof until

(I) said well be abandoned, if completed as a dry hole, or if completed as a paying producer but abandoned prior to the payout of such non-consenting party's interest as provided in (II) below, but in either of said events consenting parties shall continue to own such interest and share in the

salvageable equipment therein and thereon to the extent necessary to recoup any unrecouped part of such payout, or

(II) the value of or proceeds from what would have been such non-consenting party's share of such production (after deducting all royalties, overriding royalties and/or production payments, if any, to which such interest or share is subject) received by consenting parties, together with any other payments received by them on account of such non-consenting party's interest, shall equal two hundred percent (200%) of what would have been his or its portion of the net cost of drilling, completing and equipping* such paying producer for production after deducting what would have been his or its share in any amount realized from the sale or disposition of the equipment acquired in connection therewith or the operation thereof plus one hundred (100%) percent of what would have been his or its portion of (1) all tort liabilities, if any (except those resulting from wilful or gross negligence), accruing or resulting from the drilling, completing, equipping and operating of such well, and (2) the cost of operating such paying producer during the time such recoupment is being made,

and thereafter such interest and share in such well and rights in connection therewith shall revert to and such interest and share in the equipment therein and thereon and the production therefrom shall be vested in and owned by such non-consenting party, who thereafter shall bear and be liable for his or its share of the costs and expenses in connection with the further operation of said well, as if all parties had consented to the drilling thereof.

* up to and including the flow line connection

The provisions of this Section 9 shall have no application unless and until the initial test well shall have been drilled on the premises subject to this agreement.

10

No well which is producing or has once produced shall be abandoned without the mutual consent of the parties hereto; provided, however, if the parties are unable to agree as to the abandonment of any well, then the party or parties not desiring to abandon the well shall pay or tender to each of the parties desiring to abandon his or its proportionate share of the reasonable value of the material and equipment in and on said well, such value to be determined, so far as possible, in accordance with the attached "Exhibit B" — Accounting Procedure. Upon receipt of said sum, each party desiring to abandon such well shall, without express or implied warranty of title, assign to the party or parties paying said sum his or its interest in said well and the equipment therein, together with all of his or its rights in all working-interest production therefrom which may thereafter be produced from the formation or formations from which such well is producing. If there is more than one non-abandoning party, such assignment shall run in favor of the non-abandoning parties in proportion to their respective interests.

11

The number of employees, the selection of such employees, the hours of labor, and the compensation for services to be paid any and all such employees, shall be determined by Operator. Such employees shall be the employees of Operator.

12

Operator shall have a lien on the interest or interests of each of the other parties hereto that are subjected to this agreement, the oil and gas produced therefrom, the proceeds thereof, and such party's interest in the material and equipment thereon and therein, to secure Operator in the payment of any sum due to Operator hereunder from each such party. The lien herein provided for shall not extend to any royalty interests in or under the premises subject hereto or the production therefrom. And it is agreed that in event any amount due and owing to Operator by any other party hereto is not paid as herein elsewhere provided within fifteen (15) days from the due date thereof, Operator may serve a written order on the purchaser or purchasers of such other party's share of such oil and gas, and the service of such written order shall authorize and require such purchaser or purchasers to pay to Operator the proceeds thereafter becoming due and owing for such share until Operator shall have been fully reimbursed to date for and on account of such other party's delinquent part of such amounts so due and owing under this agreement, together with interest thereon at the rate of six (6%) percent per annum, but it is agreed that this remedy shall not be exclusive; provided, however, that all parties hereto shall have the right to sell and dispose of their respective interests in the oil and gas produced from the premises subject hereto free and clear of such lien and the purchaser or purchasers thereof need not take notice of said lien until default in payment and service of such written order as above provided, in which events each party hereto agrees that at any time when it may be in arrears in payments hereunder, but only in such event, it will execute upon request, such additional instrument as may be necessary or desired to further evidence such lien and to provide for the prompt discharge thereof.

13

With respect to his or its proportionate share of the oil and gas produced from the premises, exclusive of production which may be used in development and producing operations on said premises and in preparing and treating such production for marketing purposes and production unavoidably lost, each of the parties hereto, subject to the other provisions of this agreement, shall —

(I) take in kind or separately dispose of his or its said proportionate share of such production;

(II) be entitled to receive directly payment for his or its proportionate share of the proceeds from the sale of such production and execute any division order or contract of sale on all purchases or sales pertaining to his or its interest in such production;

(III) pay or cause to be paid all applicable royalties on such production; and

(IV) bear any extra expenditure incurred by the taking in kind or separate disposition by him or it of his or its proportionate share of such production.

In event any party hereto shall fail to make the arrangements necessary to take in kind or separately dispose of his or its proportionate share of the oil or gas produced from said premises, Operator shall have the right, subject to revocation at will by the party owning same, to purchase such oil and gas or sell the same to others for the time being at not less than the market price prevailing in the area and not less than the price which Operator receives for its own portion of such oil or gas, any such purchase or sale to be subject always to the right of the owner of such oil or gas to exercise, at any time, his or its right to take in kind or separately dispose of his or its share of such oil or gas not previously delivered to a purchaser pursuant hereto.

14

Surplus material and equipment from the premises, which in the judgment of the Operator are not necessary for the development and operation thereof, may be sold by Operator to any of the parties to this agreement or to others for the benefit of all parties hereto, or may be divided in kind between such parties. Proper charges and credits shall be made by Operator as provided in the Accounting Procedure, marked "Exhibit B," attached hereto.

15

Each of the parties hereto shall have access to the premises at all reasonable times to inspect and observe any operations thereon, and shall have access at reasonable times to information pertaining to the development or operation thereof including Operator's books and records relating thereto, and Operator, upon request, shall furnish each of the other parties hereto with copies of all drilling reports, well logs, tank tables, daily gauge and run tickets and reports of stock on hand at the first of each month, and shall make available samples of any cores or cuttings taken from any wells drilled hereunder.

16

All wells drilled on the premises shall be drilled on a competitive contract basis at the usual rates prevailing in the area. Operator, if it so desires, may employ its own tools and equipment in the drilling of wells, but in such event the charge therefor shall not exceed the prevailing rate in the field, and such work shall be performed by Operator under the same terms and conditions as shall be customary and usual in the field in the contracts of independent contractors who are doing work of a similar nature.

17

The leases in so far as same are covered by this agreement shall not be surrendered unless the parties mutually consent in writing thereto. Should any party at any time desire to surrender the leases subject hereto and the other party or parties should not consent thereto, the party desiring so to surrender (if it still desires to surrender after the other party or parties have refused their consent) shall assign without express or implied warranty of title all of his or its interest in such leases and in the wells, material and equipment located thereon, and in the production therefrom, to the party or parties not desiring to surrender, and thereupon such assigning party shall be relieved from all obligations thereafter accruing (but not theretofore accrued) hereunder. From and after the making of such assignment the assigning party shall have no further interest in said leases or in the equipment thereon or the production therefrom, but shall be entitled to be paid for his or its interest in any material on said leases at its reasonable value determined, so far as possible, as provided in the attached "Exhibit B". If such assignment shall run in favor of more than one party hereto, the interest covered thereby shall be shared by such parties in the proportions that the interest of each party assignee bears to the total interest of all parties assignee.

18

In the event any party desires to sell all or any part of his or its interests which are subject to this agree-

ment, the other party or parties hereto shall have a preferential right to purchase the same. In such event, the selling party shall promptly communicate to the other party or parties hereto the offer received by him or it from a prospective purchaser ready, willing and able to purchase the same, together with the name and address of such prospective purchaser, and said other party or parties or any one or more of them shall thereupon have an option for a period of ten (10) days after the receipt of said notice to purchase such interest at and for the offered price and upon the offered terms for the benefit of such remaining parties hereto as may agree to purchase the same. Any interest so acquired by more than one party hereto shall be shared by the parties purchasing the same in the proportion that the interest of each party so acquiring bears to the total interest of all parties so acquiring. The limitations of this paragraph shall not apply where any party hereto desires to mortgage his or its interest or to dispose of his or its interest by merger, reorganization, consolidation or sale of all his or its assets, or a sale of his or its interest hereunder to an affiliate, subsidiary or parent company.

In event of a sale by Operator of the interests owned by it which are subject hereto, the holders of a majority interest in the premises subject hereto shall be entitled to select a new operator but unless such selection is made the transferee of the Operator shall act as operator hereunder.

19

Each party hereto shall promptly notify the other parties hereto of any and all dry-hole contribution agreements which he or it may obtain concerning the drilling of any well on the premises subject hereto. In the event the parties hereto, or any of them, receive a contribution toward the drilling of a well hereunder on the premises subject hereto, such contribution shall be owned by each party hereto in the proportion in which the cost of drilling such well is to be borne by him or it.

20

The liability of the parties hereunder shall be several and not joint or collective. Each party shall be responsible only for his or its obligations, as herein set out, and shall be liable only for his or its proportionate share of the cost of developing and operating the premises subject hereto.

21

Operator shall not be liable for any delay or default in performance under this agreement due to any cause beyond its control and without its fault or negligence, including, but not restricted to, acts of God or the public enemy, acts or requests of the federal or state government or any federal or state officer purporting to act under authority, or war, fires, floods, storms, strikes, interruption of transportation, freight embargoes or failure, exhaustion or unavailability or delays in delivery of any materials, equipment or service necessary to the performance of any provision hereof, or the loss of holes, blowouts or happening of any unforeseen accident, misfortune or casualty whereby the drilling or completion of any well or the carrying on of any operation hereunder is delayed or prevented. Provided, further, that no party hereto shall be required against its will to adjust a labor dispute.

The provisions of this agreement shall be subject to all federal and state laws, executive orders, rules or regulations, and to all orders, rules or regulations of all federal or state officers, agencies, boards or commissions which in any way, directly or indirectly, relate to or affect the performance of any of the provisions of this agreement, but no party hereto shall suffer a forfeiture or be liable in damages for failure to comply with any of the provisions of this agreement, if such compliance is prevented by, or if such failure results from, compliance with any such law, order, rule or regulation; and in the event this agreement or any provision hereof is found to be inconsistent with or contrary to any such law, order, rule or regulation, the latter shall be deemed to control and this agreement shall be regarded as modified accordingly and as so modified shall continue in full force and effect.

22

(a) This agreement shall remain in full force and effect for so long as any of the oil and gas leases described in Exhibit "A" remain in force, whether by production, extension, renewal or otherwise, provided, however, that in the event the first well drilled hereunder results in a dry hole or in paying well and no other well is producing oil or gas in paying quantities from the premises subject hereto, then unless the said six (60) days thereafter this agreement shall terminate unless the parties hereto are then engaged in drilling or shall have agreed to drill an additional well or wells hereunder, in which event this agreement shall remain in force while said well or wells are being drilled. If production in paying quantities results therefrom it shall remain in force as if said first well had been productive in paying quantities, but if production in paying quantities does not result therefrom and no further drilling or reworking operations shall have been conducted on the premises within sixty (60) days after the completion or abandonment of said well or wells as dry holes or non-paying wells, this agreement shall terminate at the end of said sixty (60) day period.

(b) In event of any conflict between this agreement and the attached Accounting Procedure, marked "Exhibit B," this agreement shall control.

23

Operator shall render, for ad valorem tax purposes, the premises covered hereby, together with all tangible property, however classified, appurtenant thereto if, and to the extent that Operator deems such property then to be subject to ad valorem taxation and shall pay, for the benefit of the parties hereto, such ad valorem taxes which Operator deems to be assessed validly against such property. When paid, such ad valorem taxes shall be charged to the joint account as provided in the attached "Exhibit B".

24

At its option, Operator may require each other party hereto to advance his or its proportionate part of development and operating costs according to the following conditions:

On or before the first day of each calendar month, Operator shall submit to each other party an itemized estimate of costs and expenses expected to be incurred during the succeeding calendar month. Within ten (10) days after submission of such estimate, each other party hereto shall pay his or its proportionate part of such estimate to Operator. Should any other party fail to pay his or its proportionate part of such estimate to Operator within the aforesaid ten-day period, the same shall bear interest at the rate of six percent (6%) per annum. Adjustments between estimates and actual costs shall be made by Operator at the close of each calendar month and the accounts of the parties hereto shall be adjusted accordingly.

25

The term "oil and gas" as herein used shall include casinghead gas and any other mineral covered by any oil and gas lease subjected hereto.

26

All notices which are required or authorized to be given hereunder, except as otherwise specifically provided herein, shall be given in writing by mail or telegram, postage or charges prepaid, and addressed to the party to whom such notice is given as follows:

Skelly Oil Company
Skelly Building
Tulsa, Oklahoma

The Superior Oil Company
Midland, Texas

Any notice to be given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed, and the time for such party to give any response thereto or to take any action in regard thereto shall run from the date such notice is received.

27

(For insertion of other provisions, if any, such as drilling of initial test well, insurance, etc.)

Skelly Oil Company is hereby designated as "Operator" under the terms of this agreement and as such shall use its best efforts to commence or cause to be commenced within sixty (60) days after the effective date hereof operations for the drilling of a well at a location in the approximate center of the Southwest Quarter (SW/4) of the Southwest Quarter (SW/4) of Section 16, Township 11 South, Range 34 East, Lea County, New Mexico, and shall prosecute the drilling thereof with due diligence and in a workmanlike manner to a depth sufficient to test the Devonian Formation, expected to be encountered at the approximate depth of 13,500 feet, unless production in commercial quantities is encountered at a lesser depth or unless some formation or condition is encountered at such lesser depth which would make further drilling inadvisable or impracticable.

28

Operator shall carry such Workmen's Compensation and Employers' Liability Insurance as may be required by the laws of the State of New Mexico, provided that Operator may be a self-insurer as to either or both of such risks, if permissable, under the laws of said state. No other insurance shall be carried by Operator for the benefit of the parties hereto except by mutual consent of the parties.

29

Each party hereto hereby elects that he or it and the operations covered by this agreement be excluded from the application of Subchapter K of Chapter I of Subtitle A of the Internal Revenue Code of 1954, or such portion or portions thereof as the Secretary of the Treasury of the United States or his delegate shall permit by election to be excluded therefrom, insofar as all or any portion of said Subchapter K may be applicable to the parties hereto in respect of the operations covered by this agreement. Operator is hereby authorized and directed to execute on behalf of each of the parties hereto such additional or further evidence of said election as may be required by regulations issued under said Subchapter K, or, should said regulations require each party to execute such further evidence, each party agrees to execute such evidence, or to join in the execution thereof.

30

The parties hereto having entered into that certain agreement, captioned "Unit Agreement For The Development and Operation of the Bogle Farms Unit Area, Lea County, New Mexico" (hereinafter referred to as the "Unit Agreement"), of even date herewith, all of the terms, provisions and conditions of said agreement are incorporated herein by reference and made a part hereof with the same effect as if set out in full herein.

31

Notwithstanding any provision hereof to the contrary, this agreement shall not become effective, nor shall Operator incur any liability hereunder, unless:

(1) This agreement and said Unit Agreement have been executed by all parties to said agreements prior to February 1, 1956, and

(2) Said Unit Agreement shall have been approved by the Commissioner of Public Lands of the State of New Mexico and his Certificate of Approval has been executed and issued.

Should this agreement become effective, it shall be effective as of the date hereof.

32

This agreement shall become effective as hereinabove provided and shall remain in full force and effect for a term coextensive with that of said Unit Agreement and may be terminated in whole or in part by mutual consent of the parties hereto.

This agreement shall be binding upon the parties hereto, their successors and assigns, and the terms hereof shall constitute a covenant running with the lands and leasehold estates covered hereby.

IN WITNESS WHEREOF the parties hereto have signed this agreement the day and year first above written.

ATTEST:

SKELLY OIL COMPANY

_____
Assistant Secretary

By_____
Vice-President

ATTEST:

THE SUPERIOR OIL COMPANY

_____
Secretary

By_____
President

EXHIBIT A

to

OPERATING AGREEMENT

The South Half (S/2) of Section 9; All of Section 16; the East Half (E/2) of Section 20; and All of Section 21, Township 11 South, Range 34 East, Lea County, New Mexico, containing 2240 acres, more or less

LEASES CONTRIBUTED BY SKELLY OIL COMPANY:

1. Lessor : State of New Mexico, Lease No. E-9209

   Lessee : Skelly Oil Company

   Interest : All

   Date : July 19, 1955

   Description: S/2 Section 9, and NW/4 Section 16, Township 11 South, Range 34 East, Lea County, New Mexico, containing 480 acres of land.

2. Lessor : State of New Mexico, Lease No. E-9210

   Lessee : Skelly Oil Company

   Interest : All

   Date : July 19, 1955

   Description: SW/4 of Section 16, Township 11 South, Range 34 East, Lea County, New Mexico, containing 160 acres of land.

3. Lessor : State of New Mexico, Lease No. E-2416

   Lessee : Skelly Oil Company

   Interest : All

   Date : February 10, 1949

   Description: E/2 of Section 16, Township 11 South, Range 34 East, Lea County, New Mexico, containing 320 acres of land.

4. Lessor : State of New Mexico, Lease No. E-9097

   Lessee : Skelly Oil Company

   Interest : All

   Date : June 21, 1955

   Description: E/2 of Section 20, Township 11 South, Range 34 East, Lea County, New Mexico, containing 320 acres of land.

EXHIBIT A — Continued

LEASES CONTRIBUTED BY THE SUPERIOR OIL COMPANY:

1. Lessor : State of New Mexico, Lease No. E-8464

   Lessee : The Superior Oil Company

   Interest : All

   Date : September 21, 1954

   Description: E/2 of Section 17, Township 11 South, Range 34 East, Lea County, New Mexico, containing 320 acres of land.

2. Lessor : State of New Mexico, Lease No. E-8302

   Lessee : The Superior Oil Company

   Interest : All

   Date : July 20, 1954

   Description: Section 21, Township 11 South, Range 34 East, Lea County, New Mexico, containing 640 acres of land.

EXHIBIT " B "

Attached to and made a part of OPERATING AGREEMENT
Skelly Oil Company - Superior Oil Company
Lea County, New Mexico -

ACCOUNTING PROCEDURE

(UNIT AND JOINT LEASE OPERATIONS)

I. GENERAL PROVISIONS

1. Definitions

"Joint property" as herein used shall be construed to mean the subject area covered by the agreement to which this "Accounting Procedure" is attached.

"Operator" as herein used shall be construed to mean the party designated to conduct the development and operation of the subject area for the joint account of the parties hereto.

"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 Subparagraph 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 ordinary charges and credits to the joint account summarized by appropriate classifications indicative of the nature thereof; and

(3) Detailed statement of any other charges 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. Adjustments

Payment of any such bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof. Subject to the exception noted in Paragraph 5 of this section I, all statements rendered to Non-Operator by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-four (24) month period 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 making of claims for adjustment thereon. The provisions of this paragraph shall not prevent adjustments resulting from physical inventory of property as provided for in Section VI, Inventories, hereof.

5. Audits

A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the accounting hereunder for any calendar year within the twenty-four (24) month period following the end of such calendar year, provided, however, that Non-Operator must take written exception to and make claim upon the Operator for all discrepancies disclosed by said audit within said twenty-four (24) month period. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator.

II. 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 directly to royalty owners by the purchaser of the oil, gas, casinghead gas, or other products.

2. Labor

A. Salaries and wages of Operator's employees directly engaged on the joint property in the development, maintenance, and operation thereof, including salaries or wages paid to geologists and other employees who are temporarily assigned to and directly employed on a drilling well.

B. Operator's cost of holiday, vacation, sickness and disability benefits, and other customary allowances applicable to the salaries and wages chargeable under Subparagraph 2 A and Paragraph 11 of this Section II. Costs under this Subparagraph 2 B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable under Subparagraph 2 A and Paragraph 11 of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Costs of expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's labor cost of salaries and wages as provided under Subparagraphs 2 A, 2 B, and Paragraph 11 of this Section II.

3. Employee Benefits

Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost, provided that the total of such charges shall not exceed ten per cent (10%) of Operator's labor costs as provided in Subparagraphs A and B of Paragraph 2 of this Section II and in Paragraph 11 of this Section II.

4. 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 may be required for immediate use; and the accumulation of surplus stocks shall be avoided.

5. Transportation

Transportation of employees, equipment, material, and supplies necessary for the development, maintenance, and operation of the joint property subject to the following limitations:

A. If material is moved to the joint property from vendor's or from the Operator's warehouse or other properties, no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where such material is available, except by special agreement with Non-Operator.

B. If surplus material is moved to Operator's warehouse or other storage point, no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point, except by special agreement with Non-Operator. 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. Service

A. Outside Services:
The cost of contract services and utilities procured from outside sources.

B. Use of Operator's Equipment and Facilities:
Use of and service by Operator's exclusively owned equipment and facilities as provided in Paragraph 5 of Section III entitled "Operator's Exclusively Owned Facilities."

7. Damages and Losses to Joint Property and Equipment

All costs or expenses necessary to replace or repair damages or losses incurred by fire, flood, storm, theft, accident, or any other cause not controllable by Operator through the exercise of reasonable diligence. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after report of the same has been received by Operator.

8. Litigation Expense

All costs and expenses of litigation, or legal services otherwise necessary or expedient for the protection of the joint interests, including attorneys' fees and expenses as hereinafter provided, together with all judgments obtained against the parties or any of them on account of the joint operations under this agreement, and 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 cost of providing and furnishing such services rendered may be made against the joint account; but no such charge shall be made until approved by the legal departments 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 or levied 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 and Claims

A. Premiums paid for insurance required to be 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 (Field Supervision and Camp Expense)

A pro rata portion of the salaries and expenses of Operator's production superintendent and other employees serving the joint property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's New Mexico District office located at or near Hobbs, New Mexico (or a comparable office if location changed), and necessary suboffices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in the conduct of the operations on the joint property and other properties operated in the same locality. The expense of, less any revenue from, these facilities should be inclusive of depreciation or a fair monthly rental in lieu of depreciation on the investment. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.

12. Administrative Overhead

Operator shall have the right to assess against the joint property covered hereby the following management and administrative overhead charges, which shall be in lieu of all expenses of all offices of the Operator not covered by Section II, Paragraph 11, above, including salaries and expenses of personnel assigned to such offices, except that salaries of geologists and other employees of Operator who are temporarily assigned to and directly serving on the joint property will be charged as provided in Section II, Paragraph 2, above. Salaries and expenses of other technical employees assigned to such offices will be considered as covered by overhead charges in this paragraph unless charges for such salaries and expenses are agreed upon between Operator and Non-Operator as a direct charge to the joint property.

WELL BASIS (Rate Per Well Per Month)

Well Depth	DRILLING WELL RATE	PRODUCING WELL RATE (Use Completion Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten
13,500	$200.00	$50.00	$35.00	$25.00

A. Overhead charges for drilling wells shall begin on the date each well is spudded and terminate 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. In connection with overhead charges, the status of wells shall be as follows:

(1) Injection wells for recovery operations, such as for repressure or water flood, shall be included in the overhead schedule the same as producing oil wells.

(2) Water supply wells utilized for water flooding operations shall be included in the overhead schedule the same as producing oil wells.

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

(4) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the 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.

(5) Wells being plugged back, drilled deeper, or converted to a source or input well shall be included in the overhead schedule the same as drilling wells.

(6) Temporarily shut-down wells (other than by governmental regulatory body) which are not produced or worked upon for a period of a full calendar month shall not be included in the overhead schedule; however, wells shut in by governmental regulatory body shall be included in the overhead schedule only in the event the allowable production is transferred to other wells on the same property. In the event of a unit allowable, all wells capable of producing will be counted in determining the overhead charge.

(7) Wells completed in dual or multiple horizons shall be considered as two wells in the producing overhead schedule.

(8) Lease salt water disposal wells shall not be included in the overhead schedule unless such wells are used in a secondary recovery program on the joint property.

C. The above overhead schedule for producing wells shall be applied to the total number of wells operated under the Operating Agreement to which this accounting procedure is attached, irrespective of individual leases.

D. It is specifically understood that the above overhead rates apply only to drilling and producing operations and are not intended to cover the construction or operation of additional facilities such as, but not limited to, gasoline plants, compressor plants, repressuring projects, salt water disposal facilities, and similar installations. If at any time any or all of these become necessary to the operation, a separate agreement will be reached relative to an overhead charge and allocation of district expense.

E. 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. Operator's Fully Owned Warehouse Operating and Maintenance Expense

(Describe fully the agreed procedure to be followed by the Operator.)

None

14. Other Expenditures

Any expenditure, other than expenditures which are covered and dealt with by the foregoing provisions of this Section II, incurred by the 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, pumping units, sucker rods, engines, and other major equipment. Tubular goods, two-inch (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.

(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 seventy-five per cent (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 secondhand 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 fifty per cent (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, buildings, and other equipment involving erection costs shall be charged at applicable percentage of knocked-down new price.

3. Premium Prices

Whenever materials and equipment are not readily obtainable at the customary supply point and at prices specified in Paragraphs 1 and 2 of this Section III because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the joint account for the required materials on the basis of the Operator's direct cost and expense incurred in procuring such materials, in making it suitable for use, and in moving it to the location, provided, however, that notice in writing is furnished to Non-Operator of the proposed charge prior to billing the Non-Operator for the material and/or equipment acquired pursuant to this provision, whereupon Non-Operator shall have the right, by so electing and notifying Operator within 10 days after receiving notice from the Operator, to furnish in kind, or in tonnage as the parties may agree, at the location, nearest railway receiving point, or Operator's storage point within a comparable distance, all or part of his share of material and/or equipment suitable for use and acceptable to the Operator. Transportation costs on any such material furnished by Non-Operator, at any point other than at the location, shall be borne by such Non-Operator. If, pursuant to the provisions of this paragraph, any Non-Operator furnishes material and/or equipment in kind, the Operator shall make appropriate credits therefor to the account of said Non-Operator.

4. 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.

5. 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, fuel, power, compressor and other auxiliary services 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 at rates commensurate with cost of ownership and operation. Such rates should generally be in line with the 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 and tractor rates may 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. Pulling units shall be charged at hourly rates commensurate with the cost of ownership and operation, which shall include repairs and maintenance, operating supplies, insurance, depreciation, and taxes. Pulling unit rates may include wages and expenses of the operator.

D. A fair rate shall be charged for laboratory services performed by Operator for the benefit of the joint account, such as gas, water, core, and any other analyses and tests; provided such charges shall not exceed those currently prevailing if performed by outside service laboratories.

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

F. 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. The disposition of major items of surplus material, such as derricks, tanks, engines, pumping units, and tubular goods, shall be subject to mutual determination by the parties hereto; provided Operator shall have the right to dispose of normal accumulations of junk and scrap material either by transfer or sale from the joint property.

1. Material Purchased by the Operator or Non-Operator

Material purchased by either the Operator or Non-Operator shall be credited by the Operator to the joint account for the month in which the material is removed by the purchaser.

2. 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. Such credits shall appear in the monthly statement of operations.

3. 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 one hundred per cent (100%) of current new price (plus sales tax if any).

3. Good Used Material

Good used material (Condition "B"), being used material in sound and serviceable condition, suitable for reuse without reconditioning:

A. At seventy-five per cent (75%) of current new price if material was charged to joint account as new, or

B. At sixty-five per cent (65%) of current new price if material was originally charged to the joint property as secondhand at seventy-five per cent (75%) of new price.

4. Other Used Material

Used material (Condition "C"), at fifty per cent (50%) of current new price, 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.

5. Bad-Order Material

Material and equipment (Condition "D"), which is no longer usable for its original purpose without excessive repair cost but is further usable for some other purpose, shall be priced on a basis comparable with that of items normally used for that purpose.

6. Junk

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

7. Temporarily Used Material

When the use of material is temporary and its service to the joint account does not justify the reduction in price as provided in Paragraph 3 B, 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, Notice and Representation

At reasonable intervals, 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.

Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operator may be represented when any inventory is taken.

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

2. Reconciliation and Adjustment of Inventories

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.

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

3. 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.

R-34-E

8

9

Skelly
E-9209
7.19.65
TRACT 1

10

State

Superior
E-8464
9.21.64

TRACT 1

Skelly
E-2416
2.10.69

17 TRACT 5

16 TRACT 3

15

Skelly
E-9210
7.19.65
TRACT 2

Proposed Location

T 11 S

State

State

Skelly
E-9097
6.21.65

Superior
E-8302
7.20.64

TRACT 4

TRACT 6

20

21

22

State

State

29

28

27

EXHIBIT "A"

SKELLY OIL COMPANY-OPERATOR

BOGLE FARMS UNIT

T-11-S R-34-E

LEA COUNTY, NEW MEXICO

SCALE: 1" = 2000'

EXHIBIT "B"

BOGLE FARMS UNIT

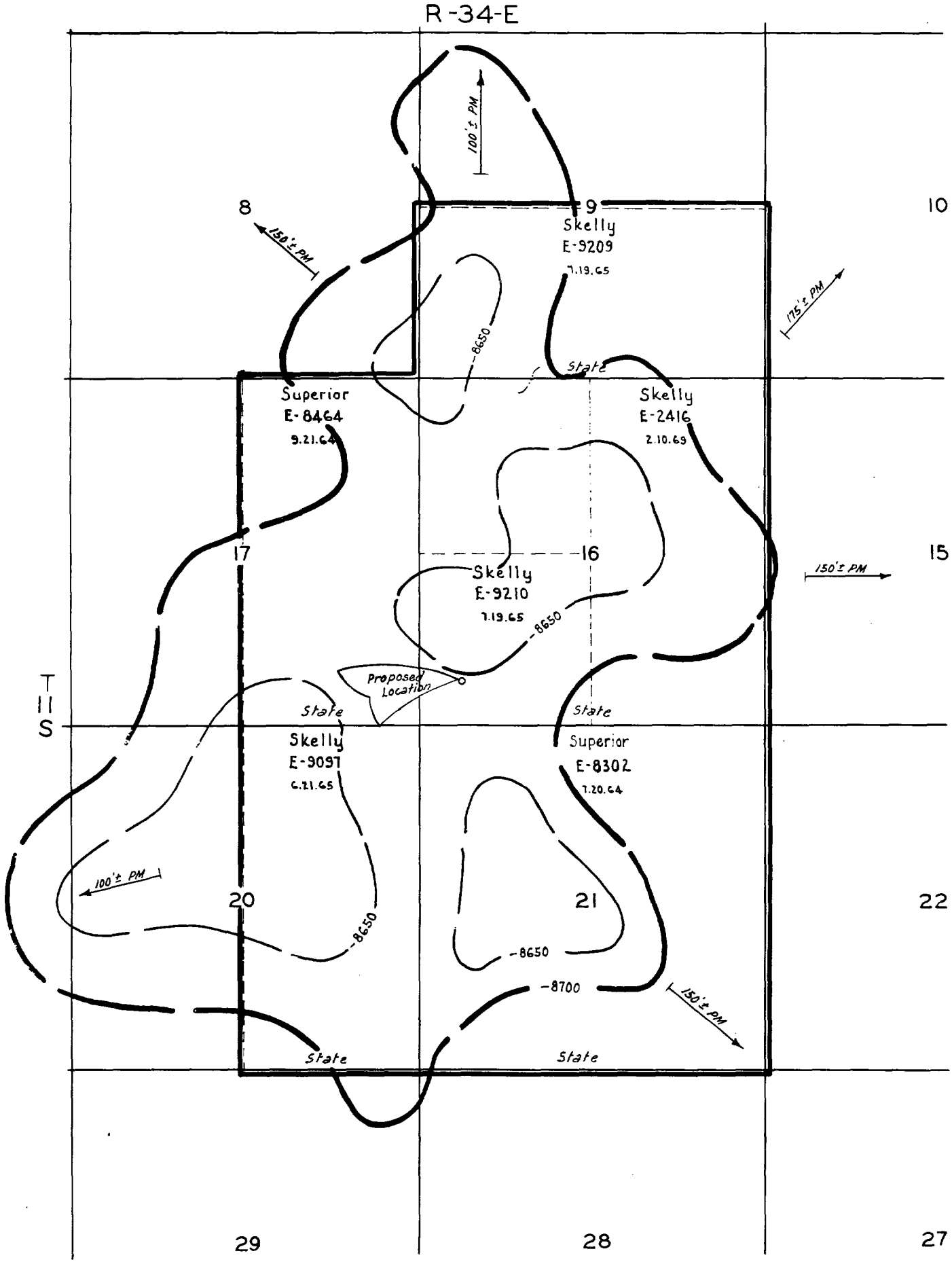
Skelly Oil Company - Operator

SCHEDULE OF PERCENTAGE & OWNERSHIP OIL & GAS INTERESTS IN ALL LANDS

Tract No.	Description	No. of Acres	N.M. State Lease No. & Date	*Landowner & Percentage of Royalty	Record Owner of Lease Application	Overriding Royalty	Working Interest Owner & Percentage of Interest
1	S/2 Sec. 9 & NW/4 Sec. 16, T-11-S, R-34-E	480	E-9209 (7-19-55)	State of New Mexico 12½%	Lamar Lunt	None	Skelly Oil Co. 87.50%
2	SW/4 Sec. 16, T-11-S, R-34-E	160	E-9210 (7-19-55)	State of New Mexico 12½%	F. R. Bryan	None	Skelly Oil Co. 87.50%
3	E/2 Sec. 16	320	E-2416 (2-10-49)	State of New Mexico 12½%	Skelly Oil Co.	None	Skelly Oil Co. 87.50%
4	E/2 Sec. 20 T-11-S, R-34-E	320	E-9097 (6-21-55)	State of New Mexico 12½%	Skelly Oil Co.	None	Skelly Oil Co. 87.50%
5	E/2 Sec. 17 T-11-S, R-34-E	320	E-8464 (9-21-54)	State of New Mexico 12½%	Superior Oil Co.	None	Superior 87.50%
6	Sec. 21 T-11-S, R-34-E	640	E-8302 (7-20-54)	State of New Mexico 12½%	Casper Drlg. Co.	None	Superior 87.50%
		2240					

* - All New Mexico State Lands

R-34-E



STRUCTURE MAP
SEISMIC INTERPRETATION
ON TOP DEVONIAN ?

EXHIBIT "C"
SKELLY OIL COMPANY-OPERATOR

BOGLE FARMS UNIT

T-11-S R-34-E
LEA COUNTY, NEW MEXICO

SCALE: 1"=2000'