Exhibit 4

UNIT OPERATING AGREEMENT
LONG DRAW UNIT
COUNTY OF EDDY
STATE OF NEW MEXICO

THIS AGREEMENT, made and entered into as of the 6th day of April, 1964, by and between PAN AMERICAN PETROLEUM CORPORATION, hereinafter referred to as "Pan American", "Unit Operator", or "Operator", and CALIFORNIA OIL COMPANY, LEONARD OIL COMPANY, GULF OIL CORPORATION, UNION OIL COMPANY OF CALIFORNIA, HONDO OIL & GAS COMPANY, all corporations, and THOMAS CONNELL, an individual, hereinafter referred to collectively as "Non-Operator", Thomas Connell being joined by his wife,

WITNESSETH, THAT:

WHEREAS, the parties hereto have executed or ratified as of the date hereof a certain Unit Agreement for the Development and Operation of the Long Draw Unit Area in Eddy County, New Mexico, hereinafter referred to as "Unit Agreement", and

WHEREAS, pursuant to the provisions of Section 7 of said Unit Agreement the parties hereto desire to enter into a Unit Operating Agreement covering the leases and land in the Long Draw Unit Area, said leases and lands being sometimes referred to herein as the "lease acreage";

NOW, THEREFORE, in consideration of the premises and of the mutual agreements herein contained, including the Operating Provisions, Exhibit "A", and the Accounting Procedure, Exhibit "B", and the Ownership Schedule, Exhibit "C", it is understood and agreed by and between the parties hereto as follows:

1. UNIT PLAN CONFIRMED:

The aforesaid Unit Agreement and all of the exhibits which are attached hereto are hereby confirmed and made a part of this agreement. In the event of any inconsistency or conflict between the provisions of this agreement and the Unit Agreement, the provisions of the Unit Agreement shall prevail to the extent of such inconsistency or conflict.

2. UNIT OPERATOR:

Subject to the terms, covenants and conditions hereinafter set forth, Pan American, for and during the term of this agreement, is hereby designated as Unit Operator of the lease acreage covered hereby and all of the physical equipment of the parties hereto used, had or obtained in connection with the operation and development of said lease acreage, for the joint account of the parties hereto. As the Unit Operator, Pan American shall have the exclusive control and management of

BEFORE EXAMINER NUTTER
OIL CONSERVATION COMMISSION
EXHIBIT NO. 4
CASE NO. 2225

the operation and development of the said lease acreage for the joint account of the parties hereto, and shall conduct such operations in a good and workmanlike manner, but shall have no liability as Unit Operator to the other parties hereto for losses sustained, or liabilities incurred, except such as may result from its gross negligence or willful misconduct.

3. TITLES:

The Non-Operator who is the working interest onwer of any wellsite tract, shall furnish unto Pan American all title opinions, abstracts and other title papers that such Non-Operator may have in their files, together with photocopies of the basic leases, all intermediate assignments, delay rental receipts and such other documents as are pertinent to the title. The Unit Operator shall cause such title to be supplemented to a current date and shall furnish all of the other parties with copies thereof. The Non-Operator which has contributed the proposed wellsite tract to the unit area shall make a bona fide effort to satisfy any requirements made by Pan American's examining attorney, and the opinion of Pan American's attorney as to the condition of such title shall be final.

4. TEST WELL:

Unit Operator, on or before April 30, 1964, provided the Unit Agreement is finally approved by the United States Geological Survey, shall commence or cause to be commenced operations for the drilling of a test well for the joint account of the parties hereto at a location in the SE/4 of Section 25, Township 20 South, Range 23 East, a portion of the lease acreage lying within the unit area, and shall prosecute the drilling of said test well diligently, without unnecessary delay and in a workmanlike manner to a total depth of 9,300 feet, unless the top of the Mississippian Formation is penetrated at a lesser depth, or unless granite or other impenetrable substance or condition rendering further drilling impractical, is encountered at a lesser depth; provided, however, that Unit Operator shall not be required in any event to drill said well to a depth in excess of such total depth of 9,300 feet. All costs and expenses incurred in connection with the drilling, completing, testing, equipping (including necessary wellhead connections, flow lines, tankage and pumping and other equipment initially installed in connection with the completion of said test well), and, if a dry hole, the plugging and abandoning of said test well, shall be

borne by the parties hereto in the proportions set out in the Ownership Schedule attached and made a part hereof as Exhibit "C", as shown in the column styled "Per Cent of Participation in Cost of Drilling and Completing First Test Well".

Additional test wells drilled in the unit area shall be drilled in accordance with the percentages shown in the column styled "Per Cent of Participation in Cost of Drilling and Completing Subsequent Wells", as set out in said Exhibit "C". It is agreed that encumbrances shall be spread throughout the unit area as indicated in the last column of said Exhibit "C". As of the date hereof, Hondo Oil & Gas Company and Thomas Connell have not executed the subject Unit Agreement, and this Unit Operating Agreement, and in the event of their subsequent joinder, Exhibit "C" shall be revised by the Unit Operator, subject to approval by the parties participating in the first test well so as to indicate the new percentages of participation which have occurred by reason of such subsequent joinder of either or both of such parties.

5. ANNUAL RENTALS AND SHUT-IN ROYALTIES:

Each of the parties hereto shall bear and pay all annual rentals and shut-in royalties which become due and payable under the terms and provisions of the lease or leases of each of such parties covered hereby and committed by them to the unit area.

6. INSURANCE:

Unit Operator or Unit Operator's subcontractors shall carry for the benefit of the joint account insurance to cover all operations on the lease acreage covered by this agreement as follows:

(a) Workmen's Compensation Insurance, including employers' liability: In compliance with the workmen's compensation laws of the State of New Mexico;

(b) Comprehensive General Liability Insurance, excluding products: A single combined limit of $500,000.00 each accident for bodily injuries or death and property damage;

(c) Automobile Public Liability and Property Damage Insurance with a single combined limit of $500,000.00 each accident for bodily injuries or death and property damage.

7. NOTICES:

Except as herein otherwise expressly provided, all notices, reports and other communications required or permitted hereunder shall be deemed to have been properly given or delivered when delivered personally or when sent by registered mail or telegraph, with all postage or charges fully prepaid, and addressed to the parties at the following addresses:

Operator:

Pan American Petroleum Corporation
Oil and Gas Building
P. O. Box 1410
Fort Worth 1, Texas

Non-Operator:

California Oil Company
200 West First Street
Roswell, New Mexico

Leonard Oil Company
1000 Security National Bank Bldg.
Roswell, New Mexico

Gulf Oil Corporation
P. O. Box 1938
Roswell, New Mexico

Union Oil Company of California
300 Security National Bank Bldg.
Roswell, New Mexico

Thomas Connell and wife,
Emily K. Connell
538 Whitney Bank Bldg.
New Orleans, Louisiana

Hondo Oil & Gas Company
P. O. Box 1978
Roswell, New Mexico

The date of service by mail shall be the date on which such written notice or other communication is deposited in the United States Post Office, addressed as above provided. Each party hereto shall have the right to change its address for all purposes of this Article 7 by notifying the other parties hereto thereof in writing.

8. OPERATING PROVISIONS:

The provisions of Article 19 of the Operating Provisions, Exhibit "A", shall not apply to the drilling of the first test well under the terms of this agreement.

9. COUNTERPARTS:

This agreement may be executed in counterpart and shall be binding upon those parties who execute or ratify the same, regardless of whether all of the parties join herein.

EXECUTED as of the day and year first above written.

~~ATTEST:~~

_____
~~Assistant Secretary~~

DATE: 4-6-66

PAN AMERICAN PETROLEUM CORPORATION

By _____
Attorney in Fact

ATTEST:

_____
Secretary

DATE: _____

CALIFORNIA OIL COMPANY

By _____
President

ATTEST:

_____
Secretary

DATE: _____

LEONARD OIL COMPANY

By _____
President

ATTEST:

_____
Secretary

DATE: _____

GULF OIL CORPORATION

By _____
Attorney in Fact

ATTEST: DATE: UNION OIL COMPANY OF CALIFORNIA

_____ _____ By_____
Secretary President

ATTEST: DATE: HONDO OIL & GAS COMPANY

_____ _____ By_____
Secretary President

DATE:

_____ _____
THOMAS CONNELL

_____
EMILY K. CONNELL

STATE OF TEXAS)
)
COUNTY OF TARRANT)

The foregoing instrument was acknowledged before me this 6th day of April, 1964, by D. B. MASON, JR., as Attorney in Fact on behalf of PAN AMERICAN PETROLEUM CORPORATION.

My commission expires:

June 1, 1965

Velma B. Craft
Notary Public, in and for
Tarrant County, Texas VELMA B. CRAFT

STATE OF _____)
)
COUNTY OF _____)

The foregoing instrument was acknowledged before me this ____ day of _____, 1964, by _____, _____ President of CALIFORNIA OIL COMPANY, a _____ corporation, on behalf of said corporation.

My commission expires:

_____

_____
Notary Public, in and for
_____ County, _____

STATE OF _____)
)
COUNTY OF _____)

The foregoing instrument was acknowledged before me this ____ day of _____, 1964, by _____, _____ President of LEONARD OIL COMPANY, a _____ corporation, on behalf of said corporation.

My commission expires:

_____

_____
Notary Public, in and for
_____ County, _____

STATE OF _____)
)
COUNTY OF _____)

The foregoing instrument was acknowledged before me this ____ day of _____, 1964, by _____, as Attorney in Fact on behalf of GULF OIL CORPORATION.

My commission expires:

_____

_____
Notary Public, in and for
_____ County, _____

STATE OF _____)
)
COUNTY OF _____)

The foregoing instrument was acknowledged before me this ____ day of _____, 1964, by _____, _____ President of UNION OIL COMPANY OF CALIFORNIA, a _____ corporation, on behalf of said corporation.

My commission expires:

_____

_____
Notary Public, in and for
_____ County, _____

STATE OF _____)
)
COUNTY OF _____)

The foregoing instrument was acknowledged before me this ____ day of _____, 1964, by _____, _____ President of HONDO OIL & GAS COMPANY, a _____ corporation, on behalf of said corporation.

My commission expires:

_____

_____
Notary Public, in and for
_____ County, _____

THE STATE OF _____)
)
COUNTY OF _____)

The foregoing instrument was acknowledged before me this ____ day of _____, 1964, by THOMAS CONNELL and wife, EMILY K. CONNELL.

My commission expires:

_____

_____
Notary Public, in and for
_____ County, _____

EXHIBIT "A"

OPERATING PROVISIONS

Attached to and made a part of that certain Operating Agreement, dated the _____ day of _____, 19 64, by and between PAN AMERICAN PETROLEUM CORPORATION, as Operator, and CALIFORNIA OIL COMPANY ET AL., as Non-Operator

1. TERMINOLOGY:

The terms "lease acreage", "Operator" and "Non-Operator" shall have the same meaning, respectively, as are attributed to them in the Operating Agreement to which this exhibit is attached. The words "it" or "its", wherever used herein, shall refer to an individual (male or female) as well as to a corporation or other legal entity and, where the context permits, shall include the plural number.

2. OPERATIONS:

Except as may be authorized by the mutual agreement of all the parties hereto, the Operator shall not permit or suffer any lien or other encumbrances to be filed or to remain against any lease or physical equipment covered hereby as a result of its operations hereunder.

The number of employees, the selection of such employees, the hours of labor and the compensation for services to be paid any and all employees, in connection with operations hereunder, shall be determined by the Operator. All employees and contractors used in operations hereunder shall be the employees and contractors of the Operator and not the employees or contractors of the Non-Operator.

In the event the Operator should sell, transfer, or otherwise dispose of all its interest in the property or properties covered by this Operating Agreement, then the right to operate said property or properties hereunder shall not pass to Operator's successor in interest but a new Operator shall be selected as set out in the following paragraph.

Operator may resign its appointment hereunder after first giving sixty (60) days' notice in writing of its intended resignation to Non-Operator; or if Operator should liquidate, become insolvent, die; or terminate its corporate existence, or should Operator sell or transfer or otherwise dispose of all its interest in the joint property, its appointment hereunder shall thereupon terminate. In any such

event the other party or parties hereto or their respective successor (or successors) in interest shall by vote representing the majority percentage of interest in the joint property select and designate a new Operator. Provided, however, if there is only one Non-Operator owning fifty per cent (50%) or more of the working interest, then it shall have the option of becoming the new Operator of the joint property.

The Operator shall not be relieved of operations hereunder until sixty (60) days after the effective date of such resignation, sale, transfer, or other disposition of all of its interest, unless a new Operator selected as hereinabove provided, shall assume operations hereunder at an earlier date.

3. LOSS OR FAILURE OF TITLE:

In the event of the loss or failure of the title, in whole or in part, of any party hereto to any lease, or any interest therein, covered hereby, the interest of such party in and to the production obtained from the lease acreage shall be reduced in proportion to such loss or failure of 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 revenues or production obtained prior to such date; and provided, further, that each party hereto whose title has been lost or has failed, as aforesaid, shall indemnify the other parties hereto against, and shall hold such other parties harmless from, all loss, cost, damage and expense which may result from, or in any manner arise because of, the delivery to such party of production obtained hereunder from the lease acreage covered hereby or the payment to such party of proceeds derived from the sale of any such production, prior to the date said loss or failure of title is finally determined.

4. DURATION OF AGREEMENT:

This agreement shall remain in full force and effect, unless sooner terminated by the mutual agreement of the parties hereto, so long as any lease covered hereby, or any extension or renewal thereof, remains in full force and effect, whether by production or otherwise; provided, that, if a party hereto should transfer all or part of its interest in leases covered hereby or if a party's title should fail in whole or in part, this agreement shall not thereby terminate, except as to a party which thereafter retains no interest covered hereby.

5. COSTS AND EXPENSES:

Unless the Operator elects to require the Non-Operator to advance its

share of the costs and expenses, as hereinafter provided, the Operator initially shall advance and pay all costs and expenses for the drilling, development and operation of said lease acreage and shall charge the Non-Operator its share thereof, said share being equal to its percentage of ownership of production and equipment as set out in the foregoing Operating Agreement to which these Operating Provisions are attached as an exhibit.

All such costs, expenses, credits and related matters, and the method of handling the accounting with respect thereto, shall be in accordance with the provisions of the schedule of accounting procedure, attached to the Operating Agreement to which this exhibit is attached, marked Exhibit "B" and hereby made a part of said Operating Agreement. (In the event of any conflict between the provisions contained in this exhibit and those contained in said Exhibit "B", the provisions of this exhibit shall govern to the extent of such conflict. In the event of any conflict between the provisions contained in either of said exhibits and those contained in the body of said Operating Agreement, the provisions contained in the body of said Operating Agreement shall govern to the extent of such conflict.)

The Operator shall make no single expenditure in excess of Five Thousand Dollars ($5,000.00) without first obtaining the consent thereto of the Non-Operator; provided, however, that in case of accident or other emergency, the Operator shall have the right and duty to take such action as in its judgment may be required for the protection of life and property and to incur for the joint account of the parties hereto the necessary costs and expenses in connection therewith, said accident or other emergency, and the action taken, to be reported by the Operator to the Non-Operator as soon as reasonably possible; and provided, further, that the approval of the drilling of a well shall include all expenditures for the drilling, completing, testing and equipping of such well, including the necessary lines, separators and lease tankage.

In the event that the Operator elects to require the Non-Operator to advance its proportionate share of the above mentioned costs and expenses, the Operator, on or before the 10th day of the month, shall submit an itemized estimate of such costs and expenses for the succeeding calendar month to the Non-Operator, showing therein the proportionate part of such estimated costs and expenses which is chargeable to the Non-Operator. Within fifteen (15) days after receipt of said estimate, the Non-Operator shall pay to the Operator its proportionate share of said estimated costs and expenses. If payment of said estimated costs and expenses is not made when due,

the unpaid balance thereof shall bear interest at the rate of six per cent (6%) per annum from the due date until paid. Adjustments between estimated and actual costs and expenses shall be made by the Operator at the close of each calendar month and the accounts of the parties hereto adjusted accordingly.

6. OPERATOR'S LIEN:

The Operator is hereby granted a lien upon the working interest and leasehold estate of the Non-Operator covered hereby and upon the Non-Operator's interest in the well or wells located on lease acreage covered hereby, in the production obtained from said well or wells and in the physical equipment used, had and obtained in connection with the operations of said well or wells to secure the payment of said Non-Operator's proportionate share of said costs and expenses and of said estimated costs and expenses, together with interest thereon at the rate of six per cent (6%) per annum. Operator shall have the right to bring any action at law or in equity to enforce collection of such indebtedness with or without foreclosure of such lien. In addition, upon default by Non-Operator in payment of chargeable costs and expenses, Operator shall have the right to collect and receive from the purchaser or purchasers the Non-Operator's proceeds from production from the lease acreage covered hereby until the amount owed of such indebtedness by such Non-Operator, plus interest, as aforesaid, has been paid. By execution hereof, each subscribing party hereto agrees that each such purchaser shall be entitled to rely upon Operator's statement concerning the existence and amount of any such default.

7. DRILLING WELLS ON BASIS OF COMPETITIVE CONTRACT PRICE:

The Operator shall have the right to drill any well to be drilled hereunder on lease acreage covered hereby with its own or rented tools and equipment or to cause such well to be drilled by a responsible drilling contractor selected by the Operator. Each such well shall be drilled on the basis of the competitive contract price prevailing in the field at the time the parties hereto agree to the drilling thereof; and, if possible, such price shall be agreed upon by the parties hereto in advance. If the parties hereto are unable mutually to agree on said competitive contract price, the Operator shall obtain bids from at least three (3) responsible drilling contractors who are ready, able and willing to drill a well of the type contemplated by the parties hereto on lease acreage covered hereby; and said competitive contract price shall be the lowest acceptable bid received which will result in the most economical drilling of said well.

8. DISPOSAL OF PRODUCTION:

Each of the parties hereto shall own and, at its own expense, shall take in kind or separately dispose of its proportionate part of all the oil, gas, casinghead gas, and other hydrocarbon substances produced and saved from the lease acreage covered hereby, exclusive of the production which may be used by the Operator in developing and producing operations and in preparing and treating oil for market purposes and of production unavoidably lost; and provided, that each of the parties hereto shall pay, or secure the payment of, the royalty interest in its proportionate part of said production. At such time or times as a Non-Operator shall fail or refuse to take in kind or separately dispose of its proportionate part of said production, the Operator shall have the authority, revocable by the Non-Operator at will, to sell all or part of such production to others at the same price which the Operator receives for its own portion of the production; provided, that Operator shall not make a sale in interstate commerce of any Non-Operator's share of gas produced and saved from said lease acreage unless Operator shall have given such Non-Operator written notice of such intended sale, and Non-Operator, for a period of sixty (60) days from and after receipt of such notice, shall have failed to revoke the authority of Operator to sell its share of such gas. All such sales by the Operator of a Non-Operator's production shall be only for such reasonable periods of time as are consistent with the minimum needs of the industry under the circumstances, but in no event shall any such sale be for a period in excess of one (1) year.

9. ADDITIONAL DRILLING:

For purposes of this article, the term "drilling operation" shall include drilling, completing, testing and (if a producer) the installation of lease equipment for a new well so as to enable delivery of such production to the purchaser or so as to enable such production to be transported from the premises, or (if a dry hole) plugging and abandonment, and shall include a reworking operation costing in excess of $5,000.00, recompletion, multiple completion, deepening or plugging back of an existing well, and the acquiring of any additional equipment related thereto, but shall not include any simple workover or other operation performed to maintain, increase or restore production not costing in excess of $5,000.00. No drilling operation which is not expressly provided for in this article shall be undertaken on said lease acreage for the joint account of the parties without the mutual agreement of all of the parties hereto.

If all of the parties hereto cannot mutually agree upon a proposed drilling operation, the party (whether one or more) desiring to conduct such operation (hereinafter referred to as "drilling party"), may do so after notifying the other parties in

writing of such desire, specifying the location and type of operation contemplated and the estimated costs thereof, including the estimated costs if a dry hole or if a producer. The other parties shall have twenty (20) days, exclusive of Saturdays, Sundays and holidays, from receipt of such notice within which to notify the drilling party in writing as to whether or not such party elects to join in the drilling operation. If such notice involves a drilling operation on a well actively rigged for drilling, then a written reply as to whether or not a party elects to participate therein shall be required within forty-eight (48) hours after receipt of such notice, exclusive of Saturdays, Sundays and holidays. The failure of a party to notify drilling party in writing within the time required shall constitute an election not to join in the drilling operation.

If all of the parties hereto mutually agree to the drilling operation, then such operation shall be conducted by the Operator hereunder for the joint account of the parties. If all of the parties do not agree to the drilling operation, then the drilling party shall conduct such operation hereunder at drilling party's sole cost, risk and expense. If Operator is one of the drilling parties, the drilling operation shall be conducted by Operator, but if Operator is not one of the drilling parties, then the drilling operation shall be conducted by a party designated by drilling parties.

If all of the parties hereto do not participate in the drilling operation and if the same results in production, then the drilling party shall own all production from said well and all equipment placed thereon by the drilling party until such time as the drilling party has received revenue from production from said well that otherwise would have been payable to the non-drilling party or parties (exclusive of royalties, overriding royalties and any other payments out of production to which the non-drilling party's interest was subject at the time of the execution of this Operating Agreement) an amount in excess of taxes on production equal to:

(1) Two Hundred Per Cent (200%) of the proportion of the cost incurred in the drilling operation that otherwise would have been payable by the non-drilling party or parties; and

(2) One Hundred Per Cent (100%) of the proportion of the costs and expenses incurred in operating the well that otherwise would have been payable by the non-drilling party or parties during the time required by the drilling party to recover the costs above specified.

After the drilling party has been so reimbursed and paid, the parties hereto shall participate in the ownership of material and equipment installed in connection with

such operation and in the production resulting from such operation in the ratio of their respective interests in the lease acreage covered hereby; and thereafter, the well involved shall be operated by Operator as a well drilled with the mutual consent of the parties hereto for the joint account in accordance with the provisions of this agreement. If the amounts to be reimbursed as specified above are not fully reimbursed as specified herein but if, by adding the salvage value of the equipment obtained and used by drilling party in the operation undertaken the reimbursement would exceed the amounts specified to be reimbursed, then such excess amount shall be credited or distributed to the drilling and non-drilling parties according to their respective interests. During such time as the drilling party is operating said well and receiving production therefrom, said drilling party agrees to furnish the non-drilling party or parties a monthly statement, segregated by costs, expenses and revenue, showing the status of the payout of said well. All such costs and expenses shall be determined in accordance with the applicable terms and provisions of this Operating Agreement and Exhibit "B", Accounting Procedure, attached hereto.

No drilling operation shall be conducted on a well which is producing in paying quantities without the mutual consent of the parties hereto owning a majority interest of the leasehold estate in the land upon which the well is situated.

If, under any provisions of this Article 9, more than one party hereto has either (a) the obligation to participate in costs, expenses or risks or (b) the right to receive the payment of money or production from a well, working interest or leasehold estate, said parties shall participate therein (unless otherwise agreed by the parties involved) in the ratio of their respective interests in the lease acreage upon which the well is located at the time said operation was undertaken.

10. GEOPHONE AND CONTINUOUS VELOCITY SURVEYING INSTRUMENTS:

In the event parties hereto mutually agree toward the drilling of a test well, then Operator shall notify the Non-Operator approximately forty-eight (48) hours in advance of the time that Operator anticipates reaching the depth mutually agreed upon for the drilling of such test well hereunder and thereafter shall notify Non-Operator when such depth has been reached. At the time of giving the latter notice, unless it is necessary to perform and evaluate additional tests necessary to make a determination of the nature of the next operation in said well, in which event notice will be given with as little lost time as possible, Operator shall notify Non-Operator whether Operator proposes to plug and abandon said well, or whether Operator proposes to make further tests, or whether Operator intends to complete said well as a producer of oil or gas, or both oil and

gas, specifying what formations are to be tested further, or in what formation completion is to be attempted. Non-Operator shall have six (6) hours from and after receipt of the latter notification within which to advise Operator whether or not Non-Operator elects to conduct the tests for which provision is made hereinafter; and failure so to notify Operator within said six- (6-) hour period shall be deemed to constitute a decision not to conduct such tests. If Non-Operator notifies Operator that Non-Operator elects to conduct such tests, then Operator shall permit Non-Operator, at Non-Operator's sole expense, to lower a geophone and any type of continuous velocity surveying instrument in said well for the purpose of making a velocity survey and to run any other type down hole surveys or tests desired by Non-Operator. During the time Non-Operator is conducting any such surveys or tests, Non-Operator shall bear all costs of standby time on the drilling rig at the rate which may be specified in Operator's contract with the drilling contractor for said well; and, if Operator is drilling said well with Operator's own or rented equipment, then Non-Operator shall pay Operator at the standby rate customary in the area in which the well is drilled. Standby time shall begin to accrue subsequent to six (6) hours after Non-Operator has received the latter notice, if Non-Operator has notified Operator that it desires to conduct the tests. If said test well is dry and Operator has determined that it should be plugged and abandoned upon the completion of the tests being made by Non-Operator, then Non-Operator shall be under no liability to the other parties in the event the instrument lowered in the hole, or cable (or both), should be lost in the hole, unless such would result in additional expense to Operator in complying with plugging regulations of the State or Federal authority having jurisdiction thereof; and, should such additional expense result, Non-Operator shall be liable and shall bear and pay such additional expense. If Operator has previously notified Non-Operator that Operator wishes to test certain specified horizons upon completion of the tests being conducted by Non-Operator, or that Operator intends to complete said well as a producer of oil or gas (or both oil and gas), then, in the event Non-Operator should damage the drill hole, Non-Operator's liability shall be limited to, and Non-Operator shall bear, the costs of restoring the drill hole to as usable and workable condition as that which existed prior to the tests conducted by Non-Operator; and, if the damaged drill hole cannot be restored to a condition which will permit its utilization for the purposes Operator contemplated as aforesaid, then Non-Operator shall bear and pay the cost of drilling a hole to the depth at which the specified formations were encountered concerning which Operator has previously advised Non-Operator that further tests were to be

made, or to the depth at which Operator had previously advised Non-Operator completion as a producer would be attempted. The cost of drilling a hole to the depth at which the specified formations were encountered shall be deemed to be inclusive of a whipstock drilling operation to restore the damaged hole to usable condition. Non-Operator shall never be required to pay the costs of drilling a hole to the depth at which the specified formations were encountered unless and until the drilling operations are actually commenced and thereafter concluded in the specified formations with all due diligence. The benefits of this Article shall never inure to the advantage of a party who has not previously elected and agreed to participate in the drilling of the test well. Data obtained by a party hereunder shall never be subject to the provisions of Article 15 of this Exhibit.

11. ABANDONMENT OF WELLS:

No well which is producing or has once produced shall be abandoned without the mutual consent thereto of the parties hereto. If any party (whether one or more) desires to abandon a well and the other party (whether one or more) does not agree to abandon same, the party desiring to abandon shall so notify the other party in writing, and the latter shall have ten (10) days after the receipt of such notice in which to elect whether to agree to such abandonment. If the party receiving said notice elects to agree to such abandonment, such well shall be abandoned by the Operator at the expense of the joint account and as much as possible of the casing and other equipment in and on said well shall be salvaged for the benefit of the parties hereto. If the party receiving said notice fails so to make an election or elects not to agree to said abandonment, such party shall purchase the interest of the party desiring to abandon in said well, in the physical equipment therein and thereon and in that portion of the working interest and leasehold estate hereinafter in this Article 11 provided; and, within twenty-five (25) days after the receipt of said notice by the party not electing to abandon, the party desiring to abandon shall execute and deliver to the other party an assignment, without warranty of title, of its interest in said well and physical equipment and in the working interest and leasehold estate in a tract surrounding said well of an area equal to that prescribed for one well by the spacing rule of state or federal authority; provided, that, if there be no such established spacing rule, the assignment shall cover the interest of the party desiring to abandon in said well and physical equipment and the working interest and leasehold estate in the forty (40) acres surrounding said well if it is an oil well or in the six hundred and forty (640) acres surrounding said well if it is a gas well, as nearly as possible in the form of a square, with said well in the approximate center thereof; and provided, further,

that such assignment shall convey the assignor's leasehold estate in the particular horizon from which said well is producing, or last produced, but shall not include any other well or any other formation or horizon. In exchange for said assignment, the purchasing party shall pay to the assigning party the salvage value of the latter's interest in the salvageable casing and other physical equipment in and on said well, such value to be determined in accordance with the provisions of the Accounting Procedure, being said Exhibit "B".

If, under any provision of the last preceding paragraph of this Article 11, more than one of the parties hereto has either (a) the obligation to pay money or to assign interests in a well, physical equipment or working interest and leasehold estate or (b) the right to receive the payment of money or an assignment of any interest in a well, physical equipment or working interest and leasehold estate, said parties shall pay said money, make such assignment, receive and divide such payment or take the interest so assigned, as the case may be, (unless otherwise specifically agreed by the parties involved) in the ratio of their respective interests in the lease acreage covered hereby prior to any such assignment.

12. TAXES:

The Operator shall render, for ad valorem tax purposes, the entire leasehold rights and interests covered by this agreement and all physical property located thereon or used in connection therewith, or such part thereof as may be subject to ad valorem taxation under existing laws, or which may be made subject to taxation under future laws, and shall pay, for the benefit of the joint account, all such ad valorem taxes at the time and in the manner required by law which may be assessed upon or against all or any portion of such leasehold rights and interests and the physical property located thereon or used in connection therewith. The Operator shall bill the Non-Operator for its proportionate share of such tax payments as provided by the Accounting Procedure, being said Exhibit "B".

Each Non-Operator shall reimburse the Operator for (a) the percentage of the ad valorem taxes on personal property which is equal to such Non-Operator's percentage of participation in production, and (b) the ad valorem taxes levied on such Non-Operator's leasehold interest or interests covered by this Agreement; provided, however, that a Non-Operator owning less than the entire seven-eighths (7/8) leasehold interest or interests covered by this Agreement shall reimburse the Operator for its proportion of the ad valorem taxes levied on the full leasehold interest, adjusted so as to reflect a credit for payments based upon values assigned to and made on behalf

of outstanding excess royalties, overriding royalties, and production payments.

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

13. OPTION TO PURCHASE:

In the event that any party hereto receives a bona fide offer which it is willing to accept for the purchase of such party's lease or leases covered hereby, or any part thereof or interest therein, from a person, firm or corporation ready, able and willing to purchase such lease or leases, or part thereof or interest therein, the party hereto receiving said offer immediately shall give written notice thereof to each of the other parties hereto, including in said notice the name and address of such offeror, the price offered and all other pertinent terms and conditions of the offer. The other parties hereto, for a period of fifteen (15) days after the receipt of said notice, shall have the prior and preferred right and option, in the ratio of their respective interests in the lease acreage covered hereby, to purchase the lease or leases, or part thereof or interest therein, covered by said offer, at the price and according to the terms and conditions specified in said offer.

If more than one of the other parties hereto desire to exercise such right and option, such parties shall purchase the lease or leases, or part thereof or interest therein, covered by said offer in the ratio of their respective interests in the lease acreage covered hereby.

If only one of the other parties hereto desires to exercise such right and option, it shall have the right to purchase all the rights and interests covered by said offer. If none of the other parties hereto exercises said right and option by giving written notice of its acceptance within fifteen (15) days after receipt of the above mentioned notice, the party which received said offer shall accept said offer and complete said sale to the offeror in accordance with said offer within sixty (60) days after the expiration of said period of fifteen (15) days; provided, that, if the

party which received said offer fails to accept said offer or to complete said sale within said period of sixty (60) days, the preferred right and option of the other parties hereto under this Article 13 shall be considered as revived, and the party which received said offer shall not complete said sale to said offeror unless and until said offer again has been presented to the other parties hereto, as hereinabove provided, and said other parties again have failed to elect to purchase on the terms and conditions of said offer. All offers at any time made to any party hereto for the purchase of its lease or leases covered hereby, or part thereof or interest therein, shall be subject to all the terms and conditions of this Article 13. In the event any offer to purchase which any party hereto is willing to accept includes other leases or properties in addition to the lease acreage, or part thereof, covered hereby, then, during the period of time above provided, the other parties hereto shall have the prior and preferred right to purchase such lease acreage, or part thereof, segregated from the other leases or properties included in such offer and at the fair cash market value thereof as of the date of such offer.

The provisions of this Article 13 shall not apply to a transfer by a corporate party hereto made in connection with any transaction between such party and its parent, subsidiary or an affiliated company.

14. RELATION OF PARTIES:

The rights, duties, obligations and liabilities of the parties hereto shall be several, and not joint or collective, it being the express purpose and intention of the parties hereto that their ownership in the lease acreage covered hereby shall be as tenants in common; and nothing herein contained shall ever be construed as creating a partnership of any kind, joint venture, an association or a trust or as imposing upon any or all of the parties hereto any partnership duty, obligation or liability. Each party hereto shall be individually responsible only for its obligations, as set out in this Agreement.

Each party hereto hereby elects to be excluded from the application of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954, insofar as such Subchapter or any portion or portions thereof may be applicable to the parties in respect to 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.

15. ACCESS TO PREMISES, LOGS AND REPORTS:

The Operator shall keep accurate logs of all wells drilled on said lease acreage, which logs shall be available at all reasonable times for inspection by the Non-Operator. Upon request by a Non-Operator, the Operator shall furnish to such Non-Operator copies of said logs, samples of cores and cuttings of formations encountered, and monthly reports relative to the development and operation of said lease acreage, together with any other information which may be reasonably requested pertaining to such wells. The Non-Operator shall have access to said lease acreage and to all books and records pertaining to operations hereunder for the purpose of inspection at all reasonable times.

16. SURRENDER, EXPIRATION, ABANDONMENT OR RELEASE OF LEASE:

No lease or leases covered hereby shall be surrendered, let to expire, abandoned or released, in whole or in part, unless the parties hereto mutually consent thereto in writing. In the event that less than all the parties hereto should elect to surrender, let expire, abandon or release all or any part of a lease or leases covered hereby and the other party (whether one or more) does not consent or agree thereto, the party (whether one or more) so electing shall notify the other party not less than sixty (60) days in advance of such surrender, expiration, abandonment or release and, if requested so to do by the party not so electing, immediately shall assign without warranty to the latter party all its rights, title and interest in and to said lease or leases, the well or wells located thereon and the casing and other physical equipment in or on said well or wells. If the party not so electing fails to request such assignment within said period of sixty (60) days, the party so electing shall have the right to surrender, let expire, abandon or release said lease or leases or any part thereof. In the event such assignment is so requested, the party to whom such assignment is made, upon the delivery thereof, shall pay to the assigning party the salvage value of its interest in all the salvageable casing and other physical equipment in or on the assigned lease acreage, said value to be determined in accordance with the provisions of the Accounting Procedure, being said Exhibit "B". After the delivery of any such assignment, the party making the assignment shall be released from and discharged of all the duties and obligations thereafter accruing or arising hereunder with respect to the assigned lease or leases in connection with the operation and development of the lease acreage. If more than one of the parties hereto are assignees in any such assignment, such as-

signees shall take the rights, property and interests assigned thereby, and shall pay said salvage value in the ratio of their respective interests in the lease acreage covered thereby just prior to the assignment.

17. LAWS AND REGULATIONS:

This Agreement shall be subject to all valid and applicable state and federal laws, rules, regulations and orders, and the operations conducted hereunder shall be performed in accordance with said laws, rules, regulations and orders. In the event this agreement or any provision hereof is, or the operations contemplated hereby are found to be, inconsistent with or contrary to any such law, rule, regulation or order, 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.

18. FORCE MAJEURE:

In the event that any party hereto is rendered unable, wholly or in part, by force majeure to carry out its obligations under this Agreement, other than the obligation to make payments of amounts due hereunder, upon such party's giving notice and reasonably full particulars of such force majeure in writing or by telegraph to the other parties hereto within a reasonable time after the occurrence of the cause relied upon, the obligations of the party giving said notice, so far as they are affected by such force majeure, shall be suspended during the continuance of any inability so caused, but for no longer period; and the cause of the force majeure as far as possible shall be remedied with all reasonable dispatch.

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

The settlement of strikes, lockouts and other labor difficulties shall be entirely within the discretion of the party having the difficulty. The above requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts or other labor difficulty by acceding to the demands of opponents therein when such course is inadvisable in the discretion of the party having the difficulty.

19. CONTRIBUTIONS FROM OTHERS:

If any party hereto at any time while this agreement is in force receives

a contribution of cash or acreage, or both, toward the drilling of any well upon the lease acreage covered hereby, said contribution shall be owned by the parties hereto in the ratio of their respective interests in said well. All cash contributions so received shall be paid to the Operator and by it credited to the parties hereto according to their respective interests in said well; provided, that such portion of said cash contribution which is credited to each party hereto as is not required to liquidate any unpaid balance of indebtedness due by said party to the Operator shall be paid by the Operator to such party. In the event that an acreage contribution is made to one of the parties hereto, the party to which such contribution is made shall promptly execute and deliver to the other parties hereto an assignment, without warranty, covering proportionate interests in said acreage equal to their respective interests in the well for which said contribution was made.

20. EFFECT OF AGREEMENT:

The terms, covenants and conditions of this agreement shall be binding upon, and shall inure to the benefit of, the parties hereto and their respective successors (or heirs) and assigns; and said terms, covenants and conditions shall be covenants running with the land and leasehold estates covered hereby and with each transfer or assignment of said land or leasehold estates.

21. ROYALTY, OVERRIDING ROYALTIES, PRODUCTION PAYMENTS, ETC.:

All royalty, overriding royalties, production payments, carried working interests, net profits obligations, and royalty in excess of one-eighth (1/8), to which any party's lease covered hereby is subject, shall be borne and paid by such party in accordance with the provisions of the lease, assignment or other instrument creating or pertaining to such obligations.

COPAS — 1962
Recommended by the Council of Petroleum Accountants Societies of North America.

EXHIBIT " B "

Attached to and made a part of Unit Operating Agreement, Long Draw Unit, County of Eddy, State of New Mexico

ACCOUNTING PROCEDURE
(JOINT OPERATIONS)

I. GENERAL PROVISIONS

1. Definitions

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

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

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

"Non-Operators" shall mean the nonoperating parties, whether one or more.

"Joint Account" shall mean the account showing the charges and credits accruing because of the Joint Operations and which are to be shared by the Parties.

"Parties" shall mean Operator and Non-Operators.

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

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

2. Conflict with Agreement

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

3. Collective Action by Non-Operators

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

4. Statements and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of costs and expenses, for the preceding month. Such bills will be accompanied by statements reflecting the total charges and credits as set forth under Subparagraph B 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. Statement of all charges and credits to the Joint Account summarized by appropriate classifications indicative of the nature thereof, except that items of Controllable Material and unusual charges and credits shall be detailed.

5. Payment and Advances by Non-Operators

Each Non-Operator 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.

6. Adjustments

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

7. Audits

A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the accounting hereunder for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided however, the making of an audit shall not extend the time for the taking of written exception to and the adjustment of accounts as provided for in Paragraph 6 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator.

II. DIRECT CHARGES

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

1. Rentals and Royalties

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

2. Labor

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

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

C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's labor cost of salaries and wages chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.

D. Reasonable personal expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and for which expenses the employees are reimbursed under Operator's usual practice.

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 however, the total of such charges shall not exceed ten percent (10%) of Operator's labor costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.

4. **Material**
Material purchased or furnished by Operator for use on 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 and Material necessary for the Joint Operations but subject to the following limitations:
A. If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where like material is available, except by agreement with Non-Operators.
B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store or railway receiving point, except by agreement with Non-Operators. No charge shall be made to Joint Account for moving Material to other properties belonging to Operator, except by agreement with Non-Operators.
C. In the application of subparagraphs A and B above, there shall be no equalization of actual gross trucking costs of $100 or less.

6. **Services**
A. The cost of contract services and utilities procured from outside sources other than services covered by Paragraph 8 of this Section II and Paragraph 2 of Section III.
B. Use and service of equipment and facilities furnished by Operator as provided in Paragraph 5 of Section IV.

7. **Damages and Losses to Joint Property**
All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or any other cause, except to the extent that the damage or loss could have been avoided through the exercise of reasonable diligence on the part of Operator. Operator shall furnish Non-Operators written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

8. **Legal Expense**
All costs and expenses of handling, investigating and settling litigation or claims arising by reason of the Joint Operations or necessary to protect or recover the Joint Property, including, but not limited to, attorneys' fees, court costs, cost of investigation or procuring evidence and amounts paid in settlement or satisfaction of any such litigation or claims; provided, (a) no charge shall be made for the services of Operator's legal staff or other regularly employed personnel (such services being considered to be Administrative Overhead under Section III), except by agreement with Non-Operators, and (b) no charge shall be made for the fees and expenses of outside attorneys unless the employment of such attorneys is agreed to by Operator and Non-Operators.

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

10. **Insurance Premiums**
Premiums paid for insurance required to be carried on the Joint Property for the protection of the Parties.

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

III. INDIRECT CHARGES

Operator may charge the Joint Account for indirect costs either by use of an allocation of district expense items plus a fixed rate for administrative overhead, and plus the warehousing charges, all as provided for in Paragraphs 1, 2, and 3 of this Section III OR by combining all three of said items under the fixed rate provided for in Paragraph 4 of this Section III, as indicated next below:

OPERATOR SHALL CHARGE THE JOINT ACCOUNT UNDER THE TERMS OF:

☐ Paragraphs 1, 2 and 3. (Allocation of district expense plus fixed rate for administrative overhead plus warehousing.)
☒ Paragraph 4. (Combined fixed rate)

1. **District Expense**
Operator shall charge the Joint Account with a pro rata portion of the salaries, wages 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 ..... office located at or near ..... (or a comparable office if location changed), and necessary sub-offices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in connection with the operations of the Joint Property and other properties in the same operating area. The expense of, less any revenue from, such facilities may, at the option of Operator, include depreciation of investment or a fair monthly rental in lieu of depreciation. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.

2. **Administrative Overhead**
Operator shall charge administrative overhead to the Joint Account at the following rates, which charge shall be in lieu of the cost and expense of all offices of the Operator not covered by Paragraph 1 of this Section III, including salaries, wages and expenses of personnel assigned to such offices. Such charges shall be in addition to the salaries, wages and expenses of employees of Operator authorized to be charged as direct charges as provided in Paragraphs 2 and 8 of Section II.

WELL BASIS (RATE PER WELL PER MONTH)

	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		
Well Depth	Each Well	First Five	Next Five	All Wells Over Ten

The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting, or matters before or involving governmental agencies shall be considered as included in the overhead rates provided for in this Paragraph 2 of Section III, unless such cost and expense are agreed upon between Operator and Non-Operators as a direct charge to the Joint Account.

3. **Operator's Fully Owned Warehouse Operating and Maintenance Expense**
(Describe fully the agreed procedure to be followed by the Operator.)

4. **Combined Fixed Rates**
Operator shall charge the Joint Account for the services covered by Paragraph 1, 2 and 3 of this Section III, the following fixed per well rates:

WELL BASIS (RATE PER WELL PER MONTH)

Well Depth	DRILLING WELL RATE (Use Total Depth) Each Well	PRODUCING WELL RATE (Use Current Producing Depth) First Five	Next Five	All Wells Over Ten
0-4000'	$325	$ 65	$ 60	$ 45
4000-8000'	475	95	80	65
8000-12000'	575	115	100	85
Over 12000'	650	130	115	100

Said fixed rate (~~shall~~) (shall not) include salaries and expenses of production foremen.

5. **Application of Administrative Overhead or Combined Fixed Rates**
The following limitations, instructions and charges shall apply in the application of the per well rates as provided under either Paragraph 2 or Paragraph 4 of this Section III:
   A. Charges for drilling wells shall begin on the date each well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.
   B. The status of wells shall be as follows:
      (1) Producing gas wells, injection wells for recovery operations, water supply wells utilized for water flooding operations and salt water disposal wells shall be considered the same as producing wells.
      (2) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the well schedule at the time the shutdown is effected. When such a well is plugged a charge shall be made at the producing well rates.
      (3) Wells being plugged back, drilled deeper, converted to a source or input well, or which are undergoing any type of workover that requires the use of a drilling or workover rig shall be considered the same as drilling wells.
      (4) Temporarily shut-down wells, which are not produced or worked upon for a period of a full calendar month, shall not be included in the well schedule, provided however, wells shut in by governmental regulatory body shall be included in the well schedule only in the event the allowable production is transferred to some other well or wells on the Joint Property. In the event of a unit allowable, all wells capable of producing will be counted in determining the charge.
      (5) Gas wells shall be included in the well schedule if directly connected to a permanent sales outlet even though temporarily shut in due to overproduction or failure of purchaser to take the allowed production.
      (6) Wells completed in multiple horizons, in which the production is not commingled down hole, shall be considered as a producing well for each separately producing horizon.
   C. The well rates shall apply to the total number of wells being drilled or operated under the agreement to which this Accounting Procedure is attached, irrespective of individual leases.
   D. The well rates shall be adjusted on the first day of April of each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the preceding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

6. For the construction of compressor plants, water stations, secondary recovery systems, salt water disposal facilities, and other such projects, as distinguished from the more usual drilling and producing operations, Operator in addition to the Administrative Overhead or Combined Fixed Rates provided for in Paragraph 2 and 4 of this Section III, shall charge the Joint Account with an additional overhead charge as follows:
   A. Total cost less than $25,000, no charge.
   B. Total cost more than $25,000 but less than $100,000, 3 % of total cost.
   C. Total cost of $100,000 or more, 3 % of the first $100,000 plus 2 % of all over $100,000 of total cost.
   Total cost shall mean the total gross cost of any one project. For the purpose of this Paragraph the component parts of a single project shall not be treated separately and the cost of drilling wells shall be excluded.

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

IV. BASIS OF CHARGES TO JOINT ACCOUNT

Subject to the further provisions of this Section IV, Operator will procure all Material and services for the Joint Property. At the Operator's option, Non-Operator may supply Material or services for the Joint Property.

1. **Purchases**
Material purchased and service procured shall be charged at the price paid by Operator after deduction of all discounts actually received.

2. **Material furnished from Operator's Warehouse or Other Properties**
   A. New Material (Condition "A")
      (1) Tubular goods, two inch (2") and over, shall be priced on Eastern Mill base (i. e. Youngstown, Ohio; Lorain, Ohio; and Indiana Harbor, Indiana) on a minimum carload basis effective at date of movement and f. o. b. railway receiving point nearest the Joint Property, regardless of quantity. In equalized hauling charges, Operator is permitted to include ten cents (10c) per hundred-weight on all tubular goods furnished from his stocks in lieu of loading and unloading costs sustained.
      (2) Other Material shall be priced at the current replacement cost of the same kind of Material, effective at date of movement and f. o. b. the supply store or railway receiving point nearest the Joint Property where Material of the same kind is available.
      (3) The Joint Account shall not be credited with cash discounts applicable to prices provided for in this Paragraph 2 of Section IV.
   B. Used Material (Condition "B" and "C")
      (1) Material in sound and serviceable condition and suitable for reuse without reconditioning, shall be classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material.
      (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 classified as Condition "C" and priced at fifty per cent (50%) of current new price.
      (3) Obsolete Material or Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use. Material no longer suitable for its original purpose but usable for

some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose.

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

3. Premium Prices

Whenever Material is not readily obtainable at prices specified in Paragraphs 1 and 2 of this Section IV because of national emergencies, strikes or other unusual causes over which the Operator has no control, the Operator may charge the Joint Account for the required Material at the Operator's actual cost incurred in procuring such Material, in making it suitable for use, and in moving it to the Joint Property, provided, that notice in writing is furnished to Non-Operators of the proposed charge prior to billing Non-Operators for such Material. Each Non-Operator shall have the right, by so electing and notifying Operator within 10 days after receiving notice from Operator, to furnish in kind all or part of his share of such Material suitable for use and acceptable to Operator.

4. Warranty of Material Furnished by Operator

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

5. Equipment and Facilities Furnished by Operator

A. Operator shall charge the Joint Account for use of equipment and facilities at rates commensurate with cost of ownership and operation. Such rates shall include cost of maintenance, repairs, other operating expense, insurance, taxes, depreciation and interest on investment not to exceed six per cent (6%) per annum, provided such rates shall not exceed those currently prevailing in the immediate area within which the Joint Property is located. Rates for automotive equipment shall generally be in line with the schedule of rates adopted by the Petroleum Motor Transport Association, or some other recognized organization, as recommeded uniform charges against Joint Property operations. Rates for laboratory services shall not exceed those currently prevailing if performed by outside service laboratories. Rates for trucks, tractors and well service units may include wages and expenses of operator.

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

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

V. DISPOSAL OF MATERIAL

The Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus Condition "A" or "B" Material. The disposition of surplus Controllable Material, not purchased by Operator, shall be subject to agreement between Operator and Non-Operators, provided Operator shall 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-Operators

Material purchased by either the Operator or Non-Operators 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-Operators, shall be in proportion to the respective interests in such Material. The Parties will thereupon be charged individually with the value of the Material received or receivable. Proper credits shall be made by the Operator 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 claim by vendee related to such sale shall be charged back to the Joint Account if and when paid by Operator.

VI. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operators or divided in kind, unless otherwise agreed to between Operator and Non-Operators shall be priced on the following basis:

1. New Price Defined

New price as used in this Section VI shall be the price specified for New Material in Section IV.

2. New Material

New Material (Condition "A"), being new Material procured for the Joint Property but never used, 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 Account as secondhand at seventy-five percent (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. Is not in sound and serviceable condition but suitable for reuse after reconditioning, or

B. Is serviceable for original function but not suitable for reconditioning.

5. Bad-Order Material

Material (Condition "D"), no longer suitable for its original purpose without excessive repair cost but usable for some other purpose at a price comparable with that of items normally used for such other purpose.

6. Junk Material

Junk Material (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 Property does not justify the reduction in price as provided for in Paragraph 3 B of this Section VI, 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.

VII. INVENTORIES

The Operator shall maintain detailed records of Material generally considered controllable by the Industry.

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. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator, who shall in that event furnish Non-Operators with a copy thereof.

2. Reconciliation and Adjustment of Inventories

Reconciliation of inventory with charges to the Joint Account shall be made, and a list of overages and shortages shall be jointly determined by Operator and Non-Operators. 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 whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory.

Exhibit "C"

OWNERSHIP SCHEDULE
LONG DRAW UNIT AREA

Tract No.	Working Interest Owner	Net Acres in Unit Area	Per Cent of Acreage Committed to Unit	Per Cent of Participation in Cost of Drilling and Completing First Test Well	Per Cent of Cost of Drilling and Completing Subsequent Wells	Per Cent of Participation in Production from All Wells After Payment of Royalty, Overriding Royalty and Production Payments
1, 3, 5, 8	California Oil Company	220.00	26.87417	None	6.71854	6.69768
2, 7	Leonard Oil Company	714.79	21.82885	21.82885	21.82885	22.18456
4, 6	Gulf Oil Corporation	80.00	2.44310	2.44310	2.44311	2.43552
10, 11, 13, 14, 15-A, 16, 1, 3, 5, 8	Pan American Petroleum Corporation	1619.73	29.30903	56.18320	49.46465	49.24831
12	Union Oil Company of California	640.00	19.54485	19.54485	19.54485	19.43393
9	Thomas Connell	80.00	None	None	None	None
15	Hondo Oil & Gas Company	160.00	None	None	None	None
		3514.52	100.00000%	100.00000%	100.00000%	100.00000%

NOTE: Since Hondo Oil & Gas Company and also Thomas Connell et ux. are uncommitted to this Unit Operating Agreement as of the date hereof, their net acreage has been excluded, leaving a balance of 3,274.52 acres, which figure was used for the above computations.