UNIT OPERATING AGREEMENT
FOR THE PLATA DEEP UNIT AREA
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, made and entered into as of the 19th day of June, 1970, by and between PHILLIPS PETROLEUM COMPANY, a Delaware corporation, with an office in Midland, Texas, hereinafter referred to as "Unit Operator," and such other working interest owners who subscribe to this agreement who have working interests subject to the Unit Agreement for the operation and development of the Plata Deep Unit Area, which said parties are hereinafter referred to as "Working Interest Owners" or as "Nonoperators,"

W I T N E S S E T H:

WHEREAS, the parties hereto have concurrently herewith as of the date hereof, entered into a certain Unit Agreement for the development and operation of the Plata Deep Unit Area, which is hereinafter referred to as "Unit Agreement," embracing lands situated in Lea County, State of New Mexico, described in Section 1 hereof; and

WHEREAS, Phillips Petroleum Company has been designated as the Unit Operator under the terms of said Unit Agreement and is also a Working Interest Owner under said Unit Agreement and enters into this agreement in both capacities; and

WHEREAS, the undersigned Working Interest Owners have committed certain oil and gas leasehold interests to said Unit Agreement which are to be subject to the terms and conditions thereof; and

WHEREAS, the parties hereto enter into this agreement pursuant to Section 7 of the Unit Agreement;

NOW, THEREFORE, it is mutually agreed between the parties hereto as follows:

1. DESCRIPTION OF UNIT AREA: The term "Unit Area" as used herein shall mean and include the following described land:

Township 20 South, Range 32 East, N.M.P.M.

Section 8: E/2 W/2, E/2
Section 9: All
Section 10: All
Section 11: All
Section 14: All
Section 15: All
Section 16: All
Section 22: All
Section 23: All

Containing 5,600 acres, as to all depths below 100 feet above the top of the Delaware Mountain Group as that depth is defined in the Unit Agreement.

BEFORE EXAMINER UTZ
OIL CONSERVATION COMMISSION
Phillips EXHIBIT NO. 2
CASE NO. 4394

BEFORE
OIL CON
EXHIBIT NO.
CASE NO.

2. UNIT OPERATOR AND EMPLOYEES: Phillips Petroleum Company, a corporation, the party hereto named as Unit Operator of the Unit Area under the provisions of the Unit Agreement, or its duly appointed successor Unit Operator, shall have the exclusive right to develop and operate the Unit Area subject to the provisions of this agreement and the Unit Agreement. All individuals employed by Unit Operator in the conduct of operations hereunder shall be the employees of Unit Operator alone and their working hours, rates of compensation and all other matters relating to their employment shall be determined solely by Unit Operator.

3. UNIT OPERATOR - DUTIES: Unit Operator shall in the conduct of operations:

(a) Consult freely with Working Interest Owners concerning unit operations, and keep Working Interest Owners informed of all matters arising during the operation of the Unit Area which Unit Operator, in the exercise of its best judgment, considers important;

(b) Keep full and accurate records of all costs incurred, rentals and royalties paid, and controllable materials and equipment, which records, receipts and vouchers in support thereof shall be available for inspection by authorized representatives of the Working Interest Owners at reasonable intervals during usual business hours, at the office of the Unit Operator;

(c) Permit each of the Working Interest Owners, through its duly authorized representatives, but at its sole risk and expense, to have access to the Unit Area at all times and to the derrick floor of each well drilled or being drilled hereunder, for the purpose of observing operations conducted hereunder and inspecting jointly owned materials, equipment and other property, and to have access at reasonable times to information and data in the possession of Unit Operator concerning the Unit Area;

(d) Furnish to each of the other parties who makes timely written request therefor, copies of Unit Operator's authorization for expenditures of itemizations thereof in excess of Ten Thousand Dollars ($10,000.00), and copies of all drilling reports, well logs, basic engineering data, tank tables, gauge reports and run tickets, and reports of stock on hand at the first of each month, if available, and samples of cores or cuttings taken from wells drilled hereunder, containers therefor to be furnished by the party requesting such samples;

(e) Comply with the terms and conditions of the Unit Agreement and all valid applicable Federal and State laws and regulations;

(f) Keep the land in the Unit Area free from liens and encumbrances occasioned by its operations, except such liens as the Working Interest Owners elect to contest, and save only the lien granted the Unit Operator under this agreement.

4. UNIT OPERATOR - RESTRICTIONS: The Unit Operator shall not do any of the following things without the consent of the Working Interest Owners obtained as herein provided:

(a) Locate, drill, deepen, or plug back any well or let any contract therefor, except as otherwise permitted under this agreement. The approval of the drilling, deepening or plugging back of any well shall be construed to mean and include the approval of any reasonably necessary expenditures for the approved operation, including the completing and equipping of such well, and the necessary lines, separators and necessary tankage if a producer, and if a dry hole, the plugging and abandonment thereof, except as otherwise provided herein;

(b) Make any other expenditures in excess of Ten Thousand Dollars ($10,000.00) for any one single item;

(c) Make any partial relinquishment of the rights of the Unit Operator;

(d) Abandon any well or wells;

(e) Enter into any plans for development of the Unit Area or any participating area or amendment thereof, or any expansion or contraction of the Unit Area or any designation or enlargement of a participating area;

(f) Drill or abandon any injection wells or convert any well into an injection well;

(g) Determine whether to drill a demanded offset well or pay compensatory royalty;

(h) Make any arrangement for repressuring, cycling or pressure maintenance, or approve or disapprove any change in the existing method of operation;

(i) Contest any encumbrance or lien.

In case of blowout, explosion, fire, flood or other sudden emergency, Unit Operator may take such steps and incur such expense as, in its opinion, are required to deal with the emergency and to safeguard life and property; provided that Unit Operator shall, as promptly as reasonably possible, report the emergency to the other parties and shall endeavor to secure any sanction that might otherwise have been required.

Subject to the provisions hereof, Unit Operator shall have full control of the premises subjected hereto and shall conduct and manage the development and operation of unitized lands for the production of unitized substances therefrom for the account of the parties hereto.

5. CONSENT OF WORKING INTEREST OWNERS: In connection with operations conducted by Unit Operator for which consent of Nonoperators is required under this agreement, the Working Interest Owners shall have the right to vote thereon in proportion to their respective participation percentages under this agreement, except that with respect to such operations as are being conducted at the cost of less than all of the Working Interest Owners those Working Interest Owners bearing the cost of such operations shall have the right to vote whenever their consent is required in the proportion that their respective participation percentages under this agreement bear to the total of such percentages of such Working Interest Owners. Except as otherwise specified herein or in the Unit Agreement, an affirmative vote of 60% of the voting power of the Working Interest Owners involved shall constitute the decision of the Working Interest Owners, which decision shall be binding upon all; provided, however, that should any Working Interest Owner own as much as 60% but less than 100%, voting interest, his vote must be supported by the affirmative vote of at least one additional Working Interest Owner; and provided, further, that if any party owns 30% or more voting interest, but less than 50%, the vote of such party shall not serve to defeat or disapprove any matters approved by the majority (over 50%) unless supported by at least one additional voting interest. Provided, however, if only one Working Interest Owner is entitled to vote, such party's vote shall control. If only two parties are entitled to vote, the vote of the one with the greater interest shall prevail.

The Working Interest Owners shall meet in regular or special meetings for the purpose of discussing unit business and of voting on matters in connection therewith, and of exercising any other powers by this agreement or by the Unit Agreement committed to the Working Interest Owners. A special meeting may be called by Operator at any time and shall be called by Operator promptly upon the request of any Working Interest Owner or Owners whose participation percentage totals twenty per cent (20%) or more. Each Working Interest Owner shall designate a representative and an alternate to represent him at such meeting, who shall have such powers as are conferred on him

by his principal, which powers shall be sufficiently broad to enable the representative to vote on matters coming before said meeting. Notices of meetings and place of holding same shall be served on such representative by the Unit Operator. The representatives of the Unit Operator shall act as Chairman at all meetings. Each Working Interest Owner shall have the right, from time to time, on notice to the Unit Operator, to change the representative or the alternate. With respect to the drilling of wells, other than the initial test well, approval of proposed plans of development or modifications or amendments thereof or the designation of participating areas or revisions thereof, Unit Operator shall submit to the Nonoperators entitled to vote thereon an agenda setting forth the matters to be determined at least fifteen (15) days prior to the date of the meeting; provided, however, that whenever a determination is to be made as to the deepening, plugging back or reworking of a well where a drilling rig is on location, Operator shall give Nonoperator at least forty-eight (48) hours' notice thereof, exclusive of Saturdays, Sundays and holidays. It shall be sufficient for the Unit Operator to poll all of the affected Working Interest Owners on all such matters without calling a meeting and any vote so taken pursuant to such poll shall be as binding on the Working Interest Owners as if done at a regular or special meeting at which a quorum was present. Unit Operator shall advise all Working Interest Owners the results of any poll so taken.

6. UNIT OPERATOR - LIABILITIES: In the conduct of operations hereunder, Unit Operator shall be obligated to use only the care and diligence customarily exercised by a prudent operator in the area in which said lands are located, and Unit Operator shall not be liable for the result of any error of judgment or for the loss of or damage to any joint property not resulting from the gross negligence or willful misconduct of Unit Operator or its employees. Unit Operator shall not be responsible for the neglect or default of any drilling contractor or other contractor engaged by Unit Operator in operations hereunder.

7. ALLOCATION OF UNITIZED SUBSTANCES: All unitized substances produced and saved from each participating area established pursuant to the Unit Agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, camp and other production or development purposes or for repressuring or recycling in accordance with an approved plan of development, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land of the participating area

established for such production and for the purpose of computing and paying all royalties, overriding royalties or obligations payable out of production of the respective Working Interest Owners, each such tract of unitized land shall have allocated to it such percentage of said production as the number of acres of each such tract included in said participating area bears to the total number of acres of unitized land in said participating area in conformity with Section 12 of the Unit Agreement.

All production remaining after allocating the production for the purpose of paying royalty as above provided (and being the working interest) shall be allocated to the respective Working Interest Owners in accordance with the percentages reflecting their respective interests as shown in Exhibit "D" attached hereto. Any Working Interest Owner who has committed to the Unit Agreement any lease burdened with royalty, overriding royalty, and/or obligations payable out of production which are in excess of the usual one-eighth (1/8) royalty shall bear and assume the same out of the unitized substances allocated to the lands embraced in such lease.

Except as hereinafter provided, the percentages of participation of the parties hereto shall remain the same regardless of any contraction of the Unit Area or automatic elimination of lands therefrom in accordance with Section 2 of the Unit Agreement but shall be revised upon commitment of any uncommitted acreage within the Unit Area, upon expansion of the Unit Area, upon loss or failure of title to any tract within the Unit Area, upon transfer of title to working interests subject to this agreement, or as provided in Section 18 upon assignment of leases in lieu of the designated payments or loss of a lease for failure to pay such payments.

If any tract committed to the Unit Agreement becomes burdened by any additional overriding royalties, obligations payable out of production, or like obligations, other than those shown on Exhibit "B" attached to the Unit Agreement, the burden thereof shall be borne exclusively by the owner or owners of such tract.

8. COST OF OPERATIONS: The actual cost of the Unit Operator of performing its obligations as Unit Operator hereunder shall be apportioned among the Working Interest Owners in proportion to their participation percentages under this agreement and shall be paid by the Working Interest Owners as hereinafter provided. The cost of each operation not participated in by all Working Interest Owners shall be separately kept and charged to the Working Interest Owners affected in the proportions required by other applicable provisions of this agreement or in such other manner as such owners may agree. All materials, equipment and other property, whether real or

personal, charged as a part of the cost of operations hereunder shall be owned by the Working Interest Owners in the same proportion that they were charged therefor. 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 Accounting Procedure attached hereto, made a part hereof and marked Exhibit "C."

In the event of any conflict between the provisions contained either in the body of this instrument or in the Unit Agreement or in the Accounting Procedure, the provisions of the Unit Agreement shall govern to the extent of such conflict unless otherwise provided for therein. In the event of any conflict between the provisions contained in the body of this instrument and those contained in the Accounting Procedure, the provisions in the body of this instrument shall govern. The term "Operator" as used in Exhibit "C" shall be deemed to refer to the Unit Operator, and the term "Nonoperators" as used in Exhibit "C" shall be deemed to refer to the Working Interest Owners herein.

9. OPERATOR'S LIEN: Unit Operator is hereby granted a prior lien on the rights and interest of each Working Interest Owner in the Unit Area and the unitized substances allocated to each such Working Interest Owner, and the material and equipment thereon, to secure the payment of its proportionate part of the said costs and expenses. Should any Working Interest Owner fail to pay its proportionate part of said costs and expenses within thirty (30) days after being billed therefor as provided in the referred to Accounting Procedure, Exhibit "C," Unit Operator shall have the right at its option at any time thereafter, such default continuing, to foreclose said lien on the respective interests of such Working Interest Owners. In lieu of or in addition to such remedy, the parties hereto agree that in the event of default, except in cases of a bona fide dispute, the Unit Operator may notify the purchaser of the defaulting party's share of unitized substances (the purchaser not to be bound by the provisions hereof unless so notified) and such purchaser shall, without liability to the defaulting party, pay all proceeds accruing on account thereof to Unit Operator until said obligation is extinguished. In lieu of or in addition to the remedy above specified for such default, Unit Operator may have any other remedy afforded by law or equity against the defaulting party for such default.

Likewise, Nonoperators are hereby granted a prior lien on the rights and interests of the Unit Operator as a Working Interest Owner in the Unit Area and unitized substances and upon the interest of the Unit Operator in all materials and

equipment to secure the payment of any amounts which may become due and owing from Unit Operator to any of the Nonoperators, which lien shall be subject to all of the terms and conditions provided for in the preceding paragraph.

10. ADVANCES: Unit Operator, at its election, may require each Working Interest Owner hereto to advance its respective portion of development costs hereunder in accordance with an estimate by Unit Operator to be made not less than fifteen (15) days in advance of the month in which the costs and expenses are to be incurred. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest at the rate of 10% per annum from the date of expenditure until paid. Adjustment between estimates and actual costs shall be made by the Unit Operator at the close of each calendar month and the accounts of the Working Interest Owners adjusted accordingly.

11. TAXES: Unit Operator shall render for ad valorem taxes all jointly owned personal property acquired for or used in operations under this agreement. Such taxes shall be initially paid by Unit Operator and charged to the joint account for payment by the parties who own the taxed property.

12. INSURANCE: Unit Operator at all times while conducting operations hereunder shall purchase or provide for the protection and benefit of the parties hereto protection comparable to that afforded under standard form policies of insurance for:

(a) Workmen's compensation insurance to comply with the applicable federal and state workmen's compensation laws;

(b) General public liability insurance with bodily injury limits of $50,000 any one person, $100,000 any one accident and property damage limit of $50,000 any one accident;

(c) Automobile public liability insurance with bodily injury limits of $50,000 any one person, $100,000 any one accident and property damage limit of $50,00 any one accident.

Unit Operator shall charge to the joint account an amount equal to the premium applicable to the protection provided.

All losses not covered by standard form policies of insurance for the hazards set out above shall be borne by the parties hereto as their interests appear at the time of any loss.

Unit Operator shall notify nonoperators in writing of any occurrences wherein liability may exceed the limits of the insurance if covered by insurance or $5,000 if not covered by insurance.

13. INITIAL TEST WELL: Unit Operator is hereby authorized to drill the test well provided for in Section 9 of the Unit Agreement, at a location approved by the Supervisor in the NE/4 SW/4 of Section 15, Township 20 South, Range 32 East, Lea County, New Mexico, and in accordance with all applicable governmental rules and regulations. Said well shall be commenced by Unit Operator on or before September 1, 1970. After said well is commenced, Unit Operator shall prosecute the drilling of the well with reasonable diligence in a good and workmanlike manner, to a depth of 13,000 feet, or to a depth at which conclusive fluid is encountered in the Morrow formation, or to a depth at which the parties agree and Unit Operator is satisfied, that further drilling of the well would be unwarranted or impracticable, whichever depth is lesser. In the event said well proves to be a dry hole or a well not capable of producing unitized substances in paying quantities, the same shall be plugged and abandoned in accordance with the applicable rules and regulations, and in such event Unit Operator shall make a diligent effort to salvage as much of the casing, equipment and other materials used in the drilling of such well as may prove economically feasible. The Working Interest Owners shall be responsible for the cost of drilling, completing and plugging said well in proportion to their respective participation percentages as shown in Column No. 1 on page 3 of Exhibit "D." It is agreed that in the event said well is not completed as a producer the Working Interest Owners who have participated in the cost of drilling the same shall own all casing materials and other equipment which may be salvaged in connection therewith in the same proportion that they participated in the cost of drilling such well.

14. WELL CONTRACTS: All wells drilled in the Unit Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. Unit Operator, if it so desires, may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the field, and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Unit Operator under a written contract containing the same terms and conditions as shall be customary and usual in the field in contracts of independent contractors who are doing work of a similar nature.

15. OPERATIONS BY LESS THAN ALL PARTIES: If all the parties cannot mutually agree upon the drilling of any development well on the unit area (being any well proposed after production is established on the Unit Area) other than the test well provided for in Section 13 hereof and other than "forced" wells provided for in Section 16 hereof, or upon the re-working, deepening or plugging back of a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities (i.e., in quantities sufficient to pay the cost of producing same) on the Unit Area, any party or parties wishing to drill, re-work, deepen or plug back such a well may give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days (except that as to re-working, plugging back or drilling deeper, where a drilling rig is on location, the notice shall be given by telegram, and the period shall be limited to forty-eight (48) hours exclusive of Saturday, Sunday or holidays) after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. Failure of a party receiving such a notice to so reply to it within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.

If any party receiving such a notice elects not to participate in the proposed operation (such party or parties being hereafter referred to as the "Non-Consenting Parties"), then in order to be entitled to the benefits of this Section, the party or parties giving the notice and such other parties as shall elect to participate in the operation (all such parties being hereafter referred to as the "Consenting Parties") shall, within sixty (60) days after the expiration of the notice period of thirty (30) days (or as promptly as possible after the expiration of the forty-eight (48) hour period where the drilling rig is on location, as the case may be), actually commence work on the proposed operation and complete it with due diligence.

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions that their respective participation percentages bear to the total interest of all Consenting Parties. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all

liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, re-worked, deepened or plugged back under the provisions of this Section results in a producer of oil and/or gas in paying quantities (i.e., in quantities sufficient to pay the cost of producing same), the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Unit Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, re-working, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this Section, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well, its leasehold operating rights, and share of production therefrom until the proceeds or market value thereof (after deducting production taxes, royalty, overriding royalty and other interests payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

(a) One hundred per cent (100%) of such Non-Consenting Party's share of the cost of any newly acquired surface equipment beyond the well-head connections (including, but not limited to, stock tanks, separators, treaters, pumping equipment and piping), plus one hundred per cent (100%) of each such Non-Consenting Party's share of the cost of operation of the well commencing with first production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under the provisions of this Section, it being agreed that each Non-Consenting Party's share of such cost and equipment will be that interest which would have been chargeable to each Non-Consenting Party had all participated in the well from the beginning of the operation; and,

(b) Two hundred per cent (200%) of that portion of the costs and expenses of drilling, re-working, deepening or plugging back, testing and completing, after deducting any cash contributions received, and two hundred per cent (200%) of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections) which would have been chargeable to such Non-Consenting Party if all had participated therein.

Before any re-working, plugging back or deeper drilling operation is undertaken on any well which has been completed as a producer the Consenting Party shall first obtain the permission of all parties then owning an interest in said well to carry on such operation and the Consenting Party shall then be entitled to purchase each Non-Consenting Party's share of the value of the well's salvagable material and equipment, determined in accordance with the provisions of Exhibit "C," less the estimated cost of salvaging and the estimated cost of plugging and abandoning. The material and equipment shall thereafter, for the purposes of this Section 15, be deemed newly acquired material and equipment of the Consenting Parties and the Consenting Parties shall in a successful operation be entitled to receive one hundred per cent (100%) or two hundred per cent (200%) as the case may be (depending upon whether the material and equipment is before or beyond the wellhead connection), of the entire net salvage value of said material and equipment before the reversion of the interest in the well, the material and equipment thereon to any Non-Consenting Party as hereinafter in this Section 15 provided.

Within sixty (60) days after the completion of any operation under this Section, the party conducting the operations for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to the well, and an itemized statement of the cost of drilling, deepening, plugging back, testing, completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement of such cost of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the Consenting Parties are being reimbursed as provided above, the Consenting Parties shall furnish the Non-Consenting Parties with an itemized statement of all cost and liabilities incurred in the operation of the well, together with the statement of quantity of oil and gas produced from it and the amount of proceeds realized from the sale of the well's working interest production during the preceding month. Any amount realized from the sale or other disposition of equipment newly acquired in connection with such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited against the total unreturned costs of the work done and of the equipment purchased, in determining when the interest of such Non-Consenting Party shall revert to it as above provided; if there is a credit balance it shall be paid to such Non-Consenting Party.

If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it and from and after such reversion such Non-Consenting Party shall own the same interest in such well, the operating rights and working interest therein, the material and equipment in or pertaining thereto, and the production therefrom as such Non-Consenting Party would have owned had it participated in the drilling, re-working, deepening or plugging back of said well. Thereafter, such Non-Consenting Party shall be charged with and shall pay its proportionate part of the further cost of the operation of said well in accordance with the terms of this agreement and the Accounting Procedure Schedule, Exhibit "C," attached hereto.

Notwithstanding the provisions of this Section 15, it is agreed that without the mutual consent of all parties, no wells shall be completed in or produced from a source of supply from which a well located elsewhere on the Unit Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

The provisions of this Section shall have no application whatsoever to the drilling, plugging or completion at any depth of the Initial Test Well on the Unit Area, but shall apply to the re-working, deepening or plugging back of the Initial Test Well after it has been completed as a producer of oil and gas in paying quantities, if it is, or thereafter shall prove to be, a dry hole or non-commercial well, and to all other development wells drilled, re-worked, deepened or plugged back, upon the Unit Area subsequent to the drilling of the Initial Test Well.

16. FORCED WELLS: In the event Unit Operator is required to drill any well upon the Unit Area by governmental order or demand (including any Federal or State Agency), the cost of drilling and completing said well if a producer, and of plugging and abandoning the well if a dry hole, shall except as otherwise herein provided be borne by all of the Working Interest Owners as though they had all agreed to the drilling of the well pursuant to this agreement. The foregoing shall include, without limitation, an exploratory well or an extension well to determine the limits of any producing formation, or a well to meet any offset well drilled on lands contiguous to the Unit Area which are required to be drilled by such governmental order or demand.

As in the case of any well to be drilled pursuant to this agreement, a vote shall be taken on whether the parties desire to drill any well so required by governmental order or demand. If any party votes against drilling the well, it shall not be drilled at the cost of all Working Interest Owners unless and until the governmental order or demand becomes final, and any party or parties voting against drilling such well shall have the right, at its or their sole cost, risk and expense, to prosecute an appeal from such order or demand. If less than all of the parties consent to the drilling of the well, said well shall be commenced when said order or demand becomes final and shall thereafter be drilled to the required depth at the sole cost, risk and expense of the Consenting Parties in consideration for which the Non-Consenting Parties shall each assign to the Consenting Parties in proportion to their respective interests and without warranty of title all of Non-Consenting Parties respective interests in and under the drillsite, the area of which shall be the same as the spacing unit to be dedicated to said required well.

17. ABANDONMENT OF PRODUCING WELLS: If some but not all of the affected Working Interest Owners determine to abandon any well or wells completed as a producer but any other party or parties having an interest therein object thereto, then such party or parties not desiring to abandon the same shall, within ten (10) days after receipt of written notice of the proposed abandonment, notify the other parties of their desire to take over and operate said well and shall tender to such other affected Working Interest Owner or Owners a sum equal to the value of the last named parties' proportionate share of the salvagable material and equipment in said well or wells determined in accordance with the Accounting Procedure Exhibit "C" attached hereto less the reasonable cost of salvaging the material and equipment and plugging and abandoning the well, and on receipt of said sum the said parties having any interest in the well and wishing to abandon said well shall within twenty-five (25) days thereafter assign without warranty to the other Working Interest Owners, in the proportions that such Owners' respective participation percentages under this agreement bear to the total of such percentages of such Owners, the rights of the abandoning parties in the well and well property as to the producing formation only and any interest they have in the land on which said well is situated, and in the leasehold estate in a tract surrounding said well of an area equal to that prescribed by the applicable spacing rule of State or Federal authority, but if there is no such

established rule, then said assignment shall cover the working interest and leasehold estate in the producing formation only in 40 acres surrounding the well, or 160 acres if a gas well. Said well may thereafter be operated by the Unit Operator for the separate account of the Working Interest Owners retaining interests in the well; however, nothing done pursuant to this Section shall otherwise at any time affect the participation percentages of the parties under this agreement. Proper bills of sale and division orders shall be executed by the assigning parties to accomplish the purposes hereof.

18. RENTALS AND SHUT-IN WELL PAYMENTS: The Working Interest Owners in each tract shall pay all rentals, and shut-in well payments which may become due under the lease thereon and shall, at least ten (10) days prior to the due date thereof, notify the Unit Operator of such payment. Evidence of such payment shall be submitted to Unit Operator promptly after payment is made. If the Working Interest Owners in any tract determine not to pay any such rental or shut-in well payment, they shall notify Unit Operator at least sixty (60) days before the due date and they shall, upon request, thereupon assign to all other Working Interest Owners (in the proportion that such owners' respective participation percentages under this agreement bear to the total of such percentages of such owners) all of their right, title and interest under said lease; provided, however, all such assignments shall be subject to all obligations with respect to reassignments, if any, of the parties making such assignments theretofore created in favor of parties who are not parties to this agreement. As of the effective date of each such assignment, the participation percentages of the parties under this agreement shall be revised to reflect the change in working interest ownership on an adjusted acreage basis as described in Section 7 hereof. In the event of failure of any Working Interest Owner to make proper payment of any delay rental or shut-in well payment through mistake or oversight where such rental or payment is required to continue the lease in force, there shall be no money liability on the part of the party failing to pay such rental or payment, but such party shall make a bona fide effort to secure a new lease covering the same interest and commit such lease to the Unit Agreement and this agreement, and in the event of failure to secure a new lease within a reasonable time, the participation percentages of the parties hereto shall be revised to reflect the change in working interest ownership on an adjusted acreage basis as provided in Section 7 hereof and the party failing to pay any such rental or shut-in well payment shall not be credited with the ownership

of any lease on which rental or payment was required but was not paid. In the event of loss of title to a lease for failure to pay rental or shut-in well payment, all loss occasioned thereby shall be that of the Working Interest Owners who should have paid the same.

Unit Operator will use its best efforts in good faith to furnish all Working Interest Owners prior notice at any time a gas well is to be shut-in and notice of the date or dates it is reopened for production; provided, however, Unit Operator will suffer no liability because of failure through mistake, inadvertance or oversight so to notify any other Working Interest Owner.

19. DISPOSAL OF PRODUCTION: Each of the parties hereto shall own and, at its own expense, shall take in kind and separately dispose of its proportionate part of all the unitized substances produced and saved from the lease acreage covered hereby, exclusive of the production that the Unit Operator may use in developing and producing operations and in preparing and treating oil for market purposes and of production unavoidably lost; provided that each party shall pay or secure the payment of the royalty interests payable by or chargeable to such party under the provisions of this agreement. At such time or times as a Working Interest Owner shall fail or refuse to take in kind or separately dispose of its proportionate part of said production, Unit Operator shall have the authority, revocable by Working Interest Owner at will, to sell all or part of such production to others or to purchase same for its own account. Any such sale or purchase by Unit Operator shall be for a price at not less than the prevailing market price in the area and at not less than the price which Unit Operator receives for its proportionate part of said production. All such sales or purchases by Unit Operator of Working Interest Owner'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. Notwithstanding the foregoing, Unit Operator shall not make a sale into interstate commerce of any other Working Interest Owner's share of gas production without first securing such Working Interest Owner's written consent. This Agreement shall not be construed to mean that any party or parties are obligated to represent any other party or parties hereto before the Federal Power Commission.

20. EXAMINATION AND LOSS OF TITLE:

(a) Title Examination: There shall be no examination of title to leases, or to oil and gas interests, except that title to the drillsite on which the

Initial Test Well is to be drilled in accordance with Section 13 hereof shall be examined by a reputable attorney, using any available title opinion previously prepared by a reputable attorney, such abstracts of title as the examining attorney deems necessary, and any title papers in possession of the Working Interest Owner committing the land on which the drillsite is located. A copy of the examining attorney's opinion shall be sent to each party and, also, each party shall be given a copy of all subsequent supplemental attorney's reports. A good faith effort to satisfy any title requirements shall be made and the cost of any curative work and any necessary title examination shall be charged to the joint account.

If title to the proposed drillsite is not acceptable for a material reason, and all the parties do not accept the title, the parties shall by vote select a new drillsite for the Initial Test Well, subject to approval of the Supervisor, United States Geological Survey, Roswell, New Mexico; provided, if the parties are unable to select another drillsite, such drillsite may be selected by said Supervisor at the request of any party hereto. When a new drillsite is selected, title to the oil and gas lease covering it and to the fee title of the lessor shall be examined, and title shall be accepted or rejected in like manner as provided above concerning the drillsite first selected. If title to the oil and gas lease covering the second choice drillsite is not accepted, other drillsites shall be successively selected and title examined as in the case of the first drillsite until a drillsite is chosen to which title is accepted.

No well other than the first test shall be drilled in the Unit Area until after (1) the title to the drilling unit has been examined by an attorney, and (2) the title has been accepted by all of the parties who are to participate in the drilling of the well. The Working Interest Owner committing the land on which such drilling unit is located shall furnish such abstracts of title thereon as are in such party's possession, with any title opinion and other title papers in such party's possession. Any further fitle examination, curative work or abstracts shall be at the expense of parties who are to participate in the drilling of the well.

(b) Failure of Title: Should any oil and gas lease, or interest therein, be lost through failure of title, this agreement shall, nevertheless, continue in force as to all remaining leases and interests, and,

(1) The party whose title or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from

Operator or the other parties any development or operating costs which it may have theretofore paid, but there shall be no monetary liability on its part to the other parties hereto by reason of such title failure; and

(2) There shall be no retroactive adjustment of expense incurred or revenues received from the operation of the interest which has been lost, but as of the time it is determined finally that title failure has occurred the interests of the parties shall be revised to reflect the change in working interest ownership and the party whose title or interest is lost by the title failure will not be credited with ownership of that to which title is lost; and

(3) If the proportionate interests of the other parties hereto in any producing well theretofore drilled on the Unit Area are increased by reason of the title failure, the party whose title has failed shall receive the proceeds attributable to the increase in such interests (less operating costs attributable thereto) until it has been reimbursed for any unrecovered costs paid by it in connection with such well; and

(4) Should any person not a party to this agreement, who is determined to be the owner of any interest in the title which has failed, pay in any manner any part of the cost of operation, development or equipment previously paid under this agreement, such amount shall be proportionately paid to the party or parties hereto who in the first instance paid the costs which are so refunded; and

(5) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be borne by the parties in the same proportions in which they shared in such prior production. Each party whose title fails shall hold other parties harmless from loss resulting from payment of proceeds of production to the losing party.

(6) The expiration of any lease because of the failure of the parties to extend same, in accordance with the provisions thereof, beyond its primary term shall not be considered as a loss or failure of title within the meaning of this Article 20. Any loss of a lease because of its expiration under its own terms at or after the expiration of its primary term shall be a common loss of the parties. Likewise, where all of the parties consent to a surrender of a lease (whether during or after its primary term) such loss shall be a common loss of the parties. "Primary term," as used herein, shall mean the term a lease may be held by paying rentals or by other means in absence of production.

21. MAINTENANCE OF UNIT OWNERSHIP: Should a sale be made by Unit Operator of all of its rights and interests, the other parties shall have the right within sixty (60) days after the date of such sale, by majority vote in interest, to select a new Operator. If a new Operator is not so selected, the transferee of the present Operator shall assume the duties of and act as Operator. In either case, the retiring Operator shall continue to serve as Operator, and discharge its duties in that capacity under this agreement, until its successor Operator is selected and begins its functions, but the present Operator shall not be obligated to continue the performance of its duties for more than one hundred twenty (120) days after the sale of its rights and interests has been completed.

For the purpose of maintaining uniformity of ownership in the oil and gas leasehold interest covered by this contract, and notwithstanding any other provisions to the contrary, no party shall sell, encumber, transfer or make any other disposition of its interest in the leases embraced within the Unit Area and in wells, equipment and production unless such disposition covers either:

(a) The entire interest of the party in all leases and equipment and production; or

(b) An equal undivided interest in all leases and equipment and production in the Unit Area.

Every such sale, encumbrance, transfer or other dispostion made by any party shall be made expressly subject to this agreement, and shall be made without prejudice to the rights of the other parties.

If at any time the interest of any party is divided among and owned by four or more co-owners, Unit Operator may, at its discretion, require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures, receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with - with power to bind - the co-owners of such party's interests within the scope of the operations embraced in this contract; however, all such co-owners shall enter into and execute all contracts or agreements for the disposition of their respective shares of the oil and gas produced from the Unit Area and they shall have the right to receive, separately, payment of the sale proceeds thereof.

22. COVENANTS RUNNING WITH THE LAND: This agreement shall be deemed a covenant running with the leases and the lands subject hereto and shall be binding

upon and inure to the benefit of the heirs, personal representatives, successors and assigns of the parties respectively.

23. SUBSEQUENT JOINDER: Prior to commencement of operations under the Unit Agreement, all owners of working interests in the Unit Area who have not joined in the Unit Agreement shall be privileged to join in this agreement by subscribing to the Unit Agreement and this agreement. After commencement of operations under the Unit Agreement, however, subsequent joinder in the Unit Agreement and in this agreement by any party owning a working interest in the Unit Area shall be on such reasonable terms and conditions as the parties who are then committed to this agreement may require in view of the circumstances existing at the time such subsequent joinder is sought.

24. SURRENDER OR TERMINATION OF INTERESTS: No lease committed to the Unit Agreement shall be surrendered in whole or in part, unless the parties hereto mutually consent thereto. Should any party at any time desire to surrender any lease committed to the Unit Agreement insofar as it applies to the lands covered by said Unit Agreement and the other parties should not agree or consent to such surrender, the party desiring so to surrender shall assign, without express or implied warranty of title, subject to the approval of the Director of the Bureau of Land Management, Department of the Interior or the Commissioner of Public Lands as the case may be, if Federal or State lands are involved, all of such party's interest in such lease to the other parties hereto in proportion to the participation percentages of such parties under this agreement. If all of the parties are not willing to accept the assignment of such interest, the assignment shall be made to those willing to accept such interest in the proportions that their respective participation percentages under this agreement bear to the aggregate of such percentages of such parties. Such assignment shall be free and clear of all liens and encumbrances and upon delivery thereof the assigning party shall be relieved of all further obligations with respect to the lease or leases so assigned, but such assignment shall not relieve the assigning party of any obligation or liability approved, accrued or incurred with respect to such lease or leases or the interest referable thereto prior to the assignment thereof.

If any party hereto so desires, it may withdraw from this agreement by conveying, assigning and transferring, without warranty, either express or implied, to the other parties hereto who do not desire to withdraw, all of its right, title and interest in and under the leases included in the Unit Area, together with the

withdrawing party's interest in all wells, casing material, equipment, fixtures and other personal property acquired for or used in operations under this agreement, but such conveyance or assignment shall not relieve said party from any obligation or liability in connection with a drilling or reworking operation theretofore approved or from any obligation or liability accrued or incurred prior to the date of such assignment. The interest so conveyed and assigned shall be held and owned by the Assignees in proportion to their participation percentages under this agreement, and thereupon the withdrawing party shall be relieved from all obligations and liabilities thereafter to accrue under this agreement except as above provided and the right of such party to any benefits subsequently accruing hereunder shall cease; but Assignees shall pay Assignor for its interest in all casing, material, equipment, fixtures and other personal property assigned to them at the salvage value thereof computed in accordance with the Accounting Procedure, Exhibit "C," hereto attached, less the estimated cost of salvaging and estimated cost of plugging and abandoning. If all of the parties are not willing to accept the assignment from the withdrawing party, the assignment shall be made to those parties willing to accept such assignment in the proportions that their respective participation percentages under this agreement bear to the aggregate of such percentages of such parties.

25. NOTICES: Except as herein otherwise expressly provided, all notices, reports or other communications required or permitted hereunder shall be deemed to have been properly given or delivered when sent by first class mail or telegraph with all postage or charges fully prepaid, and addressed to the parties hereto, at the addresses set opposite their respective names, or at such other address as may be thereafter furnished to Unit Operator in writing by the respective parties. 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.

26. RELATION OF PARTIES: The rights, duties, obligations and liabilities of the parties hereto under this agreement and the Unit Agreement shall be several and not joint or collective, it being the express purpose and intention of the parties hereto that nothing contained in this agreement or the Unit Agreement or any operation under either agreement shall ever be construed as creating a partnership of any kind, joint venture, an association or a trust, or any legal entity for any purpose or as imposing upon any one or more 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 and in the Unit Agreement.

27. INTERNAL REVENUE CODE ELECTION: While each of the parties hereto recognizes and intends that its rights and liabilities under this agreement and the Unit Agreement are several and not joint or collective, if, for income tax purposes, the parties should be regarded as partners or joint venturers, or if this agreement, the Unit Agreement, or any operations carried on under either agreement be treated as a partnership for income tax purposes, each and all of the parties hereto do fully and finally elect to exclude themselves, this agreement, the Unit Agreement and all such operations from the application of all of Subchapter K of Chapter 1, of Subtitle A, of the Internal Revenue Code of 1954 as provided in Section 761 (a) thereof. Each party hereto further agrees not to give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the State in which the property covered by this agreement is located, or any future income tax laws of the United States, contain, or shall hereafter contain, any other provisions under which an election similar to that provided by Section 761 of said Subchapter K is permitted, each of the parties hereto hereby makes such election with the same purpose and effect as the election made above and each party agrees to take such action as may be necessary to make such election as may be permitted by such laws.

28. FORCE MAJEURE: In the event any party hereto is rendered unable, wholly or in part, by force majeure to carry out its obligations under this contract other than the obligation to make payments of amounts due hereunder, it is agreed that upon such party's giving notice and reasonably full particulars of force majeure in writing or by telegraph to the other parties hereto within a reasonable time after the occurrence of the cause relied upon, then the obligations of the party giving the notice, so far as they are affected by force majeure, shall be suspended during the continuance of any inability so caused, but for no longer period; and the cause of the force majeure shall, so far as possible, be remedied with all reasonable dispatch. The term "force majeure" as employed herein shall mean delay or loss resulting from fire, flood, action of the elements, strikes or other labor difficulties, acts or orders of civil or military authorities, restrictions or restraints imposed by law or ordinance, or by order or regulation of public authority, whether Federal, State or local, inability to procure necessary materials or labor in the open market and on usual and lawful terms, or any other cause reasonably beyond the control of the party claiming suspension.

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

29. ASSIGNMENTS OF PARTIAL INTERESTS: Under various provisions of this agreement, a party hereto is permitted, or may be obligated, to assign to another party or parties hereto, all or a part of such party's interest in its oil and gas leases subject to this agreement. In the event assignment of record title is not permitted under the rules and regulations of the Bureau of Land Management or of the Commissioner of Public Lands of the State of New Mexico, as the case may be, then the interest to be assigned shall be conveyed by appropriate operating agreements or by any other valid instrument that will carry out the intention of such provision or provisions or in case of a State lease or leases where undivided interests are to be assigned, the same may be assigned to the Unit Operator to be held in trust for the parties entitled to participation therein in proportion to their respective interests.

30. PROVISIONS CONFORMED WITH LAWS AND REGULATIONS: All of the provisions of this agreement are hereby expressly made subject to all applicable Federal or State laws, orders, rules and regulations, and in the event this contract 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 contract shall be regarded as modified accordingly and as so modified shall continue in full force and effect.

31. EFFECTIVE DATE AND TERM: This agreement shall become effective as of the effective date of the Unit Agreement and shall remain in full force and effect during the term of said Unit Agreement and any and all extensions or renewals thereof, and, in the event of the termination of the Unit Agreement for any reason as to all or any part of the land now or hereafter included in the Unit Area, this agreement shall continue in full force and effect with respect to any land as to which the Unit Agreement terminates which is included in any drilling unit or proration unit for any unabandoned well which has been drilled or commenced pursuant to this agreement. After such termination the royalties reserved in the lease covering any such drilling or proration unit and the overriding royalties and production payments specified in Exhibit "B" which are applicable to production from such unit shall be paid and satisfied with the actual production from such unit by the owner of the lease covering such

unit, and the remaining production therefrom and the cost of all subsequent operations thereon shall be allocated among the parties to this agreement in accordance with the other provisions of this agreement; such remaining production being in lieu of any other working interest production from or allocated to such unit to which any working interest owner or owners might otherwise be entitled under this agreement. Any additional overriding royalties or burdens on production from such drilling or proration unit shall be paid and satisfied by the owner of the lease covering such unit and such owner shall hold the other parties harmless from any such additional overriding royalties and burdens on production. The rights and interests of the parties hereto in such drilling or proration units, the wells thereon and their participation in the production therefrom and in the costs of operations thereon, shall be governed by the provisions hereof and this agreement with respect to each such well and its drilling unit or proration unit shall remain in full force and effect so long as any well thereon is being drilled or re-worked or is capable of producing oil or gas in paying quantities and until same is plugged and abandoned and the accounts of all parties hereto are settled.

No termination of the Unit Agreement as to any land (except as a result of loss or failure of title or loss of a lease through failure to pay rental or shut-in well payment) shall cause a revision of the participation percentages of the parties under this agreement.

32. MODIFICATIONS OF DRILLING REQUIREMENTS OF UNIT AGREEMENT: The Unit Operator may apply for and obtain a modification of the drilling requirements of said unit agreement or an extension or extensions of time within which to comply therewith as provided by the terms of said unit agreement and any such application or applications may be made without the consent of any of the working interest owners subscribing hereto.

33. EXHIBITS: Exhibit "A" (map of the Unit Area) and Exhibit "B" (Schedule of Ownership of Oil and Gas Interests in the Unit Area) which are attached to the Unit Agreement, are hereby confirmed and by reference made a part hereof. Exhibit "C" (Accounting Procedure) and Exhibit "D" (Schedule of Participation Percentages in Costs and Working Interest Production and Schedule as to Participation in the Initial Test Well) are attached hereto and made a part hereof.

It is recognized that the Exhibits attached hereto will need to be revised from time to time, as provided in the Unit Agreement and as necessary due to changes

in ownership, retirements of production payments and as required by the Commissioner of Public Lands and the United States Geological Survey, and may need to be revised to correct any arithmetical mistakes that may be discovered after the execution of this Agreement. Unit Operator will make such changes or revisions as are necessary and promptly thereafter furnish the parties hereto such revised or changed Exhibits.

34. SPECIAL AGREEMENTS COVERING DRILLING AND COMPLETING THE INITIAL TEST WELL:

(a) Rights to be earned: In the event the initial test well is completed as a well capable of producing unitized substances in paying quantities, it is understood and agreed between the respective parties named in this Section 34 that, subject only to the provisions of this Section, Phillips Petroleum Company, hereinafter referred to as "Acquiring Party," shall have and is hereby granted the right to acquire the following described leasehold interests from the respective parties hereinafter designated "Non-participating Parties" named below.

(1) From Kerr-McGee Corporation, all of its leasehold interest as it appears in Exhibit "B" to the Unit Agreement. Such interest appears in Exhibit "B" in Tract 18 and is shown to contain 40.00 leasehold acres, more or less. Kerr-McGee Corporation shall reserve unto itself an overriding royalty equal to one-eighth (1/8) of eight-eighths (8/8) of all unitized substances produced and saved from said tract proportionately reduced as to its working interest percentage as it also appears in Exhibit "B" in Tract 18.

(2) From Atlantic Richfield Company, all of its leasehold interest as it appears in Exhibit "B" to the Unit Agreement from a depth of below 100 feet above the top of the Delaware Mountain Group, identified at 4,390 feet on the Schlumberger Electric Log run No. 2 of April 14, 1957, in Shell Oil Company's No. 1 Perry Federal located 330 feet from the North Line and 990 feet from the West Line of Section 10-T20S-R32E, N.M.P.M., Lea County, New Mexico, down to and including one hundred (100) feet below the deepest depth drilled in the test well provided for in Section 13 of this agreement. Such interest appears in said Exhibit "B" in Tract 11 and is shown to contain 400.00 leasehold acres, more or less. Atlantic Richfield Company shall reserve unto itself an overriding royalty equal to one-eighth (1/8) of eight-eighths (8/8) of all unitized substances produced and saved from the assigned depths.

(3) From Bass Enterprises Production Co., Perry R. Bass and Delbasin Corporation, hereinafter referred to as Bass, Bass and Delbasin, all of their

leasehold interest in and to the acreage placed in the approved participating area for the initial test well from a depth of 2,784 feet below the surface of the ground down to and including one hundred (100) feet below the deepest depth drilled in said well, reserving unto themselves an overriding royalty equal to one-sixteenth (1/16) of eight-eighths (8/8) of all oil, gas and casinghead gas produced and saved from the assigned depths, out of which overriding royalty shall be borne all presently existing overriding royalties or production payments as such overriding royalties and production payments appear in Exhibit "B" to the Unit Agreement, until such time as Acquiring Party shall have produced and saved from the test well provided for in Section 13 above unitized substances of total "Market Value" equal to 99.285714% of the costs and expenses of drilling, testing and completing said test well, plus 99.285714% of the costs of operation of said test well, Acquiring Party shall immediately notify Bass, Bass and Delbasin in writing, and Bass, Bass and Delbasin shall have thirty (30) days following the receipt of such notice to jointly notify Acquiring Party whether or not they elect to receive from Acquiring Party a reassignment of an undivided one-half (1/2) interest in the lease previously assigned to Acquiring Party insofar as same covers the participating area. In the event Bass, Bass and Delbasin, within the thirty (30) day period hereinabove specified, shall notify Acquiring Party that they elect to receive such reassignment, then and thereupon Acquiring Party agrees to forthwith reassign to Bass, Bass and Delbasin an undivided one-half (1/2) interest in the leasehold placed in the participating area for the original producing well in the same manner in the same depth as assigned to Acquiring Party, together with a 36.428571% interest in all lease equipment and all personal property located thereon or appurtenant thereto and used in connection with the development and operation of same for oil and gas purposes, warranting the same to be free of all liens, clouds, claims and encumbrances caused, suffered or created by, through or under Acquiring Party. Said reassignment to be effective as of 7:00 A.M. on the date Acquiring Party has been reimbursed from the proceeds of production as herein provided, and upon the effective date of such reassignment the overriding royalty reserved to Bass, Bass and Delbasin in this Section 34(a)(3) shall terminate. If Bass, Bass and Delbasin shall notify Acquiring Party that they elect not to receive a reassignment of such interest in said initial test well and participating area, or if Bass, Bass and Delbasin

shall fail or neglect to notify Acquiring Party within the thirty (30) day period hereinabove specified, then, and in either event, it shall be deemed that Bass, Bass and Delbasin do not elect to receive such reassignment and the overriding royalty hereinabove reserved to Bass, Bass and Delbasin herein and all other terms and provisions of this agreement shall continue in full force and effect as to such initial test well and the participating area leasehold assigned the same as before such election.

In determining the "market value" of production from said test well for the purposes of this Section 34(a)(3), there shall be deducted the value of all royalties paid to lessors under the oil and gas leases described in Exhibit "A," the value of the overriding royalty paid to Bass, Bass and Delbasin under the provisions of this Section 34(a)(3) and all ad valorem and gross production taxes paid by Acquiring Party on such production but no other deduction of any kind or character shall be made.

During the time Acquiring Party is being reimbursed as aforesaid, Acquiring Party shall furnish Perry R. Bass, Attention Mr. W. P. Duncan, Jr., 1200 Fort Worth National Bank Building, Fort Worth, Texas 76102, with a monthly itemized statement reflecting the costs and expenses incurred in the development, operation and maintenance of said initial test well, the production sold, production on hand and run tickets fully disclosing the type, quality and quantity of production and the disposition thereof. The costs incurred by Acquiring Party in the development, operation and maintenance of said test well shall be determined in accordance with the provisions of the Accounting Procedure attached as Exhibit "C" attached hereto and made a part hereof.

(4) Additionally from Bass, Bass and Delbasin, an undivided one-half (1/2) interest in the remaining leasehold interest not included in the participating area of the initial test well, from a depth of 2,784 feet below the surface of the ground down to and including one hundred (100) feet below the deepest depth drilled in the initial test well, all of the above interests appearing in Exhibit "B" in Tracts 1, 2, 3, 4, 5, 6, 7, 8, 9, 10 and 16 and are shown to contain 4,080.00 acres, more or less.

The Acquiring Party shall bear and pay its participation percentage as shown in Column 1 on Page 3 of Exhibit "D," all costs and expenses which would otherwise be chargeable to said Non-participating Parties' respective interests under

this agreement in connection with drilling and completing into the tanks the initial test well provided for in Section 13 of this agreement, and if no completion attempt is made after reaching the depth specified in Section 13, the plugging and abandoning of said well.

When the test well has been drilled to the depth required by Section 13 and completed as a producer of oil and/or gas, the Non-participating Parties described above shall promptly execute and deliver to the Acquiring Party a good and valid assignment, without warranty of title, vesting in said Acquiring Party the legal title to the interests above provided for in the tracts of the respective Non-participating Parties as shown above. After the assignments by Non-participating Parties as herein provided for have been made, Unit Operator shall revise Exhibit "B" to the Unit Agreement and Exhibit "D" of the Unit Operating Agreement to reflect the then true status of leasehold ownership. The proportionate shares of costs of drilling and completing the initial test well which are to be borne by the parties hereto are more clearly shown in Column 1 on Page 3 of Exhibit "D" attached hereto.

35. ADDITIONAL ENCUMBRANCES: If any Working Interest Owner hereafter creates any overriding royalty, production payment or other burden against its working interest production, and if the other party conducts operations hereunder in which the party so creating said burden against its working interest production elects not to participate under any provision of this agreement, and, as a result, the party conducting such operations becomes entitled to receive the working interest production otherwise belonging to such other party, said party conducting such operations shall receive such production free and clear of any burden so created by the other party, and the latter shall save the party conducting such operations completely harmless with respect to the receipt of such working interest production.

36. COUNTERPARTS: This agreement may be executed in any number of counterparts, no one of which needs to be executed by the other parties hereto, and the same shall be binding upon all those parties who have executed such a counterpart, regardless of whether the same shall have been executed by all of the parties owning oil and gas leasehold interests within the Unit Area, and such counterpart shall have the same force and effect as if all parties signing such counterparts had signed the same

document; or this agreement may be ratified with like force and effect by a separate instrument in writing specifically referring hereto.

37. NONDISCRIMINATION: In connection with the performance of work under this agreement, the operator agrees to comply with all of the provisions of section 202 (1) to (7) inclusive, of Executive Order 11246, as amended, (30 FR 12319), which are hereby incorporated by reference in this agreement.

38. HEADINGS AND SUBHEADINGS: The headings and subheadings used in this agreement are inserted for convenience only and shall be disregarded in construing this agreement.

IN WITNESS WHEREOF this Agreement was executed by the undersigned parties hereto on the respective dates hereinafter shown with the effective date to be the day and year first hereinabove written or as otherwise controlled by Section 31 hereof; provided, however, that each party executing this Agreement expressly agrees to remain bound to any authority for expenditure or separate agreement concerning the initial test well which may have been executed or entered into previous to said effective date to the extent that authorized costs incurred prior to the effective date hereof shall be deemed to have accrued under the terms and provisions of this Operating Agreement.

PHILLIPS PETROLEUM COMPANY

Date: June 29, 1970

By: Fred Forward
Fred Forward
Attorney-in-Fact

THE STATE OF TEXAS §

COUNTY OF MIDLAND §

BEFORE ME, the undersigned authority, a Notary Public in and for said County and State, on this day personally appeared FRED FORWARD, Attorney-in-Fact for PHILLIPS PETROLEUM COMPANY, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that the same was the act of the said PHILLIPS PETROLEUM COMPANY, a corporation, and that he executed the same as the act of such corporation for the purposes and consideration therein expressed, and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 29th day of June, 1970.

Ramona Cathcart
Notary Public in and for Midland
County, Texas

Recommended by the Council of Petroleum Accountants Societies of North America.

EXHIBIT " C "

Attached to and made a part of Plata Deep Unit Area Operating Agreement, Lea County, New Mexico.

ACCOUNTING PROCEDURE
(JOINT OPERATIONS)

I. GENERAL PROVISIONS

1. **Definitions**
"Joint Property" shall mean the real and personal property subject to the agreement to which this "Accounting Procedure" is attached.
"Joint Operations" shall mean all operations necessary or proper for the development, operation, protection and maintenance of the Joint Property.
"Operator" shall mean the party designated to conduct the Joint Operations.
"Non-Operators" shall mean the nonoperating parties, whether one or more.
"Joint Account" shall mean the account showing the charges and credits accruing because of the Joint Operations and which are to be shared by the Parties.
"Parties" shall mean Operator and Non-Operators.
"Material" shall mean personal property, equipment or supplies acquired or held for use on the Joint Property.
"Controllable Material" shall mean material which at the time is so classified in the Material Classification Manual as most recently recommended by the Council of Petroleum Accountants Societies of North America.

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

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

4. **Statements and Billings**
Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of costs and expenses, for the preceding month. Such bills will be accompanied by statements reflecting the total charges and credits as set forth under Subparagraph C below:
A. Statement in detail of all charges and credits to the Joint Account.
B. Statement of all charges and credits to the Joint Account, summarized by appropriate classifications indicative of the nature thereof.
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. **Advances and Payments by Non-Operators**

Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of ten per cent (10%) per annum or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser.

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

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

II. DIRECT CHARGES

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

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

2. **Labor**
A. Salaries and wages of Operator's employees directly engaged on the Joint Property in the conduct of the Joint Operations, and salaries or wages of technical employees who are temporarily assigned to and directly employed on the Joint Property.
B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to the employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III; except that in the case of those employees only a pro rata portion of whose salaries and wages are chargeable to the Joint Account under Paragraph 1 of Section III, not more than the same pro rata portion of the benefits and allowances herein provided for shall be charged to the Joint Account. Cost under this Paragraph 2B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable to the Joint Account under Paragraph 2A of this Section II and Paragraph 1 of Section III. If percentage assessment is used, the rate shall be based on the Operator's 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 fifteen percent (15%) 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 barge terminal 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 barge terminal 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)

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

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.)

1. **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)	PRODUCING WELL RATE (Use Current Producing Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten
0' - 5,000'	$598	$106	$ 94	$ 81
5,001' - 8,000'	662	119	106	88
8,001' - 12,000'	788	140	126	101
Over 12,000'	980	156	140	106

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, shall be considered as a producing well for each separately producing horizon, providing each completion is considered a separate well by governmental or other statewide regulatory authority.
C. The well rates for producing wells shall be applied to the individual leases; provided that, whenever leases covered by this agreement are operated as a unitized project, the well rates shall be applied to the total number of producing wells, 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. Construction Overhead
To be negotiated as required. Percentage rates will vary depending upon complexity of the project, whether design is by contract or by Operator's personnel, etc.

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, except line pipe, shall be priced on a maximum carload and/or barge load weight basis regardless of quantity transferred and equalized to the lowest prevailing price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available effective at date of transfer.
Line pipe shall be priced at the current replacement cost effective at date of transfer from a reliable supply store nearest the Joint Property where such Material is normally available if the movement is less than 30,000 pounds. If the movement is 30,000 pounds or more, it shall be priced on the same basis as casing and tubing under Subparagraph (1) of this paragraph.
(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. In lieu of rates based on costs of ownership and operation of equipment, other than automotive, Operator may elect to use commercial rates prevailing in the area of the Joint Property less 20%; for automotive equipment, rates as published by the Petroleum Motor Transport Association may be used. 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.

PLATA DEEP UNIT, LEA COUNTY, NEW MEXICO

SCHEDULE SHOWING COMMITTED ACRES, PARTICIPATION PERCENTAGE, AND BURDENS OF EACH WORKING INTEREST OWNER IN THE UNIT AREA PRIOR TO COMPLETION OF THE INITIAL TEST WELL

(1) Working Interest Owner and Tract Numbers	(2) Committed Acres	(3) Percent	(4) Royalty and Percent Basic	(5) Excess
Phillips Petroleum Company				
12	40.00		12.50	5.00
14	400.00		12.50	6.25
15	120.00		Schedule "B"	None
17	40.00		12.50	5.625
18 50% of 40.00	20.00		12.50	None
19	320.00		12.50	None
20	120.00		12.50	None
	1,060.00	18.928572		
Bass Enterprises Production Co. and Perry R. Bass				
1	600.00		12.50	3.50
2	640.00		12.50	3.50
4	40.00		12.50	3.50
5	40.00		12.50	3.50
7	40.00		12.50	3.50
9	2,320.00		12.50	$500.00 P/A x 3% Plus .5%
16	240.00		12.50	None
	3,920.00	70.000000		
Delbasin Corporation				
3	40.00		12.50	3.50
6	40.00		12.50	3.50
8	40.00		12.50	3.50
10	40.00		12.50	$500.00 P/A x 3% plus .5%
	160.00	2.857143		

(1) Working Interest Owner and Tract Numbers	(2) Committed Acres	(3) and Percent	(4) Royalty and Percent Basic	(5) Excess
Atlantic Richfield Company 11	400.00	7.142857	12.50	None
Stephen C. Helbing and Frank W. Podpechan 13	40.00	.714285	12.50	5.00
Kerr-McGee Corporation 18	20.00	.357143	12.50	None
	5,600.00	100.000000%		

SCHEDULE SHOWING PARTICIPATION PERCENTAGES IN INITIAL TEST WELL AND IN SUBSEQUENT COSTS AND WORKING INTEREST PRODUCTION UPON COMPLETION OF INITIAL TEST WELL AS A PRODUCER

Working Interest Owner	Column 1 Participating Percentages of of Initial Test Well Costs	Column 2 Upon Completion of a Producing Well the Participation Percentage of Operating Costs and costs of Subsequent Wells
Phillips Petroleum Company	99.285714%	62.857143%
Bass Enterprises Production Co. and Perry R.Bass	None	35.000000%
Delbasin Corporation	None	1.428571%
Atlantic Richfield Company	None	None
Stephen C. Helbing and Frank W. Podpechan	.714286%	.714286%
Kerr-McGee Corporation	None	None
	100.000000%	100.000000%