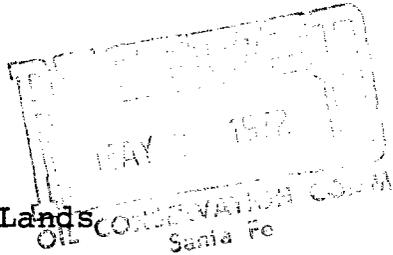


BEARD OIL COMPANY
SUITE 200, 2000 CLASSEN BUILDING
2000 CLASSEN BOULEVARD
OKLAHOMA CITY, OKLAHOMA 73106

May 26, 1972

Commissioner of Public Lands
State of New Mexico
P. O. Box 1148
Santa Fe, New Mexico 87501



Case 4757

Attention: Mr. Ray D. Graham, Director
Oil and Gas Department

Re: Proposed Jornada Del Muerto Unit
Sierra County, New Mexico

Dear Mr. Graham:

Thank you for your letter of May 23, 1972. The changes you suggested in the Unit Agreement have now been made. Enclosed are substitute Pages 8, 9, 10, and 10a and substitute Pages 12 and 13 showing assignment numbers to be inserted in the copy of Unit Agreement which I sent you previously.

We also enclose our check in the amount of \$1,800.00 payable to the Commissioner of Public Lands, State of New Mexico for the filing fee.

A copy of the Geological Memorandum and Geological Map which we submitted to the U. S. Geological Survey in justification of this unit is enclosed.

If you should need any other information, please advise us.

Very truly yours,

BEARD OIL COMPANY

J. K. Caskey
Vice President

cc: Mr. Dan Nutter
New Mexico Oil Conservation Commission
Box 2088, Santa Fe, New Mexico 87501

1 Supervisor and one (1) true copy with the Land Commissioner, prior to 1
2 approval of this unit agreement. 2

3 8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as other- 3
4 wise specifically provided herein, the exclusive right, privilege, and 4
5 duty of exercising any and all rights of the parties hereto which are 5
6 necessary or convenient for prospecting for, producing, storing, allo- 6
7 cating, and distributing the unitized substances are hereby delegated 7
8 to and shall be exercised by the Unit Operator as herein provided. 8
9 Acceptable evidence of title to said rights shall be deposited with 9
10 said Unit Operator, and, together with this agreement, shall constitute 10
11 and define the rights, privileges, and obligations of Unit Operator. 11
12 Nothing herein, however, shall be construed to transfer title to any 12
13 land or to any lease or operating agreement, it being understood that 13
14 under this agreement the Unit Operator, in its capacity as Unit Operator, 14
15 shall exercise the rights of possession and use vested in the parties 15
16 hereto only for the purposes herein specified. 16

17 9. DRILLING TO DISCOVERY. Within six (6) months after the 17
18 effective date hereof, the Unit Operator shall begin to drill an ade- 18
19 quate test well at a location approved by the Supervisor if on Federal 19
20 land, or by the Land Commissioner if on State Land, or by the Conserva- 20
21 tion Commission if on privately owned land, unless on such effective 21
22 date a well is being drilled conformably with the terms hereof, and 22
23 thereafter continue such drilling diligently until the entire San Andres 23
24 Formation has been tested or until at a lesser depth unitized substances 24
25 shall be discovered which can be produced in paying quantities (to-wit: 25
26 quantities sufficient to repay the costs of drilling, and producing 26
27 operations, with a reasonable profit) or the Unit Operator shall at 27
28 any time establish to the satisfaction of the Supervisor if on Federal 28
29 land, of the Land Commissioner if on State land, or of the Conservation 29
30 Commission if on privately owned land, that further drilling of a part- 30
31 icular well would be unwarranted or impractical; provided, however, 31
32 that Unit Operator shall not in any event be required to drill said 32
33 well to a depth in excess of 3,500 feet. Within six (6) months follow- 33
34 ing completion of the first test well (and whether or not such be com- 34
35 pleted as a producer, or plugged and abandoned) Unit Operator shall 35

1 commence drilling a second test well at a location approved by the 1
2 Supervisor if on Federal land, or by the Land Commissioner if on State 2
3 land, or by the Conservation Commission if on privately owned land; 3
4 and within six (6) months from the completion of said second test well 4
5 (and whether or not such be completed as a producer or plugged and 5
6 abandoned) Unit Operator shall commence the drilling of a third test 6
7 well at a location approved by the Supervisor if on Federal land, or 7
8 by the Land Commissioner if on State land, or by the Conservation 8
9 Commission if on privately owned land; and within six (6) months from 9
10 the completion of said third test well (and whether or not such be 10
11 completed as a producer, or plugged and abandoned) Unit Operator shall 11
12 commence the drilling of a fourth test well at a location approved by 12
13 the Supervisor if on Federal land, or by the Land Commissioner if on 13
14 State land, or by the Conservation Commission if on privately owned 14
15 land. It is the intent of this section that Unit Operator shall ini- 15
16 tially drill four obligation wells located in different portions of 16
17 the unit area to test the entire San Andres Formation. Until the dis- 17
18 covery of a deposit of unitized substances capable of being produced 18
19 in paying quantities, Unit Operator shall continue drilling diligently 19
20 one well at a time, allowing not more than six (6) months between the 20
21 completion of one well and the beginning of the next well, until a 21
22 well capable of producing unitized substances in paying quantities is 22
23 completed to the satisfaction of the Supervisor if on Federal land, 23
24 of the Land Commissioner if on State land, or of the Conservation Com- 24
25 mission if on privately owned land, or until it is reasonably proved 25
26 that the unitized land is incapable of producing unitized substances 26
27 in paying quantities in the formation drilled hereunder. 27

28 Following the completion of the initial four obligation wells, 28
29 the Supervisor and Land Commissioner may modify the drilling require- 29
30 ments of this section by granting extensions of time. The only exten- 30
31 sion of time the Supervisor and Land Commissioner may grant, however, 31
32 for meeting the critical dates for the initial four obligation wells 32
33 in this section shall be based upon severe weather or other conditions 33
34 beyond the control of Unit Operator, and shall be limited to a single 34
35 extension of not more than three months for each well after the first. 35

1 Nevertheless, in the event drilling of any of said initial four obliga- 1
2 tion wells has not been commenced timely, this Unit Agreement shall, 2
3 effective the first day of the month following the default, terminate 3
4 or be contracted as hereinafter provided. 4

5 Notwithstanding anything in this Unit Agreement to the contrary 5
6 except unavoidable delay, as above indicated, Unit Operator shall drill 6
7 four wells, each to test the entire San Andres Formation. The Unit 7
8 Operator may select the order of drilling said four wells and may drill 8
9 said four wells at a faster rate than is herein provided, including the 9
10 drilling of more than one well at the same time. 10

11 Upon failure to commence any well provided for in this section 11
12 within the time allowed, including any extension of time granted by 12
13 the Supervisor, this agreement will automatically terminate; upon failure 13
14 to continue drilling diligently any well commenced hereunder, the Super- 14
15 visor and Land Commissioner may, after 15-days notice to the Unit 15
16 Operator, declare this unit agreement terminated. In the event one or 16
17 more of the four initial obligation test wells required by this section 17
18 is completed as a well capable of producing unitized substances in pay- 18
19 ing quantities, and default occurs by failure to commence and/or drill 19
20 the remaining initial obligation well or wells, then, in lieu of this 20
21 Unit Agreement being terminated, the Unit Area shall be contracted to 21
22 eliminate by legal subdivision all lands not entitled to be in a 22
23 participating area established in accordance with the provisions of 23
24 this Unit Agreement. The only penalty for failure to timely commence 24
25 and/or drill the four initial obligation wells provided for herein 25
26 shall be termination of this Unit Agreement or contract of the Unit 26
27 Area as in this section provided. 27

28 10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within six (6) 28
29 months after completion of a well capable of producing unitized sub- 29
30 stances in paying quantities, the Unit Operator shall submit for approval 30
31 of the Supervisor and the Land Commissioner an acceptable plan of develop- 31
32 ment and operation for the unitized land which, when approved by the 32
33 Supervisor and Land Commissioner, shall constitute the further drilling 33
34 and operating obligations of the Unit Operator under this agreement for 34
35 the period specified therein. Thereafter, from time to time before the 35

1 expiration of any existing plan, the Unit Operator shall submit for 1
2 the approval of the Supervisor and Land Commissioner a plan for an 2
3 additional specified period for the development and operation of the 3
4 unitized land. 4

5 Any plan submitted pursuant to this section shall provide for 5
6 the exploration of the unitized area and for the diligent drilling 6
7 necessary for determination of the area or areas thereof capable of 7
8 producing unitized substances in paying quantities in each and every 8
9 productive formation and shall be as complete and adequate as the 9
10 Supervisor and the Land Commissioner may determine to be necessary for 10
11 timely development and proper conservation of the oil and gas resources 11
12 of the unitized area and shall: 12

13 (a) specify the number and locations of any wells to be drilled 13
14 and the proposed order and time for such drilling; 14

15) 15
16) 16
17) 17
18) 18
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30) 30
31) 31
32) 32
33) 33
34) 34
35) 35

Tract No.	Description of Land	Number of Acres	Serial Number & Expiration Date of Lease	Basic Royalty and Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest and Percentage
NEW MEXICO STATE LANDS							
46	T. 15 S., R. 1 W. Sec. 16: NW $\frac{1}{4}$, SE $\frac{1}{4}$	320	K-6241 7-11-76	State of New Mexico All	Dulcie Williams P. O. Box 849 Deming, N.M. 88030	None of Record	Dulcie Williams 100.00
47	T. 15 S., R. 1 W. Sec. 19: NE $\frac{1}{4}$ 21: NE $\frac{1}{4}$, NE $\frac{1}{4}$ NW $\frac{1}{4}$, N $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ SW $\frac{1}{4}$ 28: E $\frac{1}{2}$	800	K-6242 7-11-76	State of New Mexico All	George A. Dowdle Dulcie Williams	None of Record	George A. Dowdle Dulcie Williams 100.00
48	T. 15 S., R. 1 W. Sec. 29: SW $\frac{1}{4}$ 30: E $\frac{1}{2}$ W $\frac{1}{2}$ 31: SE $\frac{1}{4}$ 32: SE $\frac{1}{4}$ 33: SE $\frac{1}{4}$	800	K-6243 7-11-76	State of New Mexico All	George A. Dowdle Dulcie Williams	None of Record	George A. Dowdle Dulcie Williams 100.00
49	T. 14 S., R. 1 W. Sec. 16: S $\frac{1}{2}$	320	K-6538-1 12-6-76	State of New Mexico All	Beard Oil Company	None of Record	Beard Oil Company 100.00
50	T. 14 S., R. 1 W. Sec. 2: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ 16: N $\frac{1}{2}$	956.41	K-6539-1 12-6-76	State of New Mexico All	Beard Oil Company	None of Record	Beard Oil Company 100.00
51	T. 15 S., R. 1 W. Sec. 4: Lots 1, 2, S $\frac{1}{2}$ NE $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ 9: NE $\frac{1}{4}$, S $\frac{1}{2}$	884.48	L-76 7-17-77	State of New Mexico All	Sarah E. Alger Mary Carney 300 South Tin St. Deming, N.M. 88030	None of Record	Sarah E. Alger Mary Carney 100.00

Tract NO.	Description of Land	Number of Acres	Serial Number & Expiration Date of Lease	Basic Royalty		Overriding Royalty		Working Interest	
				and Percentage	State of New Mexico	Lessee of Record	and Percentage	and Percentage	and Percentage
52	T. 15 S., R. 1 W. Sec. 16: NE $\frac{1}{4}$	160	L 77 7-17-77	All	State of New Mexico	Sarah E. Alger Mary Carney	None of Record	Sarah E. Alger Mary Carney 100.00	
53	T. 13 S., R. 1 W. Sec. 32: All	640	L 2903-1 5-20-79	All	State of New Mexico	Beard Oil Company	None of Record	Beard Oil Company 100.00	
54	T. 13 S., R. 1 W. Sec. 36: All	640	LG-0148-1 4-1-82	All	State of New Mexico	Beard Oil Company	None of Record	Beard Oil Company 100.00	
55	T. 13 S., R. 1 E. Sec. 32: All 36: All	1280	L-2911-1 5-20-79	All	State of New Mexico	Beard Oil Company	None of Record	Beard Oil Company 100.00	
56	T. 15 S., R. 1 W. Sec. 2: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All) 4: Lots 3, 4, S $\frac{1}{2}$ NW $\frac{1}{4}$, W $\frac{1}{2}$ SW $\frac{1}{4}$	887.91	L-3312(1) 7-15-79	All	State of New Mexico	Beard Oil Company	None of Record	Beard Oil Company 100.00	
57	T. 15 S., R. 1 W. Sec. 5: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All) 6: Lots 1 thru 7, Incl., SE $\frac{1}{4}$ NW $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$, S $\frac{1}{2}$ SE $\frac{1}{4}$	1136.11	L-3313 7-15-79	All	State of New Mexico	Chevron Oil Company	None of Record	Chevron Oil Company 100.00	
58	T. 15 S., R. 1 W. Sec. 7: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (All) 8: All	1280.06	L-3314 7-15-79	All	State of New Mexico	Chevron Oil Company	None of Record	Chevron Oil Company 100.00	
59	T. 15 S., R. 1 W. Sec. 9: NW $\frac{1}{4}$ 16: SW $\frac{1}{4}$ 17: All	960	L-3315 7-15-79	All	State of New Mexico	Beard Oil Company	None of Record	Beard Oil Company 100.00	

BEARD OIL COMPANY
SUITE 200, 2000 CLASSEN BUILDING
2000 CLASSEN BOULEVARD
OKLAHOMA CITY, OKLAHOMA 73106
August 30, 1972

4757

New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Re: Jornada Del Muerto
Unit, Sierra County,
New Mexico

Gentlemen:

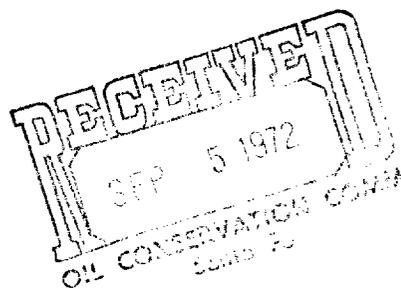
Enclosed is a copy of the Certification of
Determination on the above captioned unit, dated
effective August 22, 1972.

Very truly yours,

BEARD OIL COMPANY

Arthur W. Wainwright
Land Department

DW/d
Enclosure



CERTIFICATION--DETERMINATION

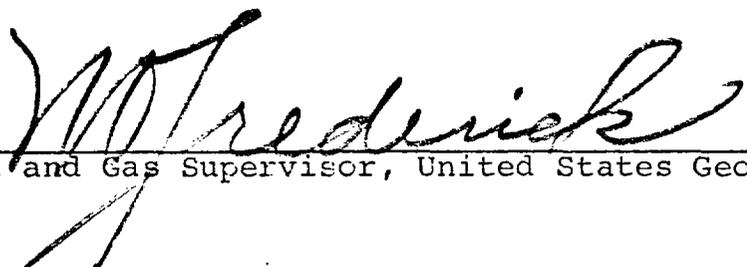
Pursuant to the authority vested in the Secretary of Interior, under the act approved February 25, 1920, 41 Stat. 437, as amended, 30 U.S.C. secs. 181, et seq., and delegated to the Oil and Gas Supervisors of the Geological Survey (33 F.R. 5812), I do hereby:

A. Approve the attached agreement for the development and operation of the Jornada Del Muerto Unit Area, State of New Mexico.

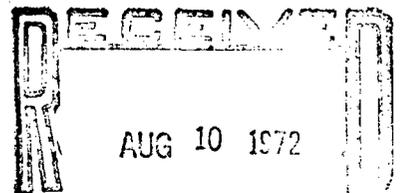
B. Certify and determine that the unit plan of development and operation contemplated in the attached agreement is necessary and advisable in the public interest for the purpose of more properly conserving the natural resources.

C. Certify and determine that the drilling, producing, rental, minimum royalty, and royalty requirements of all Federal leases committed to said agreement are hereby established, altered, changed, or revoked to conform with the terms and conditions of this agreement.

Dated AUG 22 1972 .


Oil and Gas Supervisor, United States Geological Survey

Contract Number 14-08-0001-11600



U. S. GEOLOGICAL SURVEY
ROSWELL, NEW MEXICO



NEW MEXICO STATE LAND OFFICE

CERTIFICATE OF APPROVAL

COMMISSIONER OF PUBLIC LANDS, STATE OF NEW MEXICO

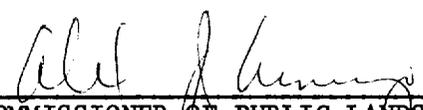
**JORNADA DEL MUERTO UNIT
SIERRA COUNTY, NEW MEXICO**

There having been presented to the undersigned Commissioner of Public Lands of the State of New Mexico for examination, the attached Agreement for the development and operation of acreage which is described within the attached Agreement, dated May 16, 1972, which said Agreement has been executed by parties owning and holding oil and gas leases and royalty interests in and under the property described, and upon examination of said Agreement, the Commissioner finds:

- (a) That such agreement will tend to promote the conservation of oil and gas and the better utilization of reservoir energy in said area.
- (b) That under the proposed agreement, the State of New Mexico will receive its fair share of the recoverable oil or gas in place under its lands in the area.
- (c) That each beneficiary Institution of the State of New Mexico will receive its fair and equitable share of the recoverable oil and gas under its lands within the area.
- (d) That such agreement is in other respects for the best interests of the state, with respect to state lands.

NOW, THEREFORE, by virtue of the authority conferred upon me under Sections 7-11-39, 7-11-40, 7-11-41, 7-11-47, and 7-11-48, New Mexico Statutes Annotated, 1953 Compilation, I, the undersigned Commissioner of Public Lands of the State of New Mexico, do hereby consent to and approve the said Agreement, however, such consent and approval being limited and restricted to such lands within the Unit Area, which are effectively committed to the Unit Agreement as of this date, and, further, that leases insofar as the lands covered thereby committed to this Unit Agreement shall be and the same are hereby amended to conform with the terms of such Unit Agreement, and said leases shall remain in full force and effect in accordance with the terms and conditions of said Agreement. This approval is subject to all of the provisions and requirements of the afore-said statutes.

IN WITNESS WHEREOF, this Certificate of Approval is executed, with seal affixed, this 31st. day of July, 1972.



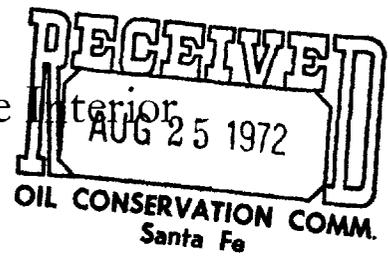
COMMISSIONER OF PUBLIC LANDS
of the State of New Mexico



United States Department of the Interior

GEOLOGICAL SURVEY

Drawer 1857
Roswell, New Mexico 88201



August 22, 1972

477

Mr. J. K. Caskey
Vice President
Beard Oil Company
Suite 200, 2000 Classen Building
2000 Classen Boulevard
Oklahoma City, Oklahoma 73106

Dear Mr. Caskey:

The Jornada Del Muerto unit agreement, Sierra County, New Mexico, was approved on August 22, 1972. This agreement has been designated No. 14-08-0001-11600 and is effective as of August 22, 1972.

Enclosed are two copies of the approved unit agreement. We request that you furnish all interested principals with appropriate evidence of this approval.

Sincerely yours,

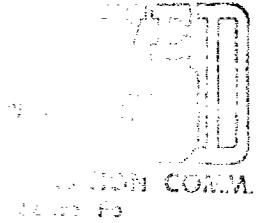
(ORIG. SCL) 11 1 72

N. O. FREDERICK
Area Oil and Gas Supervisor

cc:
Washington (w/cy approved agr.)
BLM, Santa Fe (w/cy approved agr.)
Artesia (w/cy approved agr.)
BMC, Roswell (ltr. only)
NMOCC, Santa Fe (ltr. only) ✓
Com. Pub. Lands, Santa Fe (ltr. only)

JFisher:lh

BEARD OIL COMPANY
SUITE 200, 2000 CLASSEN BUILDING
2000 CLASSEN BOULEVARD
OKLAHOMA CITY, OKLAHOMA 73106



June 12, 1972

Case 4757

New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Attention: Mr. Dan Nutter

Re: Jornada Del Muerto Unit
Sierra County, New Mexico

Gentlemen:

With our letter of May 16, 1972, we furnished you a copy of the above captioned Unit Agreement and Unit Operating Agreement. I later talked to you by phone and sent you a corrected Paragraph 9 to be inserted in the Agreement. At the time we talked on the phone you indicated that with the correction of Paragraph 9 the Agreement appeared to be acceptable.

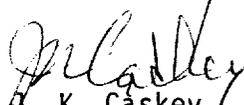
Beard Oil Company, as operator of the Jornada Del Muerto Unit, hereby makes application for a hearing before the Oil Conservation Commission and requests your approval of the proposed Unit.

We will appreciate your advising us when a hearing will be held and what action we need to take with regard to the hearing.

Thank you for your assistance in this matter.

Very truly yours,

BEARD OIL COMPANY

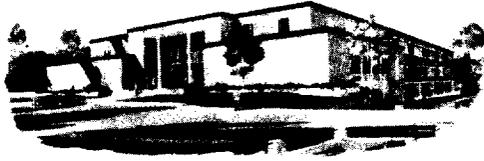

J. K. Caskey
Vice President

JKC:cd

RECEIVED
JUN 15 1972
SANTA FE

State of New Mexico

4757



Commissioner of Public Lands
July 31, 1972

ALEX J. ARMIJO
COMMISSIONER

P. O. BOX 1148
SANTA FE, NEW MEXICO

Beard Oil Company
2000 Classen Boulevard
Oklahoma City, Oklahoma 73106

Re: Proposed Jornada Del Muerto Unit
Sierra County, New Mexico

ATTENTION: Mr. J. K. Caskey

Gentlemen:

The Commissioner of Public Lands has this date approved your proposed Jornada Del Muerto Unit, Sierra County, New Mexico. This approval is subject to like approval by the United States Geological Survey.

Enclosed are five (5) Certificates of Approval.

Our records will reflect that tracts 1, 2, 3, 57, 58, 61 and 64 are not committed to the unit since they did not ratify the Unit Agreement and Operating Agreement.

Please advise this office when the United States Geological Survey has approved this unit and the effective date so that we may finish processing this unit. Also, submit all well records.

Very truly yours,

RAY D. GRAHAM, Director
Oil and Gas Department

AJA/RDG/e

encls.

cc:

USGS-Roswell, New Mexico (cpy of ltr and Certificate of Approval)
OCC- Santa Fe, New Mexico (cpy of ltr only)

June 7, 1973

Regional Oil and Gas Supervisor
United States Geological Survey
P. O. Box 1857
Roswell, New Mexico 88201

C Re: Amendment to Jornada del Muerto Unit
Sierra County, New Mexico

Dear Sir:

O It is requested that Paragraph 9 of the Jornada del Muerto Unit Agreement be amended to provide that the commencement of the second test well be extended to nine months instead of six months following completion of the first test well.

Our reasons for requesting this three months extension are:

P 1. In compliance with the terms of the Unit Agreement Beard drilled the Jornada del Muerto Unit No. 1 well to a total depth of 9300 feet and plugged and abandoned this well on April 16, 1973.

2. During the drilling of the Unit well very complex structural and stratigraphic conditions were encountered:

Y (a) The Dakota formation, which is about 200 feet thick in this area, did not rest directly on top of the San Andres as it did in the three wells previously drilled on the periphery of the Unit, but was encountered 3174 feet above the San Andres formation. The Dakota top, which has been tentatively picked at 2564 feet, was decided on the basis of lithology since the various electrical and radioactive characteristics between wells could not be established. The Geologic Age of this thick interval is still undetermined.

(b) The top of the San Andres formation was encountered at 5838 feet, 2338 feet deeper than had been expected. The Jornada del Muerto Unit #1 was drilled to 9300 feet, 6300 feet deeper than the Unit Agreement called for, and the well was completed as a dry hole in the Pennsylvanian Series. The cost of drilling and plugging this well was \$240,000.

June 7, 1973

3. The three months extension of the six months period requested would give us until on or about January 16, 1974 to commence the second Unit well. This time interval will be utilized to initiate and complete a two-phase geophysical program. A period of analysis and reinterpretation of the data will then follow and hopefully an optimum location selected for the second test. Phase I of the geophysical program will consist of shooting approximately fifty-eight miles of reconnaissance GDP lines at an estimated cost of about \$125,000. After processing these data, Phase II will be put into effect and a more detailed seismic evaluation made.

4. The additional three months we are requesting will give us the time needed to complete the two-phase geophysical program and to correlate the data obtained from this program. We will then be in a position to prudently select our next drill site based on any favorable data obtained from the program.

Thank you for your consideration of this request and your early reply.

Very truly yours,

BEARD OIL COMPANY

J. K. Caskey
Vice President

JKC:cd

cc: Exxon Corporation
P. O. Box 1600
Midland, Texas 79701
Attn: Mr. M. H. Hall
Land Department

cc: Mr. F. H. Hartman
Jamestown Office Park - Suite 250-W
3037 N. W. 63rd Street
Oklahoma City, Oklahoma 73116

BEARD OIL COMPANY
SUITE 200, 2000 CLASSEN BUILDING
2000 CLASSEN BOULEVARD
OKLAHOMA CITY, OKLAHOMA 73106

July 18, 1973

Commissioner of Public Lands
P. O. Box 1148
Santa Fe, New Mexico 87501
Attn: Mr. Ray D. Graham, Director
Oil and Gas Department

✓ New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

RE: Amendment to Jornada del Muerto Unit
Sierra County, New Mexico

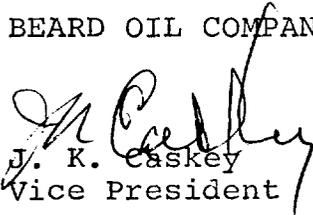
Gentlemen:

Please refer to our letter of June 11, 1973, requesting your approval of a proposed amendment to Section 9 of the Jornada del Muerto Unit Agreement. The requested amendment provides for a three months extension of the six-month period between completion of the first test well and the commencement of the drilling of the second test well.

The United States Geological Survey has advised in a letter dated July 16 that a duly executed amendment, approved by the appropriate officials of the State of New Mexico, will be approved by the United States Geological Survey. A copy of the July 16th letter is enclosed for your information. Also enclosed is a copy of the amendment referred to in the letter. This amendment was furnished to the United States Geological Survey for approval as to form.

Sincerely,

BEARD OIL COMPANY


J. K. Caskey
Vice President

vjm

Enclosures



United States Department of the Interior

GEOLOGICAL SURVEY

Denver, Colorado

Beard Oil Company
Attention: Mr. J. K. Caskey
Suite 200, 2000 Classen Building
2000 Classen Boulevard
Oklahoma City, Oklahoma 73106



JUL 16 1973

Gentlemen:

Your letter of June 7, 1973, requests preliminary concurrence of a proposed amendment to section 9 of the Jornada Del Muerto unit agreement, Sierra County, New Mexico.

The proposed amendment provides for a 3-month extension of the six month period between the completion of the first test well and commencement of the drilling of the second test well.

A duly executed amendment conformed to the attached copy, approved by the appropriate officials of the State of New Mexico, will be approved, if submitted in approvable status within a reasonable period of time.

Sincerely yours,

Conservation Manager
Central Region
For the Director

AMENDMENT TO UNIT AGREEMENT

WHEREAS, instrument dated May 10, 1972, and styled "Unit Agreement for the Development and Operation of the Jornada del Muerto Unit Area, County of Sierra, State of New Mexico" was executed and entered into by Beard Oil Company July 25, 1972, and which agreement was adopted or ratified by various other parties; and

WHEREAS, Section 9 of said Unit Agreement required the commencement of one well within six (6) months after the effective date of said Unit and the commencement of a second well within six (6) months following completion of the first test well; and

WHEREAS, because of the desirability of conducting additional geophysical exploration work within the Unit Area prior to the commencement of the second well,

NOW, THEREFORE, for and in consideration of the mutual benefits accruing to all parties, Section 9 of the above referenced Unit Agreement is hereby amended so that the following language contained in line 33 of page 8 of said Unit Agreement which reads "within six (6) months follow-" shall be and is hereby amended to read "within nine (9) months follow-". The period of six (6) months relating to the lapse of time between completion of the first well and commencement of the second well is stated in other lines of said Section 9 and in each such case the reference to six (6) months shall be and is hereby amended to read nine (9) months.

In all other respects the referenced Unit Agreement as written shall remain in full force and effect and is in no other way amended hereby.

This amendment may be executed by all the current owners of all of the interest originally committed to said Unit Agreement either by execution of this amendment proper or by separate instrument adopting and ratifying this amendment and may be executed by said parties in counterparts.

EXECUTED this the _____ day of _____, A.D., 1973.

ATTEST:

Secretary

BEARD OIL COMPANY
Unit Operator and Working Interest Owner

By _____
J. K. Caskey, Vice President

George A. Dowdle

Dulcie Williams

Mary Carney

Sarah E. Alger

Hazel B. Polly

Beulah Mae Bledsoe

Aurel Edward Bledsoe

R. M. Moran

STATE OF OKLAHOMA X
COUNTY OF OKLAHOMA X

The foregoing instrument was acknowledged before me this day of _____, 1973, by J. K. Caskey, Vice President of BEARD OIL COMPANY, a Delaware corporation, on behalf of said corporation.

Notary Public in and for said County and State.

My commission expires:

STATE OF X
COUNTY OF X

The foregoing instrument was acknowledged before me this day of _____, 1973, by GEORGE A. DOWDLE.

Notary Public in and for Said County and State.

My commission expires:

STATE OF X
COUNTY OF X

The foregoing instrument was acknowledged before me this day of _____, 1973, by DULCIE WILLIAMS.

Notary Public in and for Said County and State.

My commission expires:

STATE OF X
COUNTY OF X

The foregoing instrument was acknowledged before me this
day of _____, 1973, by MARY CARNEY.

My commission expires: _____
Notary Public in and for
Said County and State

STATE OF X
COUNTY OF X

The foregoing instrument was acknowledged before me this
day of _____, 1973, by SARAH E. ALGER.

My commission expires: _____
Notary Public in and for
Said County and State.

STATE OF X
COUNTY OF X

The foregoing instrument was acknowledged before me this
day of _____, 1973, by HAZEL B. POLLY.

My commission expires: _____
Notary Public in and for
Said County and State

STATE OF X
COUNTY OF X

The foregoing instrument was acknowledged before me this
day of _____, 1973, by BEULAH MAE BLEDSOE.

My commission expires: _____
Notary Public in and for
Said County and State

STATE OF X
COUNTY OF X

The foregoing instrument was acknowledged before me this
day of _____, 1973, by AUREL EDWARD BLEDSOE.

My commission expires: _____
Notary Public in and for
Said County and State

STATE OF
COUNTY OF

X
X
X

The foregoing instrument was acknowledged before me
this ___ day of _____, 1973, by R. M. MORAN.

Notary Public in and for
Said County and State.

My commission expires:

APPROVED:

Commissioner of Public Lands
State of New Mexico
(Subject to like approval by the
Conservation Manager, Central Region,
U. S. Geological Survey)

Date:

APPROVED:

Conservation Manager, Central Region
U. S. Geological Survey
(Subject to like approval of the
Commissioner of Public Lands,
State of New Mexico)

Date:

CHANGE IN UNIT OPERATOR
JORNADO DEL MUERTO UNIT
SIERRA COUNTY, STATE OF NEW MEXICO
NO. 14-08-0001-11600

THIS INDENTURE dated as of the 1st day of December, 1973, by and between BEARD OIL COMPANY, Suite 200, 2000 Classen Building, Oklahoma City, Oklahoma 73106, hereinafter designated as "First Party," and EXXON CORPORATION, having as an address for its division, Exxon Company, U.S.A., P. O. Box 2305, Houston, Texas 77001, hereinafter designated as "Second Party."

WITNESSETH: Whereas under the provisions of the act of February 25, 1920, 41 Stat. 437, 30 U.S.C. secs. 181, et seq., as amended by the act of August 8, 1946, 60 Stat. 950, the Secretary of the Interior, through his delegate, the Oil and Gas Supervisor of the Geological Survey, on the 22nd day of August, 1972, approved a unit agreement for Jornado Del Muerto Unit, wherein the First Party is designated as Unit Operator; and

WHEREAS the First Party desires to transfer, assign, release, and quitclaim, and the Second Party desires to assume all rights, duties, and obligations of Unit Operator under the unit agreement; and

WHEREAS for sufficient and valuable consideration, the receipt whereof is hereby acknowledged, the First Party has transferred, conveyed, and assigned all its rights under certain operating agreements involving lands within the area set forth in said unit agreement unto the Second Party.

NOW, THEREFORE, in consideration of the premises hereinbefore set forth, the First Party does hereby transfer, assign, release, and quitclaim unto Second Party all of First Party's rights, duties, and obligations as Unit Operator under said unit agreement; and

Second Party hereby accepts this assignment and hereby covenants and agrees to fulfill the duties and assume the obligations of Unit Operator under and pursuant to all the terms of said unit agreement to the full extent set forth in this assignment, effective upon approval of this indenture by the Oil and Gas Supervisor of the Geological Survey; said unit agreement being hereby incorporated herein by reference and made a part hereof as fully and effectively as though said unit agreement were expressly set forth in this instrument.

IN WITNESS WHEREOF, the parties hereto have executed this instrument as of the date hereinabove set forth.

BEARD OIL COMPANY

Vickie Miles
Catharine Dodson
(Witnesses)

By W.M. Beard
Attorney in Fact

(FIRST PARTY)

EXXON CORPORATION

Approved

Ed Noble
Wm. D. Campbell
(Witnesses)

By P. A. Gray
Attorney in Fact

Form 700
Trade 11/73

(SECOND PARTY)

I hereby approve the foregoing indenture designating EXXON CORPORATION as Unit Operator under the unit agreement for the Jornado Del Muerto Unit Area, this _____ day of _____, 1973.

Oil and Gas Supervisor of the
Geological Survey

EXXON COMPANY, U.S.A.

EXXON COMPANY, U.S.A. 4757

EXXON COMPANY, U.S.A.

January 11, 1974

In Re: Change of Operator
Jornado Del Muerto Unit
Sierra County, New Mexico

U. S. Department of the Interior
Geological Survey
Drawer 1857
Roswell, New Mexico 88201

Attention: Mr. Carl C. Traywick

Gentlemen:

In accordance with your letter of December 18, 1973, the Geological Survey approved Exxon Corporation as Operator, succeeding Beard Oil Company, in the captioned Unit, being Contract No. 14-08-0001-11600. This approved Change in Unit Operator was effective December 1, 1973, subject to like approval by the Commissioner of Public Lands of the State of New Mexico. Accordingly, we attach hereto three such approved copies executed by Alex J. Armijo under date of January 7, 1974.

We are likewise providing copies of the approved Change of Operator by the U.S.G.S. and State to the Oil Conservation Commission of the State of New Mexico and the Working Interest Owners which have ratified this Unit.

Very truly yours,

Exxon Company, U.S.A.


W. H. Hall
LAND-UNITIZATION

WHH:lpj

Attachments/3

cc/w 2 Attach: Oil Conservation Commission ✓
State of New Mexico
P. O. Box 2088
Santa Fe, New Mexico 87501

Beard Oil Company
Attn: Mr. J. K. Caskey
Vice President
Suite 200, 2000 Classen Building
2000 Classen Boulevard
Oklahoma City, Oklahoma 73106

WORKING INTEREST OWNERS - See Attached List

A DIVISION OF EXXON CORPORATION

ATTACHMENT TO LETTER TO U.S.G.S.
January 11, 1974

LIST OF WORKING INTEREST OWNERS - JORNADO DEL MUERTO UNIT

Dulci Williams
Box 849
Deming, New Mexico 88030

R. M. Moran
Box 1919
Hobbs, New Mexico 88240

Mary Carney, Sarah E. Alger
300 South Tin Street
Deming, New Mexico 88030

George A. Dowdle
P. O. Box 849
Deming, New Mexico 88030

Hazel B. Polly
Beulah Mae Bledsoe
Aurel Edward Bledsoe
3307 Trailing Hearts Road
Roswell, New Mexico 88201

CHANGE IN UNIT OPERATOR
JORNADO DEL MUERTO UNIT
SIERRA COUNTY, STATE OF NEW MEXICO
NO. 14-08-0001-11600

RECEIVED

JAN 7 11 21 AM '74

THIS INDENTURE dated as of the 1st day of December, 1973, by and between BEARD OIL COMPANY, Suite 200, 2000 Classen Building, Oklahoma City, Oklahoma 73106, hereinafter designated as "First Party", and EXXON CORPORATION, having as an address for its division, Exxon Company, U.S.A., P. O. Box 2305, Houston, Texas 77001, hereinafter designated as "Second Party."

WITNESSETH:

WHEREAS, under the provisions of an Act of the Legislature (Sec. 1, Chap. 162, Laws of 1951, and Secs. 1 and 2, Chap. 176. Laws of 1961, See Chap. 7, Article II, Secs. 39, 40 and 41 New Mexico Statutes 1953, Annotated) the Commissioner of Public Lands, on the 31st day of July, 1972, approved a Unit Agreement for the Jornado Del Muerto Unit, wherein the First Party is designated as Unit Operator, and

WHEREAS, the FIRST PARTY desires to transfer, assign, release, and quitclaim, and the SECOND PARTY desires to assume all the rights, duties and obligations of UNIT OPERATOR under the Unit Agreement; and

WHEREAS, for sufficient and valuable consideration, the receipt whereof is hereby acknowledged, the FIRST PARTY has transferred, conveyed, and assigned all its rights under certain operating agreements involving lands within the area set forth in said Unit Agreement unto the SECOND PARTY:

NOW, THEREFORE, in consideration of the premises hereinbefore set forth, the FIRST PARTY does hereby transfer, assign, release, and quitclaim unto SECOND PARTY all of FIRST PARTY'S rights, duties, and obligations as Unit Operator under said Unit Agreement and which accrue after effective date hereof; and

SECOND PARTY hereby accepts this assignment and hereby covenants and agrees to fulfill the duties and assume the obligations of Unit Operator under and pursuant to all the terms of said Unit Agreement to the full extent set forth in this assignment, effective upon approve of this indenture by the Commissioner of Public Lands; said Unit Agreement being hereby incorporated herein by reference and made a part hereof as fully and effectively as though said Unit Agreement were expressly set forth in this instrument.

IN WITNESS WHEREOF, the parties hereto have executed this instrument as of the date hereinabove set forth.

BEARD OIL COMPANY

Power of Attorney and Corporate Qualifications
previously filed in NM 0350400 & is still in effect.

By W.M. Beard
Attorney-in-Fact

(FIRST PARTY)

Approved

EXXON CORPORATION

Form 706
Trade 4011

By R.A. Bray
Attorney in Fact

(SECOND PARTY)

(Witnesses)

(Witnesses)

I hereby approve the foregoing indenture designating EXXON CORPORATION as Unit Operator under the unit agreement for the Jornado Del Muerto Unit Area, this 7th day of January, 1974.

Alfred W. ...
COMMISSIONER OF PUBLIC LANDS

STATE OF TEXAS)
 : ss
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this 20th day
of December 1973 by R. A. Bray,
Attorney in Fact of Exxon Corporation a Delaware
corporation, on behalf of said corporation.

My Commission Expires:

Lena P. Jehle
Notary Public in and for Said County
LENA P. JEHLÉ, NOTARY PUBLIC IN AND FOR
THE COUNTY OF MIDLAND, STATE OF TEXAS.
MY COMMISSION EXPIRES JUNE 1, 1975

STATE OF OKLAHOMA)
 : ss
COUNTY OF OKLAHOMA)

The foregoing instrument was acknowledged before me this 2nd day
of January, 1974 ~~1973~~ by W. M. Beard, Attorney-in-Fact,
of BEARD OIL COMPANY a Delaware
corporation, on behalf of said corporation.

My Commission Expires:

1-12-76

William D. ...
Notary Public in and for Said County

STATE OF _____)
) ss.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of _____,
1973, by _____.

My Commission Expires:

Notary Public



United States Department of the Interior

GEOLOGICAL SURVEY

Drawer 1857
Roswell, New Mexico 88201

December 18, 1973

Exxon Company
Attention: Mr. James H. Shaw
P.O. Box 1600
Midland, Texas 79701

Gentlemen:

Five copies of an instrument dated December 1, 1973, by which Beard Oil Company resigns as unit operator and Exxon Corporation is designated as successor unit operator for the Jornada Del Muerto unit agreement, Sierra County, New Mexico, No. 14-03-0001-11600, were filed with this office on December 17, 1973. The instrument has been executed by Beard Oil Company as the present unit operator and working interest owner and Exxon Corporation as successor unit operator.

The selection of Exxon Corporation as successor unit operator has been approved on this date effective as of December 1, 1973, subject to like approval by the Commissioner of Public Lands of the State of New Mexico. Copies of the approved instrument are being distributed to the appropriate Federal offices and two copies are returned herewith.

Sincerely yours,

CARL C. TRAYWICK
Acting Area Oil and Gas Supervisor

RECEIVED
MIDLAND

DEC 19 1973

EXXON
Land Section

CHANGE IN UNIT OPERATOR
JORNADO DEL MUERTO UNIT
SIERRA COUNTY, STATE OF NEW MEXICO
NO. 14-08-0001-11600

THIS INDENTURE dated as of the 1st day of December, 1973, by and between BEARD OIL COMPANY, Suite 200, 2000 Classen Building, Oklahoma City, Oklahoma 73106, hereinafter designated as "First Party," and EXXON CORPORATION, having as an address for its division, Exxon Company, U.S.A., P. O. Box 2305, Houston, Texas 77001, hereinafter designated as "Second Party."

WITNESSETH: Whereas under the provisions of the act of February 25, 1920, 41 Stat. 437, 30 U.S.C. secs. 181, et seq., as amended by the act of August 8, 1946, 60 Stat. 950, the Secretary of the Interior, through his delegate, the Oil and Gas Supervisor of the Geological Survey, on the 22nd day of August, 1972, approved a unit agreement for Jornada Del Muerto Unit, wherein the First Party is designated as Unit Operator; and

WHEREAS the First Party desires to transfer, assign, release, and quitclaim, and the Second Party desires to assume all rights, duties, and obligations of Unit Operator under the unit agreement; and

WHEREAS for sufficient and valuable consideration, the receipt whereof is hereby acknowledged, the First Party has transferred, conveyed, and assigned all its rights under certain operating agreements involving lands within the area set forth in said unit agreement unto the Second Party.

NOW, THEREFORE, in consideration of the premises hereinbefore set forth, the First Party does hereby transfer, assign, release, and quitclaim unto Second Party all of First Party's rights, duties, and obligations as Unit Operator under said unit agreement; and

Second Party hereby accepts this assignment and hereby covenants and agrees to fulfill the duties and assume the obligations of Unit Operator under and pursuant to all the terms of said unit agreement to the full extent set forth in this assignment, effective upon approval of this indenture by the Oil and Gas Supervisor of the Geological Survey; said unit agreement being hereby incorporated herein by reference and made a part hereof as fully and effectively as though said unit agreement were expressly set forth in this instrument.

IN WITNESS WHEREOF, the parties hereto have executed this instrument as of the date hereinabove set forth.

BEARD OIL COMPANY

W. J. Miles
Kathleen D. ...
(Witnesses)

By W. M. Beard
Attorney in Fact

(FIRST PARTY)

EXXON CORPORATION

Approved

W. J. ...
W. R. ...
(Witnesses)

By R. A. Gray
Attorney in Fact

Form 100

Grade 1212

(SECOND PARTY)

I hereby approve the foregoing indenture designating EXXON CORPORATION as Unit Operator under the unit agreement for the Jornada Del Muerto Unit Area, this 1st day of DEC 13 1973, 1973.

Carl E. Ferguson
Oil and Gas Supervisor of the
Geological Survey

subject to like approval by the
appropriate State officials.



United States Department of the Interior

GEOLOGICAL SURVEY
Drawer 1857
Roswell, New Mexico 88201

4/57
December 18, 1973

Exxon Company
Attention: Mr. James H. Shaw
P.O. Box 1600
Midland, Texas 79701

Gentlemen:

Five copies of an instrument dated December 1, 1973, by which Beard Oil Company resigns as unit operator and Exxon Corporation is designated as successor unit operator for the Jornada Del Muerto unit agreement, Sierra County, New Mexico, No. 14-08-0001-11600, were filed with this office on December 17, 1973. The instrument has been executed by Beard Oil Company as the present unit operator and working interest owner and Exxon Corporation as successor unit operator.

The selection of Exxon Corporation as successor unit operator has been approved on this date effective as of December 1, 1973, subject to like approval by the Commissioner of Public Lands of the State of New Mexico. Copies of the approved instrument are being distributed to the appropriate Federal offices and two copies are returned herewith.

Sincerely yours,

ERIC S. [unclear]
CARL C. TRAYWICK
Acting Area Oil and Gas Supervisor

cc:
BLM, Santa Fe (w/cy instr)
✓ NMOCC, Santa Fe (ltr only)
Com. Pub. Lands, Santa Fe (ltr only)
Artesia (w/cy instr)

JAGillham:ds



United States Department of the Interior

GEOLOGICAL SURVEY
Drawer 1857
Roswell, New Mexico 88201

September 4, 1973

Beard Oil Company
Attention: Mr. J. K. Caskey
Suite 200, 2000 Classen Building
2000 Classen Boulevard
Oklahoma City, Oklahoma 73106

4757

Gentlemen:

Three approved copies of your amendment to the Jornada Del Muerto unit agreement, Sierra County, New Mexico, No. 14-08-0001-11600, are enclosed. Such amendment was given preliminary approval by Survey letter of July 16, 1973, and is now approved effective as of September 4, 1973, subject to like approval by the appropriate officials of the State of New Mexico.

The amendment modifies section 9 of the unit agreement to provide nine months, instead of six months, elapse of time between the completion of the first test well and commencement of the drilling of the second test well. The second unit test well is now due to be commenced by January 16, 1974, inasmuch as the first unit test well was plugged and abandoned on April 16, 1973.

Sincerely yours,

(ORIG. ...)

N. O. FREDERICK
Area Oil and Gas Supervisor

cc:
Artesia (w/cy of amendment)
BLM, Santa Fe (w/cy of amendment)
✓ NMOCC, Santa Fe (ltr only)
Com. Pub. Lands, Santa Fe (ltr only)

JAGillham:ds

Unit Name JORNADA DEL MUERTO UNIT (EXPLORATORY)
 Operator Beard Oil Company
 County Sierra

4757 oec

DATE	OCC CASE NO.	4757	EFFECTIVE DATE	TOTAL ACREAGE	STATE	FEDERAL	Patent	SEGREGATION CLAUSE	TERM
APPROVED	OCC ORDER NO. R-4344		8-22-72	115,179.55	23,209.86	90,729.69	1,240.00	Yes	5 yrs.
Commissioner	July 19, 1972								
	July 31, 1972								

UNIT AREA

SIERRA COUNTY, NEW MEXICO

TOWNSHIP 13 SOUTH, RANGE 1 WEST, NMPM
Sections 19 through 36: All

TOWNSHIP 13 SOUTH, RANGE 1 EAST, NMPM
Section 19 through 36: All

TOWNSHIP 14 SOUTH, RANGE 1 WEST, NMPM
Sections 1 through 36: All

TOWNSHIP 14 SOUTH, RANGE 1 EAST, NMPM
Sections 1 through 36: All

TOWNSHIP 15 SOUTH, RANGE 1 WEST, NMPM
Sections 1 through 36: All

TOWNSHIP 15 SOUTH, RANGE 1 EAST, NMPM
Sections 1 through 36: All

Unit Name JORNADA DEL MUERTO UNIT (EXPLORATORY)
 Operator BEARD OIL COMPANY
 County SIERRA

STATE TRACT NO.	LEASE NO.	INSTITUTION	SEC.	TWP.	RGE.	SUBSECTION	DATE	RATIFIED	ACRES	ACREAGE NOT RATIFIED	LESSEE
46	K-6241	C.S.	16	15S	1W	NW/4, SE/4	6-19-72		320.00		Dulcie Williams
47	K-6242	C.S.	19 21	15S 15S	1W 1W	NE/4 NE/4, NE/4NW/4, N/2SW/4, SE/4SW/4	6-19-72		800.00		George A. Dowdle & Dulcie Williams
			28	15S	1W	E/2					
48	K-6243	C.S.	29 30 31	15S 15S 15S	1W 1W 1W	SW/4 E/2W/2 SE/4	6-19-72		800.00		George A. Dowdle & Dulcie Williams
			32	15S	1W	SE/4					
			33	15S	1W	SE/4					
49	K-6538-1	C.S.	16	14S	1W	S/2	7-25-72		320.00		Beard Oil Company
50	K-6539-1	C.S.	2 16	14S 14S	1W 1W	Lots 1, 2, 3, 4, S/2N/2, S/2 N/2	7-25-72		956.41		Beard Oil Company
51	L-76	C.S.	4	15S	1W	Lots 1, 2, S/2NE/4, E/2SW/4, SE/4	6-17-72		884.48		Sarah E. Alger & Mary Carney
			9	15S	1W	NE/4, S/2					
52	L-77	C.S.	16	15S	1W	NE/4	6-17-72		160.00		Sarah E. Alger & Mary Carney
53	L-2903-1	C.S.	32	13S	1W	All	7-25-72		640.00		Beard Oil Company
54	LG-0148-1	C.S.	36	13S	1W	All	7-25-72		640.00		Beard Oil Company
55	L-2911-1	C.S.	32 36	13S 13S	1E 1E	All All	7-25-72		1,280.00		Beard Oil Company
56	L-3312-1	C.S.	2 4	15S 15S	1W 1W	Lots 1, 2, 3, 4, S/2N/2, S/2 Lots 3, 4, S/2NW/4, W/2SW/4	7-25-72		887.91		Beard Oil Company

Unit Name
Operator
County

JORNADA DEL MUERTO UNIT (EXPLORATORY)
BEARD OIL COMPANY
SIERRA

STATE TRACT NO.	LEASE NO.	INSTI-TUTION	SEC.	TWP.	RGE.	SUBSECTION	RATIFIED DATE	ACRES	ACREAGE NOT RATIFIED	LESSEE
57	L-3313	C.S.	5	15S	1W	Lots 1, 2, 3, 4, S/2N/2, S/2	(NOT COMMITTED)		1,136.11	Chevron oil Company
			6	15S	1W	Lots 1 thru 7, Incl., SE/4NW/4, E/2SW/4, S/2SE/4				
58	L-3314	C.S.	7	15S	1W	Lots 1, 2, 3, 4, E/2W/2, E/2	(NOT COMMITTED)		1,280.06	Chevron Oil Company
			8	15S	1W	All				
59	L-3315	C.S.	9	15S	1W	NW/4	7-25-72	960.00		Beard Oil Company
			16	15S	1W	SW/4				
			17	15S	1W	All				
60	L-3316	C.S.	18	15S	1W	Lots 1, 2, 3, 4, E/2W/2, E/2	7-25-72	1,119.38		Beard Oil Company
			19	15S	1W	Lots 1, 2, 3, 4, E/2W/2, SE/4				
61	L-3317	C.S.	20	15S	1W	All	(NOT COMMITTED)		920.00	Chevron Oil Company
			21	15S	1W	NW/4NW/4, S/2NW/4, SE/4				
62	L-3318	C.S.	28	15S	1W	S/2NW/4, SW/4	7-25-72	720.00		Beard Oil Company
			29	15S	1W	N/2, SE/4				
63	L-3319	C.S.	30	15S	1W	Lots 1, 2, 3, 4, E/2	7-25-72	961.18		Beard Oil Company
			31	15S	1W	Lots 1, 2, 3, 4, NE/4, E/2W/2				
64	L-3320	C.S.	32	15S	1W	N/2, SW/4	(NOT COMMITTED)		960.00	Chevron Oil Company
			33	15S	1W	N/2, SW/4				
65	L-3321-1	C.S.	36	15S	1W	All	7-25-72	640.00		Beard Oil Company
66	L-3599	C.S.	2	14S	1E	Lots 1, 2, 3, 4, S/2N/2, S/2	7-25-72	1,276.99		Beard Oil Company
			16	14S	1E	All				
67	L-3600	C.S.	32	14S	1W	All	7-25-72	1,280.00		Beard Oil Company
			36	14S	1W	All				
68	L-3819	C.S.	13	14S	1E	NW/4	7-25-72	800.00		Beard Oil Company
			36	14S	1E	All				

Unit Name JORNADA DEL MUERTO UNIT (EXPLORATORY)
 Operator BEARD OIL COMPANY
 County SIERRA

STATE TRACT NO.	LEASE NO.	INSTI-TUTION	SEC.	TWP.	RGE.	SUBSECTION	RATIFIED		ACRES	ACREAGE		LESSEE
							DATE	ACRES		NOT RATIFIED	RATIFIED	
69	L-3820	C.S.	29	14S	1E	NW/4SW/4, SE/4SW/4 A11	7-25-72	920.00				Beard Oil Company
			32	14S	1E							
			21	14S	1W							
			26	14S	1W	NW/4NE/4						
70	L-3821	C.S.	2	15S	1E	Lots 1, 2, 3, 4, S/2N/2, S/2 A11	7-25-72	1,267.34				Beard Oil Company
			16	15S	1E							
71	L-3822	C.S.	32	15S	1E	A11	7-25-72	1,280.00				Beard Oil Company
			36	15S	1E							

OIL CONSERVATION COMMISSION

P. O. BOX 2088

SANTA FE, NEW MEXICO 87501

4757

July 16, 1974

C
O
P
Y

Exxon Corporation
P. O. Box 1600
Midland, Texas 79701

Attention: Mr. Marvin L. Wigley

Re: Proposed Amendment to Unit
Agreement, Jornada del
Muerto Unit, Sierra County,
New Mexico.

Gentlemen:

This is to advise that the New Mexico Oil Conservation Commission has this date approved the amendment to Section 9 to allow an extension of time to March 4, 1975, for the commencement of the drilling of the third well for the Jornada del Muerto Unit, Sierra County, New Mexico, subject to like approval by the United States Geological Survey and the Commissioner of Public Lands of the State of New Mexico.

Very truly yours,

A. L. PORTER, Jr.
Secretary-Director

ALP/JEK/og

cc: Commissioner of Public Lands - Santa Fe
United States Geological Survey - Roswell

EXXON COMPANY, U.S.A.

POST OFFICE BOX 1600 • MIDLAND, TEXAS 79701

EXPLORATION DEPARTMENT
SOUTHWESTERN DIVISION

June 17, 1974

In Re: Jornada del Muerto Unit
Proposed Amendment
Sierra County, New Mexico

Oil Conservation Commission
State of New Mexico
P. O. Box 2088
Santa Fe, New Mexico 87501

Attention: Mr. A. L. Porter, Jr.
Secretary-Director

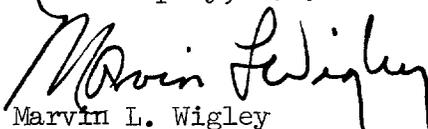
Gentlemen:

We enclose copy of our Application dated June 14, 1974, addressed to the Commissioner of Public Lands wherein we propose the Amendment of the above captioned unit in the particulars therein stated. A copy of the proposed Amendment is also attached. A similar application was filed with the U.S.G.S. on the same date.

If you find the proposed Amendment to be acceptable, we would appreciate being advised of your approval of same.

Yours very truly,

Exxon Company, U.S.A.


Marvin L. Wigley
Supervisor, Land-Unitization

MLW:lpj

Enclosures

cc: U.S.G.S.
Attn: Mr. Carl Traywick
Drawer 1857
Roswell, New Mexico 88201

The Commissioner of Public Lands
Attn: Mrs. Mary Swartz
P. O. Box 1148
Santa Fe, New Mexico 87501

EXXON COMPANY, U.S.A.

POST OFFICE BOX 1600 • MIDLAND, TEXAS 79701

EXPLORATION DEPARTMENT
SOUTHWESTERN DIVISION

June 14, 1974

In re: Jornada del Muerto Unit
Proposed Amendment
Sierra County, New Mexico

The Commissioner of the Public Lands
P. O. Box 1148
Santa Fe, New Mexico 87501

Attention: Mrs. Mary Swartz

Gentlemen:

Section 9., Drilling to Discovery, commencing on Page 9 of the Unit Agreement on the above captioned Unit, provides that the Unit Operator will drill a total of four (4) wells to test the entire San Andres formation, said wells not to exceed a total depth of 3500 feet. The first such test had to be commenced within six (6) months after the effective date of the Unit, and subsequent tests must be drilled with not more than six (6) months between the completion of one well and the commencement of the next.

As you know, Beard Oil Company drilled the first of these tests to a total depth of 9800 feet in the Canyon formation of Pennsylvanian age. Following the first test, Exxon acquired Beard's position in the Unit and, after amendment of the Unit Agreement, Exxon spudded the second required test on January 4, 1974. This second test was drilled to a total depth of 8850 feet and tested the entire Pennsylvanian series. It was plugged and abandoned on March 4, 1974.

Since the second test was abandoned, we have diligently continued our geologic investigation, as described later herein, both inside and outside the Unit Area, in an effort to develop additional information that will enable us to drill the best possible location. Our efforts are continuing at this time and evaluation of information has not been completed.

We recognize that under the terms of the Unit Agreement, we must commence the next test on or before September 4, 1974. Based on our information at this time, we believe the drilling of another Pennsylvanian test would be of appreciably greater value to you and to our Company, from the standpoint of data to be gained and possible productive potential, than the two (2) remaining San Andres tests as required by the Unit Agreement. Also, due to rig availability and the pipe shortage, we are reluctant to drill any well without adequate geologic justification.

For the above reasons and considering the fact that we need additional time in which to assemble and evaluate geologic information, we propose that Section 9 of the Unit Agreement be amended as follows:

(1) The obligation to drill four (4) San Andres tests be deleted and a provision inserted requiring three (3) Pennsylvanian tests. Two of the three Pennsylvanian tests have already been drilled and are described in the second paragraph of this letter. The third Pennsylvanian test, to be drilled in the future, will test the entire Pennsylvanian formation.

(2) The commencement date for the next (third) well should be on or before March 4, 1975. This will give us the needed time to complete our work and choose the best location.

(3) Our failure to drill the well in accordance with the terms of the Unit Agreement, as amended, and in the absence of any extension of time, would result in the termination of the Unit as provided in the Unit Agreement.

We are enclosing the following items for your consideration and approval:

1. Four (4) copies of Amendment to Unit Agreement as prepared by the Law firm of Hinkle, Bondurant, Cox & Eaton. We believe this Amendment, as prepared, will accomplish the objectives proposed above.
2. Progress Summary of Exxon Activity in the area of Jornada del Muerto Unit.
3. Seismic Base Map of Area showing the location and extent of our seismic activity.
4. Regional Map showing Pennsylvanian and Pre-Cambrian outcrops in South Central New Mexico. The yellow dots show Field Work Locations. We hope to continue this work in other areas.

We believe our proposed Amendment is to the best interest of all parties concerned. Please consider this letter to be our formal application to amend Section 9 of the Unit Agreement as set forth in the enclosed proposed Amendment. Your early approval of this application will be much appreciated.

Yours very truly,

EXXON CORPORATION

Marvin L. Wigley
Supervisor, Land Unitization

MLW:jd
Encls.

AMENDMENT TO UNIT AGREEMENT

WHEREAS, under date of May 10, 1972, Beard Oil Company and others entered into a Unit Agreement for the Development and Operation of the Jornada del Muerto Unit Area, County of Sierra, State of New Mexico, which Unit Agreement was amended under date of August 10, 1973; and

WHEREAS, the undersigned owners of all interests committed to the Unit Agreement desire to amend it as hereafter set out.

NOW, THEREFORE, in consideration of the mutual benefits accruing to the parties, the undersigned agree as follows:

1. Section 9 of the Unit Agreement, as amended, is hereby deleted and the following substituted in its place:

"9. DRILLING TO DISCOVERY. Within six (6) months after the effective date hereof, the Unit Operator shall begin to drill an adequate test well at a location approved by the Supervisor if on Federal land, or by the Land Commissioner if on State Land, or by the Conservation Commission if on privately owned land, unless on such effective date a well is being drilled conformably with the terms hereof and thereafter continue such drilling diligently until the Canyon formation of Pennsylvanian age has been tested or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities (to-wit: quantities sufficient to repay the costs of drilling, and producing operations, with a reasonable profit) or the Unit Operator shall at any time establish to the satisfaction of the Supervisor if on Federal land, of the Land Commissioner if on State land, or of the Conservation Commission if on privately owned land, that further drilling of a particular well would be unwarranted or impractical. Within nine (9) months following completion of the first test well (and whether or not such be completed as a producer, or plugged and abandoned) Unit Operator shall commence drilling a second test well at a location approved by the Supervisor if on Federal land, or by the Land Commissioner if on State land, or by the Conservation Commission if on privately owned land; and within one (1) year from the completion of said second test well (and whether or not such be completed as a producer or plugged and abandoned) Unit Operator shall commence the drilling of a third test well at a location approved by the Supervisor if on Federal land, or by the Land Commissioner of on State land, or by the Conservation Commission if on privately owned land, to a depth sufficient to test the entire Pennsylvanian formations at approximately 7500 feet or to a point equivalent to the top of the Rancheria formation (Mississippian) as defined by the gamma ray-sonic log dated February 2, 1974, in the Exxon No. 1 Beard-Federal well located 1980 feet from the south line and 1980 feet from the east line of Section 5, Township 14 South, Range 1 East, N.M.P.M., at 7828 feet, whichever shall first occur. It is the intent of this section that Unit Operator shall initially drill three obligation wells located in different portions of the unit area to test the Pennsylvanian formation. Until the discovery of a deposit of unitized substances capable of being produced in paying quantities, Unit Operator shall continue drilling diligently one well at a time, allowing not more than the time hereinabove specified between the completion of one obligation well and the beginning of the next obligation well and not more than six (6) months between the completion of the third obligation well or any subsequent well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the Supervisor if on Federal land, of the Land Commissioner if on State land, or of the Conservation Commission if on privately owned land, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder.

Following the completion of the initial two obligation wells, the Supervisor and the Land Commissioner may modify the drilling requirements of this section for the third obligation well and subsequent wells by granting extensions of time. In the event drilling of any of said initial three obligation wells has not been commenced timely, this Unit Agreement shall, effective the first day of the month following the default, terminate or be contracted as hereinafter provided.

Upon failure to commence any well provided for in this section within the time allowed, including any extension of time granted by the Supervisor and Land Commissioner, this agreement will automatically terminate. Upon failure to continue drilling diligently any well commenced hereunder, the Supervisor and Land Commissioner may, after 15-days notice to the Unit Operator, declare this unit agreement terminated. In the event one or more of the three initial obligation test wells required by this section is completed as a well capable of producing unitized substances in paying quantities, and default occurs by failure to commence and/or drill the remaining initial obligation well or wells, then, in lieu of this Unit Agreement being terminated, the Unit Area shall be contracted to eliminate by legal subdivision all lands not entitled to be in a participating area established in accordance with the provisions of the Unit Agreement. The only penalty for failure to timely commence and/or drill the three initial obligation wells provided for herein shall be termination of this Unit Agreement or contraction of the Unit Area as in this section provided."

2. This Amendment may be executed in counterparts or by separate instrument adopting and ratifying this Amendment.

DATED this _____ day of June, 1974.

EXXON CORPORATION
Unit Operator and Working Interest Owner

By: _____
Attorney-in-Fact

George A. Dowdle

Dulcie Williams

Mary Carney

Sarah E. Alger

Hazel B. Polly

Beulah Mae Bledsoe

Aurel Edward Bledsoe

R. M. Moran

STATE OF TEXAS X
 X ss
COUNTY OF MIDLAND X

The foregoing instrument was acknowledged before me this _____ day of _____, 1974, by _____ as Attorney-in-Fact on behalf of Exxon Corporation, a New Jersey corporation.

My Commission Expires: _____
Notary Public

STATE OF X
 X ss
COUNTY OF X

The foregoing instrument was acknowledged before me this _____ day of _____, 1974, by GEORGE A. DOWDLE.

My Commission Expires: _____
Notary Public

STATE OF X
 X ss
COUNTY OF X

The foregoing instrument was acknowledged before me this _____ day of _____, 1974, by DULCIE WILLIAMS.

My Commission Expires: _____
Notary Public

STATE OF X
 X ss
COUNTY OF X

The foregoing instrument was acknowledged before me this _____ day of _____, 1974, by MARY CARNEY.

My Commission Expires: _____
Notary Public

STATE OF X
 X ss
COUNTY OF X

The foregoing instrument was acknowledged before me this _____ day of _____, 1974, by SARAH E. ALGER.

My Commission Expires: _____
Notary Public

STATE OF X
 X ss
COUNTY OF X

The foregoing instrument was acknowledged before me this _____ day of _____, 1974, by HAZEL B. POLLY.

Notary Public

My Commission Expires:

STATE OF X
 X ss
COUNTY OF X

The foregoing instrument was acknowledged before me this _____ day of _____, 1974, by BEULAH MAE BLEDSOE.

Notary Public

My Commission Expires:

STATE OF X
 X ss
COUNTY OF X

The foregoing instrument was acknowledged before me this _____ day of _____, 1974, by AUREL EDWARD BLEDSOE.

Notary Public

My Commission Expires:

STATE OF X
 X ss
COUNTY OF X

The foregoing instrument was acknowledged before me this _____ day of _____, 1974, by R. M. MORAN.

Notary Public

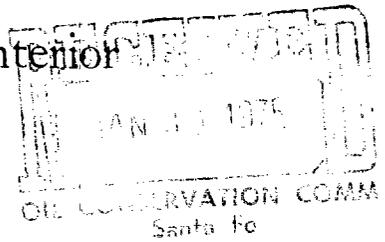
My Commission Expires:



United States Department of the Interior

GEOLOGICAL SURVEY

Drawer 1857
Roswell, New Mexico 88201



January 29, 1975

4757

Beard Oil Company
Attention: Mr. Jack Yeisley
Suite 200, 2000 Classen Building
Oklahoma City, Oklahoma 73106

Gentlemen:

Receipt is acknowledged of six executed copies of an instrument dated January 10, 1975, wherein approval is requested for the selection of Beard Oil Company as successor unit operator under the Jornada Del Muerto unit agreement, Sierra County, New Mexico. The instrument has been executed by Exxon Corporation as the present unit operator and working interest owner and Beard Oil Company as successor unit operator.

The selection of Beard Oil Company as successor unit operator has been approved on this date effective as of January 10, 1975, subject to like approval by the Commissioner of Public Lands of the State of New Mexico. Copies of the approved instrument are being distributed to the appropriate Federal offices and three copies are returned herewith.

Sincerely yours,

CARL C. TRAYWICK
Acting Area Oil and Gas Supervisor

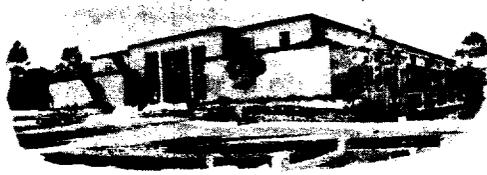
cc:
BLM, Santa Fe (w/cy instr.)
✓ NMOCC, Santa Fe (ltr only)
Com. Pub. Lands, Santa Fe (ltr only)
Artesia (w/cy instr.)

JAGillham:ds

4757

State of New Mexico

TELEPHONE
505-827-2748



Commissioner of Public Lands

January 30, 1975

PHIL R. LUCERO
COMMISSIONER

P. O. BOX 1148
SANTA FE, NEW MEXICO 87501

Beard Oil Company
Suite 200, 2000 Classen Building
Oklahoma City, Oklahoma 73106

Re: Jornada Del Muerto Unit
Sierra County, New Mexico

ATTENTION: Mr. Jack Yeisley

Gentlemen:

This will acknowledge receipt of your letter dated January 22, 1975, together with five copies of an instrument dated January 10, 1975, wherein approval is requested for the selection of Beard Oil Company as successor unit operator under the Jornada Del Muerto Unit Agreement, Sierra County, New Mexico.

The Commissioner of Public Lands has this date approved your instrument selecting Beard Oil Company as successor unit operator effective January 10, 1975. The USGS gave their approval January 29, 1975.

Enclosed are three (3) approved copies as per your request.

Very truly yours,

PHIL R. LUCERO
COMMISSIONER OF PUBLIC LANDS

BY:
RAY D. GRAHAM, Director
Oil and Gas Department

PRL/RDG/s
encls.
cc:

USGS-Roswell, New Mexico
OCC- Santa Fe, New Mexico



United States Department of the Interior

GEOLOGICAL SURVEY

Drawer 1857
Roswell, New Mexico 88201

47-1
August 20, 1974

Exxon Company, U.S.A.
Attention: Mr. Marvin L. Wigley
P.O. Box 1500
Midland, Texas 79701

Gentlemen:

On this date, the amendment to the Jornada del Muerto unit agreement, Sierra County, New Mexico, No. 14-08-0001-11600, was approved effective as of August 20, 1974, subject to like approval by the appropriate officials of the State of New Mexico. This amendment was given preliminary approval by the Central Region Conservation Manager letter of August 2, 1974.

The amendment modifies Section 9 of the unit agreement by removing the preventable language for granting extensions of time in which to drill the first four obligation wells and replaces such deletion with the provision that reasonable extensions of time may be granted for the drilling of unit wells, when warranted. The amendment has been executed by all parties committed to the unit agreement.

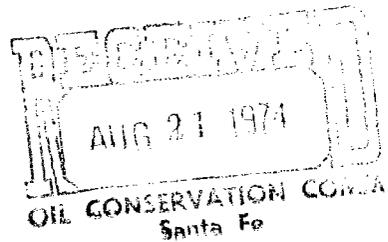
Copies of the amendment are being distributed to the appropriate Federal offices and one approved copy is returned herewith.

Sincerely yours,

(ORIG. SGD.) CARL C. TRAYWICK
CARL C. TRAYWICK
Acting Area Oil and Gas Supervisor

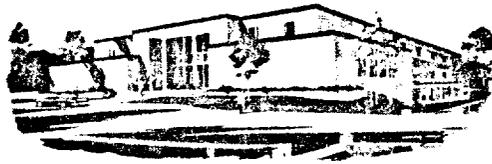
cc:
BLM, Santa Fe (w/cy amendment)
NMOCC, Santa Fe (ltr only)
Com. Pub. Lands, Santa Fe (ltr only)
Artesia (w/cy amendment)

JAGillham:ds



State of New Mexico

TELEPHONE
505-827-2748



Commissioner of Public Lands

August 21, 1974

ALEX J. ARMIJO
COMMISSIONER

P. O. BOX 1148
SANTA FE, NEW MEXICO

Exxon Company
P. O. Box 1600
Midland, Texas 79701

Re: Jornada Del Muerto Unit
Sierra County, New Mexico
(AMENDMENT)

ATTENTION: Mr. Marvin L. Wigley

Gentlemen:

The Commissioner of Public Lands has this date given final approval to the Amendment of Section 9 of the Jornada Del Muerto Unit, Sierra County, New Mexico.

The Commissioner of Public Lands has also granted you a six (6) months extension of time in which to commence the drilling of the third well as set forth in Section 9, Drilling to Discovery, therefore, the obligation date to be March 4, 1975.

These approvals are subject to like approval by the United States Geological Survey.

Very truly yours,

RAY D. GRAHAM, Director
Oil and Gas Department

AJA/RDG/s

cc: USGS-Roswell, New Mexico
OCC-Santa Fe, New Mexico

AUG 22 1974
OIL CONSERVATION COMM.
Santa Fe

State of New Mexico

TELEPHONE
505-827-2748



PHIL R. LUCERO
COMMISSIONER



Commissioner of Public Lands
September 12, 1975

P. O. BOX 1148
SANTA FE, NEW MEXICO 87501

Beard Oil Company
Suite 200, 2000 Classen Building
Oklahoma City, Oklahoma 73106

Re: Jornada Del Muerto Unit
Sierra County, New Mexico

ATTENTION: Mr. Jack Teisley

Gentlemen:

This will acknowledge receipt of your letter dated September 9, 1975, requesting a six month extension of time in which to commence drilling the fourth test well under the terms of the captioned unit agreement.

The Commissioner of Public Lands has this date approved your request so the fourth unit test well is now due to be commenced before midnight March 15, 1976.

The United States Geological Survey approved the extension September 8, 1975.

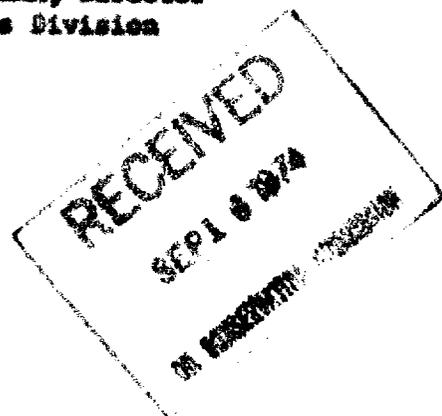
Very truly yours,

PHIL R. LUCERO
COMMISSIONER OF PUBLIC LANDS

BY:
RAY D. GRAMM, Director
Oil and Gas Division

PRL/RDG/s
cc:

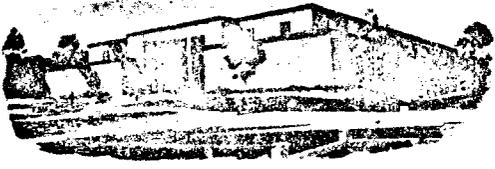
UDGS-Roswell, New Mexico
OCC- Santa Fe, New Mexico



Rec 4-26-77
09

State of New Mexico

4757



Commissioner of Public Lands

April 25, 1977

P. O. BOX 1148
SANTA FE, NEW MEXICO 87501

PHIL R. LUCERO
COMMISSIONER

Beard Oil Company
Suite 200, 2000 Classen Building
2000 Classen Boulevard
Oklahoma City, Oklahoma 73106

Re: Ratification and Joinder
Township 13, 14, 15 South, Ranges 1 West
1 East
Jornada Del Muerto Unit
Sierra County, New Mexico

ATTENTION: Mr. Jack Yeisley

Gentlemen:

We are in receipt of three (3) copies of Ratifications and Joinders from both Exxon Corporation and Beard Oil Company covering the State leases included in the Jornada Del Muerto Unit which have been renewed by each of the parties.

The attached list reflects the new leases which are being committed to the Jornada Del Muerto Unit. The attached copy also reflects the date these instruments were filed in this office.

The Commissioner of Public Lands gives his approval of the Ratifications and Joinders as of this date.

We shall be expecting revised Exhibits "A" and "B" to the Unit Agreement in the very near future.

Very truly yours,

PHIL R. LUCERO
COMMISSIONER OF PUBLIC LANDS

BY:
RAY D. GRAHAM, Director
Oil and Gas Division

PRL/RDG/s
encl.
cc:

USGS-Roswell, New Mexico
OCC- Santa Fe, New Mexico

RECEIVED
APR 22 8 53 AM '77

CONSENT AND RATIFICATION OF UNIT AGREEMENT
AND UNIT OPERATING AGREEMENT FOR THE
DEVELOPMENT AND OPERATION OF THE
JORNADA DEL MUERTO UNIT AREA
SIERRA COUNTY, NEW MEXICO

Notice is taken of the following matters:

1. The Jornada Del Muerto Unit Agreement covering 115,180 acres, more or less, in Townships 13, 14 and 15 South, Ranges 1 West and 1 East, Sierra County, New Mexico, was approved by the Oil Conservation Commission for the State of New Mexico, the Supervisor for the United States Department of the Interior, Geological Survey, and the Commissioner of Public Lands for the State of New Mexico. Reference is hereby made to the Unit Agreement and Unit Operating Agreement for the Jornada Del Muerto Unit and the same are hereby incorporated herein for all purposes.

2. At the time of the approval and formation of the Jornada Del Muerto Unit, certain State of New Mexico oil and gas leases were committed thereto, and as of the time of such approval, the oil and gas lessee for each such lease was Beard Oil Company.

3. The respective Jornada Del Muerto Unit tract numbers, the old State of New Mexico oil and gas lease numbers and the respective lands involved in each were as follows:

Tract 53: State of New Mexico Oil and Gas Lease L-2903-2 insofar as it covered All of Section 32, Township 13 South, Range 1 West, N.M.P.M., Sierra County, New Mexico, containing 640 acres, more or less.

Tract 59: State of New Mexico Oil and Gas Lease L-3315-1 insofar as it covered NW $\frac{1}{4}$ Section 9, SW $\frac{1}{4}$ Section 16, All Section 17, Township 15 South, Range 1 West, N.M.P.M., Sierra County, New Mexico, containing 960 acres, more or less.

Tract 60: State of New Mexico Oil and Gas Lease L-3316-1 insofar as it covered Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (All) Section 18, Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$, SE $\frac{1}{4}$ Section 19, Township 15 South, Range 1 West, N.M.P.M., Sierra County, New Mexico, containing 1,119.38 acres, more or less.

Tract 62: State of New Mexico Oil and Gas Lease L-3318-1 insofar as it covered S $\frac{1}{2}$ NW $\frac{1}{4}$, SW $\frac{1}{4}$ Section 28, N $\frac{1}{2}$, SE $\frac{1}{4}$ Section 29, Township 15 South, Range 1 West, N.M.P.M., Sierra County, New Mexico, containing 720 acres, more or less.

Tract 63: State of New Mexico Oil and Gas Lease L-3319-1 insofar as it covered Lots 1, 2, 3, 4, E $\frac{1}{2}$ Section 30, and Lots 1, 2, 3, 4, NE $\frac{1}{4}$, E $\frac{1}{2}$ W $\frac{1}{2}$ Section 31, Township 15 South, Range 1 West, N.M.P.M., Sierra County, New Mexico, containing 961.18 acres, more or less.

Tract 65: State of New Mexico Oil and Gas Lease L-3321-2 insofar as it covered All Section 36, Township 15 South, Range 1 West, N.M.P.M., Sierra County, New Mexico, containing 640 acres, more or less.

Tract 67: State of New Mexico Oil and Gas Lease L-3600-1 insofar as it covered All Section 32, All Section 36, Township 14 South, Range 1 West, N.M.P.M., Sierra County, New Mexico, containing 1,280 acres, more or less.

Tract 71: State of New Mexico Oil and Gas Lease L-3822-1 insofar as it covered All Section 32, and All Section 36, Township 15 South, Range 1 East, N.M.P.M., Sierra County, New Mexico, containing 1,280 acres, more or less.

4. Subsequent to the formation of the Jornada Del Muerto Unit said above described State of New Mexico oil and gas leases were assigned to Exxon Corporation.

5. Said above described State of New Mexico oil and gas leases which were owned by Exxon Corporation have now been released by Exxon Corporation, but contemporaneously, at the time of such release, Exxon Corporation secured a renewal of each such lease, with a new date and under a difference lease number for each lease, said leases are described hereinbelow and may sometimes hereinafter be referred to as the "new leases"; said new leases and the lands embraced therein lying within the Unit Area for the Jornada Del Muerto Unit are described below. All new leases are in favor of Exxon Corporation as Lessee and each is dated November 19, 1976. All lands lie within Sierra County, New Mexico.

(a) State of New Mexico Lease LG-3931 insofar as it covers All Section 32, Township 13 South, Range 1 West, N.M.P.M., containing 640 acres, more or less.

(b) State of New Mexico Lease LG-3932 covering NW $\frac{1}{4}$ Section 9, SW $\frac{1}{4}$ Section 16, All Section 17, Township 15 South, Range 1 West, N.M.P.M., containing 960 acres, more or less.

(c) State of New Mexico Lease LG-3933 covering Lots 1, 2, 3, 4, E $\frac{1}{2}$, E $\frac{1}{2}$ W $\frac{1}{2}$ Section 18, Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$, SE $\frac{1}{4}$ Section 19, Township 15 South, Range 1 West, N.M.P.M., containing 1,119.38 acres, more or less.

(d) State of New Mexico Lease LG-3934 covering S $\frac{1}{2}$ NW $\frac{1}{4}$, SW $\frac{1}{4}$ Section 28, N $\frac{1}{2}$, SE $\frac{1}{4}$ Section 29, Township 15 South, Range 1 West, N.M.P.M., containing 720 acres, more or less.

(e) State of New Mexico Lease LG-3935 covering Lots 1, 2, 3, 4, E $\frac{1}{2}$ Section 30, Lots 1, 2, 3, 4, NE $\frac{1}{4}$, E $\frac{1}{2}$ W $\frac{1}{2}$ Section 31, Township 15 South, Range 1 West, N.M.P.M., containing 961.18 acres, more or less.

(f) State of New Mexico Lease LG-3936 covering All of Section 36, Township 15 South, Range 1 West, N.M.P.M., containing 640 acres, more or less.

(g) State of New Mexico Lease LG-3938 covering All of Section 32, Township 14 South, Range 1 West, N.M.P.M., containing 640 acres, more or less.

(h) State of New Mexico Lease LG-3940 covering All of Section 32, Township 15 South, Range 1 East, N.M.P.M., containing 640 acres, more or less.

6. Exxon Corporation, as the working interest owner of the new leases, desires to commit all of said leases as to all lands described above to the Unit Agreement and Unit Operating Agreement for the development and operation of the Jornada Del Muerto Unit Area, Sierra County, New Mexico.

NOW, THEREFORE, in consideration of the premises and other good and valuable considerations, the receipt and sufficiency of which are hereby confessed, Exxon Corporation does hereby commit all of its interest in and to the new leases described above to the Jornada Del Muerto Unit Agreement and the Jornada Del Muerto Unit Operating Agreement and does hereby consent to and ratify all the terms and provisions of said agreement. Further, in accordance with the appropriate provisions of the Jornada Del Muerto Unit Agreement under Section 29 thereof and the Jornada Del Muerto Unit Operating Agreement under Article 34.2 and other pertinent provisions of such instruments, Exxon Corporation does hereby authorize and consent to a revision, by the Unit Operator, of Exhibit "A" and Exhibit "B" to the Unit Agreement in order to reflect thereon the new lease numbers and to show Exxon Corporation as lessee of record as to each of said above described new leases.

IN WITNESS WHEREOF, this instrument is executed as of this 16th day of March, 1977.

EXXON CORPORATION

By: B. D. Holland

B. D. Holland
Attorney-in-Fact
Post Office Box 1600
Midland, Texas 79701

STATE OF TEXAS)
) ss.
COUNTY OF MIDLAND)

The foregoing instrument was acknowledged before me this
16th day of March, 1977, by B. D. Holland as
Attorney-in-Fact for Exxon Corporation, a New Jersey corporation,
on behalf of said corporation.

My Commission Expires:
6-1-77

Lena P. Jehle

Notary Public
LENA P. JEHLÉ, NOTARY PUBLIC IN AND FOR
THE COUNTY OF MIDLAND, STATE OF TEXAS.
MY COMMISSION EXPIRES JUNE 1, 1977.

CONSENT AND RATIFICATION OF UNIT AGREEMENT
AND UNIT OPERATING AGREEMENT FOR THE
DEVELOPMENT AND OPERATION OF THE
JORNADA DEL MUERTO UNIT AREA
SIERRA COUNTY, NEW MEXICO

RECEIVED
APR 22 8 53 AM '77
COUNTY CLERK'S OFFICE

Notice is taken of the following matters:

1. The Jornada Del Muerto Unit Agreement covering 115,180 acres, more or less, in Townships 13, 14, and 15 South, Ranges 1 West and 1 East, Sierra County, New Mexico, was approved by the Oil Conservation Commission for the State of New Mexico, the Supervisor for the United States Department of the Interior, Geological Survey, and the Commissioner of Public Lands for the State of New Mexico. Reference is hereby made to the Unit Agreement and Unit Operating Agreement for the Jornada Del Muerto Unit and the same are hereby incorporated herein for all purposes.

2. At the time of the approval and formation of the Jornada Del Muerto Unit, certain State of New Mexico oil and gas leases were committed thereto, and as of the time of such approval, the oil and gas lessee for each such lease was Beard Oil Company.

3. The respective Jornada Del Muerto Unit tract numbers, the old State of New Mexico oil and gas lease numbers and the respective lands involved in each were as follows:

Tract 49: State of New Mexico Oil and Gas Lease K-6538-3 insofar as it covered S $\frac{1}{2}$, Section 16, Township 14 South, Range 1 West, N.M.P.M., Sierra County, New Mexico, containing 320.00 acres, more or less.

Tract 50: State of New Mexico Oil and Gas Lease K-6539-3 insofar as it covered Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$, Section 2 and N $\frac{1}{2}$, Section 16, Township 14 South, Range 1 West, N.M.P.M., Sierra County, New Mexico, containing 956.41 acres, more or less.

Tract 55: State of New Mexico Oil and Gas Lease L-2911-3 insofar as it covered All, Section 32 and All, Section 36, Township 13 South, Range 1 East, N.M.P.M., Sierra County, New Mexico, containing 1,280.00 acres, more or less.

Tract 56: State of New Mexico Oil and Gas Lease L-3312-3 insofar as it covered Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All), Section 2 and Lots 3, 4, S $\frac{1}{2}$ NW $\frac{1}{4}$, W $\frac{1}{2}$ SW $\frac{1}{4}$, Section 4, Township 15 South, Range 1 West, N.M.P.M., Sierra County, New Mexico, containing 888.01 acres, more or less.

Tract 66: State of New Mexico Oil and Gas Lease L-3599-2 insofar as it covered Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All), Section 2 and All, Section 16, Township 14 South, Range 1 East, N.M.P.M., Sierra County, New Mexico, containing 1,276.99 acres, more or less.

Tract 67: State of New Mexico Oil and Gas Lease L-3600-2 insofar as it covered All, Section 32 and All, Section 36, Township 14 South, Range 1 West, N.M.P.M., Sierra County, New Mexico, containing 1,280.00 acres, more or less.

Tract 69: State of New Mexico Oil and Gas Lease L-3820-2 insofar as it covered NW $\frac{1}{4}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ SW $\frac{1}{4}$, Section 29 and All, Section 32, Township 14 South, Range 1 East, and SW $\frac{1}{4}$, Section 21 and NW $\frac{1}{4}$ NE $\frac{1}{4}$, Section 26, Township 14 South, Range 1 West, N.M.P.M., Sierra County, New Mexico, containing 920.00 acres, more or less.

Tract 70: State of New Mexico Oil and Gas Lease L-3821-2 insofar as it covered Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (A11), Section 2 and A11, Section 16, Township 15 South, Range 1 East, N.M.P.M., Sierra County, New Mexico, containing 1,267.34 acres, more or less.

Tract 71: State of New Mexico Oil and Gas Lease L-3822-2 insofar as it covered A11, Section 32 and A11, Section 36, Township 15 South, Range 1 East, N.M.P.M., Sierra County, New Mexico, containing 1,280.00 acres, more or less.

4. Said above described State of New Mexico oil and gas leases which were owned by Beard Oil Company have now been released by Beard Oil Company, but contemporaneously, at the time of such release, Beard Oil Company secured a renewal of each such lease, with a new date and under a different lease number for each lease, said leases are described hereinbelow and may sometimes hereinafter be referred to as the "new leases"; said new leases and the lands embraced therein lying with the Unit Area for the Jornada Del Muerto Unit are described below. All new leases are in favor of Beard Oil Company as Lessee and each is dated January 4, 1977. All lands lie within Sierra County, New Mexico.

(a) State of New Mexico Oil and Gas Lease LG-4020 insofar as it covers S $\frac{1}{2}$, Section 16, Township 14 South, Range 1 West, N.M.P.M., containing 320.00 acres, more or less.

(b) State of New Mexico Oil and Gas Lease LG-4019 insofar as it covers Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$, Section 2 and N $\frac{1}{2}$, Section 16, Township 14 South, Range 1 West, N.M.P.M., containing 956.41 acres, more or less.

(c) State of New Mexico Oil and Gas Lease LG-4007 insofar as it covers A11, Section 32 and A11, Section 36, Township 13 South, Range 1 East, N.M.P.M., containing 1,280.00 acres, more or less.

(d) State of New Mexico Oil and Gas Lease LG-4013 insofar as it covers Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (A11), Section 2 and Lots 3, 4, S $\frac{1}{2}$ NW $\frac{1}{4}$, W $\frac{1}{2}$ SW $\frac{1}{4}$, Section 4, Township 15 South, Range 1 West, N.M.P.M., containing 888.01 acres, more or less.

(e) State of New Mexico Oil and Gas Lease LG-4009 insofar as it covers Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (A11), Section 2 and A11, Section 16, Township 14 South, Range 1 East, N.M.P.M., containing 1,276.99 acres, more or less.

(f) State of New Mexico Oil and Gas Lease LG-4011 insofar as it covers A11, Section 36, Township 14 South, Range 1 West, N.M.P.M., containing 640.00 acres, more or less.

(g) State of New Mexico Oil and Gas Lease LG-4016 insofar as it covers NW $\frac{1}{4}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ SW $\frac{1}{4}$, Section 29 and A11, Section 32, Township 14 South, Range 1 East, and SW $\frac{1}{4}$, Section 21 and NW $\frac{1}{4}$ NE $\frac{1}{4}$, Section 26, Township 14 South, Range 1 West, N.M.P.M., containing 920.00 acres, more or less.

(h) State of New Mexico Oil and Gas Lease LG-4012 insofar as it covers Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (A11), Section 2 and A11, Section 16, Township 15 South, Range 1 East, N.M.P.M., containing 1,267.34 acres, more or less.

(i) State of New Mexico Oil and Gas Lease LG-4010 insofar as it covers A11, Section 36, Township 15 South, Range 1 East, N.M.P.M., containing 640.00 acres, more or less.

5. Beard Oil Company, as the working interest owner of the new leases, desires to commit all of said leases as to all lands described above to the Unit Agreement and Unit Operating Agreement for the development and operation of the Jornada Del Muerto Unit Area, Sierra County, New Mexico.

NOW, THEREFORE, in consideration of the premises and other good and valuable considerations, the receipt and sufficiency of which are hereby confessed, Beard Oil Company does hereby commit all of its interest in and to the new leases described above to the Jornada Del Muerto Unit Agreement and the Jornada Del Muerto Unit Operating Agreement and does hereby consent and ratify all the terms and provisions of said agreements. Beard Oil Company, Unit Operator, will prepare a revision of Exhibit "A" and Exhibit "B" to the Unit Agreement in order to reflect thereon the new lease numbers and to show Beard Oil Company as lessee of record as to each of said above described new leases.

IN WITNESS WHEREOF, this instrument is executed as of this 19th day of April, 1977.

ATTEST:

By *L. S. [Signature]*
Secretary

BEARD OIL COMPANY
By *Jack Yeisley*
Vice-President

STATE OF OKLAHOMA)
) ss.
COUNTY OF OKLAHOMA)

On this 19th day of April, 1977, before me, the undersigned, a Notary Public in and for the county and state aforesaid, personally appeared JACK YEISLEY to me known to be the identical person who signed the name of the maker thereof to the within and foregoing instrument as its Vice-President and acknowledged to me that he executed the same as his free and voluntary act and deed, and as the free and voluntary act and deed of said corporation, for the uses and purposes therein set forth.

Given under my hand and seal the day and year last above written.

Richard Miles
Notary Public

My commission expires: 8/8/77



OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO
P. O. BOX 2088 - SANTA FE
87501

GOVERNOR
BRUCE KING
CHAIRMAN

LAND COMMISSIONER
ALEX J. ARMIJO
MEMBER

STATE GEOLOGIST
A. L. PORTER, JR.
SECRETARY - DIRECTOR

July 19, 1972

Re: Case No. 4757

Order No. R-4344

Applicant:

Beard Oil Company

Mr. Jason Kellahin
Kellahin & Fox
Attorneys at Law
Post Office Box 1769
Santa Fe, New Mexico

Dear Sir:

Enclosed herewith are two copies of the above-referenced Commission order recently entered in the subject case.

Very truly yours,

A. L. PORTER, Jr.
Secretary-Director

ALP/ir

Copy of order also sent to:

Hobbs OCC x

Artesia OCC x

Aztec OCC

Other Mr. J. K. Caskey, Beard Oil Company, Oklahoma City, Oklahoma

Unit Name JORNADA DEL MUERTO UNIT (EXPLORATORY)
 Operator Beard Oil Company
 County Sierra

DATE	OCC CASE NO.	EFFECTIVE DATE	TOTAL ACREAGE	STATE	FEDERAL	Patent	SEGREGATION CLAUSE	TERM
APPROVED	OCC ORDER NO. R-4344	DATE	ACREAGE	STATE	FEDERAL	PATENT	SEGREGATION CLAUSE	TERM
Commissioner	July 19, 1972	8-22-72	115,179.55	23,209.86	90,729.69	1,240.00	Yes	5 yrs.
July 31, 1972								

UNIT AREA

SIERRA COUNTY, NEW MEXICO

- TOWNSHIP 13 SOUTH, RANGE 1 WEST, NMPM
Sections 19 through 36: All
- TOWNSHIP 13 SOUTH, RANGE 1 EAST, NMPM
Section 19 through 36: All
- TOWNSHIP 14 SOUTH, RANGE 1 WEST, NMPM
Sections 1 through 36: All
- TOWNSHIP 14 SOUTH, RANGE 1 EAST, NMPM
Sections 1 through 36: All
- TOWNSHIP 15 SOUTH, RANGE 1 WEST, NMPM
Sections 1 through 36: All
- TOWNSHIP 15 SOUTH, RANGE 1 EAST, NMPM
Sections 1 through 36: All

TERMINATED
 12-6-77
 BJA

Unit Name JORNADA DEL MUERTO UNIT (EXPLORATORY)
 Operator BEARD OIL COMPANY
 County SIERRA

STATE TRACT NO.	LEASE NO.	INSTI-TUTION	SEC.	TWP.	RGE.	SUBSECTION	RATIFIED DATE	ACRES	ACREAGE NOT RATIFIED	LESSEE
X 46	X 88-4421	C.S.	16	15S	1W	NW/4, SE/4	6-19-72	320.00		Dulcie Williams
X 47	X K-6242	C.S.	19	15S	1W	NE/4	6-19-72	800.00		Georgè A. Dowdle & Dulcie Williams
			21	15S	1W	NE/4, NE/4NW/4, N/2SW/4, SE/4SW/4				
			28	15S	1W	E/2				
X 48	X K-6243	C.S.	29	15S	1W	SW/4	6-19-72	800.00		George A. Dowdle & Dulcie Williams
			30	15S	1W	E/2W/2				
			31	15S	1W	SE/4				
			32	15S	1W	SE/4				
			33	15S	1W	SE/4				
X 49	X 88-4020	C.S.	16	14S	1W	S/2	7-25-72	320.00		Beard Oil Company
X 50	X 88-4019	C.S.	2	14S	1W	Lots 1, 2, 3, 4, S/2N/2, S/2 N/2	7-25-72	956.41		Beard Oil Company
X 51	X 88-4881	C.S.	4	15S	1W	Lots 1, 2, S/2NE/4, E/2SW/4, SE/4	6-17-72	884.48		Sarah E. Alger & Mary Carney
			9	15S	1W	NE/4, S/2				
X 52	X 88-4882	C.S.	16	15S	1W	NE/4	6-17-72	160.00		Sarah E. Alger & Mary Carney
X 53	X 88-3131	C.S.	32	13S	1W	All	7-25-72	640.00		Beard Oil Company
X 54	X IC-0148-1	C.S.	36	13S	1W	All	7-25-72	640.00		Beard Oil Company
X 55	X 88-4007	C.S.	32	13S	1E	All	7-25-72	1,280.00		Beard Oil Company
			36	13S	1E	All				
X 56	X 88-4013	C.S.	2	15S	1W	Lots 1, 2, 3, 4, S/2N/2, S/2	7-25-72	887.91		Beard Oil Company
			4	15S	1W	Lots 3, 4, S/2NW/4, W/2SW/4				

TERMINATED
7-25-72

Unit Name JORNADA DEL MUERTO UNIT (EXPLORATORY)
 Operator BEARD OIL COMPANY
 County SIERRA

STATE TRACT NO.	LEASE NO.	INSTI-TUTION	SEC.	TWP.	RGE.	SUBSECTION	RATIFIED DATE	ACRES	ACREAGE NOT RATIFIED	LESSEE
X 57	L-3313 X	C.S.	5	15S	1W	Lots 1, 2, 3, 4, S/2N/2, S/2	(NOT COMMITTED)	1,136.11		Chevron oil Company
			6	15S	1W	Lots 1 thru 7, Incl., SE/4NW/4, E/2SW/4, S/2SE/4				
X 58	L-3314 X	C.S.	7	15S	1W	Lots 1, 2, 3, 4, E/2W/2, E/2	(NOT COMMITTED)	1,280.06		Chevron Oil Company
			8	15S	1W	All				
X 59	L-3315 X	C.S.	9	15S	1W	NW/4	7-25-72	960.00		Beard Oil Company
			16	15S	1W	SW/4				
			17	15S	1W	All				
X 60	L-3316 X	C.S.	18	15S	1W	Lots 1, 2, 3, 4, E/2W/2, E/2	7-25-72	1,119.38		Beard Oil Company
			19	15S	1W	Lots 1, 2, 3, 4, E/2W/2, SE/4				
X 61	L-3317 X	C.S.	20	15S	1W	All	(NOT COMMITTED)	920.00		Chevron Oil Company
			21	15S	1W	NW/4NW/4, S/2NW/4, SE/4				
X 62	L-3318 X	C.S.	28	15S	1W	S/2NW/4, SW/4	7-25-72	720.00		Beard Oil Company
			29	15S	1W	N/2, SE/4				
X 63	L-3319 X	C.S.	30	15S	1W	Lots 1, 2, 3, 4, E/2	7-25-72	961.18		Beard Oil Company
			31	15S	1W	Lots 1, 2, 3, 4, NE/4, E/2W/2				
X 64	L-3320 X	C.S.	32	15S	1W	N/2, SW/4	(NOT COMMITTED)	960.00		Chevron Oil Company
			33	15S	1W	N/2, SW/4				
X 65	L-3321 X	C.S.	36	15S	1W	All	7-25-72	640.00		Beard Oil Company
X 66	L-3322 X	C.S.	2	14S	1E	Lots 1, 2, 3, 4, S/2N/2, S/2	7-25-72	1,276.99		Beard Oil Company
			16	14S	1E	All				
X 67	L-3323 X	C.S.	32	14S	1W	All	7-25-72	1,280.00		Beard Oil Company
			36	14S	1W	All				
X 68	L-3324 X	C.S.	13	14S	1E	NW/4	7-25-72	800.00		Beard Oil Company
			36	14S	1E	All				

TERMINATED

EXHIBIT # 1

U N I T A G R E E M E N T

FOR THE DEVELOPMENT AND OPERATION

OF THE

JORNADA DEL MUERTO UNIT AREA

COUNTY OF SIERRA

STATE OF NEW MEXICO

REGISTERED EXAMINER STAMETS
Oil and Gas Commission
4457
7/12/72

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Exhibit "A" : Map of Unit Area
 Exhibit "B" : Description of Unit Area

1 WHEREAS, the parties hereto hold sufficient interests in the Jornada 1
2 Del Muerto Unit Area covering the land hereinafter described to give rea- 2
3 sonably effective control of operations therein; and 3

4 WHEREAS, it is the purpose of the parties hereto to conserve natural 4
5 resources, prevent waste, and secure other benefits obtainable through 5
6 development and operation of the area subject to this agreement under the 6
7 terms, conditions, and limitations herein set forth; 7

8 NOW, THEREFORE, in consideration of the premises and the promises 8
9 herein contained, the parties hereto commit to this agreement their res- 9
10 pective interests in the below-defined unit area, and agree severally 10
11 among themselves as follows: 11

12 1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of 12
13 February 25, 1920, as amended, supra, and all valid pertinent regulations, 13
14 including operating and unit plan regulations, heretofore issued there- 14
15 under or valid, pertinent, and reasonable regulations hereafter issued 15
16 thereunder are accepted and made a part of this agreement as to Federal 16
17 lands, provided such regulations are not inconsistent with the terms of 17
18 this agreement; and as to State of New Mexico lands, the oil and gas 18
19 operating regulations in effect as of the effective date hereof governing 19
20 drilling and producing operations, not inconsistent with the terms hereof 20
21 or the laws of the State of New Mexico are hereby accepted and made a 21
22 part of this agreement. 22

23 2. UNIT AREA. The area specified on the map attached hereto marked 23
24 Exhibit "A" is hereby designated and recognized as constituting the unit 24
25 area, containing 115,179.55 acres, more or less. 25

26 Exhibit "A" shows, in addition to the boundary of the unit area, the 26
27 boundaries and identity of tracts and leases in said area to the extent 27
28 known to the Unit Operator. Exhibit "B" attached hereto is a schedule 28
29 showing to the extent known to the Unit Operator the acreage, percentage, 29
30 and kind of ownership of oil and gas interests in all land in the unit 30
31 area. However, nothing herein or in said schedule or map shall be con- 31
32 strued as a representation by any party hereto as to the ownership of 32
33 any interest other than such interest or interests as are shown in said 33
34 map or schedule as owned by such party. Exhibits "A" and "B" shall be 34
35 revised by the Unit Operator whenever changes in the unit area render 35

1 such revision necessary, or when requested by the Oil and Gas Supervisor, 1
2 hereinafter referred to as "Supervisor", or when requested by the Com- 2
3 missioner of Public Lands of The State of New Mexico, hereinafter referred 3
4 to as "Land Commissioner", and not less than five (5) copies of the revised 4
5 exhibits shall be filed with the Supervisor, and two (2) copies thereof 5
6 shall be filed with The Land Commissioner and one (1) copy with The New 6
7 Mexico Oil Conservation Commission, hereinafter referred to as "Conserva- 7
8 tion Commission." 8

9 The above-described unit area shall when practicable be expanded to 9
10 include therein any additional lands or shall be contracted to exclude 10
11 lands whenever such expansion or contraction is deemed to be necessary 11
12 or advisable to conform with the purposes of this agreement. Such expan- 12
13 sion or contraction shall be effected in the following manner: 13

14 (a) Unit Operator, on its own motion or on demand of the Director 14
15 of the Geological Survey, hereinafter referred to as "Director", or on 15
16 demand of The Land Commissioner, but only after preliminary concurrence 16
17 by the Director and The Land Commissioner, shall prepare a notice of 17
18 proposed expansion or contraction describing the contemplated changes 18
19 in the boundaries of the unit area, the reasons therefor, and the proposed 19
20 effective date thereof, preferably the first day of a month subsequent to 20
21 the date of notice. 21

22 (b) Said notice shall be delivered to the Supervisor, the Land Com- 22
23 missioner and the Conservation Commission and copies thereof mailed to 23
24 the last known address of each working interest owner, lessee, and lessor 24
25 whose interest are affected, advising that 30 days will be allowed for 25
26 submission to the Unit Operator of any objections. 26

27 (c) Upon expiration of the 30-day period provided in the preceding 27
28 item (b) hereof, Unit Operator shall file with the Supervisor, Land Com- 28
29 missioner and Conservation Commission evidence of mailing of the notice 29
30 of expansion or contraction and a copy of any objections thereto which 30
31 have been filed with the Unit Operator, together with an application in 31
32 sufficient number, for approval of such expansion or contraction and with 32
33 appropriate joinders. 33

34 (d) After due consideration of all pertinent information, the expan- 34
35 sion or contraction shall, upon approval by the Supervisor, the Land 35

1 Commissioner and the Conservation Commission, become effective as of the 1
2 date prescribed in the notice thereof. 2

3 (e) All legal subdivisions of lands (i.e., 40 acres by Government 3
4 survey or its nearest lot or tract equivalent; in instances of irregular 4
5 surveys unusually large lots or tracts shall be considered in multiples 5
6 of 40 acres or the nearest aliquot equivalent thereof), no parts of which 6
7 are entitled to be in a participating area on or before the fifth anni- 7
8 versary of the effective date of the first initial participating area 8
9 established under this unit agreement, shall be eliminated automatically 9
10 from this agreement, effective as of said fifth anniversary, and such 10
11 lands shall no longer be a part of the unit area and shall no longer be 11
12 subject to this agreement, unless diligent drilling operations are in 12
13 progress on unitized lands not entitled to participation on said fifth 13
14 anniversary, in which event all such lands shall remain subject hereto 14
15 for so long as such drilling operations are continued diligently, with 15
16 not more than 90 days' time elapsing between the completion of one such 16
17 well and the commencement of the next such well. All legal subdivisions 17
18 of lands not entitled to be in a participating area within 10 years after 18
19 the effective date of the first initial participating area approved under 19
20 this agreement shall be automatically eliminated from this agreement as 20
21 of said tenth anniversary. All lands proved productive by diligent drill- 21
22 ing operations after the aforesaid 5-year period shall become partici- 22
23 pating in the same manner as during said 5-year period. However, when 23
24 such diligent drilling operations cease, all nonparticipating lands shall 24
25 be automatically eliminated effective as of the 91st day thereafter. The 25
26 Unit Operator shall within 90 days after the effective date of any elim- 26
27 ination hereunder, describe the area so eliminated to the satisfaction 27
28 of the Supervisor and the Land Commissioner and promptly notify all 28
29 parties in interest. 29

30 If conditions warrant extension of the 10-year period specified in 30
31 this subsection 2(e), a single extension of not to exceed 2 years may be 31
32 accomplished by consent of the owners of 90% of the working interests in 32
33 the current nonparticipating unitized lands and the owners of 60% of the 33
34 basic royalty interests (exclusive of the basic royalty interests of the 34
35 United States) in nonparticipating unitized lands with approval of the 35

1 Director and the Land Commissioner, provided such extension application 1
2 is submitted to the Director and the Land Commissioner not later than 60 2
3 days prior to the expiration of said 10-year period. 3

4 Any expansion of the unit area pursuant to this section which embraces 4
5 lands theretofore eliminated pursuant to this subsection 2(e) shall not be 5
6 considered automatic commitment or recommitment of such lands. 6

7 3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land committed to 7
8 this agreement shall constitute land referred to herein as "unitized land" 8
9 or "land subject to this agreement." All oil and gas in any and all 9
10 formations of the unitized land are unitized under the terms of this 10
11 agreement and herein are called "unitized substances." 11

12 4. UNIT OPERATOR. BEARD OIL COMPANY is hereby designated as Unit 12
13 Operator and by signature hereto as Unit Operator agrees and consents to 13
14 accept the duties and obligations of Unit Operator for the discovery, 14
15 development, and production of unitized substances as herein provided. 15
16 Whenever reference is made herein to the Unit Operator, such reference 16
17 means the Unit Operator acting in that capacity and not as an owner of 17
18 interest in unitized substances, and the term "working interest owner" 18
19 when used herein shall include or refer to Unit Operator as the owner 19
20 of a working interest when such an interest is owned by it. 20

21 5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall 21
22 have the right to resign at any time prior to the establishment of a 22
23 participating area or areas hereunder, but such resignation shall not 23
24 become effective so as to release Unit Operator from the duties and ob- 24
25 ligations of Unit Operator and terminate Unit Operator's rights as such 25
26 for a period of six months after notice of intention to resign has been 26
27 served by Unit Operator on all working interests owners, the Supervisor, 27
28 the Land Commissioner and Conservation Commission, and until all wells 28
29 then drilled hereunder are placed in a satisfactory condition for sus- 29
30 pension or abandonment whichever is required by the Supervisor as to 30
31 Federal lands and by the Conservation Commission as to State lands unless 31
32 a new Unit operator shall have been selected and approved and shall have 32
33 taken over and assumed the duties and obligations of Unit Operator prior 33
34 to the expiration of said period. 34
35

1 Unit Operator shall have the right to resign in like manner and 1
2 subject to like limitations as above provided at any time a participating 2
3 area established hereunder is in existence, but, in all instances of resig-3
4 nation or removal, until a successor Unit Operator is selected and approved4
5 as hereinafter provided, the working interest owners shall be jointly 5
6 responsible for performance of the duties of Unit Operator, and shall not 6
7 be later than 30 days before such resignation or removal becomes effective 7
8 appoint a common agent to represent them in any action to be taken 8
9 hereunder. 9

10 The resignation of Unit Operator shall not release Unit Operator 10
11 from any liability for any default by it hereunder occurring prior to 11
12 the effective date of its resignation. 12

13 The Unit Operator may, upon default or failure in the performance 13
14 of its duties or obligations hereunder, be subject to removal by the same 14
15 percentage vote of the owners of working interests as herein provided for 15
16 the selection of a new Unit Operator. Such removal shall be effective 16
17 upon notice thereof to the Supervisor and the Land Commissioner. 17

18 The resignation or removal of Unit Operator under this agreement 18
19 shall not terminate its right, title, or interest as the owner of a work- 19
20 ing interest or other interest in unitized substances, but upon the resig-20
21 nation or removal of Unit Operator becoming effective, such Unit Operator 21
22 shall deliver possession of all wells, equipment, materials, and appur- 22
23 tenances used in conducting the unit operations to the new duly qualified 23
24 successor Unit Operator or to the common agent, if no such new Unit 24
25 Operator is elected, to be used for the purpose of conducting unit opera- 25
26 tions hereunder. Nothing herein shall be construed as authorizing re- 26
27 moval of any material, equipment and appurtenances needed for the preser- 27
28 vation of any wells. 28

29 6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall 29
30 tender his or its resignation as Unit Operator or shall be removed as 30
31 hereinabove provided, or a change of Unit Operator is negotiated by work- 31
32 ing interest owners, the owners of the working interests in the partici- 32
33 pating area or areas according to their respective acreage interests in 33
34 such participating area or areas, or until a participating area shall have 34
35 been established, the owners of the working interests according to their 35
36 respective acreage interests in all unitized land shall by majority vote 36

1 select a successor Unit Operator: Provided, That, if a majority but less 1
2 than 75 per cent of the working interests qualified to vote are owned 2
3 by one party to this agreement, a concurring vote of one or more addi- 3
4 tional working interest owners shall be required to select a new operator. 4
5 Such selection shall not become effective until: 5

6 (a) a Unit Operator so selected shall accept in writing the duties 6
7 and responsibilities of Unit Operator, and 7

8 (b) the selection shall have been approved by the Supervisor and 8
9 the Land Commissioner. 9

10 If no successor Unit Operator is selected and qualified as herein 10
11 provided, the Director and the Land Commissioner at their election may 11
12 declare this unit agreement terminated. 12

13 7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit 13
14 Operator is not the sole owner of working interests, costs and expenses 14
15 incurred by Unit Operator in conducting unit operations hereunder shall 15
16 be paid and apportioned among and borne by the owners of working inter- 16
17 ests, all in accordance with the agreement or agreements entered into by 17
18 and between the Unit Operator and the owners of working interests, 18
19 whether one or more, separately or collectively. Any agreement or agree- 19
20 ments entered into between the working interest owners and the Unit 20
21 Operator as provided in this section, whether one or more, are herein 21
22 referred to as the "unit operating agreement." Such unit operating agree-22
23 ment shall also provide the manner in which the working interest owners 23
24 shall be entitled to receive their respective proportionate and allocated 24
25 share of the benefits accruing hereto in conformity with their underlying 25
26 operating agreements, leases, or other independent contracts, and such 26
27 other rights and obligations as between Unit Operator and the working 27
28 interest owners as may be agreed upon by Unit Operator and the working 28
29 interest owners; however, no such unit operating agreement shall be deemed 29
30 either to modify any of the terms and conditions of this unit agreement 30
31 or to relieve the Unit Operator of any right or obligation established 31
32 under this unit agreement, and in case of any inconsistency or conflict 32
33 between this unit agreement and the unit operating agreement, this unit 33
34 agreement shall govern. Three true copies of any unit operating agree- 34
35 ment executed pursuant to this section should be filed with the 35

1 Supervisor and one (1) true copy with the Land Commissioner, prior to 1
2 approval of this unit agreement. 2

3 8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as other- 3
4 wise specifically provided herein, the exclusive right, privilege, and 4
5 duty of exercising any and all rights of the parties hereto which are 5
6 necessary or convenient for prospecting for, producing, storing, allo- 6
7 cating, and distributing the unitized substances are hereby delegated 7
8 to and shall be exercised by the Unit Operator as herein provided. 8
9 Acceptable evidence of title to said rights shall be deposited with 9
10 said Unit Operator, and, together with this agreement, shall constitute 10
11 and define the rights, privileges, and obligations of Unit Operator. 11
12 Nothing herein, however, shall be construed to transfer title to any 12
13 land or to any lease or operating agreement, it being understood that 13
14 under this agreement the Unit Operator, in its capacity as Unit Operator, 14
15 shall exercise the rights of possession and use vested in the parties 15
16 hereto only for the purposes herein specified. 16

17 9. DRILLING TO DISCOVERY. Within six (6) months after the 17
18 effective date hereof, the Unit Operator shall begin to drill an ade- 18
19 quate test well at a location approved by the Supervisor if on Federal 19
20 land, or by the Land Commissioner if on State Land, or by the Conserva- 20
21 tion Commission if on privately owned land, unless on such effective 21
22 date a well is being drilled conformably with the terms hereof, and 22
23 thereafter continue such drilling diligently until the entire San Andres 23
24 Formation has been tested or until at a lesser depth unitized substances 24
25 shall be discovered which can be produced in paying quantities (to-wit: 25
26 quantities sufficient to repay the costs of drilling, and producing 26
27 operations, with a reasonable profit) or the Unit Operator shall at 27
28 any time establish to the satisfaction of the Supervisor if on Federal 28
29 land, of the Land Commissioner if on State land, or of the Conservation 29
30 Commission if on privately owned land, that further drilling of a part- 30
31 icular well would be unwarranted or impractical; provided, however, 31
32 that Unit Operator shall not in any event be required to drill said 32
33 well to a depth in excess of 3,500 feet. Within six (6) months follow- 33
34 ing completion of the first test well (and whether or not such be com- 34
35 pleted as a producer, or plugged and abandoned) Unit Operator shall 35

1 commence drilling a second test well at a location approved by the 1
2 Supervisor if on Federal land, or by the Land Commissioner if on State 2
3 land, or by the Conservation Commission if on privately owned land; 3
4 and within six (6) months from the completion of said second test well 4
5 (and whether or not such be completed as a producer or plugged and 5
6 abandoned) Unit Operator shall commence the drilling of a third test 6
7 well at a location approved by the Supervisor if on Federal land, or 7
8 by the Land Commissioner if on State land, or by the Conservation 8
9 Commission if on privately owned land; and within six (6) months from 9
10 the completion of said third test well (and whether or not such be 10
11 completed as a producer, or plugged and abandoned) Unit Operator shall 11
12 commence the drilling of a fourth test well at a location approved by 12
13 the Supervisor if on Federal land, or by the Land Commissioner if on 13
14 State land, or by the Conservation Commission if on privately owned 14
15 land. It is the intent of this section that Unit Operator shall ini- 15
16 tially drill four obligation wells located in different portions of 16
17 the unit area to test the entire San Andres Formation. Until the dis- 17
18 covery of a deposit of unitized substances capable of being produced 18
19 in paying quantities, Unit Operator shall continue drilling diligently 19
20 one well at a time, allowing not more than six (6) months between the 20
21 completion of one well and the beginning of the next well, until a 21
22 well capable of producing unitized substances in paying quantities is 22
23 completed to the satisfaction of the Supervisor if on Federal land, 23
24 of the Land Commissioner if on State land, or of the Conservation Com- 24
25 mission if on privately owned land, or until it is reasonably proved 25
26 that the unitized land is incapable of producing unitized substances 26
27 in paying quantities in the formation drilled hereunder. 27

28 Following the completion of the initial four obligation wells, 28
29 the Supervisor and Land Commissioner may modify the drilling require- 29
30 ments of this section by granting extensions of time. The only exten- 30
31 sion of time the Supervisor and Land Commissioner may grant, however, 31
32 for meeting the critical dates for the initial four obligation wells 32
33 in this section shall be based upon severe weather or other conditions 33
34 beyond the control of Unit Operator, and shall be limited to a single 34
35 extension of not more than three months for each well after the first. 35

1 Nevertheless, in the event drilling of any of said initial four obliga- 1
2 tion wells has not been commenced timely, this Unit Agreement shall, 2
3 effective the first day of the month following the default, terminate 3
4 or be contracted as hereinafter provided. 4

5 Notwithstanding anything in this Unit Agreement to the contrary 5
6 except unavoidable delay, as above indicated, Unit Operator shall drill 6
7 four wells, each to test the entire San Andres Formation. The Unit 7
8 Operator may select the order of drilling said four wells and may drill 8
9 said four wells at a faster rate than is herein provided, including the 9
10 drilling of more than one well at the same time. 10

11 Upon failure to commence any well provided for in this section 11
12 within the time allowed, including any extension of time granted by 12
13 the Supervisor, this agreement will automatically terminate; upon failure 13
14 to continue drilling diligently any well commenced hereunder, the Super- 14
15 visor and Land Commissioner may, after 15-days notice to the Unit 15
16 Operator, declare this unit agreement terminated. In the event one or 16
17 more of the four initial obligation test wells required by this section 17
18 is completed as a well capable of producing unitized substances in pay- 18
19 ing quantities, and default occurs by failure to commence and/or drill 19
20 the remaining initial obligation well or wells, then, in lieu of this 20
21 Unit Agreement being terminated, the Unit Area shall be contracted to 21
22 eliminate by legal subdivision all lands not entitled to be in a 22
23 participating area established in accordance with the provisions of 23
24 this Unit Agreement. The only penalty for failure to timely commence 24
25 and/or drill the four initial obligation wells provided for herein 25
26 shall be termination of this Unit Agreement or contract of the Unit 26
27 Area as in this section provided. 27

28 10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within six (6) 28
29 months after completion of a well capable of producing unitized sub- 29
30 stances in paying quantities, the Unit Operator shall submit for approval 30
31 of the Supervisor and the Land Commissioner an acceptable plan of develop- 31
32 ment and operation for the unitized land which, when approved by the 32
33 Supervisor and Land Commissioner, shall constitute the further drilling 33
34 and operating obligations of the Unit Operator under this agreement for 34
35 the period specified therein. Thereafter, from time to time before the 35

1 expiration of any existing plan, the Unit Operator shall submit for 1
2 the approval of the Supervisor and Land Commissioner a plan for an 2
3 additional specified period for the development and operation of the 3
4 unitized land. 4

5 Any plan submitted pursuant to this section shall provide for 5
6 the exploration of the unitized area and for the diligent drilling 6
7 necessary for determination of the area or areas thereof capable of 7
8 producing unitized substances in paying quantities in each and every 8
9 productive formation and shall be as complete and adequate as the 9
10 Supervisor and the Land Commissioner may determine to be necessary for 10
11 timely development and proper conservation of the oil and gas resources 11
12 of the unitized area and shall: 12

13 (a) specify the number and locations of any wells to be drilled 13
14 and the proposed order and time for such drilling; 14

15)
16)
17)
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35)

1 (b) to the extent practicable specify the operating practices 1
2 regarded as necessary and advisable for proper conservation of natural 2
3 resources. 3

4 Separate plans may be submitted for separate productive zones, subject 4
5 to the approval of the Supervisor and the Land Commissioner. 5

6 Plans shall be modified or supplemented when necessary to meet 6
7 changed conditions or to protect the interests of all parties to this 7
8 agreement. Reasonable diligence shall be exercised in complying with the 8
9 obligations of the approved plan of development. The Supervisor and Land 9
10 Commissioner are authorized to grant a reasonable extension of the 6-month 10
11 period herein prescribed for submission of an initial plan of develop- 11
12 ment where such action is justified because of unusual conditions or 12
13 circumstances. After completion hereunder of a well capable of producing 13
14 any unitized substance in paying quantities, no further wells, except 14
15 such as may be necessary to afford protection against operations not 15
16 under this agreement and such as may be specifically approved by the 16
17 Supervisor and Land Commissioner, shall be drilled except in accordance 17
18 with a plan of development approved as herein provided. 18

19 11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well 19
20 capable of producing unitized substances in paying quantities or as soon 20
21 thereafter as required by the Supervisor and Land Commissioner, the Unit 21
22 Operator shall submit for approval by the Supervisor and the Land Com- 22
23 missioner, a schedule based on subdivisions of the public-land survey 23
24 or aliquot parts thereof, of all land then regarded as reasonably proved 24
25 to be productive in paying quantities; all lands in said schedule on 25
26 approval of the Supervisor and the Land Commissioner to constitute a 26
27 participating area, effective as of the date of completion of such well 27
28 or the effective date of this unit agreement, whichever is later. The 28
29 acreage of both Federal and non-Federal lands shall be based upon appro- 29
30 priate computations from the courses and distances shown on the last 30
31 approved public-land survey as of the effective date of each initial 31
32 participating area. Said schedule shall also set forth the percentage 32
33 of unitized substances to be allocated as herein provided to each tract 33
34 in the participating area so established, and shall govern the allocation 34
35 of production commencing with the effective date of the participating 35
36 area. A separate participating area shall be established for each 36

1 approved public-land survey as of the effective date of each initial 1
2 participating area so established, and shall govern the allocation of 2
3 production commencing with the effective date of the participating area. 3
4 A separate participating area shall be established for each separate pool 4
5 or deposit of unitized substances or for any group thereof which is pro- 5
6 duced as a single pool or zone, and any two or more participating areas 6
7 so established may be combined into one, on approval of the Supervisor 7
8 and the Land Commissioner. When production from two or more participating 8
9 areas, so established, is subsequently found to be from a common pool or 9
10 deposit said participating areas shall be combined into one effective 10
11 as of such appropriate date as may be approved or prescribed by the Super- 11
12 visor and the Land Commissioner. The participating area or areas so 12
13 established shall be revised from time to time, subject to like approval, 13
14 to include additional land then regarded as reasonably proved to be pro- 14
15 ductive in paying quantities or necessary for unit operations, or to ex- 15
16 clude land then regarded as reasonably proved not to be productive in 16
17 paying quantities and the schedule of allocation percentages shall be 17
18 revised accordingly. The effective date of any revision shall be the 18
19 first of the month in which is obtained the knowledge or information on 19
20 which such revision is predicated, provided, however, that a more appro- 20
21 priate effective date may be used if justified by the Unit Operator and 21
22 approved by the Supervisor and the Land Commissioner. No land shall be 22
23 excluded from a participating area on account of depletion of the unitized 23
24 substances, except that any participating area established under the pro- 24
25 visions of this unit agreement shall terminate automatically whenever all 25
26 completions in the formation on which the participating area is based are 26
27 abandoned. 27

28 It is the intent of this section that a participating area shall 28
29 represent the area known or reasonably estimated to be productive in 29
30 paying quantities; but, regardless of any revision of the participating 30
31 area, nothing herein contained shall be construed as requiring any retro- 31
32 active adjustment for production obtained prior to the effective date of 32
33 the revision of the participating area. 33

34 In the absence of agreement at any time between the Unit Operator 34
35 and the Supervisor and the Land Commissioner as to the proper definition 35

1 all payments affected thereby shall be impounded in a manner mutually 1
2 acceptable to the owners of working interests and the Supervisor and the 2
3 Land Commissioner. Royalties due the United States and the State of New 3
4 Mexico shall be determined by the Supervisor and the Land Commissioner, 4
5 respectively, and the amounts thereof shall be deposited, as directed by 5
6 the Supervisor and the Land Commissioner to be held as unearned monies 6
7 until a participating area is finally approved and then applied as earned 7
8 or returned in accordance with a determination of the sums due as Federal 8
9 royalty and State of New Mexico royalty, respectively, on the basis of 9
10 such approved participating area. 10

11 Whenever it is determined subject to the approval of the Super- 11
12 visor, as to wells drilled on Federal land and of the Land Commissioner 12
13 as to wells drilled on State land and of the Conservation Commission as 13
14 to wells drilled on privately owned land, that a well drilled under this 14
15 agreement is not capable of production in paying quantities and inclusion 15
16 of the land on which it is situated in a participating area is unwarranted, 16
17 production from such well shall, for the purpose of settlement among all 17
18 parties other than working interest owners, be allocated to the land on 18
19 which the well is located unless such land is already within the parti- 19
20 cipating area established for the pool or deposit from which such produc- 20
21 tion is obtained. Settlement for working interest benefits from such a 21
22 well shall be made as provided in the unit operating agreement. 22

23 12. ALLOCATION OF PRODUCTION. All unitized substances produced 23
24 from each participating area established under this agreement, except 24
25 any part thereof used in conformity with good operating practices within 25
26 the unitized area for drilling, operating, camp and other production or 26
27 development purposes, for repressuring or recycling in accordance with 27
28 a plan of development approved by the Supervisor, the Land Commissioner 28
29 and the Conservation Commission, or unavoidably lost, shall be deemed to 29
30 be produced equally on an acreage basis from the several tracts of unit- 30
31 ized land of the participating area established for such production and, 31
32 for the purpose of determining any benefits accruing under this agreement, 32
33 each such tract of unitized land shall have allocated to it such percen- 33
34 tage of said production as the number of acres of such tract included in 34
35 35

1 said participating area bears to the total acres of unitized land in said 1
2 participating area, except that allocation of production hereunder for 2
3 purposes other than for settlement of the royalty, overriding royalty, 3
4 or payment out of production obligations of the respective working interest 4
5 owners shall be on the basis prescribed in the unit operating agreement, 5
6 whether in conformity with the basis of allocation herein set forth or 6
7 otherwise. It is hereby agreed that production of unitized substances 7
8 from a participating area shall be allocated as provided herein regardless 8
9 of whether any wells are drilled on any particular part or tract of said 9
10 participating area. If any gas produced from one participating area is 10
11 used for repressuring or recycling purposes in another participating 11
12 area, the first gas withdrawn from such last-mentioned participating 12
13 area for sale during the life of this agreement shall be considered to be 13
14 the gas so transferred until an amount equal to that transferred shall be 14
15 so produced for sale and such gas shall be allocated to the participating 15
16 area from which initially produced as such area was last defined at the 16
17 time of such final production. 17

18 13. DEVELOPMENT OR OPERATION OF NON-PARTICIPATING LAND OR FORMATIONS 18
19 Any party hereto owning or controlling the working interest in any unit- 19
20 ized land having thereon a regular well location may with the approval 20
21 of the Supervisor as to Federal land, the Land Commissioner as to State 21
22 land, and the Conservation Commission as to privately owned land, at such 22
23 party's sole risk, costs, and expense, drill a well to test any formation 23
24 for which a participating area has not been established or to test any 24
25 formation for which a participating area has been established if such 25
26 location is not within said participating area, unless within 90 days 26
27 of receipt of notice from said party of his intention to drill the well 27
28 the Unit Operator elects and commences to drill such a well in like 28
29 manner as other wells are drilled by the Unit Operator under this 29
30 agreement. 30

31 If any well drilled as aforesaid by a working interest owner results 31
32 in production such that the land upon which it is situated may properly 32
33 be included in a participating area, such participating area shall be 33
34 established or enlarged as provided in this agreement and the well shall 34
35 thereafter be operated by the Unit Operator in accordance with the terms 35

1 of this agreement and the unit operating agreement. 1

2 If any well drilled as aforesaid by a working interest owner obtains 2
3 production in quantities insufficient to justify the inclusion of the land 3
4 upon which such well is situated in a participating area, such well may be 4
5 operated and produced by the party drilling the same subject to the con- 5
6 servation requirements of this agreement. The royalties in amount or 6
7 value of production from any such well shall be paid as specified in the 7
8 underlying lease and agreements affected. 8

9 14. ROYALTY SETTLEMENT. The United States, the State of New Mexico, 9
10 and any royalty owner who, is entitled to take in kind a share of the 10
11 substances now unitized hereunder shall hereafter be entitled to the 11
12 right to take in kind its share of the unitized substances, and Unit 12
13 Operator, or the working interest owner in case of the operation of a 13
14 well by a working interest owner as herein provided for in special cases, 14
15 shall make deliveries of such royalty share taken in kind in conformity 15
16 with the applicable contracts, laws, and regulations. Settlement for 16
17 royalty interest not taken in kind shall be made by working interest 17
18 owners responsible therefor under existing contracts, laws and regulations, 18
19 or by the Unit Operator on or before the last day of each month for unit- 19
20 ized substances produced during the preceding calendar month; provided, 20
21 however, that nothing herein contained shall operate to relieve the lessees 21
22 of any land from their respective lease obligations for the payment of 22
23 any royalties due under their leases. 23

24 If gas obtained from lands not subject to this agreement is intro- 24
25 duced into any participating area hereunder, for use in repressuring, 25
26 stimulation of production, or increasing ultimate recovery, in conformity 26
27 with a plan of operations approved by the Supervisor, the Land Commissioner 27
28 and the Conservation Commission, a like amount of gas, after settlement 28
29 as herein provided for any gas transferred from any other participating 29
30 area and with appropriate deduction for loss from any cause, may be with- 30
31 drawn from the formation into which the gas is introduced, royalty free 31
32 as to dry gas, but not as to any products which may be extracted there- 32
33 from; provided that such withdrawal shall be at such time as may be pro- 33
34 vided in the approved plan of operations or as may otherwise be consented 34
35 to by the Supervisor, the Land Commissioner and the Conservation Commis- 35
36 sion, as conforming to good petroleum engineering practice; and provided 36

1 further, that such right of withdrawal shall terminate on the termination 1
2 date of this unit agreement. 2

3 Royalty due the United States shall be computed as provided in the 3
4 operating regulations and paid in value or delivered in kind as to all 4
5 unitized substances on the basis of the amounts thereof allocated to unit- 5
6 ized Federal land as provided herein at the rates specified in the res- 6
7 pective Federal leases, or at such lower rate or rates as may be authorized 7
8 by law or regulation; provided, that for leases on which the royalty rate 8
9 depends on the daily average production per well, said average production 9
10 shall be determined in accordance with the operating regulations as though 10
11 each participating area were a single consolidated lease. 11

12 Royalty due the State of New Mexico shall be computed and paid on 12
13 the basis of the amounts allocated to unitized State land as provided 13
14 herein at the rate specified in the State oil and gas lease. 14

15 Royalty due on account of privately owned lands shall be computed 15
16 and paid on the basis of all unitized substances allocated to such lands. 16

17 15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases 17
18 committed hereto shall be paid by working interest owners responsible 18
19 therefor under existing contracts, laws, and regulations, provided that 19
20 nothing herein contained shall operate to relieve the lessees of any land 20
21 from their respective lease obligations for the payment of any rental or 21
22 minimum royalty due under their leases. Rental or minimum royalty for 22
23 lands of the United States subject to this agreement shall be paid at the 23
24 rate specified in the respective leases from the United States unless 24
25 such rental or minimum royalty is waived, suspended, or reduced by law or 25
26 by approval of the Secretary or his duly authorized representative. 26

27 Rentals on State of New Mexico lands subject to this agreement shall 27
28 be paid at the rates specified in the respective leases. 28

29 With respect to any lease on non-Federal land containing provisions 29
30 which would terminate such lease unless drilling operations are commenced 30
31 upon the land covered thereby within the time therein specified or rentals 31
32 are paid for the privilege of deferring such drilling operations, the 32
33 rentals required thereby shall, notwithstanding any other provisions of 33
34 this agreement, be deemed to accrue and become payable during the term 34
35 thereof as extended by this agreement and until the required drilling 35

1 operations are commenced upon the land covered thereby or until some 1
2 portion of such land is included within a participating area. 2

3 16. CONSERVATION. Operations hereunder and production of unitized 3
4 substances shall be conducted to provide for the most economical and effi- 4
5 cient recovery of said substances without waste, as defined by or pursuant 5
6 to State or Federal law or regulation. 6

7 17. DRAINAGE. The Unit Operator shall take such measures as the 7
8 Supervisor and Land Commissioner deem appropriate and adequate to prevent 8
9 drainage of unitized substances from unitized land by wells on land not 9
10 subject to this agreement. 10

11 18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, con- 11
12 ditions, and provisions of all leases, subleases, and other contracts 12
13 relating to exploration, drilling, development, or operation for oil or 13
14 gas on lands committed to this agreement are hereby expressly modified 14
15 and amended to the extent necessary to make the same conform to the pro- 15
16 visions hereof, but otherwise to remain in full force and effect; and the 16
17 parties hereto hereby consent that the Secretary as to Federal leases, 17
18 and the Land Commissioner as to State leases, shall and each by his appro- 18
19 val hereof, or by the approval hereof by his duly authorized representa- 19
20 tive, does hereby establish, alter, change or revoke the drilling, pro- 20
21 ducing, rental, minimum royalty, and royalty requirements of Federal and 21
22 State leases committed hereto and the regulations in respect thereto to 22
23 conform said requirements to the provisions of this agreement, and, with- 23
24 out limiting the generality of the foregoing, all leases, subleases, and 24
25 contracts are particularly modified in accordance with the following: 25

26 (a) The development and operation of lands subject to this agree- 26
27 ment under the terms hereof shall be deemed full performance of all obli- 27
28 gations for development and operation with respect to each and every 28
29 separately owned tract subject to this agreement, regardless of whether 29
30 there is any development of any particular tract of the unit area. 30

31 (b) Drilling and producing operations performed hereunder upon 31
32 any tract of unitized lands will be accepted and deemed to be performed 32
33 upon and for the benefit of each and every tract of unitized land, and 33
34 no lease shall be deemed to expire by reason of failure to drill or 34
35 produce wells situated on the land therein embraced. 35

1 (c) Suspension of drilling or producing operations on all unitized 1
2 lands pursuant to direction or consent of the Secretary and the Land 2
3 Commissioner or their duly authorized representatives shall be deemed to 3
4 constitute such suspension pursuant to such direction or consent as to 4
5 each and every tract of unitized land. A suspension of drilling or pro- 5
6 ducing operations limited to specified lands shall be applicable only to 6
7 such lands. 7

8 (d) Each lease, sublease or contract relating to the exploration, 8
9 drilling, development or operation for oil or gas of lands other than 9
10 those of the United States and the State of New Mexico committed to this 10
11 agreement, which, by its terms might expire prior to the termination of 11
12 this agreement, is hereby extended beyond any such terms so provided 12
13 therein so that it shall be continued in full force and effect for and 13
14 during the term of this agreement. 14

15 (e) Any Federal lease for a fixed term of twenty (20) years or any 15
16 renewal thereof or any part of such lease which is made subject to this 16
17 agreement shall continue in force beyond the term provided therein until 17
18 the termination hereof. Any other Federal lease committed hereto shall 18
19 continue in force beyond the term so provided therein or by law as to 19
20 the land committed so long as such lease remains subject hereto, provided 20
21 that production is had in paying quantities under this unit agreement 21
22 prior to the expiration date of the term of such lease, or in the event 22
23 actual drilling operations are commenced on unitized land, in accordance 23
24 with the provisions of this agreement, prior to the end of the primary 24
25 term of such lease and are being diligently prosecuted at that time, such 25
26 lease shall be extended for two years and so long thereafter as oil or 26
27 gas is produced in paying quantities in accordance with the provisions 27
28 of the Mineral Leasing Act Revision of 1960. 28

29 (f) Each sublease or contract relating to the operation and develop- 29
30 ment of unitized substances from lands of the United States committed to 30
31 this agreement, which by its terms would expire prior to the time at 31
32 which the underlying lease, as extended by the immediately preceding 32
33 paragraph, will expire, is hereby extended beyond any such term so provided 33
34 therein so that it shall be continued in full force and effect for and 34
35 during the term of the underlying lease as such term is herein extended. 35

1 (g) Any lease embracing lands of the State of New Mexico which is 1
2 made subject to this agreement, shall continue in force beyond the term 2
3 provided therein as to lands committed hereto with the termination hereof. 3

4 (h) The segregation of any Federal lease committed to this agree- 4
5 ment is governed by the following provision in the fourth paragraph of 5
6 Sec. 17(j) of the Mineral Leasing Act, as amended by the Act of September 6
7 2, 1960 (74 Stat. 781-784): "Any (Federal) lease heretofore or hereafter 7
8 committed to any such (unit) plan embracing lands that are in part within 8
9 and in part outside of the area covered by any such plan shall be segre- 9
10 gated into separate leases as to the lands committed and the lands not 10
11 committed as of the effective date of the unitization: Provided, however, 11
12 That any such lease as to the non-unitized portion shall continue in 12
13 force and effect for the term thereof but for not less than two years 13
14 from the date of such segregation and so long thereafter as oil or gas 14
15 is produced in paying quantities." 15

16 (i) Any lease embracing lands of the State of New Mexico having only 16
17 a portion of its land committed hereto, shall be segregated as to the 17
18 portion committed and the portion not committed, and the provisions of 18
19 such lease shall apply separately to such segregated portions commencing 19
20 as of the effective date hereof; provided, however, notwithstanding any 20
21 of the provisions of this agreement to the contract any lease embracing 21
22 lands of the State of New Mexico having only a portion of its lands com- 22
23 mitted hereto shall continue in full force and effect beyond the term 23
24 provided therein as to all lands embraced in such lease, if oil or gas 24
25 is discovered and is capable of being produced in paying quantities from 25
26 some part of the lands embraced in such lease at the expiration of the 26
27 secondary term of such lease; or if, at the expiration of the secondary 27
28 term, the Lessee or the Unit Operator is then engaged in bona fide drill- 28
29 ing or re-working operations on some part of the lands embraced in such 29
30 lease, the same, as to all lands embraced therein, shall remain in full 30
31 force and effect so long as such operations are being diligently prose- 31
32 cuted, and if they result in the production of oil or gas, said lease 32
33 shall continue in full force and effect as to all of the lands embraced 33
34 therein, so long thereafter as oil or gas in paying quantities is being 34
35 produced from any portion of said lands. 35

1 19. COVENANTS RUN WITH LAND. The covenants herein shall be con- 1
2 strued to be covenants running with the land with respect to the interest 2
3 of the parties hereto and their successors in interest until this agree- 3
4 ment terminates, and any grant, transfer, or conveyance of interest in 4
5 land or leases subject hereto shall be and hereby is conditioned upon the 5
6 assumption of all privileges and obligations hereunder by the grantee, 6
7 transferee, or other successor in interest. No assignment or transfer 7
8 of any working interest, royalty, or other interest subject hereto shall 8
9 be binding upon Unit Operator until the first day of the calendar month 9
10 after Unit Operator is furnished with the original, photostatic, or certi-10
11 fied copy of the instrument of transfer. 11

12 20. EFFECTIVE DATE AND TERM. This agreement shall become effective 12
13 upon approval by the Secretary and the Land Commissioner or their duly 13
14 authorized representative and shall terminate five (5) years from said 14
15 effective date unless 15

16 (a) such date of expiration is extended by the Director and the 16
17 Land Commissioner, or 17

18 (b) it is reasonably determined prior to the expiration of the 18
19 fixed term or any extension thereof that the unitized land is incapable 19
20 of production of unitized substances in paying quantities in the forma- 20
21 tions tested hereunder and after notice of intention to terminate the 21
22 agreement on such ground is given by the Unit Operator to all parties in 22
23 interest at their last known addresses, the agreement is terminated with 23
24 the approval of the Supervisor and Land Commissioner, or 24

25 (c) a valuable discovery of unitized substances has been made or 25
26 accepted on unitized land during said initial term or any extension 26
27 thereof, in which event the agreement shall remain in effect for such 27
28 term and so long as unitized substances can be produced in quantities 28
29 sufficient to pay for the cost of producing same from wells on unitized 29
30 land within any participating area established hereunder and, should 30
31 production cease, so long thereafter as diligent operations are in pro- 31
32 gress for the restoration of production or discovery of new production 32
33 and so long thereafter as unitized substances so discovered can be pro- 33
34 duced as aforesaid, or 34

35 (d) it is terminated as heretofore provided in this agreement. 35

1 This agreement may be terminated at any time by not less than 75 per 1
2 centum, on an acreage basis, of the working interest owners signatory 2
3 hereto, with the approval of the Supervisor and Land Commissioner; notice 3
4 of any such approval to be given by the Unit Operator to all parties 4
5 hereto. 5

6 21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The Director 6
7 is hereby vested with authority to alter or modify from time to time in 7
8 his discretion the quantity and rate of production under this agreement 8
9 when such quantity and rate is not fixed pursuant to Federal or State law 9
10 or does not conform to any state-wide voluntary conservation or alloca- 10
11 tion program, which is established, recognized, and generally adhered 11
12 to by the majority of operators in such State, such authority being 12
13 hereby limited to alteration or modification in the public interest, the 13
14 purpose thereof and the public interest to be served thereby to be stated 14
15 in the order of alteration or modification. Without regard to the fore- 15
16 going, the Director is also hereby vested with authority to alter or 16
17 modify from time to time in his discretion the rate of prospecting and 17
18 development and the quantity and rate of production under this agreement 18
19 when such alteration or modification is in the interest of attaining the 19
20 conservation objectives stated in this agreement and is not in violation 20
21 of any applicable Federal or State law; provided, further, that no such 21
22 alteration or modification shall be effective as to any land of the 22
23 State of New Mexico, as to the rate of prospecting and developing in the 23
24 absence of the specific written approval thereof by the Commissioner 24
25 and as to any lands of the State of New Mexico or privately owned lands 25
26 subject to this agreement as to the quantity and rate of production in 26
27 the absence of specific written approval thereof by the Commission. 27

28 Powers in this section vested in the Director shall only be exer- 28
29 cised after notice to Unit Operator and opportunity for hearing to be 29
30 held not less than 15 days from notice. 30

31 22. CONFLICT OF SUPERVISION. Neither the Unit Operator nor the 31
32 working interest owners nor any of them shall be subject to any forfeit- 32
33 ure, termination or expiration of any rights hereunder or under any 33
34 leases or contracts subject hereto, or to any penalty or liability on 34
35 account of delay or failure in whole or in part to comply with any 35

1 applicable provision thereof to the extent that the Unit Operator, 1
2 working interest owners or any of them are hindered, delayed or prevented 2
3 from complying therewith by reason of failure of the Unit Operator to 3
4 obtain in the exercise of due diligence, the concurrence of proper repre- 4
5 sentatives of the United States and proper representatives of the State 5
6 of New Mexico in and about any matters or thing concerning which it is 6
7 required herein that such concurrence be obtained. The parties hereto, 7
8 including the Conservation Commission, agree that all powers and authority 8
9 vested in the Conservation Commission in and by any provisions of this 9
10 agreement are vested in the Conservation Commission and shall be exercised 10
11 by it pursuant to the provisions of the laws of the State of New Mexico 11
12 and subject in any case to appeal or judicial review as may now or here- 12
13 after be provided by the laws of the State of New Mexico. 13

14 23. APPEARANCES. Unit Operator shall, after notice to other 14
15 parties affected, have the right to appear for and on behalf of any and 15
16 all interests affected hereby before the Department of the Interior, 16
17 the Commissioner of Public Lands of the State of New Mexico and the New 17
18 Mexico Oil Conservation Commission and to appeal from orders issued 18
19 under the regulations of said Department, the Conservation Commission 19
20 or Land Commissioner or to apply for relief from any of said regulations 20
21 or in any proceedings relative to operations before the Department of 21
22 the Interior, the Land Commissioner, or Conservation Commission or any 22
23 other legally constituted authority; provided, however, that any other 23
24 interested party shall also have the right at his own expense to be 24
25 heard in any such proceeding. 25

26 24. NOTICES. All notices, demands or statements required here- 26
27 under to be given or rendered to the parties hereto shall be deemed 27
28 fully given if given in writing and personally delivered to the party 28
29 or sent by postpaid registered or certified mail, addressed to such 29
30 party at their respective addresses set forth in connection with the 30
31 signatures hereto or to the ratification or consent hereof or to such 31
32 other address as any such party may have furnished in writing to party 32
33 sending the notice, demand or statement. 33

34 25. NO WAIVER OF CERTAIN RIGHTS. Nothing in this agreement con- 34
35 tained shall be construed as a waiver by any party hereto of the right 35

1 to assert any legal or constitutional right or defense as to the validity 1
2 or invalidity of any law of the State wherein said unitized lands are 2
3 located, or of the United States, or regulations issued thereunder in 3
4 any way affecting such party, or as a waiver by any such party of any 4
5 right beyond his or its authority to waive. 5

6 26. UNAVOIDABLE DELAY. All obligations under this agreement 6
7 requiring the Unit Operator to commence or continue drilling or to 7
8 operate on or produce unitized substances from any of the lands covered 8
9 by this agreement shall be suspended while the Unit Operator, despite 9
10 the exercise of due care and diligence, is prevented from complying with 10
11 such obligations, in whole or in part, by strikes, acts of God, Federal, 11
12 State, or municipal law or agencies, unavoidable accidents, uncontrollable 12
13 delays in transportation, inability to obtain necessary materials in 13
14 open market, or other matters beyond the reasonable control of the Unit 14
15 Operator whether similar to matters herein enumerated or not. No unit 15
16 obligation which is suspended under this section shall become due less 16
17 than thirty (30) days after it has been determined that the suspension 17
18 is no longer applicable. Determination of creditable "Unavoidable Delay" 18
19 time shall be made by the Unit Operator subject to approval of the Super-19
20 visor and the Land Commissioner. 20

21 27. NONDISCRIMINATION. In connection with the performance of work 21
22 under this agreement, the operator agrees to comply with all the provis- 22
23 ions of section 202 (1) to (7) inclusive of Executive Order 11246 (30 23
24 F.R. 12319), which are hereby incorporated by reference in this agreement. 24

25 28. LOSS OF TITLE. In the event title to any tract of unitized 25
26 land shall fail and the true owner cannot be induced to join in this 26
27 unit agreement, such tract shall be automatically regarded as not com- 27
28 mitted hereto and there shall be such readjustment of future costs and 28
29 benefits as may be required on account of the loss of such title. In 29
30 the event of a dispute as to title as to any royalty, working interest, 30
31 or other interests subject thereto, payment or delivery on account 31
32 thereof may be withheld without liability for interest until the dis- 32
33 pute is finally settled; provided, that, as to Federal and State land 33
34 or leases, no payments of funds due the United States or the State of 34
35 New Mexico should be withheld, but such funds of the United States 35

1 shall be deposited as directed by the Supervisor and such funds of the 1
2 State of New Mexico shall be deposited as directed by the Land Commis- 2
3 sioner to be held as unearned money pending final settlement of the title 3
4 dispute, and then applied as earned or returned in accordance with such 4
5 final settlement. 5

6 Unit Operator as such is relieved from any responsibility for any 6
7 defect or failure of any title hereunder. 7

8 29. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any sub- 8
9 stantial interest in a tract within the unit area fails or refuses to 9
10 subscribe or consent to this agreement, the owner of the working interest 10
11 in that tract may withdraw said tract from this agreement by written 11
12 notice delivered to the Supervisor and the Land Commissioner, and the 12
13 Unit Operator prior to the approval of this agreement by the Supervisor. 13
14 Any oil or gas interests in lands within the unit area not committed 14
15 hereto prior to submission of this agreement for final approval may there- 15
16 after be committed hereto by the owner or owners thereof subscribing or 16
17 consenting to this agreement, and, if the interest is a working interest, 17
18 by the owner of such interest also subscribing to the unit operating 18
19 agreement. After operations are commenced hereunder, the right of sub- 19
20 sequent joinder, as provided in this section, by a working interest 20
21 owner is subject to such requirements or approvals, if any, pertaining 21
22 to such joinder, as may be provided for in the unit operating agreement. 22
23 After final approval hereof, joinder by a non-working interest owner must 23
24 be consented to in writing by the working interest owner committed hereto 24
25 and responsible for the payment of any benefits that may accrue hereunder 25
26 in behalf of such non-working interest. A non-working interest may not 26
27 be committed to this unit agreement unless the corresponding working in- 27
28 terest is committed hereto. Joinder to the unit agreement by a working 28
29 interest owner, at any time, must be accompanied by appropriate joinder 29
30 to the unit operating agreement, if more than one committed working in- 30
31 terest owner is involved, in order for the interest to be regarded as 31
32 committed to this unit agreement. Except as may otherwise herein be pro- 32
33 vided, subsequent joinders to this agreement shall be effective as of the 33
34 first day of the month following the filing with the Supervisor, the Land 34
35 Commissioner and the Conservation Commission of duly executed counterparts 35

1 of all or any papers necessary to establish effective commitment of any 1
2 tract to this agreement unless objection to such joinder is duly made 2
3 within 60 days by the Supervisor or Land Commissioner, provided, that as 3
4 to State lands, all subsequent joinders must be approved by the Land Com- 4
5 missioner. 5

6 30. COUNTERPARTS. This agreement may be executed in any number of 6
7 counterparts no one of which needs to be executed by all parties or may 7
8 be ratified or consented to by separate instrument in writing specifically 8
9 referring hereto and shall be binding upon all those parties who have 9
10 executed such a counterpart, ratification, or consent hereto with the 10
11 same force and effect as if all such parties had signed the same document 11
12 and regardless of whether or not it is executed by all other parties own- 12
13 ing or claiming an interest in the lands within the above described unit 13
14 area. 14

15 31. SURRENDER. Nothing in this agreement shall prohibit the exer- 15
16 cise by any working interest owner of the right to surrender vested in 16
17 such party by any lease, sublease, or operating agreement as to all or 17
18 any part of the lands covered thereby, provided that each party who will 18
19 or might acquire such working interest by such surrender or by forfeiture 19
20 as hereafter set forth, is bound by the terms of this agreement. 20

21 If as a result of any such surrender the working interest rights 21
22 as to such lands become vested in any party other than the fee owner of 22
23 the unitized substances, said party may forfeit such rights and further 23
24 benefits from operation hereunder as to said land to the party next in 24
25 the chain of title who shall be and become the owner of such working 25
26 interest. 26

27 If as a result of any such surrender or forfeiture working interest 27
28 rights become vested in the fee owner of the unitized substances, such 28
29 owner may: 29

- 30 (1) Accept those working interest rights subject to this 30
31 agreement, or 31
- 32 (2) Lease the portion of such land as is included in a 32
33 participating area established hereunder subject to 33
34 this agreement and the unit operating agreement. 34
- 35 (3) Provide for the independent operation of any part 35
36 of such land that are not then included within a 36

1 participating area established hereunder. 1

2 If the fee owner of the unitized substances does not accept the 2
3 working interest rights subject to this agreement and the unit operating 3
4 agreement or lease such lands as above provided within six (6) months 4
5 after the surrendered or forfeited working interest rights become vested 5
6 in the fee owner, the benefits and obligations of operations accruing 6
7 to such lands under this agreement and the unit operating agreement 7
8 shall be shared by the remaining owners of unitized working interests 8
9 in accordance with their respective working interest ownerships, and 9
10 such owners of working interests shall compensate the fee owner of 10
11 unitized substances in such lands by paying sums equal to the rentals, 11
12 minimum royalties, and royalties applicable to such lands under the 12
13 lease in effect when the lands were unitized. 13

14 An appropriate accounting and settlement shall be made for all bene- 14
15 fits accruing to or payments and expenditures made or incurred on behalf 15
16 of such surrendered or forfeited working interest subsequent to the date 16
17 of surrender or forfeiture, and payment of any monies found to be owing 17
18 by such an accounting shall be made as between the parties within thirty 18
19 (30) days. In the event no unit operating agreement is in existence and 19
20 a mutually acceptable agreement between the proper parties thereto can- 20
21 not be consummated, the Supervisor may prescribe such reasonable and 21
22 equitable agreement as he deems warranted under the circumstances. 22

23 The exercise of any right vested in a working interest owner to re- 23
24 assign such working interest to the party from whom obtained shall be 24
25 subject to the same conditions as set forth in this section in regard 25
26 to the exercise of a right to surrender. 26

27 32. TAXES. The working interest owners shall render and pay for 27
28 their account and the account of the royalty owners all valid taxes on 28
29 or measured by the unitized substances in and under or that may be pro- 29
30 duced, gathered and sold from the land subject to this contract after 30
31 the effective date of this agreement, or upon the proceeds or net pro- 31
32 ceeds derived therefrom. The working interest owners on each tract 32
33 shall and may charge the proper proportion of said taxes to the royalty 33
34 owners having interests in said tract, and may currently retain and de- 34
35 duct sufficient of the unitized substances or derivative products, or 35

1 net proceeds thereof from the allocated share of each royalty owner to 1
2 secure reimbursement for the taxes so paid. No such taxes shall be charged 2
3 to the United States or the State of New Mexico or to any lessor who has a 3
4 contract with his lessee which requires the lessee to pay such taxes. 4

5 33. NO PARTNERSHIP. It is expressly agreed that the relation of the 5
6 parties hereto is that of independent contractors and nothing in this 6
7 agreement contained, expressed or implied, nor any operations conducted 7
8 hereunder, shall create or be deemed to have created a partnership or 8
9 association between the parties hereto or any of them. 9

10 IN WITNESS WHEREOF, the parties hereto have caused this agreement 10
11 to be executed and have set opposite their respective names the date of 11
12 execution. 12

13 UNIT OPERATOR AND WORKING INTEREST OWNER 13

14 BEARD OIL COMPANY 14

15 ATTEST: 15

16 _____
17 Secretary 17

16 By _____
17 President 17

18 Address: 2000 Classen Center
19 Suite 200-South
20 Oklahoma City, Oklahoma
21 73106 21

22 Date: _____ 22

23 STATE OF OKLAHOMA)
24) ss.
25 COUNTY OF OKLAHOMA) 25

26 The foregoing instrument was acknowledged before me this _____ day 26
27 of _____, 1972, by W. M. Beard, President of BEARD OIL 27
28 COMPANY, a corporation, on behalf of said corporation. 28

29 _____
30 Notary Public 30

31 My commission expires 4/18/76. 31

32 Jornada Del Muerto Unit Agreement 32
33 Sierra County, New Mexico 33
34 34
35 35

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

EXHIBIT "B"

SCHEDULE SHOWING THE PERCENTAGE AND KIND OF OWNERSHIP OF OIL AND GAS INTERESTS
 JORNADA DEL MUERTO UNIT AREA
 SIERRA COUNTY, NEW MEXICO

Tract No.	Description of Land	Number of Acres	Serial Number & Expiration Date of Lease	Basic Royalty and Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest and Percentage
<u>FEDERAL LAND</u>							
1	T. 15 S., R. 1 E. Sec. 7: E $\frac{1}{2}$, E $\frac{1}{2}$ W $\frac{1}{2}$ 8: NW $\frac{1}{4}$ 12: All 26: All 29: All	2560	NM-9136 5-1-79	U.S.A. - All	Chevron Oil Company	None of Record	Chevron Oil Compa. 100.00
2	T. 13 S., R. 1 W. Sec. 29: N $\frac{1}{2}$, N $\frac{1}{2}$ S $\frac{1}{2}$, S $\frac{1}{2}$ SW $\frac{1}{4}$, SW $\frac{1}{4}$ SE $\frac{1}{4}$	600	NM-9524 6-1-79	U.S.A. - All	Forest Oil Corp.	None of Record	Forest Oil Corp. 100.00
3	T. 15 S., R 1 E. Sec. 5: Lots 1,2,3,4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All) 8: S $\frac{1}{2}$ S $\frac{1}{2}$ 9: S $\frac{1}{2}$ S $\frac{1}{2}$	951.84	NM-9525 6-1-79	U.S.A. - All	Forest Oil Corp.	None of Record	Forest Oil Corp. 100.00
4	T. 15 S., R. 1 W. Sec. 25: All 34: N $\frac{1}{2}$, SE $\frac{1}{4}$, W $\frac{1}{2}$ SW $\frac{1}{4}$ 35: All	1840	NM-9706 11-1-79	U.S.A. - All	Beard Oil Company	None of Record	Beard Oil Company 100.00
5	T. 15 S., R. 1 W. Sec. 22: All 24: All 26: All	1920	NM-9708 11-1-79	U.S.A. - All	Beard Oil Company	None of Record	Beard Oil Company 100.00

Tract No.	Description of Land	Number of Acres	Serial Number & Expiration Date of Lease	Basic Royalty and Percentage		Overriding Royalty and Percentage		Working Interest and Percentage	
				U.S.A.	Percentage	U.S.A.	Percentage	U.S.A.	Percentage
6	T. 15 S., R. 1 W. Sec. 23: All 27: All	1280	NM-9709 11-1-79	U.S.A.	- All	Beard Oil Company	None of Record	Beard Oil Company	100.00
7	T. 15 S., R. 1 W. Sec. 14: All	640	NM-9710 11-1-79	U.S.A.	- All	Beard Oil Company	None of Record	Beard Oil Company	100.00
8	T. 14 S., R. 1 W. Sec. 31: Lots 1,2,3,4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (All) T. 15 S. R. 1 W. Sec. 15: All	1289.44	NM-9711 11-1-79	U.S.A.	- All	Beard Oil Company	None of Record	Beard Oil Company	100.00
9	T. 15 S., R. 1 E. Sec. 30: Lots 1,2,3,4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (All) 31: Lots 1,2,3,4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (All) T. 15 S., R. 1 W. Sec. 12: All 13: All	2559.95	NM-9712 11-1-79	U.S.A.	- All	Beard Oil Company	None of Record	Beard Oil Company	100.00
10	T. 15 S., R. 1 E. Sec. 19: Lots 1,2,3,4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (All) 28: All 33: N $\frac{1}{2}$, SW $\frac{1}{4}$, E $\frac{1}{2}$ SE $\frac{1}{4}$, SW $\frac{1}{4}$ SE $\frac{1}{4}$ 34: All	2518.41	NM-9713 11-1-79	U.S.A.	- All	Beard Oil Company	None of Record	Beard Oil Company	100.00
11	T. 15 S., R. 1 E. Sec. 25: All 27: All 35: All	1920	NM-9714 11-1-79	U.S.A.	- All	Beard Oil Company	None of Record	Beard Oil Company	100.00

Tract No.	Description of Land	Number of Acres	Serial Number & Expiration Date of Lease	Basic Royalty		Overriding Royalty		Working Interest	
				and Percentage	Record	and Percentage	Record	and Percentage	Record
12	T. 15 S., R. 1 E. Sec. 17: All 18: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (All) 20: All 21: All	2558.25	NM-9715 11-1-79	U.S.A. - All	Beard Oil Company	None of Record	Beard Oil Company	100.00	Beard Oil Company 100.00
13	T. 15 S., R. 1 E. Sec. 14: SE $\frac{1}{4}$ 15: N $\frac{1}{2}$, N $\frac{1}{2}$ S $\frac{1}{2}$, SW $\frac{1}{4}$, SW $\frac{1}{4}$, SE $\frac{1}{4}$ SE $\frac{1}{4}$ 22: NW $\frac{1}{4}$ NW $\frac{1}{4}$, NE $\frac{1}{4}$ NE $\frac{1}{4}$, S $\frac{1}{2}$ S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ 23: E $\frac{1}{2}$, SW $\frac{1}{4}$ 24: All	2400	NM-9716 11-1-79	U.S.A. - All	Beard Oil Company	None of Record	Beard Oil Company	100.00	Beard Oil Company 100.00
14	T. 15 S., R. 1 E. Sec. 6: Lots 1 thru 7, Incl., SE $\frac{1}{4}$ NW $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$, S $\frac{1}{2}$ NE $\frac{1}{4}$, SE $\frac{1}{4}$ (All) 7: Lots 1, 2, 3, 4 T. 15 S., R. 1 W. Sec. 3: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$ 10: All 11: NE $\frac{1}{4}$	1918.24	NM-9717 11-1-79	U.S.A. - All	Beard Oil Company	None of Record	Beard Oil Company	100.00	Beard Oil Company 100.00
15	T. 15 S., R. 1 E. Sec. 1: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All) 3: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All) 10: All 13: All	2540.91	NM-9718 11-1-79	U.S.A. - All	Beard Oil Company	None of Record	Beard Oil Company	100.00	Beard Oil Company 100.00

Tract No.	Description of Land	Number of Acres	Serial Number & Expiration Date of Lease	Basic Royalty and Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest and Percentage
16	T. 13 S., R. 1 E. Sec. 19: E $\frac{1}{2}$ 21: SE $\frac{1}{4}$ 28: E $\frac{1}{2}$ 29: All	1440	NM-9719 11-1-79	U.S.A. - All	Beard Oil Company	None of Record	Beard Oil Company 100.00
17	T. 13 S., R. 1 W. Sec. 22: All 23: E $\frac{1}{2}$ 26: W $\frac{1}{2}$ 28: N $\frac{1}{2}$ 33: W $\frac{1}{2}$	1920	NM-9720 11-1-79	U.S.A. - All	Beard Oil Company	None of Record	Beard Oil Company 100.00
18	T. 14 S., R. 1 E. Sec. 5: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All) 10: W $\frac{1}{2}$ 14: E $\frac{1}{2}$ 18: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$ 21: E $\frac{1}{2}$, SW $\frac{1}{4}$ 34: N $\frac{1}{2}$	2394.22	NM-9721 11-1-79	U.S.A. - All	Beard Oil Company	None of Record	Beard Oil Company 100.00
19	T. 14 S., R. 1 E. Sec. 19: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$ 30: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$ T. 14 S., R. 1 W. Sec. 10: W $\frac{1}{2}$ 14: N $\frac{1}{2}$ 21: N $\frac{1}{2}$ 23: N $\frac{1}{2}$ 33: N $\frac{1}{2}$ 35: W $\frac{1}{2}$	2547.92	NM-9722 11-1-79	U.S.A. - All	Beard Oil Company	None of Record	Beard Oil Company 100.00

Tract No.	Description of Land	Number of Acres	Serial Number & Expiration Date of Lease	Basic Royalty and Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest and Percentage
20	T. 14 S., R. 1 W. Sec. 15: All 22: All 27: All 34: All	2560	NM-9723 11-1-79	U.S.A. - All	Beard Oil Company	None of Record	Beard Oil Company 100.00
21	T. 15 S., R. 1 E. Sec. 4: Lots 1,2, 3,4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All) 8: NE $\frac{1}{4}$, N $\frac{1}{2}$ S $\frac{1}{2}$ 9: N $\frac{1}{2}$, N $\frac{1}{2}$ S $\frac{1}{2}$ T. 15 S., R. 1 W. Sec. 1: Lots 1,2, 3,4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All) 11: S $\frac{1}{2}$, NW $\frac{1}{4}$	2552.55	NM-9724 11-1-79	U.S.A. - All	Beard Oil Company	None of Record	Beard Oil Company 100.00
22	T. 14 S., R. 1 W. Sec. 25: S $\frac{1}{2}$ 29: SW $\frac{1}{4}$ 30: Lots 1,2, 3,4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (All) T. 15 S., R. 1 W. Sec. 3: S $\frac{1}{2}$	1450.33	NM-9725 11-1-79	U.S.A. - All	Beard Oil Company	None of Record	Beard Oil Company 100.00
23	T. 14 S., R. 1 W. Sec. 5: Lots 1,2, 3,4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All) 6: Lots 1 thru 7 incl., SE $\frac{1}{4}$ NW $\frac{1}{4}$, S $\frac{1}{2}$ NE $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ (All) 17: W $\frac{1}{2}$ 20: W $\frac{1}{2}$ 29: N $\frac{1}{2}$ 33: S $\frac{1}{2}$	2563.78	NM-9726 11-1-79	U.S.A. - All	Beard Oil Company	None of Record	Beard Oil Company 100.00

Tract No.	Description of Land	Number of Acres	Serial Number & Expiration Date of Lease	Basic Royalty and Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest and Percentage
24	T. 14 S., R. 1 W. Sec. 4: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All) 8: All 19: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (All) 28: E $\frac{1}{2}$, SW $\frac{1}{4}$ 29: SE $\frac{1}{4}$	2567.26	NM-9727 11-1-79	U.S.A. - All Percentage	Beard Oil Company	None of Record	Beard Oil Company 100.00
25	T. 14 S., R. 1 W. Sec. 3: S $\frac{1}{2}$ 10: E $\frac{1}{2}$ 11: All 18: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (All) 21: SE $\frac{1}{4}$ 26: NW $\frac{1}{4}$, S $\frac{1}{2}$ NE $\frac{1}{4}$, NE $\frac{1}{2}$ NE $\frac{1}{4}$ 28: NW $\frac{1}{4}$	2532.70	NM-9728 11-1-79	U.S.A. - All Percentage	Beard Oil Company	None of Record	Beard Oil Company 100.00
26	T. 14 S., R. 1 W. Sec. 1: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$ 3: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$ 7: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (All) 9: All 17: E $\frac{1}{2}$ 20: E $\frac{1}{2}$	2566.09	NM-9729 11-1-79	U.S.A. - All Percentage	Beard Oil Company	None of Record	Beard Oil Company 100.00

Tract No.	Description of Land	Serial Number & Expiration Date of Lease	Number of Acres	Basic Royalty and Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest and Percentage
27	T. 14 S., R. 1 E. Sec. 6: Lots 1 thru 7, Incl., SE $\frac{1}{4}$ NW $\frac{1}{4}$, S $\frac{1}{2}$ NE $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ (All) 28: E $\frac{1}{2}$ T. 14 S., R. 1 W. Sec. 12: W $\frac{1}{2}$ 14: S $\frac{1}{2}$ 23: S $\frac{1}{2}$ 26: S $\frac{1}{2}$ 35: E $\frac{1}{2}$	NM-9730 11-1-79	2549.94	U.S.A. - All	Beard Oil Company	None of Record	Beard Oil Company 100.00
28	T. 14 S., R. 1 E. Sec. 3: Lots 1,2,3,4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All) 27: W $\frac{1}{2}$ 30: E $\frac{1}{2}$ 31: W $\frac{1}{2}$ (Lots 1,2, 3,4, E $\frac{1}{2}$ W $\frac{1}{2}$) T. 14 S., R. 1 W. Sec. 13: E $\frac{1}{2}$ 24: W $\frac{1}{2}$ 25: N $\frac{1}{2}$	NM-9731 11-1-79	2557.34	U.S.A. - All	Beard Oil Company	None of Record	Beard Oil Company 100.00
29	T. 14 S., R. 1 E. Sec. 10: E $\frac{1}{2}$ 14: W $\frac{1}{2}$ 27: E $\frac{1}{2}$ 33: W $\frac{1}{2}$ T. 14 S., R. 1 W. Sec. 1: S $\frac{1}{2}$ 12: E $\frac{1}{2}$ 13: W $\frac{1}{2}$ 24: E $\frac{1}{2}$	NM-9732 11-1-79	2560	U.S.A. - All	Beard Oil Company	None of Record	Beard Oil Company 100.00
30	T. 14 S., R. 1 E. Sec. 11: W $\frac{1}{2}$ 13: SW $\frac{1}{4}$, E $\frac{1}{2}$ 14: NE $\frac{1}{4}$, SW $\frac{1}{4}$ 21: NW $\frac{1}{4}$ 23: E $\frac{1}{2}$	NM-9733 11-1-79	2240	U.S.A. - All	Beard Oil Company	None of Record	Beard Oil Company 100.00

Tract No.	Description of Land	Number of Acres	Serial Number & Expiration Date of Lease	Basic Royalty and Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest and Percentage
31	T. 14 S., R. 1 E. Sec. 7: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (All) 9: E $\frac{1}{2}$ 11: E $\frac{1}{2}$ 19: E $\frac{1}{2}$ 23: W $\frac{1}{2}$ 25: E $\frac{1}{2}$ 28: W $\frac{1}{2}$	2553.33	NM-9734 11-1-79	U.S.A. - All Percentage	Beard Oil Company	None of Record	Beard Oil Company 100.00
32	T. 14 S., R. 1 E. Sec. 1: SW $\frac{1}{4}$ 4: S $\frac{1}{2}$ 12: NE $\frac{1}{4}$ 15: NW $\frac{1}{4}$, SE $\frac{1}{4}$ 18: E $\frac{1}{2}$ 22: All 31: E $\frac{1}{2}$ 33: E $\frac{1}{2}$	2560	NM-9735 11-1-79	U.S.A. - All Percentage	Beard Oil Company	None of Record	Beard Oil Company 100.00
33	T. 14 S., R. 1 E. Sec. 4: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$ 8: N $\frac{1}{2}$, SE $\frac{1}{4}$, N $\frac{1}{2}$ SW $\frac{1}{4}$, SW $\frac{1}{4}$ SW $\frac{1}{4}$ 17: All 20: E $\frac{1}{2}$ 29: NW $\frac{1}{4}$, NE $\frac{1}{4}$ SW $\frac{1}{4}$, SW $\frac{1}{4}$ SW $\frac{1}{4}$ 34: S $\frac{1}{2}$	2442.33	NM-9736 11-1-79	U.S.A. - All Percentage	Beard Oil Company	None of Record	Beard Oil Company 100.00
34	T. 14 S., R. 1 E. Sec. 1: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, SE $\frac{1}{4}$ 9: W $\frac{1}{2}$ 12: W $\frac{1}{2}$, SE $\frac{1}{4}$ 20: W $\frac{1}{2}$ 25: W $\frac{1}{2}$ 29: E $\frac{1}{2}$	2237.41	NM-9737 11-1-79	U.S.A. - All Percentage	Beard Oil Company	None of Record	Beard Oil Company 100.00

Tract No.	Description of Land	Number of Acres	Serial Number & Expiration Date of Lease	Basic Royalty and Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest and Percentage
35	T. 13 S., R. 1 W. Sec. 27: W $\frac{1}{2}$ 34: NE $\frac{1}{4}$, SW $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$, SW $\frac{1}{4}$ SE $\frac{1}{4}$	760	NM-9738 11-1-79	U.S.A. - All Percentage	Beard Oil Company	None of Record	Beard Oil Company 100.00
36	T. 13 S., R. 1 W. Sec. 21: N $\frac{1}{2}$ NW $\frac{1}{4}$, S $\frac{1}{2}$ SW $\frac{1}{4}$ 27: E $\frac{1}{2}$ 28: S $\frac{1}{2}$ 33: E $\frac{1}{2}$ 35: W $\frac{1}{2}$ NE $\frac{1}{4}$, SE $\frac{1}{4}$ NE $\frac{1}{4}$, SE $\frac{1}{4}$	1400	NM-9739 11-1-79	U.S.A. - All Percentage	Beard Oil Company	None of Record	Beard Oil Company 100.00
37	T. 13 S., R. 1 W. Sec. 20: N $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ S $\frac{1}{2}$ 21: E $\frac{1}{2}$ 23: W $\frac{1}{2}$ 29: SE $\frac{1}{4}$ SE $\frac{1}{4}$ 34: NW $\frac{1}{4}$ 35: W $\frac{1}{2}$	1480	NM-9740 11-1-79	U.S.A. - All Percentage	Beard Oil Company	None of Record	Beard Oil Company 100.00
38	T. 13 S., R. 1 E. Sec. 21: SW $\frac{1}{4}$ 22: NW $\frac{1}{4}$ 30: Lots 3, 4, 5, 6, 7, 8, E $\frac{1}{2}$ SW $\frac{1}{4}$ (W $\frac{1}{2}$) 33: All T. 13 S., R. 1 W. Sec. 24: W $\frac{1}{2}$ 25: E $\frac{1}{2}$	1896.36	NM-9741 11-1-79	U.S.A. - All Percentage	Beard Oil Company	None of Record	Beard Oil Company 100.00
39	T. 13 S., R. 1 E. Sec. 19: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$ (W $\frac{1}{2}$) 22: NE $\frac{1}{4}$, S $\frac{1}{2}$ 28: W $\frac{1}{2}$ T. 13 S., R. 1 W. Sec. 24: E $\frac{1}{2}$ 25: W $\frac{1}{2}$	1744.96	NM-9742 11-1-79	U.S.A. - All Percentage	Beard Oil Company	None of Record	Beard Oil Company 100.00

Tract No.	Description of Land	Number of Acres	Serial Number & Expiration Date of Lease	Basic Royalty and Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest and Percentage
40	T. 13 S., R. 1 E. Sec. 21: N $\frac{1}{2}$ 27: W $\frac{1}{2}$ 30: E $\frac{1}{2}$ 34: W $\frac{1}{2}$	1600	NM-9743 11-1-79	U.S.A. - All	Beard Oil Company	None of Record	Beard Oil Company 100.00
41	T. 13 S., R. 1 E. Sec. 20: All 27: E $\frac{1}{2}$ 31: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (All) 34: E $\frac{1}{2}$	1905.66	NM-9744 11-1-79	U.S.A. - All	Beard Oil Company	None of Record	Beard Oil Company 100.00
42	T. 13 S., R. 1 E. Sec. 25: All 26: All 35: All	1920	NM-10010 11-1-79	U.S.A. - All	Beard Oil Company	None of Record	Beard Oil Company 100.00
43	T. 14 S., R. 1 E. Sec. 26: All 35: All	2560	NM-10252 9-1-79	U.S.A. - All	Beard Oil Company	None of Record	Beard Oil Company 100.00
44	T. 15 S., R. 1 E. Sec. 11: All 14: N $\frac{1}{2}$, SW $\frac{1}{4}$ 23: NW $\frac{1}{4}$	1280	NM-10658 3-1-80	U.S.A. - All	Beard Oil Company	None of Record	Beard Oil Company 100.00
44	T. 13 S., R. 1 E. Sec. 23: All 24: All	1280	NM-10658 3-1-80	U.S.A. - All	Beard Oil Company	None of Record	Beard Oil Company 100.00

Tract No.	Description of Land	Number of Acres	Serial Number & Expiration Date of Lease	Basic Royalty and Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest and Percentage
45	T. 13 S., R. 1 W. Sec. 19: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$, N $\frac{1}{2}$ NE $\frac{1}{4}$, S $\frac{1}{2}$ SE $\frac{1}{4}$	1810.47	NM-12198 10-1-80	U.S.A. - All Percentage	Beard Oil Company	None of Record	Beard Oil Company 100.00
45-A	T. 15 S., R. 1 W. Sec. 34: E $\frac{1}{2}$ SW $\frac{1}{4}$	80	NM-15803 Application filed 3-27-72	U.S.A. - All Percentage	Beard Oil Company	None of Record	Beard Oil Company 100.00

46 Federal Tracts 90,729.69 Acres or 78.77239% of Unit Area

Tract No.	Description of Land	Number of Acres	Serial Number & Expiration Date of Lease	Basic Royalty and Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest and Percentage
<u>NEW MEXICO STATE LANDS</u>							
46	T. 15 S., R. 1 W. Sec. 16: NW $\frac{1}{4}$, SE $\frac{1}{4}$	320	K-6241 7-11-76	State of New Mexico All	Dulcie Williams P. O. Box 849 Deming, N.M. 88030	None of Record	Dulcie Williams 100.00
47	T. 15 S., R. 1 W. Sec. 19: NE $\frac{1}{4}$ 21: NE $\frac{1}{4}$, NE $\frac{1}{4}$ NW $\frac{1}{4}$, N $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ SW $\frac{1}{4}$ 28: E $\frac{1}{2}$	800	K-6242 7-11-76	State of New Mexico All	George A. Dowdle Dulcie Williams	None of Record	George A. Dowdle Dulcie Williams 100.00
48	T. 15 S., R. 1 W. Sec. 29: SW $\frac{1}{4}$ 30: E $\frac{1}{2}$ W $\frac{1}{2}$ 31: SE $\frac{1}{4}$ 32: SE $\frac{1}{4}$ 33: SE $\frac{1}{4}$	800	K-6243 7-11-76	State of New Mexico All	George A. Dowdle Dulcie Williams	None of Record	George A. Dowdle Dulcie Williams 100.00
49	T. 14 S., R. 1 W. Sec. 16: S $\frac{1}{2}$	320	K-6538-1 12-6-76	State of New Mexico All	Beard Oil Company	None of Record	Beard Oil Company 100.00
50	T. 14 S., R. 1 W. Sec. 2: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ 16: N $\frac{1}{2}$	956.41	K-6539-1 12-6-76	State of New Mexico All	Beard Oil Company	None of Record	Beard Oil Company 100.00
51	T. 15 S., R. 1 W. Sec. 4: Lots 1, 2, S $\frac{1}{2}$ NE $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ 9: NE $\frac{1}{4}$, S $\frac{1}{2}$	884.48	L-76 7-17-77	State of New Mexico All	Sarah E. Alger Mary Carney 300 South Tin St. Deming, N.M. 88030	None of Record	Sarah E. Alger Mary Carney 100.00

Tract No.	Description of Land	Number of Acres	Serial Number & Expiration Date of Lease	Basic Royalty and Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest and Percentage
52	T. 15 S., R. 1 W. Sec. 16: NE $\frac{1}{4}$	160	L 77 7-17-77	State of New Mexico All	Sarah E. Alger Mary Carney	None of Record	Sarah E. Alger Mary Carney 100.00
53	T. 13 S., R. 1 W. Sec. 32: All	640	L 2903-1 5-20-79	State of New Mexico All	Beard Oil Company	None of Record	Beard Oil Company 100.00
54	T. 13 S., R. 1 W. Sec. 36: All	640	LG-0148-1 4-1-82	State of New Mexico All	Beard Oil Company	None of Record	Beard Oil Company 100.00
55	T. 13 S., R. 1 E. Sec. 32: All 36: All	1280	L-2911-1 5-20-79	State of New Mexico All	Beard Oil Company	None of Record	Beard Oil Company 100.00
56	T. 15 S., R. 1 W. Sec. 2: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All) 4: Lots 3, 4, S $\frac{1}{2}$ NW $\frac{1}{4}$, W $\frac{1}{2}$ SW $\frac{1}{4}$	887.91	L-3312(1) 7-15-79	State of New Mexico All	Beard Oil Company	None of Record	Beard Oil Company 100.00
57	T. 15 S., R. 1 W. Sec. 5: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All) 6: Lots 1 thru 7, Incl., SE $\frac{1}{4}$ NW $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$, S $\frac{1}{2}$ SE $\frac{1}{4}$	1136.11	L-3313 7-15-79	State of New Mexico All	Chevron Oil Company	None of Record	Chevron Oil Company 100.00
58	T. 15 S., R. 1 W. Sec. 7: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (All) 8: All	1280.06	L-3314 7-15-79	State of New Mexico	Chevron Oil Company	None of Record	Chevron Oil Company 100.00
59	T. 15 S., R. 1 W. Sec. 9: NW $\frac{1}{4}$ 16: SW $\frac{1}{4}$ 17: All	960	L-3315 7-15-79	State of New Mexico All	Beard Oil Company	None of Record	Beard Oil Company 100.00

Tract No.	Description of Land	Number of Acres	Serial Number & Expiration Date of Lease	Basic Royalty and Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest and Percentage
60	T. 15 S., R. 1 W. Sec. 18: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$, E $\frac{1}{2}$ (All) 19: Lots 1, 2, 3, 4, E $\frac{1}{2}$ W $\frac{1}{2}$, SE $\frac{1}{4}$	1119.38	L-3316 7-15-79	State of New Mexico All	Beard Oil Company	None of Record	Beard Oil Company 100.00
61	T. 15 S., R. 1 W. Sec. 20: All 21: NW $\frac{1}{4}$ NW $\frac{1}{4}$, S $\frac{1}{2}$ NW $\frac{1}{4}$, SE $\frac{1}{4}$	920	L-3317 7-15-79	State of New Mexico All	Chevron Oil Company	None of Record	Chevron Oil Company 100.00
62	T. 15 S., R. 1 W. Sec. 28: S $\frac{1}{2}$ NW $\frac{1}{4}$, SW $\frac{1}{4}$ 29: N $\frac{1}{2}$, SE $\frac{1}{4}$	720	L-3318 7-15-79	State of New Mexico All	Beard Oil Company	None of Record	Beard Oil Company 100.00
63	T. 15 S., R. 1 W. Sec. 30: Lots 1, 2, 3, 4, E $\frac{1}{2}$ 31: Lots 1, 2, 3, 4, NE $\frac{1}{4}$, E $\frac{1}{2}$ W $\frac{1}{2}$	961.18	L-3319 7-15-79	State of New Mexico All	Beard Oil Company	None of Record	Beard Oil Company 100.00
64	T. 15 S., R. 1 W. Sec. 32: N $\frac{1}{2}$, SW $\frac{1}{4}$ 33: N $\frac{1}{2}$, SW $\frac{1}{4}$	960	L-3320 7-15-79	State of New Mexico All	Chevron Oil Company	None of Record	Chevron Oil Company 100.00
65	T. 15 S., R. 1 W. Sec. 36: All	640	L-3321(1) 7-15-79	State of New Mexico All	Beard Oil Company	None of Record	Beard Oil Company 100.00
66	T. 14 S., R. 1 E. Sec. 2: Lots 1, 2, 3, 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All)	1276.99	L-3599 9-16-79	State of New Mexico All	Beard Oil Company	None of Record	Beard Oil Company 100.00
67	16: All T. 14 S., R. 1 W. Sec. 32: All 36: All	1280	L-3600 9-16-79	State of New Mexico All	Beard Oil Company	None of Record	Beard Oil Company 100.00

Tract No.	Description of Land	Number of Acres	Serial Number & Expiration Date of Lease	Basic Royalty and Percentage		Overriding Royalty and Percentage		Working Interest and Percentage	
				Lessee of Record	Percentage	Lessee of Record	Percentage	Lessee of Record	Percentage
68	T. 14 S., R. 1 E. Sec. 13: NW $\frac{1}{4}$ 36: All	800	L-3819 11-18-79	State of New Mexico All		Beard Oil Company None of Record		Beard Oil Company 100.00	
69	T. 14 S., R. 1 E. Sec. 29: NW $\frac{1}{4}$ SW $\frac{1}{4}$, SE $\frac{1}{4}$ SW $\frac{1}{4}$ 32: All T. 14 S., R. 1 W. Sec. 21: SW $\frac{1}{4}$ 26: NW $\frac{1}{4}$ NE $\frac{1}{4}$	920	L-3820 11-18-79	State of New Mexico All		Beard Oil Company None of Record		Beard Oil Company 100.00	
70	T. 15 S., R. 1 E. Sec. 2: Lots 1,2,3,4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (All) 16: All	1267.34	L-3821 11-18-79	State of New Mexico All		Beard Oil Company None of Record		Beard Oil Company 100.00	
71	T. 15 S., R. 1 E. Sec. 32: All 36: All	1280	L-3822 11-18-79	State of New Mexico All		Beard Oil Company None of Record		Beard Oil Company 100.00	

26 Tracts State of New Mexico 23,209.86 Acres or 20.15103% of Unit Area

Tract No.	Description of Land	Number of Acres	Serial Number & Expiration Date of Lease	Basic Royalty and Percentage	Lessee of Record	Overriding Royalty and Percentage	Working Interest and Percentage
<u>PATENTED LANDS</u>							
72	T. 13 S., R. 1 W. Sec. 19: S $\frac{1}{2}$ NE $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$ 20: S $\frac{1}{2}$ N $\frac{1}{2}$, N $\frac{1}{2}$ S $\frac{1}{2}$ 21: S $\frac{1}{2}$ NW $\frac{1}{4}$, N $\frac{1}{2}$ SW $\frac{1}{4}$ 34: SE $\frac{1}{4}$ SE $\frac{1}{4}$ 35: NE $\frac{1}{4}$ NE $\frac{1}{4}$	720	Unleased	Margaret Cain Ranch, A partnership Margaret Cain-60% Jack M. Cain -40% All		None of Record	Margaret Cain-60% Jack M. Cain -40% 100.00
73	T. 14 S., R. 1 E. Sec. 8: SE $\frac{1}{4}$ SW $\frac{1}{4}$	40	Unleased Not Assessed				
74	T. 15 S., R. 1 W. Sec. 6: S $\frac{1}{2}$ NE $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$	160	Unleased	Butler, Burch & Martin All	None of Record	Butler, Burch & Marti 100.00	
75	T. 15 S., R. 1 W. Sec. 21: SW $\frac{1}{4}$ SW $\frac{1}{4}$ 28: N $\frac{1}{2}$ NW $\frac{1}{4}$ T. 15 S., R. 1 E. Sec. 15: SE $\frac{1}{4}$ SW $\frac{1}{4}$, SW $\frac{1}{4}$ SE $\frac{1}{4}$ 33: NW $\frac{1}{4}$ SE $\frac{1}{4}$	240	Unleased	Louis D. Cain & Bennie L. Cain-1/2 Int. R. J. Bagley & Lois Bagley -1/2 Int. All	None of Record	Louis D. Cain 25% Bennie L. Cain 25% R. J. Bagley 25% Lois Bagley 25% 100.00	
76	T. 15 S., R. 1 E. Sec. 22: NW $\frac{1}{4}$ NE $\frac{1}{4}$, NE $\frac{1}{4}$ NW $\frac{1}{4}$	80	Unleased Not Assessed				

5 Patented Tracts 1,240.00 Acres or 1.07658% of Unit Area

TOTAL OF 77 TRACTS - 115,179.55 ACRES IN UNIT AREA

UNIT OPERATING AGREEMENT

JORNADA DEL MUERTO UNIT AREA

COUNTY OF SIERRA
STATE OF NEW MEXICO

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EXHIBITS

~~Exhibit 1—Description of Unit Area (referred to in first recital).~~
~~Exhibit 2—Accounting Procedure (referred to in Sections 1.4, 1.18 and 12.2C).~~
~~Exhibit 3—Initial Test Well (referred to in Sections 1.13, 2.1, 3.1, 3.2 and 18.2B).~~
~~Exhibit 4—Part 1—Drilling of Exploratory Wells (referred to in Sections 9.2, 11.2, 11.7 and 13.5D). Part 2—Attempted Completion, Deepening, Plugging Back and Abandonment (referred to in Section 11.1).~~
~~Exhibit 5—Insurance (referred to in Sections 16.2A and 16.2C).~~
~~Exhibit 6—Oil and Gas Lease (referred to in Sections 19.1 and 19.2).~~

UNIT OPERATING AGREEMENT

JORNADA DEL MUERTO UNIT AREA

STATE OF

SIERRA

COUNTY OF

NEW MEXICO

THIS AGREEMENT made as of the 10th day of May, 1972, by and among the parties who execute or ratify this agreement or a counterpart hereof,

WITNESSETH:

WHEREAS, the Parties have entered into that certain UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE JORNADA DEL MUERTO UNIT AREA, County of Sierra, State of New Mexico, dated as of the 10th day of May, 1972, and hereinafter referred to as the "Unit Agreement", covering the lands described in Exhibit 1, hereto attached, which lands are referred to in the Unit Agreement and in this agreement as the "Unit Area";

WHEREAS, the Parties enter into this agreement pursuant to Section 7 of the Unit Agreement.
NOW, THEREFORE, in consideration of the mutual agreements herein set forth, it is agreed as follows:

ARTICLE 1 DEFINITIONS

1.1 **Unit Agreement Definitions.** The definitions contained in the Unit Agreement are adopted for all purposes of this agreement. In addition, each term listed below shall have the meaning stated therefor, whenever used in this agreement.

1.2 **"Unit Operator"** means BEARD OIL COMPANY and its successors, as the Unit Operator designated in accordance with the Unit Agreement, acting in that capacity and not as an owner of Working Interest.

1.3 **"Party"** means a party to this agreement, including the Party acting as Unit Operator when acting as an owner of Working Interest.

1.4 **"Costs"** means all costs and expenses incurred in the development and operation of the Unit Area pursuant to this agreement or the Unit Agreement and all other expenses that are herein made chargeable as Costs, determined in accordance with the accounting procedure set forth in Exhibit 2 attached hereto, which shall govern in all matters covered thereby, except that in event of inconsistency between said accounting procedure and this agreement, this agreement shall control.

1.5 **"Committed Working Interest"** means a Working Interest which is shown on Exhibit B to the Unit Agreement as owned by a Party and which is committed to the Unit Agreement. Whenever reference is made to a Party "in" or "within" the Unit Area, a participating area, or other area designated pursuant to this agreement, such reference shall mean a Party owning a Committed Working Interest in lands within such area.

1.6 **"Acreage Basis"**, when used to describe the basis of participation by the Parties within the Unit Area, a participating area, or other area designated pursuant to this agreement in voting, Costs, or Production, means participation by each such Party in the proportion that the acreage of its Committed Working Interests in such area bears to the total acreage of the Committed Working Interests of all such Parties therein. For the purposes of this definition, (a) the acreage of the working interest in a tract within the Unit Area shall be the acreage of such tract as set forth in Exhibit B to the Unit Agreement, and (b) if there are two or more undivided working interests in a tract, there shall be apportioned to each such working interest that proportion of the acreage of the tract that such working interest bears to the entire working interest in the tract.

1.7 **"Production"** means all Unitized Substances produced and saved from the Unit Area except so much thereof as is used in the conduct of operations under the Unit Agreement and this agreement.

1.8 **"Lease Burdens"** means the royalty reserved to the lessor in an oil and gas lease, an overriding royalty, a production payment and any similar burden, but does not include a carried working interest, a net profits interest or any other interest which is payable out of profits.

1.9 **"Drilling Party"** means the Party or Parties obligated to bear the Costs incurred in Drilling, Deepening or Plugging Back a well in accordance with this agreement at the commencement of such operation.

1.10 **"Non-Drilling Party"** means a Party who has had the optional right to participate in the Drilling, Deepening or Plugging Back of a well and who has elected not to participate therein.

1.11 **"Drill"** means to perform all operations reasonably necessary and incident to the Drilling of a well, including preparation of roads and drill site, testing, and, if productive of Unitized Substances, completing and equipping for production, including flow lines, treaters, separators and tankage, or plugging and abandoning, if dry.

1.12 **"Deepen or Plug Back"** means to perform all operations reasonably necessary and incident to Deepening or Plugging Back a well, testing, and, if productive of Unitized Substances, completing or recompleting and equipping for production, including flow lines, treaters, separators and tankage, or plugging and abandoning, if dry.

1.13 **"Initial Test Well"** means a test well specifically provided for in Section 9 of the Unit Agreement and described in Exhibit 3 attached hereto.

1.14 **"Subsequent Test Well"** means a test well Drilled after the Drilling of the Initial Test Well or Wells, and before discovery of Unitized Substances in paying quantities in the Unit Area.

1.15 **"Development Well"** means a well Drilled within a participating area and projected to the pool or zone for which the participating area was established.

1.16 **"Exploratory Well"** means a well other than a Development Well Drilled after discovery of Unitized Substances in paying quantities in the Unit Area.

1.17 **"Approval of the Parties"** or **"Direction of the Parties"** mean an approval, authorization or direction which receives the affirmative vote specified in Section 14.2 of the Parties entitled to vote on the giving of such Approval or Direction.

1.18 **"Salvage Value"** of a well means the value of the materials and equipment in or appurtenant to the well determined in accordance with Exhibit 2, less the reasonably estimated Costs of salvaging the same and plugging the well.

1.19 Each Party is herein referred to by the neuter pronoun "it".

ARTICLE 2

NO LIABILITY FOR DRILLING, DEEPENING OR PLUGGING BACK WELLS WITHOUT CONSENT

2.1 **No Liability Without Consent.** No party shall be liable without its consent for any portion of the Costs of Drilling, Deepening or Plugging Back a well except as provided in Section 10.4 with respect to Required Wells, and except as provided in Article 13 dealing with Investment Adjustment. Nothing herein shall be construed to relieve a Party of any obligation assumed by it pursuant to Exhibit 3 to participate in the Costs of the Initial Test Well.

ARTICLE 3

INITIAL TEST WELL

3.1 **Location.** Unit Operator shall begin to Drill the Initial Test Well within the time required by Section 9 of the Unit Agreement or any extension thereof at the location specified in Exhibit 3 attached hereto.

3.2 **Costs of Drilling.** Subject to the Investment Adjustment provisions of Article 13 the Costs of Drilling the Initial Test Well shall be shared by the Parties in the manner and in the proportions specified in said Exhibit 3.

ARTICLE 4

SUBSEQUENT TEST WELLS

4.1 Right to Drill. The Drilling of any Subsequent Test Well shall be on such terms and conditions as the Parties shall agree; provided, however, that in the absence of agreement, such wells may be Drilled under the provisions of Article 9 dealing with Exploratory Wells.

ARTICLE 5

ESTABLISHMENT, REVISION AND CONSOLIDATION OF PARTICIPATING AREAS

5.1 Proposal. Unit Operator shall initiate each proposal for the establishment or revision of a participating area by submitting the proposal in writing to each Party at least 20 days before filing the same with the Director. The date of proposed filing must be shown on the proposal. If the proposal receives the Approval of the Parties within the proposed participating area, then such proposal shall be filed on the date specified in the notice.

5.2 Objections to Proposal. Prior to the proposed filing date any Party may submit to all other Parties written objections to such proposal. If, despite such objections, the proposal receives the Approval of the Parties within the proposed participating area, then the Party making the objections may renew the same before the Director.

5.3 Revised Proposal. If the proposal does not receive the Approval of the Parties within the proposed participating area, then Unit Operator shall submit a revised proposal taking into account the objections made to the first proposal. If no proposal receives the Approval of the Parties within 30 days from the submission of the first proposal, then Unit Operator shall file with the Director a proposal reflecting as nearly as practicable the various views expressed by the Parties.

5.4 Rejection by Director. If a proposal filed by Unit Operator, as above provided, is rejected by the Director, Unit Operator shall initiate a new proposal in the same manner as provided in Section 5.1, and the procedure with respect thereto shall be the same as in the case of an initial proposal.

5.5 Consolidation. Two or more participating areas may be combined as provided in the Unit Agreement.

ARTICLE 6

APPORTIONMENT OF COSTS AND OWNERSHIP AND DISPOSITION OF PRODUCTION AND PROPERTY

6.1 Apportionment and Ownership Within Participating Area. Except as otherwise provided in Article 8 dealing with Development Wells, Part 1 of Exhibit 4 dealing with Exploratory Wells, and Part 2 of Exhibit 4 dealing with Attempted Completion, Deepening and Plugging Back:

A. Costs. All Costs incurred in the development and operation of a participating area for or in connection with production of Unitized Substances from any pool or zone for which such participating area is established shall be borne by the Parties within such participating area on an Acreage Basis determined as of the time such Costs are incurred.

B. Production. All Production from a participating area shall be allocated in accordance with the Unit Agreement to the tracts of land within such participating area. That portion of such Production which is allocated to any such tract shall be owned by the Party or Parties having Committed Working Interest or Interests therein in the same manner and subject to the same conditions as if actually produced from such tract through a well thereon, and as if this agreement and the Unit Agreement had not been executed.

C. Property. All materials, equipment and other property, whether real or personal, the cost of which is chargeable as Costs and which have been acquired in connection with the development or operation of a participating area shall be owned by the Parties within such participating area on an Acreage Basis.

6.2 Ownership and Costs Outside Participating Area. If a well completed as a producer is not included within a participating area, such well, the Production therefrom, and the materials and equipment therein or appurtenant thereto shall be owned by the Party or Parties who constituted the Drilling Party for such well, and all Costs incurred in the operation of the well shall be charged to and borne by such Party or Parties, and all Lease Burdens payable in respect of Production from the well shall be borne and paid by such Party or Parties. If the Drilling Party comprises two or more Parties, apportionment among them of ownership, Costs and Lease Burdens shall be in the same proportions that they bore the Costs incurred in Drilling the well.

6.3 Taking in Kind. Each Party shall currently as produced take in kind or separately dispose of its share of Production and pay Unit Operator for any extra expenditure necessitated thereby. Except as otherwise provided in Section 15.5 dealing with Liens, each Party shall be entitled to receive directly payment for its proportionate share of the proceeds from the sale of its share of Production, and on all purchases or sales each Party shall execute any division order or contract of sale pertaining to its interest.

6.4 Failure to Take in Kind. ~~If any Party fails so to take or dispose of its share, Unit Operator shall have the right for the time being and subject to revocation at will by the Party owning same to purchase for its own account or sell to others such share at not less than the market price prevailing in the area and not less than the price Unit Operator receives for its share of Production, subject to the right of such Party to exercise at any time its right to take in kind or separately dispose of its own share of Production not previously taken by Unit Operator or delivered to others pursuant to this Section 6.4. Refer to Section 37.1.~~

6.5 Surplus Materials and Equipment. Materials and equipment acquired by the Parties, or any of them pursuant to this agreement, may be classified as surplus by Unit Operator when deemed by it to be no longer needed in operations hereunder, by giving to each Party owning an interest therein written notice thereof. Such surplus materials and equipment shall be disposed of as follows:

A. Each Party owning an interest therein shall have the right to take in kind its share of surplus tubular goods and other surplus items which are susceptible of division in kind, by written notice given to Unit Operator within thirty (30) days after classification thereof as surplus, except that such right shall not apply to junk or to any item ~~(other than tubular goods)~~ having a replacement cost less than one thousand dollars (\$1,000).

B. Surplus materials and equipment not divided in kind (other than junk and any item ~~other than tubular goods~~ having a replacement cost of less than one thousand dollars (\$1,000)) shall be ~~offered to the Parties owning interests therein and~~ sold to the highest bidder or bidders.

C. Surplus materials and equipment not disposed of in accordance with the preceding provisions of this section shall be disposed of by Unit Operator for the best prices obtainable.

ARTICLE 7

PLANS OF DEVELOPMENT

7.1 Wells and Projects Included. Each plan for the development and operation of the Unit Area which is submitted by Unit Operator to the Supervisor in accordance with the Unit Agreement shall make provision only for such Drilling, Deepening and Plugging Back operations and such other projects as Unit Operator has been authorized to conduct by the Parties chargeable with the Costs incurred therein.

7.2 Notice of Proposed Plan. At least ten (10) days before submitting any such proposed plan to the Supervisor, Unit Operator shall give each Party written notice thereof, together with a copy of the proposed plan.

7.3 Notice of Approval or Disapproval. If and when a proposed plan has been approved or disapproved by the Supervisor, Unit Operator shall give prompt written notice thereof to each Party. In the case of disapproval, Unit Operator shall state in such notice the reasons therefor.

7.4 Amendments. If any Party or Parties shall have elected to proceed with Drilling, Deepening or Plugging Back operation in accordance with the provisions of this agreement, and such operation is not provided for in the then current plan of development as approved by the Supervisor, Unit Operator shall either (a) request the Supervisor to approve an amendment to such plan which will provide for the conduct of such operation, or (b) request the Supervisor to consent to such operation, if his consent is sufficient.

7.5 Cessation of Operations Under Plan. If any such plan as approved by the Supervisor provides for the cessation of any Drilling or other operations therein provided for on the happening of a contingency and if such contingency occurs, Unit Operator shall promptly cease such Drilling or other operations and shall not incur any additional Costs in connection therewith unless and until such Drilling or other operations are again authorized in accordance with this agreement by the Parties chargeable with such Costs.

ARTICLE 8 DRILLING OF DEVELOPMENT WELLS

8.1 Purpose and Procedure. It is the purpose of this Article to set forth the procedure for Drilling a Development Well otherwise than by the written consent of all Parties within the participating area involved. The Drilling of a Development Well pursuant to the procedure herein set forth shall, however, be subject to such Drilling receiving the Approval of the Parties, unless the Drilling of the proposed well is necessary to prevent the loss of Committed Working Interest in the tract of land on which the proposed well is to be Drilled. Vote by any Party in favor of Approval of the Drilling of any such well shall not, however, be deemed an election by such Party to participate in the Costs thereof, but will mean only that such Party considers the Drilling of the well consistent with the ordinary development of the participating area involved and has no objection to the Drilling thereof.

8.2 Notice of Proposed Drilling. Subject to the provisions of Section 8.1, any Party within a participating area may propose the Drilling of a Development Well therein by giving to each of the other Parties within the participating area written notice specifying the location, depth and estimated cost of the proposed well, which location shall conform to any applicable spacing pattern theretofore adopted or then being followed, or an authorized exception thereto.

8.3 Response to Notice. Within thirty (30) days after receipt of such notice, each Party within such participating area shall advise all other Parties therein, in writing, whether or not it wishes to participate in Drilling the proposed well. If all the Parties within such participating area so advise that they wish to participate therein, the proposed well shall be Drilled by Unit Operator for the account of all the Parties within the participating area. If any Party fails to respond to such notice within said thirty (30) day period, it shall be deemed to have elected not to participate in Drilling the proposed well.

8.4 Notice of Election to Drill. Unless all Parties within the participating area agree to participate in response to said notice, then within fifteen (15) days after expiration of said period of thirty (30) days, each Party within the participating area who then desires to have the proposed well Drilled shall give to all other Parties within the participating area written notice of election to proceed with the Drilling of said well. Failure to give such notice shall be deemed an election not to participate in Drilling said well.

8.5 Effect of Election to Drill. If one or more, but not all of the Parties within the participating area so elect to proceed, Unit Operator shall Drill the well for the account of such Party or Parties, who shall constitute the Drilling Party.

8.6 Subsequent Election. If election to Drill the proposed well is made, any Party within the participating area who has not previously elected to participate therein may do so by written notice given to all other Parties within the participating area at any time before operations for Drilling the well are commenced, in which event such Party shall be included in the Drilling Party. However, such Party shall be bound by any and all Directions and Approvals theretofore given by the Drilling Party concerning the Drilling of the well.

8.7 Rights and Obligations of Drilling Party and Non-Drilling Parties. Whenever a Development Well is Drilled otherwise than for the account of all Parties within the participating area involved, the provisions of Article 12 dealing with Rights and Obligations of Drilling Party and Non-Drilling Parties shall be applicable.

ARTICLE 9 EXPLORATORY WELLS

9.1 Procedure for Drilling. The Drilling of Exploratory Wells shall be governed by the provisions of Part 1 of Exhibit 4 hereto attached and made a part hereof.

ARTICLE 10 REQUIRED WELLS

10.1 Definition. For the purpose of this Article a well shall be deemed a required well if the Drilling thereof is required by the final order of an authorized representative of the Department of Interior. Such an order shall be deemed final upon expiration of the time allowed for appeal therefrom without the commencement of appropriate appeal proceedings or, if such proceedings are commenced within said time, upon the final disposition of the appeal. Whenever Unit Operator receives any such order, it shall promptly mail a copy thereof to each of the other Parties; if any such order is appealed, the Party appealing shall give prompt written notice thereof to each of the other Parties, and upon final disposition of the appeal, Unit Operator shall give each of the other Parties prompt written notice of the result thereof.

10.2 Election to Drill. Any Party desiring to Drill, or participate in the Drilling of, a required well shall give to Unit Operator written notice thereof within thirty (30) days after the order requiring such well becomes final or within such lesser time as may be required by such order. If such notice is given within said period, Unit Operator shall Drill the required well for the account of the Party or Parties giving such notice, who shall bear all Costs incurred therein, provided, however, that if the Required Well is a Development Well it shall not be drilled unless it receives the Approval of the Parties. The rights and obligations of such Party or Parties with respect to the ownership of such well, the operating rights therein, the Production therefrom and the bearing of Costs incurred therein shall be the same as if the well had been Drilled for the account of such Party or Parties under Article 8 dealing with Development Wells, if the same is a Development Well, or Article 9 dealing with Exploratory Wells, if the same is an Exploratory Well or a Subsequent Test Well.

10.3 Alternatives to Drilling. If no Party elects to Drill a required well within the period allowed for such election, and if any of the following alternatives is available, the first such alternative which is available shall be followed:

A. Compensatory Royalties. If compensatory royalties may be paid in lieu of Drilling the well and if payment thereof receives, within said period, the Approval of the Parties who would be chargeable with the Costs incurred in Drilling the well, if the well were Drilled as provided in Section 10.4, Unit Operator shall pay such compensatory royalties for the account of said Parties; or

B. Contraction. If the Drilling of the well may be avoided, without other penalty, by contraction of the Unit Area, Unit Operator shall make reasonable effort to effect such contraction with the approval of the Director; or

C. Termination. If the required well is a Subsequent Test Well, the Parties shall join in termination of the Unit Agreement in accordance with its provisions.

10.4 Required Drilling. If none of the foregoing alternatives is available, Unit Operator shall Drill the required well under whichever of the following provisions is applicable:

A. Development Well. If the required well is a Development Well, it shall be Drilled by Unit Operator for the account of all Parties within the participating area in which the well is Drilled; or

B. Exploratory Well. If the required well is an Exploratory Well, it shall be Drilled by Unit Operator for the account of the Party or Parties who would be obligated to bear the Costs thereof in accordance with Part 1 of Exhibit 4.

ARTICLE 11 ATTEMPTED COMPLETION, DEEPENING, PLUGGING BACK AND ABANDONMENT

11.1 Procedure. The attempted completion, Deepening, or Plugging Back of any well not completed as a producer, the abandonment of a producing well and the Deepening or Plugging Back of any well abandoned in the stratum in which it was completed as a producer, shall be governed by the provisions of Part 2 of Exhibit 4 hereto attached and made a part hereof.

ARTICLE 12 RIGHTS AND OBLIGATIONS OF DRILLING PARTY AND NON-DRILLING PARTY

12.1 Scope of Article. Subject to such contrary or inconsistent provisions, if any, as are contained in Exhibit 4, the rights and obligations of the Drilling Party and Non-Drilling Party in respect of a well which is Drilled, Deepened, Plugged Back or completed otherwise than for the account of all Parties entitled to participate therein, shall be governed by the succeeding provisions of this article.

12.2 Relinquishment of Interest by Non-Drilling Party. When a well is Drilled, Deepened, Plugged Back or completed otherwise than for the account of all Parties entitled to participate therein, each Non-Drilling Party shall be deemed to have relinquished to the Drilling Party all of its operating rights and working interest in and to such well. In the case of a Deepening or Plugging Back, if a Non-Drilling Party owned an interest in the well immediately prior to the Deepening or Plugging Back, the Drilling Party shall pay to such Non-Drilling Party its share of the Salvage Value of the well, such payment to be made at the time the well is taken over by the Drilling Party for Deepening or Plugging Back.

12.3 Reversion of Relinquished Interest. If the well is completed as a producer of Unitized Substances, and if the well is a Development Well, or results in the establishment or enlargement of a participating area to include such well, then the operating rights and working interest relinquished by a Non-Drilling Party shall revert to it at such time as the proceeds or market value of that portion of the Production obtained from the well after such relinquishment which is allocated to the acreage of such Non-Drilling Party in the participating area involved (after deducting from such proceeds or market value all Lease Burdens and all taxes upon or measured by Production that are payable up to such time on said portion of the Production from such well) shall equal the total of the following:

A. 100% of that portion of the Costs incurred in operating the well after such relinquishment, and up to such time, that would have been charged to such Non-Drilling Party if the well had been Drilled, Deepened, Plugged Back or completed for the account of all Parties entitled to participate therein.

B. 300% of that portion of the Costs incurred in Drilling, Deepening, Plugging Back or completing the well that would have been charged to such Non-Drilling Party if the well had been Drilled, Deepened, Plugged Back or completed for the account of all Parties entitled to participate therein.

However, if a Deepening or Plugging Back is involved (1) any payment made to such Non-Drilling Party as its share of the Salvage Value of the well in accordance with Section 12.2 shall be added to and deemed part of the Costs incurred in operating the well, for the purposes of Subdivision A above, and (2) if such Non-Drilling Party did not participate in the initial Drilling of the well, but the Drilling Party did participate therein, and if the interest relinquished by such Non-Drilling Party upon the initial Drilling of the well had not reverted to it before such Deepening or Plugging Back, then, for the purposes of Subdivision B above, there shall be added to and deemed part of the Costs incurred in the Deepening or Plugging Back, the then unrecovered portion of the Costs incurred in the initial Drilling of the well down to the pool or zone in which such well is completed as a producer.

12.4 Effect of Reversion. From and after reversion to a Non-Drilling Party of its relinquished interest in a well, such Non-Drilling Party shall share, on an Acreage Basis in the ownership of the well, the operating rights and working interest therein, the materials and equipment in or pertaining to the well, the Production therefrom and the Costs of operating the well.

12.5 Rights and Obligations of Drilling Party. The Drilling Party for whom a well is Drilled, Deepened, Plugged Back or completed shall pay and bear all Costs incurred therein, and shall own the well, the materials and equipment in the well or pertaining thereto, and the production therefrom, subject to reversion to each Non-Drilling Party of its relinquished interest in the well. If the well is a Development Well, or results in the establishment or enlargement of a participating area to include the well, then, until reversion to a Non-Drilling Party of its relinquished interest, the Drilling Party shall pay and bear (a) that portion of the costs incurred in operating the well that otherwise would be chargeable to such Non-Drilling Party, and (b) all Lease Burdens that are payable in respect of that portion of the Production from such well which is allocated to the acreage of such Non-Drilling Party. If the Drilling Party includes two (2) or more Parties, the burdens imposed upon and the benefits accruing to the Drilling Party shall be shared by such Parties on an Acreage Basis among themselves.

ARTICLE 13

ADJUSTMENT ON ESTABLISHMENT OR CHANGE OF PARTICIPATING AREA

13.1 When Adjustment Made. Whenever, in accordance with the Unit Agreement, a participating area is established or revised by contraction or enlargement, and whenever two or more participating areas are combined (the participating area resulting from such establishment, revision or combination being hereinafter referred to as a "resulting area") an adjustment shall be made in accordance with the succeeding provisions of this Article 13, as of the date on which the establishment, revision or combination that creates such resulting area becomes effective, such date being hereinafter referred to as the "effective date" of such resulting area.

13.2 Definitions. As used in this Article 13:

A. "Useable well" within a resulting area means a well which is either (1) completed in and capable of producing unitized substances from a pool or zone for which such resulting area is created, or (2) used as a disposal well, injection well or otherwise, in connection with the production of Unitized Substances from such resulting area.

B. "Intangible value" of a useable well within a resulting area means the amount of Costs incurred in Drilling such well, or Deepening it, down to the deepest pool or zone for which such resulting area is created, and which contribute to the Production of Unitized Substances therefrom and which are properly classified as intangible costs in conformity with accounting practices generally accepted in the industry, reduced at the following rates for each month during any part of which such well has been operated prior to the effective date of such resulting area:

(1) one-half per cent ($1/2\%$) per month for a cumulative total of 60 months, and

(2) none per cent (0.0%) per month for each month in excess of said cumulative total.

C. "Tangible property" serving a resulting area means any kind of tangible property (whether or not in or pertaining to a well) which has been acquired for use in or in connection with the Production of Unitized Substances from such resulting area or any portion thereof, and the cost of which has been charged as Costs pursuant to this agreement.

D. "Value" of tangible property means the amount of Costs incurred therefor, including Costs incurred in the construction or installation thereof (excepting installation costs properly classified as part of the intangible costs incurred in connection with a well) reduced, in the case of tangible property which is generally regarded as depreciable, at such reasonable rates of depreciation as receive the Approval of the Parties within such resulting area, for the period of time between the acquisition date thereof and the effective date of such resulting area.

13.3 Method of Adjustment on Establishment or Enlargement. As promptly as reasonably possible after the effective date of a resulting area created by establishment or enlargement of a participating area, and as of such effective date an adjustment shall be made in accordance with the following provisions except to the extent otherwise specified in Section 13.6.

A. The intangible value of each useable well within such resulting area on the effective date thereof shall be credited to the Party or Parties who own such well immediately prior to such effective date, in proportion to their respective interests in such well immediately prior to such effective date. The total amount so credited as the intangible value of useable wells shall be charged to all parties within the resulting area on an Acreage Basis.

B. The value of each item of tangible property serving the resulting area on the effective date thereof shall be credited to the Party or Parties who own such item immediately prior to such effective date, in proportion to their respective interests in such item immediately prior to such effective date. The total amount so credited as the value of tangible property shall be charged to all Parties within the resulting area on an Acreage Basis.

C. If a resulting area, on the effective date thereof, is served by any tangible property or useable well, which also serves another participating area or other participating areas, the value of such tangible property and useable well (including intangible value thereof) shall be determined in accordance with Subdivision D of Section 13.2, and such value may be fairly apportioned between such resulting area and such other participating area or areas, provided that such apportionment receives Approval of the Parties in each participating area concerned. That portion of the value of such tangible property and useable well (including intangible value thereof) which is so apportioned to the resulting area shall be included in the adjustment made as of the effective date of such resulting area in the same manner as the value of tangible property serving only the resulting area.

D. The credits and charges above provided for shall be made by Unit Operator, in such manner that an adjustment shall be made for the intangible value of useable wells separate and apart from an adjustment for the value of tangible property. On each such adjustment, each Party who is charged an amount in excess of the amount credited to it, shall pay to Unit Operator the amount of such excess, which shall be considered as Costs chargeable to such Party for all purposes of this agreement, and such amount, when received by Unit Operator, shall be distributed or credited to the Parties who, in such adjustment, are credited with amounts in excess of the amounts charged to them respectively.

13.4 Method of Adjustment on Contraction. As promptly as reasonably possible after the effective date of any contraction of a participating area, an adjustment shall be made with each Party owning a Committed Working Interest in land excluded from the participating area by such contraction (such Committed Working Interest being hereinafter in this section referred to as "excluded interest") in accordance with the following provisions:

A. An adjustment for intangibles shall be made in accordance with Subdivision B hereof and a separate adjustment for tangibles shall be made in accordance with Subdivision C hereof.

B. Such party shall be credited with the sum of (1) the total amount theretofore charged against such Party in respect of its excluded interest in accordance with the accounting procedure set forth in Exhibit 2 as intangible Costs incurred in the development and operation of the participating area prior to the effective date of such contraction, plus (2) the total amount charged against such Party in respect of such excluded interest as intangible value of useable wells in any previous adjustment or adjustments made upon the establishment or revision of such participating area. Such Party shall be charged with the sum of (1) the market value of that portion of the Production from such participating area which, prior to the effective date of such contraction, is delivered to such Party in respect of such excluded interest, less the amount of Lease Burdens and taxes paid or payable on said portion, and (2) the total amount credited to such Party in respect of such excluded interest as intangible value of useable wells, in any previous adjustment or adjustments made upon the establishment or revision of such participating area. Any difference between the amount of said credit and the amount of said charge shall be adjusted as hereinafter provided.

C. Such Party shall be credited with the sum of (1) the total amount theretofore charged against such Party in respect of its excluded interest, in accordance with the accounting procedure set forth in Exhibit 2, as Costs other than intangible Costs incurred in the development and operation of the participating area prior to the effective date of such contraction, plus (2) the total amount charged against such Party in respect of its excluded interest as value of tangible property in any previous adjustment or adjustments made upon the establishment or revision of such participating area, plus (3) the excess, if any, of the credit provided for in Subdivision B of this Section over the charge provided for in said Subdivision B. Such Party shall be charged with the sum of (1) the excess, if any, of the charge provided for said Subdivision B over the credit therein provided for, plus (2) the total amount credited to such Party in respect of its excluded interest as value of tangible property in any previous adjustment or adjustments made upon the establishment or revision of such participating area.

D. If the charge provided for in Subdivision C of this Section is equal to or greater than the credit therein provided for, no adjustment shall be made with such Party. However, if the credit provided for in said Subdivision C is in excess of the charge therein provided for, such excess shall be charged on an Acreage Basis against the Parties who remain in the participating area after such contraction, and shall be paid by said Parties to Unit Operator upon receipt of invoices therefor. Such payments, when received by Unit Operator, shall be paid by it to the Party owning such excluded interest.

13.5 **Ownership of Wells and Tangible Property.** From and after the effective date of a resulting area, all useable wells within such resulting area and all tangible property serving such resulting area shall be owned by the Parties within such area on an Acreage Basis, except that (a) in the case of tangible property serving a participating area or participating areas in addition to the resulting area, only that undivided interest therein which is proportionate to that portion of the value thereof which is included in the adjustment above provided for shall be owned by the parties within the resulting area on an Acreage Basis, and (b) if a Party within the resulting area was a Non-Drilling Party for a well which is a useable well within such resulting area on the effective date thereof, and if the relinquished interest of such Non-Drilling Party in such well has not reverted to it prior to such effective date, the Drilling Party for such well shall own the interest therein that would otherwise be owned by such Non-Drilling Party, until reversion to such Non-Drilling Party of its relinquished interest in such well.

13.6 **Relinquished Interests of Non-Drilling Parties.** If the interest relinquished by a Non-Drilling Party in a well which is a useable well within a resulting area on the effective date thereof has not reverted to it prior to such effective date then insofar, and only insofar, as relates to such well, the adjustments provided for in Section 13.3 shall be subject to the following provisions, wherein the sum of the intangible value of such well, plus the value of the tangible property in or pertaining thereto, is referred to as the "value" of such well:

A. The Drilling Party for such well shall be charged with that part of the value of the well that would otherwise be chargeable to such Non-Drilling Party in respect of (1) such Non-Drilling Party's Committed Working Interest or Interests in the participating area in which the well was Drilled, as such participating area existed when the Drilling of the well was commenced, if the well was Drilled as a Development Well, or (2) the Committed Working Interest or Interests of such Non-Drilling Party which entitled it to participate in the Drilling, Deepening, Plugging Back, or Completion of the well, if it was Drilled, Deepened, Plugged Back or Completed, otherwise than as a Development Well. However, such Non-Drilling Party shall be charged with such part, if any, of the value of such well as is chargeable to it, in accordance with Subdivisions A and B or Section 13.3, in respect of its Committed Working Interests other than those referred to in (1) or (2) above.

B. If that part of the value of such well which would have been credited to such Non-Drilling Party, if the well had been Drilled, Deepened, Plugged Back or Completed for the account of all Parties entitled to participate therein, exceeds the amount provided in Subdivision A above to be charged against the Drilling Party, such excess shall be applied against the reimbursement to which the Drilling Party is entitled out of Production that would otherwise accrue to such Non-Drilling Party. Any balance of such excess over the amount necessary to complete such reimbursement shall be credited to such Non-Drilling Party.

ARTICLE 14

SUPERVISION OF OPERATIONS BY PARTIES

14.1 **Right of Supervision.** Each operation conducted by Unit Operator under this agreement or the Unit Agreement shall be subject to supervision and control in accordance with the succeeding provisions of this article by the Parties who are chargeable with the Costs thereof.

14.2 **Voting Control.** In the supervision of an operation conducted by Unit Operator, the Parties chargeable with the Costs of such operation shall have the right to vote thereon in proportion to their respective obligations for such Costs. The Parties having the right to vote on any other matter shall vote thereon on an Acreage Basis. Except as provided in the Unit Agreement and except as otherwise specified herein (particular reference being made to Section 25.1, Consent Required to Commence Secondary Recovery and Pressure Maintenance; Section 27.1, Surrender or Release Within Participating Area, and that portion of Part 2, Exhibit 4 relating to Abandonment of producing wells outside of a participating area), the affirmative vote of Parties having sixty-five per cent (65%) or more of the voting power on any matter which is proper for action by them shall be binding on all Parties entitled to vote thereon; provided, however, that if one Party voting in the affirmative has sixty-five per cent (65%) or more but less than eighty-five per cent (85%) of the voting power, the affirmative vote of such Party shall not be binding on the Parties entitled to vote thereon unless its vote is supported by the affirmative vote of at least one additional Party; and provided further, that if one Party voting in the negative or failing to vote has more than thirty-five per cent (35%) but less than fifty per cent (50%) of the voting power, the affirmative vote of the Parties having a majority of the voting power shall be binding on all Parties entitled to vote unless there is a negative vote of at least one additional Party. In the event only two Parties are entitled to vote, the vote of the one with the greater interest shall prevail. If only one Party is entitled to vote, such Party's vote shall control. A Party failing to vote shall not be deemed to have voted either in the affirmative or negative. Any Approval or Direction provided for in this agreement which receives the affirmative vote above specified shall be deemed given by and shall be binding on all Parties entitled to vote thereon, except where the vote of a larger percentage is specifically required.

14.3 **Meetings.** Any matter which is proper for consideration by the Parties or any of them, may be considered at a meeting held for that purpose. A meeting may be called by Unit Operator at any time and a meeting shall be called by Unit Operator upon written request of any Party or Parties having five per cent (5%) or more of the voting power on each matter to be considered at the meeting. At least ten (10) days in advance of each meeting, Unit Operator shall give each Party entitled to vote thereat written notice of the time, place and purpose of the meeting. Unit Operator representative shall be chairman of such meetings.

14.4 **Action Without Meeting.** In lieu of calling a meeting, Unit Operator may submit any matter which is proper for consideration by the Parties, or any of them, by giving to each such Party written notice by mail or telegraph (or telephone confirmed in writing not later than the next business day), describing in adequate detail the matter so submitted. Each Party entitled to vote on any matter so submitted shall communicate its vote thereon to Unit Operator by mail or telegraph (or telephone, confirmed in writing not later than the next business day), within such period as may be designated in the notice given by Unit Operator (which period shall not be less than ten (10) nor more than thirty (30) days) provided, however, that if within ten (10) days after submission of such matter, request is made for a meeting in accordance with Section 14.3, such matter shall be considered only at a meeting called for that purpose. If a meeting is not required, then, at the expiration of the period designated in the notice given by it, Unit Operator shall give to each Party entitled to vote thereon written notice stating the tabulation and result of the vote.

14.5 Representatives. Promptly after execution of this agreement, each Party by written notice to all other Parties shall designate a representative authorized to vote for such Party, and may designate an alternate who is authorized to vote for such Party in the absence of its representative. Any such designation of a representative or alternate representative may be revoked at any time by written notice given to all other Parties, provided such notice designates a new representative or alternate representative as the case may be. In addition, any corporate Party may vote through its President, or any of its Vice Presidents, and a Party which is a partnership may vote through any of its partners.

14.6 Audits. An audit shall be made of Unit Operator's records and books of account pertaining to operations hereunder whenever the making of such audit receives the Approval of the Parties (other than the Party acting as Unit Operator) chargeable with the Costs incurred during the period covered by the audit, except that such audit shall not be made more often than once each six months. Such audit shall be made by auditors in the employ of said Parties, and the allowance to be made to each Party furnishing an auditor shall be determined by the Approval of said Parties; such allowances shall be paid by said Parties in proportion to their respective participations among themselves in Costs incurred during the period covered by the audit.

14.7 Extraneous Projects. Nothing contained in this agreement shall be deemed to authorize the Parties, by vote or otherwise, to act on any matter or authorize any expenditure unless such matter or expenditure relates to the conduct of operations authorized by the Unit Agreement or this agreement.

ARTICLE 15

UNIT OPERATOR'S POWERS AND RIGHTS

15.1 In General. Subject to the limitations provided for in this agreement, all operations authorized by the Unit Agreement and this agreement shall be managed and conducted by Unit Operator. Unit Operator shall have exclusive custody of all materials, equipment and any other property used in connection with any operation on the Unit Area.

15.2 Employees. 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.

15.3 Non-Liability. Unit Operator shall not be liable to any other Party for anything done or omitted to be done by it in the conduct of operations hereunder except in case of bad faith.

15.4 Force Majeure. The obligations of Unit Operator hereunder shall be suspended to the extent that, and only so long as, performance thereof is prevented by fire, action of the elements, strikes or other differences with workmen, acts of civil or military authorities, acts of the public enemy, restrictions or restraints imposed by law or by regulation or order of governmental authority, whether federal, state or local, inability to obtain necessary rights of access, or any other cause reasonably beyond control by Unit Operator, whether or not similar to any cause above enumerated. Whenever performance of its obligations is prevented by any such cause, Unit Operator shall give notice thereof to the other Parties as promptly as reasonably possible.

15.5 Lien. Each of the other Parties hereby grants to Unit Operator a lien upon its Committed Working Interests, its interest in all jointly owned materials, equipment and other property and its interest in all Production, as security for payment of Costs chargeable to it, together with any interest payable thereon. Unit Operator shall have the right to bring any action at law or in equity to enforce collection of such indebtedness with or without foreclosure of such lien. In addition, upon default by any Party in the payment of Costs chargeable to it, Unit Operator shall have the right to collect and receive from the purchaser or purchasers thereof the proceeds of such Party's share of Production, up to the amount owing by such Party plus interest at the rate of six per cent (6%) per annum until paid; each such purchaser shall be entitled to rely on Unit Operator's statement concerning the existence and amount of any such default.

15.6 Advances. Unit Operator, at its election, shall have the right from time to time to demand and receive from the other Parties chargeable therewith payment in advance of their respective shares of the estimated amount of the Costs to be incurred during any month, which right may be exercised only by submission to each such Party of a properly itemized statement of such estimated Costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated Costs for any month shall be submitted on or about the twentieth (20th) day of the next preceding month. The amount of each such invoice shall be payable within fifteen (15) days after the mailing thereof, and thereafter shall bear interest at the rate of six per cent (6%) per annum until paid. Proper adjustment shall be made monthly between such advances and Costs, to the end that each Party shall bear and pay its proportionate share of Costs incurred and no more. Unit Operator may request advance payment or security for the total estimated Costs to be incurred in a particular Drilling, Deepening or Plugging Back operation and notwithstanding any other provision of this agreement shall not be obligated to commence such operation unless and until such advance payment is made or Unit Operator is furnished security acceptable to it for the payment thereof by the Party or Parties chargeable therewith.

15.7 Use of Unit Operator's Drilling Equipment. Any Drilling, Deepening or Plugging Back operation conducted hereunder may be conducted by Unit Operator by means of its own tools and equipment provided that the rates to be charged and the applicable terms and conditions are set forth in a form of drilling contract which receives the Approval of the Party or Parties chargeable with the Costs incurred in such operation, except that in any case where the Unit Operator alone constitutes the Drilling Party, such form shall receive the approval of the Parties within the participating area, or other designated area for such well, prior to the commencement of such operation.

15.8 Rights as Party. As an owner of Committed Working Interest, the Party acting as Unit Operator shall have the same rights and obligations hereunder as if it were not the Unit Operator. In each instance where this agreement requires or permits a Party to give a notice, consent or approval to the Unit Operator, such notice, consent or approval shall be deemed properly given by the Party acting as Unit Operator if and when given to all other Parties entitled to give or receive such notice, consent or approval.

ARTICLE 16

UNIT OPERATOR'S DUTIES

16.1 Specific Duties. In the conduct of operations hereunder, Unit Operator shall:

A. Drilling of Wells. Drill, Deepen or Plug Back a well or wells only in accordance with the provisions of this agreement;

B. Compliance with Laws and Agreements. Comply with the provisions of the Unit Agreement, all applicable laws and governmental regulations (whether federal, state or local), and Directions by the Parties pursuant to this agreement; in case of conflict between such Directions and the provisions of the Unit Agreement or such laws or regulations, the provisions of the Unit Agreement or such laws or regulations shall govern;

C. Consultation with Parties. Consult freely with the Parties within the area affected by any operation hereunder, and keep them advised of all matters arising in operations hereunder which Unit Operator deems important, in the exercise of its best judgment;

D. Payment of Costs. Pay all Costs incurred in operations hereunder promptly as and when due and payable, and keep the Committed Working Interests and all property used in connection with operations under this agreement free from liens which may be claimed for the payment of such Costs, except any such lien which it disputes, in which event Unit Operator may contest the disputed lien upon giving written notice thereof to the Parties affected thereby;

E. Records. Keep full and accurate records of all Costs incurred, and controllable materials and equipment, which records, and receipts and vouchers in support thereof, shall be available for inspection by authorized representatives of the other Parties at reasonable intervals during usual business hours at the office of Unit Operator;

F. Information. Furnish to each of the other Parties who makes timely written request therefor (1) copies of Unit Operator's authorizations for expenditure or itemizations of estimated expenditures in excess of Five Thousand & no/100ths Dollars (\$ 5,000.00), (2) copies of all drilling reports, well logs, basic engineering data, tank tables, gauge reports and run tickets, (3) reports of stock on hand at the first of each month, and (4) samples of cores or cuttings taken from wells Drilled hereunder, to be delivered at the well in containers furnished by the Party requesting same, and (5) such other and additional information or reports as may be required by Direction of the Parties within the area affected;

G. Access to Unit Area. Permit each of the other Parties, through its duly authorized employees or agents, but at such Party's 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

materials, equipment or other property used in connection with operations under this agreement, and to have access at reasonable times to information and data in the possession of Unit Operator concerning the Unit Area.

16.2 Insurance.

A. Unit Operator's. Unit Operator shall comply with the Workmen's Compensation Law of the state in which the Unit Area is located. Unit Operator shall also maintain in force at all times with respect to operations hereunder such other insurance, if any, as may be required by law. In addition, Unit Operator shall maintain such other insurance, if any, as is described in Exhibit 5 hereto attached or as receives the Approval of the Parties from time to time. Unit Operator shall carry no other insurance for the benefit of the Parties except as above specified. Upon written request of any Party, Unit Operator shall furnish evidence of insurance carried by it with respect to operations hereunder.

B. Contractor's. Unit Operator shall require all contractors engaged in operations under this agreement to comply with the Workmen's Compensation Law of the state in which the Unit Area is located and to maintain such insurance as is required by Direction of the Parties.

C. Automotive Equipment. In the event Automobile Public Liability insurance is specified in said Exhibit 5 or subsequently receives the Approval of the Parties, no direct charge shall be made by Unit Operator for premiums paid for such insurance for Operator's fully owned automotive equipment.

16.3 Non-Discrimination. In connection with the performance of work under this agreement, the Unit Operator agrees not to discriminate against any employee or applicant for employment because of race, religion, color, or national origin. The aforesaid provision shall include, but not be limited to, the following: employment, upgrading, demotion, or transfer; recruitment or recruitment advertising, layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Unit Operator agrees to post hereafter in conspicuous places, available for employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of the nondiscrimination clause.

The Unit Operator agrees to insert the foregoing provision in all subcontracts hereunder, except subcontracts for standard commercial supplies or raw materials.

16.4 Drilling Contracts. Each Drilling, Deepening or Plugging Back operation conducted hereunder, and not performed by Unit Operator with its own tools and equipment in accordance with Section 15.7 dealing with Use of Unit Operator's Drilling Equipment, shall be performed by a reputable drilling contractor having suitable equipment and personnel under written contract between Unit Operator and the contractor, at the most favorable rates and on the most favorable terms and conditions bid by any such contractor after soliciting bids, if bids are obtainable, but otherwise at rates and on terms and conditions receiving the Approval of the Parties.

16.5 Uninsured Losses. Any and all payments made by Unit Operator in the settlement or discharge of any liability to third persons (whether or not reduced to judgment) arising out of an operation conducted hereunder and not covered by insurance herein provided to be maintained by Unit Operator shall be charged as Costs and borne by the Party or Parties for whose account such operation was conducted.

ARTICLE 17

LIMITATIONS ON UNIT OPERATOR

17.1 Specific Limitations. In the conduct of operations hereunder, Unit Operator shall not, without first obtaining the Approval of the Parties:

A. Change in Operations. Make any substantial change in the basic method of operation of any well, except in the case of an emergency.

B. Limit on Expenditures. Undertake any project reasonably estimated to require an expenditure in excess of Ten Thousand & no/100ths Dollars (\$10,000.00); provided, however, that (1) Unit Operator is authorized to make all usual and customary operating expenditures that are required in the normal course of producing operations, (2) whenever Unit Operator is authorized to conduct a Drilling, Deepening or Plugging Back operation, or to undertake any other project, in accordance with this agreement, Unit Operator shall be authorized to make all reasonable and necessary expenditures in connection therewith and (3) in case of emergency, Unit Operator may make such immediate expenditures as may be necessary for the protection of life or property, but notice of such emergency shall be given to all other Parties as promptly as reasonably possible.

C. Partial Relinquishment. Make any partial relinquishment of its rights as Unit Operator or appoint any sub-operator.

D. Settlement of Claims. Pay in excess of Five Hundred Dollars (\$500.00) in the settlement of any claim (other than Workmen's Compensation claims) for injury to or death of persons, or for loss of or damage to property.

E. Determinations. Make any of the determinations provided in the Unit Agreement to be made by Unit Operator, except as otherwise specified in this agreement.

ARTICLE 18

TITLES

18.1 Representations of Ownership. Each Party represents to all other Parties that to the best of its knowledge and belief its ownership of Working Interests in the Unit Area is that set out in Exhibit B of the Unit Agreement. If it develops that any such ownership is incorrectly stated, the rights and responsibilities of the Parties shall be governed by the provisions of this Article 18, but such erroneous statement shall not be a cause for cancelling or terminating this agreement.

18.2 Title Papers to be Furnished.

A. Lease Papers. Each Party, after executing this agreement, shall upon request promptly furnish Unit Operator, ~~and any other Party requesting same,~~ with photostatic copies of all leases, assignments, options and other contracts which it has in its possession relating to its Committed Working Interests.

B. Title Papers for Initial Test Well. Promptly after the effective date of this agreement each Party within the area described as the Title Examination Area in Exhibit 3 shall at its own expense furnish Unit Operator with the following title material relating to all lands within such area in which it owns Committed Working Interests covering the same:

- (1) Abstracts of title based upon the county records certified to current date,
- (2) All lease papers, or photostatic copies thereof, mentioned in Section 18.2A which the Party has in its possession, and which have not been previously furnished to Unit Operator,
- (3) Copies of any title opinions which the Party has in its possession,
- (4) If federal lands are involved, status reports of current date setting forth the entries found in the district land office and the Washington, D. C. land office of the Bureau of Land Management for the lands involved, and also a certified copy of the serial register for the federal leases involved,
- (5) If state lands are involved, status reports of current date showing the entries pertaining to the land involved found in the records of such state,
- (6) If Indian lands are involved, status reports for the land involved showing the entries found in the office of the Superintendent of the Indian Agency and the area office for such Indian lands and in the Bureau of Indian Affairs in Washington, D. C.

C. Title Papers for Subsequent Wells. Any Party who proposes the Drilling of a Subsequent Test Well or Exploratory Well shall, at the time of giving notice for such proposed well, designate a title examination area not exceeding 640 acres and not including any lands within a participating area. When the drilling of a Development Well receives the Approval of the Parties within the participating area in which it is located, a title examination area which covers lands outside any participating area may be designated by the Approval of such Parties. Each Party within any such title examination area shall at its own expense and upon request furnish Unit Operator with the title materials listed in Section 18.2B not previously furnished, relating to all lands within such area in which it owns Committed Working Interests.

D. Title Papers on Establishment or Enlargement of a Participating Area. Upon the establishment or the enlargement of a participating area, each Party shall promptly at its own expense furnish Unit Operator all the title materials listed in Section 18.2B relating to all its Committed Working Interests in the lands lying within such participating area as established or enlarged, which have not been previously furnished.

18.3 Title Examination. Promptly after all title papers delivered pursuant to Section 18.2 B, C or D have been received, Unit Operator shall deliver such title papers to an attorney or attorneys approved by the Parties. Unit Operator shall arrange to have the same examined promptly by such attorney or attorneys and shall distribute copies of title opinions to all Parties within the title examination area as soon as they are received. After a title examination has been completed and a reasonable time, not exceeding thirty (30) days, has been allowed for any necessary curative work, Unit Operator shall submit to each Party copies of title opinions and a report concerning the title examination with written recommendations for approval or disapproval of the title to each Committed Working Interest involved, and thereafter the Parties shall advise Unit Operator in writing within fifteen (15) days after receipt of such title opinions or reports of approval or disapproval of titles. Unless otherwise agreed, the cost of all title examinations made under this Section 18.3 shall be charged as cost of drilling the well for which such title examination was made.

18.4 Option for Additional Title Examination. Any Party who furnishes materials for title examination pursuant to Section 18.2 B, C, or D shall have the right to examine all materials furnished Unit Operator. If such additional title examination is elected, it shall be at the sole cost and expense of the Party electing to perform the same and such Party shall bear any expense which may be necessary to reproduce title materials for its use, if required. Whether or not such additional title examination is elected, each Party shall have the right to approve or disapprove title according to the provisions of this Article 18.

18.5 Approval of Titles Prior to Drilling. Where the Committed Working Interest within the title examination area is owned by more than one Party, then no drilling shall be conducted within such area until the title to the Committed Working Interest therein has received the approval of the Parties as hereinafter in this section provided. If a Drilling Block has been designated for the drilling of a well, such well shall not be drilled until title to the Committed Working Interest within the title examination area established for such well has received the approval of the Parties within the Drilling Block in which such well is located. Approval of title to lands within a Drilling Block shall be binding upon all Parties owning Committed Working Interests within such Drilling Block. If land outside a participating area is designated as a title examination area for a development well, such well shall not be drilled until title to the Committed Working Interest within such title examination area has received the approval of the Parties within the participating area in which such well is located. In all other instances where a title examination area has been established for a well, such well shall not be drilled until title to the Committed Working Interest within such title examination area has received the approval of the Parties therein. In the event approval of the Parties is not obtained as in this section provided, the drilling Party (whether one or more) may proceed with the drilling of the well, but said drilling Party (a) shall, by so proceeding, assume all risk attending the failure to obtain such approval of the same extent as if approval of titles to all lands within the Drilling Block (if one has been established) or the title examination area (in all other instances) had been obtained, and (b) shall also be deemed to have given its approval to the title to all lands within the Drilling Block (if one has been established) or the title examination area (in all other instances).

18.6 Approval of Titles Prior to Inclusion of Land in a Participating Area. Where the Committed Working Interests within the participating area are owned by more than one Party, no Committed Working Interest shall be included within a participating area or be entitled to participate in the production of Unitized Substances from any participating area until title to such Committed Working Interest has received the approval of the Parties within such participating area. Approval of titles to lands within a participating area shall be binding on all Parties within such participating area and all Parties coming within such participating area upon any enlargement thereof.

18.7 Failure of Title to Committed Working Interest Before Approval. If title to any Committed Working Interest shall fail in whole or in part prior to receiving the approval of the Parties, the Parties hereto who improperly claimed an interest in said land shall sustain the entire loss occasioned by such failure of title, and do hereby expressly relieve and indemnify the Unit Operator and all other Parties from any and all liability on account thereof.

18.8 Failure of Title to Committed Working Interest After Approval. If title to a Committed Working Interest which has received the approval of the Parties under Section 18.5 fails in whole or in part at a time when the tract affected thereby is within an active Drilling Block, or within a Drilling Block formed as herein provided upon which a well has been completed as a producer of Unitized Substances but which has not been admitted to a participating area; or, if title to a Committed Working Interest which has received the approval of the Parties under Section 18.6 fails in whole or in part at a time when the tract affected thereby is within a participating area, then:

(1) The loss and any ensuing liability shall be charged as a common loss of the Parties having interests in the affected participating area or Drilling Block (including the Party whose Committed Working Interest has been lost and including the acreage of such Committed Working Interest); and

(2) There shall be relinquished to the Party whose Committed Working Interest has been lost, such proportionate part of each of the other Committed Working Interests in the lands within such affected participating area or Drilling Block, subject to a like portion of their respective Lease Burdens as may be necessary to make the loss of such Committed Working Interest a joint loss of the parties within such participating area or Drilling Block; and

(3) The relinquished portions of said Committed Working Interests shall be deemed owned by the Party receiving the same, subject to a proportionate part of their respective Lease Burdens for all purposes of this agreement.

18.9 Joinder by True Owner. If title to a Committed Working Interest fails in whole or in part, such Committed Working Interest shall no longer be subject to this Agreement and Unit Agreement. A true owner of a Working Interest, title to which has failed, may join in this Agreement or enter upon a separate Operating Agreement with the Parties to this Agreement upon such terms and conditions as receive the approval of the Parties within the unit area; and subject to any valid claims of the true owner.

ARTICLE 19

UNLEASED INTERESTS

19.1 Treated as Leased. If a Party owns in fee all or any part of the oil and gas rights in any tract within the Unit Area which is not subject to any oil and gas lease, or other contract in the nature thereof, such Party shall be deemed to own a Committed Working Interest in such tract to the extent of seven-eighths (7/8) of its interest therein and a royalty interest with respect to the remaining one-eighth (1/8) interest therein.

ARTICLE 20 RENTALS AND LEASE BURDENS

20.1 **Rentals.** Each Party shall be obligated to pay any and all rentals and other sums (other than Lease Burdens) payable upon or in respect of its Committed Working Interests, subject, however, to the right of each Party to surrender any of its Committed Working Interests in accordance with Article 27. Upon request, each Party shall furnish to Unit Operator satisfactory evidence of the making of such payments. However, no Party shall be liable to any other Party for unintentional failure to make any such payments provided it has acted in good faith.

20.2 **Lease Burdens.** The Party or Parties entitled to receive the Production allocated to a tract of land within a participating area shall be obligated to make any and all payments, whether in cash or in kind, accruing to any and all Lease Burdens, net profits interests, carried interests and any similar interest payable in respect of such Production or the proceeds thereof, except as provided in Article 22 dealing with Withdrawal of Tracts and Uncommitted Interests. The Party or Parties entitled to receive the Production from a well completed as a producer but not included within a participating area shall be obligated to pay all Lease Burdens payable in respect of such Production and each such Party shall be obligated to pay any net profits interest, carried interest and similar interests payable in respect of its share of such production.

20.3 **Loss of Committed Working Interest.** If a Committed Working Interest is lost through failure to make any payment above provided to be made by the Party owning the same, such loss shall be borne entirely by such Party; provided, however, if the Committed Working Interest so lost covers land within a participating area the provisions of Subdivisions A, B, C and D of Section 18.9 dealing with Failure of Title to Committed Working Interest shall apply.

ARTICLE 21 TAXES

21.1 **Payment.** Any and all ad valorem taxes payable upon the Committed Working Interests (and upon Lease Burdens which are not payable by the owners thereof) or upon materials, equipment or other property acquired and held by Unit Operator hereunder, and any and all taxes (other than income taxes) upon or measured by Unitized Substances produced from the Unit Area which are not payable by the purchaser or purchasers thereof or by the owner of Lease Burdens, shall be paid by Unit Operator as and when due and payable.

21.2 **Apportionment.** Taxes upon materials, equipment and other property acquired and held by Unit Operator hereunder shall be charged to and borne by the Parties owning the same in proportion to their respective interests therein. All other taxes paid by Unit Operator shall be charged to and borne by the Parties in proportion to their ownership in the Committed Working Interests or Unitized Substances (as the case may be) upon which or in respect of which such taxes are paid. All reimbursements from owners of Lease Burdens, whether obtained in cash or by deduction from Lease Burdens, on account of any taxes paid for such owners shall be paid or credited to the Parties in the same proportions as such taxes were charged to such Parties.

21.3 **Transfer of Interests.** In the event of a transfer by one Party to another under the provisions of this agreement of any Committed Working Interest or of any interest in any well or in the materials and equipment in any well or in the event of the reversion of any relinquished interest as in this agreement provided the taxes above mentioned assessed against the interest transferred or reverted for the taxable period in which such transfer or reversion occurs shall be apportioned between such Parties so that each shall bear the percentage of such taxes which is proportionate to that portion of the taxable period during which it owned such interest.

21.4 **Notices and Returns.** Each Party shall promptly furnish Unit Operator with copies of notices, assessments, levies or tax statements received by it pertaining to the taxes to be paid by Unit Operator. Unit Operator shall make such returns, reports and statements as may be required by law in connection with any taxes above provided to be paid by it and shall furnish copies to the parties upon request. It shall notify the Parties of any tax which it does not propose to pay before such tax becomes delinquent.

ARTICLE 22 WITHDRAWAL OF TRACTS AND UNCOMMITTED INTERESTS

22.1 **Limitation on Right of Withdrawal.** ~~Not less than five (5) days before filing the Unit Agreement for final Departmental approval, Unit Operator shall notify each Party in writing of intention to file, specifying in such notice, to the best of Unit Operator's knowledge, the status of ownership of unitized lands and Lease Burdens on Production therefrom. If the owner of any substantial interest in a tract within the Unit Area has then failed or refused to join in the Unit Agreement, the Party or Parties owning Committed Working Interests in such tract shall have the right to withdraw such tract from the Unit Area in accordance with the Unit Agreement; provided, however, that such right shall not be exercised until after at least ten (10) days prior written notice to all other Parties within the Unit Area and such right shall not be exercised if within said period of ten days the non-withdrawal of such tract receives the Direction of the Parties who at the time of the giving of such notice have executed this agreement.~~

22.2 ~~The Effect of Non-Withdrawal at Direction of Parties. If the non-withdrawal of a tract receives the Direction of the Parties as above provided and if such tract is included within a participating area, the following provisions shall apply:~~

~~A. Any and all payments and liabilities to the owners of uncommitted interests in such tract that are in excess of the payments that would accrue to such owners had they executed the Unit Agreement shall be borne and shared on an Acreage Basis by the Parties within the participating area in which the tract is located;~~

~~B. If the payments that would accrue to the owners of uncommitted interests in such tract if they had joined in the Unit Agreement are in excess of the payments actually accruing to them such excess shall be shared by all Parties within the participating area on an Acreage Basis.~~

22.3 **Voluntary Non-Withdrawal.** If the Party or Parties owning Committed Working Interests in a tract voluntarily fails to exercise the right to withdraw such tract in accordance with the Unit Agreement, all payments and liabilities accruing to the owners of uncommitted interests in such tract shall be paid and borne by such Party or Parties.

ARTICLE 23 COMPENSATORY ROYALTIES

23.1 **Notice.** Whenever demand is made in accordance with the Unit Agreement for the payment of compensatory royalties, Unit Operator shall give written notice thereof to each Party affected by the demand, as hereinafter provided.

23.2 **Demand for Failure to Drill a Development Well.** If the demand for compensatory royalty results from the failure to Drill a Development Well and such well is not drilled, then Unit Operator shall pay such compensatory royalty. Such payment shall be charged as Costs incurred in operations within such participating area.

23.3 **Demand for Failure to Drill a Well Other than a Development Well.** If the demand for compensatory royalty results from the failure to Drill a well other than a Development Well and an election to Drill in order to avoid payment of Compensatory Royalties is not made by any Party owning a Committed Working Interest in the tract upon which such a well may be Drilled, then Unit Operator shall pay such compensatory royalty. Such payment shall be chargeable to and borne by the Parties who would be obligated to bear the Costs of such well if the well were Drilled as a Required Well in accordance with Section 10.4B.

ARTICLE 24 SEPARATE MEASUREMENT AND SALVAGE

24.1 **Separate Measurement.** If a well completed as a producer of Unitized Substances is in or included in a participating area but is not owned on an Acreage Basis by all the Parties within such participating area and if, within thirty (30) days after request by any interested Party, a method of measuring the Production from such well without necessitating additional facilities does not receive the Approval of the Parties, then Unit Operator shall install such additional tankage, flow lines or other facilities for separate measurement of the Unitized Substances produced from such well as Unit Operator may deem suitable. The Costs of such facilities for separate measurement shall be charged to and borne by the Drilling Party for such well and treated as Costs incurred in operating such well notwithstanding any other provisions of this agreement.

24.2 **Salvaged Materials.** If any materials and equipment are salvaged from a well completed as a producer after being Drilled, Deepened or Plugged Back otherwise than for the account of all the Parties entitled to participate therein before reversion to the Non-Drilling Parties of their relinquished interests in the well, the proceeds derived from sale

thereof, or, if not sold, the Salvage Value thereof, shall be treated in the same manner as proceeds of Production from such well for the purpose of determining reversion to Non-Drilling Parties of their relinquished interests in such well.

ARTICLE 25

SECONDARY RECOVERY AND PRESSURE MAINTENANCE

25.1 **Consent Required.** Unit Operator shall not undertake any program of secondary recovery or pressure maintenance involving injection of gas, water or other substance by any method, whether now known or hereafter devised, without first obtaining the consent of ~~not less than~~ ninety Parties in the aggregate owning not less than ninety per cent (90%) of the Committed Working Interests on an Acreage Basis in the participating area affected by any such program. After the Parties have voted to undertake a program of secondary recovery or pressure maintenance in accordance with this section, the conduct of such a program shall be subject to supervision by the Parties by vote as set forth in Article 14.

25.2 **Above Ground Facilities.** This agreement shall not be deemed to require any Party to participate in the construction or operation of any gasoline plant, sulphur recovery plant, dewaxing plant or other above ground facilities to process or otherwise treat Production, other than such facilities as may be required for treating Production in ordinary lease operations and such facilities as may be required in the conduct of operations authorized under Section 25.1.

ARTICLE 26

TRANSFERS OF INTEREST

26.1 **Restriction on Zone Transfers.** No Party shall assign, mortgage or transfer its Committed Working Interest in any tract committed to this agreement as to less than all formations underlying said tract without first receiving the Approval of the Parties within the Unit Area; provided, however, that such restriction shall not apply to a transfer by any Party of any part of its Committed Working Interest in any tract or tracts after the Drilling of the Initial Test Well or Wells and prior to the discovery of Unitized Substances in paying quantities under a farmout arrangement in consideration of the Drilling of a well within the Unit Area, free of expense to the other Parties, and upon the further condition that if such well results in the Production of Unitized Substances in paying quantities, such well and the Production therefrom will be shared by the Parties within the participating area established for such well in the same manner as if the well had been Drilled for the account of all Parties within such participating area.

26.2 **Sale by Unit Operator.** If Unit Operator sells all its Committed Working Interests, it shall resign and a new Unit Operator shall be selected as provided in the Unit Agreement.

26.3 **Assumption of Obligations.** No transfer of any Committed Working Interests shall be effective unless the same is made expressly subject to the Unit Agreement and this agreement and the transferee agrees in writing to assume and perform all obligations of the transferor under the Unit Agreement and this agreement insofar as relates to the interest assigned, except that such assumption of obligations shall not be required in case of a transfer by mortgage or deed of trust as security for indebtedness.

26.4 **Effective Date.** A transfer of Committed Working Interests shall not be effective as between the Parties until the first day of the month next following the delivery to Unit Operator of the original or a certified copy of the instrument of transfer conforming to the requirements of Section 26.3. In no event shall a transfer of Committed Working Interests relieve the transferring Party of any obligations accrued hereunder prior to said effective date, for which purpose any obligation assumed by the transferor to participate in the Drilling, Deepening or Plugging Back of a well prior to such effective date shall be deemed an accrued obligation.

ARTICLE 27

RELEASE FROM OBLIGATIONS AND SURRENDER

27.1 **Surrender or Release Within Participating Area.** A Committed Working Interest covering land within a participating area shall not be surrendered except with the consent of all Parties within such participating area. However, a Party who owns a Committed Working Interest in land within a participating area and who is not at the time committed to participate in the Drilling, Deepening or Plugging Back of a well within such participating area may be relieved of further obligations with respect to such participating area as then constituted by executing and delivering to Unit Operator an assignment conveying to all other Parties within such participating area all Committed Working Interests owned by such Party in lands within the participating area, together with the entire interest of such Party in any and all wells, materials, equipment and other property within or pertaining to such participating area.

27.2 **Procedure on Surrender Outside Participating Area.** Whenever a Party desires to surrender its Committed Working Interest in any tract which is not within any participating area, such Party shall give to all other Parties written notice thereof describing such Committed Working Interest. The Parties receiving such notice, or any of them, shall have the right at their option to take from the Party desiring to surrender an assignment of such Committed Working Interest by giving to the Party desiring to surrender written notice of election so to do within thirty (30) days after receipt of the notice of the desire to surrender. If such election is made as above provided, the Party or Parties taking the assignment (which shall be taken by them in proportion to the acreage of their Committed Working Interests among themselves in the Unit Area) shall pay to the assigning Party its share of the Salvage Value of any wells owned by the Parties and then located on the land covered by such Committed Working Interest, which payment shall be made on receipt of the assignment. If no Party elects to take such assignment within such thirty (30) day period, then the Party or Parties owning such Committed Working Interest may surrender the same if surrender thereof can be made in accordance with the Unit Agreement.

27.3 **Accrued Obligations.** A Party making an assignment or surrender in accordance with Section 27.1 or 27.2 shall not be relieved of its liability for any obligation accrued hereunder at the time the assignment or surrender is made, or of obligation to bear its share of the Costs incurred in any Drilling, Deepening or Plugging Back operation in which such Party has elected to participate prior to the making of such assignment or surrender, except to the extent that the Party or Parties receiving such assignment shall assume, with the Approval of the Parties, any and all obligations of the assigning Party hereunder and under the Unit Agreement.

ARTICLE 28

SEVERAL, NOT JOINT LIABILITY

28.1 **Liability.** The liability of the Parties hereunder shall be several and not joint or collective. Each Party shall be responsible only for its obligations as herein set out.

28.2 **No Partnership Created.** It is not the intention of the Parties to create, nor shall this agreement or the Unit Agreement be construed as creating a mining or other partnership or association between the Parties, or to render them liable as partners or associates.

28.3 **Election.** Each of the Parties hereby elects to be excluded from the application of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954 or such portion or portions thereof as may be permitted or authorized by the Secretary of the Treasury of the United States or his delegate insofar as such Subchapter or any portion or portions thereof may be applicable to the Parties. If any present or future income tax laws of the state or states in which the Unit Area is located, or any future income tax law of the United States, contain, or shall hereafter contain, provisions similar to those contained in the Subchapter of the Internal Revenue Code of 1954 above referred to under which a similar election is permitted, each of the Parties hereby elects to be excluded from the application of such laws. Accordingly, each Party hereby authorizes and directs Unit Operator to execute such an election or elections on its behalf and file the same with the proper administrative office or agency. If requested by Unit Operator, each Party agrees to execute and join in such instruments as are necessary to make such elections effective.

ARTICLE 29

NOTICES

29.1 **Giving and Receipt.** Except as otherwise specified herein, any notice, consent or statement herein provided or permitted to be given by Unit Operator or a Party to the Parties shall be given in writing by United States mail or by telegraph, properly addressed to each Party to whom given, with postage or charges prepaid, or by delivery thereof in person to the Party to whom given; however, if delivered to a corporate Party, it shall not be deemed given unless delivered personally to an executive officer of such Party or to its representative designated pursuant to Section 14.5 dealing with Representatives. A notice given under any provision hereof shall be deemed given only when received by the Party to whom such notice is directed, except that any notice given by United States registered mail or by telegraph,

properly addressed to the Party to whom given with all postage and charges prepaid, shall be deemed given to and received by the Party to whom directed forty-eight (48) hours after such notice is deposited in the United States mails or twenty-four (24) hours after such notice is filed with an operating telegraph company for immediate transmission by telegraph, and also except that a notice to Unit Operator shall not be deemed given until actually received by it.

29.2 Proper Addresses. Each Party's proper address shall be deemed to be the address set forth under or opposite its signature hereto unless and until such Party specifies another post office address within the continental limits of the United States by not less than ten (10) days prior written notice to all other Parties.

ARTICLE 30

EXECUTED IN COUNTERPARTS AND RATIFICATION

30.1 Counterparts. This agreement may be executed in counterparts and all such counterparts taken together shall be deemed to constitute one and the same instrument.

30.2 Ratification. This agreement may be executed by the execution and delivery of a good and sufficient instrument of ratification, adopting and entering into this agreement. Such ratification shall have the same effect as if the Party executing it had executed this agreement or a counterpart hereof.

ARTICLE 31

SUCCESSORS AND ASSIGNS

31.1 Covenants. This agreement shall be binding on and inure to the benefit of all Parties signing the same, their heirs, devisees, personal representatives, successors and assigns and their successors in interest, whether or not it is signed by all the Parties listed below. The terms hereof shall constitute a covenant running with the lands and the Committed Working Interests of the Parties.

ARTICLE 32

HEADINGS FOR CONVENIENCE

32.1 Headings. The table of contents and the headings used in this agreement are inserted for convenience only and shall be disregarded in construing this agreement.

ARTICLE 33

RIGHT OF APPEAL

33.1 Not Waived. Nothing contained in this agreement shall be deemed to constitute the waiver by any Party of any right it would otherwise have to contest the validity of any law or any order or regulation of governmental authority (whether federal, state or local) relating to or affecting the conduct of operations within the Unit Area or to appeal from any such order.

ARTICLE 34

SUBSEQUENT JOINDER

34.1 Prior to the Commencement of Operations. Prior to the commencement of operations under the Unit Agreement, all owners of Working Interests in the Unit Area who have joined in the Unit Agreement shall be privileged to execute or ratify this agreement.

34.2 After Commencement of Operations. After commencement of operations under the Unit Agreement, any Working Interest in land within the Unit Area which is not then committed hereto may be committed to this agreement and to the Unit Agreement upon such reasonable terms and conditions as may receive the Approval of the Parties.

ARTICLE 35

CARRIED INTERESTS

35.1 Treatment of. If any working interest shown on Exhibit B of the Unit Agreement and committed thereto is a carried working interest, such interest shall, if the carrying party executes this agreement be deemed to be, for the purpose of this agreement, a Committed Working Interest owned by the carrying party.

ARTICLE 36

EFFECTIVE DATE AND TERM

36.1 Effective Date. This agreement shall become effective on the effective date of the Unit Agreement ~~except that the provisions of Section 22.1 dealing with Limitation on Right of Withdrawal shall be operative prior to such effective date.~~

36.2 Term. The term of this agreement shall be the same as the term of the Unit Agreement and shall terminate concurrently therewith.

36.3 Effect of Termination. Termination of this agreement shall not relieve any Party of its obligations then accrued hereunder. Notwithstanding termination of this agreement the provisions hereof relating to the charging and payment of Costs and the disposition of materials and equipment shall continue in force until all materials and equipment owned by the Parties have been disposed of and until final accounting between Unit Operator and the Parties. Termination of this agreement shall automatically terminate all rights and interests acquired by virtue of this agreement in lands within the Unit Area except such transfers of Committed Working Interests as have been evidenced by formal written instruments of transfer.

36.4 Effect of Signature. When this agreement is executed by two Parties, execution by each shall be deemed consideration for execution by the other and each Party theretofore or thereafter executing this agreement shall thereupon become and remain bound hereby until the termination of this agreement. ~~However, if the Unit Agreement does not become effective within twelve (12) months from and after the date of this agreement, then at the expiration of said period, this agreement shall terminate.~~

ARTICLE 37

37.1 Failure to Take in Kind. If any Party fails so to take or dispose of its share, Unit Operator shall have the right for such reasonable periods of time that are consistent with the minimum needs of the Industry under the circumstances, but in no event to exceed one year, and subject to revocation at will by the Party owning same to purchase for its own account or sell to others such share at not less than the market price prevailing in the area and not less than the price Unit Operator receives for its share of Production, subject to the right of such Party to exercise at any time its right to take in kind or separately dispose of its own share of Production not previously taken by Unit Operator or delivered to others pursuant to this Section 37.1.

Notwithstanding the foregoing, Unit Operator shall not make any commitment to sell any other Party's share of gas production into interstate commerce without first obtaining such Party's consent.

37.2 In the event a relinquishment of interest by a Non-Drilling Party occurs according to the provisions of this agreement as to any well and production is had from such well, the Unit Operator, or other Party conducting the operation which resulted in the relinquishment, shall furnish each non-Drilling Party upon its request all the information referred to in Section 16.1F and in addition shall include the following:

a. An itemized statement of the Costs of the operation in which the Non-Drilling Party did not participate; and

b. Until reversion occurs, a monthly itemized statement of the Costs incurred in the operation of the said well, the quantity of production therefrom, the amount of proceeds received from the sale of the same, and the Lease Burdens paid with respect to Production.

37.3 The provisions of Section 6.2 are hereby modified and limited with respect to a well covered thereby if any Party owning a Committed Working Interest in the Drilling Block formed for such well elects not to participate in the Costs thereof as to his Committed Working Interest in the Drilling Block. In such case, the relinquished interest of Non-Drilling Party shall revert to it in the same manner and under the same conditions as provided in Section 12.3 with respect to wells located in a Participating Area, except that the production from such well sufficient to cause such reversion shall be that which, had the Non-Drilling Party elected to participate in such well, would be allocable on an acreage basis to the interest of Non-Drilling Party in land in the Drilling Block formed for such well. Upon reversion of the relinquished interest of a Non-Drilling Party in such a well the provisions of Section 12.4 dealing with Effect of Reversion shall be applicable.

37.4 Should the owner of a royalty interest fail or refuse to execute or become bound by the Unit Agreement and as a result thereof the Lease Burdens of the Party entitled to receive the production allocated to the tract or tracts of land affected are more than the Lease Burdens computed on the basis of production allocated thereto, Unit Operator, upon receipt of evidence thereof from the Party affected, shall reimburse that Party for the full amount of such excess Lease Burdens and shall treat the same as an operating cost; similarly, if the Lease Burdens are less than the Lease Burdens computed on the basis of production allocated thereto, such Party shall remit the difference to Unit Operator for distribution to all Parties.

37.5 The provisions of Section 16.1(G) or any other provision of this Unit Operating Agreement shall not, without more, entitle any Party to share in the distribution of velocity logs and velocity survey information, whether conventional velocity surveys or continuous velocity logs. The Parties hereto, or any one or more of them or any association of which one or more of the Parties is a member, may at its or their sole cost, risk and expense, including stand-by rig time, conduct such surveys in any well drilled hereunder upon reasonable request and be entitled to the information thereby obtained.

EXHIBIT " 2 "

Attached to and made a part of _____

 Jornada Del Muerto Unit Agreement

 Sierra 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. Payment and Advances by Non-Operators

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

ten 10%

6. Adjustments

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

7. Audits

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

II. DIRECT CHARGES

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

1. Rentals and Royalties

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

2. Labor

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

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

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

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

3. Employee Benefits

Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost; provided however, the total of such charges shall not exceed ten percent (10%) of Operator's labor costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.

4. Material

Material purchased or furnished by Operator for use on the Joint Property. So far as it is reasonably practical and consistent with efficient and economical operation, only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use; and the accumulation of surplus stocks shall be avoided.

5. Transportation

Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:

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

6. Services

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

7. Damages and Losses to Joint Property

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

8. Legal Expense

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

9. Taxes

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

10. Insurance Premiums

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

11. Other Expenditures

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

III. INDIRECT CHARGES

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

OPERATOR SHALL CHARGE THE JOINT ACCOUNT UNDER THE TERMS OF:

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

1. District Expense

Operator shall charge the Joint Account with a pro rata portion of the salaries, wages and expenses of Operator's production superintendent and other employees serving the Joint Property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's office located at or near (or a comparable office if location changed), and necessary sub-offices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in connection with the operations of the Joint Property and other properties in the same operating area. The expense of, less any revenue from, such facilities may, at the option of Operator, include depreciation of investment or a fair monthly rental in lieu of depreciation. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.

2. Administrative Overhead

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

WELL BASIS (RATE PER WELL PER MONTH)

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.)

4. Combined Fixed Rates

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

WELL BASIS (RATE PER WELL PER MONTH)

Well Depth	DRILLING WELL RATE (Use Total Depth)	PRODUCING WELL RATE (Use Current Producing Depth)		
	Each Well	All wells	Next Five	All Wells Over Ten
All depths	\$1,250.00	\$130.00		

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

5. Application of Administrative Overhead or Combined Fixed Rates

The following limitations, instructions and charges shall apply in the application of the per well rates as provided under either Paragraph 2 or Paragraph 4 of this Section III:

A. Charges for drilling wells shall begin on the date each well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.

B. The status of wells shall be as follows:

(1) Producing gas wells, injection wells for recovery operations, water supply wells utilized for water flooding operations and salt water disposal wells shall be considered the same as producing wells.

(2) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the well schedule at the time the shutdown is effected. When such a well is plugged a charge shall be made at the producing well rates.

(3) Wells being plugged back, drilled deeper, converted to a source or input well, or which are undergoing any type of workover that requires the use of a drilling or workover rig shall be considered the same as drilling wells.

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

(5) Gas wells shall be included in the well schedule if directly connected to a permanent sales outlet even though temporarily shut in due to overproduction or failure of purchaser to take the allowed production.

(6) Wells completed in multiple horizons, in which the production is not commingled down hole, shall be considered as a producing well for each separately producing horizon.

C. The well rates shall apply to the total number of wells being drilled or operated under the agreement to which this Accounting Procedure is attached, irrespective of individual leases.

D. ~~The well rates shall be adjusted on the first day of April of each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the preceding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.~~

* ~~6. For the construction of compressor plants, water stations, secondary recovery systems, salt water disposal facilities, and other such projects, as distinguished from the more usual drilling and producing operations, Operator in addition to the Administrative Overhead or Combined Fixed Rates provided for in Paragraph 2 and 4 of this Section III, shall charge the Joint Account with an additional overhead charge as follows:~~

A. ~~Total cost less than \$25,000, no charge.~~

B. ~~Total cost more than \$25,000 but less than \$100,000, _____% of total cost.~~

C. ~~Total cost of \$100,000 or more, _____% of the first \$100,000 plus _____% of all over \$100,000 of total cost.~~

~~Total cost shall mean the total gross cost of any one project. For the purpose of this Paragraph the component parts of a single project shall not be treated separately and the cost of drilling wells shall be excluded.~~

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

IV. BASIS OF CHARGES TO JOINT ACCOUNT

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

I. Purchases

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

Material furnished from Operator's Warehouse or Other Properties

A. New Material (Condition "A")

(1) Tubular goods, two inch (2") and over, shall be priced on Eastern Mill base (i. e. Youngstown, Ohio; Lorain, Ohio; and Indiana Harbor, Indiana) on a minimum carload basis effective at date of movement and f. o. b. railway receiving point nearest the Joint Property, regardless of quantity. In equalized hauling charges, Operator is permitted to include ten cents (10c) per hundred-weight on all tubular goods furnished from his stocks in lieu of loading and unloading costs sustained.

(2) Other Material shall be priced at the current replacement cost of the same kind of Material, effective at date of movement and f. o. b. the supply store or railway receiving point nearest the Joint Property where Material of the same kind is available.

(3) The Joint Account shall not be credited with cash discounts applicable to prices provided for in this Paragraph 2 of Section IV.

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

(1) Material in sound and serviceable condition and suitable for reuse without reconditioning, shall be classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material.

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

(a) After reconditioning will be further serviceable for original function as good secondhand Material (Condition "B"), or

(b) Is serviceable for original function but substantially not suitable for reconditioning, shall be classified as Condition "C" and priced at fifty per cent (50%) of current new price.

(3) Obsolete Material or Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use. Material no longer suitable for its original purpose but usable for

* To be negotiated

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

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

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

5. Equipment and Facilities Furnished by Operator

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

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

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

V. DISPOSAL OF MATERIAL

The Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus Condition "A" or "B" Material. The disposition of surplus Controllable Material, not purchased by Operator, shall be subject to agreement between Operator and Non-Operators, provided Operator shall dispose of normal accumulations of junk and scrap Material either by transfer or sale from the Joint Property.

1. Material Purchased by the Operator or Non-Operators

Material purchased by either the Operator or Non-Operators shall be credited by the Operator to the Joint Account for the month in which the Material is removed by the purchaser.

2. Division in Kind

Division of Material in kind, if made between Operator and Non-Operators, shall be in proportion to the respective interests in such Material. The Parties will thereupon be charged individually with the value of the Material received or receivable. Proper credits shall be made by the Operator in the monthly statement of operations.

3. Sales to Outsiders

Sales to outsiders of Material from the Joint Property shall be credited by Operator to the Joint Account at the net amount collected by Operator from vendee. Any claim by vendee related to such sale shall be charged back to the Joint Account if and when paid by Operator.

VI. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

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

1. New Price Defined

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

2. New Material

New Material (Condition "A"), being new Material procured for the Joint Property but never used, at one hundred per cent (100%) of current new price (plus sales tax if any).

3. Good Used Material

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

A. At seventy-five per cent (75%) of current new price if Material was charged to Joint Account as new, or

B. At sixty-five per cent (65%) of current new price if Material was originally charged to the Joint Account as secondhand at seventy-five percent (75%) of new price.

4. Other Used Material

Used Material (Condition "C"), at fifty per cent (50%) of current new price, being used Material which:

A. Is not in sound and serviceable condition but suitable for reuse after reconditioning, or

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

5. Bad-Order Material

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

6. Junk Material

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

7. Temporarily Used Material

When the use of Material is temporary and its service to the Joint Property does not justify the reduction in price as provided for in Paragraph 3 B of this Section VI, such Material shall be priced on a basis that will leave a net charge to the Joint Account consistent with the value of the service rendered.

VII. INVENTORIES

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

1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Material, which shall include all such Material as is ordinarily considered controllable. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator, who shall in that event furnish Non-Operators with a copy thereof.

2. Reconciliation and Adjustment of Inventories

Reconciliation of inventory with charges to the Joint Account shall be made, and a list of overages and shortages shall be jointly determined by Operator and Non-Operators. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable to Non-Operator only for shortages due to lack of reasonable diligence.

3. Special Inventories

Special inventories may be taken whenever there is any sale or change of interest in the Joint Property. It shall be the duty of the party selling to notify all other Parties as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be governed by such inventory.

EXHIBIT "3"

Attached to and Made Part of "Unit Operating Agreement"
for Jornada Del Muerto Unit
Sierra County, New Mexico.

- A. Location. The Initial Test Well shall be drilled at a location satisfactory to Beard Oil Company.
- B. Depth. The Initial Test Well shall be drilled conformably with the terms of Article 9 of the Jornada Del Muerto Unit Agreement.
- C. Costs. All costs and expenses incurred in connection with the Initial Test Well, including drilling, testing, and completing into tanks, if an oil producer, or through gas separator, if a gas producer, and plugging and abandoning, if a dry hole, shall be borne and paid for by Beard Oil Company and such other parties hereto as agree to bear such costs in accordance with separate agreement among themselves, subject to the investment adjustment provisions of Article 13 of this agreement. Any cash contributions received toward the drilling of the Initial Test Well shall belong to the parties sustaining the risk of drilling the Initial Test Well.
- D. Title Examination Area. The title examination area for the Initial Test Well shall comprise 640 acres, more or less, around the Initial Test Well as designated by the parties sustaining the risk of drilling the Initial Test Well.
- E. Examination of Titles. The provisions of Section 18.3 notwithstanding, Unit Operator shall examine the titles to all leases, lands and interests, any portion of which fall within the designated title examination area and shall furnish copies of all title opinions and report concerning the title examination with written recommendations for approval or disapproval of the title to each committed working interest involved and thereafter the parties shall advise Unit Operator in writing within fifteen (15) days after receipt of such title opinions or reports of approval or disapproval of titles. All costs of such examination shall be charged as costs of drilling the Initial Test Well.
- F. Deepening, Plugging Back. In the absence of any agreement to the contrary, the attempted completion, deepening or plugging back, and abandonment of the Initial Test Well, shall be governed by the provisions of Part 2 of Exhibit "4" of the Unit Operating Agreement.

EXHIBIT 4

Attached to and made a part of that certain agreement entitled Unit
Operating Agreement JORNADA DEL MUERTO

Unit Area, County of SIERRA, State of NEW MEXICO,

Dated the 10th day of May, 1972

PART 1

DRILLING OF EXPLORATORY WELLS

1. **Notice of Proposed Drilling.** Any Party desiring the Drilling of an Exploratory Well on land in which it owns a Committed Working Interest shall designate an area, herein called a Drilling Block, not to exceed 640 acres, which, on the basis of available geological information will, in its judgment, be proved productive by the drilling of such well. Unit Operator and each Party within the Drilling Block shall be furnished with a plat and description of the area so designated, together with written notice of the location, objective formation, maximum depth, and estimated cost of the proposed well. The location of the proposed well shall conform to any applicable spacing pattern then existing or an authorized exception thereto. The Drilling Block shall include no land in an established participating area for the objective formation for the well to be drilled thereon nor any land included in a proposal therefor filed with the Director, nor any land within an active, previously designated Drilling Block for such formation. The Drilling Block shall be considered active for ninety (90) days after the designation thereof and if a well is commenced thereon within such period until either:

A. The completion of the well, if it is completed otherwise than as a producer of unitized substances in paying quantities, or;

B. The filing with the Director of a proposal for the establishment or revision of a participating area if the drilling of the well results in the filing of such proposal.

2. **Basis of Participation.** Each Party within the Drilling Block shall be entitled to participate in the Costs of the proposed well on an Acreage Basis, but shall be required to do so only if it notifies the other Parties of its willingness so to participate as hereinafter in this Article provided.

3. **Exclusion of Land From Proposed Drilling Block.** Within thirty (30) days after receipt of such notice, any part of the land included in the proposed Drilling Block may be excluded therefrom at the Direction of the Parties therein. In such event the proposed Drilling Block as reduced by the exclusion of such land shall be established as the Drilling Block. In the absence of any such Direction then at the expiration of said period, the proposed Drilling Block shall be established as the Drilling Block.

4. **Preliminary Notice to Join in Drilling.** Within ten (10) days after the establishment of the Drilling Block, each Party within such Drilling Block shall in writing advise all other Parties therein whether or not it wishes to participate in the Drilling of the proposed well. If any Party fails to give such advice within the prescribed time, it shall be deemed to have elected not to participate in Drilling such proposed well. If all the Parties within the Drilling Block so advise that they wish to participate therein, the Unit Operator shall Drill the proposed well for the account of all such Parties.

5. **Notice of Election to Drill.** Unless all Parties within the Drilling Block agree to participate in Drilling such well, then, within fifteen (15) days after the expiration of the ten-day period last above provided in Section 4, each Party within the Drilling Block then desiring to have the proposed well Drilled, shall give to all other Parties therein written notice of its election to proceed with the Drilling of said well. Failure to give such notice shall be deemed an election not to participate in Drilling the well.

6. **Effect of Election to Drill.** If one or more, but not all of the Parties, elect to proceed with the Drilling of the well, Unit Operator shall drill the well for the account of such Party or Parties on an Acreage Basis among themselves who shall constitute the Drilling Party.

Any Party within the Drilling Block who has not previously elected to participate in the proposed well may do so by written notice given to all other Parties within the Drilling Block at any time before operations for the Drilling of the well are commenced, in which event such Party shall be included in the Drilling Party. However, such Party shall be bound by any and all Directions and Approvals theretofore given by the Drilling Party concerning the Drilling of the well.

7. **Rights and Obligations of Drilling Party and Non-Drilling Party.** If the well results in the establishment or enlargement of a participating area to include such well and if by reason thereof there is included in such participating area any land within the Drilling Block in which a Non-Drilling Party owns a Committed Working Interest, then such Non-Drilling Party as of the effective date of such inclusion shall be deemed to have relinquished to the Drilling Party and the Drilling Party shall own all of the operating rights and working interests in such well, and the materials and equipment pertaining thereto, which such Non-Drilling Party would otherwise own, and that portion of production from such well which is allocated to all of the acreage of such Non-Drilling Party within such participating area until such time as the proceeds or market value of said portion of the production from such well (after deducting all Lease Burdens and all taxes upon or measured by production which are payable in respect of said portion up to such time) shall equal the sum of the following:

A. One hundred per cent (100%) of that portion of the Costs incurred in operation of the well up to such time that would have been chargeable to Non-Drilling Party with respect to its Committed Working Interest in the participating area but for the relinquishment aforesaid, and,

B. Three Hundred per cent (300%) of that portion of the Costs incurred by Drilling Party in Drilling the well that would have been chargeable to such Non-Drilling Party had it initially participated in the Drilling of such well on an Acreage Basis and had the Drilling Block included only such of the lands included in the Drilling Block as originally designated which are included within the participating area. At such time the interest relinquished by Non-Drilling Party in such well shall revert to it. Except as above in this section provided the provisions of Article 12 dealing with Rights and Obligations of Drilling Party and Non-Drilling Party shall apply.

8. **Required Drilling.** If an Exploratory Well is Drilled as a required well in accordance with Section 10.4 B, the Drilling block for such well shall consist of all forty acre subdivisions and lots of the Public Land Survey of which more than one-half of the surface area is within a distance of 2640 feet from the proposed bottom hole location of such well, but excluding therefrom all lands within a participating area theretofore established for the pool or zone to which the well is to be Drilled.

PART 2

ATTEMPTED COMPLETION, DEEPENING, PLUGGING BACK AND ABANDONMENT

1. **Wells Not Completed as Producers.** The attempted completion, Deepening or Plugging Back of wells not completed as producers at their projected depths, shall be governed by the following provisions, except that said provisions shall not apply to a particular well if every Party entitled to the notice provided for in Subdivision A hereof has consented to abandonment and plugging of such well:

A. **Notice by Unit Operator.** Before abandoning a Development Well which has been Drilled to its projected depth but not completed as a producer, Unit Operator shall give notice thereof to each Party within the participating area involved. After a well other than a Development Well has reached its projected depth and been tested, but before production pipe has been set therein, Unit Operator shall give notice thereof to each Party who participated in Drilling the well, and to each additional Party, if any, who was entitled to participate therein, but elected not to do so. Each notice provided for in this section shall be given by telegraph or telephone.

B. Right to Attempt Completion, Deepen or Plug Back. Each Party who participated in the Drilling of a well concerning which notice is given in accordance with Subdivision A hereof, and any other Party owning a Committed Working Interest in the tract of land on which the well is located, may initiate a proposal to attempt the completion of, or to Deepen or Plug Back such well; provided, however, that if the well was Drilled as a Development Well, a proposal to Deepen or Plug Back the well may be initiated only by a Party owning a Committed Working Interest in the tract of land on which the well is located. In order to be entitled to participate in a proposed operation, a Party must have the right to initiate the same or must own a Committed Working Interest in the Drilling block theretofore established for such well or, if no Drilling block has theretofore been established for such well, in the Drilling Block established for such Deepening or Plugging Back operation as provided in the following paragraph C.

C. Time and Manner of Initiating Proposal. A period of twenty-four (24) hours (exclusive of Saturdays, Sundays and holidays) from and after receipt of the notice referred to in Subdivision A of this paragraph 1 shall be allowed within which a Party may initiate a proposal to complete, Deepen or Plug Back and, except in the case of a proposal to complete a well Drilled as a Development well, designate a Drilling Block for such proposed operation, if one has not previously been designated for such well. Any such proposal shall be initiated by giving notice thereof by telephone or telegraph to each Party entitled to participate in the proposed operation. If no such proposal is initiated within the period allowed therefor, Unit Operator shall abandon and plug the well.

D. Election. If a proposal is initiated each Party entitled to participate in any completing, Deepening or Plugging Back operation proposed in accordance with Subdivision C above shall have a period of twenty-four (24) hours (exclusive of Saturdays, Sundays and holidays) from and after receipt of notice of the initiation of any such operation within which (either at a meeting or by telephone) to establish a Drilling Block if the establishment of a Drilling Block is necessary for the proposed operations (following the same procedures in establishing a Drilling Block as the procedures provided for in Part 1 of the Exhibit 4 for the establishment of a Drilling Block for an Exploratory Well) and to notify Unit Operator by telephone or telegraph whether or not it elects to participate in the proposed operation. The failure of a Party to signify its election within the time required shall be deemed to constitute an election not to participate in the proposed operation.

E. Effect of Election. The Party or Parties electing to participate in an attempt to complete, or to Deepen or Plug Back, a well as above provided shall constitute the Drilling Party for such operation. Each Party who is entitled to make such election but fails to do so as above provided, shall be deemed to have elected not to participate in such operation, and shall be a Non-Drilling Party in respect of such operation. Such operation shall be conducted by Unit Operator for the account of the Party or Parties constituting the Drilling Party on an acreage basis among themselves, subject, however, to the provisions of paragraph 4 of Part 2 of this Exhibit 4, dealing with Conflicts, and paragraph 5 of Part 2 of this Exhibit 4 dealing with Deepening or Plugging Back to Participating Area.

F. Stand-By Rig Time. Stand-by time paid for the rig on a well until expiration of the period of forty-eight (48) hours allowed for the initiation of and election to participate in an attempt to complete, or to Deepen or Plug Back, such well, shall be charged and borne as part of the Costs incurred in Drilling the well. Thereafter such stand-by time shall be charged to and borne by the Party or Parties who elect to participate in the attempt to complete, or to Deepen or Plug Back, the well, whether or not such Party or Parties shall proceed with such operation. However, if the Party or Parties making such election do not proceed with the operation, the Costs incurred in plugging the well shall be charged and borne as part of the Costs incurred in Drilling the well.

2. Abandonment of Producing Wells. A well completed as a producer of Unitized Substances within a participating area shall be abandoned for plugging if and when abandonment thereof receives the Approval of the Parties within such participating area, subject, however, to the provisions of paragraph 3 hereof concerning Deepening, or Plugging Back Abandoned Producing Wells. The abandonment of a well completed as a producer but not included in a participating area shall be governed by the following provisions:

A. Consent Required. Such a well shall not be abandoned for production from the pool or zone in which it is completed except with the consent of all Parties then owning the well.

B. Abandonment Procedure. If the abandonment of such a well receives the Approval of the Parties who own the well, but is not consented to by all such Parties, Unit Operator shall give written notice thereof to each Party then having an interest in the well who did not join in such Approval. Any such non-joining Party who objects to abandonment of the well (herein called non-abandoning Party) may give written notice thereof to all other Parties (herein called abandoning Parties) then having interests in the well, provided such notice is given within thirty (30) days after receipt of the notice given by Unit Operator. If such objection is so made, the non-abandoning Party or Parties shall forthwith pay to the abandoning Parties their respective shares of the Salvage Value of the well. Upon the making of such payment, the abandoning Parties shall be deemed to have relinquished unto the non-abandoning Party or Parties all their operating rights and working interest in the well, but only with respect to the pool or zone in which it is then completed, and all their interest in the materials and equipment in or pertaining to the well. If there is more than one non-abandoning Party, the interest so relinquished shall be owned by the non-abandoning Parties, each in the proportion that its interest in the well bears to the combined interest therein of all non-abandoning Parties immediately prior to such relinquishment.

C. Rights and Obligations of Non-Abandoning Party. After the relinquishment above provided for, such well shall be operated by Unit Operator for the account of the non-abandoning Party or Parties, who shall own all Production therefrom and shall bear all Costs, Lease Burdens and other burdens thereafter incurred in operating the well and plugging it when abandoned (unless the well is taken over for Deepening or Plugging Back as hereinafter provided), and also the Costs of any additional tankage, flow lines or other facilities needed to measure separately the Unitized Substances produced from the well; said operating Costs shall include an overhead charge computed at the highest per well rate applicable to the operation of a single producing well in accordance with Exhibit 2, if such rate is provided.

D. Option to Repurchase Materials. If a well taken over by the non-abandoning Party or Parties as above provided is abandoned for plugging within six (6) months after relinquishment by the abandoning Parties of their interests therein, each abandoning Party shall have the right at its option to repurchase that portion of the materials and equipment salvaged from the well equal to the interest relinquished by it to the non-abandoning Party or Parties, at the value fixed therefor in accordance with Subdivision B of this section. Said option may be exercised only by written notice given to Unit Operator and the non-abandoning Party or Parties within fifteen (15) days after receipt of the notice given by Unit Operator pursuant to paragraph 3 hereof.

3. Deepening or Plugging Back Abandoned Producing Wells. Before abandoning for plugging any well completed as a producer of Unitized Substances, Unit Operator shall, (A) if the well is within a Participating Area, give written notice thereof to the Party or Parties owning Committed Working Interests in the tract of land on which the well is located, or (B) if the well is not within a Participating Area, give written notice thereof to each Party then owning an interest in the well and to each additional Party, if any, owning Committed Working Interests in the tract of land upon which the well is located. If no Drilling Block has previously been established for such well and a Party receiving such notice desires the Deepening or Plugging Back thereof, it shall, within fifteen (15) days after receipt of such notice, proceed with the establishment of a Drilling Block for such well as provided in paragraphs 1 and 3 of Part 1 of this Exhibit 4. Within ten (10) days after receipt of such notice, if a Drilling Block has previously been established for such well, or, if not previously established, within ten (10) days after a Drilling Block is established for such well, the Party desiring the Deepening or Plugging Back of such well shall give notice thereof in accordance with paragraph 4 of Part 1 of this Exhibit 4 and all of the provisions of paragraphs 4, 5 and 6 of Part 1 of this Exhibit 4 shall apply in the same manner as if the proposed Deepening or Plugging Back were the Drilling of an Exploratory Well, subject, however, to the provisions of paragraph 4 of Part 1 of this Exhibit 4, dealing with Conflicts, and paragraph 5 of Part 1 of this Exhibit 4, dealing with Deepening or Plugging Back to a Participating Area. If no Party gives notice of desire to Deepen or Plug Back such well within said period of ten (10) days, or if such notice is given but no Party elects to proceed with the Deepening or Plugging Back of the well within the time limited therefor, Unit Operator shall abandon and plug the well for the account of the Party or Parties owning the well.

4. Conflicts. If conflicting elections to attempt completion, Deepen, or Plug Back are made in accordance with the preceding provisions of Part 2 of this Exhibit 4, preference shall be given first to a completion attempt and then to Deepening. However, if a completion attempt, a Deepening or Plugging Back does not result in completion of the well as a producer, Unit Operator shall again give notice in accordance with Subdivision A of paragraph 1 of Part 2 of this Exhibit 4 before abandoning the well for plugging.

5. Deepening or Plugging Back to Participating Area. If a well within the surface boundaries of a participating area is to be Deepened or Plugged Back to a pool or zone for which such participating area has been established, such op

eration may be conducted only if it receives the Approval of the Parties within such participating area, and upon such terms and conditions as may be specified in such Approval.

6. Rights and Obligations of Drilling Party and Non-Drilling Parties. Whenever an attempt to complete a well Drilled as a Development Well is made otherwise than for the account of all Parties entitled to participate therein, the provisions of Article 12 dealing with Rights and Obligations of Drilling Party and Non-Drilling Parties shall apply.

Whenever either (1) an attempted completion of a well which was not Drilled as a Development well is made or (2) a well is Deepened or Plugged Back, otherwise than for the account of all Parties entitled to participate therein, the provisions of paragraph 7 of Part 1 of this Exhibit 4 dealing with Rights and Obligations of Drilling Party and Non-Drilling Parties shall apply to the operations conducted the same as if such operations comprised Drilling operations.

EXHIBIT "5"

INSURANCE

Operator will carry, or cause to be carried, at the joint expense, the following insurance covering all operations within the Unit Area.

- (a) Workmen's Compensation Insurance, including Employer's Liability, in accordance with the laws of the State of New Mexico.
- (b) Comprehensive General Public Liability with bodily injury limits of not less than \$100,000.00 for any one person and \$300,000.00 for any one accident; and property damage limits of not less than \$100,000.00 for any one accident and \$100,000.00 aggregate;
- (c) Automobile Public Liability with bodily injury limits of not less than \$100,000.00 for any one person and \$300,000.00 for any one accident; and property damage limits of not less than \$25,000.00 for each accident; said insurance to cover "owned", "not owned", and "hired" automobiles.

In connection with which it is understood that Operator shall have no obligation to carry any insurance, other than that afore-recited, on operations in the prospects unless requested in writing to do so by all of the parties in interest in the leases covering such area. It is further understood that in the event Operator cannot for any reason procure the afore-recited insurance covering operations in the prospects, then it will have no liability and/or responsibility for failure to carry such insurance provided it promptly notifies the parties in interest in such area of its inability to so procure such insurance coverage.