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 Loafer Draw 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 lease committed to said agreement are hereby established, altered, changed, or revoked to conform with the terms and conditions of this agreement.

Dated: _____

_____
Area Oil and Gas Supervisor
U. S. Geological Survey

Contract No. _____

3096 1

UNIT AGREEMENT

LOAFER DRAW UNIT AREA

EDDY COUNTY, NEW MEXICO

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UNIT AGREEMENT

FOR THE DEVELOPMENT AND OPERATION

OF THE

LOAFER DRAW UNIT AREA

COUNTY OF EDDY

STATE OF NEW MEXICO

NO. _____

THIS AGREEMENT, entered into as of the 15th day of October, 1973, by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto,"

WITNESSETH:

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

WHEREAS the Mineral Leasing Act of February 25, 1920, 41 Stat. 437, as amended, 30 U. S. C. Secs. 181 et seq., authorizes Federal lessees and their representatives to unite with each other, or jointly or separately with others, in collectively adopting and operating a cooperative or unit plan of development or operation of any oil or gas pool, field, or like area, or any part thereof for the purpose of more properly conserving the natural resources thereof whenever determined and certified by the Secretary of the Interior to be necessary or advisable in the public interest; and

WHEREAS, the Commissioner of Public Lands of the State of New Mexico is authorized by an Act of the Legislature (Sec. 7-11-39 N.M. Statutes 1953 Annotated) to consent to or approve this agreement on behalf of the State of New Mexico, insofar as it covers and includes lands and mineral interests of the State of New Mexico; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico is authorized by an Act of the Legislature (Article 3, Chapter 65, Vol. 9, Part 2, 1953 Statutes) to approve this agreement and the conservation provisions hereof; and

WHEREAS the parties hereto hold sufficient interests in the Loafer Draw Unit Area covering the land hereinafter described to give reasonably effec-

tive control of operations therein; and

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

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

1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of February 25, 1920, as amended, supra, and all valid pertinent regulations, including operating and unit plan regulations heretofore issued thereunder or valid, pertinent, and reasonable regulations hereafter issued thereunder are accepted and made a part of this agreement as to Federal lands, provided such regulations are not inconsistent with the terms of this agreement; and as to non-Federal lands, the oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations, not inconsistent with the terms hereof or the laws of the State in which the non-Federal land is located, are hereby accepted and made a part of this agreement.

2. UNIT AREA. The area specified on the map attached hereto marked Exhibit A is hereby designated and recognized as constituting the unit area, containing 5,843.52 acres, more or less.

Exhibit A shows, in addition to the boundary of the unit area, the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit B attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage, and kind of ownership of oil and gas interests in all land in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits A and B shall be revised by the Unit Operator whenever changes in the unit area render such revision necessary, or when requested by the Oil and Gas Supervisor, hereinafter referred to as "Supervisor," or

when requested by the Commissioner of Public Lands of the State of New Mexico, hereinafter referred to as "Commissioner," and not less than five copies of the revised exhibits shall be filed with the Supervisor, and two copies thereof shall be filed with the Commissioner, and one copy with the New Mexico Oil Conservation Commission, hereinafter referred to as "Commission."

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

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

(b) Said notice shall be delivered to the Supervisor, the Commissioner and the Commission and copies thereof mailed to the last known address of each working interest owner, lessee, and lessor whose interests are affected, advising that 30 days will be allowed for submission to the Unit Operator of any objections.

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

(d) After due consideration of all pertinent information, the expansion or contraction shall, upon approval by the Supervisor, the Commissioner and the Commission, become effective as of the date prescribed in the notice thereof.

(e) All legal subdivisions of lands (i.e., 40 acres by Government survey or its nearest lot or tract equivalent; in instances of irregular

surveys, unusually large lots or tracts shall be considered in multiples of 40 acres or the nearest aliquot equivalent thereof), no parts of which are entitled to be in a participating area on or before the fifth anniversary of the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of said fifth anniversary, and such lands shall no longer be a part of the unit area and shall no longer be subject to this agreement, unless diligent drilling operations are in progress on unitized lands not entitled to participation on said fifth anniversary, in which event all such lands shall remain subject hereto so long as such drilling operations are continued diligently, with not more than 90 days' time elapsing between the completion of one well and the commencement of the next well. All legal subdivisions of lands not entitled to be in a participating area within 10 years after the effective date of the first initial participating area approved under this agreement shall be automatically eliminated from this agreement as of said tenth anniversary. All lands proved productive by diligent drilling operations after the aforesaid 5-year period shall become participating in the same manner as during said 5-year period. However, when such diligent drilling operations cease, all nonparticipating lands shall be automatically eliminated effective as of the 91st day thereafter. The Unit Operator shall, within 90 days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the Supervisor and the Commissioner, and promptly notify all parties in interest.

If conditions warrant extension of the 10-year period specified in this subsection 2(e), a single extension of not to exceed 2 years may be accomplished by consent of the owners of 90% of the working interests in the current nonparticipating unitized lands and the owners of 60% of the basic royalty interests (exclusive of the basic royalty interests of the United States) in nonparticipating unitized lands with approval of the Director and Commissioner, provided such extension application is submitted to the Director and Commissioner not later than 60 days prior to the expiration of said 10-year period.

Any expansion of the unit area pursuant to this section which em-

braces lands theretofore eliminated pursuant to this subsection 2(e) shall not be considered automatic commitment or recommitment of such lands.

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

4. UNIT OPERATOR. Cities Service Oil Company is hereby designated as Unit Operator and by signature hereto as Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interest in unitized substances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time prior to the establishment of a participating area or areas hereunder, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of 6 months after notice of intention to resign has been served by Unit Operator on all working interest owners and the Supervisor, the Commissioner and the Commission, and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandonment, whichever is required by the Supervisor as to Federal lands and by the Commission as to State and privately owned lands, unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

Unit Operator shall have the right to resign in like manner and subject to like limitations as above provided at any time a participating area established hereunder is in existence, but, in all instances of resignation or removal, until a successor Unit Operator is selected and approved as hereinafter provided, the working interest owners shall be jointly responsible

for performance of the duties of Unit Operator, and shall, not later than 30 days before such resignation or removal becomes effective, appoint a common agent to represent them in any action to be taken hereunder.

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

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

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

6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his or its resignation of Unit Operator or shall be removed as hereinabove provided, or a change of Unit Operator is negotiated by working interest owners, the owners of the working interests in the participating area or areas according to their respective acreage interests in such participating area or areas, or, until a participating area shall have been established, the owners of the working interests according to their respective acreage interests in all unitized land, shall by majority vote select a successor Unit Operator: Provided; That, if a majority but less than 75 percent of the working interests qualified to vote are owned by one party to this agreement, a concurring vote of one or more additional working interest owners shall be required to select a new operator. Such selection shall not become effective until:

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

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

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

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit Operator is not the sole owner of working interest, costs and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the Unit Operator as provided in this section, whether one or more, are herein referred to as the "unit operating agreement." Such unit operating agreement shall also provide the manner in which the working interest owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases or other independent contracts, and such other rights and obligations as between Unit Operator and the working interest owners; however, no such unit operating agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the Unit Operator of any right or obligation established under this unit agreement, and in case of any inconsistency or conflict between this unit agreement and the unit operating agreement, this unit agreement shall govern. Three true copies of any unit operating agreement executed pursuant to this section should be filed with the Supervisor and two true copies with the Commissioner and one true copy with the Commission, prior to approval of this unit agreement.

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

the unitized substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said Unit Operator and, together with this agreement, shall constitute and define the rights, privileges, and obligations of Unit Operator. Nothin herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

9. DRILLING TO DISCOVERY. Within 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 Commissioner if on State land, or by the Commission if on fee land, unless on such effective date a well is being drilled conformably with the terms hereof, and thereafter continue such drilling diligently until the Morrow formation 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, completing, and producing operations, with a reasonable profit) or the Unit Operator shall at any time establish to the satisfaction of the Supervisor if located on Federal lands, or the Commissioner if located on State lands, or the Commission if located on fee lands, that further drilling of said well would be unwarranted or impracticable, provided, however, that Unit Operator shall not in any event be required to drill said well to a depth in excess of 9,200 feet. Until the discovery of a deposit of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling one well at a time, allowing not more than 6 months between the completion of one 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 said Supervisor if on Federal land, or the Commissioner if on State land, or the Commission if on fee 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. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5 hereof, or as

requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section. The Supervisor and Commissioner may modify the drilling requirements of this section by granting reasonable extensions of time when, in their opinion, such action is warranted. 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 the Commissioner, this agreement will automatically terminate; upon failure to continue drilling diligently any well commenced hereunder, the Supervisor and Commissioner may, after 15 days' notice to the Unit Operator, declare this unit agreement terminated.

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the Supervisor and the Commissioner an acceptable plan of development and operation for the unitized land which, when approved by the Supervisor and the Commissioner, shall constitute the further drilling and operating obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for the approval of the Supervisor and the Commissioner a plan for an additional specified period for the development and operation of the unitized land.

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

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

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

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

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

11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of producing unitized substances in paying quantities or as soon thereafter as required by the Supervisor and Commissioner, the Unit Operator shall submit for approval by the Supervisor and Commissioner a schedule, based on subdivisions of the public land survey or aliquot parts thereof, of all land then regarded as reasonably proved to be productive in paying quantities; all lands in said schedule on approval of the Supervisor and Commissioner to constitute a participating area, effective as of the date of completion of such well or the effective date of this unit agreement, whichever is later. The acreages of both Federal and non-Federal lands shall be based upon appropriate computations from the courses and distances shown on the last approved public land survey as of the effective date of each initial participating area. Said schedule shall also set forth the percentage of unitized substances to be allocated as herein provided to each tract in the participating area so established, and shall govern the allocation of production commencing with the effective date of the participating area. A separate participating area shall be established for each separate pool or deposit of unitized substances or for any group thereof which is produced as a single pool or zone, and any two or more participating areas so established may be combined into one, on approval of the Supervisor and Commissioner. When pro-

duction from two or more participating areas, so established, is subsequently found to be from a common pool or deposit, said participating areas shall be combined into one effective as of such appropriate date as may be approved or prescribed by the Supervisor and Commissioner. The participating area or areas so established shall be revised from time to time, subject to like approval, to include additional land then regarded as reasonably proved to be productive in paying quantities or necessary for unit operations, or to exclude land then regarded as reasonably proved not to be productive in paying quantities and the schedule of allocation percentages shall be revised accordingly. The effective date of any revision shall be the first day of the month in which is obtained the knowledge or information on which such revision is predicated, provided, however, that a more appropriate effective date may be used if justified by the Unit Operator and approved by the Supervisor and Commissioner. No land shall be excluded from a participating area on account of depletion of the unitized substances, except that any participating area established under the provisions of this unit agreement shall terminate automatically whenever all completions in the formation on which the participating area is based are abandoned.

It is the intent of this section that a participating area shall represent the area known or reasonably estimated to be productive in paying quantities, but, regardless of any revision of the participating area, nothing herein contained shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the revision of the participating area.

In the absence of agreement at any time between the Unit Operator and the Supervisor and Commissioner as to the proper definition or redefinition of a participating area, or until a participating area has, or areas have, been established as provided herein, the portion of all payments affected thereby shall be impounded in a manner mutually acceptable to the owners of working interests and the Supervisor and Commissioner. Royalties due the United States and the State of New Mexico, which shall be determined by the Supervisor for Federal land and the Commissioner for State land and the amount thereof shall be deposited, as directed by the Supervisor and Commissioner respectively, to be held as unearned money until a participating area

is finally approved and then applied as earned or returned in accordance with a determination of the sum due as Federal and State royalty on the basis of such approved participating area.

Whenever it is determined, subject to the approval of the Supervisor as to wells drilled on Federal land and of the Commissioner as to wells drilled on State land, that a well drilled under this agreement is not capable of production in paying quantities and inclusion of the land on which it is situated in a participating area is unwarranted, production from such well shall, for the purposes of settlement of all parties other than working interest owners, be allocated to the land on which the well is located unless such land is already within the participating area established for the pool or deposit from which such production is obtained. Settlement for working interest benefits from such a well shall be made as provided in the unit operating agreement.

12. ALLOCATION OF PRODUCTION. All unitized substances produced from each participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, camp and other production or development purposes, for repressuring or recycling in accordance with a plan of development approved by the Supervisor and Commissioner, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land of the participating area established for such production and, for the purpose of determining any benefits accruing under this agreement, each such tract of unitized land shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land in said participating area, except that allocation of production hereunder for purposes other than for settlement of the royalty, overriding royalty, or payment out of production obligations of the respective working interest owners, shall be on the basis prescribed in the unit operating agreement whether in conformity with the basis of allocation herein set forth or otherwise. It is hereby agreed that production of unitized substances from a participating area shall be allocated as provided herein regardless of whether any wells are drilled on any particular part or tract of said participating area. If any

gas produced from one participating area is used for repressuring or recycling purposes in another participating area, the first gas withdrawn from such last mentioned participating area for sale during the life of this agreement shall be considered to be the gas so transferred until an amount equal to that transferred shall be so produced for sale and such gas shall be allocated to the participating area from which initially produced as such area was last defined at the time of such final production.

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

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

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

14. ROYALTY SETTLEMENT. The United States and any State and any royalty owner who is entitled to take in kind a share of the substances now unitized

hereunder shall hereafter be entitled to the right to take in kind its share of the unitized substances, and the Unit Operator, or the working interest owner in case of the operation of a well by a working interest owner as herein provided for in special cases, shall make deliveries of such royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for royalty interest not taken in kind shall be made by working interest owners responsible therefor under existing contracts, laws and regulations, or by the Unit Operator, on or before the last day of each month for unitized substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any royalties due under their leases.

If gas obtained from lands not subject to this agreement is introduced into any participating area hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery, in conformity with a plan of operations approved by the Supervisor, the Commissioner, and Commission, a like amount of gas, after settlement as herein provided for any gas transferred from any other participating area and with appropriate deduction for loss from any cause, may be withdrawn from the formation in which the gas is introduced, royalty free as to dry gas, but not as to any products which may be extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved plan of operations or as may otherwise be consented to by the Supervisor, the Commissioner and Commission as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

Royalty due the United States shall be computed as provided in the operating regulations and paid in value or delivered in kind as to all unitized substances on the basis of the amounts thereof allocated to unitized Federal land as provided herein at the rate specified in the respective Federal leases, or at such lower rate or rates as may be authorized by law or regulation; provided, that for leases on which the royalty rate depends on the average production per well, said average production shall be determined in accordance with the operating regulations as though each participating

area were a single consolidated lease.

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

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

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

With respect to any lease on non-Federal land containing provisions which would terminate such lease unless drilling operations are commenced upon the land covered thereby within the time therein specified or rentals are paid for the privilege of deferring such drilling operations, the rentals required thereby shall, notwithstanding any other provisions of this agreement, be deemed to accrue and become payable during the term thereof as extended by this agreement and until the required drilling operations are commenced upon the land covered thereby or until some portion of such land is included within a participating area.

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

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

18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions, and provisions of all leases, subleases and other contracts relating to ex-

ploration, drilling, development or operations for oil or gas on lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect; and the parties hereto hereby consent that the Secretary as to Federal leases and the Commissioner as to State leases shall and each by his approval hereof, or by the approval hereof by their duly authorized representatives, do hereby establish, alter, change or revoke the drilling, producing, rental, minimum royalty and royalty requirements of Federal and State leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement, and, without limiting the generality of the foregoing, all leases, subleases, and contracts are particularly modified in accordance with the following:

(a) The development and operation of lands subject to this agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every separately owned tract subject to this agreement, regardless of whether there is any development of any particular tract of the unit area.

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

(c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the Secretary and Commissioner or their duly authorized representatives shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of unitized land. A suspension of drilling or producing operations limited to specified lands shall be applicable only to such lands.

(d) Each lease, sublease or contract relating to the exploration, drilling, development or operation for oil or gas of lands other than those of the United States or State of New Mexico committed

to this agreement, which, by its terms might expire prior to the termination of this agreement, is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of this agreement.

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

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

(g) Any lease embracing lands of the State of New Mexico which is made subject to this agreement, shall continue in force beyond the term provided therein as to the lands committed hereto until the termination hereof, subject to the provisions of subsection (e) of Section 2 and subsection (i) of this Section 18.

(h) The segregation of any Federal lease committed to this agreement is governed by the following provisons in the fourth paragraph

of Sec. 17(j) of the Mineral Leasing Act, as amended by the Act of September 2, 1960 (74 Stat. 781-784): "Any (Federal) lease heretofore or hereafter commited to any such (unit) plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization: Provided, however, That any such lease as to the nonunitized portion shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities."

(i) Any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto, shall be segregated as to the portion committed and the portion not committed, and the provisions of such lease shall apply separately to such segregated portions commencing as of the effective date hereof; provided, however, notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease, if oil or gas is discovered and is capable of being produced in paying quantities from some part of the lands embraced in such lease at the expiration of the secondary term of such lease; or if, at the expiration of the secondary term, the lessee or Unit Operator is then engaged in bona fide drilling or reworking operations on some part of the lands embraced in such lease, the same, as to all lands embraced therein, shall remain in full force and effect so long as such operations are being diligently prosecuted, and if they result in the production of oil or gas, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as oil or gas in paying quantities is being produced from any portion of said lands.

(j) Any lease, other than a Federal lease, having only a portion of its lands committed hereto shall be segregated as to the portion

committed and the portion not committed, and the provisions of such lease shall apply separately to such segregated portions commencing as of the effective date hereof. In the event any such lease provides for a lump sum rental payment, such payment shall be prorated between the portions so segregated in proportion to the acreage of the respective tracts.

19. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer, or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee or other successor in interest. No assignment or transfer of any working interest, royalty, or other interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, photostatic, or certified copy of the instrument of transfer.

20. EFFECTIVE DATE AND TERM. This agreement shall become effective upon approval by the Secretary and Commissioner, or their duly authorized representatives and shall terminate five (5) years from said effective date unless:

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

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

(c) a valuable discovery of unitized substances has been made or accepted on unitized land during said initial term or any extension thereof, in which event the agreement shall remain in effect for such term and so long as unitized substances can be produced in quantities

sufficient to pay for the cost of producing same from wells on unitized land within any participating area established hereunder and, should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as unitized substances so discovered can be produced as aforesaid, or

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

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

21. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION. The Director is hereby vested with authority to alter or modify from time to time in his discretion the quantity and rate of production under this agreement when such quantity and rate is not fixed pursuant to Federal or State law or does not conform to any statewide voluntary conservation or allocation program, which is established, recognized and generally adhered to by the majority of operators in such State, such authority being hereby limited to alteration or modification in the public interest, thee purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification. Without regard to the foregoing, the Director is also hereby vested with authority to alter or modify from time to time in his discretion the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest of attaining the conservation objectives stated in this agreement and is not in violation of any applicable Federal or State law; provided, further, that no such alteration or modification shall be effective as to any land of the State of New Mexico, as to the rate of prospecting and developing in the absence of the specific written approval thereof by the Commissioner and as to any lands of the State of New Mexico or privately owned lands subject to this agreement as to the quantity and rate of production in the absence of specific written approval thereof by the Commission.

Powers in this section vested in the Director shall only be exercised after notice to Unit Operator and opportunity for hearing to be held

not less than 15 days from notice.

22. CONFLICT OF SUPERVISION. Neither the Unit Operator nor the working interest owners nor any of them shall be subject to any forfeiture, termination or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability on account of delay or failure in whole or in part to comply with any applicable provision thereof to the extent that the Unit Operator, working interest owners or any of them are hindered, delayed or prevented from complying therewith by reason of failure of the Unit Operator to obtain in the exercise of due diligence, the concurrence of proper representatives of the United States and proper representatives of the State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained. The parties hereto, including the Commission, agree that all powers and authority vested in the Commission in and by any provisions of this agreement are vested in the Commission and shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject in any case to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

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

24. NOTICES. All notices, demands or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if given in writing and personally delivered to the party or sent by postpaid registered or certified mail, addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such

party may have furnished in writing to party sending the notice, demand or statement.

25. NO WAIVER OF CERTAIN RIGHTS. Nothing in this agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State wherein said unitized lands are located, or of the United States, or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive.

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

27. NONDISCRIMINATION. In connection with the performance of work under this agreement, the Unit Operator agrees to comply with all of the provisions of section 202 (1) to (7) inclusive of Executive Order 11246 (30 F.R. 12319), which are hereby incorporated by reference in this agreement.

28. LOSS OF TITLE. In the event title to any tract of unitized land shall fail and the true owner cannot be induced to join in this unit agreement, such tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title to any royalty, working interest or other interests subject thereto, payment or delivery on account thereof may be withheld without liability for

interest until the dispute is finally settled; provided, that, as to Federal and State land or leases, no payments of funds due the United States or State of New Mexico should be withheld, but such funds of the United States shall be deposited as directed by the Supervisor and such funds of the State of New Mexico shall be deposited as directed by the Commissioner to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

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

29. NON-JOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw said tract from this agreement by written notice delivered to the Supervisor and the Commissioner and the Unit Operator prior to the approval of this agreement by the Supervisor and Commissioner. Any oil or gas interests in lands within the unit area not committed hereto prior to submission of this agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest is a working interest, by the owner of such interest also subscribing to the unit operating agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working interest owner is subject to such requirements or approvals, if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final approval hereof, joinder by a non-working interest owner must be consented to in writing by the working interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. A non-working interest may not be committed to this unit agreement unless the corresponding working interest is committed hereto. Joinder to the unit agreement by a working interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, if more than one committed working interest owner is involved, in order for the interest to be regarded as committed to this unit agreement. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the first day of the month follow-

ing the filing with the Supervisor and the Commissioner of duly executed counterparts of all or any papers necessary to establish effective commitment of any tract to this agreement unless objection to such joinder is duly made within 60 days by the Supervisor, provided, however, that as to State lands all subsequent joinders must be approved by the Commissioner.

30. SURFACE AND ENVIRONMENTAL PROTECTION STIPULATIONS. Nothing in this agreement shall modify any special Federal-lease stipulations relating to surface and environmental protection, attached to and made a part of Oil and Gas Leases covering lands within the Unit Area.

31. SURFACE MANAGEMENT STIPULATION. Nothing in this agreement shall modify any special Federal-lease stipulations relating to surface management, attached to and made a part of Oil and Gas Leases covering lands within the Unit Area.

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

33. SURRENDER. Nothing in this agreement shall prohibit the exercise by any working interest owner of the right to surrender vested in such party by any lease, sublease, or operating agreement as to all or any part of the lands covered thereby, provided that each party who will or might acquire such working interest by such surrender or by forfeiture as hereafter set forth, is bound by the terms of this agreement.

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

If as the result of any such surrender or forfeiture working interest rights become vested in the fee owner of the unitized substances, such owner

may:

(1) Accept those working interest rights subject to this agreement and the unit operating agreement; or

(2) Lease the portion of such land as is included in a participating area established hereunder subject to this agreement and the unit operating agreement; or

(3) Provide for the independent operation of any part of such land that are not then included within a participating area established hereunder.

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

An appropriate accounting and settlement shall be made for all benefits accruing to or payments and expenditures made or incurred on behalf of such surrendered or forfeited working interest subsequent to the date of surrender or forfeiture, and payment of any moneys found to be owing by such an accounting shall be made as between the parties within thirty (30) days. In the event no unit operating agreement is in existence and a mutually acceptable agreement between the proper parties thereto cannot be consummated, the Supervisor may prescribe such reasonable and equitable agreement as he deems warranted under the circumstances.

The exercise of any right vested in a working interest owner to reassign such working interest to the party from whom obtained shall be subject to the same conditions as set forth in this section in regard to the exercise of a right to surrender.

34. TAXES. The working interest owners shall render and pay for their

account and the account of the royalty owners all valid taxes on or measured by the unitized substances in and under or that may be produced, gathered and sold from the land subject to this contract after the effective date of this agreement, or upon the proceeds or net proceeds derived therefrom. The working interest owners on each tract shall and may charge the proper proportion of said taxes to the royalty owners having interests in said tract, and may currently retain and deduct sufficient of the unitized substances or derivative products, or net proceeds thereof from the allocated share of each royalty owner to secure reimbursement for the taxes so paid. No such taxes shall be charged to the United States or the State of New Mexico or to any lessor who has a contract with his lessee which requires the lessee to pay such taxes.

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

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

CITIES SERVICE OIL COMPANY

_____ (Date)

By _____ Attorney-in-Fact

Address: P. O. Box 300
Tulsa, Oklahoma 74102

UNIT OPERATOR

S. P. YATES
Yates Building
Artesia, New Mexico 88210

MARTIN YATES, III
Yates Building
Artesia, New Mexico 88210

MIDWEST OIL CORPORATION
1500 Wilco Building
Midland, Texas 79701

ALLIED CHEMICAL CORPORATION
1300 Wilco Building
Midland, Texas 79701

JACK L. McCLELLAN
P. O. Box 848
Roswell, New Mexico 88201

EASTLAND OIL COMPANY
704 Western United Life Building
Midland, Texas 79701

ROBINSON DRILLING COMPANY OF
TEXAS, INC.
306 Permian Building
Big Spring, Texas 79720

ILLABELLE SHANAHAN
P. O. Box 1272
Salt Lake City, Utah 84110

HAYES OIL COMPANY
1402 Gihls Tower West
Midland, Texas 79701

WORKING INTEREST OWNERS

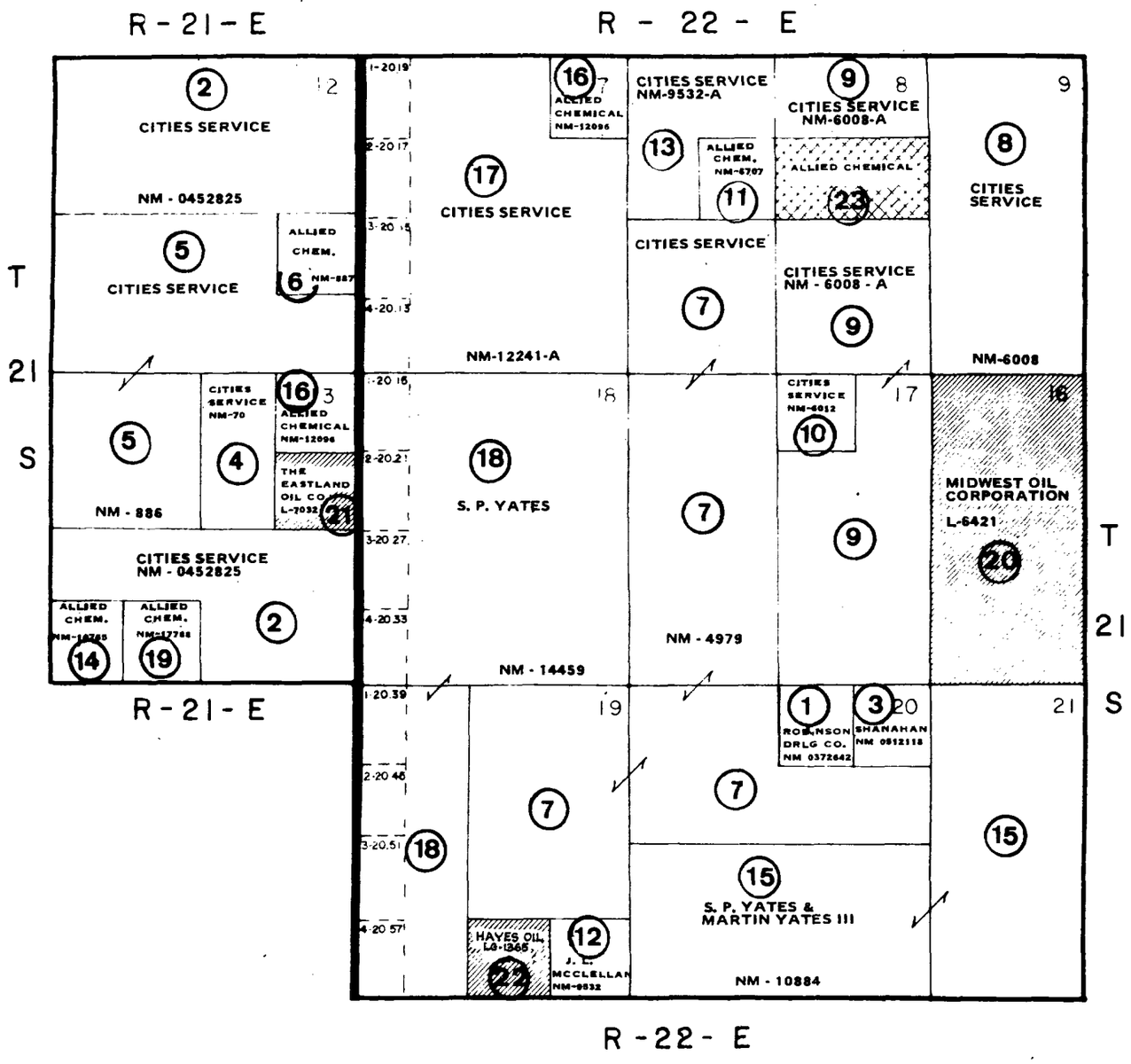
STATE OF OKLAHOMA)
) SS
COUNTY OF TULSA)

On this _____ day of _____, 1973, before me personally appeared _____, to me known to be the person who executed the foregoing instrument as Attorney-in-Fact in behalf of CITIES SERVICE OIL COMPANY, a Delaware corporation, and acknowledged that he executed the same as the free act and deed of said Cities Service Oil Company.

_____
Notary Public

My Commission Expires:

_____



Federal Land 5,363.52 Ac – 91.7858 %

Fee Land 80.00 Ac – 1.3690 %

State Land 400.00 Ac – 6.8452 %

Total 5,843.52 Ac – 100.0000 %

EXHIBIT "A"

LOAFER DRAW UNIT

Eddy County, New Mexico

Scale 2" = 1 Mile

EXHIBIT B
Loafer Draw Unit Area
T-21-S, R-21 & 22-E
Eddy County, New Mexico

Tract No.	Description of Land	Number of Acres	Lease Serial No., Exp. Date	Basic Royalty Owner	%	Lessee of Record	Int.	Overriding Royalty Owner and %	WI Owner and %	
1.	T-21-S, R-22-E Section 20: NW/4 NE/4	40.00	NM-0372642 11/11/74	USA	12.5%	Robinson Drilling Company of Texas, Inc.	100%	None	Robinson Drilling Company of Texas, Inc.	100%
2.	T-21-S, R-21-E Section 12: N/2 Section 13: SE/4, N/2 SW/4	560.00	NM-0452825 11/30/73	USA	12.5%	Cities Service Oil Company	100%	O. Thorn and P. Ijams - 1% M. J. Harvey, Jr. - 1%	Cities Service Oil Company	100%
3.	T-21-S, R-22-E Section 20: NE/4 NE/4	40.00	NM-0512118 2/28/74	USA	12.5%	Illabelle Shanahan	100%	None	Illabelle Shanahan	100%
4.	T-21-S, R-21-E Section 13: W/2 NE/4	80.00	NM-70 7/31/76	USA	12.5%	Cities Service Oil Company	100%	Edmund B. MacDonald, et ux - 3%	Cities Service Oil Company	100%
5.	T-21-S, R-21-E Section 12: SW/4, W/2 SE/4, SE/4 SE/4 Section 13: NW/4	440.00	NM-886 11/30/76	USA	12.5%	Cities Service Oil Company	100%	W. R. Goddard, et ux - 3%	Cities Service Oil Company	100%
6.	T-21-S, R-21-E Section 12: NE/4 SE/4	40.00	NM-887 11/30/76	USA	12.5%	Allied Chemical Corporation	100%	Jack J. Grynberg - 3.125% Melvin Unterman - 3.125%	Allied Chemical Corporation	100%
7.	T-21-S, R-22-E Section 8: SW/4 Section 17: W/2 Section 19: NE/4, N/2 SE/4 Section 20: NW/4, S/2 NE/4	960.00	NM-4979 3/31/78	USA	12.5%	Cities Service Oil Company	100%	A. G. Andrikopoulos - 2½% John G. Andrikopoulos, et ux - ½ of 1%	Cities Service Oil Company	100%

Tract No.	Description of Land	Number of Acres	Lease Serial No., Exp. Date	Basic Royalty Owner	%	Lessee of Record	Int.	Overriding Royalty Owner and %	WI Owner and %	
8.	T-21-S, R-22-E Section 9: W/2	320.00	NM-6008 5/31/78	USA	12.5%	Cities Service Oil Company	100%	William L. McCullough, et ux - 1% Ray C. Van Tassell - 2%	Cities Service Oil Company	100%
9.	T-21-S, R-22-E Section 8: N/2 NE/4, SE/4 Section 17: E/2 NE/4, SW/4 NE/4, SE/4	520.00	NM-6008-A 5/31/78	USA	12.5%	Cities Service Oil Company	100%	William L. McCullough, et ux - 3% Ray C. Van Tassell, Sr. - 2%	Cities Service Oil Company	100%
10.	T-21-S, R-22-E Section 17: NW/4 NE/4	40.00	NM-6012 5/31/78	USA	12.5%	Cities Service Oil Company	100%	Aage Madsen, et ux - 3%	Cities Service Oil Company	100%
11.	T-21-S, R-22-E Section 8: SE/4 NW/4	40.00	NM-6707 6/31/78	USA	12.5%	Allied Chemical Corporation	100%	Marion K. Gray - 6.25%	Allied Chemical Corporation	100%
12.	T-21-S, R-22-E Section 19: SE/4 SE/4	40.00	NM-9532 5/31/79	USA	12.5%	Jack L. McClellan	100%		Jack L. McClellan	100%
13.	T-21-S, R-22-E Section 8: W/2 NW/4, NE/4 NW/4	120.00	NM-9532-A 5/31/79	USA	12.5%	Cities Service Oil Company	100%	Jack L. McClellan, et ux - 5%	Cities Service Oil Company	100%
14.	T-21-S, R-21-E Section 13: SW/4 SW/4	40.00	NM-10765 11/30/79	USA	12.5%	Allied Chemical Corporation	100%	Celeste C. Grynberg - 6.25%	Allied Chemical Corporation	100%
15.	T-21S, R-22-E Section 20: S/2 Section 21: W/2	640.00	NM-10884 12/31/79	USA	12.5%	Martin Yates, III S. P. Yates	50% 50%	Charles R. Wilcox, et ux - 3%	Martin Yates, III S. P. Yates	50% 50%
16.	T-21-S, R-21-E Section 13: NE/4 NE/4; T-21-S, R-22-E Section 7: NE/4 NE/4	80.00	NM-12096 7/31/80	USA	12.5%	Allied Chemical Corporation	100%	F. J. Bradshaw, et ux - 5%	Allied Chemical Corporation	100%

Tract No.	Description of Land	Number of Acres	Lease Serial No., Exp. Date	Basic Royalty Owner	%	Lessee of Record	Int.	Overriding Royalty Owner and %	WI Owner and %	
17.	T-21-S, R-22-E Section 7: Lots 1, 2, 3, 4, E/2 W/2, W/2 E/2, SE/4 NE/4, E/2 SE/4	520.64	NM-12241-A 8/31/80	USA	12.5%	Cities Service Oil Company	100%	Ambrose M. Ciano, et ux - 3%	Cities Service Oil Company	100%
18.	T-21-S, R-22-E Section 18: Lots 1, 2, 3, 4, E/2 W/2, E/2 Section 19: Lots 1, 2, 3, 4, E/2 W/2	802.88	NM-14459 11/30/81	USA	12.5%	S. P. Yates	100%	None	S. P. Yates	100%
19.	T-21-S, R-21-E Section 13: SE/4 SW/4	40.00	NM-17788 2/28/83	USA	12.5%	Allied Chemical Corporation	100%	Ralph Gray - 6.25%	Allied Chemical Corporation	100%
	TOTAL FEDERAL LANDS	5,363.52	(91.7858%)							
20.	T-21-S, R-22-E Section 16: W/2	320.00	L-6421 7/31/81	State	12.5%	Midwest Oil Corporation	100%	None	Midwest Oil Corporation	100%
21.	T-21-S, R-21-E Section 13: SE/4 NE/4	40.00	L-7032 1/31/82	State	12.5%	The Eastland Oil Company	100%	None	The Eastland Oil Company	100%
22.	T-21-S, R-22-E Section 19: SW/4 SE/4	40.00	LG-1365 10/1/83	State	12.5%	Hayes Oil Company	100%	None	Hayes Oil Company	100%
	TOTAL STATE LANDS	400.00	(6.8452%)							
23.	T-21-S, R-22-E Section 8: S/2 NE/4	80.00	Fee 10/11/79	Ralph A. Vandewart, III	12.5%	Allied Chemical Corporation	100%	David J. Sorenson, et ux - 6.25%	Allied Chemical Corporation	100%
	TOTAL PATENTED LANDS	80.00	(1.3690%)							
	TOTAL LANDS	5,843.52	(100.0000%)							

OPERATING AGREEMENT

DATED

OCTOBER 15, 19 73,

FOR UNIT AREA IN TOWNSHIP 21 SOUTH, RANGE 21 & 22 EAST,

EDDY COUNTY, STATE OF NEW MEXICO

F O R

LOAFER DRAW UNIT AREA

5095 2

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OPERATING AGREEMENT

THIS AGREEMENT, entered into this 15th day of October, 1973, between CITIES SERVICE OIL COMPANY, whose address is P. O. Box 300, Tulsa, Oklahoma 74102, hereafter designated as "Operator", and the signatory parties other than Operator.

WITNESSETH, THAT:

WHEREAS, the parties to this agreement are owners of oil and gas leases covering and, if so indicated, unleased mineral interests in the tracts of land described in Exhibit "A", and all parties have reached an agreement to explore and develop these leases and interests for oil and gas to the extent and as hereinafter provided;

NOW, THEREFORE, it is agreed as follows:

1. DEFINITIONS

As used in this agreement, the following words and terms shall have the meanings here ascribed to them.

(1) The words "party" and "parties" shall always mean a party, or parties, to this agreement. Under Section 2. A., the words "party" or "parties" shall mean only those participating in the drilling of the proposed well.

(2) The parties to this agreement shall always be referred to as "it" or "they", whether the parties be corporate bodies, partnerships, associations, or persons real.

(3) The term "oil and gas" shall include oil, gas, casinghead gas, gas condensate, and all other liquid or gaseous hydrocarbons, unless an intent to limit the inclusiveness of this term is specifically stated.

(4) The term "oil and gas interests" shall mean unleased fee and mineral interests in tracts of land lying within the Unit Area which are owned by parties to this agreement.

(5) The term "Unit Area" shall refer to and include all of the lands, oil and gas leasehold interests and oil and gas interests intended to be developed and operated for oil and gas purposes under this agreement. Such lands, oil and gas leasehold interests and oil and gas interests are described in Exhibit "A".

(6) The term "drilling unit" shall mean the area fixed for the drilling of one well (or the area which is necessary to obtain a full allowable for such well) under an order or rule of any state or federal body having authority. If a drilling unit is not fixed by any such rule or order, a drilling unit shall be the drilling unit as established by the pattern of drilling in the Unit Area or as fixed by express agreement of the parties.

(7) All exhibits attached to this agreement are made a part of the contract as fully as though copied in full in the contract.

(8) The words "equipment" and "materials" as used here are synonymous and shall mean and include all oil field supplies and personal property acquired for use in the Unit Area.

(9) Unless otherwise agreed upon by the parties participating in a well, "Drillsite" shall mean the lease and/or oil and gas interests underlying the proposed well insofar as they are within the drilling unit.

2. TITLE EXAMINATION, LOSS OF LEASES AND OIL AND GAS INTERESTS

A. Title Examination:

Each party hereto shall, as to its contribution and upon request, furnish each other party with certified or photostatic copies of all title papers and opinions in its possession.

There shall be no examination of title to leases, or to oil and gas interests, except that title to the drillsite shall be examined on a complete abstract record by Operator's attorney, and the title to the drillsite must be approved by the examining attorney, or accepted by all parties. A copy of the examining attorney's opinion shall be sent to each party immediately after the opinion is written, and, also each party shall be given, as they are written, a copy of all subsequent supplemental attorney's reports. A good faith effort to satisfy the examining atorney's requirements shall be made by the party or parties owning the drillsite.

If title to the proposed drillsite is not approved by the examining attorney or the lease is not acceptable for a material reason, and all parties do not accept the title, the parties shall select a new drillsite for the first exploratory well; provided, if the parties are unable to agree upon another drillsite, this agreement shall, in that case, come to an end and all parties shall then forfeit their rights and be relieved of obligations hereunder. If a new drillsite is selected, title shall be examined, and title shall be approved or accepted or rejected in like manner as provided above concerning the drillsite first selected. If title to the second choice drillsite is not approved or accepted, other drillsites shall be successively selected and title examined, until a drillsite is chosen to which title is approved or accepted, or until the parties fail to select another drillsite. As in the case of the drillsite first selected, so

"Individual Loss"

also with successive choices if the time comes that the parties have not approved title and are unable to agree upon an alternate drillsite, the contract shall, in that case and at that time, come to an end and all parties shall forfeit their rights and be relieved of obligations under this contract.

No well other than the first test shall be drilled in the Unit Area until after (1) the title to the drillsite has been examined by an attorney for one of the participating parties, and (2) the title has been approved by the examining attorney or the title has been accepted by all of the parties who are to participate in the drilling of the well.

The examining attorney under this Section 2. A., may accept title papers and another qualified attorney's opinion as the opinion called for above rather than conduct a separate title examination.

B. Failure of Title:

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

(1) The party whose lease or interest is affected by the title failure shall bear alone the entire loss and it shall not be entitled to recover from Operator or the other parties any development or operating costs which it may have theretofore paid, but there shall be no monetary liability on its part to the other parties hereto by reason of such title failure; and

(2) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the interest which has been lost, but the interests of the parties shall be revised on an acreage basis, as of the time it is determined finally that title failure has occurred, so that the interest of the party whose lease or interest is affected by the title failure will thereafter be reduced in the Unit Area by the amount of the interest lost; and

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

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

(5) Any liability to account to a third party for prior production of oil and gas which arises by reason of title failure shall be borne by the party whose title failed, or if more than one then by the parties whose title failed, in the same proportions in which they shared in such prior production.

C. Loss of Leases for Causes Other Than Title Failure:

If any lease or interest subject to this agreement be lost through failure to develop or because express or implied covenants have not been performed, or if any lease be permitted to expire at the end of its primary term and not be renewed or extended, or if any lease or interest therein is lost due to the fact that the production therefrom is shut in by reason of lack of market, the loss shall not be considered a failure of title and all such losses shall be joint losses and shall be borne by all parties in proportion to their interests and there shall be no readjustment of interests in the Unit Area. (Joint loss only as to losses occuring after the effective date hereof by reason of acts performed, or not performed, after said date.)

3. UNLEASED OIL AND GAS INTERESTS

If any party owns an unleased oil and gas interest in the Unit Area, that interest shall be treated for the purpose of this agreement as if it were a leased interest under the form of oil and gas lease attached as "Exhibit "D" and for the primary term therein stated. As to such interests, the owner shall receive royalty on production as prescribed in the form of oil and gas lease attached hereto as Exhibit "D". Such party shall, however, be subject to all of the provisions of this agreement relating to lessees, to the extent that it owns the lessee interest. (See Section 30 A.)

4. INTERESTS OF PARTIES

Exhibit "A" lists all of the parties, and their respective percentage or fractional interests under this agreement. Unless changed by other provisions, all costs and liabilities incurred in operations under this contract shall be borne and paid, and all equipment and material acquired in operations on the Unit Area shall be owned, by the parties as their interests are given in Exhibit "A". All production of oil and gas from the Unit Area, subject to the payment of lessor's royalties, shall also be owned by the parties in the same manner.

If any interest in an oil and gas lease covered by this agreement is subject to an overriding royalty, production payment, or other charge over and above the usual one-eighth (1/8) royalty, the party contributing that interest in the leases shall assume and alone bear all such excess obligations and shall account for them to the owners thereof out of its share of the working interest production of the Unit Area.

5. OPERATOR OF UNIT

CITIES SERVICE OIL COMPANY shall be the Operator of the Unit Area, and shall conduct and direct and have full control of all operations on the Unit Area as permitted and required by, and within the limits of, this agreement. It shall conduct all such operations in a good and workmanlike manner, but it shall have no liability as Operator to the other parties for losses sustained, or liabilities incurred, except such as may result from gross negligence or from breach of the provisions of this agreement.

6. EMPLOYEES

The number of employees and their selection, and the hours of labor and the compensation for services performed, shall be determined by Operator. All employees shall be the employees of Operator.

7. TEST WELL

Subject to Section 2 hereof, and as soon as practicable, Operator shall commence the drilling of a well for oil and gas in the following location:

1,980 feet from the south line and 1,980 feet from the east line of Section 17, Township 21 South, Range 22 East, Eddy County, New Mexico,

and shall thereafter continue the drilling of the well with due diligence to a depth sufficient to test the Morrow formation or to a depth of 9,200 feet, whichever is the lesser,

unless granite or other practically impenetrable substance is encountered at a lesser depth or unless all parties agree to complete the well at a lesser depth.

Operator shall make reasonable tests of all formations encountered during drilling which give indication of containing oil and gas in quantities sufficient to test, unless this agreement shall be limited in its application to a specific formation or formations, in which event Operator shall be required to test only the formation or formations to which this agreement may apply.

If in Operator's judgment the well will not produce oil or gas in paying quantities, and it wishes to plug and abandon the test as a dry hole, it shall first secure the consent of all parties to the plugging, and the well shall then be plugged and abandoned as promptly as possible.

8. COSTS AND EXPENSES

Except as herein otherwise specifically provided, Operator shall promptly pay and discharge all costs and expenses incurred in the development and operation of the Unit Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the cost and expense basis provided in the Accounting Procedure attached hereto and marked Exhibit "C". If any provision of Exhibit "C" should be inconsistent with any provision contained in the body of this agreement, the provisions in the body of this agreement shall prevail.

Operator, at its election, shall have the right from time to time to demand and receive from the other parties payment in advance of their respective shares of the estimated amount of the costs to be incurred in operations hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an 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 shall be submitted on or before the 20th day of the next preceding month. Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest at the rate of twelve percent (12%) per annum or such maximum rate as permitted by law, whichever is the lesser, until paid. Proper adjustment shall be made monthly between advances and actual cost, to the end that each party shall bear and pay its proportionate share of actual costs incurred, and no more.

9. OPERATOR'S LIEN

Operator is given a first and preferred lien on the interest of each party covered by this contract, and in each party's interest in oil and gas produced and the proceeds from the sale thereof and upon each party's interest in material and equipment, to secure the payment of all sums due from each such party to Operator.

In the event any party fails to pay any amount owing by it to Operator as its share of such costs and expense or such advance estimate within the time limited for payment thereof, Operator, without prejudice to other existing remedies, is authorized, at its election, to collect from the purchaser or purchasers of oil or gas, the proceeds accruing to the working interest or interests in the Unit Area of the delinquent party up to the amount owing by such party, and each purchaser of oil or gas is authorized to rely upon Operator's statement as to the amount owing by such party.

In the event of the neglect or failure of any non-operating party to promptly pay its proportionate part of the cost and expense of development and operation when due, the other non-operating parties and Operator, within thirty (30) days after the rendition of statements therefor by Operator, shall proportionately contribute to the payment of such delinquent indebtedness and the non-operating parties so contributing shall be entitled to the same lien rights as are granted to Operator in this section. Upon the payment by such delinquent or defaulting party to Operator of any amount or amounts on such delinquent indebtedness, or upon any recovery on behalf of the non-operating parties under the lien conferred above, the amount or amounts so paid or recovered shall be distributed and paid by Operator to the other non-operating parties and Operator proportionately in accordance with the contributions theretofore made by them.

10. TERM OF AGREEMENT

This agreement shall remain in full force and effect for as long as any of the oil and gas leases subjected to this agreement remain or are continued in force as to any part of the Unit Area, whether by production, extension, renewal or otherwise; provided, however, that in the event the first well drilled hereunder results in a dry hole and no other well is producing oil or gas in paying quantities from the Unit Area, then at the end of ninety (90) days after abandonment of the first test well, this agreement shall terminate unless one or more of the parties are then engaged in drilling a well or wells pursuant to Section 12 hereof, or all parties have agreed to drill an additional well or wells under this agreement, in which event this agreement shall continue in force until such well or wells shall have been drilled and completed. If production results therefrom this agreement shall continue in force thereafter as if said first test well had been productive in paying quantities, but if production in paying quantities does not result therefrom this agreement shall terminate at the end of ninety (90) days after abandonment of such well or wells. It is agreed, however, that the termination of this agreement shall not relieve any party hereto from any liability which has accrued or attached prior to the date of such termination. Subject to Section 30, Paragraph F. 11.

11. LIMITATION ON EXPENDITURES

Without the consent of all parties: (a) No well shall be drilled on the Unit Area except any well expressly provided for in this agreement and except any well drilled pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the drilling of a well shall include consent to all necessary expenditures in the drilling, testing, completing, and equipping of the well, including necessary tankage; (b) No well shall be reworked, plugged back or deepened except a well reworked, plugged back or deepened pursuant to the provisions of Section 12 of this agreement, it being understood that the consent to the reworking, plugging back or deepening of a well shall include consent to all necessary expenditures in conducting such operations and completing and equipping of said well to produce, including necessary tankage; (c) Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of Ten Thousand Dollars ($10,000.00) except in connection with a well the drilling, reworking, deepening, or plugging back of which has been previously authorized by or pursuant to this agreement; provided, however, that in case of explosion, fire, flood, or other sudden emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion are required to deal with the emergency and to safeguard life and property, but Operator shall, as promptly as possible, report the emergency to the other parties. Operator shall, upon request, furnish copies of its "Authority for Expenditures" for any single project costing in excess of $ 5,000.00 , and for any lesser amounts when prepared for Operator's own use.

12. OPERATIONS BY LESS THAN ALL PARTIES*

If all the parties cannot mutually agree upon the drilling of any well on the Unit Area other than the test well provided for in Section 7, or upon the reworking, deepening or plugging back of a dry hole drilled at the joint expense of all parties or a well jointly owned by all the parties and not then producing in paying quantities on the Unit Area, any party or parties wishing to drill, rework, deepen or plug back such a well may give the other parties written notice of the proposed operation, specifying the work to be performed, the location, proposed depth, objective formation and the estimated cost of the operation. The parties receiving such a notice shall have thirty (30) days (except as to reworking, plugging back or drilling deeper, where a drilling rig is on location, the period shall be limited to forty-eight (48) hours exclusive of Saturday or Sunday) after receipt of the notice within which to notify the parties wishing to do the work whether they elect to participate in the cost of the proposed operation. Failure of a party receiving such a notice to so reply to it within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.

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

The entire cost and risk of conducting such operations shall be borne by the Consenting Parties in the proportions that their respective interests as shown in Exhibit "A" bear to the total interests of all Consenting Parties. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results in a dry hole, the Consenting Parties shall plug and abandon the well at their sole cost, risk and expense. If any well drilled, reworked, deepened or plugged back under the provisions of this section results in a producer of oil and/or gas in paying quantities, the Consenting Parties shall complete and equip the well to produce at their sole cost and risk, and the well shall then be turned over to Operator and shall be operated by it at the expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, reworking, deepening or plugging back of any such well by Consenting Parties in accordance with the provisions of this section, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-Consenting Party's interest in the well, its leasehold operating rights, and share of production therefrom until the proceeds or market value thereof (after deducting production taxes, royalty, overriding royalty and other interests payable out of or measured by the production from such well accruing with respect to such interest until it reverts) shall equal the total of the following:

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

(B) 200% of that portion of the costs and expenses of drilling, reworking, deepening or plugging back, testing and completing, after deducting any cash contributions received under Section 24, and 200% of that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections), which would have been chargeable to such Non-Consenting Party if it had participated therein.

*Subject to Section 30, Paragraphs D. and F. 6.

In the case of any reworking, plugging back or deeper drilling operation, the Consenting Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all such equipment shall remain unchanged; and upon abandonment of a well after such reworking, plugging back or deeper drilling, the Consenting Parties shall account for all such equipment to the owners thereof, with each party receiving its proportionate part in kind or in value.

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

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

Notwithstanding the provisions of this Section 12, it is agreed that without the mutual consent of all parties, no wells shall be completed in or produced from a source of supply from which a well located elsewhere on the Unit Area is producing, unless such well conforms to the then-existing well spacing pattern for such source of supply.

The provisions of this section shall have no application whatsoever to the drilling of the initial test well on the Unit Area, but shall apply to the reworking, deepening, or plugging back of the initial test well after it has been drilled to the depth specified in Section 7, if it is, or thereafter shall prove to be, a dry hole or non-commercial well, and to all other wells drilled, reworked, deepened, or plugged back, or proposed to be drilled, reworked, deepened, or plugged back, upon the Unit Area subsequent to the drilling of the initial test well.

13. RIGHT TO TAKE PRODUCTION IN KIND

Each party shall take in kind or separately dispose of its proportionate share of all oil and gas produced from the Unit Area, exclusive of production which may be used in development and producing operations and in preparing and treating oil for marketing purposes and production unavoidably lost. Each party, except as may otherwise be provided in Exhibit "E," shall pay or deliver, or cause to be paid or delivered, all royalties, overriding royalties, or other payments due on its share of such production, and shall hold the other parties free from any liability therefor. Any extra expenditure incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party.

Each party shall execute all division orders and contracts of sale pertaining to its interest in production from the Unit Area, and shall be entitled to receive payment direct from the purchaser or purchasers thereof for its share of all production.

In the event any party shall fail to make the arrangements necessary to take in kind or separately dispose of its proportionate share of the oil and gas produced from the Unit Area, Operator shall have the right, subject to revocation at will by the party owning it, but not the obligation, to purchase such oil and gas or sell it to others for the time being, at not less than the market price prevailing in the area, which shall in no event be less than the price which Operator receives for its portion of the oil and gas produced from the Unit Area. Any such purchase or sale by Operator shall be subject always to the right of the owner of the production to exercise at any time its right to take in kind, or separately dispose of, its share of all oil and gas not previously delivered to a purchaser. Notwithstanding the foregoing, Operator shall not make a sale into interstate commerce of any other party's share of gas production without first giving such other party sixty (60) days notice of such intended sale. Oil well and gas well gas production shall be governed by Gas Storage and Balancing Agreement, attached hereto as Exhibit "E."

14. ACCESS TO UNIT AREA

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

15. DRILLING CONTRACTS

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

16. ABANDONMENT OF WELLS

No well, other than any well which has been drilled or reworked pursuant to Section 12 hereof for which the Consenting Parties have not been fully reimbursed as therein provided, which has been completed as a producer shall be plugged and abandoned without the consent of all parties; provided, however, if all parties do not agree to the abandonment of any well, those wishing to continue its operation shall tender to each of the other parties its proportionate share of the value of the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. Each abandoning party shall then assign to the non-abandoning parties, without warranty, express or implied, as to title or as to quantity, quality, or fitness for use of the equipment and material, all of its interest in the well and its equipment, together with its interest in the leasehold estate as to, but only as to, the interval or intervals of the formation or formations then open to production. The assignments so limited shall encompass the "drilling unit" upon which the well is located. The payments by, and the assignments to, the assignees shall be in a ratio based upon the relationship of their respective percentages of participation in the Unit Area to the aggregate of the percentages of participation in the Unit Area of all assignees. There shall be no readjustment of interest in the remaining portion of the Unit Area.

After the assignment, the assignors shall have no further responsibility, liability, or interest in the operation of or production from the well in the interval or intervals then open. Upon request of the assignees, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate ownership of the assigned well.

17. DELAY RENTALS AND SHUT-IN WELL PAYMENTS.

Delay rentals and shut-in well payments which may be required under the terms of any lease shall be paid by the party who has subjected such lease to this agreement, at its own expense. Proof of each payment shall be given to Operator at least ten (10) days prior to the rental or shut-in well payment date. Operator shall furnish similar proof to all other parties concerning payments it makes in connection with its leases. Any party may request, and shall be entitled to receive, proper evidence of all such payments. If, through mistake or oversight, any delay rental or shut-in well payment is not paid or is erroneously paid, and as a result a lease or interest therein terminates, there shall be no monetary liability against the party who failed to make such payment. Unless the party who failed to pay a rental or shut-in well payment secures a new lease covering the same interest within ninety (90) days from the discovery of the failure to make proper payment, the interests of the parties shall be revised on an acreage basis effective as of the date of termination of the lease involved, and the party who failed to make proper payment will no longer be credited with an interest in the Unit Area on account of the ownership of the lease which has terminated. In the event the party who failed to pay the rental or the shut-in well payment shall not have been fully reimbursed, at the time of the loss, from the proceeds of the sale of oil and gas attributable to the lost interest, calculated on an acreage basis, for the development and operating costs theretofore paid on account of such interest, it shall be reimbursed for unrecovered actual costs theretofore paid by it (but not for its share of the cost of any dry hole previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:

(1) proceeds of oil and gas, less operating expenses, theretofore accrued to the credit of the lost interest, on an acreage basis, up to the amount of unrecovered costs;

(2) proceeds, less operating expenses thereafter incurred attributable to the lost interest on an acreage basis, of that portion of oil and gas thereafter produced and marketed (excluding production from any wells thereafter drilled) which would, in the absence of such lease termination, be attributable to the lost interest on an acreage basis, up to the amount of unrecovered costs, the proceeds of said portion of the oil and gas to be contributed by the other parties in proportion to their respective interests; and

(3) any moneys, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the interest lost, for the privilege of participating in the Unit Area or becoming a party to this contract.

Operator shall promptly notify each other party of any well shut in (and the reason therefore) or placed on production; however, there shall be no liability for inadvertent failure to give said notice.

18. PREFERENTIAL RIGHT TO PURCHASE

Should any party desire to sell all or any part of its interests under this contract, or its rights and interests in the Unit Area, it shall promptly give written notice to the other parties, with full information concerning its proposed sale, which shall include the name and address of the prospective purchaser (who must be ready, willing and able to purchase), the purchase price, and all other terms of the offer. The other parties shall then have an optional prior right, for a period of ten (10) days after receipt of the notice, to purchase on the same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage its interests, or to dispose of its interests by merger, reorganization, consolidation, or sale of all of its assets, or a sale or transfer of its interests to a subsidiary or parent company, or subsidiary of a parent company, or to any company in which any one party owns a majority of the stock.

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

19. MAINTENANCE OF UNIT OWNERSHIP

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

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

(2) an equal undivided interest in all leases and equipment and production in the Unit Area.

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

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

20. RESIGNATION OF OPERATOR

Operator may resign from its duties and obligations as Operator at any time upon written notice of not less than ninety (90) days given to all other parties. In this case, all parties to this contract shall select by majority vote in interest, not in numbers, a new Operator who shall assume the responsibilities and duties, and have the rights, prescribed for Operator by this agreement. The retiring Operator shall deliver to its successor all records and information necessary to the discharge by the new Operator of its duties and obligations.

21. LIABILITY OF PARTIES

The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations, and shall be liable only for its proportionate share of the costs of developing and operating the Unit Area. Accordingly, the lien granted by each party to Operator in Section 9 is given to secure only the debts of each severally. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other partnership or association, or to render them liable as partners.

22. RENEWAL OR EXTENSION OF LEASES

If any party secures a renewal of any oil and gas lease subject to this contract, each and all of the other parties shall be notified promptly, and shall have the right to participate in the ownership of the renewal lease by paying to the party who acquired it their several proper proportionate shares of the acquisition cost, which shall be in proportion to the interests held at that time by the parties in the Unit Area.

If some, but less than all, of the parties elect to participate in the purchase of a renewal lease, it shall be owned by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in the unit area to the aggregate of the percentages of participation in the unit area of all parties participating in the purchase of such renewal lease. Any renewal lease in which less than all the parties elect to participate shall not be subject to this agreement.

Each party who participates in the purchase of a renewal lease shall be given an assignment of its proportionate interest therein by the acquiring party.

The provisions of this section shall apply to renewal leases whether they are for the entire interest covered by the expiring lease or cover only a portion of its area or an interest therein. Any renewal lease taken before the expiration of its predecessor lease, or taken or contracted for within six (6) months after the expiration of the existing lease shall be subject to this provision; but any lease taken or contracted for more than six (6) months after the expiration of an existing lease shall not be deemed a renewal lease and shall not be subject to the provisions of this section.

The provisions in this section shall apply also and in like manner to extensions of oil and gas leases.

23. SURRENDER OF LEASES

The leases covered by this agreement, in so far as they embrace acreage in the Unit Area, shall not be surrendered in whole or in part unless all parties consent.

However, should any party desire to surrender its interest in any lease or in any portion thereof, and other parties not agree or consent, the party desiring to surrender shall assign, without express or implied warranty of title, all of its interest in such lease, or portion thereof, and any well, material and equipment which may be located thereon and any rights in production thereafter secured, to the parties not desiring to surrender it. Upon such assignment, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore accrued, with respect to the acreage assigned and the operation of any well thereon, and the assigning party shall have no further interest in the lease assigned and its equipment and production. The parties assignee shall pay to the party assignor the reasonable salvage value of the latter's interest in any wells and equipment on the assigned acreage, determined in accordance with the provisions of Exhibit "C", less the estimated cost of salvaging and the estimated cost of plugging and abandoning. If the assignment is in favor of more than one party, the assigned interest shall be shared by the parties assignee in the proportions that the interest of each bears to the interest of all parties assignee. The Assignment shall in no event cover any lands out side the Unit Area unless Assignor and Assignee mutually agree thereto.

Any assignment or surrender made under this provision shall not reduce or change the assignors' or surrendering parties' interest, as it was immediately before the assignment, in the balance of the Unit Area; and the acreage assigned or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this agreement.

24. ACREAGE OR CASH CONTRIBUTIONS

If any party receives while this agreement is in force a contribution of cash toward the drilling of a well or any other operation on the Unit Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom the contribution is made shall promptly execute an assignment of the acreage, without warranty of title, to all parties to this agreement in proportion to their interests in the Unit Area at that time, and such acreage shall become a part of the Unit Area and be governed by all the provisions of this contract. Each party shall promptly notify all other parties of all acreage or money contributions it may obtain in support of any well or any other operation on the Unit Area.

25. PROVISION CONCERNING TAXATION

Each of the parties hereto elects, under the authority of Section 761(a) of the Internal Revenue Code of 1954, to be excluded from the application of all of the provisions of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954. If the income tax laws of the state or states in which the property covered hereby is located contain, or may 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 agrees that such election shall be exercised. Each party authorizes and directs the Operator to execute such an election or elections on its behalf and to file the election with the proper governmental office or agency. If requested by the Operator so to do, each party agrees to execute and join in such an election.

Operator shall render for ad valorem taxation all property subject to this agreement which by law should be returned for such taxes, and it shall pay all such taxes assessed thereon before they become delinquent. Operator shall bill all other parties for their proportionate share of all tax payments in the manner provided in Exhibit "C".

If any tax assessment is considered unreasonable by Operator, it may at its discretion protest such valuation within the time and manner prescribed by law, and it may at its discretion prosecute, or not prosecute, the protest to a final determination. When any such protested valuation shall have been finally determined, Operator shall pay the assessment for the joint account, together with interest and penalty accrued, and the total cost shall then be assessed against the parties, and be paid by them, as provided in Exhibit "C".

26. INSURANCE

At all times while operations are conducted hereunder, Operator shall comply with the Workmen's Compensation Law of the State where the operations are being conducted. Operator shall also carry or provide insurance for the benefit of the joint account of the parties as may be outlined in Exhibit "B" attached to and made a part hereof. Operator shall require all contractors engaged in work on or for the Unit Area to comply with the Workmen's Compensation Law of the State where the operations are being conducted and to maintain such other insurance as Operator may require.

In the event Automobile Public Liability Insurance is specified in said Exhibit "B", or subsequently receives the approval of the parties, no direct charge shall be made by Operator for premiums paid for such insurance for operator's fully owned automotive equipment.

27. CLAIMS AND LAWSUITS

If any party to this contract is sued on an alleged cause of action arising out of operations on the Unit Area, or on an alleged cause of action involving title to any lease or oil and gas interest subjected to this contract, it shall give prompt written notice of the suit to the Operator and all other parties.

The defense of lawsuits shall be under the general direction of a committee of lawyers representing the parties, with Operator's attorney as Chairman. Suits may be settled during litigation only with the joint consent of all parties. No charge shall be made for services performed by the staff attorneys for any of the parties, but otherwise all expenses incurred in the defense of suits, together with the amount paid to discharge any final judgment, shall be considered costs of operation and shall be charged to and paid by all parties in proportion to their then interests in the Unit Area. Attorneys, other than staff attorneys for the parties, shall be employed in lawsuits involving Unit Area operations only with the consent of all parties; if outside counsel is employed, their fees and expenses shall be considered Unit Area expense and shall be paid by Operator and charged to all of the parties in proportion to their then interests in the Unit Area. The provisions of this paragraph shall not be applied in any instance where the loss which may result from the suit is treated as an individual loss rather than a joint loss under prior provisions of this agreement, and all such suits shall be handled by and be the sole responsibility of the party or parties concerned.

Damage claims caused by and arising out of operations on the Unit Area, conducted for the joint account of all parties, shall be handled by Operator and its attorneys, the settlement of claims of this kind shall be within the discretion of Operator so long as the amount paid in settlement of any one claim does not exceed thirty-five hundred ($3500.00) dollars and, if settled, the sums paid in settlement shall be charged as expense to and be paid by all parties in proportion to their interests in the Unit Area.

28. FORCE MAJEURE

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to make money payments, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The affected party shall use all possible diligence to remove the force majeure as quickly as possible.

The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

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

29. NOTICES

All notices authorized or required between the parties, and required by any of the provisions of this agreement, shall, unless otherwise specifically provided, be given in writing by United States mail or Western Union Telegram, postage or charges prepaid, and addressed to the party to whom the notice is given at the

addresses listed on Exhibit "A". The originating notice to be given under any provision hereof shall be deemed given only when received by the party to whom such notice is directed and the time for such party to give any notice in response thereto shall run from the date the originating notice is received. The second or any responsive notice shall be deemed given when deposited in the United States mail or with the Western Union Telegraph Company, with postage or charges prepaid. Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other parties.

30. OTHER CONDITIONS, IF ANY, ARE:

A. Unleased oil and gas interests shall be subject to the terms and provisions of this Agreement only for the term set out in Exhibit "D".

If the assigning party or parties under any applicable Section in this Agreement shall be the owner or owners of an unleased oil and gas interest, such party or parties shall execute an oil and gas lease in lieu of an Assignment as therein provided, using in so doing, the form of lease attached hereto as Exhibit "D" which lease shall be for a primary term of One (1) year from the date of execution thereof and so long thereafter as oil or gas or either of them is produced from said land by the Lessee in paying quantities.

B. Title failure or loss of a lease or unleased oil and gas interest, shall not relieve any party from paying its proportionate share of the cost of (1) drilling, testing, completing and equipping or plugging and abandoning the test well, or (2) operations then being conducted on a well in the Unit Area, provided it has previously agreed to participate in said test well or operations.

C. Notwithstanding anything herein to the contrary, if any working interest owner shall, subsequent to execution of this agreement, create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out if its working interest (herein called "subsequently created interest"), such subsequently created interest shall be specifically made subject to all of the terms and provisions of this agreement. If the working interest owner from which such subsequently created interest is created (a) fails to pay, when due, its share of costs and expenses chargeable hereunder, and its share of production accruing hereunder is insufficient to cover such costs and expenses, or (b) elects to go non-consent under Section 12., or (c) elects to abandon a well under Section 16. hereof, elects to surrender a lease under Section 24. hereof, or otherwise withdraws from this agreement, the subsequently created interest shall be chargeable with a pro-rata portion of all costs and expenses hereunder in the same manner as if such subsequently created interests were a working interest, and Operator shall have the right to enforce against such subsequently created interests the lien and all other rights granted in Section 9. hereof for the purpose of collecting costs and expenses chargeable to subsequently created interests.

D. Notwithstanding the provisions of Sections 7, 11 and 12 or any other provision contained herein to the contrary, consent to the drilling of any well shall not bedeemed to be consent to the setting of casing and a completion attempt. After any well drilled pursuant to this agreement has reached the depth previously agreed upon by the parties, all testing and logging has been completed and before conducting any further operations, Operator shall give immediate notice to all of the other parties hereto. The parties receiving such notice shall have forty-eight (48) hours (exclusive of Saturdays, Sundays or legal holidays) in which to elect whether or not they desire to set casing and participate in a completion attempt. Failure of the party receiving such notice to reply within the said forty-eight (48) hour period shall constitute an election by that party not to participate in the cost of the completion attempt. If all parties elect to plug and abandon the well, Operator shall plug and abandon the same at the expense of all parties. If one or more, but less than all, of the parties elect to set casing and attempt a completion, all such operations shall be conducted subject to all of the terms and provisions of Section 12.

E. In the performance of this agreement, Operator agrees to comply fully with the nondiscrimination provisions of Section 202 (1) to (7) inclusive of Executive Order 11246, as amended, and included as Exhibit "F," which is attached hereto and made a part hereof. Operator further agrees to comply with the provisions of Executive Order 11701, which is incorporated herein by reference.

F. The parties hereto have concurrently herewith entered into that certain Unit Agreement For the Development and Operation of the Loafer Draw Unit Area, (hereinafter referred to as "Unit Agreement") dated the same date hereof, covering the Unit Area under this agreement. The following provisions are added under this subparagraph F. of Section 30 to provide for operations consistent with the terms of the Unit Agreement and, in the event of a conflict between the foregoing provisions of this agreement and the following provisions, the latter shall control.

1. DEFINITIONS - The definitions contained in the Unit Agreement are hereby adopted for all purposes of this agreement.

2. TEST WELL - The test well provided for herein is the "initial test well" under the Unit Agreement and said test well shall be drilled, tested, completed (including plugging and abandonment, if a dry hole) and equipped at the sole cost, risk and expense of the parties.

3. DRILLING UNITS AND PARTICIPATING AREA - All drilling units for the Unit Area shall conform to the rules and regulations of the Oil Conservation Commission of the State of New Mexico. The establishment of participating area under the Unit Agreement shall, subject to approval by the Supervisor, conform to the State Rules in that each participating area shall consist of the drilling unit for the initial producing well thereon and each enlargement of such participating area shall include any subsequent producing well or wells and the drilling unit or units therefor.

4. PAYMENT OF ROYALTIES, OVERRIDING ROYALTIES AND OTHER BURDENS - Royalties, overriding royalties and other burdens payable under interests committed to the Unit Area shall be paid on a participating area basis as provided in the Unit Agreement.

5. SUBSEQUENT TEST WELL - If the test well is not completed as a well capable of producing unitized substances, as defined in Article 9. of the Unit Agreement, the drilling of any subsequent test well shall be on such terms as the parties may agree; provided, however, in the absence of Agreement, such well (or wells) may be drilled by Operator for the account of any party (or parties) hereto who have agreed to drill a subsequent test well under the provisions of Section 12. hereof.

6. DEVELOPMENT OR EXPLORATORY WELLS - If the Supervisor has approved the drilling of a well or wells as proposed under Articles 10. and 13. of the Unit Agreement, Operator shall drill such well for the account of the parties hereto subject to the following:

(a) Any party hereto may propose the drilling of a well on a drilling unit by giving to each of the other parties written notice specifying the location, depth and estimated cost of the proposed well, which location shall conform to the applicable spacing pattern heretofore adopted.

(b) Within thirty (30) days after receipt of such notice, each party shall advise all other parties in writing, whether or not it wishes to participate in drilling the proposed well. If all parties so advise that they wish to participate therein, the proposed well shall be drilled by Operator for the account of all the parties. 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.

(c) Unless all parties agree to participate in response to said notice, then within fifteen (15) days after expiration of said period of thirty (30) days, each party who then desires to have the proposed well drilled shall give to all other parties 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.

(d) If one or more, but not all of the parties so elect to proceed, Operator shall drill the well for the account of such party or parties under the provisions of Section 12.

7. (a) REQUIRED WELLS - 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 Operator receives any such order, it shall promptly mail a copy therof 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, Operator shall give each of the other parties prompt written notice of the result thereof.

(b) ELECTION TO DRILL - Any party desiring to drill, or participate in the drilling of, a required well shall give to 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, Operator shall drill the required well for the account of the party or parties owning interests in the drilling unit under the provisions of Section 12.

(c) ALTERNATIVE 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:

(1) 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, Operator shall pay such compensatory royalties for the account of said parties; or

(2) CONTRACTION - If the drilling of the well may be avoided, without other penalty, by contraction of the Unit Area, Operator shall make reasonable effort to effect such contraction with the approval of the Director; or

(3) 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.

(d) REQUIRED DRILLING - If none of the foregoing alternatives is available, Operator shall drill the required well for the account of the parties who are obligated to bear the costs thereof in accordance with this agreement.

8. ESTABLISHMENT, REVISION AND CONSOLIDATION OF PARTICIPATING AREAS -

(a) PROPOSAL - Operator shall initiate each proposal for the establishment or revision of a participating area by submitting the proposal in writing to each party before filing 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.

(b) 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.

(c) REVISED PROPOSAL - If the proposal does not receive the approval of the parties within the proposed participating area, then 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 thirty (30) days from the submission of the first proposal, then Operator shall file with the Director a proposal reflecting as nearly as practicable the various views expressed by the parties.

(d) REJECTION BY DIRECTOR - If a proposal filed by Operator, as above provided, is rejected by the Director, Operator shall initiate a new proposal in the same manner as provided above, and the procedure with respect thereto shall be the same as in the case of an initial proposal.

(e) CONSOLIDATION - Two or more participating areas may be combined as provided in the Unit Agreement.

9. PLANS OF DEVELOPMENT -

(a) WELLS AND PROJECTS INCLUDED - Each plan for the development and

operation of the Unit Area which is submitted by 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 Operator has been authorized to conduct by the parties owning a working interest in a drilling unit and chargeable with the costs incurred.

(b) NOTICE OF PROPOSED PLAN - At least ten (10) days before submitting any such proposed plan to the Supervisor, Operator shall give each party written notice thereof, together with a copy of the proposed plan.

(c) NOTICE OF APPROVAL OR DISAPPROVAL - If and when a proposed plan has been approved or disapproved by the Supervisor, Operator shall give prompt written notice thereof to each party. In the case of disapproval, Operator shall state in such notice the reasons therefor.

(d) 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, 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.

(e) 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, 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 owning working interest in the drilling unit and chargeable with such costs.

10. COMPENSATORY ROYALTIES -

(a) NOTICE - Whenever demand is made in accordance with the Unit Agreement for the payment of compensatory royalties, Operator shall give written notice thereof to each party affected by the demand.

(b) 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 Operator shall pay such compensatory royalty. Such payment will be charged to the account of the parties owning interests subject to such demand as costs incurred in operations within the drilling unit for such well.

11. TERM - Notwithstanding the provisions of Section 10. hereof, the term of this agreement shall be the same as the term of the Unit Agreement and shall terminate concurrently therewith; provided, however, the termination of this agreement shall not operate to relieve any party of any obligation then accrued either hereunder or under the Unit Agreement.

12. RATIFICATION AND JOINDER -

(a) 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.

(b) 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.

This agreement may be signed in counterpart, and shall be binding upon the parties and upon their heirs, successors, representatives and assigns, upon execution of all parties, and shall be effective as of the date first hereinabove written; provided, however, this agreement shall not become binding or effective unless it is executed by all parties and returned to Operator within ninety (90) days after said date unless such time is extended by agreement of all parties.

CITIES SERVICE OIL COMPANY

By _____
Attorney-in-Fact

O P E R A T O R

S. P. YATES
Yates Building
Artesia, New Mexico 88210

MARTIN YATES, III
Yates Building
Artesia, New Mexico 88210

MIDWEST OIL CORPORATION
1500 Wilco Building
Midland, Texas 79701

ALLIED CHEMICAL CORPORATION
1300 Wilco Building
Midland, Texas 79701

JACK L. McCLELLAN
P. O. Box 848
Roswell, New Mexico 88201

EASTLAND OIL COMPANY
704 Western United Life Building
Midland, Texas 79701

ROBINSON DRILLING COMPANY
OF TEXAS, INC.
306 Permian Building
Big Spring, Texas 79720

ILLABELLE SHANAHAN
P. O. Box 1272
Salt Lake City, Utah 84110

HAYES OIL COMPANY
1402 Gihls Tower West
Midland, Texas 79701

N O N - O P E R A T O R S

STATE OF OKLAHOMA)
) SS
COUNTY OF TULSA)

On this _____ day of _____, 1973, before me personally appeared _____, to me known to be the person who executed the foregoing instrument as Attorney-in-Fact in behalf of CITIES SERVICE OIL COMPANY, a Delaware corporation, and acknowledged that he executed the same as the free act and deed of said Cities Service Oil Company.

_____
Notary Public

My Commission Expires:

_____

EXHIBIT "A" - Attached to and made a part of Operating Agreement dated October 15, 1973, between CITIES SERVICE OIL COMPANY, as Operator, and S. P. YATES, et al, as Non-Operators.

(1) LANDS SUBJECT TO CONTRACT (Unit Area):

All of Sections 12 and 13, Township 21 South, Range 21 East; All of Sections 7 and 8, the W/2 of Section 9, the W/2 of Section 16, all of Sections 17, 18, 19, 20, and the W/2 of Section 21, all in Township 21 South, Range 22 East, Eddy County, New Mexico.

(2) CONTRIBUTIONS AND INTERESTS OF THE PARTIES:

Parties	Acreage	Percentage
Cities Service Oil Company	3,560.64	60.93313%
S. P. Yates	1,122.88	19.21582%
Martin Yates, III	320.00	5.47615%
Midwest Oil Corporation	320.00	5.47615%
Allied Chemical Corporation	320.00	5.47615%
Jack L. McClellan	40.00	.68452%
Eastland Oil Company	40.00	.68452%
Robinson Drilling Company of Texas, Inc.	40.00	.68452%
Illabelle Shanahan	40.00	.68452%
Hayes Oil Company	40.00	.68452%
	5,843.52	100.00000%

(3) ADDRESSES OF PARTIES TO WHICH NOTICES SHOULD BE SENT:

Allied Chemical Corporation
1300 Wilco Building
Midland, Texas 79701
Attn: Mr. Don F. Dow

Cities Service Oil Company
P. O. Box 300
Tulsa, Oklahoma 74102
Attn: Manager, Land Department

Eastland Oil Company
704 Western United Life Building
Midland, Texas 79701

Hayes Oil Company
1402 Gihls Tower West
Midland, Texas 79701
Attn: Mr. James C. Hayes

Mr. Jack L. McClellan
P. O. Box 848
Roswell, New Mexico 88201

Midwest Oil Corporation
1500 Wilco Building
Midland, Texas 79701
Attn: Mr. Tom Coleman

Robinson Drilling Company of Texas, Inc.
306 Permian Building
Big Spring, Texas 79720

Ms. Illabelle Shanahan
P. O. Box 1272
Salt Lake City, Utah 84110

Martin Yates, III
Yates Building
Artesia, New Mexico 88210

S. P. Yates
Yates Building
Artesia, New Mexico 88210

EXHIBIT "B"

Attached to and made a part of Operating Agreement dated October 15, 1973, between CITIES SERVICE OIL COMPANY, as Operator, and S. P. YATES, et al, as Non-Operators.

INSURANCE

Operator shall also purchase or provide for the benefit of the parties hereto:

Type of Coverage		Liability Limits of Not Less Than
(a) Employers' Liability and extension of Workmen's Compensation and Employers' Liability to cover marine operations where applicable.	-	$100,000 each accident
(b) Comprehensive General Liability (excluding underground property damage but including operation of watercraft where applicable).	- Bodily Injury	$100,000 each person 300,000 each accident
	- Property Damage	100,000 each accident
(c) Comprehensive Automobile Liability	- Bodily Injury	$100,000 each person 300,000 each accident
	- Property Damage	100,000 each accident

It is further understood and agreed that the Operator is not a warrantor of the financial responsibility of the insurer with whom such insurance is carried, and that except for willful negligence, Operator shall not be liable to Non-operator for any loss suffered on account of the insufficiency of the insurance carried, or of insurer with whom carried. Operator shall not be liable to Non-operator for any loss accruing by reason of Operator's inability to procure or maintain the insurance above mentioned. Operator agrees that if at any time during the life of this agreement it is unable to obtain or maintain such insurance, it shall immediately notify Non-operator in writing of such fact.

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

EXHIBIT " C "

Attached to and made a part of Operating Agreement dated October 15, 1973, between CITIES SERVICE OIL COMPANY, as Operator, and S. P. YATES, et al, as Non-Operators.

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. [illegible]

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 twelve percent (12%) per annum or such maximum rate as permitted by law, whichever is the lesser, until paid.

6. Adjustments

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

7. Audits

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

II. DIRECT CHARGES

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

1. Rentals and Royalties

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

2. Labor

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

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

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

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

3. **Employee Benefits**
Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost; provided however, the total of such charges shall not exceed fifteen percent (15%) of Operator's labor costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1 of Section III.

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

5 **Transportation**
Transportation of employees and Material necessary for the Joint Operations but subject to the following limitations:
A If Material is moved to the Joint Property from the Operator's warehouse or other properties, no charge shall be made to the Joint Account for a distance greater than the distance from the nearest reliable supply store or 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.)
[x] Paragraph 4. (Combined fixed rate)

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

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

WELL BASIS (RATE PER WELL PER MONTH)

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

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

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

NONE

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)

Drilling Wells	Production All Wells-All Depths
$1,460	$205

Said fixed rate (shall) ~~XXXXXXX~~ include salaries and expenses of production foremen.

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

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

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

IV. BASIS OF CHARGES TO JOINT ACCOUNT

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

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

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

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

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

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

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

5. **Equipment and Facilities Furnished by Operator**
A. Operator shall charge the Joint Account for use of equipment and facilities at rates commensurate with cost of ownership and operation. Such rates shall include cost of maintenance, repairs, other operating expense, insurance, taxes, depreciation and interest on investment not to exceed six per cent (6%) per annum, provided such rates shall not exceed those currently prevailing in the immediate area within which the Joint Property is located. Rates for automotive equipment shall generally be in line with the schedule of rates adopted by the Petroleum Motor Transport Association, or some other recognized organization, as 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 Adjustments 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 "D" - Attached to and made a part of Operating Agreement dated October 15, 1973, between CITIES SERVICE OIL COMPANY, as Operator, and S. P. YATES, et al, as Non-Operators.

(NO UNLEASED MINERAL INTEREST BEING CONTRIBUTED)

EXHIBIT "E" - Attached to and made a part of Operating Agreement dated October 15, 1973, between CITIES SERVICE OIL COMPANY, as Operator, and S. P. Yates, et al, as Non-Operators.

GAS STORAGE AND BALANCING AGREEMENT

The parties to the Operating Agreement to which this gas storage agreement is attached own the working interest in the gas rights underlying the Unit Area covered by such agreement in accordance with the percentages of participation as set forth in Exhibit "A" to the Operating Agreement.

In accordance with the terms of the Operating Agreement, each party thereto has the right to take its share of gas produced from the Unit Area and market the same. In the event any of the parties hereto is not at any time taking or marketing its share of gas or has contracted to sell its share of gas produced from the Unit Area to a purchaser which is unable at any time while this agreement is in effect to take the share of gas attributable to the interest of such party, the terms of this storage agreement shall automatically become effective.

During the period or periods when any party hereto is not taking or marketing its share of gas produced from the Unit Area, or its purchaser is unable to take its share of gas produced from the Unit Area, the other parties shall be entitled to produce each month one hundred percent (100%) of the allowable gas production assigned to such Unit by the New Mexico Oil Conservation Commission and shall be entitled to take and deliver to its or their purchaser all of such gas production; however, no party shall be entitled to take or deliver to a purchaser gas production in excess of three hundred percent (300%) of its current share of the volumes capable of being delivered or of the allowable gas production if assigned thereto by the New Mexico Oil Conservation Commission unless that party has gas in storage. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by lease equipment in accordance with their respective interests and subject to the Operating Agreement to which this gas storage agreement is attached, but the party or parties taking such gas shall own all of the gas delivered to its or their purchaser. On an accumulative basis, each party not taking or marketing its share of the gas produced shall be credited with gas in storage equal to its share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost.

Each party taking gas shall furnish the Operator a monthly statement of gas taken. The statement shall show the volume and value of gas utilized (other than for unit operations), the volume of gas sold and the proceeds therefrom, the production taxes due on such gas, and the basic royalty due on such gas. ("Basic royalty" as used herein shall mean the usual one-eighth (1/8) royalty and "excess royalty" as used herein shall mean any royalty in excess of the usual one-eighth (1/8) but not including overriding royalty, production payment, or similar interest.) Each party shall pay or make arrangements to have the basic royalty attributable to the production it receives paid to the Operator. The Operator will make settlement with royalty owners for basic royalty and excess royalty. Each party having an interest burdened with an excess royalty shall reimburse Operator for such excess royalty upon being invoiced therefor. Each party having an interest burdened with any overriding royalty, production payment, or similar interest shall be responsible for the payment of such overriding royalty, production payment, or similar interest. Each party taking gas shall pay or cause to be paid all production taxes due on the gas taken. The Operator will maintain a current account of the gas balance between the parties and will furnish all parties a monthly statement showing the total quantity of gas taken and/or sold by each party and the monthly accumulative over and under delivered of each party. Each party taking gas agrees to hold each other party harmless from any and all claims for basic royalty asserted by royalty owners on such gas.

After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its share of the gas produced from the Unit Area. In addition to its share, each party, including the Operator, until it has recovered its gas in storage and balanced the gas account as to its interest, shall be entitled to take or deliver to a purchaser a volume of gas equal to fifty percent (50%) of the overproduced party or parties' share of gas produced from the Unit Area. If two or more parties are entitled to fifty percent (50%) of the overproduced party or parties' share of gas produced, they shall divide such fifty percent (50%) in accordance with their percentage of participation in the Unit.

Should production of gas be discontinued before the gas account is balanced, a monetary settlement will be made between the underproduced and overproduced

parties. In making such settlement, each overproduced party shall remit to the Operator an amount of money that such party received for its overproduction, less royalty and taxes theretofore paid, such amount being at the price hereinafter defined for its last sales and for a volume of gas equal to its overproduction. As to gas sold in interstate commerce, the price basis shall be the rate collected, which is not subject to possible refund, as provided by the Federal Power Commission pursuant to final order or settlement applicable to the gas sold, plus any additional collected amount which is not ultimately required by said Commission to be refunded, such additional collected amount to be accounted for at such time as final determination is made with respect thereto. The Operator shall distribute the total of such amounts among the underproduced parties in the proportion that the underproduction of each bears to the underproduction of all parties.

Nothing herein shall be construed to deny any party the right, from time to time, to produce and take or deliver to its purchaser the full well stream for a period not to exceed seventy-two (72) hours to meet the deliverability test required by its purchaser. Each party shall, at all times, use its best efforts to regulate its takes and deliveries from said Unit so that said Unit will not be shut in for overproducing the allowable or for cancellation of allowable because of underproducing the allowable assigned thereto by the state regulatory body.

The provisions of this agreement shall be applied to each well and/or formation completion as if each well or formation completion were a separate well and covered by a separate but identical gas storage and balancing agreement and shall be and remain in force and effect for a term concurrent with the term of the Unit Operating Agreement between the parties.

This agreement shall become effective in accordance with its terms and shall remain in force and effect as long as the Operating Agreement to which it is attached remains in effect, and shall inure to the benefit of and be binding upon the parties hereto, their successors, legal representatives and assigns.

EXHIBIT "F" - Attached to and made a part of Operating Agreement dated October 15, 1973, between CITIES SERVICE OIL COMPANY, as Operator, and S. P. YATES, et al, as Non-Operators.

EQUAL EMPLOYMENT OPPORTUNITY PROVISION

During the performance of this contract, the Operator agrees as follows:

1. The Operator will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. The Operator will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, sex or national origin. Such action 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 Operator agrees to post in conspicuous places, available to employees and applicants for employment notices to be provided for the contracting officer setting forth the provisions of this non-discrimination clause.

2. The Operator will, in all solicitations or advertisements for employees placed by or on behalf of the Operator, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex or national origin.

3. The Operator will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a notice to be provided by the agency contracting officer, advising the labor union or workers' representative of the Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

4. The Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations, and relevent orders of the Secretary of Labor.

5. The Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to its books, records, and accounts by the contracting agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations, and orders.

6. In the event of Operator's non-compliance with the non-discrimination clauses of this contract or with any of such rules, regulations, or orders, this contract may be cancelled, terminated or suspended in whole or in part and the Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in Executive Order 11246 of September 24, 1965, or by rules, regulations, or order of the Secretary of Labor, or as otherwise provided by law.

7. The Operator will include the provisions of paragraphs (1) through (7) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Operator will take such action with respect to any subcontract or purchase order as the contracting agency may direct as a means of enforcing such provisions including sanctions for non-compliance: Provided, however, that in the event the Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, the Operator may request the United States to enter into such litigation to protect the interests of the United States.

Operator acknowledges that it may be required to file Standard Form 100 (EEO-1) promulgated jointly by the Office of Federal Contract Compliance, the Equal

Employment Opportunity Commission and Plans for Progress with the appropriate agency within thirty (30) days of the date of contract award if such report has not been filed for the current year and otherwise comply with or file such other compliance reports as may be required under Executive Order 11246, as amended, and Rules and Regulations adopted thereunder.

Operator further acknowledges that it may be required to develop a written affirmative action compliance program as required by the Rules and Regulations approved by the Secretary of Labor under authority of Executive Order 11246 and supply Non-Operators with a copy of such program if they so request.

CERTIFICATION OF NON-SEGREGATED FACILITIES

Operator assures Non-Operators that it does not and will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it does not and will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. For this purpose, it is understood that the phrase "segregated facilities" includes facilities which are in fact segregated on a basis of race, color, religion, or national origin, because of habit, local custom or otherwise. It is further understood and agreed that maintaining or providing segregated facilities for its employees or permitting its employees to perform their services at any location under its control where segregated facilities are maintained is a violation of the equal opportunity clause required by Executive Order 11246 of September 24, 1965.

Operator further understands and agrees that a breach of the assurance herein contained subjects it to the provisions of the Order at 41 CFR Chapter 60 of the Secretary of Labor dated May 21, 1968, and the provisions of the equal opportunity clause enumerated in contracts between the United States of America and Non-Operators.

Whoever knowingly and willfully makes any false, fictitious or fraudulent representation may be liable to criminal prosecution under 18 U.S.C § 1001.

EXHIBIT B
Loafer Draw Unit Area
T-21-S, R-21 & 22-E
Eddy County, New Mexico

5075 5

Tract No.	Description of Land	Number of Acres	Lease Serial No., Exp. Date	Basic Royalty Owner	%	Lessee of Record	Int.	Overriding Royalty Owner and %	WI Owner and %	
1.	T-21-S, R-22-E Section 20: NW/4 NE/4	40.00	NM-0372642 11/11/74	USA	12.5%	Robinson Drilling Company of Texas, Inc.	100%	None	Robinson Drilling Company of Texas, Inc.	100%
2.	T-21-S, R-21-E Section 12: N/2 Section 13: SE/4, N/2 SW/4	560.00	NM-0452825 11/30/73	USA	12.5%	Cities Service Oil Company	100%	O. Thorn and P. Ijams - 1% M. J. Harvey, Jr. - 1%	Cities Service Oil Company	100%
3.	T-21-S, R-22-E Section 20: NE/4 NE/4	40.00	NM-0512118 2/28/74	USA	12.5%	Illabelle Shanahan	100%	None	Illabelle Shanahan	100%
4.	T-21-S, R-21-E Section 13: W/2 NE/4	80.00	NM-70 7/31/76	USA	12.5%	Cities Service Oil Company	100%	Edmund B. MacDonald, et ux - 3%	Cities Service Oil Company	100%
5.	T-21-S, R-21-E Section 12: SW/4, W/2 SE/4, SE/4 SE/4 Section 13: NW/4	440.00	NM-886 11/30/76	USA	12.5%	Cities Service Oil Company	100%	W. R. Goddard, et ux - 3%	Cities Service Oil Company	100%
6.	T-21-S, R-21-E Section 12: NE/4 SE/4	40.00	NM-887 11/30/76	USA	12.5%	Allied Chemical Corporation	100%	Jack J. Grynberg - 3.125% Melvin Unterman - 3.125%	Allied Chemical Corporation	100%
7.	T-21-S, R-22-E Section 8: SW/4 Section 17: W/2 Section 19: NE/4, N/2 SE/4 Section 20: NW/4, S/2 NE/4	960.00	NM-4979 3/31/78	USA	12.5%	Cities Service Oil Company	100%	A. G. Andrikopoulos - 2½% John G. Andrikopoulos, et ux - ½ of 1%	Cities Service Oil Company	100%

Tract No.	Description of Land	Number of Acres	Lease Serial No., Exp. Date	Basic Royalty Owner	%	Lessee of Record	Int.	Overriding Royalty Owner and %	WI Owner and %
8.	T-21-S, R-22-E Section 9: W/2	320.00	NM-6008 5/31/78	USA	12.5%	Cities Service Oil Company	100%	William L. McCullough, et ux - 1% Ray C. Van Tassell - 2%	Cities Service Oil Company 100%
9.	T-21-S, R-22-E Section 8: N/2 NE/4, SE/4 Section 17: E/2 NE/4, SW/4 NE/4, SE/4	520.00	NM-6008-A 5/31/78	USA	12.5%	Cities Service Oil Company	100%	William L. McCullough, et ux - 3% Ray C. Van Tassell, Sr. - 2%	Cities Service Oil Company 100%
10.	T-21-S, R-22-E Section 17: NW/4 NE/4	40.00	NM-6012 5/31/78	USA	12.5%	Cities Service Oil Company	100%	Aage Madsen, et ux - 3%	Cities Service Oil Company 100%
11.	T-21-S, R-22-E Section 8: SE/4 NW/4	40.00	NM-6707 6/31/78	USA	12.5%	Allied Chemical Corporation	100%	Marion K. Gray - 6.25%	Allied Chemical Corporation 100%
12.	T-21-S, R-22-E Section 19: SE/4 SE/4	40.00	NM-9532 5/31/79	USA	12.5%	Jack L. McClellan	100%		Jack L. McClellan 100%
13.	T-21-S, R-22-E Section 8: W/2 NW/4, NE/4 NW/4	120.00	NM-9532-A 5/31/79	USA	12.5%	Cities Service Oil Company	100%	Jack L. McClellan, et ux - 5%	Cities Service Oil Company 100%
14.	T-21-S, R-21-E Section 13: SW/4 SW/4	40.00	NM-10765 11/30/79	USA	12.5%	Allied Chemical Corporation	100%	Celeste C. Grynberg - 6.25%	Allied Chemical Corporation 100%
15.	T-21S, R-22-E Section 20: S/2 Section 21: W/2	640.00	NM-10884 12/31/79	USA	12.5%	Martin Yates, III 50% S. P. Yates 50%		Charles R. Wilcox, et ux - 3%	Martin Yates, III 50% S. P. Yates 50%
16.	T-21-S, R-21-E Section 13: NE/4 NE/4; T-21-S, R-22-E Section 7: NE/4 NE/4	80.00	NM-12096 7/31/80	USA	12.5%	Allied Chemical Corporation	100%	F. J. Bradshaw, et ux - 5%	Allied Chemical Corporation 100%

Tract No.	Description of Land	Number of Acres	Lease Serial No., Exp. Date	Basic Royalty Owner	%	Lessee of Record	Int.	Overriding Royalty Owner and %	WI Owner and %	
17.	T-21-S, R-22-E Section 7: Lots 1, 2, 3, 4, E/2 W/2, W/2 E/2, SE/4 NE/4, E/2 SE/4	520.64	NM-12241-A 8/31/80	USA	12.5%	Cities Service Oil Company	100%	Ambrose M. Ciano, et ux - 3%	Cities Service Oil Company	100%
18.	T-21-S, R-22-E Section 18: Lots 1, 2, 3, 4, E/2 W/2, E/2 Section 19: Lots 1, 2, 3, 4, E/2 W/2	802.88	NM-14459 11/30/81	USA	12.5%	S. P. Yates	100%	None	S. P. Yates	100%
19.	T-21-S, R-21-E Section 13: SE/4 SW/4	40.00	NM-17788 2/28/83	USA	12.5%	Allied Chemical Corporation	100%	Ralph Gray - 6.25%	Allied Chemical Corporation	100%
	TOTAL FEDERAL LANDS	5,363.52	(91.7858%)							
20.	T-21-S, R-22-E Section 16: W/2	320.00	L-6421 7/31/81	State	12.5%	Midwest Oil Corporation	100%	None	Midwest Oil Corporation	100%
21.	T-21-S, R-21-E Section 13: SE/4 NE/4	40.00	L-7032 1/31/82	State	12.5%	The Eastland Oil Company	100%	None	The Eastland Oil Company	100%
22.	T-21-S, R-22-E Section 19: SW/4 SE/4	40.00	LG-1365 10/1/83	State	12.5%	Hayes Oil Company	100%	None	Hayes Oil Company	100%
	TOTAL STATE LANDS	400.00	(6.8452%)							
23.	T-21-S, R-22-E Section 8: S/2 NE/4	80.00	Fee 10/11/79	Ralph A. Vandewart, III	12.5%	Allied Chemical Corporation	100%	David J. Sorenson, et ux - 6.25%	Allied Chemical Corporation	100%
	TOTAL PATENTED LANDS	80.00	(1.3690%)							
	TOTAL LANDS	5,843.52	(100.0000%)							

EXHIBIT "A" - Attached to and made a part of Operating Agreement dated October 15, 1973, between CITIES SERVICE OIL COMPANY, as Operator, and S. P. YATES, et al, as Non-Operators.

(1) LANDS SUBJECT TO CONTRACT (Unit Area):

All of Sections 12 and 13, Township 21 South, Range 21 East; All of Sections 7 and 8, the W/2 of Section 9, the W/2 of Section 16, all of Sections 17, 18, 19, 20, and the W/2 of Section 21, all in Township 21 South, Range 22 East, Eddy County, New Mexico.

(2) CONTRIBUTIONS AND INTERESTS OF THE PARTIES:

Parties	Acreage	Percentage
Cities Service Oil Company	3,560.64	60.93313%
S. P. Yates	1,122.88	19.21582%
Martin Yates, III	320.00	5.47615%
Midwest Oil Corporation	320.00	5.47615%
Allied Chemical Corporation	320.00	5.47615%
Jack L. McClellan	40.00	.68452%
Eastland Oil Company	40.00	.68452%
Robinson Drilling Company of Texas, Inc.	40.00	.68452%
Illabelle Shanahan	40.00	.68452%
Hayes Oil Company	40.00	.68452%
	5,843.52	100.00000%

(3) ADDRESSES OF PARTIES TO WHICH NOTICES SHOULD BE SENT:

Allied Chemical Corporation
1300 Wilco Building
Midland, Texas 79701
Attn: Mr. Don F. Dow

Cities Service Oil Company
P. O. Box 300
Tulsa, Oklahoma 74102
Attn: Manager, Land Department

Eastland Oil Company
704 Western United Life Building
Midland, Texas 79701

Hayes Oil Company
1402 Gihls Tower West
Midland, Texas 79701
Attn: Mr. James C. Hayes

Mr. Jack L. McClellan
P. O. Box 848
Roswell, New Mexico 88201

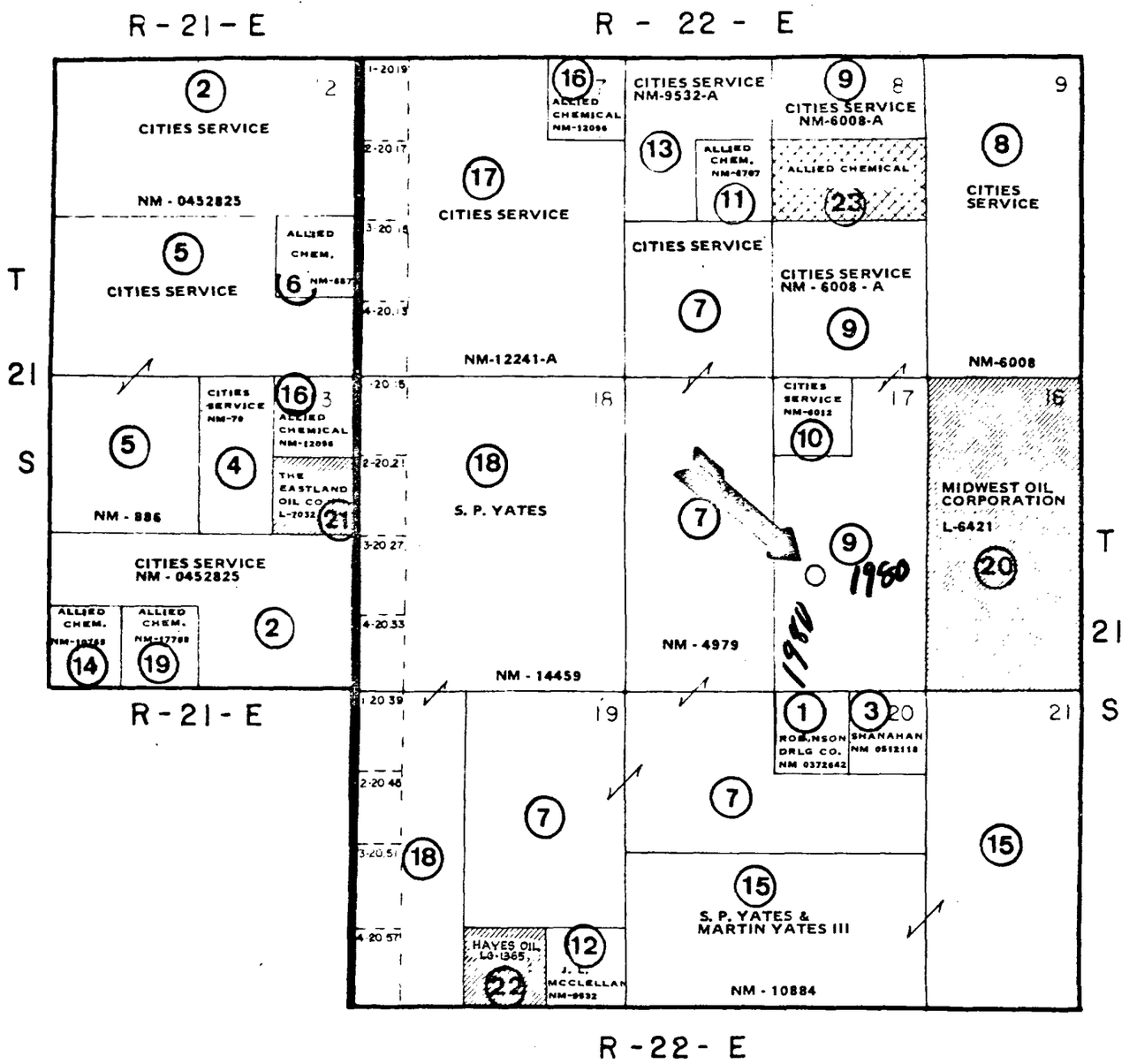
Midwest Oil Corporation
1500 Wilco Building
Midland, Texas 79701
Attn: Mr. Tom Coleman

Robinson Drilling Company of Texas, Inc.
306 Permian Building
Big Spring, Texas 79720

Ms. Illabelle Shanahan
P. O. Box 1272
Salt Lake City, Utah 84110

Martin Yates, III
Yates Building
Artesia, New Mexico 88210

S. P. Yates
Yates Building
Artesia, New Mexico 88210



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Federal Land	5,363.52 Ac	91.7858 %
Fee Land	80.00 Ac	1.3690 %
State Land	400.00 Ac	6.8452 %
Total	5,843.52 Ac	100.0000 %

EXHIBIT "A"

LOAFER DRAW UNIT

Eddy County, New Mexico

Scale 2" = 1 Mile