

UNIT OPERATING AGREEMENT  
NORTHEAST DRINKARD UNIT  
LEA COUNTY, NEW MEXICO

Northeast Drinkard Unit  
Exhibit Four  
Cases 9230  
9231  
9232

UNIT OPERATING AGREEMENT  
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UNIT OPERATING AGREEMENT  
NORTHEAST DRINKARD UNIT  
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 1st day of May, 1987, by the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof;

WITNESSETH:

WHEREAS, the parties hereto as Working Interest Owners have executed, as of the date hereof, an agreement entitled "Unit Agreement, Northeast Drinkard Unit, Lea County, New Mexico," herein referred to as "Unit Agreement", which, among other things, provides for a separate agreement to be entered into by Working Interest Owners to provide for Unit Operations as therein defined;

NOW, THEREFORE, in consideration of the mutual agreements herein set forth, it is agreed as follows:

ARTICLE 1

CONFIRMATION OF UNIT AGREEMENT

1.1 Unit Agreement. The Unit Agreement is hereby confirmed and by reference made a part of this agreement. The definitions in the Unit Agreement are adopted for all purposes of this agreement. If there is

any conflict between the Unit Agreement and this agreement, the Unit Agreement shall govern.

## ARTICLE 2

### EXHIBITS

2.1 Exhibits. The following exhibits are incorporated herein by reference:

2.1.1 Exhibits A, B-1 and B-2 of the Unit Agreement.

2.1.2 Exhibit C, attached hereto, is a schedule showing the Unit Oil and Gas Participations of each Working Interest Owner. Exhibit C, or a revision thereof, shall not be conclusive as to the information therein, except it may be used as showing the Unit Oil and Gas Participations of Working Interest Owners for purposes of this agreement until shown to be in error and revised as herein authorized.

2.1.3 Exhibit D, attached hereto, is the Accounting Procedure applicable to Unit Operations. If there is any conflict between this agreement and Exhibit D, this agreement shall govern.

2.1.4 Exhibit E, attached hereto, contains insurance provisions applicable to Unit Operations.

2.1.5 Exhibit F, attached hereto, is the Gas Balancing Agreement applicable to Unit Operations.

2.1.6 Exhibit G, attached hereto, is the form of indemnity agreement provided for in Article 9 of the Unit Agreement.

2.1.7 Exhibit H, attached hereto, is the non-discrimination agreement provided for in Section 21.2.

2.1.8 Exhibit I, attached hereto, is a list of wells to be delivered to Unit Operator on the Effective Date for use in Unit Operations.

2.2 Revision of Exhibits. Whenever Exhibits A, B-1 and B-2 are revised, Exhibit C shall be revised accordingly and be effective as of the same date. Unit Operator shall also revise Exhibit C from time to time as required to conform to changes in ownership of which Unit Operator has been notified as provided in the Unit Agreement. Working Interest Owners shall be provided a duplicate copy of any exhibit revised as provided herein.

2.3 Reference to Exhibits. When reference is made herein to an exhibit, it is to the exhibit as originally attached, or, if revised, to the last revision.

### ARTICLE 3

#### SUPERVISION OF OPERATIONS BY

#### WORKING INTEREST OWNERS

3.1 Overall Supervision. Working Interest Owners shall exercise overall supervision and control of all matters pertaining to Unit Operations pursuant to this agreement and the Unit Agreement. In the exercise of such authority, each Working Interest Owner shall act solely in its own behalf in the capacity of an individual owner and not on behalf of the owners as an entirety.

3.2 Specific Authority and Duties. The matters with respect to which Working Interest Owners shall decide and take action shall include, but not be limited to, the following:

3.2.1 Method of Operation. The method of operation, including the type or types of secondary or tertiary recovery, or other enhanced recovery program to be employed.

3.2.2 Drilling of Wells. The drilling, deepening, or plugging back of any well whether for production of Unitized Substances, for use as an injection well, or for other purposes.

3.2.3 Well Abandonment, Use, and Conversion. The abandonment of any well; the use of any well for injection, salt water disposal, or for any purpose other than production; or the conversion of the use of any well from one purpose to another. The reactivation of a well which was shut-in or temporarily abandoned to its former use by Unit Operator shall not require prior approval of Working Interest Owners if the estimated expenditure is less than the expenditure limitation specified in Section 3.2.4.

3.2.4 Expenditures. The making of any single expenditure in excess of thirty thousand dollars (\$30,000.00); however, approval by Working Interest Owners of the drilling, reworking, deepening, or plugging back of any well shall include approval of all necessary expenditures required therefor, and for completing, testing, and equipping the well, including necessary flow lines, separators, and lease tankage.

3.2.5 Disposition of Unit Equipment. The selling or otherwise disposing of any major item of surplus Unit Equipment, if the

current price of new equipment similar thereto is ten thousand dollars (\$10,000.00) or more.

3.2.6 Appearance Before a Court or Regulatory Agency. The designating of a representative to appear before any court or regulatory agency in matters pertaining to Unit Operations; however, Unit Operator shall act as such representative in the absence of the designation of a different representative by Working Interest Owners. Such designation shall not prevent any Working Interest Owner from appearing in person or from designating another representative in its own behalf.

3.2.7 Audits. The auditing of the accounts of Unit Operator pertaining to Unit Operations hereunder; however, the audit shall

- (a) not be conducted more than once each year except upon the resignation or removal of Unit Operator, and
- (b) be made upon the approval of the owner or owners of a majority of Working Interest other than that of Unit Operator, at the expense of all Working Interest Owners other than Unit Operator, or
- (c) be made at the expense of those Working Interest Owners requesting such audit, if owners of less than a majority of Working Interest, other than that of Unit Operator, request such an audit, and
- (d) be made upon not less than thirty (30) days' written notice to Unit Operator.

3.2.8 Inventories. The taking of periodic inventories under the terms of Exhibit D.

3.2.9 Technical Services. The authorizing of charges to the joint account for services by consultants or Unit Operator's technical personnel not covered by the overhead charges provided by Exhibit D.

3.2.10 Assignment to Committees. The appointment of committees to study any problems in connection with Unit Operations.

3.2.11 The removal of Unit Operator and the selection of a successor.

3.2.12 The enlargement of the Unit Area.

3.2.13 The adjustment and readjustment of investments.

3.2.14 The termination of the Unit Agreement.

3.2.15 The approval of Cooperative Agreements as provided in Section 7.11 hereof.

#### ARTICLE 4

##### MANNER OF EXERCISING SUPERVISION

4.1 Designation of Representatives. Each Working Interest Owner shall inform Unit Operator in writing of the names and addresses of the representative and alternate who are authorized to represent and bind such Working Interest Owner with respect to Unit Operations. The representative or alternate may be changed from time to time by written notice to Unit Operator.

4.2 Meetings. All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of one (1) or more Working Interest Owner having a total Unit Oil Phase II Participation of not less than ten percent (10%). No meeting shall be called on less than fourteen (14) days' advance written notice, with agenda for the meeting attached. Working Interest Owners who attend the meeting may amend items included in the agenda and may act upon an amended item or other items presented at the meeting. The representative of Unit Operator shall be chairman of each meeting.

4.3 Voting Procedure. Working Interest Owners shall decide all matters coming before them as follows:

4.3.1 Voting Interest. Each Working Interest Owner shall have a voting interest equal to its Unit Oil Phase II Participation.

4.3.2 Vote Required. Unless otherwise provided herein or in the Unit Agreement, Working Interest Owners shall determine all matters by the affirmative vote of three (3) or more Working Interest Owners having a combined voting interest of at least sixty-five percent (65%); however, should any one Working Interest Owner have more than thirty-five percent (35%) voting interest, its negative vote or failure to vote shall not defeat a motion and such motion shall pass if approved by Working Interest Owners having a majority voting interest, unless two or more additional Working Interest Owners having a combined voting interest of at least five percent (5%) likewise vote against the motion or fail to vote.

4.3.3 Vote at Meeting by Nonattending Working Interest Owner.

Any Working Interest Owner who is not represented at a meeting may vote on any agenda item by letter or telegram addressed to the representative of Unit Operator if its vote is received prior to the vote at the meeting.

4.3.4 Poll Votes. Working Interest Owners may vote on and decide, by letter or telegram, any matter submitted in writing to Working Interest Owners. If a meeting is not requested, as provided in Section 4.2, within fourteen (14) days after a written proposal is sent to Working Interest Owners, the vote taken by letter or telegram shall become final. Unit Operator will give prompt notice of the results of such voting to all Working Interest Owners.

ARTICLE 5

INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS

5.1 Reservation of Rights. Working Interest Owners severally reserve to themselves all their rights, except as otherwise provided in this agreement and the Unit Agreement.

5.2 Specific Rights. Each Working Interest Owner shall have, among others, the following specific rights:

5.2.1 Access to Unit Area. Access to the Unit Area at all reasonable times to inspect Unit Operations, all wells, and the records and data pertaining thereto.



5.2.2 Reports. The right to receive from Unit Operator, upon written request, copies of all reports to any governmental agency, reports of crude oil runs and stocks, inventory reports, and all other information pertaining to Unit Operations. The cost of gathering and furnishing information not ordinarily furnished by Unit Operator to Working Interest Owners shall be charged to the Working Interest Owner that requests such information.

5.2.3 CO<sub>2</sub>. The right to supply in-kind its proportionate share of any CO<sub>2</sub> or other injectants used in tertiary recovery or enhanced recovery operations.

## ARTICLE 6

### UNIT OPERATOR

6.1 Unit Operator. Shell Western E&P Inc. is hereby designated Unit Operator.

6.2 Resignation or Removal. Unit Operator may resign at any time by giving written notice thereof to Working Interest Owners. Unit Operator may be removed at any time by the affirmative vote of three (3) or more Working Interest Owners having seventy-five percent (75%) or more of the voting interest remaining after excluding the voting interest of Unit Operator. Such resignation or removal shall not become effective for a period of ninety (90) days after the resignation or removal, unless a successor Unit Operator has taken over Unit Operations prior to the expiration of such period.

6.3 Selection of Successor. Upon the resignation or removal of a Unit Operator, a successor Unit Operator shall be selected by Working Interest Owners. If the Unit Operator that is removed fails to vote or votes only to succeed itself, the successor Unit Operator shall be selected by the affirmative vote of Working Interest Owners having over fifty percent (50%) of the voting interest remaining after excluding the voting interest of the Unit Operator that was removed.

## ARTICLE 7

### AUTHORITY AND DUTIES OF UNIT OPERATOR

7.1 Exclusive Right to Operate Unit. Subject to the provisions of this agreement and to instructions from Working Interest Owners, Unit Operator shall have the exclusive right and be obligated to conduct Unit Operations.

7.2 Workmanlike Conduct. Unit Operator shall conduct Unit Operations in a good and workmanlike manner as would a prudent operator under the same or similar circumstances. Unit Operator shall freely consult with Working Interest Owners and keep them informed of all matters which Unit Operator, in the exercise of its best judgment, considers important. Unit Operator shall not be liable to Working Interest Owners for damages, unless such damages result from its gross negligence or willful misconduct.

7.3 Liens and Encumbrances. Unit Operator shall endeavor to keep the lands and leases in the Unit Area and Unit Equipment free from all

liens and encumbrances occasioned by Unit Operations, except the lien and security interest of Unit Operator granted hereunder.

7.4 Employees. The number of employees used by Unit Operator in conducting Unit Operations, their selection, hours of labor, and compensation shall be determined by Unit Operator. Such employees shall be the employees of Unit Operator.

7.5 Records. Unit Operator shall keep correct books, accounts, and records of Unit Operations.

7.6 Reports to Working Interest Owners. Unit Operator shall furnish Working Interest Owners periodic reports of Unit Operations. Such reports shall be furnished as frequently as may be determined by Working Interest Owners.

7.7 Gas Vintage. Upon unitization, all Working Interest Owners shall provide the Unit Operator with the gas vintage for each well contributed to the Unit. The Unit Operator shall provide quarterly gas vintage splits to each Working Interest Owner's gas purchaser(s).

7.8 Reports to Governmental Authorities. Unit Operator shall make all reports to governmental authorities that it has the duty to make as Unit Operator.

7.9 Engineering and Geological Information. Unit Operator shall furnish to a Working Interest Owner, upon written request, a copy of all logs and other engineering and geological data pertaining to wells drilled for Unit Operations.

7.10 Expenditures. Unit Operator is authorized to make single expenditures not in excess of thirty thousand dollars (\$30,000.00) without prior approval of Working Interest Owners. If an emergency occurs, Unit Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Unit Operator shall report to Working Interest Owners, as promptly as possible, the nature of the emergency and the action taken.

7.11 Wells Drilled by Unit Operator. All wells drilled by Unit Operator shall be at the usual rates prevailing in the area. Unit Operator may employ its own tools and equipment, but the charge therefor shall not exceed the usual rates prevailing in the area, and the work shall be performed by Unit Operator under the same terms and conditions as are usual in the area in contracts of independent contractors doing work of a similar nature.

7.12 Cooperative Agreements. Unit Operator may, after approval by Working Interest Owners, enter into cooperative agreements with respect to lands adjacent to the Unit Area for the purpose of coordinating operations.

7.13 Tertiary Recovery Operations. Unit Operator shall conduct tertiary recovery or enhanced recovery operations only with the affirmative vote of Working Interest Owners having seventy-five percent (75%) or more voting interest.

## ARTICLE 8

### TAXES

8.1 Ad Valorem Taxes. Beginning with the first calendar year after the Effective Date hereof, Unit Operator shall make and file all necessary ad valorem tax renditions and returns with the proper taxing authorities with respect to all property of each Working Interest Owner used or held by Unit Operator for Unit Operations. Unit Operator shall settle assessments arising therefrom. All such ad valorem taxes shall be paid by Unit Operator and charged to the joint account; however, if the interest of a Working Interest Owner is subject to a separately assessed overriding royalty interest, production payment, or other interest in excess of a one-eighth (1/8) royalty, such Working Interest Owner shall notify Unit Operator of such interest prior to the rendition date and shall be given credit for the reduction in taxes paid resulting therefrom. If the ad valorem taxes are based in whole or in part upon separate valuation of the Working Interest of each Working Interest Owner, then notwithstanding anything to the contrary herein, charges to the joint account shall be made and paid by the Working Interest Owners in accordance with the tax value generated by the Working Interest of each Working Interest Owner. If Unit Operator considers any tax assessment improper, Unit Operator may, at its discretion, protest within the time and manner prescribed by law, and prosecute to a final determination, unless Working Interest Owners agree to abandon the protest prior to final determination. During the pendency of administrative or judicial

proceedings, Operator may elect to pay, under protest, all such taxes and any interest or penalty. When any such protested assessment shall have been finally determined, Unit Operator shall pay the tax for the joint account, together with any interest and penalty accrued.

8.2 Other Taxes. Each Working Interest Owner shall pay or cause to be paid all production, severance, gathering, windfall profits, and other taxes imposed upon or with respect to the production or handling of its share of Unitized Substances, except that on gas production only the taking parties shall pay such taxes.

## ARTICLE 9

### INSURANCE

9.1 Insurance. Unit Operator, with respect to Unit Operations, shall provide insurance as set forth in Exhibit E.

## ARTICLE 10

### ADJUSTMENT OF INVESTMENTS

10.1 Personal Property Taken Over. Upon the Effective Date, Working Interest Owners shall deliver to Unit Operator the following:

10.1.1 Wells. All wells listed on Exhibit I, together with the casing therein.

10.1.2 Well and Lease Equipment. The tubing in each such well, the wellhead connections thereon, and all other well, lease and operating equipment that is used in the operation of such wells, which Working Interest Owners determine is necessary or desirable for conducting Unit Operations. Working Interest Owners shall make such determination as soon as practicable after the Effective Date hereof, and all such property that is determined to be surplus shall be returned as promptly as possible to the Working Interest Owners who delivered same to Unit Operator.

10.1.3 Condition of Wells. If any well has any zone(s) open below the Unitized Interval, Working Interest Owner(s) of such well must set a cast iron bridge plug (CIBP) in production casing within a 15 foot interval from the top of the Abo to 15 feet above the Abo and place approximately 35 feet of cement on top of the CIBP. If any well has any zone(s) open above the Unitized Interval, Working Interest Owner(s) of such well must cement squeeze the non-unit zone, drill out the cement in production casing, and pressure test the squeeze. Squeeze test must hold 500 psi surface pressure for 30 minutes and be documented. All wells, including the casing therein, shall be delivered to Unit Operator in reasonably good physical condition capable of being used for Unit Operations. If within one hundred and twenty (120) days after the Effective Date it is determined by the Working Interest Owners that at least one of the wells on Exhibit I within each forty (40) acres; i.e., within each pro-ration unit, has not been delivered to Unit Operator (a) in

reasonably good physical condition capable of being used for Unit Operations on the Effective Date, and (b) free of any casing failure or leak, whether any such casing failure or leak is determined by Unit Operator to have developed before or after the Effective Date, and (c) with any zone(s) above or below the Unitized Interval that have not been placed in condition as set out above in this Section 10.1.3, then the Working Interest Owner(s) who contributed such forty (40) acres shall be liable to the other Working Interest Owners for liquidated damages as measured by the cost of repairing one well on the forty (40) acres, or by the cost of drilling, completing, and equipping a replacement well on the forty (40) acres, not to exceed two hundred thousand dollars (\$200,000.00), provided that any amount in excess of two hundred thousand dollars (\$200,000.00) shall be treated as any other item of Unit Expense and charged to the joint account.

10.1.4 Records. A copy of all production and well records for such wells.

10.2 Inventory and Evaluation of Personal Property. Working Interest Owners shall, at Unit Expense, inventory and evaluate the personal property taken over by Unit Operator under Section 10.1.2. The inventory shall include and be limited to those items of equipment considered controllable as recommended in the most recent edition of the "Materials Classification Manual" prepared by the Council of Petroleum Accountants Societies; however, upon determination of Working Interest Owners, items considered noncontrollable may be included in the inventory in order to



insure a more equitable adjustment of investment. All noncontrollable items of well, lease and operating equipment used in the operation of the wells taken over under Section 10.1.1 which Working Interest Owners determine is necessary or desirable for conducting Unit Operations, although excluded from the inventory, shall nevertheless be taken over by Unit Operator. Casing taken over under Section 10.1.1 shall be included in the inventory for record purposes, but shall be excluded from evaluation and investment adjustment. Immediately following completion of such inventory, the material and equipment included in the inventory, with the exception of casing, shall be priced in accordance with the provisions of Exhibit "D". The pricing shall be performed under the supervision of, by the personnel of, and in the offices of the Unit Operator, with Working Interest Owners furnishing such additional pricing information as may be available and necessary.

10.3 Investment Adjustment. Upon approval by Working Interest Owners of the inventory and evaluation, each Working Interest Owner shall be credited with the value, as determined under Section 10.2, of its interest in all personal property taken over under Section 10.1.2, and shall be charged with an amount equal to that obtained by multiplying the total value, as determined under Section 10.2, of all personal property taken over under Section 10.1.2 by such Working Interest Owner's Unit Oil Phase II Participation. If the charge against any Working Interest Owner is greater than the amount credited to such Working Interest Owner, the resulting net charge shall be an item of Unit Expense chargeable against such Working Interest Owner. If the credit to any Working Interest Owner

is greater than the amount charged against such Working Interest Owner, the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above.

10.4 General Facilities. The acquisition of warehouses, warehouse stocks, lease houses, camps, facility systems, and office buildings necessary for Unit Operations shall be by negotiation by the owners thereof and Unit Operator, subject to the approval of Working Interest Owners. There shall be no adjustments for lease roads or appurtenances thereto.

10.5 Ownership of Personal Property and Facilities. Each Working Interest Owner, individually, shall by virtue hereof own an undivided interest, equal to its Unit Oil Phase II Participation, in all personal property and facilities taken over or otherwise acquired by Unit Operator pursuant to this agreement.

## ARTICLE 11

### UNIT EXPENSE

11.1 Basis of Charge to Working Interest Owners. Unit Operator initially shall pay all Unit Expense. Each Working Interest Owner shall reimburse Unit Operator for its share of Unit Expense. Each Working Interest Owner's share of Unit Expense is to be allocated based on Unit Oil Phase I or Phase II Participation in effect at the time such Unit Expense is incurred except for the following specific items of Unit Expense:

- Waterflood program implementation costs for drilling oil wells, for production/injection/source water facilities, electrical systems, computer assisted operating equipment, damages, well preparations, producer-to-injector conversions and larger lift are to be shared based on Unit Oil Phase II Participation.
- "Major repair and condition work on gas zones and gas surface facilities" is defined as a single job requiring expenditures greater than \$25,000 and is to be shared based on Unit Gas Phase I or Phase II Participation in effect at the time such item of Unit Expense is incurred. A gas zone is defined as a completion interval which is classified in the most recent applicable New Mexico Oil Conservation Division proration schedule as a gas well.
- Costs for drilling single gas wells are to be shared based on Unit Gas Phase I or Phase II Participation in effect at time such item of Unit Expense is incurred.
- Costs for drilling dual gas/oil wells are to be shared based on a split of 57% Unit Oil Phase II Participation and 43% Unit Gas Phase I or Phase II Participation in effect at time such item of Unit Expense is incurred.
- Costs for replacements or additions of gas surface facilities are to be shared based on Unit Gas Phase I or Phase II Participation in effect at time such item of Unit Expense is incurred.

All charges, credits, and accounting for Unit Expense shall be in accordance with Exhibit D.

11.2 Budgets. Before or as soon as practical after the Effective Date, Unit Operator shall prepare a budget of estimated Unit Expense for the remainder of the calendar year, and, on or before the first day of each September thereafter, shall prepare a budget for the ensuing calendar year. A budget shall set forth the estimated Unit Expense by quarterly periods. Budgets shall be estimates only, and shall be adjusted or corrected by Working Interest Owners and Unit Operator whenever an adjustment or correction is proper. A copy of each budget and adjusted budget shall be furnished promptly to each Working Interest Owner.

11.3 Advance Billings. Unit Operator shall have the right, without prejudice to other rights or remedies, to require Working Interest Owners to advance their respective shares of estimated Unit Expense by submitting to each Working Interest Owner, on or before the 15th day of any month, an itemized estimate thereof for the succeeding month, together with an invoice for its share thereof. Within fifteen (15) days after receipt of the estimate, each Working Interest Owner shall pay to Unit Operator its share of such estimate. Adjustments between estimated and actual Unit Expense shall be made by the Unit Operator at the close of each calendar month, and the accounts of Working Interest Owners shall be adjusted accordingly.

11.4 Commingling of Funds. Funds received by Unit Operator under this agreement need not be segregated or maintained by it as a separate fund, but may be commingled with its own funds.

11.5 Lien and Security Interest. Each Working Interest Owner grants to Unit Operator a lien upon its Oil and Gas Rights in each Tract, and security interest in its share of Unitized Substances when extracted and its interest in all Unit Equipment, to secure payment of its share of Unit Expense, together with interest thereon at the Prime rate set by Chase Manhattan Bank of New York for the same period plus one percent (1%) per annum or the maximum contract rate permitted by applicable usury laws, whichever is the lesser. To the extent that Unit Operator has a security interest under the Uniform Commercial Code of the State of New Mexico, Unit Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Unit Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Working Interest Owner in the payment of its share of Unit Expense, Unit Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest, has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of any default. Unit Operator grants to Working Interest Owners other than Unit Operator an identical lien and security interest, together with the same remedies as provided to Unit Operator above, to secure payment of Unit Operator's share of expense.

11.6 Unpaid Unit Expense. If any Working Interest Owner fails to pay its share of Unit Expense within sixty (60) days after rendition of a statement therefor by Unit Operator, each Working Interest Owner agrees, upon request by Unit Operator, to pay its proportionate part of the unpaid share of Unit Expense of the defaulting Working Interest Owner. Working Interest Owners that pay the share of Unit Expense of a defaulting Working Interest Owner shall be reimbursed by Unit Operator for the amount so paid, plus any interest collected thereon, upon receipt by Unit Operator of any past due amount collected from the defaulting Working Interest Owner. Any Working Interest Owner so paying a defaulting Working Interest Owner's share of Unit Expense shall, to obtain reimbursement thereof, be subrogated to the lien and other rights herein granted Unit Operator.

11.7 Carved-Out Interest. If any Working Interest Owner shall, after executing this agreement, create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its Working Interest, such carved-out interest shall be subject to the terms and provisions of this agreement, specifically including, but without limitation, Section 11.5 hereof entitled "Lien and Security Interest of Unit Operator". If the Working Interest Owner creating such carved-out interest (a) fails to pay any Unit Expense chargeable to such Working Interest Owner under this agreement, and the production of Unitized Substances accruing to the credit of such Working Interest Owner is insufficient for that purpose, or (b) withdraws from this agreement under the terms and provisions of Article 17 hereof, the carved-out

interest shall be chargeable with a pro rata portion of all Unit Expense incurred hereunder, the same as though such carved-out interest were a Working Interest, and Unit Operator shall have the right to enforce against such carved-out interest the lien and all other rights granted in Section 11.5 for the purpose of collecting the Unit Expense chargeable to the carved-out interest.

11.8 Uncommitted Royalty. Should an owner of a Royalty Interest in any Tract fail to become a party to the Unit Agreement, and, as a result thereof, the actual Royalty Interest payments with respect to such Tract are more or less than the Royalty Interest payments computed on the basis of the Unitized Substances that are allocated to such Tract under the Unit Agreement, the difference shall be borne by or inure to the benefit of Working Interest Owners, in proportion to their respective Unit Oil and Gas Participations at the time the Unitized Substances were produced; however, the difference to be borne by or inure to the benefit of Working Interest Owners shall not exceed an amount computed on the basis of one-eighth (1/8) of the difference between the Unitized Substances allocated to the Tract and the Unitized Substances produced from the Tract. If such difference exceeds an amount computed on the basis of one-eighth (1/8) of the difference between the Unitized Substances allocated to the Tract and the Unitized Substances produced from the tract, the excess shall be borne solely by the Working Interest Owners of such Tract proportionately in accordance with their Tract Participations as Shown on Exhibit B-2. Such adjustments shall be made by charges and credits to the joint account.

ARTICLE 12  
NONUNITIZED FORMATIONS

12.1 Right to Operate. Any Working Interest Owner that now has or hereafter acquires the right to drill for and produce oil, gas, or other minerals, from a formation underlying the Unit Area other than the Unitized Formation, shall have the right to do so notwithstanding this agreement or the Unit Agreement. In exercising the right, however, such Working Interest Owner shall exercise care or cause care to be exercised to prevent unreasonable interference with Unit Operations. No Working Interest Owner shall produce Unitized Substances through any well drilled or operated by it.

ARTICLE 13  
TITLES

13.1 Warranty and Indemnity. Each Working Interest Owner represents and warrants that it is the owner of the respective Working Interests set forth opposite its name in Exhibits B-1, B-2 and C, and agrees to indemnify and hold harmless the other Working Interest Owners from any loss due to failure, in whole or in part, of its title to any such interest, except failure of title arising because of Unit Operations; however, such indemnity and any liability for breach of warranty shall be limited to an amount equal to the net value that has been received from the sale or receipt of Unitized Substances attributed to the interest as to which



title failed. Each failure of title will be deemed to be effective, insofar as this agreement is concerned, as of 7:00 a.m. on the first day of the calendar month in which such failure is finally determined, and there shall be no retroactive adjustment of Unit Expense, or retroactive allocation of Unitized Substances or the proceeds therefrom, as a result of a title failure.

13.2 Failure Because of Unit Operations. The failure of title to any Working Interest in any Tract because of Unit Operations, including nonproduction from such Tract, shall not change the Unit Oil and Gas Participations of the Working Interest Owner whose title failed in relation to the Unit Oil and Gas Participations of the other Working Interest Owners at the time of the title failure.

## ARTICLE 14

### LIABILITY, CLAIMS, AND SUITS

14.1 Individual Liability. The duties, obligations, and liabilities of Working Interest Owners shall be several and not joint or collective; and nothing herein shall ever be construed as creating a partnership of any kind, joint venture, association, or trust among Working Interest Owners.

14.2 Settlements. Where insurance or self-insurance is not maintained as set forth in Exhibit E for the joint interest, the Unit Operator shall investigate, defend, settle or otherwise handle any injury or damage claim or suit if the settlement expenditure does not exceed thirty

thousand dollars (\$30,000.00) and if the payment is in complete settlement of the claim or suit. A settlement expenditure in excess of the above amount may be made only by approval of Working Interest Owners and each Working Interest Owner shall have the right to participate through its own counsel at its own expense in the settlement, compromise or defense of any such claim or suit. Any expenditure incurred by Unit Operator in defending, compromising, settling or prosecuting any claims or suits, regardless of the settlement amount, shall be charged to the joint account, including charges for litigation services of Unit Operator's legal staff or fees or expenses of outside attorneys; however, no charge for services of Unit Operator's legal staff or fees or expenses of outside attorneys shall be made without prior approval of Working Interest Owners. If a claim is made against any working Interest Owner or if any Working Interest Owner is sued in connection with any matter arising from Unit Operations over which such Working Interest Owner has no control because of the rights given Working Interest Owners and Unit Operator by this Agreement and the Unit Agreement, the Working Interest Owner shall immediately notify Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

## ARTICLE 15

### INTERNAL REVENUE PROVISION

15.1 Internal Revenue Provision. Notwithstanding any provisions herein that the rights and liabilities of the parties hereunder are several and not joint or collective, or that this agreement and

operations hereunder shall not constitute a partnership, if for Federal income tax purposes this agreement and the operations hereunder are regarded as a partnership, then each of the parties hereto elects to be excluded from the application of all the provisions of Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Unit Operator is hereby authorized and directed to execute on behalf of each of the parties hereto such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761-1(a). Should there be any requirement that each party hereto further evidence this election, each party hereto agrees to execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. Each party hereto further agrees not to give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state of New Mexico, or any future income tax law of the United States, contain provisions similar to those in Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code, under which an election similar to that provided by Section 761 of the Code is permitted, each of the parties agrees to make such election as may be permitted or required by such laws. In making this election, each of the parties states that the

income derived by such party from the operations under this agreement can be adequately determined without the computation of partnership taxable income.

## ARTICLE 16

### NOTICES

16.1 Notices. All notices required hereunder shall be in writing and shall be deemed to have been properly served when sent by mail or telegram to the address of the representative of each Working Interest Owner as furnished to Unit Operator in accordance with Article 4.

## ARTICLE 17

### WITHDRAWAL OF WORKING INTEREST OWNER

17.1 Withdrawal. A Working Interest Owner may withdraw from this agreement by transferring, without warranty of title either express or implied, to the Working Interest Owners who do not desire to withdraw, all its Oil and Gas Rights, exclusive of Royalty Interests, together with its interest in all Unit Equipment and in all wells used in Unit Operations, provided that such transfer shall not relieve such Working Interest Owner from any obligation or liability incurred prior to the first day of the month following receipt by Unit Operator of such transfer. The delivery of the transfer shall be made to Unit Operator for the Working Interest Owners who do not desire to withdraw; i.e., the

transferees. The transferred interest shall be owned by the transferees in proportion to their respective Unit Oil and Gas Participations in effect at the time of the transfer. The transferees, in proportion to the respective interests so acquired, shall pay the transferor for its interest in Unit Equipment, the salvage value thereof less its share of the estimated cost of salvaging same and of plugging and abandoning wells then being used or held for Unit Operations, as determined by Working Interest Owners. In the event such withdrawing owner's interest in the aforesaid salvage value is less than such owner's share of such estimated costs, the withdrawing owner, as a condition precedent to withdrawal, shall pay the Unit Operator, for the benefit of Working Interest Owners succeeding to its interest, a sum equal to the deficiency. Within sixty (60) days after receiving delivery of the transfer, Unit Operator shall render a final statement to the withdrawing owner for its share of Unit Expense, including any deficiency in salvage value, as determined by Working Interest Owners, incurred as of the first day of the month following the date of receipt of the transfer. Provided all Unit Expense, including any deficiency hereunder, due from the withdrawing owner has been paid in full within thirty (30) days after the rendering of such final statement by the Unit Operator, the transfer shall be effective the first day of the month following its receipt by Unit Operator and, as of such effective date, withdrawing owner shall be relieved from all further obligations and liabilities hereunder and under the Unit Agreement, and the rights of the withdrawing Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the

interest transferred. Upon the effective date of transfer, the Unit Participations of the transferees shall be revised to reflect the increase in their shares resulting from the transferred interest.

17.2 Limitation on Withdrawal. Notwithstanding anything set forth in Section 17.1, Working Interest Owners may refuse to permit the withdrawal of a Working Interest Owner if its Working Interest is burdened by any royalties, overriding royalties, production payments, net proceeds interest, carried interest, or any other interest created out of the Working Interest in excess of one-eighth (1/8) lessor's royalty, unless one or more of the other Working Interest Owners are willing to accept assignment of the Working Interest subject to such burdens. Such Working Interest Owners willing to accept assignment, if any, will own the transferred interest in proportion to their respective Unit Oil Phase II Participations. Upon the effective date of transfer, if any, the Unit Participations of the transferees shall be revised to reflect the increase in their shares resulting from the transferred interest.

## ARTICLE 18

### ABANDONMENT OF WELLS

18.1 Rights of Former Owners. If Working Interest Owners decide to abandon permanently any well within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice thereof to the Working Interest Owners of the Tract on which the well is located, and they shall have the option for a period of ninety (90) days after the

sending of such notice to notify Unit Operator in writing of their election to take over and own the well. Within ten (10) days after the Working Interest Owners of the Tract have notified Unit Operator of their election to take over the well, they shall pay Unit Operator, for credit to the account of all Working Interest Owners, the amount determined by Working Interest Owners to be the value of the salvageable casing and equipment in and on the well up to and including the wellhead equipment, except casing therein if contributed by such Working Interest Owners under Section 10.1.1, less the amount determined by Working Interest Owners to be the cost of salvaging and plugging and abandoning. The Working Interest Owners of the Tract, by taking over the well, agree to seal off the Unitized Formation in a manner satisfactory to Working Interest Owners, and upon abandonment to plug the well in compliance with applicable laws and regulations.

18.2 Plugging. If the Working Interest Owners of a Tract do not elect to take over a well located within the Unit Area that is proposed for abandonment, Unit Operator shall plug and abandon the well in compliance with applicable laws and regulations.

## ARTICLE 19

### EFFECTIVE DATE AND TERM

19.1 Effective Date. This agreement shall become effective when the Unit Agreement becomes effective.

19.2 Term. This agreement shall continue in effect so long as the Unit Agreement remains in effect, and thereafter until (a) all Unit wells have been plugged and abandoned or turned over to Working Interest Owners in accordance with Article 20; (b) all Unit Equipment and real property acquired for the joint account have been disposed of by Unit Operator in accordance with instructions of Working Interest Owners; and (c) there has been a final accounting.

## ARTICLE 20

### ABANDONMENT OF OPERATIONS

20.1 Termination. Upon termination of the Unit Agreement, the following will occur:

20.1.1 Oil and Gas Rights. Oil and Gas Rights in and to each separate Tract shall no longer be affected by this agreement, and thereafter the parties shall be governed by the terms and provisions of the leases, contracts, and other instruments affecting the separate Tracts.

20.1.2 Right to Operate. Working Interest Owners of any Tract that desire to take over and continue to operate wells located thereon may do so by paying Unit Operator, for credit to the joint account, the amount determined by Working Interest Owners to be the value of the salvageable casing and equipment up to and including the wellhead equipment in and on the wells taken over, except casing therein if contributed by such Working Interest Owners under Section



10.1.1., less the amount determined by Working Interest Owners to be the cost of salvaging and plugging and abandoning, and by agreeing upon abandonment to plug each well in compliance with applicable laws and regulations.

20.1.3 Salvaging Wells. Unit Operator shall salvage as much of the casing and equipment in or on wells not taken over by Working Interest Owners of separate Tracts as can economically and reasonably be salvaged, and shall cause the wells to be plugged and abandoned in compliance with applicable laws and regulations.

20.1.4 Cost of Abandonment. The cost of abandonment of Unit Operations shall be Unit Expense.

20.1.5 Distribution of Assets. Working Interest Owners shall share in the distribution of Unit Equipment, or the proceeds thereof, in proportion to their Oil Phase II Unit Participations.

## ARTICLE 21

### LAWS, REGULATIONS AND CERTIFICATION OF COMPLIANCE

21.1 Laws and Regulations. This Agreement and operations hereunder are subject to all valid rules, regulations and orders of all regulatory bodies having jurisdiction and to all other applicable federal, state and local laws, ordinances, rules, regulations and orders; and any provision of this agreement found to be contrary to or inconsistent with any such law, ordinance, rule, regulation or order shall be deemed modified accordingly.

21.2 Certificate of Compliance. In the performance of work under this agreement, the parties agree to comply with, and Unit Operator shall require each independent contractor to comply with, the Federal contract provisions of Exhibit "H."

## ARTICLE 22

### EXECUTION

22.1 Original, Counterpart, or Other Instrument. An owner of a Working Interest may become a party to this agreement by signing the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof. The signing of any such instrument shall have the same effect as if all parties had signed the same instrument.

## ARTICLE 23

### SUCCESSORS AND ASSIGNS

23.1 Successors and Assigns. This agreement shall extend to, be binding upon, and inure to the benefit of the parties hereto and their respective heirs, devisees, legal representatives, successors, and assigns, and shall constitute a covenant running with the lands, leases, and interests covered hereby.

ARTICLE 24  
GAS BALANCING

24.1 Gas Balancing. In the event one (1) or more Working Interest Owners' separate disposition of its share of gas causes deliveries to separate pipelines or deliveries which on a day-to-day basis for any reason are not exactly equal to a Working Interest Owner's respective proportionate share of total gas sales to be allocated to it, the balancing or accounting between the respective accounts of the Working Interest Owners shall be in accordance with Exhibit F, which shall prevail in the event of a conflict between the Unit Operating Agreement and Exhibit F.

IN WITNESS WHEREOF, the undersigned have executed this agreement on the dates evidenced by their respective certificates of acknowledgment hereof.

SHELL WESTERN E&P INC

By: *Jon R. Pruet*  
Attorney-in-Fact

Address: P.O. Box 576  
Houston, Texas 77001-0576

STATE OF TEXAS §  
  §  
COUNTY OF HARRIS §

This instrument was acknowledged before me on 6-19-87, by JON R. PRUET, Attorney-in-Fact of Shell Western E&P Inc., a Delaware corporation, on behalf of said corporation.

My Commission Expires:  
**KARIN A. RASMUSSEN**  
Notary Public in and for the State of Texas  
My Commission Expires September 26, 1990

*Karin A. Rasmussen*  
Notary Public in and for  
said County and State

\_\_\_\_\_  
Notary Public (Print Name)

EXHIBIT "C"

Attached to that certain Unit Operating Agreement dated the 1st day of May, 1987, for the Northeast Drinkard Unit, located in Lea County, New Mexico.

WORKING INTEREST OWNER SUMMARY

<u>WORKING INTEREST OWNER</u>	<u>TRACT NO(S).</u>	<u>UNIT OIL AND GAS PARTICIPATIONS (BY WORKING INTEREST OWNERS)</u>			
		<u>OIL PARTICIPATION</u>		<u>GAS PARTICIPATION</u>	
		<u>PHASE I (%)</u>	<u>PHASE II (%)</u>	<u>PHASE I (%)</u>	<u>PHASE II (%)</u>
AJM Company c/o Bravo Energy, Inc.	18-BD 18-T	0.06882 0.00000	0.06132 0.00218	0.03647 0.00571	0.03615 0.01077
	TOTAL	0.06882	0.06350	0.04218	0.04692
Amoco Production Co.	1 9 14	3.19019 1.30666 0.74421	2.90662 0.66566 0.62701	2.03529 0.48689 0.44848	1.71939 0.60084 0.52108
	TOTAL	5.24106	4.19929	2.97066	2.84131

UNIT OIL AND GAS PARTICIPATIONS (BY WORKING INTEREST OWNERS)

<u>WORKING INTEREST OWNER</u>	<u>TRACT NO(S).</u>	<u>OIL PARTICIPATION</u>		<u>GAS PARTICIPATION</u>	
		<u>PHASE I (%)</u>	<u>PHASE II (%)</u>	<u>PHASE I (%)</u>	<u>PHASE II (%)</u>
Atlantic Richfield Co.	1	3.19019	2.90662	2.03529	1.71939
	9	1.30666	0.66566	0.48689	0.60084
	14	0.74421	0.62701	0.44848	0.52108
	18-BD	0.83245	0.74172	0.44122	0.43732
	18-T	0.00000	0.04211	0.11046	0.20847
	19	0.49955	0.43511	0.41985	0.29627
	26	3.85080	1.94222	2.01104	1.87438
	30	3.70330	3.06139	5.34473	4.60925
	TOTAL	14.12716	10.42184	11.29796	10.26700
	CEM Company c/o Bravo Energy, Inc.	18-BD	0.06882	0.06132	0.03647
18-T		0.00000	0.00218	0.00571	0.01077
TOTAL		0.06882	0.06350	0.04218	0.04692
Chevron U.S.A. Inc.	1	3.19019	2.90662	2.03529	1.71939
	3	4.63358	5.82141	0.59464	2.10554
	9	1.30666	0.66566	0.48689	0.60084
	14	0.74421	0.62701	0.44848	0.52108
	24	0.33658	2.24855	0.66881	2.98045
	TOTAL	10.21122	12.26925	4.23411	7.92730

UNIT OIL AND GAS PARTICIPATIONS (BY WORKING INTEREST OWNERS)

<u>WORKING INTEREST OWNER</u>	<u>TRACT NO(S).</u>	<u>OIL PARTICIPATION</u>		<u>GAS PARTICIPATION</u>	
		<u>PHASE I (%)</u>	<u>PHASE II (%)</u>	<u>PHASE I (%)</u>	<u>PHASE II (%)</u>
Cities Service Oil & Gas Corp.	16	1.30534	2.04652	2.90013	1.81106
	TOTAL	1.30534	2.04652	2.90013	1.81106
Charles L. Cobb	21	0.00441	0.00669	0.00972	0.00876
	TOTAL	0.00441	0.00669	0.00972	0.00876
Adeline Z. Cone	21	0.10577	0.16047	0.23329	0.21025
	TOTAL	0.10577	0.16047	0.23329	0.21025
S. E. Cone, Jr.	21	0.08006	0.12147	0.17659	0.15915
	TOTAL	0.08006	0.12147	0.17659	0.15915
Conoco, Inc.	1	3.19019	2.90662	2.03529	1.71939
	9	1.30666	0.66566	0.48689	0.60084
	14	0.74421	0.62701	0.44848	0.52108
	TOTAL	5.24106	4.19929	2.97066	2.84131
Devon Corporation	25-B	0.54675	0.46444	0.73321	0.53632
	TOTAL	0.54675	0.46444	0.73321	0.53632

UNIT OIL AND GAS PARTICIPATIONS (BY WORKING INTEREST OWNERS)

<u>WORKING INTEREST OWNER</u>	<u>TRACT NO(S).</u>	<u>OIL PARTICIPATION</u>		<u>GAS PARTICIPATION</u>		
		<u>PHASE I (%)</u>	<u>PHASE II (%)</u>	<u>PHASE I (%)</u>	<u>PHASE II (%)</u>	
Devon-Smedvig 1973 Oil & Gas Program, Ltd.	25-B	0.45646	0.38774	0.61213	0.44776	
		TOTAL				0.44776
EMM Company c/o Bravo Energy, Inc.	18-BD 18-T	0.06882	0.06132	0.03647	0.03616	
		0.00000	0.00218	0.00571	0.01077	
		TOTAL				0.04693
Exxon Company, USA	12	5.74104	4.87073	2.72815	3.57022	
		TOTAL				3.57022
Felmont Oil Corporation	21	0.07919	0.12015	0.17467	0.15741	
		TOTAL				0.15741
Jo-Ann Garrison	21	0.00110	0.00167	0.00243	0.00219	
		TOTAL				0.00219
John H. Hendrix Corp.	14	0.03201	0.02697	0.01929	0.02241	
		TOTAL				0.02241
		0.03201	0.02697	0.01929	0.02241	

UNIT OIL AND GAS PARTICIPATIONS (BY WORKING INTEREST OWNERS)

<u>WORKING INTEREST OWNER</u>	<u>TRACT NO(S).</u>	<u>OIL PARTICIPATION</u>		<u>GAS PARTICIPATION</u>	
		<u>PHASE I (%)</u>	<u>PHASE II (%)</u>	<u>PHASE I (%)</u>	<u>PHASE II (%)</u>
Lavena Howard	21	0.00220	0.00334	0.00486	0.00438
	TOTAL	0.00220	0.00334	0.00486	0.00438
Barbara Moran Jernigan	18-BD	0.48171	0.42921	0.25532	0.25306
	18-T	0.00000	0.01522	0.03994	0.07539
	19	0.07227	0.06295	0.06074	0.04286
	TOTAL	0.55398	0.50738	0.35600	0.37131
KAM Company c/o Bravo energy, Inc.	18-BD	0.06882	0.06132	0.03647	0.03616
	18-T	0.00000	0.00218	0.00571	0.01077
	TOTAL	0.06882	0.06350	0.04218	0.04693
Marjorie Cone Kastman	21	0.07345	0.11144	0.16201	0.14601
	TOTAL	0.07345	0.11144	0.16201	0.14601
Katherine Adeline Cone Keck	21	0.16159	0.24517	0.35642	0.32122
	TOTAL	0.16159	0.24517	0.35642	0.32122
KPM Company c/o Bravo Energy, Inc.	18-BD	0.06882	0.06132	0.03647	0.03616
	18-T	0.00000	0.00218	0.00571	0.01077
	TOTAL	0.06882	0.06350	0.04218	0.04693



UNIT OIL AND GAS PARTICIPATIONS (BY WORKING INTEREST OWNERS)

<u>WORKING INTEREST OWNER</u>	<u>TRACT NO(S).</u>	<u>OIL PARTICIPATION</u>		<u>GAS PARTICIPATION</u>	
		<u>PHASE I (%)</u>	<u>PHASE II (%)</u>	<u>PHASE I (%)</u>	<u>PHASE II (%)</u>
Marathon Oil Company	21	1.24290	1.88578	2.74148	2.47071
	TOTAL	1.24290	1.88578	2.74148	2.47071
Owen W. McWhorter	21	0.00441	0.00669	0.00972	0.00876
	TOTAL	0.00441	0.00669	0.00972	0.00876
Meridian Oil Company	2	5.46492	3.88620	1.56121	1.91073
	11	0.58269	0.58557	0.80226	1.19394
	13	1.73740	1.43108	1.95104	1.44764
TOTAL	7.78501	5.90285	4.31451	4.55231	
Mobil Producing Texas & New Mexico, Inc.	27	0.26813	0.32735	0.11769	0.67670
	31	0.00725	0.49429	0.00778	0.58831
TOTAL	0.27538	0.82164	0.12547	1.26501	
The Moran Partnership c/o Bravo Energy, Inc.	19	0.07227	0.06295	0.06074	0.04286
	TOTAL	0.07227	0.06295	0.06074	0.04286
Ann W. Morris	14	0.01600	0.01348	0.00964	0.01121
	TOTAL	0.01600	0.01348	0.00964	0.01121

UNIT OIL AND GAS PARTICIPATIONS (BY WORKING INTEREST OWNERS)

<u>WORKING INTEREST OWNER</u>	<u>TRACT NO(S).</u>	<u>OIL PARTICIPATION</u>		<u>GAS PARTICIPATION</u>	
		<u>PHASE I (%)</u>	<u>PHASE II (%)</u>	<u>PHASE I (%)</u>	<u>PHASE II (%)</u>
PGM Company c/o Bravo Energy, Inc.	18-BD	0.06882	0.06132	0.03647	0.03616
	18-T	0.00000	0.00218	0.00571	0.01077
	TOTAL	0.06882	0.06350	0.04218	0.04693
TMM Company c/o Bravo Energy, Inc.	18-BD	0.06882	0.06132	0.03647	0.03616
	18-T	0.00000	0.00218	0.00571	0.01077
	TOTAL	0.06882	0.06350	0.04218	0.04693
Phillips Petroleum, Inc.	6	0.02181	0.01699	0.02720	0.02715
	TOTAL	0.02181	0.01699	0.02720	0.02715
John E. Moran Trust No. 1 c/o Republic Bank First National Midland, Trustee	18-BD	0.48171	0.42921	0.25532	0.25306
	18-T	0.00000	0.01522	0.03994	0.07539
	19	0.07227	0.06295	0.06074	0.04286
	TOTAL	0.55398	0.50738	0.35600	0.37131
Linda B. Parrish & Linda Ann Parrish Richardson, Trustees U/W of M. C. Parrish, Jr. c/o Dana T. Richardson, Jr.	18-BD	0.21977	0.19581	0.11648	0.11545
	18-T	0.00000	0.00695	0.01823	0.03440
	19	0.03297	0.02872	0.02771	0.01955
	TOTAL	0.25274	0.23148	0.16242	0.16940

UNIT OIL AND GAS PARTICIPATIONS (BY WORKING INTEREST OWNERS)

<u>WORKING INTEREST OWNER</u>	<u>TRACT NO(S).</u>	<u>OIL PARTICIPATION</u>		<u>GAS PARTICIPATION</u>	
		<u>PHASE I (%)</u>	<u>PHASE II (%)</u>	<u>PHASE I (%)</u>	<u>PHASE II (%)</u>
Maryanne Riwinsky	21	0.00110	0.00167	0.00243	0.00219
	TOTAL	0.00110	0.00167	0.00243	0.00219
Shell Western E&P Inc.	4	5.56096	4.41584	5.26817	5.19381
	5	7.17958	7.87876	8.77204	7.24535
	8	4.40182	6.46351	1.89390	3.12977
	17	2.16723	2.27339	3.75892	2.99600
	18-BD	0.83245	0.74172	0.44122	0.43732
	18-T	0.00000	0.07370	0.19331	0.36482
	19	1.24887	1.08779	1.04960	0.74069
	20	4.52314	5.69895	8.72472	7.04307
	23	4.20902	4.46072	7.61422	6.47776
	28	4.56184	6.20883	14.43398	12.40280
	29	4.88116	4.52729	5.04616	5.32927
	TOTAL	39.56607	43.83050	57.19624	51.36066
Polk Shelton	21	0.00661	0.01003	0.01458	0.01314
	TOTAL	0.00661	0.01003	0.01458	0.01314
Irma Spear	14	0.04801	0.04045	0.02893	0.03362
	TOTAL	0.04801	0.04045	0.02893	0.03362

UNIT OIL AND GAS PARTICIPATIONS (BY WORKING INTEREST OWNERS)

<u>WORKING INTEREST OWNER</u>	<u>TRACT NO(S).</u>	<u>OIL PARTICIPATION</u>		<u>GAS PARTICIPATION</u>	
		<u>PHASE I (%)</u>	<u>PHASE II (%)</u>	<u>PHASE I (%)</u>	<u>PHASE II (%)</u>
Texaco Producing, Inc.	6	0.19629	0.15295	0.24477	0.24436
	15	4.08296	3.80132	2.90949	5.25526
	25-B	0.78027	0.66281	1.04637	0.76540
	25-TD	0.57093	0.92379	0.35812	0.74499
	TOTAL	5.63045	5.54087	4.55875	7.01001
Duer Wagner, Jr.	24	0.07223	0.48257	0.14354	0.63965
	TOTAL	0.07223	0.48257	0.14354	0.63965
Duer Wagner, III	24	0.00544	0.03632	0.01080	0.04815
	TOTAL	0.00544	0.03632	0.01080	0.04815
	UNIT TOTAL	100.00000	100.00000	100.00000	100.00000

EXHIBIT " D "

Attached to and made a part of that certain Unit Operating Agreement dated the 1st day of  
May 1987, for the Northeast Drinkard Unit, located in Lea County, New Mexico.

ACCOUNTING PROCEDURE  
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

"Joint Account" shall mean the account showing the charges paid and credits received in the conduct of the Joint Operations and which are to be shared by the Parties.

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

"Non-Operators" shall mean the Parties to this agreement other than the Operator.

"Parties" shall mean Operator and Non-Operators.

"First Level Supervisors" shall mean those employees whose primary function in Joint Operations is the direct supervision\* of other employees and/or contract labor directly employed on the Joint Property in a field operating capacity.

"Technical Employees" shall mean those employees having special and specific engineering, geological or other professional skills, and whose primary function in Joint Operations is the handling of specific operating conditions and problems for the benefit of the Joint Property.

"Personal Expenses" shall mean travel and other reasonable reimbursable expenses of Operator's employees.

"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.

2. Statement and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of the Joint Account for the preceding month. Such bills will be accompanied by statements which identify the authority for expenditure, lease or facility, and all charges and credits summarized by appropriate classifications of investment and expense except that items of Controllable Material and unusual charges and credits shall be separately identified and fully described in detail.

3. Advances and Payments by Non-Operators

A. Unless otherwise provided for in the agreement, the Operator may require the Non-Operators to advance their share of estimated cash outlay for the succeeding month's operation within fifteen (15) days after receipt of the billing or by the first day of the month for which the advance is required, whichever is later. Operator shall adjust each monthly billing to reflect advances received from the Non-Operators.

B. Each Non-Operator shall pay its proportion of all bills within fifteen (15) days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the prime rate in effect at The Chase  
Manhattan Bank, N.Y.\*\* on the first day of the month in which delinquency occurs plus 1% or the maximum contract rate permitted by the applicable usury laws in the state in which the Joint Property is located, whichever is the lesser, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

\*\*New York City, N.Y.

4. Adjustments

Payment of any such bills shall not prejudice the right of any Non-Operator 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 Controllable Material as provided for in Section V.

\* "Direct supervision" to include Production Foreman who is a first level supervisor in a field operating capacity under operator's organizational structure.

5. **Audits**

- A. 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 Joint Account 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 adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year without prior approval of Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of those Non-Operators approving such audit.
- B. The Operator shall reply in writing to an audit report within 180 days after receipt of such report.

6. **Approval By Non-Operators**

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

**II. DIRECT CHARGES**

Operator shall charge the Joint Account with the following items:

1. **Ecological and Environmental**

Costs incurred for the benefit of the Joint Property as a result of governmental or regulatory requirements to satisfy environmental considerations applicable to the Joint Operations. Such costs may include surveys of an ecological or archaeological nature and pollution control procedures as required by applicable laws and regulations.

2. **Rentals and Royalties**

Lease rentals and royalties paid by Operator for the Joint Operations.

3. **Labor**

- A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
- (2) Salaries of First Level Supervisors in the field.
- (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the overhead rates.
- (4) Salaries and wages of Technical Employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from the overhead rates.
- B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II. Such costs under this Paragraph 3B 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 3A of this Section II. 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 costs chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II.
- D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 3A of this Section II.

4. **Employee Benefits**

Operator's current costs 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 chargeable to the Joint Account under Paragraphs 3A and 3B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies.

5. **Material**

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.

6. **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 where like material is normally available or railway receiving point nearest the Joint Property unless agreed to by the Parties.

- 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 where like material is normally available, or railway receiving point nearest the Joint Property unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
- C. In the application of subparagraphs A and B above, the option to equalize or charge actual trucking cost is available when the actual charge is \$400 or less excluding accessorial charges. The \$400 will be adjusted to the amount most recently recommended by the Council of Petroleum Accountants Societies.

**7. Services**

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 10 of Section II and Paragraph i, ii, and iii, of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.

**8. Equipment and Facilities Furnished By Operator**

- A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on gross investment less accumulated depreciation not to exceed eight percent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
- B. In lieu of charges in paragraph 8A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.

**9. 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 other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.

**10. Legal Expense**

Expense of handling, investigating and settling litigation or claims, discharging of liens, payment of judgements and amounts paid for settlement of claims incurred in or resulting from operations under the agreement or necessary to protect or recover the Joint Property, except that no charge for services of Operator's legal staff or fees or expense of outside attorneys shall be made unless previously agreed to by the Parties. All other legal expense is considered to be covered by the overhead provisions of Section III unless otherwise agreed to by the Parties, except as provided in Section I, Paragraph 3.

**11. 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. If the ad valorem taxes are based in whole or in part upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to the Joint Account shall be made and paid by the Parties hereto in accordance with the tax value generated by each party's working interest.

**12. Insurance**

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Worker's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge at Operator's cost not to exceed manual rates.

**13. Abandonment and Reclamation**

Costs incurred for abandonment of the Joint Property, including costs required by governmental or other regulatory authority.

**14. Communications**

Cost of acquiring, leasing, installing, operating, repairing and maintaining communication systems, including radio and microwave facilities directly serving the Joint Property. In the event communication facilities/systems serving the Joint Property are Operator owned, charges to the Joint Account shall be made as provided in Paragraph 8 of this Section II.

**15. 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 of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the Joint Operations.

## III. OVERHEAD

## 1. Overhead - Drilling and Producing Operations

- i. As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge drilling and producing operations on either:

(X) Fixed Rate Basis, Paragraph 1A, or  
 ( ) Percentage Basis, Paragraph 1B

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 3A, Section II. 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 the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

- ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property:

( ) shall be covered by the overhead rates, or  
 (X) shall not be covered by the overhead rates.

- iii. The salaries, wages and Personal Expenses of Technical Employees and/or costs of professional consultant services and contract services of technical personnel either temporarily or permanently assigned to and directly employed in the operation of the Joint Property:

(X) shall be covered by the overhead rates, or  
 ( ) shall not be covered by the overhead rates.

## A. Overhead - Fixed Rate Basis

- (1) Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate \$ 4,550.00  
 (Prorated for less than a full month)

Producing Well Rate \$ 455.00

- (2) Application of Overhead - Fixed Rate Basis shall be as follows:

## (a) Drilling Well Rate

- (1) Charges for drilling wells shall begin on the date the well is spudded and terminate on the date the drilling rig, completion rig, or other units used in completion of the well is released, whichever is later, except that no charge shall be made during suspension of drilling or completion operations for fifteen (15) or more consecutive calendar days.
- (2) Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive work days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig or other units used in workover, commence through date of rig or other unit release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.

## (b) Producing Well Rates

- (1) An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- (2) Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- (3) An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- (4) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well. This one-well charge shall be made whether or not the well has produced except when drilling well rate applies.
- (5) All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.
- (3) The well rates shall be adjusted as of the first day of April 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 calendar year preceding 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, or the equivalent Canadian index as published by Statistics Canada, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

## B. Overhead - Percentage Basis

- (1) Operator shall charge the Joint Account at the following rates:



## (a) Development

\_\_\_\_\_ Percent ( \_\_\_\_\_ %) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 10 of Section II and all salvage credits.

## (b) Operating

\_\_\_\_\_ Percent ( \_\_\_\_\_ %) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 2 and 10 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

## (2) Application of Overhead - Percentage Basis shall be as follows:

For the purpose of determining charges on a percentage basis under Paragraph 1B of this Section III, development shall include all costs in connection with drilling, re-drilling, deepening, or any remedial operations on any or all wells involving the use of drilling rig and crew capable of drilling to the producing interval on the Joint Property; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when the well is not completed as a producer, and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 2 of this Section III. All other costs shall be considered as operating.

**2. Overhead - Major Construction**

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for overhead based on the following rates for any Major Construction project in excess of \$ 25,000.00 :

- A. 5 % of first \$100,000 or total cost if less, plus  
 B. 3 % of costs in excess of \$100,000 but less than \$1,000,000, plus  
 C. 2 % of costs in excess of \$1,000,000.

Total cost shall mean the 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 and workover wells and artificial lift equipment shall be excluded.

**3. Catastrophe Overhead**

To compensate Operator for overhead costs incurred in the event of expenditures resulting from a single occurrence due to oil spill, blowout, explosion, fire, storm, hurricane, or other catastrophes as agreed to by the Parties, which are necessary to restore the Joint Property to the equivalent condition that existed prior to the event causing the expenditures, Operator shall either negotiate a rate prior to charging the Joint Account or shall charge the Joint Account for overhead based on the following rates: for any catastrophe in excess of \$25,000.00:

- A. 5 % of total costs through \$100,000; plus  
 B. 3 % of total costs in excess of \$100,000 but less than \$1,000,000; plus  
 C. 2 % of total costs in excess of \$1,000,000.

Expenditures subject to the overheads above will not be reduced by insurance recoveries, and no other overhead provisions of this Section III shall apply.

**4. Amendment of Rates**

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

**IV. PRICING OF JOINT ACCOUNT MATERIAL PURCHASES, TRANSFERS AND DISPOSITIONS**

Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for all Material movements affecting the Joint Property.\* Operator shall provide all Material for use on the Joint Property; however, at Operator's option, such Material may be supplied by the Non-Operator. Operator shall make timely disposition of idle and/or surplus Material, such disposal being made either through sale to Operator or Non-Operator, division in kind, or sale to outsiders. Operator may purchase, but shall be under no obligation to purchase, interest of Non-Operators in surplus condition A or B Material. The disposal of surplus Controllable Material not purchased by the Operator shall be agreed to by the Parties.

**1. Purchases**

Material purchased shall be charged at the price paid by Operator after deduction of all discounts received. In case of Material found to be defective or returned to vendor for any other reasons, credit shall be passed to the Joint Account when adjustment has been received by the Operator.

**2. Transfers and Dispositions**

\*Material furnished to the Joint Property and Material transferred from the Joint Property or disposed of by the Operator, unless otherwise agreed to by the Parties, shall be priced on the following basis exclusive of cash discounts:

\*All pricing of controllable material will be based on prices generated from COPAS' Computerized Equipment Pricing System (CEPS), if available in CEPS.

\*\*Material furnished or transferred as defined here shall exclude material received direct from vendors.

A. New Material (Condition A)

(1) Tubular Goods Other than Line Pipe

- (a) Tubular goods, sized 2 $\frac{1}{2}$  inches OD and larger, except line pipe, shall be priced at Eastern mill published carload base prices effective as of date of movement plus transportation cost using the 80,000 pound carload weight basis to the railway receiving point nearest the Joint Property for which published rail rates for tubular goods exist. If the 80,000 pound rail rate is not offered, the 70,000 pound or 90,000 pound rail rate may be used. Freight charges for tubing will be calculated from Lorain, Ohio and casing from Youngstown, Ohio.
- (b) For grades which are special to one mill only, prices shall be computed at the mill base of that mill plus transportation cost from that mill to the railway receiving point nearest the Joint Property as provided above in Paragraph 2.A.(1)(a). For transportation cost from points other than Eastern mills, the 30,000 pound Oil Field Haulers Association interstate truck rate shall be used.
- (c) Special end finish tubular goods shall be priced at the lowest published out-of-stock price, f.o.b. Houston, Texas, plus transportation cost, using Oil Field Haulers Association interstate 30,000 pound truck rate, to the railway receiving point nearest the Joint Property.
- (d) Macaroni tubing (size less than 2 $\frac{1}{2}$  inch OD) shall be priced at the lowest published out-of-stock prices f.o.b. the supplier plus transportation costs, using the Oil Field Haulers Association interstate truck rate per weight of tubing transferred, to the railway receiving point nearest the Joint Property.

(2) Line Pipe

- (a) Line pipe movements (except size 24 inch OD and larger with walls  $\frac{3}{4}$  inch and over) 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
  - (b) Line pipe movements (except size 24 inch OD and larger with walls  $\frac{3}{4}$  inch and over) less than 30,000 pounds shall be priced at Eastern mill published carload base prices effective as of date of shipment, plus 20 percent, plus transportation costs based on freight rates as set forth under provisions of tubular goods pricing in Paragraph A.(1)(a) as provided above. Freight charges shall be calculated from Lorain, Ohio.
  - (c) Line pipe 24 inch OD and over and  $\frac{3}{4}$  inch wall and larger shall be priced f.o.b. the point of manufacture at current new published prices plus transportation cost to the railway receiving point nearest the Joint Property.
  - (d) Line pipe, including fabricated line pipe, drive pipe and conduit not listed on published price lists shall be priced at quoted prices plus freight to the railway receiving point nearest the Joint Property or at prices agreed to by the Parties.
- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property.
- (4) Unused new Material, except tubular goods, moved from the Joint Property shall be priced at the current new price, in effect on date of movement, as listed by a reliable supply store nearest the Joint Property, or point of manufacture, plus transportation costs, if applicable, to the railway receiving point nearest the Joint Property. Unused new tubulars will be priced as provided above in Paragraph 2 A (1) and (2).

B. Good Used Material (Condition B)

Material in sound and serviceable condition and suitable for reuse without reconditioning:

(1) Material moved to the Joint Property

At seventy-five percent (75%) of current new price, as determined by Paragraph A.

(2) Material used on and moved from the Joint Property

- (a) At seventy-five percent (75%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as new Material or
- (b) At sixty-five percent (65%) of current new price, as determined by Paragraph A, if Material was originally charged to the Joint Account as used Material.

(3) Material not used on and moved from the Joint Property

At seventy-five percent (75%) of current new price as determined by Paragraph A.

The cost of reconditioning, if any, shall be absorbed by the transferring property.

C. Other Used Material

(1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph A. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

## (2) Condition D

Material, excluding junk, no longer suitable for its original purpose, but usable for some other purpose shall be priced on a basis commensurate with its use. Operator may dispose of Condition D Material under procedures normally used by Operator without prior approval of Non-Operators.

- (a) Casing, tubing, or drill pipe used as line pipe shall be priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing or drill pipe utilized as line pipe shall be priced at used line pipe prices.
- (b) Casing, tubing or drill pipe used as higher pressure service lines than standard line pipe, e.g. power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods shall be priced on a non upset basis.

## (3) Condition E

Junk shall be priced at prevailing prices. Operator may dispose of Condition E Material under procedures normally utilized by Operator without prior approval of Non-Operators.

## D. Obsolete Material

Material which is serviceable and usable for its original function but condition and/or value of such Material is not equivalent to that which would justify a price as provided above may be specially priced as agreed to by the Parties. Such price should result in the Joint Account being charged with the value of the service rendered by such Material.

## E. Pricing Conditions

- (1) Loading or unloading costs may be charged to the Joint Account at the rate of twenty-five cents (25¢) per hundred weight on all tubular goods movements, in lieu of actual loading or unloading costs sustained at the stocking point. The above rate shall be adjusted as of the first day of April each year following January 1, 1985 by the same percentage increase or decrease used to adjust overhead rates in Section III, Paragraph 1.A.(3). Each year, the rate calculated shall be rounded to the nearest cent and shall be the rate in effect until the first day of April next year. Such rate shall be published each year by the Council of Petroleum Accountants Societies.
- (2) 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 published or listed prices 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 providing such Material, in making it suitable for use, and in moving it to the Joint Property; provided 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 ten 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.

## V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

## 1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. 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.

## 2. Reconciliation and Adjustment of Inventories

Adjustments to the Joint Account resulting from the reconciliation of a physical inventory shall be made within six months following the taking of the inventory. Inventory adjustments shall be made by Operator to the Joint Account for overages and shortages, but, Operator shall be held accountable only for shortages due to lack of reasonable diligence.

## 3. Special Inventories

Special inventories may be taken whenever there is any sale, change of interest, or change of Operator 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. In cases involving a change of Operator, all Parties shall be governed by such inventory.

## 4. Expense of Conducting Inventories

- A. The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by the Parties.
- B. The expense of conducting special inventories shall be charged to the Parties requesting such inventories, except inventories required due to change of Operator shall be charged to the Joint Account.

EXHIBIT "E"

ATTACHED TO AND MADE A PART OF UNIT OPERATING AGREEMENT, NORTHEAST  
DRINKARD UNIT, LEA COUNTY, NEW MEXICO, DATED  
May 1, 1987.

INSURANCE AND CLAIMS

1. UNIT OPERATOR shall, at all times while conducting operations hereunder, comply with all applicable Workers' Compensation and Occupational Disease Laws including the United States Longshoremen's and Harbor Workers' Compensation Act and carry all Employer's liability and other insurance required by the laws of New Mexico, provided, however, that UNIT OPERATOR may be a self-insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall be an amount equivalent to the premium which would have been paid had such insurance been obtained.
2. No other insurance shall be carried by UNIT OPERATOR for the joint account unless agreed to by the Working Interest Owners in accordance with the voting procedure set forth in Article 4 of the Unit Operating Agreement.
3. Each Working Interest Owner may procure such insurances with respect to the co-owned properties and operations as it deems necessary to protect itself against claims and damages, and all insurance policies shall provide that underwriters and insurance carriers of such Working Interest Owner shall waive any right of subrogation against UNIT OPERATOR and other Working Interest Owners.

EXHIBIT "F"  
TO UNIT OPERATING AGREEMENT  
NORTHEAST DRINKARD UNIT  
LEA COUNTY, NEW MEXICO  
MAY 1, 1987  
GAS BALANCING AGREEMENT

(Attached to and made a part of the Unit Operating Agreement, Northeast Drinkard Unit, Lea County, New Mexico, hereinafter referred to as "Unit Operating Agreement.")

1. The parties to the Unit Operating Agreement to which this Gas Balancing Agreement is attached own the Working Interest in the gas rights underlying the Unit Area and are entitled to share in the oil and gas production from the Unit in accordance with the provisions of the Unit Operating Agreement.

2. For the purposes of this agreement, "gas" shall include all gas well gas and oil well gas. "Gas well gas" is defined as gas produced from completion intervals which are classified in the most recent applicable New Mexico Oil Conservation Division proration schedule as gas wells. "Oil well gas" is defined as gas produced from completion intervals which are classified in the most recent applicable New Mexico Oil Conservation Division proration schedule as oil wells.

3. In accordance with the provisions of the Unit Operating Agreement, each party shall have the right to take its gas in kind and separately dispose of its share of gas produced from the Unit Area. Each party shall make a good faith effort to take and market its share of gas as currently produced. If, at any time while the Unit Operating Agreement is in effect, any party fails to take its share of gas, or has

contracted to sell its share of gas produced from the Unit Area to a purchaser who fails to take such share of gas attributable to the interest of that party, the terms of this Gas Balancing Agreement shall apply automatically. It is the intent of this Gas Balancing Agreement that it never be used as a device to delay marketing of gas or as a means of withholding gas from the market.

4. During the period or periods when any party hereto or its purchaser fails to take all or part of such party's share of gas, the other parties hereto shall have the right but not the obligation to produce, each month, all or a part of the total allowable gas production assigned to the Unit Area by the appropriate governmental entity having jurisdiction; provided, however, no party may without the express written approval of the underproduced party, take or market gas in quantities in excess of 150 percent of such party's share of the gas allowable or, in the absence of such allowable gas production, 150 percent of such party's share of the then current deliverability. The Operator shall have the duty of controlling production from the Unit Area and the responsibility of administering the provisions of this Agreement. The Operator shall use its best efforts to cause deliveries to be made to the gas purchasers from the Unit Area at such rates as may be required to give effect to the intent that the gas production accounts of all parties are to be brought into balance under the provisions contained herein. In so doing, the Operator shall not incur any liability to any nonoperator.

5. All parties hereto shall share in and own the liquid hydrocarbons recovered from such gas by primary separation equipment, prior to processing in a gas plant, in accordance with the terms of the

Unit Agreement and Unit Operating Agreement; provided, however, that each party taking such gas shall own all of the gas delivered to its purchaser.

6. Unit Operator shall keep records to maintain the over and under production accounts among the parties separately for gas well gas and for oil well gas. The over and under account quantities for gas well gas production shall be expressed in volumetric terms of MCF, whereas the over and under account quantities for oil well gas production shall be expressed in energy content terms of MMBTU.

7. The word "gas" as used in this Paragraph 7 shall apply separately to "gas well gas" and "oil well gas." Each party unable to take or market its full share of the gas as produced shall be credited with gas in the reservoir(s) underlying the Unit Area equal to its share of the gas produced under the Unit Operating Agreement, less such party's share of the gas actually taken and delivered to a purchaser, and less such party's share of gas used in joint operations, vented or lost. Unit Operator will maintain a running account of the quantities of gas each party is entitled to receive and the quantities of gas taken and marketed by each of the parties. Unit Operator will also furnish each party monthly statements showing the total quantity of gas produced, the amount thereof used in joint operations, vented or lost, the quantity of gas delivered to pipeline purchaser(s) for the account of each party, and monthly and cumulative over and under quantities. Unit Operator shall use these records to maintain the over and under production accounts among the parties.

8. The word "gas" as used in this Paragraph 8 shall apply separately to "gas well gas" and "oil well gas." After notice to Unit Operator, any party may begin taking or delivering to its purchaser its full share of the gas produced from the Unit Area, less any gas used in joint operations, vented or lost. To allow the underproduced party or parties to recover gas credited to such party or parties in the reservoir(s) and to balance the gas accounts among the parties in accordance with their respective interests, the underproduced party shall be entitled to take as makeup gas, an additional quantity equal to fifty percent (50%) of deliverable gas attributable to the overproduced parties, beginning on the first day of the month following such notice. If there is more than one underproduced or overproduced party, each underproduced and overproduced party's share of makeup gas shall be in direct proportion to its unit participation. Recovery of gas shall be in the order of its accrual in storage.

9. The word "gas" as used in this Paragraph 9 shall apply separately to "gas well gas" and to "oil well gas." In the event production of gas from the Unit Area is permanently discontinued before the gas accounts are balanced, settlement will be made between the underproduced and overproduced parties. In making such settlement, the underproduced party or parties will be paid a sum of money by the overproduced party or parties attributable to the overproduction which said overproduced party or parties received at the time of overproduction, less applicable taxes theretofore paid. If the overproduced party or parties did not sell its gas, such gas will be valued in the same manner used for royalty and severance tax purposes



when produced. That portion of the monies collected by the overproduced party or parties which is subject to refund by order of the FERC may be withheld by the overproduced party or parties until such prices are fully approved by the FERC, unless the underproduced party or parties furnish a corporate undertaking agreeing to hold the overproduced party or parties harmless from financial loss due to refund order by the FERC.

In order to administer this provision, Operator shall request each overproduced party to furnish Operator a monthly statement of revenue and volume for each month during which the overproduction occurred. Within a reasonable time after the permanent termination of production of gas from the Unit Area, Operator shall invoice each overproduced party for its proportionate share of said overproduction based on said statements and shall distribute the amounts collected from the overproduced parties to each underproduced party proportionate to the relative volumes of underproduction attributable to each such underproduced party based on weighted average price received by each overproduced party during the period that the underproduction occurred. Each party shall retain all producer's records of volumes taken or sold and revenues or values accruing thereto for the full term of this Gas Balancing Agreement. Operator agrees that it will not utilize any information obtained hereunder for any purpose other than implementing the terms of this Gas Balancing Agreement.

10. This Gas Balancing Agreement shall remain in force and effect as long as the Unit Operating Agreement is in effect and thereafter until the gas balance accounts among the parties are settled in full, and it

shall inure to the benefit of and be binding upon, the parties hereto, their respective successors, representatives, and assigns.

11. Nothing herein shall change or affect each party's obligations to pay its proportionate share of all costs and liabilities incurred in joint operations, including royalty and overriding royalty, as if each party were taking or delivering to a purchaser its share and its share only of gas production. Each party hereto shall hold each other party hereto harmless from any and all claims for royalty payments asserted by Royalty Owners to whom each party is accountable. Each party shall pay, or cause to be paid, all production and severance taxes due on all volumes of gas actually utilized or sold for its own account.

12. Each party hereby indemnifies the other parties hereto against all liability for and agrees to defend the parties hereto against all claims which may be asserted by third parties who now or hereafter stand in a contractual relationship with such indemnifying party arising out of the operation of this Agreement or activities of any party under its provisions and further agrees to save the other parties hereto harmless from all judgments or damages sustained and costs incurred in connection therewith.

EXHIBIT "G"

TO UNIT OPERATING AGREEMENT

NORTHEAST DRINKARD UNIT

LEA COUNTY, NEW MEXICO

INDEMNITY AGREEMENT

WHEREAS, Section 9.1.3 of the agreement entitled "Unit Agreement Northeast Drinkard Unit, Lea County, New Mexico", dated as of May 1, 1987, provides that under certain circumstances and conditions therein stated a Tract that fails to qualify for inclusion in the Unit Area of the Unit may be included if the requisite Working Interest Owners in the Tract as specified in said Section request the inclusion of the Tract in the Unit Area and execute and deliver, or obligate themselves to execute and deliver, an indemnity agreement; and

WHEREAS, Tract \_\_\_\_\_, described in the Unit Agreement is such a Tract; and

WHEREAS, the undersigned are owners of Working Interest in such Tract who have become parties to the Unit Agreement and the Unit Operating Agreement and desire the inclusion of the Tract in the Unit Area of the Unit.

NOW, THEREFORE, in consideration of and conditioned upon said Tract's meeting the other requirements of the aforesaid Section of the Unit

Agreement and its inclusion in the Unit Area of the Unit, the undersigned hereby request the inclusion of the above Tract in the Unit Area and agree, together with other owners of working interest in the Tract, who execute and deliver, or who obligate themselves to execute and deliver, like indemnity agreements, to indemnify and hold harmless all other Working Interest Owners in the Unit Area, against all claims and demands required by said Section to be the subject of such indemnity. Any liability arising hereunder shall be borne by the undersigned and other Working Interest Owners in the Tract who are committed to like indemnity agreements, in the proportion that the Working Interest of each in the Tract bears to the total Working Interest therein of all the owners of Working Interest in the Tract committed to such indemnity agreements.

This indemnity shall become void with respect to all claims and demands based upon occurrences subsequent to the time when one hundred percent (100%) of the Working Interest in the Tract becomes committed to the Unit Agreement.

This agreement shall be binding upon and shall inure to the benefit of the heirs, devisees, legal representatives, successors, and assigns of the respective parties initially bound or benefited by the provisions hereof.

IN WITNESS WHEREOF, each of the undersigned has executed this instrument on the day and date evidenced by his certificate of acknowledgement hereof.

\_\_\_\_\_  
\_\_\_\_\_

CORPORATE ACKNOWLEDGEMENT

STATE OF \_\_\_\_\_ :  
COUNTY OF \_\_\_\_\_ : SS.

This instrument was acknowledged before me on \_\_\_\_\_, 1987, by \_\_\_\_\_, of \_\_\_\_\_, a \_\_\_\_\_ corporation, on behalf of said corporation.

My Commission Expires:

\_\_\_\_\_

\_\_\_\_\_  
Notary Public  
In and For Said County and State

\_\_\_\_\_  
Notary Public (print name)

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF \_\_\_\_\_ :  
COUNTY OF \_\_\_\_\_ : SS.

This instrument was acknowledged before me on \_\_\_\_\_, 1987, by \_\_\_\_\_.

My Commission Expires:

\_\_\_\_\_

\_\_\_\_\_  
Notary Public  
In and For Said County and State

\_\_\_\_\_  
Notary Public (print name)

EXHIBIT "H"

Attached to and made a part of that certain Operating Agreement dated the 1st day of May, 1987, for the Northeast Drinkard Unit, located in Lea County, New Mexico

NON-DISCRIMINATION

A. During the performance of this Agreement, Operator hereby agrees as follows:

(1) Operator will not discriminate against any employee or applicant for employment because of race, creed, color, or national origin. Operator will take affirmative action to insure that applicants are employed, and that employees are treated during employment, without regard to their race, creed, color 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. Operator agrees to post in conspicuous places, available to employees and applicants for employment, notices in the form specified in the Regulations published in Title 41, Chapter 60 of the Code of Federal Regulations, as amended, setting forth the provisions of this non-discrimination clause.

- (2) Operator will, in all solicitations or advertisements for employees place by or on behalf of Operator, state that all qualified applicants will receive consideration for employment without regard to race, creed, color or national origin.
- (3) Operator will send to each labor union or representative of workers with which Operator has a collective bargaining agreement or other contract or understanding, a notice in the form prescribed by the Regulations published in Title 41, Chapter 60 of the Code of Federal Regulations advising the labor union or workers' representative of Operator's commitments under Section 202 of Executive Order 11246 of September 24, 1965, and shall post copies of notices in conspicuous places available to employees and applicants for employment.
- (4) Operator will comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules and regulations and relevant orders of the Secretary of Labor.
- (5) Operator will furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations and order of the Secretary of Labor or pursuant thereto, and will permit access to its books, records and accounting by the contracting agency (as defined in the Regulations published under Title 41, Chapter 60 of the Code of

Federal Regulations) and by the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.

- (6) In the event of Operator's noncompliance with the non-discrimination clause of this Agreement or with any of such rules, regulations or orders Operator may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, or by rules, regulations or order of the Secretary of Labor or as otherwise provided for by law.
  
- (7) Operator will include the provisions of these 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. Operator will act with respect to any subcontractor or vendor as the contract agency may direct as a means of enforcing such provisions including sanction for noncompliance; provided, however, that in the event Operator becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the contracting agency, Operator may request the United States to enter into such litigation to protect the interests of the United States.



B. Certification of non-segregated facilities:

- (1) Operator and each Non-Operator assures the other 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.
  
- (2) Operator and each Non-Operator understands and agrees that the breach of the assurance herein contained subjects the breaching party 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 the assured.

- (3) Operator and each Non-Operator agrees that whoever knowingly and willfully makes any false, fictitious or fraudulent representation may be liable to criminal prosecution under 18 USC Par. 1001.
  
- (4) Operator and each Non-Operator, respectively, reserves to itself the benefit of all exemptions, qualifications and limitations contained in and which it may claim under 41 CFR Chapter 60 and this certification is qualified to the extent and so that Operator and each Non-Operator, respectively, shall have the full benefit thereof.

EXHIBIT "I"

Attached to that certain Unit Operating Agreement dated the 1st day of May, 1987, for the Northeast Drinkard Unit, located in Lea County, New Mexico.

UNIT WELLS

<u>Tract</u>	<u>Operator</u>	<u>Lease</u>	<u>Well No.</u>	<u>Location</u>			
1	Conoco	Hawk B-3	14	660'	FNL	660'	FEL 3-21S-37E
			15	660'	FNL	1980'	FEL 3-21S-37E
			16	660'	FNL	1980'	FWL 3-21S-37E
			17	660'	FNL	660'	FWL 3-21S-37E
			18	1980'	FNL	1980'	FEL 3-21S-37E
			19	1980'	FNL	660'	FEL 3-21S-37E
			22	3300'	FNL	760'	FWL 3-21S-37E
			23	660'	FNL	560'	FEL 4-21S-37E
			24	2232'	FNL	2310'	FEL 3-21S-37E
			2	Meridian Oil Co. (formerly Southland Royalty)	St. Sec. 2	1	3300'
2	Unit Letter E					2-21S-37E	
3	3175'	FSL				660'	FWL 2-21S-37E
5	1650'	FWL				5610'	FSL 2-21S-37E
6	906'	FNL				660'	FWL 2-21S-37E
7	921'	FNL				1650'	FWL 2-21S-37E
8	5790'	FSL				660'	FWL 2-21S-37E
9	1973'	FNL				1650'	FWL 2-21S-37E
3	Chevron (formerly Gulf)	Harry Leonard				6	2983'
			8	660'	FSL	330'	FEL 2-21S-37E
			9	1650'	FSL	990'	FEL 2-21S-37E
			10	2220'	FNL	2307'	FEL 2-21S-37E
			11	2970'	FSL	990'	FEL 2-21S-37E
			12	3534'	FNL	990'	FEL 2-21S-37E
			13	Unit Letter B		2-21S-37E	
			14	2886'	FNL	2307'	FEL 2-21S-37E
			16	2217'	FNL	989'	FEL 2-21S-37E
			17	897'	FNL	990'	FEL 2-21S-37E
			18	1650'	FSL	1980'	FEL 2-21S-37E
19	660'	FSL	1780'	FEL 2-21S-37E			
4	SWEPI	Taylor Glenn	1	3226'	FNL	1980'	FWL 3-21S-37E
			2	4620'	FSL	660'	FEL 3-21S-37E
			6	4620'	FSL	1979'	FEL 3-21S-37E
			7	1582'	FNL	990'	FEL 4-21S-37E
			8	1582'	FNL	330'	FWL 3-21S-37E
			9	1585'	FNL	1980'	FWL 3-21S-37E
			10	1980'	FNL	1980'	FWL 3-21S-37E
			11	2080'	FNL	660'	FWL 3-21S-37E

<u>Tract</u>	<u>Operator</u>	<u>Lease</u>	<u>Well No.</u>	<u>Location</u>							
5	SWEPI	Livingston	1	1980'	FSL	1980'	FWL	3-21S-37E			
			2	660'	FSL	1980'	FEL	3-21S-37E			
			5	660'	FSL	330'	FWL	3-21S-37E			
			8	2970'	FSL	2308'	FWL	3-21S-37E			
			9	915'	FSL	2208'	FWL	3-21S-37E			
			10	3200'	FSL	660'	FEL	4-21S-37E			
			11	3300'	FSL	660'	FWL	3-21S-37E			
			12	4520'	FSL	660'	FEL	4-21S-37E			
			13	3330'	FNL	367'	FEL	4-21S-37E			
			6	Texaco	Estlack	1	Unit Letter T			3-21S-37E	
			7	Conoco	Hawk B-3	2	3150'	FSL	1650'	FEL	3-21S-37E
						5	1980'	FSL	1830'	FEL	3-21S-37E
7	1980'	FSL				660'	FEL	3-21S-37E			
10	2970'	FSL				1650'	FEL	3-21S-37E			
11	1980'	FSL				660'	FEL	3-21S-37E			
12	1980'	FSL				1980'	FEL	3-21S-37E			
13	660'	FSL				660'	FEL	3-21S-37E			
20	3300'	FSL				660'	FEL	3-21S-37E			
8	SWEPI	St. Sec. 2				1	1980'	FSL	660'	FWL	2-21S-37E
			2	4620'	FSL	660'	FWL	2-21S-37E			
			4	710'	FSL	610'	FWL	2-21S-37E			
			9	1980'	FSL	1880'	FWL	2-21S-37E			
			15	3546'	FNL	1650'	FWL	2-21S-37E			
			16	3546'	FNL	1700'	FWL	2-21S-37E			
			17	2886'	FNL	2303'	FWL	2-21S-37E			
			18	3550'	FSL	2300'	FWL	2-21S-37E			
			19	2310'	FSL	2307'	FWL	2-21S-37E			
			20	990'	FSL	2300'	FWL	2-21S-37E			
			21	2205'	FSL	988'	FWL	2-21S-37E			
			22	990'	FSL	990'	FWL	2-21S-37E			
			9	Conoco	St. Sec. 10	2	1980'	FNL	990'	FWL	10-21S-37E
3	990'	FNL				840'	FWL	10-21S-37E			
10	Conoco	Hawk B-10	1	990'	FNL	1650'	FEL	10-21S-37E			
			2	1980'	FNL	2310'	FWL	10-21S-37E			
			4	1980'	FNL	660'	FEL	10-21S-37E			
			8	1980'	FNL	2310'	FEL	10-21S-37E			
			9	660'	FNL	1980'	FEL	10-21S-37E			
			10	460'	FNL	1980'	FWL	10-21S-37E			
11	Meridian Oil Co. (formerly Southland Royalty)	Dauron	1	660'	FNL	660'	FEL	10-21S-37E			
			2	660'	FNL	525'	FEL	10-21S-37E			

<u>Tract</u>	<u>Operator</u>	<u>Lease</u>	<u>Well No.</u>	<u>Location</u>		
12	Exxon	NM "V" St.	1	660'	FSL	660' FWL 10-21S-37E
			3	660'	FSL	1980' FEL 10-21S-37E
			6	1980'	FSL	1980' FEL 10-21S-37E
			7	500'	FSL	1880' FWL 10-21S-37E
			8	2100'	FSL	760' FEL 10-21S-37E
			11	2080'	FSL	2080' FWL 10-21S-37E
			12	1980'	FSL	330' FWL 10-21S-37E
13	Meridian Oil Co. (formerly Southland Royalty)	Gutman	1	2310'	FSL	345' FWL 11-21S-37E
			2	1980'	FSL	990' FWL 11-21S-37E
14	Conoco	Nolan	1	660'	FSL	660' FWL 11-21S-37E
			2	660'	FSL	1980' FWL 11-21S-37E
			3	1980'	FSL	1980' FWL 11-21S-37E
15	Texaco (formerly Getty)	State S	3	660'	FNL	1980' FEL 15-21S-37E
			6	760'	FNL	1980' FWL 15-21S-37E
			7	600'	FNL	990' FWL 15-21S-37E
			8	660'	FNL	660' FEL 15-21S-37E
			9	660'	FSL	660' FEL 10-21S-37E
16	Cities Services	State S	1	1980'	FNL	660' FWL 15-21S-37E
			2	1980'	FNL	1980' FWL 15-21S-37E
			3	3375'	FSL	3225' FEL 15-21S-37E
			4	3390'	FSL	4520' FEL 15-21S-37E
			5	1980'	FNL	1880' FWL 15-21S-37E
			6	2310'	FNL	990' FWL 15-21S-37E
17	SWEPI	St. Sec. 15	1	1980'	FNL	1978' FEL 15-21S-37E
			2	1980'	FNL	660' FEL 15-21S-37E
			3	2210'	FNL	2310' FEL 15-21S-37E
18	Bravo Energy	Eva Owen	1	1980'	FNL	660' FWL 14-21S-37E
			2	660'	FNL	660' FWL 14-21S-37E
19	SWEPI	Andrews	1	1980'	FNL	1980' FWL 14-21S-37E
			2	990'	FNL	1980' FWL 14-21S-37E
20	SWEPI	Argo	1	660'	FSL	660' FWL 15-21S-37E
			2	1980'	FSL	660' FWL 15-21S-37E
			3	1980'	FSL	1980' FWL 15-21S-37E
			4	660'	FSL	1980' FWL 15-21S-37E
			5	330'	FSL	2310' FWL 15-21S-37E

<u>Tract</u>	<u>Operator</u>	<u>Lease</u>	<u>Well No.</u>	<u>Location</u>						
21	Marathon	Warlick	1	1980'	FSL	1980'	FEL 15-21S-37E			
			2	660'	FSL	1980'	FEL 15-21S-37E			
			3	660'	FSL	660'	FEL 15-21S-37E			
			4	1980'	FSL	660'	FEL 15-21S-37E			
			9	990'	FSL	990'	FEL 15-21S-37E			
			10	1725'	FSL	2149'	FEL 15-21S-37E			
			23	SWEPI	Argo A	1	660'	FNL	660'	FWL 22-21S-37E
2	1980'	FNL				660'	FWL 22-21S-37E			
3	660'	FNL				1980'	FWL 22-21S-37E			
4	1980'	FNL				1980'	FWL 22-21S-37E			
11	1650'	FNL				1650'	FWL 22-21S-37E			
24	Chevron (formerly Gulf)	Eubank	1	660'	FNL	1780'	FEL 22-21S-37E			
			2	660'	FNL	660'	FEL 22-21S-37E			
			3	2080'	FEL	1980'	FNL 22-21S-37E			
			4	660'	FEL	1980'	FNL 22-21S-37E			
25	Texaco (formerly Getty)	Williamson	1	660'	FNL	660'	FWL 23-21S-37E			
			2	1980'	FNL	660'	FWL 23-21S-37E			
			3	1980'	FNL	1980'	FWL 23-21S-37E			
			4	660'	FNL	3300'	FEL 23-21S-37E			
26	Arco	Roy Barton	2	660'	FNL	1980'	FEL 23-21S-37E			
			3	1980'	FNL	660'	FEL 23-21S-37E			
			4	1750'	FNL	1980'	FEL 23-21S-37E			
27	Mobil	Williamson	1	660'	FNL	760'	FEL 23-21S-37E			
28	SWEPI	Turner	1	660'	FSL	659'	FEL 22-21S-37E			
			2	1980'	FSL	660'	FWL 22-21S-37E			
			3	1980'	FSL	1980'	FEL 22-21S-37E			
			5	1980'	FSL	660'	FEL 22-21S-37E			
			6	660'	FSL	660'	FWL 22-21S-37E			
			10	2080'	FSL	1650'	FWL 22-21S-37E			
			12	2065'	FSL	1700'	FWL 22-21S-37E			
			13	880'	FSL	1685'	FWL 22-21S-37E			
			14	2310'	FSL	2310'	FEL 22-21S-37E			
			15	990'	FSL	2310'	FEL 22-21S-37E			
			29	SWEPI	Sarkeys	1	660'	FSL	660'	FWL 23-21S-37E
						2	1980'	FSL	1980'	FWL 23-21S-37E
						3	1980'	FSL	660'	FWL 23-21S-37E
						4	660'	FSL	1980'	FWL 23-21S-37E

<u>Tract</u>	<u>Operator</u>	<u>Lease</u>	<u>Well No.</u>	<u>Location</u>				
30	Arco	Sarkeys	1	1980'	FSL	1980'	FEL	23-21S-37E
			2	330'	FSL	2310'	FEL	23-21S-37E
			3	2310'	FSL	330'	FEL	23-21S-37E
			4	330'	FSL	990'	FEL	23-21S-37E
31	Mobil	Stephens Estate	1	1980'	FSL	660'	FWL	24-21S-37E
			2	660'	FSL	660'	FWL	24-21S-37E