

UNIT AGREEMENT
 NORTH HACKBERRY YATES UNIT
 EDDY COUNTY, NEW MEXICO

I N D E X

<u>SECTION</u>		<u>PAGE</u>
1	Enabling Act and Regulations	2
2	Unit Area and Definitions	2
3	Exhibits	4
4	Expansion	4
5	Unitized Land and Unitized Substances	5
6	Unit Operator	5
7	Resignation or Removal of Unit Operator	6
8	Successor Unit Operator	7
9	Accounting Provisions and Unit Operating Agreement	8
10	Rights and Obligations of Unit Operator	8
11	Plan of Operations	9
12	Easements or Use of Surface	10
13	Tract Participation	10
14	Tracts Qualified for Unit Participation	11
15	Allocation of Unitized Substances	12
16	Royalty Settlement	15
17	Rental Settlement	16
18	Conservation	17
19	Drainage	17
20	Leases and Contracts Conformed and Extended	17
21	Mathematical Errors	18
22	Covenants Run with Land	18
23	Effective Date and Term	19
24	Rate of Prospecting, Development and Production	20
25	Nondiscrimination	20
26	Appearances	21
27	Notices	21
28	No Waiver of Certain Rights	21
29	Unavoidable Delay	21
30	Loss of Title	22
31	Nonjoinder and Subsequent Joinder	22
32	Counterparts	24
33	Taxes	24
34	Conflict of Supervision	25
35	No Partnership	25
36	Production as of the Effective Date	26
37	Border Agreement	26

EXHIBIT "A" (Map of Unit Area)

EXHIBIT "B" (Schedule of Ownership)

BEFORE _____	OITZ
OIL CONSERVATION COMMISSION	EXHIBIT NO. <u>2</u>
CASE NO. <u>3675-13676</u>	

UNIT AGREEMENT
FOR THE DEVELOPMENT AND OPERATION OF THE
NORTH HACKBERRY YATES UNIT
EDDY COUNTY, NEW MEXICO
NO. _____

THIS AGREEMENT, entered into as of the 18th day of September, 1967, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as "Parties hereto",

W I T N E S S E T H :

WHEREAS, the parties hereto are the owners of working, royalty or other oil or gas interests in the Unit Area subject to this Agreement; and

WHEREAS, the Oil Conservation Commission of the State of New Mexico is authorized by law (Chap. 72, Laws of 1935, as amended by Chap. 193, Laws of 1937, Chap. 166, Laws of 1941, and Chap. 168, Laws of 1949) to approve this Agreement, and the conservation provisions hereof; and

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

WHEREAS, the parties hereto hold sufficient interests in the North Hackberry Yates Unit Area, covering the land hereinafter described to give reasonably effective control of operation therein; and

WHEREAS, it is the purpose of the parties hereto to enable institution and consummation of secondary recovery operations, conserve

natural resources, to prevent waste and secure the other benefits obtainable through development and operation of the area subject to this Agreement under the terms, conditions and limitations herein set forth.

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

SECTION 1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of February 25, 1920, as amended, supra, and all valid pertinent regulations, including operating and unit plan regulations, heretofore issued thereunder and valid, pertinent and reasonable regulations hereafter issued thereunder are accepted and made a part of this Agreement as to Federal lands, provided such regulations are not inconsistent with the terms of this Agreement.

SECTION 2. UNIT AREA AND DEFINITIONS. For the purpose of this Agreement, the following terms and expressions as used herein shall mean:

(a) The area described by tracts in Exhibit "B" and depicted on Exhibit "A" attached hereto is hereby designated and recognized as constituting the Unit Area, and is described as follows:

EDDY COUNTY, NEW MEXICO

T. 19 S., R. 30 E.

Section 23: S/2 NE/4 and SE/4

Section 24: S/2 N/2 and S/2

containing 720.00 acres, more or less.

(b) "Commission" is defined as the Oil Conservation Commission of the State of New Mexico.

(c) "Director" is defined as the Director of the United States Geological Survey.

(d) "Secretary" is defined as the Secretary of the Interior of the United States of America or any other person duly authorized to exercise the powers vested in that office.

(e) "Department" is defined as the Department of the Interior of the United States of America.

(f) "Supervisor" is defined as the Oil and Gas Supervisor of the United States Geological Survey for the region in which the Unit Area is situated.

(g) "Unitized Formation" means that interval underlying the Unit Area which is productive of Unitized Substances and the vertical limits of which extend from the top of the Yates formation to the base of the Yates formation; said interval having been hertofore found to occur in G. W. Strake's Union-Federal No. 1 Well (located 660 FSL and FEL Section 23, Township 19 South, Range 30 East, Eddy County, New Mexico) at an indicated depth of 1660 feet to 1988 feet, as recorded on the Schlumberger Sonic log dated November 24, 1960, said log being measured from the Kelly drive bushing.

(h) "Unitized Substances" means all oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons within or produced from the Unitized Formation.

(i) "Unit Participation" of a Working Interest Owner as used herein shall mean the sum of the Tract Participations of such Working Interest Owner, either Primary Phase or Secondary Phase, whichever is pertinent, as shown by Tracts for each such Working Interest Owner in Exhibit "B" to this Agreement.

(j) "Working Interest" is defined as the right to search for, produce and acquire Unitized Substances whether held as an incident of ownership of mineral fee simple title, under an oil and gas lease, or otherwise held.

(k) "Working Interest Owner" is defined as and shall mean any party hereto owning a Working Interest, including a carried Working Interest Owner, holding an interest in Unitized Substances by virtue of a lease, operating agreement, fee title or otherwise, which interest is chargeable with and obligated to pay or bear, either in cash or out of production, or otherwise, all or a portion of the cost of drilling, developing and producing the Unitized Substances and operations hereunder.

(l) "Royalty Interest" or "Royalty" is defined as an interest other than a Working Interest in or right to receive a portion of the Unitized Substances or the proceeds thereof and includes the royalty interest reserved by the lessor by an oil and gas lease and any overriding royalty interest, oil payment interest, net profit contracts, or any other payment or burden which does not carry with it the right to search for and produce Unitized Substances.

(m) "Royalty Owner" is defined as and shall mean the owner of a Royalty Interest.

(n) "Unit Operating Agreement" is defined as and shall mean any agreement or agreements (whether one or more entered into separately or collectively) by and between the Unit Operator and the Working Interest Owners as provided in Section 9, infra, and shall be styled "Unit Operating Agreement, North Hackberry Yates Unit, Eddy County, New Mexico."

(o) "Unit Manager" is defined as the person or corporation appointed by the Unit Working Interest Owners to perform the duties of the Unit Operator until the selection and qualification of a successor Unit Operator as provided for in Section 8 hereof.

(p) "Paying Quantities" is defined as production of Unitized Substances in quantities sufficient to pay for the cost of producing same from wells on the unitized land.

(q) "Primary Phase of Operations" is defined as the status of operations during the period that Unitized Substances are produced from the Unit Area from the effective date of this Agreement until 7:00 o'clock a.m. the first day of the calendar month next following the month in which 314,692 barrels of oil minus the gross oil production from June 1, 1966 to the effective date of this Agreement have been produced from the Unitized Formation. The Primary Phase, being predicated upon 100% commitment of the Unit Area, shall be subject to correction to coincide with the Primary Phase of the unitized portion of the reservoir in event of the non-commitment of any tract. For the purposes of this definition the Operator's Monthly Reports, Form C-115, filed with the New Mexico Oil Conservation Commission shall be deemed the controlling evidence of the production of 314,692 barrels of oil after June 1, 1966.

(r) "Secondary Phase of Operations" is defined as the status of operations for the remainder of the term of this Agreement after the Primary Phase has been completed.

(s) "Tract" is defined as each parcel of land described as such and given a tract number in Exhibit "B".

SECTION 3. EXHIBITS. Exhibit "A" attached hereto is a map showing the Unit Area and the boundaries and identity of tracts and leases in said Unit Area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing, to the extent known to the Unit Operator, the acreage comprising each tract, percentage ownership of each Working Interest Owner in each tract, and the percentage of participation each tract has during the Primary and Secondary Phases of Operations in the Unit Area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes render such revision necessary or when requested by the Supervisor, and not less than four copies thereof shall be filed with the Supervisor as required.

SECTION 4. EXPANSION. The Unit Area may when practicable be expanded to include therein any additional tract or tracts regarded as reasonably necessary or advisable for the purposes of this Agreement. Such expansion shall be effected in the following manner.

(a) The Working Interest Owner or Owners of a tract or tracts desiring to bring such tract or tracts into this Unit, shall file an application therefor with Unit Operator requesting such admission.

(b) Unit Operator shall circulate a notice to each Working Interest Owner of the proposed expansion, setting out the basis for admission, the unit participation to be assigned to such tract or tracts, and other pertinent data. After negotiation (at Working Interest Owners'

meeting or otherwise) if at least two Working Interest Owners having in the aggregate eighty percent (80%) Secondary Phase Participation have agreed to such tract or tracts being brought into the Unit, then Unit Operator shall:

(1) After preliminary concurrence by the Director prepare a notice of proposed expansion describing the contemplated changes in the boundaries of the Unit Area, the reason therefor, the basis for admission of the additional tract or tracts, the Primary and Secondary Phase Participations to be assigned thereto and the proposed effective date thereof; and

(2) Deliver copies of said notice to the Supervisor, each Working Interest Owner and to the lessee and lessor whose interests are affected, advising such parties that thirty (30) days will be allowed for submission to the Unit Operator of any objection to such proposed expansion; and

(3) File, upon the expiration of said thirty (30) day period as set out in (2) immediately above with the Supervisor the following: (a) Evidence of mailing or delivering copies of said notice of expansion; (b) An application for such expansion; (c) An instrument containing the appropriate joinders reflecting the qualifications of the new tract in the same manner required for the qualification of tracts under Section 14, hereof; and (d) Copies of any objections received.

The expansion shall, after due consideration of all pertinent information and approval by the Director, become effective as of the date prescribed in the notice thereof, preferably the first day of a month subsequent to the date of notice or on such other date as set by the Director in the order or instrument approving such expansion. In any approved expansion of the Unit Area, the revised Tract Participations of those Tracts which were committed prior to each such expansion shall remain in the same ratio one to another.

SECTION 5. UNITIZED LAND AND UNITIZED SUBSTANCES. All land committed to this Agreement shall constitute land referred to herein as "Unitized Land" or "Land subject to this Agreement". All oil and gas in the Unitized Land produced from the Unitized Formations are called "Unitized Substances". Nothing herein shall be construed to unitize, pool, or in any way affect the oil, gas and other minerals contained in or that may be produced from any formation other than the Unitized Formation as above described.

SECTION 6. UNIT OPERATOR. Gulf Oil Corporation is hereby designated the Unit Operator, and by signing this instrument as Unit Operator it

agrees and consents to accept the duties and obligations of Unit Operator for the operation, development and production of Unitized Substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interests in Unitized Substances, and the term "Working Interest Owner" when used herein shall include or refer to the Unit Operator as the owner of a Working Interest when such an interest is owned by it.

SECTION 7. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of six (6) months after written notice of intention to resign has been given by Unit Operator to all Working Interest Owners and the Director, and until all unit wells are placed in a condition satisfactory to the Supervisor for suspension, abandonment, or operations, whichever is intended by the unit manager, unless a new Unit Operator shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

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

The Unit Operator shall, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by one or more of the committed Working Interest Owners having in the aggregate eighty percent (80%) or more Unit Participation for the Secondary Phase of Operations. Such removal shall be effective upon notice thereof to the Director.

In all such instances of effective resignation or removal, until a successor to Unit Operator is selected and approved as hereinafter provided, the Working Interest Owners shall be jointly responsible for the performance of the duties of the Unit Operator and shall, not later than thirty (30) days before such resignation or removal becomes effective, appoint a

Unit Manager to represent them in any action to be taken hereunder.

The resignation or removal of Unit Operator under this Agreement shall not terminate its rights, title or interest as the owner of a Working Interest or other interest in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, books, and records, materials, appurtenances and any other assets, used in connection with the Unit operations and owned by the Working Interest Owners to the new duly qualified successor Unit Operator or to the Unit Manager if no such new Unit Operator is elected, to be used for the purpose of conducting Unit operations hereunder. Nothing herein shall be construed as authorizing the removal of any material, equipment or appurtenances needed for the preservation of any wells. Nothing herein contained shall be construed to relieve or discharge any Unit Operator who resigns or is removed hereunder for any liability or duties accruing or performable by it prior to the effective date of such resignation or removal.

SECTION 8. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender its resignation as Unit Operator or shall be removed as hereinabove provided, the Working Interest Owners shall select a successor Unit Operator as herein provided. Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been filed with the Supervisor. If no successor Unit Operator or Unit Manager is selected and qualified as herein provided, the Director may declare this Agreement terminated.

In selecting a successor Unit Operator the affirmative vote of one or more Working Interest Owners having a total of eighty percent (80%) or more of the total voting interest in the Unit, based on Secondary Phase Participation, shall prevail.

SECTION 9. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT.

Costs and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid, apportioned among and borne by the Working Interest Owners in accordance with the Unit Operating Agreement. Such Unit Operating Agreement shall also provide the manner in which the Working Interest Owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases or other independent contracts and such other rights and obligations as between Unit Operator and the Working Interest Owners as may be agreed upon by the Unit Operator and the Working Interest Owners; however, no such Unit Operating Agreement shall be deemed either to modify any of the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this Agreement, and in case of any inconsistency or conflict between this Agreement and the Unit Operating Agreement, this Unit Agreement shall prevail. Three true copies of any Unit Operating Agreement executed pursuant to this Section shall be filed with the Supervisor prior to approval of this Agreement.

SECTION 10. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating and distributing the Unitized Substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Upon request acceptable evidence of title to said rights shall be deposited with said Unit Operator, and together with this Agreement, shall constitute and define the rights, privileges and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this Agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights

of possession and use vested in the parties hereto only for the purposes herein specified.

SECTION 11. PLAN OF OPERATIONS. It is recognized and agreed by the parties hereto that all of the land subject to this agreement is reasonably proved to be productive of Unitized Substances in paying quantities and that the object and purpose of this Agreement is to formulate and to put into effect a secondary recovery project in order to effect additional recovery of Unitized Substances, prevent waste and conserve natural resources. The parties hereto agree that the Unit Operator may, subject to the consent and approval of a plan of operation by the Working Interest Owners and the Supervisor, inject into the Unitized Formation, through any well or wells completed therein, brine, water, air, gas, oil and any one or more other substances or combination of substances whether produced from the Unitized Formation or not, and that the location of input wells and the rates of injection therein and the rate of production shall be governed by standards of good geologic and petroleum engineering practices and conservation methods. After commencement of secondary operations, Unit Operator shall furnish the Supervisor monthly injection and production reports for each well in the Unit. The Working Interest Owners and the Supervisor shall be furnished periodic reports on the progress of the plan of operation and any revisions or changes thereto necessary to meet changed conditions or to protect the interests of all parties to this agreement, which revisions and changes shall be subject to approval by the Supervisor. Subject to like approval the Plan of Operation may be revised as conditions may warrant.

The initial plan of operation shall be filed for approval with the Supervisor concurrently with the filing of this Unit Agreement for final approval. Said initial plan of operation and all revisions thereof shall be as complete and adequate as the Supervisor may determine to be necessary for timely operation consistent herewith. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of operation. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for like approval a plan for an additional

specified period of operation.

SECTION 12. EASEMENTS OR USE OF SURFACE. The parties hereto, to the extent of their rights and interest, hereby grant to Working Interest Owners the right to use as much of the surface of the land within the Unit Area as may reasonably be necessary for unit operations, including the free use of water from the Unit Area for unit operations, insofar as such rights are granted by the oil and gas leases.

SECTION 13. TRACT PARTICIPATION. In Exhibit "B" attached hereto, there are listed and numbered the various tracts within the Unit Area and set forth opposite each tract are figures calculated and determined in accordance with the factors set forth in this section which represent the percentage of participation allocated to each tract in the Unit Area during the Primary and Secondary Phases of Operations, respectively, as those terms are defined herein.

Beginning at 7:00 a.m. on the effective date hereof and until 7:00 a.m. on the first day of the month next following the date when cumulative oil production from all of the tracts described in Exhibit "B" from the Unitized Formation, subsequent to June 1, 1966 equals 314,692 barrels, the participation of each tract shall be based fifty percent (50%) on current oil production and fifty percent (50%) on primary reserves as of June 1, 1966 as heretofore agreed upon by the parties. Current oil production shall be the relative rates of production realized from the 720 acres described above during the period from December 1, 1965 to June 1, 1966. For purposes of determining when the 314,692 barrels of oil has been produced in reference to this provision the Operators' Monthly Production Report, Form C-115, on file with the New Mexico Oil Conservation Commission shall be deemed the controlling evidence.

Beginning at 7:00 a.m. on the first day of the month following the date when the 314,692 barrels referred to immediately above shall have been produced, the participation of each tract shall be based fifty percent (50%) on Ultimate Primary Recovery plus fifty percent (50%) on the total net acre feet as agreed upon by the parties hereto.

In the event less than all tracts are qualified for participation on the effective date hereof, the Primary and Secondary Phase Participations shall be calculated on the basis of all qualified tracts rather than all tracts in the Unit Area as proposed herein, and the 314,692 barrels required to be produced subsequent to June 1, 1966 before Secondary Phase of Operations becomes effective shall likewise be reduced by multiplying the 314,692 barrels by the sum of the qualified tract Primary Phase Participations expressed as a decimal.

SECTION 14. TRACTS QUALIFIED FOR PARTICIPATION. On and after the effective date hereof the tracts within the Unit Area which shall be entitled to participate in the production of Unitized Substances therefrom shall be those tracts more particularly described in Exhibit "B" that corner or have a common boundary (tracts separated only by a public highway or a railroad right of way shall be considered to have a common boundary), and that otherwise qualify as follows:

(a) Each tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest therein have become parties to this Agreement and as to which Royalty Owners owning seventy-five percent (75%) or more of the Royalty Interest therein have become parties to this Agreement.

(b) Each tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest therein have become parties to this Agreement, and as to which Royalty Owners owning less than seventy-five percent (75%) of the Royalty Interest therein have become parties to this Agreement, and as to which (1) all working interest owners in such tract have joined in a request for the inclusion of such tract to this agreement, and as to which (2) seventy-five percent (75%) of the combined Secondary Phase voting interests of Working Interest Owners in all tracts that meet the requirements of Section 14(a) above have voted in favor of the inclusion of such tract. For the purpose of this Section 14(b), the voting interest of a Working Interest Owner shall be equal to the ratio that its Secondary Phase Participation attributable to tracts which qualify under Section 14 (a) bears to the total Secondary Phase Participation of all Working Interest Owners attributable to all tracts which qualify under Section 14 (a).

As the objective of this Unit Agreement is to have lands in the Unit Area operated and entitled to participation under the terms hereof, it is agreed that, notwithstanding anything else herein, no joinder shall be considered a commitment to this Unit Agreement unless the tract involved is qualified under Section 14 hereof, Tracts Qualified for Participation. The record interest shall supplant the royalty interest with respect to federal lands for the purposes of this section.

If on the effective date of this Agreement there is any tract or tracts which have not been committed as above provided, then such tract or tracts shall not be entitled to participate hereunder. Unit Operator shall, when submitting this Agreement for final approval by the Director, file therewith a schedule of those tracts which have been committed and made subject to this Agreement and are entitled to participate in the production from the Unit Area hereunder. Said schedule shall set forth opposite each such committed tract the lease number or assignment number, the owner of record of the lease, and the percentage participation of such tract which shall be computed according to the participation formula set out in Section 13 (Tract Participation) above. This schedule of participation shall be a part of Exhibit "B" of this Agreement and shall govern the allocation of production of Unitized Substances until a new schedule is approved by the Supervisor.

SECTION 15. ALLOCATION OF UNITIZED SUBSTANCES. All Unitized Substances produced and saved (less, save and except any part of such Unitized Substances used in conformity with good operating practices as concerns the unitized formation on unitized land for drilling, operating, camp, and other production or development purposes and for pressure maintenance or unavoidable loss) shall be apportioned among and allocated to the committed tracts within the Unit Area in accordance with the respective tract participation effective hereunder during the respective periods such Unitized Substances were produced, as set forth in the schedule of participation in Exhibit "B". The amount of Unitized Substances so allocated to each tract, and only that amount, (regardless of whether it be more or less

than the amount of the actual production of Unitized Substances from the well or wells, if any on such tract) shall, for all intents, uses and purposes, be deemed to have been produced from such tract.

The Unitized Substances allocated to each tract shall be distributed among, or accounted for, to the parties executing, consenting to or ratifying this Agreement entitled to share in the production from such tract in the same manner, in the same proportions, and upon the same conditions, as they would have participated and shared in the production from such tracts, or in the proceeds thereof, had this Agreement not been entered into; and with the same legal force and effect.

No tract committed to this Agreement and qualified for participation as above provided shall be subsequently excluded from participation hereunder on account of depletion of Unitized Substances, and nothing herein contained shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the joinder of any tract.

If the Working Interest or Royalty Interest in any tract, on or after the effective date hereof, is divided with respect to separate parcels or portions of such tract and owned severally by different persons, the percentage participation assigned to such tract shall, in the absence of a recordable instrument executed by all owners and furnished to Unit Operator fixing the divisions of ownership, be divided among such parcels or portions in proportion to the number of surface acres in each.

The Unitized Substances allocated to each tract shall be delivered in kind to the respective Working Interest Owners and parties entitled thereto by virtue of the ownership of oil and gas rights therein or by purchase from such owners. Each Working Interest Owner and the parties entitled thereto shall have the continuing right to receive such production in kind at a common point within the Unit Area and to sell or dispose of the same as it sees fit. Each such party shall have the right to construct, maintain and operate all necessary facilities for that purpose on unitized land, provided the same are so constructed, maintained and operated as not

to interfere with operations carried on pursuant hereto. Subject to Section 16, Royalty Settlement, hereof, any extra expenditure incurred by Unit Operator by reason the delivery in kind of any portion of the Unitized Substances shall be borne by the party receiving the same in kind. In the event any party hereto shall fail to take or otherwise adequately dispose of its proportionate share of the Unitized Substances currently as and when produced, then so long as such conditions continue, Unit Operator, for the account and at the expense of such party and in order to avoid curtailing the operation of the Unit Area, may sell or otherwise dispose of such production to itself or others on a day-to-day basis at not less than the prevailing market price in the area for like production, and the account of such party shall be charged therewith as having received such production. The net proceeds, if any, of the Unitized Substances so disposed of by Unit Operator shall be paid to the party entitled thereto. Notwithstanding the foregoing, Unit Operator shall not make a sale into interstate commerce of any other party's share of gas production without first giving such other party sixty (60) days' notice of such intended sale.

Any party receiving in kind or separately disposing of all or any part of the Unitized Substances allocated to any tract, or receiving the proceeds therefrom if the same is sold or purchased by Unit Operator, shall be responsible for the payment of all Royalty on the lease or leases and tracts contributed by it and received into the Unit, and each such party shall hold each other party hereto harmless against all claims, demands and causes of action for such Royalty on the lease or leases and tracts contributed by it to the Unit Area.

If, after the effective date of this Agreement, there is any tract or tracts that are subsequently committed hereto, as provided in Section 4 (Expansion) hereof, or any tract or tracts within the Unit Area not committed hereto as of the effective date hereof but which are subsequently committed hereto under the provisions of Section 31 (Nonjoinder and Subsequent Joinder), or if any tract is excluded from the Unit Area as provided for in Section 30 (Loss of Title), the schedule of participation as shown in Exhibit "B",

subject to Section 13 (Tract Participation) or Section 31 (Nonjoinder and Subsequent Joinder), whichever is appropriate, shall be revised by the Unit Operator and distributed to the Working Interest Owners and the Supervisor to show the new percentage participation of all the then effectively committed tracts; and the revised Exhibit "B", upon approval by the Supervisor, shall govern all the allocation of production from and after the effective date thereof until a new schedule is filed and approved by the Supervisor.

SECTION 16. ROYALTY SETTLEMENT. The United States of America and all Royalty Owners who, under an existing contract, are entitled to take in kind a share of the substances produced from any tract unitized hereunder, shall continue to be entitled to such right to take in kind their share of the Unitized Substances allocated to such tract, and Unit Operator shall make deliveries of such Royalty share taken in kind in conformity with the applicable contracts, laws and regulations. Settlement for Royalty Interest not taken in kind shall be made by Working Interest Owners responsible therefor under existing contracts, laws and regulations, on or before the last day of each month for Unitized Substances produced during the preceding calendar month; provided, however, that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any Royalty due from their leases, except that such Royalty shall be computed in accordance with the terms of this Unit Agreement.

Royalty due the United States shall be computed as provided in the operating regulations and paid in value or deliver in kind as to all Unitized Substances on the basis of the amounts thereof allocated to unitized Federal land as provided herein at the rate specified in the respective Federal leases or at such lower rate or rates as may be authorized by law or regulation; provided, that for leases on which the royalty rate depends on the daily average production per well, such average production shall be determined in accordance with the operating regulations as though the unitized lands were a single consolidated lease.

If the amount of production or the proceeds thereof accruing to any Royalty Owner (except the United States of America) in a tract depends upon the average production per well or the average pipeline run per well from such tract during any period of time, then such production shall be determined from and after the effective date hereof by dividing the quantity of Unitized Substances allocated hereunder to such tract during such period of time by the number of wells located thereon capable of producing as of the effective date hereof.

All Royalty due the United States of America and the other Royalty Owners hereunder shall be computed and paid on the basis of all Unitized Substances allocated to the respective tract or tracts committed hereto, in lieu of actual production from such tract or tracts.

Each Royalty Owner (other than the United States of America) that ratifies this Agreement represents and warrants that he is the owner of a Royalty Interest in a tract or tracts within the Unit Area as his interest appears in Exhibit "B" attached hereto. If any Royalty Interest in a tract or tracts should be lost by title failure or otherwise in whole or in part, during the term of this Agreement, then the Royalty Interest of the party representing himself to be the owner thereof shall be reduced proportionately and the interest of all parties shall be adjusted accordingly.

SECTION 17. RENTAL SETTLEMENT. Rentals or minimum royalties due on leases committed hereto shall be paid by Working Interest Owners responsible therefor under existing contracts, laws and regulations, provided that nothing herein contained shall operate to relieve the lessees of any land from their respective lease obligations for the payment of any rental or minimum royalty in lieu thereof, due under their leases. Rental or minimum royalty for lands of the United States of America subject to this Agreement shall be paid at the rate specified in the respective leases from the United States of America, unless rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

SECTION 18. CONSERVATION. Operations hereunder and production of Unitized Substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to Federal and State laws and regulations.

SECTION 19. DRAINAGE. The Unit Operator shall take appropriate and adequate measures to prevent drainage of Unitized Substances from unitized land by wells on land not subject to this Agreement.

SECTION 20. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions and provisions of all leases, subleases and other contracts relating to exploration, drilling, development or operation for oil or gas on lands committed to this Agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect, and the parties hereto hereby consent that the Secretary shall and by his approval hereof, or by the approval hereof by their duly authorized representatives, do hereby establish, alter, change, or revoke the drilling, producing, rental, minimum royalty and royalty requirements of Federal leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this Agreement.

Without limiting the generality of the foregoing, all leases, subleases and contracts are particularly modified in accordance with the following:

(a) The development and operation of lands subject to this Agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every part or separately owned tract subject to this Agreement, regardless of whether there is any development of any particular part or tract of the Unit Area, notwithstanding anything to the contrary in any lease, operating agreement or other contract by and between the parties hereto, or their respective predecessors in interest, or any of them.

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

(c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the Supervisor or his duly authorized representative, shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of unitized lands.

(d) Each lease, sublease, or contract relating to the exploration, drilling, development or operation for oil and gas which by its terms might expire prior to the termination of this Agreement, is hereby extended beyond any such term so provided therein, so that it shall be continued in full force and effect for and during the term of this Agreement.

(e) Termination of this Agreement shall not affect any lease which, pursuant to the terms thereof or any applicable laws, shall continue in force and effect thereafter.

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

SECTION 21. MATHEMATICAL ERRORS. It is hereby agreed by all parties to this Agreement that Unit Operator is empowered to correct any mathematical or clerical errors which might exist in the pertinent exhibits to this Agreement upon approval by the Supervisor.

SECTION 22. COVENANTS RUN WITH LAND. The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto and their successors in interest until this Agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee or other successor in interest. No assignment or transfer of any Working Interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument of transfer; and no assignment or transfer of any Royalty Interest subject hereto shall be binding upon the Working Interest Owner responsible therefor until the first day of the calendar month after said Working Interest Owner is furnished with the original, or acceptable photostatic or certified copy, of the recorded instrument of transfer.

SECTION 23. EFFECTIVE DATE AND TERM. This Agreement shall become binding upon each party who executes or ratifies it as of the date of execution or ratification by such party and shall become effective as of 7:00 o'clock a.m. of the first day of the calendar month next following:

(a) The execution or ratification of this Agreement and the Unit Operating Agreement by Working Interest Owners owning a combined Secondary Phase Unit Participation of one-hundred percent (100%), and the execution or ratification of the Agreement by Royalty Owners owning a combined interest of at least sixty-five percent (65%) of the Royalty Interest, in said Unit Area; and

(b) The approval of this Agreement by the Director or his duly authorized representative and the Commission; and

(c) The filing of at least one counterpart of this Agreement for record in the office of the County Clerk of Eddy County, New Mexico, by the Unit Operator; and provided, further, that if (a), (b) and (c) above are not accomplished on or before January 1, 1968, this Agreement shall ipso facto expire on said date (hereinafter called "expiration date") and thereafter be of no further force or effect, unless prior thereto this Agreement has been extended as to said expiration date for a period not to exceed six (6) months (hereinafter called "extended expiration date"). If said expiration date is so extended and (a), (b) and (c) are not accomplished on or before said extended expiration date, this Agreement shall ipso facto expire on said extended expiration date and thereafter be of no further force and effect.

Unit Operator shall, within thirty (30) days after the effective date of this Agreement, file for record in the office where a counterpart of this Agreement is recorded, a certificate to the effect that this Agreement has become effective according to its terms and stating further the effective date.

The term of this Agreement shall be for and during the time that Unitized Substances are or can be produced in paying quantities from the Unit Area and so long thereafter as drilling, reworking or other operations (including secondary recovery operations) are prosecuted thereon without cessation of more than ninety (90) consecutive days, and so long thereafter as such unitized substances can be produced as aforesaid. Termination under this paragraph shall be effective as of the first day of the month after the Unit Operator determines, on confirmatory data satisfactory to Director, that the unit is no longer paying.

This Agreement may be terminated at any time with the approval of the Director by Working Interest Owners owning at least eighty percent (80%) Secondary Phase Unit Participation whenever such Working Interest Owners

determine that Unit Operations are no longer feasible or in the interest of conservation. Notice of any such termination shall be given by Unit Operator to all parties hereto.

Upon termination of this Agreement, the further development and operation of the Unit Area as a Unit shall be abandoned, Unit Operations shall cease, and thereafter the parties hereto shall be governed by the terms and provisions of the leases and contracts affecting the separate tracts.

If not otherwise covered by the leases untized under this Agreement, Royalty Owners hereby grant Working Interest Owners a period of six months after termination of this Agreement in which to salvage, sell, distribute or otherwise dispose of the personal property and facilities used in connection with Unit Operations.

SECTION 24. RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION. All production and the disposal thereof shall be in conformity with allocations and quotas made or fixed by any duly authorized person or regulatory body under any Federal or State statute. The Director is hereby vested with authority to alter or modify from time to time, in his discretion, the rate of prospecting and development to alter or modify the quantity and rate of production under this Agreement, such authority being hereby limited to alteration or modification in the public interest, the purpose thereof and the public interest to be served thereby to be stated in the order of alteration or modification.

Powers in this Section vested in the Director shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than fifteen days from notice.

SECTION 25. NONDISCRIMINATION. In connection with the performance of work under this Agreement, the Unit Operator agrees to comply with all of the provisions of Section 202 (1) to (7) inclusive, of Executive Order 11246, (30 F.R. 12319), which are hereby incorporated by reference in this Agreement.

SECTION 26. APPEARANCES. Unit Operator shall have the right to appear for or on behalf of any and all interests affected hereby before the Department, and the Commission, and to appeal from any order issued under the rules and regulations of the Department, or the Commission, or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Department, or the Commission, or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his or its own expense to be heard in any such proceeding.

SECTION 27. NOTICES. All notices, demands, objections or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if made in writing and personally delivered to the party or parties or sent by postpaid certified mail, addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party or parties may have furnished in writing to the party sending the notice, demand or statement.

SECTION 28. NO WAIVER OF CERTAIN RIGHTS. Nothing in this Agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any Federal or State law or rule or regulation issued thereunder in any way affecting such party, or as a waiver by any such party or any right beyond his or its authority to waive.

SECTION 29. UNAVOIDABLE DELAY. All obligations under this Agreement requiring the Unit Operator to commence or continue secondary recovery operations or to operate on or produce Unitized Substances from any of the lands covered by this Agreement shall be suspended while, but only so long as the Unit Operator despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State or municipal law or agency, unavoidable accident, uncontrollable delays in transportation, inability to obtain

necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not.

SECTION 30. LOSS OF TITLE. In the event title to any tract of unitized land shall fail so as to render the tract inoperable under this Agreement and the true owner cannot be induced to join this Unit Agreement, such tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. If a tract is removed from the Unit Area because of the failure of title, Unit Operator, subject to Section 13 hereof, shall recompute the Tract Participation of each of the tracts remaining in the Unit Area and shall revise Exhibits "A" and "B" accordingly. The revised exhibits shall be effective as of the first day of the calendar month in which such failure of title is finally determined.

If title to a Working Interest fails, the rights and obligations of Working Interest Owners by reason of the failure of title shall be governed by the Unit Operating Agreement. If title to a Royalty Interest fails, but the tract to which it relates remains qualified, the parties whose title failed shall not be entitled to share hereunder with respect to such interest. In the event of a dispute as to title as to any Royalty, Working Interest or other interest subject thereto, payment or delivery on account thereof may be withheld without liability or interest until the dispute is finally settled; provided, that as to Federal land or leases, no payments of funds due the United States of America shall be withheld, but such funds shall be deposited as directed by the Supervisor to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

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

SECTION 31. NONJOINER AND SUBSEQUENT JOINER. If the owner of any substantial interest in a tract within the Unit Area fails or refuses to subscribe or consent to this Agreement, the owner of the working interest in

that tract may withdraw said tract from this Agreement by written notice to the Director and the Unit Operator prior to the approval of this Agreement by the Director. Any oil or gas interests in lands within the Unit Area not committed hereto prior to submission to this Agreement for final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this Agreement, and, if the interest is a working interest, by the owner of such interest also subscribing to the Unit Operating Agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working interest owner is subject to such requirements or approvals, if any, pertaining to such joinder, as may be provided for in the Unit Operating Agreement. After final approval hereof joinder by a non-working interest owner must be consented to in writing by the Working Interest Owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. Joinder by any Royalty Owner, at any time, must be accompanied by appropriate joinder of the corresponding Working Interest Owner in order for the interest of such Royalty Owner to be regarded as effectively committed. Joinder to the Unit Agreement by a Working Interest Owner, at any time, must be accompanied by appropriate joinder to the Unit Operating Agreement in order for such interest to be regarded as effectively committed to this Unit Agreement.

Any oil or gas interest in the Unitized Formation not committed hereto prior to the effective date of this Agreement may thereafter be committed hereto upon compliance with the applicable provisions of this Section and of Section 14 (Tracts Qualified for Unit Participation) hereof, at any time during a period of six months after the effective date of the Unit Agreement on the same basis of participation as provided in said Section 14, by the owner or owners thereof subscribing, ratifying, or consenting in writing to this Agreement and, if the interest is a Working Interest, by the owner of such interest subscribing also to the Unit Operating Agreement.

It is understood and agreed, however, that after such six months the right of subsequent joinder as provided in this Section shall be subject to such requirements or approvals and on such basis as may be agreed upon by Working Interest Owners. Provided that the tract participation of each previously qualified tract shall remain in the same ratio one to the other. Such joinder by a proposed Working Interest Owner must be evidenced by his execution or ratification of this Agreement and the Unit Operating Agreement. Such joinder by a Royalty Owner must be evidenced by his execution or ratification of this Agreement and must be consented to in writing by the Working Interest Owner responsible for the payment of any benefits that may accrue hereunder in behalf of such Royalty Owner. Except as may be otherwise herein provided, subsequent joinder to this Agreement shall be effective at 7:00 o'clock a.m. as of the first day of the month following the filing with the Supervisor of duly executed counterparts of any and all documents necessary to establish effective commitment of any tract or interest to this Agreement, unless objection to such joinder by the Director is duly made within sixty (60) days after such filing.

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

SECTION 33. TAXES. Each party hereto shall, for its own account, render and pay its share of any taxes levied against or measured by the amount or value of the Unitized Substances produced from the unitized land; provided, however, that if it is required or if it be determined that the Unit Operator or the several Working Interest Owners must pay or advance

said taxes for the account of the parties hereto, it is hereby expressly agreed that the parties so paying or advancing said taxes shall be reimbursed therefor by the parties hereto, including Royalty Owners, who may be responsible for the taxes on their respective allocated share of said Unitized Substances. No such taxes shall be charged to the United States or to the State of New Mexico, nor to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

SECTION 34. CONFLICT OF SUPERVISION. Neither the Unit Operator nor the Working Interest Owners, nor any of them, shall be subject to any forfeiture, termination or expiration of any rights hereunder or under any leases or contracts subject hereto, or to any penalty or liability on account of delay or failure in whole or in part to comply with any applicable provisions thereof to the extent that the said Unit Operator or the Working Interest Owners, or any of them, are hindered, delayed or prevented from complying therewith by reason of failure of the Unit Operator to obtain, in the exercise of due diligence, the concurrence of proper representatives of the United States and proper representatives of the State of New Mexico in and about any matters or things concerning which it is required herein that such concurrence be obtained. The parties hereto, including the Commission, agree that all powers and authority which by any provisions of this Agreement are vested in the Commission shall be exercised by it pursuant to the provisions of the laws of the State of New Mexico and subject in any case to appeal or judicial review as may now or hereafter be provided by the laws of the State of New Mexico.

SECTION 35. NO PARTNERSHIP. The duties, obligations and liabilities of the parties hereto are intended to be several and not joint or collective. This Agreement is not intended to create, and shall not be construed to create, an association or trust, or to impose a partnership duty, obligation or liability with regard to any one or more of the parties hereto. Each party hereto shall be individually responsible for its own obligations as herein provided.

SECTION 36. PRODUCTION AS OF THE EFFECTIVE DATE. Unit Operator shall make a proper and timely gauge of all lease and other tanks within the Unit Area pertaining to the formation to be unitized in order to ascertain the amount of merchantable oil above the pipeline connection in such tanks as of 7:00 o'clock a.m. on the effective date hereof. All such oil which has then been produced legally shall be and remain the property of the working interest owner entitled thereto, the same as if the Unit had not been formed; and such parties shall promptly remove said oil from the Unit Area. Any such oil not so removed shall be sold by Unit Operator for the account of such parties, subject to the payment of all royalty to royalty owners under the terms and provision of the Unit Agreement and any lease or leases and other contracts. The oil that is in excess of the prior allowable of the wells from which it was produced shall be deemed to be Unitized Substances produced after the effective date hereof.

If on the effective date hereof any tract is overproduced with respect to the allowable of the wells on that tract and the amount of overproduction has been sold or otherwise disposed of, such overproduction shall be deemed to be a part of the Unitized Substances produced after the effective date hereof and shall be charged to such tract as having been delivered to the parties entitled to Unitized Substances allocated to such tract.

SECTION 37. BORDER AGREEMENTS. Unit Operator may, subject to approval of the Supervisor, enter into a border-protection agreement or agreements with the Working Interest Owners of adjacent lands along the exterior boundary of the Unit Area with respect to the operations in the border area for the maximum ultimate recovery, conservation purposes and proper protection of the parties and interests.

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

GULF OIL CORPORATION

Notary	<i>[Signature]</i>
State	<i>[Signature]</i>
Exp.	
Pres.	<i>[Signature]</i>

ATTEST:

[Signature]
Assistant Secretary

By *[Signature]*
Attorney-in-Fact

Date: SEP 21 1967

UNION OIL COMPANY OF CALIFORNIA

ATTEST:

Secretary

By _____

Date: _____

THE STATE OF NEW MEXICO

COUNTY OF CHAVES

The foregoing instrument was acknowledged before me this 21st day of September, 1967, by W. B. HOKINS, Attorney-in-Fact for GULF OIL CORPORATION, a Pennsylvania corporation, on behalf of said corporation.

[Signature]
Notary Public

My Commission Expires: SEP 15 1970

THE STATE OF _____

COUNTY OF _____

The foregoing instrument was acknowledged before me this _____ day of _____, 1967, by _____ of UNION OIL COMPANY OF CALIFORNIA, a _____ corporation, on behalf of said corporation.

Notary Public

My Commission Expires: _____

T 19 S R 30 E

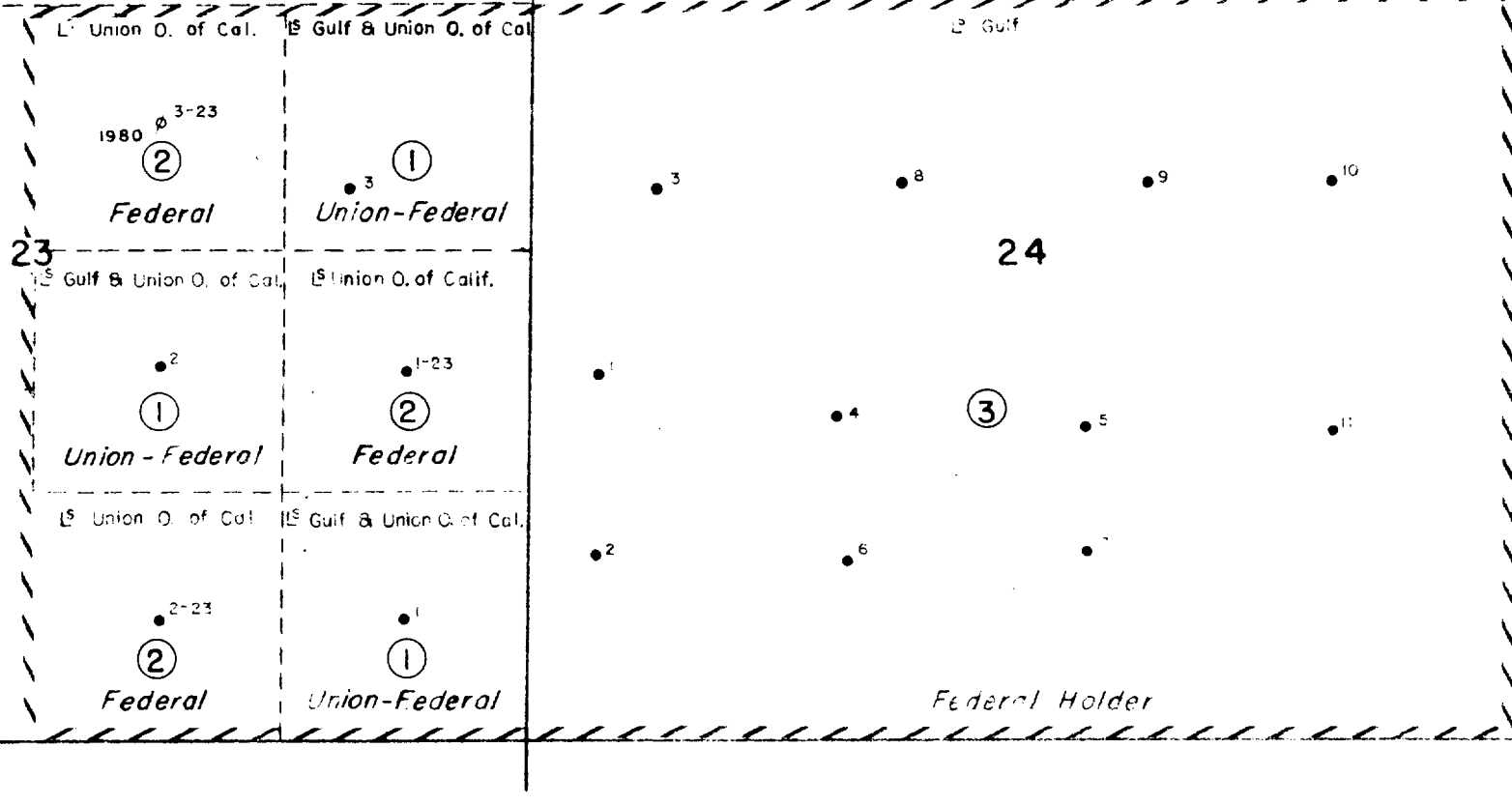


EXHIBIT "A"

NORTH HACKBERRY YATES UNIT

EDDY COUNTY, NEW MEXICO

- LEGEND -

--- UNIT AREA BOUNDARY

① TRACT NUMBER

720 ACRES

SCALE: 1" = 1000'

<u>FEDERAL LEASE</u>	<u>DESIGNATION</u>
<u>TRACT NO.</u>	<u>SERIAL NO.</u>
1	NM-06765
2	NM-06765
3	NM-06766

September 18, 1967

EXHIBIT "B"
NORTH HACKBERRY YATES UNIT
EDDY COUNTY, NEW MEXICO

TRACT NUMBER	DESCRIPTION OF LAND	NO. OF ACRES	SERIAL NO. AND LEASE DATE	BASIC ROYALTY OWNERSHIP AND PERCENTAGE	LESSEE OF RECORD	OVERRIDING ROYALTY OWNERSHIP AND PERCENTAGE	WORKING INTEREST OWNERSHIP AND PERCENTAGE	PERCENT PARTICIPATION OF TRACT IN UNIT	
								PRIMARY PHASE	SECONDARY PHASE
1	SE/4 NE/4, NW/4 SE/4 & SE/4 SE/4 Sec. 23-19S-30E (Surface to 3800') *	120.00	NM-06765 June 1, 1952	U.S.A.-12.5%	Union Oil Company of California	Mattie E. Brown 1.25% F.E. & Peggy 1.25% Chartier 1.25% Theodore R. & Irene 1.00% W. Johnson 1.00% Union Oil Co. of California 6.25%	Gulf Oil Corporation 83%* Union Oil Co. of California 17%	7.9010%	15.5876%
2	SW/4 NE/4, NE/4 SE/4 & SW/4 SE/4 Sec. 23-19S-30E	120.00	NM-06765 June 1, 1952	U.S.A.-12.5%	Union Oil Company of California	Mattie E. Brown 1.25% F.E. & Peggy 1.25% Chartier 1.25% Theodore R. & Irene 1.00% W. Johnson 1.00%	Union Oil Co. of California 100%	10.0119%	15.4285%
3	S/2 NE/4, S/2 NW/4 & S/2 Sec. 24-19S-30E	480.00	NM-06766 July 1, 1952	U.S.A.-12.5%	Gulf Oil Corporation	W.H. & Lucille 0.50% Mckinley Neil F. & Florence C. Stull 2.50%	Gulf Oil Corporation 100%	80.4688%	65.7913%
3 Federal Tracts		-		720.00 Acres	-	Consisting of 100% of Unit Area		100.0000%	100.0000%

* Union Oil Company of California owns all leasehold working interest below 3,800 feet.

RECAPITULATION

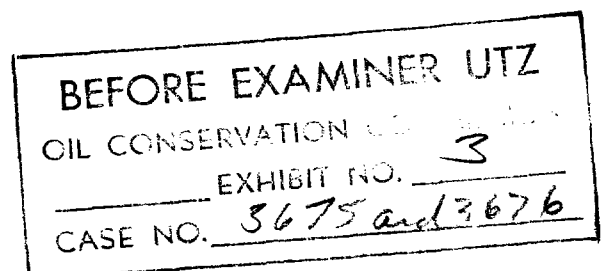
FEDERAL LANDS	720.00 ACRES	100% UNIT AREA
TOTAL LANDS	720.00 ACRES	100% UNIT AREA

UNIT OPERATING AGREEMENT
NORTH HACKBERRY YATES UNIT
EDDY COUNTY, NEW MEXICO

I N D E X

<u>ARTICLE</u>		<u>PAGE</u>
1	CONFIRMATION OF UNIT AGREEMENT	1
1.1	Confirmation of Unit Agreement	1
2	EXHIBITS	1
2.1	Exhibits	1
2.1.1	Exhibits A and B	1
2.1.2	Exhibit C	1
2.1.3	Exhibit D	1
2.1.4	Exhibit E	1
2.2	Revision of Exhibits	1
3	SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS	1
3.1	Overall Supervision	1
3.2	Specific Authorities and Duties	2
3.2.1	Method of Operation	2
3.2.2	Drilling of Wells	2
3.2.3	Well Recompletions and Change of Status	2
3.2.4	Expenditures	2
3.2.5	Disposition of Unit Equipment	2
3.2.6	Appearance Before a Court or Regulatory Agency	2
3.2.7	Audits	2
3.2.8	Inventories	2
3.2.9	Technical Services	2
3.2.10	Assignments to Committees	2
3.2.11	Removal of Unit Operator	2
3.2.12	Expansion of Unit Area	2
3.2.13	Adjustment and Readjustment of Investments	3
3.2.14	Termination of Unit Agreement	3
4	MANNER OF EXERCISING SUPERVISION	3
4.1	Designation of Representatives	3
4.2	Meetings	3
4.3	Voting Procedure	3
4.3.1	Voting Interest	3
4.3.2	Vote Required - Generally	3
4.3.3	Vote at Meeting by Nonattending Working Interest Owner	3
4.3.4	Poll Votes	3
5	INDIVIDUAL RIGHTS OF WORKING INTEREST OWNERS	3
5.1	Reservation of Rights	3
5.2	Specific Rights	4
5.2.1	Access to Unit Area	4
5.2.2	Reports	4
6	UNIT OPERATOR	4
7	AUTHORITIES AND DUTIES OF UNIT OPERATOR	4
7.1	Exclusive Right to Operate Unit	4
7.2	Workmanlike Conduct	4
7.3	Liens and Encumbrances	4
7.4	Employees	4
7.5	Records	4
7.6	Reports to Working Interest Owners	4
7.7	Reports to Governmental Authorities	4
7.8	Engineering and Geological Information	4
7.9	Expenditures	4
7.10	Wells Drilled by Unit Operator	4
7.11	Border Agreements	5
8	TAXES	5
8.1	Ad Valorem Taxes	5
8.2	Other Taxes	5
9	INSURANCE	5
9.1	Insurance	5

(i)



<u>ARTICLE</u>		<u>PAGE</u>
10	ADJUSTMENT OF INVESTMENTS	5
	10.1 Personal Property Taken Over	5
	10.1.1 Wells and Casing	5
	10.1.2 Well and Lease Equipment	5
	10.1.3 Records	5
	10.2 Inventory and Evaluation of Personal Property	5
	10.3 Investment Adjustment	6
	10.4 General Facilities	6
	10.5 Ownership of Personal Property and Facilities	6
11	UNIT EXPENSE	6
	11.1 Basis of Charge to Working Interest Owners	6
	11.2 Budgets	6
	11.3 Advance Billings	6
	11.4 Commingling of Funds	7
	11.5 Lien of Unit Operator	7
	11.6 Uncommitted Royalty	7
	11.6.1 Burden of 1/8th Royalty	7
	11.6.2 Burden of Excess Royalty and Other Interests	7
	11.7 Rentals	8
12	NON-UNITIZED FORMATIONS	8
	12.1 Right to Operate	8
	12.2 Multiple Completions	8
13	TITLES	8
	13.1 Warranty and Indemnity	8
	13.2 Failure Because of Unit Operations	8
14	LIABILITY, CLAIMS AND SUITS	9
	14.1 Individual Liability	9
	14.2 Settlements	9
15	INTERNAL REVENUE PROVISION	9
	15.1 Internal Revenue Provision	9
16	NOTICES	9
	16.1 Notices	9
17	ASSIGNMENTS, TRANSFERS AND SURRENDERS	9
	17.1 Assignments and Transfers	9
	17.2 Surrender, Release or Withdrawal	10
18	ABANDONMENT OF WELLS	10
	18.1 Rights of Former Owners	10
	18.2 Plugging	11
19	EFFECTIVE DATE AND TERM	11
	19.1 Effective Date	11
	19.2 Term	11
20	ABANDONMENT OF OPERATIONS	11
	20.1 Termination	11
	20.1.1 Oil and Gas Rights	11
	20.1.2 Right to Operate	11
	20.1.3 Salvaging Wells	11
	20.1.4 Cost of Salvaging	11
21	EXECUTION	11
	21.1 Original Counterpart, or Other Instrument	11
22	SUCCESSORS AND ASSIGNS	12
	22.1 Successors and Assigns	12

Exhibit "C" (Schedule of Unit Participation)
Exhibit "D" (Accounting Procedure)
Exhibit "E" (Insurance Provisions)

UNIT OPERATING AGREEMENT
NORTH HACKBERRY YATES UNIT
EDDY COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the _____ day of _____, 196____, by and between the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof;

W I T N E S S E T H :

WHEREAS, the parties hereto as Working Interest Owners have executed, as of the date hereof, an agreement entitled, "Unit Agreement, North Hackberry Yates Unit, Eddy 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 the development and operation of the Unit Area 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 Confirmation of 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:

2.1.1 Exhibits A and B of the Unit Agreement, by reference;

2.1.2 Exhibit C, attached hereto, which is a schedule showing the total participation of each Working Interest Owner for both the Primary and Secondary Phases of Operations. Exhibit C, or a revision thereof, shall not be conclusive as to the information therein, except it may be used as showing the Unit Participations of the Working Interest Owners for purposes of this Agreement until shown to be in error or is revised as herein authorized.

2.1.3 Exhibit D, attached hereto, which 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, which contains insurance provisions applicable to Unit Operations.

2.2 Revisions of Exhibits. Whenever Exhibits A and B 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.

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 Authorities and Duties. The matters with respect to which the 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 any type of pressure maintenance, secondary recovery, or other recovery program to be employed.

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

3.2.3. Well Recompletions and Change of Status. The recompletion, abandonment, or change of status of any well, or the use of any well for injection or other purposes.

3.2.4 Expenditures. The making of a single expenditure in excess of Ten Thousand Dollars (\$10,000.00) provided that, 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 same, 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 list price of new equipment similar thereto is Thirty-Five Hundred Dollars (\$3,500.00) 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; provided that, such designation shall not prevent any Working Interest Owner at its own expense 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; provided that the audits shall

- (a) not be conducted more than once each year except upon the resignation or removal of Unit Operator,
- (b) be made at the expense of all Working Interest Owners other than the Working Interest Owner designated as Unit Operator, and
- (c) 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 Assignments 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 expansion of the Unit Area.

3.2.13 The adjustment and readjustment of investments.

3.2.14 The termination of the Unit Agreement.

ARTICLE 4

MANNER OF EXERCISING SUPERVISION

4.1 Designation of Representatives. Each Working Interest Owner shall in writing inform Unit Operator of the names and addresses of its employee 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 Owners having a total Secondary Phase 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 shall not be prevented from amending items included in the agenda or from deciding the 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 by majority voting interest unless otherwise stated in this agreement or in the Unit Agreement.

4.3.1 Voting Interest. Each Working Interest Owner will have a Voting Interest equal to its Secondary Phase Participation.

4.3.2 Vote at Meeting by Nonattending Working Interest Owner. Any Working Interest Owner who is not represented at a meeting may vote either by written proxy or by letter or telegram addressed to the representative of the Unit Operator, provided such letter or telegram is received prior to the submission of such item to vote. If the vote is by letter or telegram such vote shall not be counted with respect to any item on the agenda which has been materially changed at the meeting.

4.3.3 Poll Votes. Working Interest Owners may vote and decide, by letter or telegram, any matter submitted in writing to Working Interest Owners, if no meeting is requested, as provided in Section 4.2, within fourteen (14) days after the proposal is sent to Working Interest Owners, Unit Operator will give prompt notice of the results of the 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 all Working Interest Owners shall be charged to the Working Interest Owner who requests the information.

ARTICLE 6
UNIT OPERATOR

Gulf Oil Corporation is hereby designated as Unit Operator.

ARTICLE 7

AUTHORITIES 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 free from all liens and encumbrances occasioned by Unit Operations, except the lien 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 to Working Interest Owners periodic reports of Unit Operations.

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

7.8 Engineering and Geological Information. Unit Operator shall furnish to a Working Interest Owner, upon written request, a copy of the log and other engineering and geological data pertaining to wells drilled for Unit Operations; provided, however, that Unit Operator may when reasonable charge the cost of gathering and furnishing such data to the Working Interest Owner requesting such information.

7.9. Expenditures. Unit Operator is authorized to make single expenditures not in excess of Ten Thousand Dollars (\$10,000.00) 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.

7.10 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 under terms and conditions approved by the Working Interest Owners.

7.11 Border Agreements. Subject to the approval of the appropriate governmental authority or authorities, Unit Operator may enter into a border protection agreement or agreements with the operator or owners of the working interest in adjacent lands along the boundary of the Unit Area, with respect to the operations in the border area for the maximum ultimate recovery, conservation purposes and proper protection of the parties and interest.

ARTICLE 8

TAXES

8.1 Ad Valorem Taxes. Unit Operator beginning the first of the next calendar year after the effective date hereof shall make and file all necessary ad valorem tax renditions and returns with the proper taxing authorities covering all real and personal property of each Working Interest Owner used or held by Unit Operator in 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 in the same manner as other operating expense. Any Working Interest Owner dissatisfied with any proposed rendition or assessment of its interest in real or personal property shall have the right, at its own expense, to protest.

8.2 Other Taxes. Each Working Interest Owner shall pay or cause to be paid all school, ad valorem, severance or other tax imposed upon or in respect of the production or handling of its share of Unitized Substances.

ARTICLE 9

INSURANCE

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

ARTICLE 10

ADJUSTMENT OF INVESTMENTS

10.1 Personal Property Taken Over. Upon the effective date hereof, Working Interest Owners shall deliver to Unit Operator the following:

10.1.1 Wells and Casing. All wells completed in the Unitized Formation, 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 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.

10.1.3 Records. A copy of all production and well records that pertain to such wells.

10.2 Inventory and Evaluation of Personal Property. Working Interest Owners shall inventory and evaluate, under the supervision of Unit Operator and at Unit expense, all personal property so taken over. Such inventory shall be limited, however, to those items of equipment normally considered controllable by operators of oil and gas properties as indicated in the "Materials Classification Manual", dated 1960, prepared by the Petroleum Accountants Society of Oklahoma, subject to any exceptions for specific items as agreed to by Working Interest Owners. Noncontrollable items, although excluded from the inventory, shall nevertheless be taken over by Unit Operator as provided in Article 10.1 hereof. The personal property listed on the inventories shall

be evaluated on the price basis described in Exhibit D except that no value shall be given to the casing in any well.

10.3 Investment Adjustment. Upon approval by Working Interest Owners of the inventory and evaluation, investments shall be adjusted as follows:

10.3.1 Initial Adjustment of Investments. Each Working Interest Owner shall be credited with the value - as determined in accordance with Section 10.2 above - of its interest in all personal property taken over by Unit Operator under Section 10.1.2, and likewise each Working Interest Owner shall be charged with an amount equal to the following fixed percentage schedule:

Gulf Oil Corporation	84.8744%
Union Oil Company of California	15.1256%

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 paid and in all other respects be treated as any other 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.

10.3.2 Readjustment of Investments. Effective as of the first day of the calendar month next following the expiration of Unit Participations shown in Phase I of Exhibit C, the capital investment account of the Working Interest Owners hereunder shall be readjusted between them on the basis of their respective Unit Participations as shown in Phase II of Exhibit C. For the purposes of such readjustment of the capital investment account, personal property and facilities taken over by Unit Operator pursuant to this agreement shall be valued at the same value at which such personal property and facilities were taken over and all other capital investments, both tangible and intangible, shall be valued at the original cost charged to the joint account. Capital assets retired prior to the effective date of such readjustment shall be eliminated from the capital investment account on the same basis of evaluation. Each Working Interest Owner shall be charged or credited with the net cash amount necessary to effect such readjustment of the capital investment account, and such charges and credits shall be settled in the same manner as the charges and credits referred to in Section 10.3.1.

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.

10.5 Ownership of Personal Property and Facilities. Each Working Interest Owner, individually, shall by virtue hereof own an undivided interest, equal to the fixed percentage schedule, set out above in Section 10.3.1 during Phase I and its Secondary Phase Participation thereafter, 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 and discharge all costs and expenses incurred in the development, operation and supervision of the Unit Area. Working Interest Owners shall reimburse Unit Operator for all such costs and expenses, in proportion to their respective participations shown on Exhibit C in effect at the time said costs and expenses were incurred, except that all charges, including installation costs, for equipment, additions and enlargements of existing facilities, other than normal replacements, shall be based on the fixed percentage schedule set out above in Section 10.3.1. All charges, credits and accounting for costs and expenses shall be in accordance with Exhibit D.

11.2 Budgets. Before or as soon as practical after the effective date hereof, 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 October thereafter, shall prepare such 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 promptly be furnished to each Working Interest Owner.

11.3 Advance Billings. Unit Operator shall have the right to require Working Interest Owners to advance their respective shares of estimated unit expense by submitting to Working Interest Owners, on or before the 15th day of any month, an itemized estimate thereof for the succeeding month, with a request for payment in advance. Within fifteen (15) days thereafter, 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 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. No funds received by Unit Operator under this Agreement need be segregated or maintained by it as a separate fund, but may be commingled with its own funds.

11.5 Lien of Unit Operator. Each Working Interest Owner grants to Unit Operator a lien upon its oil and gas rights in each tract, its share of

Unitized Substances when produced, and its interest in all Unit Equipment, as security for payment of its share of unit expense, together with interest thereon at the rate of eight percent (8%) per annum. Unit Operator shall have the right to bring suit to enforce collection of such indebtedness with or without seeking foreclosure of the lien. In addition, upon default by any Working Interest Owner in the payment of its share of unit expense, Unit Operator shall have the right 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 as aforesaid, has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of any default.

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. The Working Interest Owners that pay the share of unit expense of a defaulting Working Interest Owner shall be reimbursed by the 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 expenses shall be subrogated to the lien and rights herein granted Unit Operator.

11.6 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 Unitized Substances that are allocated to such tract under the Unit Agreement to the extent provided below, the difference shall be borne by or inure to the benefit of Working Interest Owners, in proportion to their respective participations in effect at the time such Unitized Substances were produced.

11.6.1 Burden of 1/8th Royalty. 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 (1/8th) of the difference between the Unitized Substances allocated to the tract and the Unitized Substances produced from the tract. Such adjustments shall be made by charges and credits to the joint account.

11.6.2 Burden of Excess Royalty and Other Interests. Any uncommitted royalty interest in excess of one eighth (1/8th) shall be borne solely by the Working Interest Owner contributing such interest.

11.7 Rentals. The Working Interest Owner in each tract shall, at its own expense, pay any and all rentals required to continue its lease in force as to such tract and upon request of Unit Operator, each such Working Interest Owner shall furnish Unit Operator satisfactory evidence as to the payment of each such rental not less than thirty (30) days prior to the rental payment date. Unit Operator shall have the right, but shall be under no obligation whatever, to pay any and all such rentals on behalf of each such Working Interest Owner and any and all rentals so paid by Unit Operator shall be charged solely to the account of such Working Interest Owner. In the event the Working Interest Owner in any tract fails to pay any rental required to continue its lease in force as to such tract, the termination of said lease as to such tract shall be considered for all purposes of this Agreement and the Unit Agreement to be a failure of title to said lease for reasons other than Unit Operations.

ARTICLE 12

NON-UNITIZED 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 other than the Unitized Formation, shall have the right to do so notwithstanding this Agreement or the Unit Agreement. In exercising the right, however, the Working Interest Owner shall exercise reasonable precaution to prevent unreasonable interference with Unit Operations. No Working Interest Owner shall produce Unitized Substances through any well drilled or operated by it. If any Working Interest Owner drills any well into or through the Unitized Formation, the Unitized Formation shall be protected in a manner satisfactory to Working Interest Owners so that the production of Unitized Substances will not adversely be affected.

12.2 Multiple Completions. No well shall be multiply completed in the Unitized Formation and in any other formation or formations without the approval of Working Interest Owners.

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 Exhibit B, and hereby 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 out of Unit Operations; provided that, such indemnity 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 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 title failure.

13.2 Failure Because of Unit Operations. The failure of title to any Working Interest in any tract by reason of Unit Operations, including non-production from such tract, shall not change the participation of the Working Interest Owner whose title failed in relation to the participations of the other Working Interest Owners in effect 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 contained shall ever be construed as creating a partnership of any kind, joint venture, association, or trust among Working Interest Owners.

14.2 Settlements. Unit Operator may settle any single damage claim or suit involving Unit Operations but not involving an expenditure in excess of Three Thousand Five Hundred Dollars (\$3,500.00) provided the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above specified amount, Working Interest Owners shall assume and take over the further handling of the claim or suit unless such authority is expressly delegated to Unit Operator. All costs and expense of handling, settling, or otherwise discharging such claim or suit shall be an item of unit expense. If a claim is made against any Working Interest Owner or if any Working Interest Owner is sued on account of any matter arising from Unit Operations and over which such Working Interest Owner individually 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 the 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. Each Working Interest Owner hereby elects that it and the operations covered by this Agreement be excluded from the application of Subchapter K of Chapter i of Sub-title A of the Internal Revenue Code of 1954, or such portion thereof as the Secretary of the Treasury of the United States or his delegate shall permit by election to be excluded therefrom. Unit Operator is hereby authorized and directed to execute on behalf of each Working Interest Owner such addition or further evidence of the election as may be required by regulations issued under said Subchapter K. Should the regulations require each party to execute such further evidence, each Working Interest Owner agrees to execute or join in the execution thereof. The election hereby made and the other provisions of this paragraph shall apply in like manner to applicable state laws, regulations, and rulings now in effect or hereafter enacted that have an effect similar to the federal provisions referred to herein.

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

ASSIGNMENTS, TRANSFERS AND SURRENDERS

17.1 Assignments and Transfers. Each Working Interest Owner shall have the right, subject to the provisions of this Article 17, to sell, assign, convey or otherwise transfer all or any part of its interest in the Unitized Formation; provided, however, that no Working Interest in the Unitized Formation shall be transferred without a transfer at the same time of a corresponding interest in unit operated wells and unit facilities.

In the event any Working Interest Owner shall, after executing this Agreement,

create any overriding royalty, production payment, net profits, carried interest, or any other interest out of its Working Interest then subject to this Agreement, 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 of Unit Operator". In the event the Working Interest Owner creating such carved-out interest (a) fails to pay any costs or expenses 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 costs and expenses 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 said Section 11.5 for the purpose of collecting the costs and expenses chargeable to said carved-out interest.

17.2 Surrender, Release or Withdrawal. No Working Interest Owner shall release or surrender any interest subject hereto. If any Working Interest Owner so desires, it may withdraw from this Agreement by conveying, assigning and transferring, without warranty of title (either expressed or implied) to the other Working Interest Owners who do not desire to withdraw herefrom, all of the former's rights, title and interest in and to its lease or leases, or other operating rights in the Unit Area, insofar as said lease, leases or rights pertain to the Unitized Formation, together with the withdrawing Working Interest Owner's interest in all wells, pipelines, casing, injection equipment facilities and other personal property used in conjunction with the development and operation of the Unit Area; provided, that such transfer, assignment or conveyance shall not relieve said Working Interest Owner from any obligation or liability incurred prior to the date of the execution and delivery thereof. The interest so transferred, assigned and conveyed shall be taken and owned by the other Working Interest Owners in proportion to their respective Unit Participations, and the Unit Operator shall recompute the percentage of participation to include this change and furnish the remaining Working Interest Owners with a corrected interest sheet. After the execution and delivery of such transfer, assignment or conveyance, the withdrawing Working Interest Owner shall be relieved from all further obligations and liability hereunder and under said Unit Agreement; and the right of such Working Interest Owner to any benefits subsequently accruing hereunder and under said Unit Agreement shall cease; provided, that upon delivery of said transfer, assignment or conveyance, the assignees, in the ratio of the respective interests so acquired, shall pay to the assignor for its interest in all jointly-owned equipment, casing and other personal property, the net salvage value thereof, as estimated and fixed by the remaining Working Interest Owners.

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 joint account, the amount estimated by Working Interest Owners to be the net salvage value of the casing and equipment in and on the well. The Working Interest Owners of the tract, by taking over the well, agree to seal off effectively and protect the Unitized Formation, 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 thereon which 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 on the date and at the time that 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 abandoned and plugged 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 net salvage value of the casing and equipment in and on the wells taken over, as estimated by Working Interest Owners, and by agreeing to plug each well at such time as it is abandoned.

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 properly.

20.1.4 Cost of Salvaging. Working Interest Owners shall share the cost of salvaging, liquidation or other distribution of assets and properties used in Unit Operation in proportion to their respective Secondary Phase Participations.

ARTICLE 21

EXECUTION

21.1 Original Counterpart, or Other Instrument. A party 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 the parties had signed the same instrument.

ARTICLE 22
SUCCESSORS AND ASSIGNS

22.1 Successors and Assigns. The provisions hereof shall be covenants running with the lands, leases, and interests covered hereby, and shall be binding upon and inure to the benefit of the respective heirs, devisees, legal representatives, successors, and assigns of the parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the dates opposite their respective signatures.

GULF OIL CORPORATION

ATTEST:

Assistant Secretary

By _____
Attorney in Fact

Date: _____

UNION OIL COMPANY OF CALIFORNIA

ATTEST:

Secretary

By _____

Date: _____

THE STATE OF NEW MEXICO §
COUNTY OF CHAVES §

The foregoing instrument was acknowledged before me this _____ day of _____, 1967, by W. B. HOPKINS, Attorney in Fact for GULF OIL CORPORATION, a Pennsylvania corporation, on behalf of said corporation.

My Commission Expires: _____

Notary Public

THE STATE OF _____ §
COUNTY OF _____ §

The foregoing instrument was acknowledged before me this _____ day of _____, 1967, by _____, _____ for UNION OIL COMPANY OF CALIFORNIA, a California corporation, on behalf of said corporation.

My Commission Expires: _____

Notary Public

EXHIBIT "C"

NORTH HACKBERRY YATES UNIT

EDDY COUNTY, NEW MEXICO

	PERCENTAGE PARTICIPATION	
	<u>PRIMARY PHASE</u>	<u>SECONDARY PHASE</u>
GULF OIL CORPORATION	88.3698%	81.3789%
UNION OIL COMPANY OF CALIFORNIA	11.6302%	18.6211%
TOTAL	<u>100.0000%</u>	<u>100.0000%</u>

EXHIBIT " D "

Attached to and made a part of North Hackberry Yates Unit
Operating Agreement, Eddy County, New Mexico

ACCOUNTING PROCEDURE
(JOINT OPERATIONS)

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

2. Conflict with Agreement

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

3. Collective Action by Non-Operators

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

4. Statements and Billings

Operator shall bill Non-Operators on or before the last day of each month for their proportionate share of costs and expenses, for the preceding month. Such bills will be accompanied by statements reflecting the total charges and credits as set forth under Subparagraph C below:

A. Statement in detail of all charges and credits to the Joint Account.

B. Statement of all charges and credits to the Joint Account, summarized by appropriate classifications indicative of the nature thereof.

C. Statement of all charges and credits to the Joint Account summarized by appropriate classifications indicative of the nature thereof, except that items of Controllable Material and unusual charges and credits shall be detailed.

5. Payment and Advances by Non-Operators

Each Non-Operator shall pay its proportion of all such bills within fifteen (15) days after receipt thereof. If payment is not made within such time, the unpaid balance shall bear interest at the rate of ~~six~~ ^{eight} per cent ~~(6%)~~ ^(8%) per annum until paid.

6. Adjustments

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

7. Audits

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

II. DIRECT CHARGES

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

1. Rentals and Royalties

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

2. Labor

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

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

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

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

3. Employee Benefits

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

4. Material

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

5. Transportation

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

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

6. Services

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

7. Damages and Losses to Joint Property

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

8. Legal Expense

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

9. Taxes

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

10. Insurance Premiums

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

11. Other Expenditures

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

III. INDIRECT CHARGES

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

OPERATOR SHALL CHARGE THE JOINT ACCOUNT UNDER THE TERMS OF:

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

1. District Expense

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

2. Administrative Overhead

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

WELL BASIS (RATE PER WELL PER MONTH)

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

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

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

4. Combined Fixed Rates

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

WELL BASIS (RATE PER WELL PER MONTH)

Well Depth	DRILLING WELL RATE (Use Total Depth)		PRODUCING WELL RATE (Use Current Producing Depth)	
	Each Well	First Five	Next Five	All Wells Over Ten
All Depths	530.00	85.00	85.00	85.00

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

5. Application of Administrative Overhead or Combined Fixed Rates

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

- A. Charges for drilling wells shall begin on the date each well is spudded and terminate on the date the drilling or completion rig is released, whichever is later, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.
 - B. The status of wells shall be as follows:
 - (1) Producing gas wells, injection wells for recovery operations, water supply wells utilized for water flooding operations and salt water disposal wells shall be considered the same as producing wells.
 - (2) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the well schedule at the time the shutdown is effected. When such a well is plugged a charge shall be made at the producing well rates.
 - (3) Wells being plugged back, drilled deeper, converted to a source or input well, or which are undergoing any type of workover that requires the use of a drilling or workover rig shall be considered the same as drilling wells.
 - (4) Temporarily shut-down wells, which are not produced or worked upon for a period of a full calendar month, shall not be included in the well schedule, provided however, wells shut in by governmental regulatory body shall be included in the well schedule only in the event the allowable production is transferred to some other well or wells on the Joint Property. In the event of a unit allowable, all wells capable of producing will be counted in determining the charge.
 - (5) Gas wells shall be included in the well schedule if directly connected to a permanent sales outlet even though temporarily shut in due to overproduction or failure of purchaser to take the allowed production.
 - (6) Wells completed in multiple horizons, in which the production is not commingled down hole, shall be considered as a producing well for each separately producing horizon.
 - C. The well rates shall apply to the total number of wells being drilled or operated under the agreement to which this Accounting Procedure is attached, irrespective of individual leases.
 - D. The well rates shall be adjusted on the first day of April of each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the preceding calendar year as shown by "The Index of Average Weekly Earnings of Crude Petroleum and Gas Production Workers" as published by the United States Department of Labor, Bureau of Labor Statistics. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.
- 6. For the construction of compressor plants, water stations, secondary recovery systems, salt water disposal facilities, and other such projects, as distinguished from the more usual drilling and producing operations, Operator in addition to the Administrative Overhead or Combined Fixed Rates provided for in Paragraph 2 and 4 of this Section III, shall charge the Joint Account with an additional overhead charge as follows:**
- A. Total cost less than \$25,000, no charge.
 - B. Total cost more than \$25,000 but less than \$100,000, 3 % of total cost.
 - C. Total cost of \$100,000 or more, 3 % of the first \$100,000 plus 2 % of all over \$100,000 of total cost.
- Total cost shall mean the total gross cost of any one project. For the purpose of this Paragraph the component parts of a single project shall not be treated separately and the cost of drilling wells shall be excluded.
- 7. The specific rates provided for in this Section III may be amended from time to time by mutual agreement between the Parties hereto if, in practice, the rates are found to be insufficient or excessive.**

IV. BASIS OF CHARGES TO JOINT ACCOUNT

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

1. Purchases

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

2. Material furnished from Operator's Warehouse or Other Properties

A. New Material (Condition "A")

- (1) Tubular goods, two inch (2") and over, shall be priced on Eastern Mill base (i. e. Youngstown, Ohio; Lorain, Ohio; and Indiana Harbor, Indiana) on a minimum carload basis effective at date of movement and f. o. b. railway receiving point nearest the Joint Property, regardless of quantity. In equalized hauling charges, Operator is permitted to include ten cents (10c) per hundred-weight on all tubular goods furnished from his stocks in lieu of loading and unloading costs sustained.
- (2) Other Material shall be priced at the current replacement cost of the same kind of Material, effective at date of movement and f. o. b. the supply store or railway receiving point nearest the Joint Property where Material of the same kind is available.
- (3) The Joint Account shall not be credited with cash discounts applicable to prices provided for in this Paragraph 2 of Section IV.

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

- (1) Material in sound and serviceable condition and suitable for reuse without reconditioning, shall be classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material.
- (2) Material which cannot be classified as Condition "B" but which,
 - (a) After reconditioning will be further serviceable for original function as good secondhand Material (Condition "B"), or
 - (b) Is serviceable for original function but substantially not suitable for reconditioning, shall be classified as Condition "C" and priced at fifty per cent (50%) of current new price.
- (3) Obsolete Material or Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use. Material no longer suitable for its original purpose but usable for

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

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

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

5. Equipment and Facilities Furnished by Operator

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

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

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

V. DISPOSAL OF MATERIAL

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

1. Material Purchased by the Operator or Non-Operators

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

2. Division in Kind

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

3. Sales to Outsiders

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

VI. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

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

1. New Price Defined

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

2. New Material

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

3. Good Used Material

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

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

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

4. Other Used Material

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

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

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

5. Bad-Order Material

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

6. Junk Material

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

7. Temporarily Used Material

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

VII. INVENTORIES

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

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

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

3. Special Inventories

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

EXHIBIT " E "

Attached to and made a part of North Hackberry Yates Unit
Operating Agreement, Eddy County, New Mexico

INSURANCE

In the development and operation of the subject properties, Operator shall carry the following insurance:

- (A) Workmen's Compensation Insurance in accordance with the Laws of the State of New Mexico, and Employer's Liability Insurance in a minimum amount of \$100,000.00.
- (B) Comprehensive General Public Liability Insurance: In minimum amounts of \$150,000.00 for injuries to each person and \$300,000.00 for each accident, and Property Damage Insurance in the minimum amounts of \$100,000.00 for each accident with the exception of the first \$5,000.00 of loss, which is self-insured by the parties hereto, and \$200,000.00 in the aggregate.
- (C) Automobile Liability Insurance in minimum amounts of \$150,000.00 for each person and \$300,000.00 for each accident, and Property Damage in the minimum amount of \$100,000.00 for each accident.

Unit Operator shall require its contractors and subcontractors performing work in and on the Unit Area to carry insurance of the types specified above and in such amounts as the Unit Operator deems necessary.

Each of Operator's aforesaid policies are written to automatically include all Non-Operators, under properties operated by Operator, as additional insured, whether or not such Non-Operators are specifically named.

The self-insured property damage loss incident to each accident shall be charged to the joint account.

No other insurance shall be carried by the Operator for the benefit of the joint account.

EXHIBIT NO. 1
DATA FOR
PROPOSED NORTH HACKBERRY YATES UNIT
WATERFLOOD PROJECT
OIL CONSERVATION COMMISSION HEARING
CASE NUMBER 3676
OCTOBER 25, 1967

Gulf Oil Corporation
Roswell District

G E N E R A L

Pertinent
Exhibit(s)

OPERATOR Gulf Oil Corporation

PROJECT North Hackberry Yates Unit Waterflood

POOL North Hackberry Yates

LOCATION OF PROJECT Sections 23 and 24, Township 19 South, 1-A
Range 30 East, Eddy County, New Mexico, approximately 24
miles northeast of Carlsbad.

NUMBER OF WELLS IN PROJECT 16 producing wells and one dry hole 1-A

UNIT AND PROJECT AREA 720 acres 1-A

OTHER WATERFLOOD PROJECTS IN POOL None. The nearest flood
project is Hondo Oil and Gas Company's Culwin Queen Unit
flood about 3 miles north in the Shugart Yates Pool.

G E O L O G I C A L A N D R E S E R V O I R D A T A

RESERVOIR Yates formation 1-B

DEPTH 1750 to 2050 feet below the surface 1-B

PRODUCTIVE ZONES Two sandstone stringers in the upper part of 1-B,D,E
the Yates formation. The upper zone is the main pro-
ductive zone and covers the entire project area. The
lower zone covers less than half the project area and
contains only about 10% of the total reservoir volume.

NET PAY Ranges from 3 to 24 feet in the upper zone and from 1-B,D,E
0 to 8 feet in the lower zone in the 16 producing wells.

DESCRIPTION OF RESERVOIR ROCK A tan to brown, fine to medium
grained sandstone which is slightly dolomitic and argil-
laceous. In some parts of the reservoir this rock is very
friable.

STRUCTURE Anticlinal nose plunging to the east at approxi-
mately 100 feet per mile. 1-C

RESERVOIR LIMITS An oil-water contact at approximately + 1395
feet defines the down-dip productive limit to the northeast.
Deterioration of porosity and permeability generally limits
production in other directions. 1-C,D,E

AVERAGE POROSITY OF NET PAY 21.05% in upper zone and 18.45% in
lower zone.

AVERAGE PERMEABILITY OF NET PAY 14.3 millidarcies in the upper
zone and 13.3 millidarcies in the lower zone. Permeability
ranges from the 5 millidarcy cutoff to as high as 457
millidarcies in the upper zone and 364 millidarcies in the
lower.

P R I M A R Y O P E R A T I O N S

DATE OF FIRST PRODUCTION December, 1960 1-F

TOTAL NUMBER OF WELLS DRILLED 17, including a dry hole in
SW/4 NE/4 Section 23, Township 19 South, Range 30 East 1-A,F

CUMULATIVE PRODUCTION, 8-1-67 710,585 barrels

AVERAGE DAILY OIL PRODUCTION PER WELL, JULY 1967 10 barrels 1-F

DRIVE MECHANISM Solution-gas-drive

STAGE OF DEPLETION Moderately late. The reservoir in the 1-F
project area is approximately 75% depleted of primary oil
reserves.

ESTIMATED OIL RECOVERY THROUGH PRIMARY OPERATIONS 939,000
barrels, or 14.4% of the estimated original oil-in-place.

W A T E R F L O O D O P E R A T I O N S

PROPOSED PATTERN 80-acre 5-spot 1-A,D,E

NUMBER OF INPUT WELLS Eight 1-A,D,E,G

INITIAL INJECTION RATES Up to 500 barrels of water per day per
input well

ESTIMATED INJECTION PRESSURES Maximum of 1000 psi at the well
head. Injection plant will be designed for 2000 psi
maximum pressure.

PLAN OF INJECTION Batch inject into both pay zones simul- 1-G
taneously through plastic coated tubing and below a packer.

SOURCE OF INJECTION WATER Shallow wells in the project area to
the Rustler formation 300-500 feet below the surface.
(Applications to Appropriate Groundwater, CP-357, CP-357-X
and CP-357-X-2, have been approved by the State Engineer.)

TYPE OF WATER Saline. Tests indicate the Rustler water
contains approximately 60,000 ppm chloride in this area.

TREATMENT OF WATER None is anticipated; however, if later in
the life of the project treatment is deemed necessary,
appropriate action will be taken.

ADDITIONAL OIL RECOVERY ANTICIPATED 939,000 barrels, an amount
equal to the estimated primary oil recovery.

INCREASE IN LIFE OF UNIT WELLS 4-1/2 years beyond estimated
primary life

C O N C L U S I O N S A N D R E C O M M E N D A T I O N S

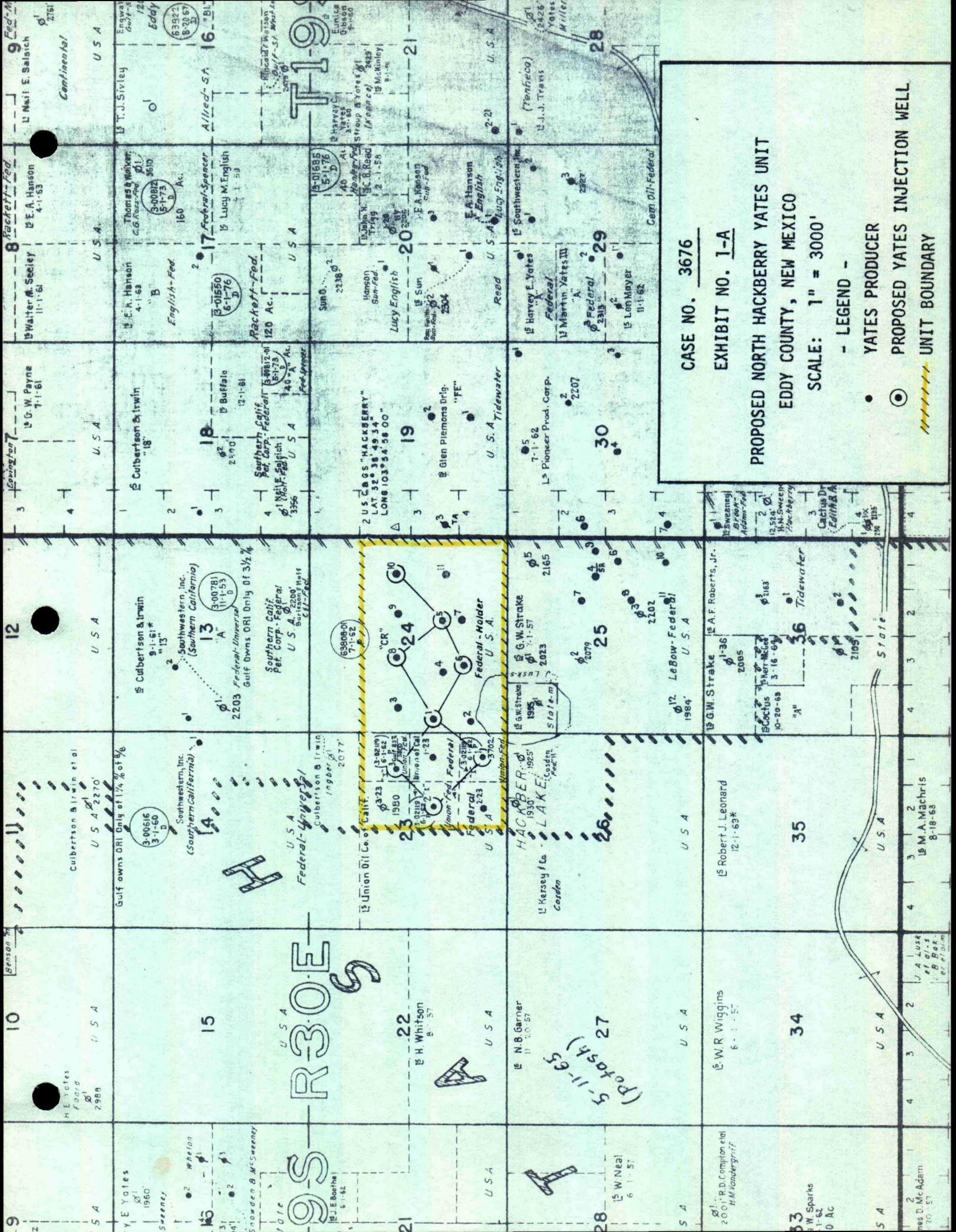
The North Hackberry Yates Pool produces by solution-gas-drive and as a result less than 15% of the original oil-in-place beneath the proposed unit and project area will be recovered through primary operations.

This portion of the Pool is 75% depleted of primary oil and daily oil production averages only 10 barrels per well.

Engineering and geological studies indicate the Yates reservoir under the unit and project area can be successfully waterflooded, thereby increasing the life and ultimate oil recovery of wells in the North Hackberry Yates Unit.

Gulf Oil Corporation, in association with Union Oil Company of California, concludes that unitization of the 16 producing wells and 720 acres outlined in Exhibit No. 1-A for the purpose of waterflooding the Yates formation is in the best interest of conservation and prevention of waste.

Gulf, as Operator of the North Hackberry Yates Unit, respectfully requests that the Oil Conservation Commission approve the proposed waterflood project and grant a unit oil allowable for the 16 producing wells in the waterflood area as provided under Rule 701 of the Commission Rules and Regulations.



CASE NO. 3676

EXHIBIT NO. 1-A

PROPOSED NORTH HACKBERRY YATES UNIT

EDDY COUNTY, NEW MEXICO

SCALE: 1" = 3000'

- LEGEND -
- YATES PRODUCER
- PROPOSED YATES INJECTION WELL
- UNIT BOUNDARY