

UNIT OPERATING AGREEMENT

COOPER JAL UNIT

LEA COUNTY, NEW MEXICO

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UNIT OPERATING AGREEMENT

COOPER JAL UNIT  
Lea County, New Mexico

THIS AGREEMENT, entered into as of the 15th day of January, 1970, by the parties who have signed the original of this instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions hereof;

WITNESSETH:

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

2.1.1 EXHIBITS A, B AND C of the Unit Agreement.

2.1.2 EXHIBIT D, attached hereto, which is a schedule showing the Working Interest of each Working Interest Owner in each Tract, the percentage of total Unit Participation attributable to each such interest, and the total Unit Participation of each Working Interest Owner. Exhibit D, 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 E, attached hereto, which is the Accounting Procedure applicable to Unit Operations. If there is any conflict between this agreement and Exhibit E, this agreement shall govern.

2.1.4 EXHIBIT F, attached hereto, which contains insurance provisions applicable to Unit Operations.

2.2 REVISION OF EXHIBITS. Whenever Exhibits A, B and C are revised, Exhibit D shall be revised accordingly and be effective as of the same date. Unit Operator shall also revise Exhibit D 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 in the Unit Area, or the use of any well for injection or other purposes, except for well servicing or stimulation work on the existing completion interval not exceeding Unit Operator's authority for single expenditures.

3.2.4 EXPENDITURES. The making of any 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 Three Thousand Five Hundred Dollars (\$3,500.00) or more. All dispositions will be made in accordance with Exhibit E.

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 from appearing in person or from designating another representative in its own behalf.

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

(a) not be conducted more than once each year except upon the resignation or removal of Unit Operator,

(b) be made upon the approval of the majority in interest of Working Interest Owners, other than Unit Operator, at the expense of all Working Interest Owners other than Unit Operator, or

(c) be made at the expense of those Working Interest Owners requesting such audit, if less than a majority in interest of the Working Interest Owners, other than Unit Operator, request such an audit, and

(d) be made upon not less than thirty (30) days' written notice to Unit Operator.

3.2.8 INVENTORIES. The taking of periodic inventories under the terms of Exhibit E.

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 E.

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 enlargement 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 the representative and alternate who are authorized to represent and bind such Working Interest Owner with respect to Unit Operations. The representative or alternate may be changed from time to time by written notice to Unit Operator.

4.2 MEETINGS. All meetings of Working Interest Owners shall be called by Unit Operator upon its own motion or at the request of one or more Working Interest Owners having a total Unit Participation of not less than Ten Percent (10%) of the Unit Participation in effect at the time. 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 coming before them as follows:

4.3.1 VOTING INTEREST. Each Working Interest Owner shall have a voting interest equal to its Unit Participation which is in effect at the time the vote is taken.

4.3.2 VOTE REQUIRED. Except as may otherwise be provided herein or in the Unit Agreement, Working Interest Owners shall act upon and determine all matters coming before them by the affirmative vote of three or more Working Interest Owners having a total of 65 percent (65%) or more of the total voting interest in the unit; provided that if any one Working Interest Owner has a voting interest of more than thirty-five percent (35%), its negative vote or failure to vote shall not defeat the matter being voted on if such matter is supported by a majority of the voting interest unless such Working Interest Owner is supported by the vote of one or more other Working Interest Owners having a total voting interest of at least five percent (5%), and such resulting vote shall be binding on all parties.

4.3.3 VOTE AT MEETING BY NONATTENDING WORKING INTEREST OWNER. Any Working Interest Owner who is not represented at a meeting may vote on any agenda item by letter or telegram addressed to the representative of the Unit Operator if its vote is received prior to the vote on the item, provided such nonattending Working Interest Owner's vote shall not be counted in the vote taken on any item that was amended or altered at the meeting.

4.3.4 POLL VOTES. Working Interest Owners may vote on and decide, by letter or telegram, any matter submitted in writing to Working Interest Owners, if no meeting is requested, as provided in Section 4.2, within seven (7) 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 such Working Interest Owner's own risk 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

6.1 INITIAL UNIT OPERATOR. Reserve Oil and Gas Company is hereby designated as Unit Operator.

6.2 RESIGNATION OR REMOVAL. Unit Operator may resign or be removed at any time under procedures prescribed in Section 7 of the Unit Agreement.

6.3 SELECTION OF SUCCESSOR. Upon the resignation or removal of a Unit Operator, a successor Unit Operator shall be selected by Working Interest Owners in the manner prescribed in Section 8 of the Unit Agreement.

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 as prescribed by the Working Interest Owners.

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.

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 and under usual conditions prevailing in the area. Unit Operator may employ its own tools and equipment under terms and conditions approved by Working Interest Owners.

ARTICLE 8

TAXES

8.1 AD VALOREM TAXES. Beginning with the first of the calendar year after the effective date hereof, Unit Operator after consulting with Working Interest Owners, shall make and file for ad valorem tax purposes all necessary renditions and returns with the proper taxing authorities of governmental subdivisions covering all property of each Working Interest Owner within the Unit Area and used in connection with the development and operation of the Unit Area. Any Working Interest Owner dissatisfied with any proposed rendition or assessment of its interest in property shall have the right, at its own expense, to protest and resist the same. All such ad valorem taxes due and payable on account of real and personal property of each Working Interest Owner located within the Unit Area and used in connection with Unit Operations shall be paid by the Unit Operator for the joint account in the same manner as other costs and expenses of Unit Operations; provided that, if the interest of a Working Interest Owner is subject to a separately assessed overriding royalty interest, production payment, or other interest in excess of a 1/8 royalty, such Working Interest Owner shall be given credit for the reduction in taxes paid resulting therefrom.

8.2 OTHER TAXES. Each Working Interest Owner shall pay or cause to be paid all production, severance, gathering, and other taxes 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 do the following:

9. 1. 1 Comply with the Workmen's Compensation Law of the State of New Mexico.

9. 1. 2 Carry Employer's Liability and other insurance as required by the laws of the State of New Mexico.

9. 1. 3 Carry other insurance as set forth in Exhibit F.

## ARTICLE 10

### ADJUSTMENT OF INVESTMENTS

#### 10. 1 PERSONAL PROPERTY TAKEN OVER.

10. 1. 1 WELLS. All wells completed in the Unitized Formation.

10. 1. 2 WELL AND LEASE EQUIPMENT. The casing and 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.

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 at Unit Expense, as of the effective date hereof, or as soon thereafter as feasible, inventory in accordance with the provisions of Exhibit D the personal property taken over under Section 10.1.2, except that casing shall be given no value. No meeting for such inventory and evaluation shall be called on less than ten (10) days advance written notice. Such inventories shall include and be limited to those items of equipment indicated to be controllable in the COPAS Bulletin No. 6, Material Classification Manual - 1967 and other items as agreed upon by the Working Interest Owners. All other non-controllable items of lease and well equipment installed within the Unit Area that are required in Unit Operations, although excluded from the inventories, shall nevertheless be taken over by the Unit Operator. Immediately following completion of such inventory, the material and equipment taken over under Section 10.1.2 shall be priced in accordance with the provisions of Section IV, Paragraph 2 of Exhibit E, Accounting Procedure, or at an appraised value as determined by the Working Interest Owners, which pricing shall be perform-

ed under the supervision of, by the personnel of, and in the offices of the Unit Operator, with other Working Interest Owners furnishing such additional pricing help as may be available.

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 the Unit Operator under Section 10.1.2 and charged with an amount equal to that obtained by multiplying the total value of all such personal property taken over by Unit Operator under Section 10.1.2 by such Working Interest Owner's Unit Participation, as shown in Phase I of Exhibit "D". 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 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 READJUSTMENTS OF INVESTMENTS. Effective as of the end of Phase I, the capital investment account of the Working Interest Owners hereunder shall be readjusted on the basis of their respective Phase II Unit Participations, as shown on Exhibit "D". For the purposes of such readjustment, each Working Interest Owner shall be (1) credited for its interest in the adjusted value of all personal property and facilities taken over or otherwise acquired by the Unit Operator pursuant to this agreement during Phase I Unit Operations, and (2) charged with an amount equal to that obtained by multiplying the same adjusted value of personal property and facilities by such Working Interest Owner's Phase II Unit Participation. The adjusted value of all personal

property and facilities for the purposes of this Section 10.3.2 shall be determined as follows:

(a) Value personal property and facilities initially taken over by Unit Operator on the same basis as that used when such personal property and facilities were taken over.

(b) Value all other investment items (controllable and non-controllable materials and construction costs) acquired during Phase I Unit Operations, including well casing subsequently purchased and installed, on the basis of cost to the joint account.

(c) Add (a) and (b) together and deduct the value of all items of investment retired prior to the effective date of Phase II Unit Operations on the same basis that such items were originally charged.

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 building necessary for Unit Operations shall be by negotiation by the owners thereof and Unit Operator, subject to the approval of Working Interest Owners. There shall be no adjustment for lease roads or appurtenances thereto.

10.5 OWNERSHIP OF PERSONAL PROPERTY AND FACILITIES. Each Working Interest Owner, individually, shall by virtue hereof own an undivided interest, equal to its Unit Participation, in effect at the time, in all personal property and facilities taken over or otherwise acquired by Unit Operator pursuant to this agreement.

#### ARTICLE 11

#### UNIT EXPENSE

11.1 BASIS OF CHARGE TO WORKING INTEREST OWNERS. Unit Operator initially shall pay all Unit Expense. Each Working Interest Owner shall reimburse

Unit Operator for its share of Unit Expense. Each Working Interest Owner's share shall be the same as its Unit Participation then in effect. All charges, credits and accounting for Unit Expense shall be in accordance with Exhibit E.

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 August thereafter, shall prepare such a budget for the ensuing calendar year. Such 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 ten percent (10%) 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.

11.6 LIEN OF WORKING INTEREST OWNER. Each Working Interest Owner shall have a lien on the Working Interest of Unit Operator in the Unit Area and on the oil and gas produced therefrom and on the proceeds thereof to secure the payment of any amount that may at any time become due and payable by Unit Operator to such Working Interest Owner under the terms of this agreement, together with interest at the rate of ten percent (10%) per annum.

11.7 UNPAID UNIT EXPENSE. If any Working Interest Owner fails to pay its share of Unit Expense within sixty (60) days after rendition of a statement therefor by Unit Operator, each Working Interest Owner agrees, upon request by Unit Operator to pay its proportionate part of the unpaid share of Unit Expense of the defaulting Working Interest Owner. 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 amounts 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.

11.8 UNCOMMITTED ROYALTY. Should an owner of a Royalty Interest in any Tract fail to become a party to the Unit Agreement, and, as a result thereof, the actual Royalty Interest payments with respect to such Tract are more or less than the Royalty Interest payments computed on the basis of the Unitized Substances that are allocated to such Tract under the Unit Agreement, the difference shall be borne by or inure to the benefit of Working Interest Owners, in proportion to their respective Unit Participations; however, the difference to be borne by or inure to the benefit of Working Interest Owners shall not exceed an amount computed on the basis of one eighth (1/8) of the difference between the Unitized Substances allocated to the Tract and the Unitized Substance produced from the Tract. Such adjustments

shall be made by charges and credits to the joint account.

11.9 BURDEN OF EXCESS ROYALTY AND OTHER INTERESTS. Any uncommitted Royalty Interest in excess of one eighth (1/8) shall be borne solely by the Working Interest Owner or Owners contributing the Tract with such uncommitted Royalty Interest.

11.10 CARVED-OUT INTEREST. In the event any Working Interest Owner shall, after executing this agreement, create any overriding royalty, production payment, net profits, or 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 Substance 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.

## 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.

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 C, 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 Unit Participation of the Working Interest Owner whose title failed in relation to the Unit Participations of the other Working Interest Owners at the time of the title failure.

ARTICLE 14

LIABILITY, CLAIMS, AND SUITS

14.1 INDIVIDUAL LIABILITY. The duties, obligations, and liabilities of Working Interest Owners shall be several and not joint or collective; and nothing herein 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 Two Thousand Dollars (\$2,000.00) provided that 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. Notwithstanding any provisions herein, that the rights and liabilities of the parties hereunder are several and not joint or collective, or that this agreement and the operations hereunder shall not constitute a partnership, if for Federal income tax purposes this agreement and the operations hereunder are regarded as a partnership, then each of the parties hereto hereby elects to be excluded from the application of all of the provisions of Sub-Chapter K, Chapter 1, Subtitle A of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the said Code and the regulation promulgated thereunder. Operator is hereby authorized and directed to execute on behalf of each of the parties hereto such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements and data required by Federal Regulations 1.761.1(a). Should there be any requirement that each party hereto further

evidence this election each party hereto agrees to execute such documents and furnish such other evidence as may be required by the Federal Internal Revenue Service or as may be necessary to evidence this election. Each party hereto further agrees not to give any notices or take any other action inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the property covered by this agreement is located, or any future income tax law of the United States, contain, or shall hereafter contain, provisions similar to those contained in Sub-Chapter K, Chapter 1, Subtitle A of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of said Sub-Chapter K is permitted, each of the parties hereto hereby makes such election or agrees to make such election as may be permitted by such laws. In making this election each of the parties hereto hereby states that the income derived by him from the operations under this agreement can be adequately determined without the computation of partnership taxable income.

#### ARTICLE 16

##### NOTICES

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

#### ARTICLE 17

##### WITHDRAWAL OF WORKING INTEREST OWNER

17.1 WITHDRAWAL. A Working Interest Owner may withdraw from this agreement by transferring, without warranty of title, either expressed or implied, to the other Working Interest Owners who do not desire to withdraw, all its Oil and Gas Rights together with its interest in all Unit Equipment and in all wells used in Unit Operations. Such transfer shall not relieve said Working Interest Owner from any obligation or liability incurred prior to the date of the delivery of the transfer, which delivery may be made to Unit Operator as Agent for the transferees. The interest transferred shall be owned by the transferees in proportion to their

respective Unit Participations then in effect. The transferees, in proportion to the respective interests so acquired, shall pay transferor, for its interest in Unit Equipment, the net salvage value thereof as estimated and fixed by Working Interest Owners. After the date of delivery of the transfer, the withdrawing Working Interest Owner shall be relieved from all further obligations and liability hereunder and under the Unit Agreement, and the rights of such Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred.

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 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 equipment in and on the wells taken over as estimated by Working Interest Owners, and by agreeing to plug properly 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 Operations in proportion to their respective Unit Participations then in effect in which such salvaging, liquidation or other distribution occurs.

## 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.

ATTEST:

RESERVE OIL AND GAS COMPANY

John N. Pungie      Paul W. Meadows      January 21, 1970  
Assistant Secretary      Vice President      Date

EXHIBIT "D"  
ATTACHED TO UNIT OPERATING AGREEMENT  
COOPER JAL UNIT  
LEA COUNTY, NEW MEXICO

<u>WORKING INTEREST OWNERS</u>	<u>TRACT NO.</u>	<u>UNIT PARTICIPATION - PERCENT</u>	
		<u>PHASE I</u>	<u>PHASE II</u>
Amerada-Hess	2	9.30905	9.34279
Atlantic Richfield Company	8	1.04564	1.39895
	9	5.17186	4.59899
	14	1.81369	1.38166
	15	-	2.35316
	16	8.14662	6.22246
	17	.76077	1.09140
	18	<u>1.44471</u>	<u>.69389</u>
			<u>18.38329</u>
Bauerdorf Estate	26	1.22106	.78423
Cities Service Oil Company	6	-	.58099
	7	<u>2.77474</u>	<u>.54082</u>
		<u>2.77474</u>	<u>1.12181</u>
Continental Oil Company	5	5.25511	7.00755
French, Johnny	27	-	.02566
French, Tillie	27	-	.02566
Hansen Oil Company	6	-	.11620
Harlan, John L.	10	-	.13830
Humble Oil & Refining Company	20	6.42925	4.34410
	24	<u>2.92371</u>	<u>3.58496</u>
		<u>9.35296</u>	<u>7.92906</u>
Johnson, L. A.	27	-	.05131
Lind, Dorothy B.	5	2.62755	3.50377
Mallard, Margaret Strain	21	.26576	.13911
Petroleum Corporation of Texas	4	2.96428	3.06855
	14	1.81369	1.38167
	16	2.03666	1.55561
	19	-	2.04150
	25	<u>1.60775</u>	<u>4.16102</u>
		<u>8.42238</u>	<u>12.20835</u>
Reserve Oil and Gas Company	4	2.96428	3.06854
	8	1.04565	1.39896
	12	.43113	-
	16	6.10997	4.66684
	18	1.44471	.69390
	19	-	2.04151
	21	2.12606	1.11287
	22	-	.13698
	25	1.60774	4.16102
	26	<u>6.10528</u>	<u>3.92113</u>
		<u>21.83482</u>	<u>21.20175</u>

EXHIBIT "D" - Page 2.

<u>WORKING INTEREST OWNERS</u>	<u>TRACT NO.</u>	<u>UNIT PARTICIPATION - PERCENT</u>	
		<u>PHASE I</u>	<u>PHASE II</u>
Richardson, Sarah B., Individually and as Trustee U/W/O Jack Richardson	17	.76077	1.09140
Sivley, T. J.	5	2.62755	3.50377
Sowell, Adele Irvine	26	.87769	.56370
Strain, Jr., Charles Hunter	21	.26576	.13911
Strain, Clara Margaret	21	.53152	.27822
Tenneco Oil Company	21	1.06303	.55644
Texaco Inc.	1	5.22514	6.60039
Texas Pacific Oil Company, Inc.	3	.41979	.65204
	11	-	.39418
	12	3.01793	.18651
	13	1.12888	1.16975
	22	-	.13698
	23	.62869	.81825
	26	<u>4.00653</u>	<u>2.57320</u>
		9.20182	5.93091
TOTALS		<u>100.00000</u>	<u>100.00000</u>

## EXHIBIT " E "

Attached to and made a part of Unit Operating Agreement  
Cooper Jal Unit  
Lea County, New Mexico

# ACCOUNTING PROCEDURE JOINT OPERATIONS

## I. GENERAL PROVISIONS

### 1. Definitions

"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.

"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 parties to this agreement other than the Operator.

"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 be defined as set forth under the subparagraph selected below:

- A.  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.
- B.  Material which is ordinarily so classified and controlled by Operator in the conduct of its operations. List shall be furnished Non-Operators upon request.

### 2. 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 the subparagraph selected 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 classification indicative of the nature thereof, except that items of Controllable Material and unusual charges and credits shall be detailed.

### 3. Advances and Payments by Non-Operators

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

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

### 4. Adjustments

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

### 5. 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 adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator. Operator shall bear no portion of the Non-Operators' audit cost incurred under this paragraph unless agreed to by the Operator.

### 6. Approval by Non-Operators

Where an approval or other agreement of Non-Operators is expressly required under Paragraphs 5A, 5B, 6A and 8 of Section II, Section III, Section V, Section VI, and Paragraph 4 of Section VII, of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, the Operator shall notify all Non-Operators and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

**II. DIRECT CHARGES**

Operator shall charge the Joint Account with the following items:

**1. Rentals and Royalties**

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

**2. Labor**

- A. (1) Salaries and wages of Operator's employees directly employed on the Joint Property in the conduct of Joint Operations.
- (2) Salaries of first-level supervisors in the field if such charges are excluded from overhead rates in Option A of Section III.
- (3) Salaries and wages of technical employees temporarily assigned to and directly employed on the Joint Property if such charges are excluded from overhead rates in Option B of Section III.
- (4) Salaries and wages of technical employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property if such charges are excluded from overhead rates in Option C of Section III.
- 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 1A 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 1A 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 1A 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 1A 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 chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II and Paragraph 1A of Section III shall be chargeable as indicated in the subparagraph selected below:

- A. [ ] Operator's actual cost.
- B. [x] Operator's actual cost not to exceed fifteen per cent (15%).

**4. Material**

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. 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, recognized barge terminal, or railway receiving point where like material is normally available, unless agreed to by Operator and 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, recognized barge terminal, or railway receiving point unless agreed to by Operators and Non-Operators. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by Operator and Non-Operators.
- C. ~~\_\_\_\_\_~~

**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 1B of Section III. The cost of professional consultant services shall not be charged to the Joint Account unless agreed to by Operator and Non-Operators.
- 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 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, attorney's 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), unless agreed to by Operator and 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**

Net premiums paid for insurance required to be carried on the Joint Property for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for Workmen's Compensation and/or Employers Liability under the respective state's laws, Operator may, at its election, include the risk under its self-insurance program and in that event, Operator shall include a charge therefor on the following basis:

.....

.....

**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 the rate for administrative overhead, and plus the warehousing charges, all as provided for in Paragraph 1 of this Section III or by combining all three of said items under the rates provided for in Paragraph 2 or 3 of this Section III, as indicated next below:

**OPERATOR SHALL CHARGE INDIRECT COSTS TO THE JOINT ACCOUNT UNDER THE TERMS OF:**

- Paragraph 1. (District Expense, Administrative Overhead and Warehousing)
- Paragraph 2. (Combined Rates - Well Basis)
- Paragraph 3. (Combined Rates - Percentage Basis)

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

**THE OVERHEAD RATES PROVIDED FOR IN ANY OF THE PARAGRAPHS SELECTED ABOVE**

- A.  shall  shall not include salaries and personal expenses of first-level supervisors in the field.
- B.  shall  shall not include salaries, wages and personal expenses of technical employees temporarily assigned to and directly employed on the Joint Property.
- C.  shall  shall not include salaries, wages and personal expenses of technical employees either temporarily or permanently assigned to and directly employed in the operation of the Joint Property.

**1. District Expense, Administrative Overhead and Warehousing**

**A. District Expense**

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

**B. 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 1A of this Section III, including salaries, wages and expenses of personnel assigned to such offices. Such charge shall be in addition to the salaries, wages and expenses of employees of Operator authorized to be charged direct as provided in Paragraphs 2 and 8 of Section II. Such charge shall be made on the basis indicated below, either (1) well basis or (2) percentage basis, at the rates shown thereunder.

(1)  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
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....

(2)  Percentage Basis

**PERCENTAGE BASIS**

Development:

..... Percent ( %) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 8 of Section II and all salvage credits.

Operating:

..... Percent ( %) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 1 and 8 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

C. Operator's Warehouse Operating and Maintenance Expense

- [ ] Included in district expense
- [ ] No charge either direct or indirect
- [ ] Percentage basis (describe fully) .....

2. Combined Rates - Well Basis

Operator shall charge the Joint Account for the services covered by Paragraph 1 of this Section III on the basis indicated below:

Well Depth	RATE PER WELL PER MONTH			
	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	\$500	\$77.00	\$77.00	\$77.00
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....

3. Combined Rates - Percentage Basis

Operator shall charge the Joint Account for the services covered by Paragraph 1 of this Section III on the basis indicated below:

**PERCENTAGE BASIS**

A. Development:

..... Percent ( %) of the cost of development of the Joint Property exclusive of costs provided under Paragraph 8 of Section II and all salvage credits.

B. Operating:

..... Percent ( %) of the cost of operating the Joint Property exclusive of costs provided under Paragraphs 1 and 8 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

4. Application of Administrative Overhead or Combined Rates - Well Basis

The following limitations, instructions and charges shall apply in the application of the rates as provided under either Paragraph 1B (1) or Paragraph 2 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 waterflood-ing operations and salt water disposal wells shall be considered the same as producing oil 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. Any well being plugged or produced during any portion of the month shall be considered as a producing well for the entire month.
- (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 rig or workover rig capable of drilling 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, shut-in wells shall be counted in determining the charge hereunder for such month if said wells contribute allow-able production that is actually produced during such month from one or more unit wells as a result of allowable transfer, inclusion in the unit allowable or other circumstances, but the total shut-in well count shall be limited to the minimum number of shut-in wells necessary to provide the contributed allowable actually produced during the month.
- (5) Gas wells shall be included in the well schedule if directly connected to a permanent sales outlet even though temporarily shut in due to overproduction or failure of purchaser to take the allowed production.
- (6) Wells completed in multiple horizons, shall be considered as a producing well for each separately pro- ducing horizon, providing each completion is considered a separate well by governmental or other state- wide regulatory authority.

C. The well rates for producing wells shall be applied to the individual leases; provided that, whenever leases covered by this agreement are operated as a unitized project, the well rates shall be applied to the total number of producing wells, irrespective of individual leases.

D. The well rates shall be adjusted as of the first day of April each year following the effective date of the agreement to which this Accounting Procedure is attached. The adjustment shall be computed by multiplying the rate currently in use by the percentage increase or decrease in the average weekly earnings of Crude Petroleum and Gas Production Workers for the last calendar year compared to the 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, or the equivalent Canadian Index as published by the Dominion Bureau of Statistics, as applicable. The adjusted rates shall be the rates currently in use, plus or minus the computed adjustment.

5. Application of Administrative Overhead or Combined Rates - Percentage Basis

For the purpose of determining charges on a Percentage Basis under Paragraph 1B (2) or Paragraph 3 of this Section III, Development shall include all costs in connection with drilling, re-drilling, deepening or any remedial operations on any or all wells involving the use of drilling crew and equipment; also, preliminary expenditures necessary in preparation for drilling and expenditures incurred in abandoning when well is not completed as a producer; and original cost of construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a fixed asset, except Major Construction as defined in Paragraph 6 of this Section III. All other costs shall be considered as Operating.

6. Major Construction Overhead

For the construction of compressor plants, water stations, secondary recovery systems, drilling and production platforms, 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 Rates provided for in Paragraph 1, 2 or 3 of this Section III shall either negotiate a rate prior to beginning of construction or 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. Amendment of Rates

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-Operators may supply Material or services for the Joint Property.

#### 1. Purchases

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

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

##### A. New Material (Condition "A")

- (1) Tubular goods, except line pipe, shall be priced on a maximum carload and/or barge load weight basis regardless of quantity transferred and equalized to the lowest prevailing price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available effective at date of transfer.
- (2) Line pipe shall be priced at the current replacement cost effective at date of transfer from a reliable supply store nearest the Joint Property where such Material is normally available if the movement is less than 30,000 pounds. If the movement is 30,000 pounds or more, it shall be priced on the same basis as casing and tubing under Subparagraph (1) of this paragraph.
- (3) When the Operator has equalized actual hauling costs as provided for in Paragraph 5 of Section II, Operator is permitted to include ten cents (10¢) per hundred-weight on all tubular goods furnished from his stocks in lieu of loading and unloading costs sustained.
- (4) 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 normally available.
- (5) 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 is not suitable for its original function until after reconditioning shall be furnished to the Joint Account under one of the two methods defined below:
  - (a) Classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new Material. The cost of reconditioning shall be absorbed by the Operator of the transferring property.
  - (b) Classified as Condition "C" and priced at fifty per cent (50%) of current price of new Material. The cost of reconditioning also shall be charged to the receiving property, provided Condition "C" value, plus cost of reconditioning, does not exceed Condition "B" value.
- (3) Obsolete Material or Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use. Material no longer suitable for its original purpose but usable for some other purpose, shall be priced on a basis comparable with that of items normally used for such other purpose.
- (4) Material involving erection costs shall be charged at applicable percentage of the current knocked-down price of new Material.

#### 3. Premium Prices

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

#### 4. Warranty of Material Furnished by Operator

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

#### 5. Equipment and Facilities Furnished by Operator

A. Operator shall charge the Joint Account for use of equipment and facilities at rates commensurate with cost of ownership and operation. Such rates shall include cost of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed six per cent (6%) per annum, provided such rates shall not exceed those currently prevailing in the immediate area within which the Joint Property is located. In lieu of rates based on costs of ownership and operation of equipment, other than automotive, Operator may elect to use commercial rates prevailing in the area of the Joint Property less 20%; for automotive equipment, rates as published by the Petroleum Motor Transport Association may be used. Rates for laboratory services shall not exceed those currently prevailing if performed by

outside service laboratories. Rates for trucks, tractors and well service units may include wages and expenses of operator.

- B. Whenever requested, Operator shall inform Non-Operators in advance of the rates it proposes to charge.
- C. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

## V. DISPOSAL OF MATERIAL

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

### 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 agreed to by 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 per cent (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 3B 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 Controllable Material.

### 1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the Joint Account Controllable Material. Written notice of intention to take inventory shall be given by Operator at least thirty (30) days before any inventory is to begin so that Non-Operators may be represented when any inventory is taken. Failure of Non-Operators to be represented at an inventory shall bind Non-Operators to accept the inventory taken by Operator.

### 2. Reconciliation and Adjustment of Inventories

Reconciliation of inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the 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-Operators 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.

### 4. Expense of Conducting Periodic Inventories

The expense of conducting periodic inventories shall not be charged to the Joint Account unless agreed to by Operator and Non-Operators.

EXHIBIT "F"  
ATTACHED TO UNIT OPERATING AGREEMENT  
COOPER JAL UNIT  
LEA COUNTY, NEW MEXICO

INSURANCE PROVISIONS

Unit Operator, during the term of the Unit Operating Agreement, shall carry insurance for the benefit and at the expense of the parties hereto as follows:

- (1) Employers' Liability Insurance with Limit of not less than \$100,000.00 per employee.
- (2) Public Liability and Property Damage Insurance with limits of not less than \$100,000.00 for injuries to or death of one person and \$300,000.00 for injuries or deaths in one accident, and \$100,000.00 for property damage in one accident
- (3) Automobile Public Liability and Property Damage Insurance with limits of not less than \$100,000.00 for injuries to or death of one person and \$300,000.00 for injuries or deaths in one accident, and \$100,000.00 for property damage in one accident

Except as authorized by Article 9 and by this Exhibit E, Unit Operator shall not make any charge to the joint account for insurance premiums. Losses not covered by Unit Operator's insurance (or by insurance required by this Unit Operating Agreement to be carried for the benefit and at the expense of the parties hereto) shall be charged to the joint account.

SUPPLEMENT TO EXHIBIT "B" TO UNIT AGREEMENT  
COOPER JAL UNIT  
LEA COUNTY, NEW MEXICO

NOTE NO. 1 - UNDER TRACT NO. 2

OVERRIDING ROYALTY OWNER

Atlantic Richfield Company	.37500%
Bonnie R. Etz	.50000%
George Etz	.50000%
Fluor Corporation	.50000%

NOTE NO. 2 - UNDER TRACT NO. 3

OVERRIDING ROYALTY OWNER

None

\$9,314,423.00 Production from this and other leases payable to Prudential Insurance Company of America payable out of 65% of Texas Pacific's Net Interest.

\$1,125,000.00 Production Payment out of this and other leases payable to Howard Olsen (1/2) and The Estate of R. Olsen, Deceased (1/2) payable out of 6.25% of Texas Pacific's Net Interest.

\$5,875,000.00 Production Payment out of this and other leases payable to Howard Olsen (1/2) and The Estate of R. Olsen, Deceased (1/2) payable out of 12.5% of Texas Pacific's Net Interest after the \$1,125,000.00 Production Payment payout.

NOTE NO. 3 - UNDER TRACT NO. 4

OVERRIDING ROYALTY OWNER

Phillips Petroleum Company \*12.50000%

\* When production during any calendar month averages over 15 barrels per well per day.

\* 5.00000%

\* When production during any calendar month averages less than 15 barrels per well per day.

\$245,000.00 Production Payment plus 6-1/2% interest from this and other leases payable to A.M.C. Corporation out of 65% of 75% of Petco's Net Interest.

\$690,000.00 Production Payment plus 5% interest from this and other leases payable to Permian Charitable Foundation of Midland, Texas, Inc. out of 25% of Petco's Net Interest.

\$7,100,000.00 Production Payment plus 5-5/8% interest from this and other leases payable to Continental Illinois National Bank and Trust Company of Chicago out of Reserve's Net Interest.

\$4,000,000.00 Production Payment plus 5-7/8% interest from this and other leases payable to Continental Illinois National Bank and Trust Company of Chicago out of Reserve's Net Interest.

NOTE NO. 4 - UNDER TRACT NO. 5

OVERRIDING ROYALTY OWNER

Atlantic Richfield Company	.62500%
Estate of W. H. Jack	.56250%
Catholic Church Extension Society	.50000%
J. H. Daws	.06250%
Mack Easley	.06250%
Howard Bradley Jack	.03125%
Lucille R. Jack	.56250%
Annie May Kavanaugh	.59375%
Mrs. Charles S. Mitchell	.06250%
Pan American Petroleum Corporation	.62500%
John Quinn	.06250%
Standard Oil Company of Texas	.62500%
Continental Oil Company	.62500%

NOTE NO. 5 - UNDER TRACT NO. 6

OVERRIDING ROYALTY OWNER

Catholic Church Extension Society	.50000%
Chevron Oil Company	.62500%
J. H. Daws	.06250%
Mack Easley	.06250%
Howard Bradley Jack	.03125%
Lucille R. Jack	.56250%
Estate of William H. Jack	.56250%
Annie May Kavanaugh	.59375%
Mrs. Charles S. Mitchell	.06250%
John Quinn	.06250%
Atlantic Richfield Company	.62500%
Continental Oil Company	.62500%
Pan American Petroleum Corporation	.62500%

NOTE NO. 6 - UNDER TRACT NO. 7

OVERRIDING ROYALTY OWNER

Catholic Church Extension Society	.50000%
Chevron Oil Company	.62500%
J. H. Daws	.06250%
Mack Easley	.06250%
Howard Bradley Jack	.03125%
Lucille R. Jack	.56250%
Estate of William H. Jack	.56250%
Annie May Kavanaugh	.59375%
Mrs. Charles S. Mitchell	.06250%
John Quinn	.06250%
Atlantic Richfield Company	.62500%
Continental Oil Company	.62500%
Pan American Petroleum Corporation	.62500%

NOTE NO. 7 - UNDER TRACT NO. 8

BASIC ROYALTY OWNER

Albuquerque National Bank, Testamentary Trustee of F. A. Andrews, Deceased	11.57%
Selma E. Andrews Agency	13.43%
Harry Arledge	1.04%
S. M. Aronson	1.25%
Jessie B. Crump	6.25%
Joe and Jessie Crump Fund	6.25%
Alfred E. Gutman	4.93%
Daniel L. Gutman	4.93%
Mrs. Dorothy Gutman Trustee	2.47%
Dorothy Gutman	4.93%
Daniel Gutman, Trustee of Estate of Max Gutman	14.79%
Betty Gutman Gutttag	7.40%
Hendrick Memorial Hospital	12.50%
Mrs. Julia Levine Daniels	2.08%
Scope Industries	.62%
Atlantic Richfield Company	.62%
Edith G. Socolow	4.94%

OVERRIDING ROYALTY OWNER

Scope Industries	5.07810%
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\$7,100,000.00 Production Payment plus 5-5/8% interest from this  
and other leases payable to Continental Illinois National Bank  
and Trust Company of Chicago out of Reserve's Net Interest.

\$4,000,000.00 Production Payment plus 5-7/8% interest payable to  
Continental Illinois National Bank and Trust Company of  
Chicago out of Reserve's Net Interest.

NOTE NO. 8 - UNDER TRACT NO. 9

BASIC ROYALTY OWNER

Charles T. Bates, Jr.	3.61%
James Ray Bates	3.61%
Kenneth C. Bates	3.61%
Lucille Chism Bates	3.13%
Theodocia G. Bates	12.64%
Warren J. Bates	3.61%
Ether Chism	20.83%
Catherine L. Dumraese	27.08%
Wilma Chism Lain	3.13%
Norma Chism McCarthy	3.13%
Mary Louise Nommensen	3.12%
Oil Finders, Inc.	3.13%
Atlantic Richfield Company	9.37%

NOTE NO. 9 - UNDER TRACT NO. 10

BASIC ROYALTY OWNER

Kenneth C. Bates	3.61%
Docia Bates	3.61%
Charles T. Bates, Jr.	3.61%
James Ray Bates	3.61%
Warren J. Bates	3.61%
Theodocia C. Bates	9.03%
Oil Finders, Inc.	3.13%
Atlantic Richfield Company	9.38%
F. W. Dumraese	27.08%
Ether Chism	20.83%
Lucille Chism Bates	3.13%
Wilma Chism Lain	3.13%
Norma Chism McCarthy	3.12%
Mary Louise Nommensen	3.12%

OVERRIDING ROYALTY OWNER

Atlantic Richfield Company	*10.937500%
* When wells are capable of making 100% of allowable.	
	* 8.203125%
* When wells are capable of making 75% - 100% of allowable.	
	* 5.46875%
* When wells are making less than 75% of allowable.	
Oil Well Remedial Service	5.46875%
Florence M. Lathrop	5.46875%

NOTE NO. 10 - UNDER TRACT NO. 11

BASIC ROYALTY OWNER

Charles T. Bates, Jr.	4.45%
Docia Bates	15.56%
James Ray Bates	4.45%
Kenneth C. Bates	4.45%
Lucille Chism Bates	3.12%
Warren J. Bates	4.45%
Ether Chism	20.83%
Catherine L. Dumraese	33.33%
Wilma Chism Lain	3.12%
Norma Chism McCarthy	3.12%
Mary Louise Nommensen	3.12%

OVERRIDING ROYALTY OWNER

Docia Bates	2.73438%
Catherine L. Dumraese	4.16667%

NOTE NO. 11 - UNDER TRACT NO. 12

BASIC ROYALTY OWNER (Based On Gas Ownership)

The Colorado Corporation	.01%
Joseph C. Blake	.01%
Daisy D. Blankenship	15.00%
Georgia Lee Clarke	1.56%
C. S. Daley	.02%
Myrtle L. Davis	.04%
L. M. Decker and Yvonne Baird Decker	81.25%
Margaret R. Ellison	.01%
Roy F. Faskin	.02%
Elizabeth Rittenhouse Lamb	.01%
Harry Levy	.02%
Paul Lyon and Martha Lyon	1.56%
Beverly B. Nelson	.02%
Joseph Nelson	.04%
Veva Neva K. Nelson	.08%
Earle M. Simon	.02%
Elmer H. Wahl	.31%
A. W. Wuesterberg	.02%

OVERRIDING ROYALTY OWNER

The Colorado Corporation	.00107%
Joseph C. Blake	.00107%
Daisy D. Blankenship	1.64063%
Georgia Lee Clarke	.17090%
C. S. Daley	.00214%
Myrtle L. Davis	.00427%
L. M. Decker and Yvonne Baird Decker	8.88672%
Margaret R. Ellison	.00107%
Roy F. Faskin	.00214%
Elizabeth Rittenhouse Lamb	.00107%
Harry Levy	.00213%
Paul Lyon and Martha Lyon	.17090%
Beverly B. Nelson	.00214%
Joseph Nelson	.00427%
Veva Neva K. Nelson	.00854%
Earle M. Simon	.00213%
Elmer H. Wahl	.03418%
A. W. Wuesterberg	.00213%

NOTE NO. 12 - UNDER TRACT NO. 13

BASIC ROYALTY OWNER

Atlantic Richfield Company	18.37%
Jessie Cooper	4.08%
General Crude Oil Company	9.18%
Kenneth N. Headley	.77%
Frances Smyrl Jennings	.76%
John H. Hendrix	48.98%
Mobil Oil Corporation	16.33%
Southern Petroleum Exploration, Inc.	1.53%

NOTE NO. 13 - UNDER TRACT NO. 14

BASIC ROYALTY OWNER

Atlantic Richfield Company	40.00%
Billy Dunn	6.07%
Haskell J. Dunn	4.28%
Ralph S. Dunn	4.28%
Fluor Corporation	20.00%
Annie Ford	6.07%
Ima Hays	1.67%
G. M. Jenkins	1.67%
North Central Oil Corp.	7.50%
Roger B. Owings	2.50%
Sharon Dunn Riley	.36%
Mona Dunn Shofner, Aux. Adm. of Estate of Walker A. Dunn, Deceased	3.57%
Annabel Winningham	1.67%
Suspense (Walker A. Dunn, Jr.)	.36%

OVERRIDING ROYALTY OWNER

Aikman Oil and Gas Company	2.73420%
G. W. Hutcheson	2.73420%

\$245,000.00 Production Payment plus 6-1/2% interest from this and other leases payable to A.M.C. Corporation out of 65% of 75% of PETCO's Net Interest.

\$690,000.00 Production Payment plus 5% interest from this and other leases payable to Permian Charitable Foundation of Midland, Texas, Inc. out of 25% of PETCO's Net Interest.

NOTE NO. 14 - UNDER TRACT NO. 15

BASIC ROYALTY OWNER

Atlantic Richfield Company	40.00%
Billy Dunn	6.07%
Haskell J. Dunn	4.28%
Ralph S. Dunn	4.28%
Fluor Corporation	20.00%
Annie Ford	6.07%
Ima Hays	1.67%
G. M. Jenkins	1.67%
North Central Oil Corp.	7.50%
Roger B. Owings	2.50%
Sharon Dunn Riley	.36%
Mona Dunn Shofner, Aux. Adm. of Estate of Walker A. Dunn, Deceased	3.57%
Annabel Winningham	1.67%
Suspense (Walker A. Dunn, Jr.)	.36%

NOTE NO. 15 - UNDER TRACT NO. 16

BASIC ROYALTY OWNER

Atlantic Richfield Company	40.00%
Billy Dunn	6.07%
Haskell J. Dunn	4.28%
Ralph S. Dunn	4.28%
Fluor Corporation	20.00%
Annie Ford	6.07%
Ima Hays	1.67%
G. M. Jenkins	1.67%
North Central Oil Corp.	7.50%
Roger B. Owings	2.50%
Mona Dunn Shofner, Aux. Adm. of Estate of Walker A. Dunn, Deceased	3.57%
Annabel and R. R. Winningham	1.67%
Suspense (Sharon Dunn Riley and Walker A. Dunn, Jr.)	.72%

OVERRIDING ROYALTY OWNER

Scope Industries	3.95510%
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NOTE NO. 16 - UNDER TRACT NO. 17

BASIC ROYALTY OWNER

Atlantic Richfield Company	22.22%
Billy Dunn	14.17%
Haskell J. Dunn	10.00%
Ralph S. Dunn	10.00%
Fluor Corporation	11.11%
Annie Ford	14.17%
Ima Hays	.93%
G. M. Jenkins	.93%
North Central Oil Corp.	4.16%
Roger B. Owings	1.39%
Sharon Dunn Riley	.83%
Mona Dunn Shofner, Aux. Adm. of Estate of Walker A. Dunn, Deceased	8.33%
Annabel Winningham	.93%
Suspense (Walker A. Dunn, Jr.)	.83%

NOTE NO. 17 - UNDER TRACT NO. 18

BASIC ROYALTY OWNER

Harry Arledge	.78%
S. M. Aronson	2.50%
Fluor Corporation	12.50%
Alfred E. Gutman	8.91%
Daniel L. Gutman	8.91%
Mrs. Dorothy Gutman, Trustee	4.45%
Dorothy Gutman	8.91%
Daniel Gutman, Trustee of Estate of Max Gutman	26.72%
Betty Guttman Gutttag	13.36%

NOTE NO. 17 - UNDER TRACT NO. 18 (Cont'd.)

BASIC ROYALTY OWNER (Cont'd.)

Mrs. Tina Levine, Deceased	1.56%
Scope Industries	1.25%
Atlantic Richfield Company	1.25%
Edith G. Socolow	8.90%

OVERRIDING ROYALTY OWNER

Scope Industries	2.50000%
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\$7,100,000.00 Production Payment plus 5-5/8% interest from this and other leases payable to Continental Illinois National Bank and Trust Company of Chicago out of Reserve's Net Interest.  
\$4,000,000.00 Production Payment plus 5-7/8% interest from this and other leases payable to Continental Illinois National Bank and Trust Company of Chicago out of Reserve's Net Interest.

NOTE NO. 18 - UNDER TRACT NO. 19

BASIC ROYALTY OWNER

Charles F. Bedford	.06%
Edwin M. Bedford	.06%
Henry D. Bedford	.06%
Rachel Bedford Bowen	.06%
Mrs. Walter M. Burress	1.56%
Buttram Texhoma Co.	8.61%
Gonzales Royalties Inc.	2.34%
George V. Holmes, Trustee	3.24%
Lasca Inc.	2.00%
Lexington Oil Co.	2.23%
J. M. Richardson Lyeth, Jr. and Monro Longyear Lyeth, Joint Tenants	2.97%
James R. Lyttle, Executor Under Will of Mary Duke Pearlbrook	.79%
Ida D. Miller	.09%
Helen D. Pearlbrook	.88%
Petroleum Corporation of Texas	1.67%
John J. Reynolds	10.50%
Onez Norman Rooney	2.97%
Elaine Newby Shepherd, Ind. & as Attorney	.58%
Southern Minerals Corporation	3.33%
Sparks Healey Company	1.25%
E. M. Sweeney	1.56%
Ellen Anne Williams	.06%
The Atlantic Richfield Company	28.13%
Cities Service Oil Company	25.00%

OVERRIDING ROYALTY OWNER

Humble Oil and Refining Company	12.50000% (On Oil)
Humble Oil and Refining Company	25.00000% (On Gas and Casinghead Gas)
Scope Industries	2.50000%

NOTE NO. 18 - UNDER TRACT NO. 19 (Cont'd.)

OVERRIDING ROYALTY OWNER (Cont'd.)

\$690,000.00 Production Payment plus 5% interest from this and other leases payable to Permian Charitable Foundation of Midland, Texas, Inc. out of 25% of PETCO's Net Interest.

\$7,100,000.00 Production Payment plus 5 5/8% interest from this and other leases payable to Continental Illinois National Bank and Trust Company out of Reserve's Net Interest.

\$400,000.00 Production Payment plus 3 7/8% interest from this and other leases payable to Continental Illinois National Bank and Trust Company of Chicago out of Reserve's Net Interest.

NOTE NO. 19 - UNDER TRACT NO. 20

BASIC ROYALTY OWNER

Cities Service Oil Company	20.83%
Mary J. Dotson	.78%
Foster Petroleum Corporation	4.17%
General Crude Oil Company	18.75%
Mobil Oil Corporation	12.50%
Southern California Petroleum Corp.	18.75%
Adele Irvine Sowell, Individually and as Independent Executrix of the Estate of R. H. Sowell, Deceased	6.25%
June D. Speight	2.35%
The First National Bank for Deposit to Account of Howard M. Wilson	1.56%
M. Elizabeth Wilson	1.56%
Atlantic Richfield Company	12.50%

NOTE NO. 20 - UNDER TRACT NO. 21

BASIC ROYALTY OWNER

Atlantic Richfield Company	12.50%
Cities Service Oil Company	20.83%
Mary J. Dotson	.78%
Foster Petroleum Corporation	4.17%
General Crude Oil Company	18.75%
Mobil Oil Corporation	12.50%
Scope Industries	18.75%
Mrs. Adele Irvine Sowell	6.25%
June D. Speight	2.35%
Howard M. Wilson	1.56%
M. Elizabeth Wilson	1.56%

OVERRIDING ROYALTY OWNER

Humble Oil and Refining Company	6.25000% On Oil
Humble Oil and Refining Company	25.00000% On Gas
Scope Industries	5.07810%

\$7,100,000.00 Production Payment plus 5 5/8% Interest from this and other leases payable to Continental Illinois National Bank and Trust Company of Chicago payable out of Reserve's Net Interest.

NOTE NO. 20 - UNDER TRACT NO. 21 (Cont'd.)

OVERRIDING ROYALTY OWNER (Cont'd.)

\$4,000,000.00 Production Payment plus 5-7/8% Interest from this and other leases payable to Continental Illinois National Bank and Trust Company of Chicago payable out of Reserve's Net Interest.

NOTE NO. 21 - UNDER TRACT NO. 22

OVERRIDING ROYALTY OWNER

Scope Industries . 5.46870%

\$7,100,000.00 Production Payment plus 5-5/8% Interest from this and other leases payable to Continental Illinois National Bank and Trust Company of Chicago out of Reserve's Net Interest.

\$4,000,000.00 Production Payment plus 5-7/8% Interest from this and other leases payable to Continental Illinois National Bank and Trust Company of Chicago out of Reserve's Net Interest.

NOTE NO. 22 - UNDER TRACT NO. 23

OVERRIDING ROYALTY OWNER

Atlantic Richfield Company 2.73438%

NOTE NO. 23 - UNDER TRACT NO. 24

BASIC ROYALTY OWNER

Fern Cone	1.56%
Gordon M. Cone	1.43%
Mary J. Dotson	.78%
General Crude Oil Company	18.75%
Sue Saunders Graham	1.04%
Martha Watkins Harris	.52%
Mrs. Clyde Miller	.52%
Mobil Oil Corporation	12.50%
Elyse Saunders Patterson	1.04%
Southern Petroleum Exploration Inc.	3.12%
Adele Irvine Sowell, Individually and as Independent Executrix of the Estate of R. H. Sowell, Deceased	6.25%
June D. Speight	2.35%
Ada E. Thomas	28.13%
Sally Saunders Toles	1.04%
Myrtis Dean Watkins	.52%
Hattie Cocke Williams	3.00%
J. H. Williams	.26%
Elizabeth Woolworth	2.08%
May Woolworth	2.61%
Atlantic Richfield Company	12.50%

NOTE NO. 24 - UNDER TRACT NO. 25

BASIC ROYALTY OWNER

Fern Cone	1.56%
Gordon M. Cone	1.43%
Hattie Cocke Williams	3.00%
June D. Speight	2.35%
General Crude Oil Company	18.75%
Southern Petroleum Exploration, Inc.	3.12%
Ada E. Thomas	28.13%
Elizabeth Woolworth	2.08%
May Woolworth	2.61%
Atlantic Richfield Company	12.50%
Elyse Saunders Patterson	1.04%
Sue Saunders Graham	1.04%
Sally Saunders Toles	1.04%
J. H. Williams	.26%
Myrtis Dean Watkins	.52%
Mrs. C. W. Miller	.52%
Mrs. Martha W. Harris	.52%
Mary J. Dotson	.78%
Mobil Oil Company	12.50%
Mrs. Adele Irvine Sowell	6.25%

OVERRIDING ROYALTY OWNER

Humble Oil and Refining Company	12.50000% (On Oil)
Humble Oil and Refining Company	25.00000% (On Gas and Casinghead Gas)
Scope Industries	2.50000%

\$245,000.00 Production Payment plus 6-1/2% interest from this and other Leases payable to AMC Corporation out of 65% of 75% of PETCO's Net Interest.

\$690,000.00 Production Payment plus 5% interest from this and other Leases payable to Permian Charitable Foundation of Midland, Texas, Inc. out of 25% of PETCO's Net Interest.

\$7,100,000.00 Production Payment plus 5-5/8% interest from this and other leases payable to Continental Illinois National Bank and Trust Company of Chicago out of Reserve's Net Interest.

\$4,000,000.00 Production Payment plus 5-7/8% interest from this and other Leases payable to Continental Illinois National Bank and Trust Company of Chicago out of Reserve's Net Interest.

NOTE NO. 25 - UNDER TRACT NO. 26

BASIC ROYALTY OWNER

Atlantic Richfield Company	7.77%
General Crude Oil Company	15.55%
Mobil Oil Corporation	31.10%
M. M. Miller	1.46%
Lydia Quilter	3.89%
Adele Irvine Sowell	4.47%
Atlantic Richfield Company	35.76%

EXHIBIT "C"

UNIT AGREEMENT  
SCHEDULE OF TRACT PARTICIPATION  
COOPER JAL UNIT - LEA COUNTY, NEW MEXICO

<u>TRACT NO.</u>	<u>PHASE I TRACT PARTICIPATION IN UNIT</u>	<u>PHASE II TRACT PARTICIPATION IN UNIT</u>
1	5.22514	6.60039
2	9.30905	9.34279
3	.41979	.65204
4	5.92856	6.13709
5	10.51021	14.01509
6	—	.69719
7	2.77474	.54082
8	2.09129	2.79791
9	5.17186	4.59899
10	—	.13830
11	—	.39418
12	3.44906	.18651
13	1.12888	1.16975
14	3.62738	2.76333
15	—	2.35316
16	16.29325	12.44491
17	1.52154	2.18280
18	2.88942	1.38779
19	—	4.08301
20	6.42925	4.34410
21	4.25213	2.22575
22	—	.27396
23	.62869	.81825
24	2.92371	3.58496
25	3.21549	8.32204
26	12.21056	7.84226
27	—	.10263
	<u>100.00000%</u>	<u>100.00000%</u>
TOTAL	100.00000%	100.00000%

NOTE NO. 25 - UNDER TRACT NO. 26 (Cont'd.)

OVERRIDING ROYALTY OWNER

Scope Industries	2.50000%
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\$7,100,000.00 Production Payment plus 5-5/8% interest from this and other leases payable to Continental Illinois National Bank and Trust Company of Chicago out of Reserve's Net Interest.

\$4,000,000.00 Production Payment plus 5-7/8% interest from this and other leases payable to Continental Illinois National Bank and Trust Company of Chicago out of Reserve's Net Interest.

NOTE NO. 26 - UNDER TRACT NO. 27

BASIC ROYALTY OWNER

Midwest Oil Corporation	25.00%
L. L. Horne Estate	2.60%
Atlantic Richfield Company	12.50%
General Crude Oil Company	12.50%
Maude E. Soward	1.56%
May Woolworth	1.74%
Elizabeth Woolworth	1.39%
Myrtis Dean Watkins	.35%
Martha W. Harris	.35%
Clyde W. Miller	.35%
Ethel McCabe Trevitt	4.17%
Gonzales Royalties, Inc.	1.25%
Livingston Oil Company	1.19%
George V. Holmes, Trustee	1.73%
Socony Mobil	12.50%
Iris Goldston	10.41%
Iris Goldston and Houston Bank & Trust Company as Co-Trustees U/W/O W. L. Goldston, Deceased	10.41%

\* \* \* \*

Except as otherwise expressly set forth, the basic royalty and overriding royalty interests and owners shown on this supplement to Exhibit "B" have been set forth and calculated with respect to the royalties and overriding royalties payable on oil only.

EXHIBIT "B" TO UNIT AGREEMENT  
COOPER JAL UNIT  
 LEA COUNTY, NEW MEXICO

SCHEDULE OF OWNERSHIP

<u>TRACT NO.</u>	<u>DESCRIPTION OF LAND</u>	<u>NO. ACRES</u>	<u>SERIAL NO. AND LEASE NAME</u>	<u>BASIC ROYALTY OWNER AND PERCENTAGE</u>	<u>LESSEE OF RECORD</u>	<u>OVERRIDING ROYALTY OWNER AND PERCENTAGE</u>	<u>WORKING INTEREST OWNER AND PERCENTAGE</u>
1	T24S, R37E Section 30: Lots 1 and 2 and E/2 NW/4	156.16	LC-032592(b) H.B.P.	USA - All 12.5% - 33 1/3% (Schedule D)	Texaco Inc.	None	Texaco Inc. 100.000%
2	T24S, R37E Section 19: Lots 3 and 4 and E/2 SW/4	156.18	LC-032715 H.B.P.	USA - All 12.5%	Amerada Petroleum Corporation	Supplement Note No. 1	Amerada Petroleum Corporation 100.000%
3	T24S, R36E Section 26: NE/4 NE/4	40.00	LC 054665(b) H.B.P.	USA - All 12.5%	Joseph E. Seagram & Son, Inc. - 7/12 Allied Chemical Co. - 5/12	Supplement Note No. 2	Texas Pacific Oil Company, Inc. (Down to 4,000 Feet) 100.000%
4	T24S, R36E Section 24: E/2 SE/4	80.00	LC-063965 H.B.P.	USA - All 12.5% - 25% (Schedule B)	Phillips Petroleum Corp.	Supplement Note No. 3	Petroleum Corporation of Texas (Down to 3,750 Feet) Reserve Oil and Gas Company (Down to 3,750 Feet) 50.000% 50.000%
5	T24S, R37E Section 19: Lots 1 and 2 and E/2 NW/4	156.22	NM-0321613 H.B.P.	USA - All 12.5% - 33 1/3% (Schedule D)	Estate of Abner M. Jack; Annie May Kavanaugh; Estate of Florence Jack Mayo; W. M. Beauchamp, Guardian for Wm. Howard Jack	Supplement Note No. 4	Continental Oil Company (Down to Base of Queen Formation) T. J. Sivley (Down to Base of Queen Formation) Dorothy B. Lind (Down to Base of Queen Formation) 50.000% 25.000% 25.000%
6	T24S, R37E Section 18: E/2 SW/4	80.00	NM-0321613 H.B.P.	USA - All 12.5% - 33 1/3% (Schedule D)	Estate of Abner M. Jack; Annie May Kavanaugh; Estate of Guy Jack, Jr.; Estate of Florence Jack Mayo; W. M. Beauchamp, Guardian for Wm. Howard Jack	Supplement Note No. 5	Cities Service Oil Company (Surface to 3,750 Feet) Hanson Oil Company (Surface to 3,750 Feet) 83.333% 16.667%
7	T24S, R37E Section 18: Lots 3 and 4	76.23	NM-0321613 H.B.P.	USA - All 12.5% - 33 1/3% (Schedule D)	Estate of Abner M. Jack; Annie May Kavanaugh; Estate of Florence Jack Mayo; W. M. Beauchamp, Guardian for Wm. Howard Jack	Supplement Note No. 6	Cities Service Oil Company (Down to 3,750 Feet) 100.000%
8	T24S, R37E Section 18: N/2 NE/4	80.00	Andrews H.B.P.	Supplement Note No. 7	Reserve Oil and Gas Company Atlantic Richfield Company	Supplement Note No. 7	Reserve Oil and Gas Company Atlantic Richfield Company 50.000% 50.000%

EXHIBIT "B" TO UNIT AGREEMENT - Page 2.

<u>TRACT NO.</u>	<u>DESCRIPTION OF LAND</u>	<u>NO. ACRES</u>	<u>SERIAL NO. AND LEASE NAME</u>	<u>BASIC ROYALTY OWNER AND PERCENTAGE</u>	<u>LESSEE OF RECORD</u>	<u>OVERRIDING ROYALTY OWNER AND PERCENTAGE</u>	<u>WORKING INTEREST OWNER AND PERCENTAGE</u>
9	<u>T24S, R37E</u> Section 18; NW/4 NW/4 (Lot 1) and E/2 NW/4	1 18.10	Bates, C. T. H.B.P.	Supplement Note No. 8	Atlantic Richfield Company	None	Atlantic Richfield Company 100.000%
10	<u>T24S, R37E</u> Section 18; SW/4 NW/4 (Lot 2)	38.11	Bates, C. T. H.B.P.	Supplement Note No. 9	John L. Harlan	Supplement Note No. 9	John L. Harlan (Oil Rights Only Down to 3,855 Feet) Atlantic Richfield Company (Gas Rights Down to 3,855 Feet) 100.000%
11	<u>T24S, R37E</u> Section 18; SW/4 SE/4	40.00	Bates, C. T. H.B.P.	Supplement Note No. 10	Texas Pacific Oil Co., Inc.	Supplement Note No. 10	Texas Pacific Oil Co., Inc. 100.000%
12	<u>T24S, R37E</u> Section 18; NW/4 SE/4	40.00	Blankenship H.B.P.	Supplement Note No. 11	Texas Pacific Oil Co., Inc.	Supplement Note No. 11	Texas Pacific Oil Co., Inc. 100.000%
13	<u>T24S, R36E</u> Section 14; SE/4 SE/4	40.00	Cooper, J. W. H.B.P.	Supplement Note No. 12	Texas Pacific Oil Co., Inc.	None	Texas Pacific Oil Co., Inc. 100.000%
14	<u>T24S, R36E</u> Section 13; N/2 SE/4 and SW/4 SE/4	120.00	Dunn, Maggie H.B.P.	Supplement Note No. 13	Petroleum Corp. of Texas Atlantic Richfield Company	Supplement Note No. 13	Petroleum Corporation of Texas (Down to 4,000 Feet) Atlantic Richfield Company (Down to 4,000 Feet) 50.000% 50.000%
15	<u>T24S, R36E</u> Section 13; SE/4 SE/4	40.00	Dunn, Maggie H.B.P.	Supplement Note No. 14	Atlantic Richfield Company	None	Atlantic Richfield Company 100.000%
16	<u>T24S, R36E</u> Section 24; E/2 NE/4 and SW/4 NE/4	120.00	Dunn, Maggie H.B.P.	Supplement Note No. 15	Atlantic Richfield Company Reserve Oil and Gas Company Petroleum Corporation of Texas	Supplement Note No. 15	Atlantic Richfield Company (Down to 4,000 Feet) Reserve Oil and Gas Company (Down to 4,000 Feet) Petroleum Corporation of Texas (Down to 4,000 Feet) 50.000% 37.500% 12.500%
17	<u>T24S, R36E</u> Section 24; NW/4 NE/4	40.00	Dunn Unit H.B.P.	Supplement Note No. 16	Atlantic Richfield Company	None	Atlantic Richfield Company Richardson, Sarah B., Individually and as Trustee U/W/O Jack Richardson 50.000% 50.000%

EXHIBIT "B" TO UNIT AGREEMENT - Page 3.

<u>TRACT NO.</u>	<u>DESCRIPTION OF LAND</u>	<u>NO. ACRES</u>	<u>SERIAL NO. AND LEASE NAME</u>	<u>BASIC ROYALTY OWNER AND PERCENTAGE</u>	<u>LESSEE OF RECORD</u>	<u>OVERRIDING ROYALTY OWNER AND PERCENTAGE</u>	<u>WORKING INTEREST OWNER AND PERCENTAGE</u>
18	T24S, R37E Section 18; S/2 NE/4	80.00	Gutman, Charles H.B.P.	Supplement Note No. 17	Reserve Oil and Gas Company Atlantic Richfield Company	Supplement Note No. 17	Reserve Oil and Gas Company (Down to 3,800 Feet) Atlantic Richfield Company (Down to 3,800 Feet)
19	T24S, R36E Section 25; NW/4	160.00	Harrison, Sally W. H.B.P.	Supplement Note No. 18	Petroleum Corporation of Texas Reserve Oil and Gas Company	Supplement Note No. 18	Petroleum Corporation of Texas Reserve Oil and Gas Company
20	T24S, R36E Section 24; NW/4	160.00	Hunter, E. E. H.B.P.	Supplement Note No. 19	Humble Oil and Refining Co.	None	Humble Oil and Refining Co.  100.000%
21	T24S, R36E Section 13; SW/4	160.00	Hunter, Edna E. H.B.P.	Supplement Note No. 20	Reserve Oil and Gas Company Tenneco Oil Company Margaret Strain Mallard Clara Margaret Strain Charles Hunter Strain	Supplement Note No. 20	Reserve Oil and Gas Company (Down to 3,750 Feet) Tenneco Oil Company (Down to 3,750 Feet) Margaret Strain Mallard (Down to 3,750 Feet) Clara Margaret Strain (Down to 3,750 Feet) Charles Hunter Strain (Down to 3,750 Feet)
22	T24S, R37E Section 18; NE/4 SE/4	40.00	Russell, P. G. H.B.P.	Theodore Low Company, Inc. - All	Reserve Oil and Gas Company Texas Pacific Oil Co., Inc.	Supplement Note No. 21	Reserve Oil and Gas Company Texas Pacific Oil Co., Inc.
23	T24S, R37E Section 18; SE/4 SE/4	40.00	Russell H.B.P.	Theodore Low Company, Inc. - All	Texas Pacific Oil Co., Inc.	Supplement Note No. 22	Texas Pacific Oil Co., Inc.  100.000%
24	T24S, R36E Section 23; S/2 SE/4 Section 24; W/2 SW/4	160.00	Thomas, A. E. H.B.P.	Supplement Note No. 23	Humble Oil and Refining Co.	None	Humble Oil and Refining Co.  100.000%
25	T24S, R36E Section 24; E/2 SW/4 and W/2 SE/4	160.00	Thomas, Ada H.B.P.	Supplement Note No. 24	Petroleum Corporation of Texas Reserve Oil and Gas Company	Supplement Note No. 24	Petroleum Corporation of Texas (Down to 3,750 Feet) Reserve Oil and Gas Company (Down to 3,750 Feet)

EXHIBIT "B" TO UNIT AGREEMENT - Page 4.

<u>TRACT NO.</u>	<u>DESCRIPTION OF LAND</u>	<u>NO. ACRES</u>	<u>SERIAL NO. AND LEASE NAME</u>	<u>BASIC ROYALTY OWNER AND PERCENTAGE</u>	<u>LESSEE OF RECORD</u>	<u>OVERRIDING ROYALTY OWNER AND PERCENTAGE</u>	<u>WORKING INTEREST OWNER AND PERCENTAGE</u>
26	<u>T24S, R36E</u> Section 25: NE/4	160.00	Van Zandt H.B.P.	Supplement Note No. 25	Reserve Oil and Gas Company Texas Pacific Oil Company, Inc. Adele Irvine Sowell George Bauerdorf Estate	Supplement Note No. 25	Reserve Oil and Gas Company (Down to 3,750 Feet) Texas Pacific Oil Company, Inc. Adele Irvine Sowell George Bauerdorf Estate
27	<u>T24S, R36E</u> Section 26: SE/4 NE/4	40.00	Woolworth, C.D. H.B.P.	Supplement Note No. 26	L. A. Johnson Johnny French	None	Johnny French Tillie French L. A. Johnson

SUMMARY OF COOPER JAL UNIT ACREAGE

	<u>NUMBER OF ACRES</u>	<u>PERCENT OF UNIT</u>
Federal Lands	744.79	28.86%
State Lands	None	—
Fee Lands	<u>1,836.21</u>	<u>71.14%</u>
TOTAL	2,581.00	100.00%

UNIT OPERATING AGREEMENT  
COOPER JAL UNIT  
LEA COUNTY, NEW MEXICO

Interest/Royalty Owners	Tract Ownership %	% of Unit Signed
<u>TRACT NO. 1</u>		
<u>Working Interest Owners</u>		
Texaco Inc.	100.0000	<u>100.0000</u>
<u>Overriding Royalty Owners</u>		
None	N/A	
<u>Royalty Owners</u>		
U.S.A.	100.0000	
<u>TRACT NO. 2</u>		
<u>Working Interest Owners</u>		
Amerada Petroleum Corporation	100.0000	<u>100.0000</u>
<u>Overriding Royalty Owners</u>		
Atlantic Richfield Company	26.6055	
Bonnie R. Etz	24.4649	
George Etz	24.4648	
Fluor Corporation	24.4648	
Total	<u>100.0000</u>	<u>100.0000</u>
<u>Royalty Owners</u>		
U.S.A.	100.0000	
<u>TRACT NO. 3</u>		
<u>Working Interest Owners</u>		
Texas Pacific Oil Company, Inc.	100.0000	<u>100.0000</u>
<u>Overriding Royalty Owners</u>		
None	N/A	
<u>Royalty Owners</u>		
U.S.A.	100.0000	
<u>TRACT NO. 4</u>		
<u>Working Interest Owners</u>		
Petroleum Corporation of Texas	50.0000	
Reserve Oil and Gas Company	<u>50.0000</u>	
Total	100.0000	<u>100.0000</u>
<u>Overriding Royalty Owners</u>		
Phillips Petroleum Company	100.0000	<u>100.0000</u>

**BEFORE EXAMINER NUTTER**

**OIL CONSERVATION COMMISSION**

App'l EXHIBIT NO. 2

CASE NO. 4402

UNIT OPERATING AGREEMENT  
COOPER JAL UNIT  
LEA COUNTY, NEW MEXICO

Interest/Royalty Owners	Tract Ownership %	% of Unit Signed
<u>TRACT NO. 4 (Cont'd.)</u>		
<u>Royalty Owners</u>		
U.S.A.	100.0000	
<u>TRACT NO. 5</u>		
<u>Working Interest Owners</u>		
Continental Oil Company	50.0000	
T. J. Sivley	25.0000	
Dorothy B. Lind	25.0000	
Total	<u>100.0000</u>	<u>100.0000</u>
<u>Overriding Royalty Owners</u>		
Atlantic Richfield Company	12.5251	
Estate of W. H. Jack	11.2725	
Catholic Church Extension Society	10.0201	
J. H. Daws	01.2525	
Mack Easley	01.2525	
Howard Bradley Jack	00.4258	
Lucille R. Jack	11.2725	
Annie May Kavanaugh	11.8987	
Mrs. Charles S. Mitchell	01.2525	
Pan American Petroleum Corporation	12.5251	
John Quinn	01.2525	
Standard Oil Company of Texas (Chevron)	12.5251	
Continental Oil Company	12.5251	
Total	<u>100.0000</u>	<u>100.0000</u>
<u>Royalty Owners</u>		
U.S.A.	100.0000	
<u>TRACT NO. 6</u>		
<u>Working Interest Owners</u>		
Cities Service Oil Company	83.3333	
Hanson Oil Company	16.6667	
Total	<u>100.0000</u>	<u>100.0000</u>
<u>Overriding Royalty Owners</u>		
Catholic Church Extension Society	10.0000	
Chevron Oil Company	12.5000	
J. H. Daws	01.2500	
Mack Easley	01.2500	
Howard Bradley Jack	00.6250	
Lucille R. Jack	11.2500	
Estate of William H. Jack	11.2500	
Annie May Kavanaugh	11.8750	
Mrs. Charles S. Mitchell	01.2500	
John Quinn	01.2500	
Atlantic Richfield Company	12.5000	
(Cont'd.)		

UNIT OPERATING AGREEMENT  
COOPER JAL UNIT  
LEA COUNTY, NEW MEXICO

Interest/Royalty Owners	Tract Ownership %	% of Unit Signed
<u>TRACT NO. 6 (Cont'd.)</u>		
Continental Oil Company	12.5000	
Pan American Petroleum Corporation	12.5000	
Total	<u>100.0000</u>	<u>100.0000</u>
<u>Royalty Owners</u>		
U.S.A.	100.0000	
<u>TRACT NO. 7</u>		
<u>Working Interest Owners</u>		
Cities Service Oil Company	100.0000	<u>100.0000</u>
<u>Overriding Royalty Owners</u>		
Catholic Church Extension Society	10.0000	
Chevron Oil Company	12.5000	
J. H. Daws	01.2500	
Mack Easley	01.2500	
Howard Bradley Jack	00.6250	
Lucille R. Jack	11.2500	
Estate of William H. Jack	11.2500	
Annie May Kavanaugh	11.8750	
Mrs. Charles S. Mitchell	01.2500	
John Quinn	01.2500	
Atlantic Richfield Company	12.5000	
Continental Oil Company	12.5000	
Pan American Petroleum Corporation	12.5000	
Total	<u>100.0000</u>	<u>100.0000</u>
<u>Royalty Owners</u>		
U.S.A.	100.0000	
<u>TRACT NO. 8</u>		
<u>Working Interest Owners</u>		
Reserve Oil and Gas Company	50.0000	
Atlantic Richfield Company	50.0000	
Total	<u>100.0000</u>	<u>100.0000</u>
<u>Overriding Royalty Owners</u>		
Scope Industries	100.0000	<u>100.0000</u>
<u>Royalty Owners</u>		
Abuquerque National Bank, Testamentary Trustee of F. A. Andrews, Dec'd.	11.5700	
Selma E. Andrews Agency	13.4300	
Harry Arledge	01.0400	
S. M. Aronson	01.2500	
Jessie B. Crump	06.2500	
(Cont'd.)		

UNIT OPERATING AGREEMENT  
COOPER JAL UNIT  
LEA COUNTY, NEW MEXICO

Interest/Royalty Owners	Tract Ownership %	% of Unit Signed
<u>TRACT NO. 8 (Cont'd.)</u>		
Joe and Jessie Crump Fund	06.2500	
Alfred E. Gutman	04.9300	
Daniel L. Gutman	04.9300	
Mrs. Dorothy Gutman, Trustee	02.4700	
Dorothy Gutman	04.9300	
Daniel Gutman, Trustee of Estate of Max Gutman	14.7900	
Betty Gutman Guttag	07.4000	
Hendrick Memorial Hospital	12.5000	
Mrs. Julia Levine Daniels	02.0800	
Scope Industries	00.6200	
Atlantic Richfield Company	00.6200	
Edith G. Socolow	04.9400	
Total	100.0000	100.0000
<u>TRACT NO. 9</u>		
<u>Working Interest Owners</u>		
Atlantic Richfield Company	100.0000	100.0000
<u>Overriding Royalty Owners</u>		
None	N/A	
<u>Royalty Owners</u>		
Charles T. Bates, Jr.	03.6100	
James Ray Bates	03.6100	
Kenneth C. Bates	03.6100	
Lucille Chism Bates	03.1300	
Theodocia (Docia) G. Bates	12.6400	
Warren J. Bates	03.6100	
Estate of Ether Chism	20.8300	
Catherine L. Dumraese	27.0800	
Wilma Chism Lain	03.1300	
Norma Chism McCarthy	03.1300	
Mary Louise Nommensen	03.1200	
Oil Finders, Inc.	03.1300	
Atlantic Richfield	09.3700	
Total	100.0000	100.0000
<u>TRACT NO. 10</u>		
<u>Working Interest Owners</u>		
John L. Harlan	100.0000	100.0000
<u>Overriding Royalty Owners</u>		
Atlantic Richfield Company	50.0000	
Oil Well Remedial Service	25.0000	
Florence M. Lathrop	25.0000	
Total	100.0000	75.0000

← out ownership of interest  
unadjusted

UNIT OPERATING AGREEMENT  
COOPER JAL UNIT  
LEA COUNTY, NEW MEXICO

Interest/Royalty Owners	Tract Ownership %	% of Unit Signed
<u>TRACT NO. 10 (Cont'd.)</u>		
<u>Royalty Owners</u>		
Kenneth C. Bates	03.6100	
Docia Bates	03.6100	
Charles T. Bates, Jr.	03.6100	
James Ray Bates	03.6100	
Warren J. Bates	03.6100	
Theodocia C. Bates	09.0300	
Oil Finders, Inc.	03.1300	
Atlantic Richfield Company	09.3800	
Catherine L. Dumraese	27.0800	
Estate of Ether Chism	20.8300	
Lucille Chism Bates	03.1300	
Wilma Chism Lain	03.1300	
Norma Chism McCarthy	03.1200	
Mary Louise Nommensen	03.1200	
Total	<u>100.0000</u>	<u>100.0000</u>
<u>TRACT NO. 11</u>		
<u>Working Interest Owners</u>		
Texas Pacific Oil Company, Inc.	100.0000	<u>100.0000</u>
<u>Overriding Royalty Owners</u>		
Docia Bates	39.6226	
Catherine L. Dumraese	<u>60.3774</u>	
Total	<u>100.0000</u>	<u>100.0000</u>
<u>Royalty Owners</u>		
Charles T. Bates, Jr.	04.4500	
Docia Bates	15.5600	
James Ray Bates	04.4500	
Kenneth C. Bates	04.4500	
Lucille Chism Bates	03.1200	
Warren J. Bates	04.4500	
Estate of Ether Chism	20.8300	
Catherine L. Dumraese	33.3300	
Wilma Chism Lain	03.1200	
Norma Chism McCarthy	03.1200	
Mary Louise Nommensen	03.1200	
Total	<u>100.0000</u>	<u>100.0000</u>
<u>TRACT NO. 12</u>		
<u>Working Interest Owners</u>		
Texas Pacific Oil Company, Inc.	100.0000	<u>100.0000</u>
<u>Overriding Royalty Owners</u>		
The Colorado Corporation	00.0553	
Joseph C. Blake	00.0553	
(Cont'd.)		

UNIT OPERATING AGREEMENT  
COOPER JAL UNIT  
LEA COUNTY, NEW MEXICO

Interest/Royalty Owners	Tract Ownership %	% of Unit Signed
<u>TRACT NO. 12 (Cont'd.)</u>		
Daisy D. Blankenship	33.0648	
Georgia Lee Clarke	08.8206	
C. S. Daley	00.1105 ←	out UNABLE TO LOCATE
Myrtle L. Davis	00.2204	
L. M. and Yvonne Baird Decker	45.7661	
Margaret R. Ellison	00.0553	
Roy F. Faskin	00.1104	
Elizabeth Rittenhouse Lamb	00.0552	
Harry Levy	00.1099 ←	out UNABLE TO LOCATE
Paul and Martha Lyon	08.8206	
Beverly B. Nelson	00.1105	
Joseph Nelson	00.2204 ←	out UNABLE TO LOCATE
Veva Neva K. Nelson	00.4408	
Earle M. Simon	00.1099	
Elmer H. Wahl	01.7641	
A. W. Wuestenberg	<u>00.1099</u>	
Total	100.0000	<u>99.5572</u>
<u>Royalty Owners</u>		
The Colorado Corporation	00.0100	
Joseph C. Blake	00.0100	
Daisy D. Blankenship	15.0000	
Georgia Lee Clarke	01.5600	
C. S. Daley	00.0200 ←	out
Myrtle L. Davis	00.0400	
L. M. and Yvonne Baird Decker	81.2500	
Margaret R. Ellison	00.0100	
Roy F. Faskin	00.0200	
Elizabeth Rittenhouse Lamb	00.0100	
Harry Levy	00.0200 ←	out
Paul and Martha Lyon	01.5600	
Beverly B. Nelson	00.0200	
Joseph Nelson	00.0400 ←	out
Veva Neva K. Nelson	00.0800	
Earle M. Simon	00.0200	
Elmer H. Wahl	00.3100	
A. W. Wuestenberg	<u>00.0200</u>	
Total	100.0000	<u>99.9200</u>
<u>TRACT NO. 13</u>		
<u>Working Interest Owners</u>		
Texas Pacific Oil Company, Inc.	100.0000	<u>100.0000</u>
<u>Overriding Royalty Owners</u>		
None	N/A	

UNIT OPERATING AGREEMENT  
COOPER JAL UNIT  
LEA COUNTY, NEW MEXICO

Interest/Royalty Owners	Tract Ownership %	% of Unit Signed
<u>TRACT NO. 13 (Cont'd.)</u>		
<u>Royalty Owners</u>		
Atlantic Richfield Company	18.3700	
Jessie Cooper	04.0800 ← out	
General Crude Oil Company	09.1800	
Kenneth N. Headley	00.7700	
Frances Smyrl Jennings	00.7600	
John H. Hendrix	48.9800	
Mobil Oil Corporation	16.3300	
Southern Petroleum Exploration, Inc.	01.5300	
Total	<u>100.0000</u>	<u>95.9200</u>
<u>TRACT NO. 14</u>		
<u>Working Interest Owners</u>		
Petroleum Corporation of Texas	50.0000	
Atlantic Richfield Company	50.0000	
Total	<u>100.0000</u>	<u>100.0000</u>
<u>Overriding Royalty Owners</u>		
Aikman Oil and Gas Company	50.0000	
G. W. Hutcheson	50.0000	
Total	<u>100.0000</u>	<u>100.0000</u>
<u>Royalty Owners</u>		
Atlantic Richfield Company	40.0000	
Billy Dunn	06.0700	
Haskell J. Dunn	04.2800	
Ralph S. Dunn	04.2800	
Fluor Corporation	20.0000	
Annie Ford	06.0700	
Ima Hays	01.6700	
G. M. Jenkins	01.6700	
North Central Oil Corporation	07.5000	
Roger B. Owings	02.5000	
Sharon Dunn Riley	00.3600	
Mona Dunn Shofner, Aux. Adm. of Estate of Walker A. Dunn, Dec'd.	03.5700	
Anabel Wingham	01.6700	
Suspense (Walker A. Dunn, Jr.)	00.3600	
Total	<u>100.0000</u>	<u>100.0000</u>
<u>TRACT NO. 15</u>		
<u>Working Interest Owners</u>		
Atlantic Richfield Company	100.0000	<u>100.0000</u>

UNIT OPERATING AGREEMENT  
COOPER JAL UNIT  
LEA COUNTY, NEW MEXICO

Interest/Royalty Owners	Tract Ownership %	% of Unit Signed
<u>TRACT 15 (Cont'd.)</u>		
<u>Overriding Royalty Owners</u>		
None	N/A	
<u>Royalty Owners</u>		
Atlantic Richfield Company	40.0000	
Billy Dunn	06.0700	
Haskell J. Dunn	04.2800	
Ralph S. Dunn	04.2800	
Fluor Corporation	20.0000	
Annie Ford	06.0700	
Ima Hays	01.6700	
G. M. Jenkins	01.6700	
North Central Oil Corporation	07.5000	
Roger B. Owings	02.5000	
Sharon Dunn Riley	00.3600	
Mona Dunn Shofner, Aux. Adm. of Estate of Walker A. Dunn, Dec'd.	03.5700	
Annabel Winningham	01.6700	
Suspense (Walker A. Dunn, Jr.)	00.3600	
Total	<u>100.0000</u>	<u>100.0000</u>
<u>TRACT NO. 16</u>		
<u>Working Interest Owners</u>		
Atlantic Richfield Company	50.0000	
Reserve Oil and Gas Company	37.5000	
Petroleum Corporation of Texas	12.5000	
Total	<u>100.0000</u>	<u>100.0000</u>
<u>Overriding Royalty Owners</u>		
Scope Industries	100.0000	<u>100.0000</u>
<u>Royalty Owners</u>		
Atlantic Richfield Company	40.0000	
Billy Dunn	06.0700	
Haskell J. Dunn	04.2800	
Ralph S. Dunn	04.2800	
Fluor Corporation	20.0000	
Annie Ford	06.0700	
Ima Hays	01.6700	
G. M. Jenkins	01.6700	
North Central Oil Corporation	07.5000	
Roger B. Owings	02.5000	
Mona Dunn Shofner, Aux. Adm. of Estate of Walker A. Dunn, Dec'd.	03.5700	
Annabel Winningham	01.6700	
Suspense (Sharon Dunn Riley and Walker A. Dunn, Jr.)	00.7200	
Total	<u>100.0000</u>	<u>100.0000</u>

UNIT OPERATING AGREEMENT  
COOPER JAL UNIT  
LEA COUNTY, NEW MEXICO

Interest/Royalty Owners	Tract Ownership %	% of Unit Signed
<u>TRACT NO. 17</u>		
<u>Working Interest Owners</u>		
Atlantic Richfield Company	50.0000	
Richardson, Sarah B., Individually and as Trustee U/W/O Jack Richardson	<u>50.0000</u>	
Total	100.0000	<u>100.0000</u>
<u>Overriding Royalty Owners</u>		
None	N/A	
<u>Royalty Owners</u>		
Atlantic Richfield Company	22.2200	
Billy Dunn	14.1700	
Haskell J. Dunn	10.0000	
Ralph S. Dunn	10.0000	
Fluor Corporation	11.1100	
Annie Ford	14.1700	
Ima Hays	00.9300	
G. M. Jenkins	00.9300	
North Central Oil Corporation	04.1600	
Roger B. Owings	01.3900	
Sharon Dunn Riley	00.8300	
Mona Dunn Shofner, Aux. Adm. of Estate of Walker A. Dunn, Dec'd	08.3300	
Annabel Winningham	00.9300	
Suspense (Walker A. Dunn, Jr.)	<u>00.8300</u>	
Total	100.0000	<u>100.0000</u>
<u>TRACT NO. 18</u>		
<u>Working Interest Owners</u>		
Reserve Oil and Gas Company	50.0000	
Atlantic Richfield Company	<u>50.0000</u>	
Total	100.0000	<u>100.0000</u>
<u>Overriding Royalty Owners</u>		
Scope Industries	100.0000	<u>100.0000</u>
<u>Royalty Owners</u>		
Harry Arledge	00.7800	
S. M. Aronson	02.5000	
Fluor Corporation	12.5000	
Alfred E. Gutman	08.9100	
Daniel E. Gutman	08.9100	
Mrs. Dorothy Gutman, Trustee	04.4500	
Dorothy Gutman	08.9100	
Daniel Gutman, Trustee of Estate of Max Gutman	26.7200	
Betty Gutman Guttag	13.3600	
Mrs. Nina Levine, Dec'd. (Jule Levine Daniels, Executrix)	01.5600	
(Cont'd.)		

UNIT OPERATING AGREEMENT  
COOPER JAL UNIT  
LEA COUNTY, NEW MEXICO

Interest/Royalty Owners	Tract Ownership %	% of Unit Signed
<u>TRACT NO. 18 (Cont'd.)</u>		
Scope Industries	01.2500	
Atlantic Richfield Company	01.2500	
Edith G. Socolow	08.9000	
Total	<u>100.0000</u>	<u>100.0000</u>
<u>TRACT NO. 19</u>		
<u>Working Interest Owners</u>		
Petroleum Corporation of Texas	50.0000	
Reserve Oil and Gas Company	50.0000	
Total	<u>100.0000</u>	<u>100.0000</u>
<u>Overriding Royalty Owners</u>		
Humble Oil and Refining Company	83.3333	
Scope Industries	16.6667	
Total	<u>100.0000</u>	<u>100.0000</u>
<u>Royalty Owners</u>		
Charles F. Bedford	00.0600	
Edwin M. Bedford	00.0600	
Henry D. Bedford	00.0600	
Rachel Bedford Bowen	00.0600	
Mrs. Walter M. Burress	01.5600	
Buttram Texhoma Co.	08.6100	
Gonzales Royalties, Inc.	02.3400	
George V. Holmes, Trustee	03.2400	
Lasca Inc.	02.0000	
Lexington Oil Company	02.2300	
J. M. Richardson Lyeth, Jr. and Monro Longyear Lyeth, Joint Tenants	02.9700	
James R. Lyttle, Executor U/W/O Mary Duke Pearlbrook	00.7900	
Ida D. Miller	00.0900	
Heien D. Pearibrook	00.8800	
Petroleum Corporation of Texas	01.6700	
John J. Reynolds	10.5000	
Onez Norman Rooney	02.9700	
Elaine Newby Shepherd, Ind. & as Atty.	00.5800	
Southern Minerals Corporation	03.3300	
Sparks Healey Company	01.2500	
E. M. Sweeney	01.5600	
Ellen Anne Williams	00.0600	
Atlantic Richfield Company	28.1300	
Cities Service Oil Company	25.0000	
Total	<u>100.0000</u>	<u>100.0000</u>
<u>TRACT NO. 20</u>		
<u>Working Interest Owners</u>		
Humble Oil and Refining Company	100.0000	<u>100.0000</u>

UNIT OPERATING AGREEMENT  
COOPER JAL UNIT  
LEA COUNTY, NEW MEXICO

Interest/Royalty Owners	Tract Ownership %	% of Unit Signed
<u>TRACT NO. 20 (Cont'd.)</u>		
<u>Overriding Royalty Owners</u>		
None	N/A	
<u>Royalty Owners</u>		
Cities Service Oil Company	20.8300	
Mary J. Dotson	00.7800	
Foster Petroleum Corporation	04.1700	
General Crude Oil Company	18.7500	
Mobil Oil Corporation	12.5000	
Scope Industries	18.7500	
Adele Irvine Sowell, Individually and as Independent Executrix of the Estate of R. H. Sowell, Dec'd.	06.2500	
June D. Speight	02.3500	
The First National Bank for Deposit to Account of Howard M. Wilson	01.5600	
M. Elizabeth Wilson	01.5600	
Atlantic Richfield Company	<u>12.5000</u>	
Total	100.0000	<u>100.0000</u>
<u>TRACT NO. 21</u>		
<u>Working Interest Owners</u>		
Reserve Oil and Gas Company	50.0000	
Tenneco Oil Company	25.0000	
Margaret Strain Mallard	06.2500	
Clara Margaret Strain	12.5000	
Charles Hunter Strain	<u>06.2500</u>	
Total	100.0000	<u>100.0000</u>
<u>Overriding Royalty Owners</u>		
Humble Oil and Refining Company	55.1735	
Scope Industries	<u>44.8275</u>	
Total	100.0000	<u>100.0000</u>
<u>Royalty Owners</u>		
Atlantic Richfield Company	12.5000	
Cities Service Oil Company	20.8300	
Mary J. Dotson	00.7800	
Foster Petroleum Corporation	04.1700	
General Crude Oil Company	18.7500	
Mobil Oil Corporation	12.5000	
Scope Industries	18.7500	
Mrs. Adele Irvine Sowell	06.2500	
June D. Speight	02.3500	
Howard M. Wilson	01.5600	
M. Elizabeth Wilson	<u>01.5600</u>	
Total	100.0000	<u>100.0000</u>

UNIT OPERATING AGREEMENT  
COOPER JAL UNIT  
LEA COUNTY, NEW MEXICO

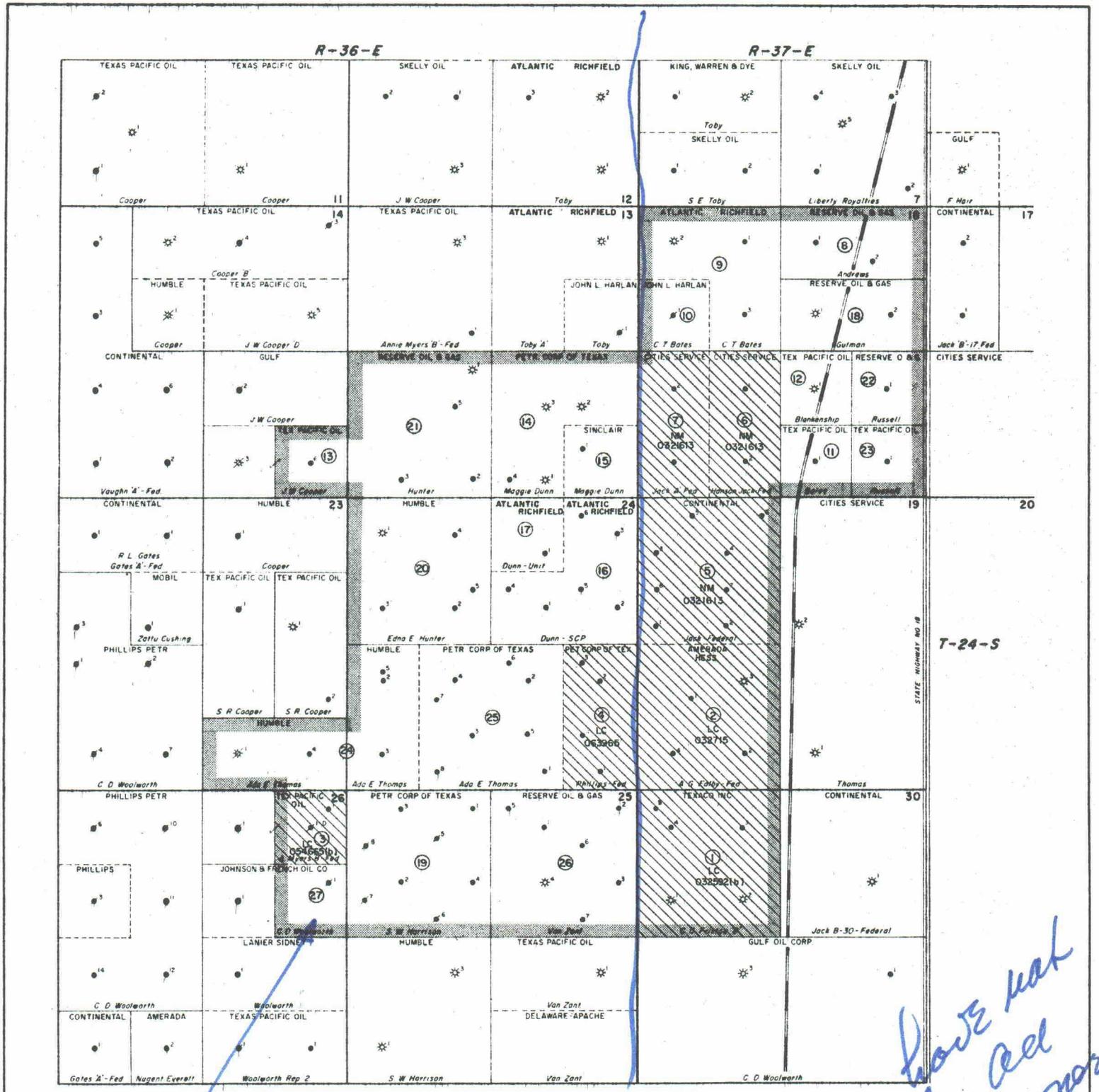
Interest/Royalty Owners	Tract Ownership %	% of Unit Signed
<u>TRACT NO. 22</u>		
<u>Working Interest Owners</u>		
Reserve Oil and Gas Company	50.0000	
Texas Pacific Oil Company, Inc.	<u>50.0000</u>	
Total	100.0000	<u>100.0000</u>
<u>Overriding Royalty Owners</u>		
Scope Industries	100.0000	<u>100.0000</u>
<u>Royalty Owners</u>		
Theodore Low Company, Inc.	100.0000	<u>100.0000</u>
<u>TRACT NO. 23</u>		
<u>Working Interest Owners</u>		
Texas Pacific Oil Company, Inc.	100.0000	<u>100.0000</u>
<u>Overriding Royalty Owners</u>		
Atlantic Richfield Company	100.0000	<u>100.0000</u>
<u>Royalty Owners</u>		
Theodore Low Company, Inc.	100.0000	<u>100.0000</u>
<u>TRACT NO. 24</u>		
<u>Working Interest Owners</u>		
Humble Oil and Refining Company	100.0000	<u>100.0000</u>
<u>Overriding Royalty Owners</u>		
None	N/A	
<u>Royalty Owners</u>		
Fern Cone	01.5600	
Gordon M. Cone	01.4300	
Mary J. Dotson	00.7800	
General Crude Oil Company	18.7500	
Sue Saunders Graham	01.0400	
Martha Watkins Harris	00.5200	
Mrs. Clyde Miller	00.5200	
Mobil Oil Corporation	12.5000	
Elyse Saunders Patterson	01.0400	
Southern Petroleum Exploration, Inc.	03.1200	
Addie Irvine Sowell, Individual and as Independent Executrix of the Estate of R. M. Sowell, Dec'd.	06.2500	
Jane D. Speight	02.3500	
Ada E. Thomas	28.1300	
(Cont'd.)		

UNIT OPERATING AGREEMENT  
COOPER JAL UNIT  
LEA COUNTY, NEW MEXICO

Interest/Royalty Owners	Tract Ownership %	% of Unit Signed
<u>TRACT NO. 24 (Cont'd.)</u>		
Sally Saunders Toles	01.0400	
Myrtis Dean Watkins	00.5200	
Hattie C. Williams	03.0000	
J. H. Williams	00.2600	
Elizabeth Woolworth	02.0800	
May Woolworth	02.6100	
Atlantic Richfield Company	12.5000	
Total	<u>100.0000</u>	<u>100.0000</u>
<u>TRACT NO. 25</u>		
<u>Working Interest Owners</u>		
Petroleum Corporation of Texas	50.0000	
Reserve Oil and Gas Company	50.0000	
Total	<u>100.0000</u>	<u>100.0000</u>
<u>Overriding Royalty Owners</u>		
Humble Oil and Refining Company	83.3333	
Scope Industries	16.6667	
Total	<u>100.0000</u>	<u>100.0000</u>
<u>Royalty Owners</u>		
Fern Cone	01.5600	
Gordon M. Cone	01.4300	
Hattie C. Williams	03.0000	
June D. Speight	02.3500	
General Crude Oil Company	18.7500	
Southern Petroleum Exploration, Inc.	03.1200	
Ada E. Thomas	28.1300	
Elizabeth Woolworth	02.0800	
May Woolworth	02.6100	
Atlantic Richfield Company	12.5000	
Elyse Saunders Patterson	01.0400	
Sue Saunders Graham	01.0400	
Sally Saunders Toles	01.0400	
J. H. Williams	00.2600	
Myrtis Dean Watkins	00.5200	
Mrs. C. W. Miller	00.5200	
Mrs. Martha W. Harris	00.5200	
Mary J. Dotson	00.7800	
Mobil Oil Company	12.5000	
Mrs. Adele Irvine Sowell	06.2500	
Total	<u>100.0000</u>	<u>100.0000</u>
<u>TRACT NO. 26</u>		
<u>Working Interest Owners</u>		
Reserve Oil and Gas Company	50.0000	
Texas Pacific Oil Company, Inc.	32.8130	
Adele Irvine Sowell	07.1870	
George Bauerdorf Estate	10.0000	
Total	<u>100.0000</u>	<u>100.0000</u>

UNIT OPERATING AGREEMENT  
COOPER JAL UNIT  
LEA COUNTY, NEW MEXICO

Interest/Royalty Owners	Tract Ownership %	% of Unit Signed
<u>TRACT NO. 26 (Cont'd.)</u>		
<u>Overriding Royalty Owners</u>		
Scope Industries	100.0000	<u>100.0000</u>
<u>Royalty Owners</u>		
Atlantic Richfield Company	07.7700	
General Crude Oil Company	15.5500	
Mobil Oil Corporation	31.1000	
M. M. Miller	01.4600	
Lydia Quilter	03.8900	
Adele Irvine Sowell	04.4700	
Atlantic Richfield Company	<u>35.7600</u>	
Total	100.0000	<u>100.0000</u>
<u>TRACT NO. 27</u>		
<u>Working Interest Owners</u>		
Johnny French	25.0000	
Tillie French	25.0000	
L. A. Johnson	<u>50.0000</u>	
Total	100.0000	<u>-0-</u>
<u>Overriding Royalty Owners</u>		
None	N/A	
<u>Royalty Owners</u>		
Midwest Oil Corporation	25.0000	
L. L. Horne Estate	02.6000	
Atlantic Richfield Company	12.5000	
General Crude Oil Company	12.5000	
Maude E. Soward	01.5600	
May Woolworth	01.7400	
Elizabeth Woolworth	01.3900	
Myrtis Dean Watkins	00.3500	
Martha W. Harris	00.3500	
Clyde W. Miller	00.3500	
Ethel McCabe Trevitt	04.1700	
Gonzales Royalties, Inc.	01.2500	
Livingston Oil Company	01.1900	
George V. Holmes, Trustee	01.7300	
Socony Mobil	12.5000	
Iris Goldston	10.4100	
Iris Goldston and Houston Bank and Trust Company as Co-Trustees U/W/O W. L. Goldston, Dec'd.	<u>10.4100</u>	
Total	100.0000	<u>45.8500</u>



*All WI committed except this 40 ac Tr 27*

*3 royalty owners in Tract 12 have not been located. All other royalty owners have been contacted*

- LEGEND:
- UNIT BOUNDARY
  - TRACT NUMBER
  - FEDERAL ACREAGE

EXHIBIT A

**COOPER UNIT**

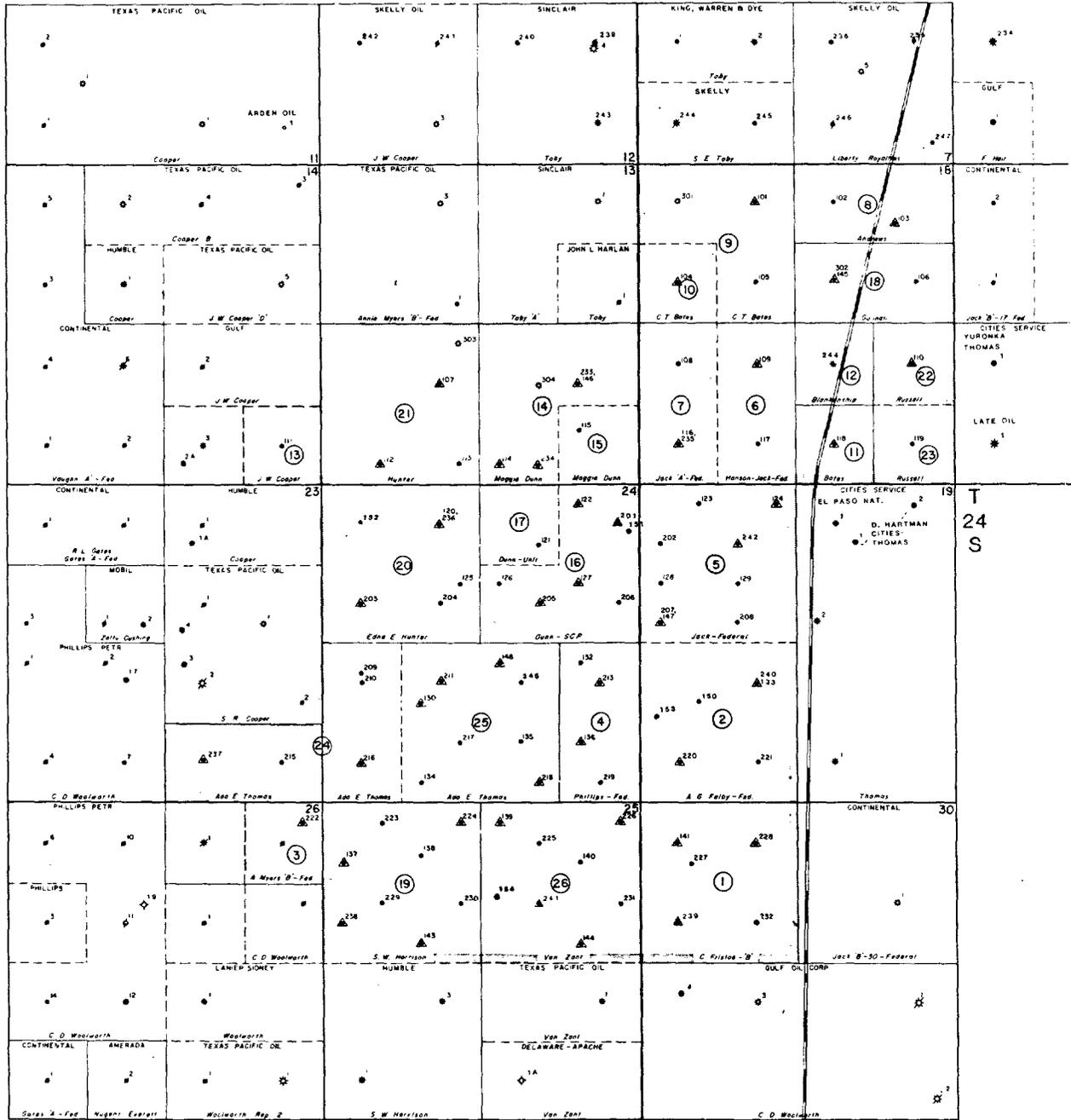
JALMAT AND LANGLEY MATIX FIELDS

Lee County, New Mexico

SCALE: 1"=1000'

R-36-E

R-37-E



LEGEND

- UNIT BOUNDARY
- ① TRACT NUMBER
- ▲ INJECTION WELL
- 100 LANGLIE MATTIX ZONE
- 200 JALMAT OIL ZONE
- 300 JALMAT GAS ZONE

**COOPER JAL UNIT**  
 JALMAT AND LANGLIE MATTIX FIELDS  
 LEA COUNTY, NEW MEXICO

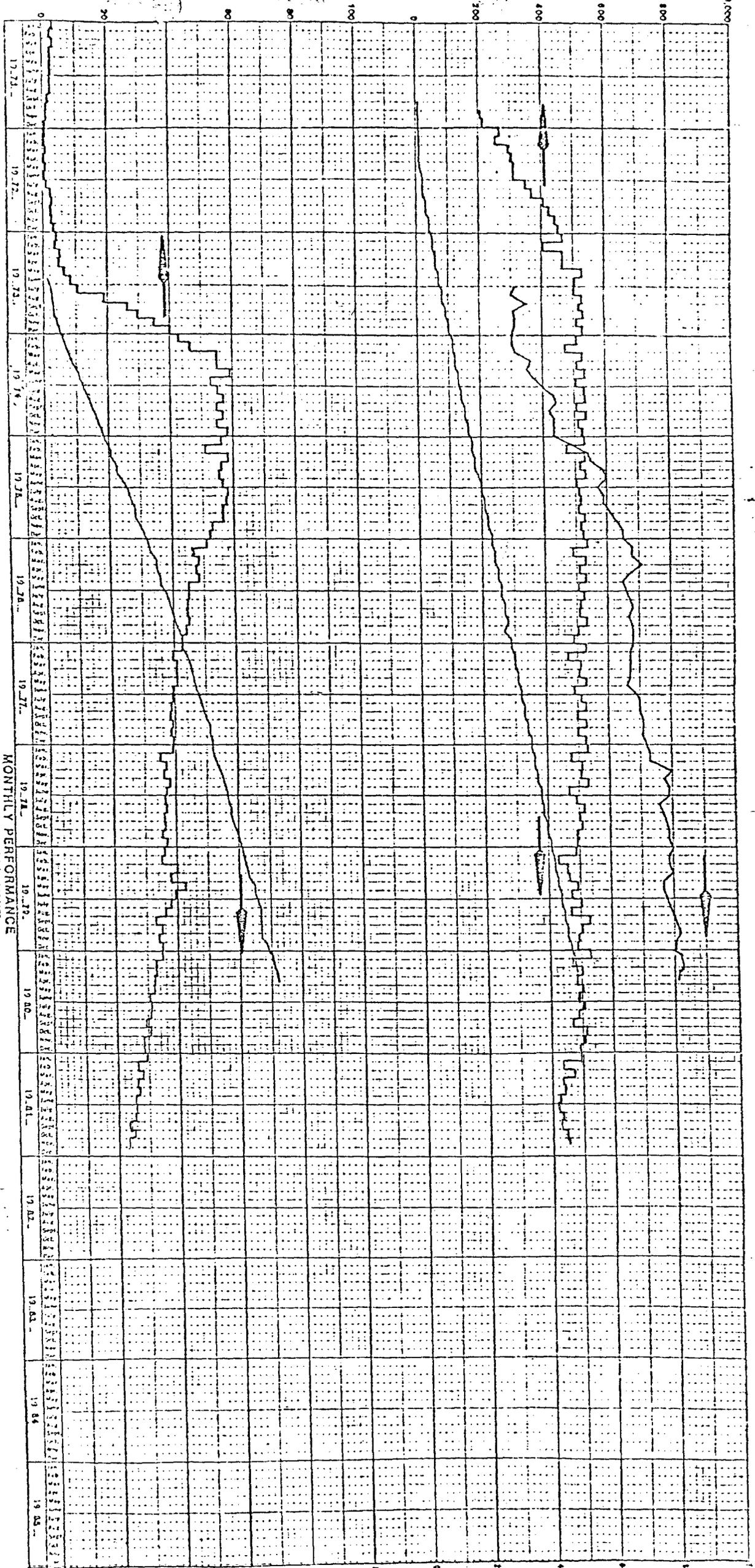
SCALE 1:1000

0 1000' 2000' 3000'

DRAWN BY: C. S. ... REVISION BY: ...  
 DATE: ... CHECKED BY: ...  
 APPROVED BY: ... RESERVE OIL, INC.

OIL PRODUCTION  
THOUSANDS OF BARRELS

WATER INJECTION  
THOUSANDS OF BARRELS



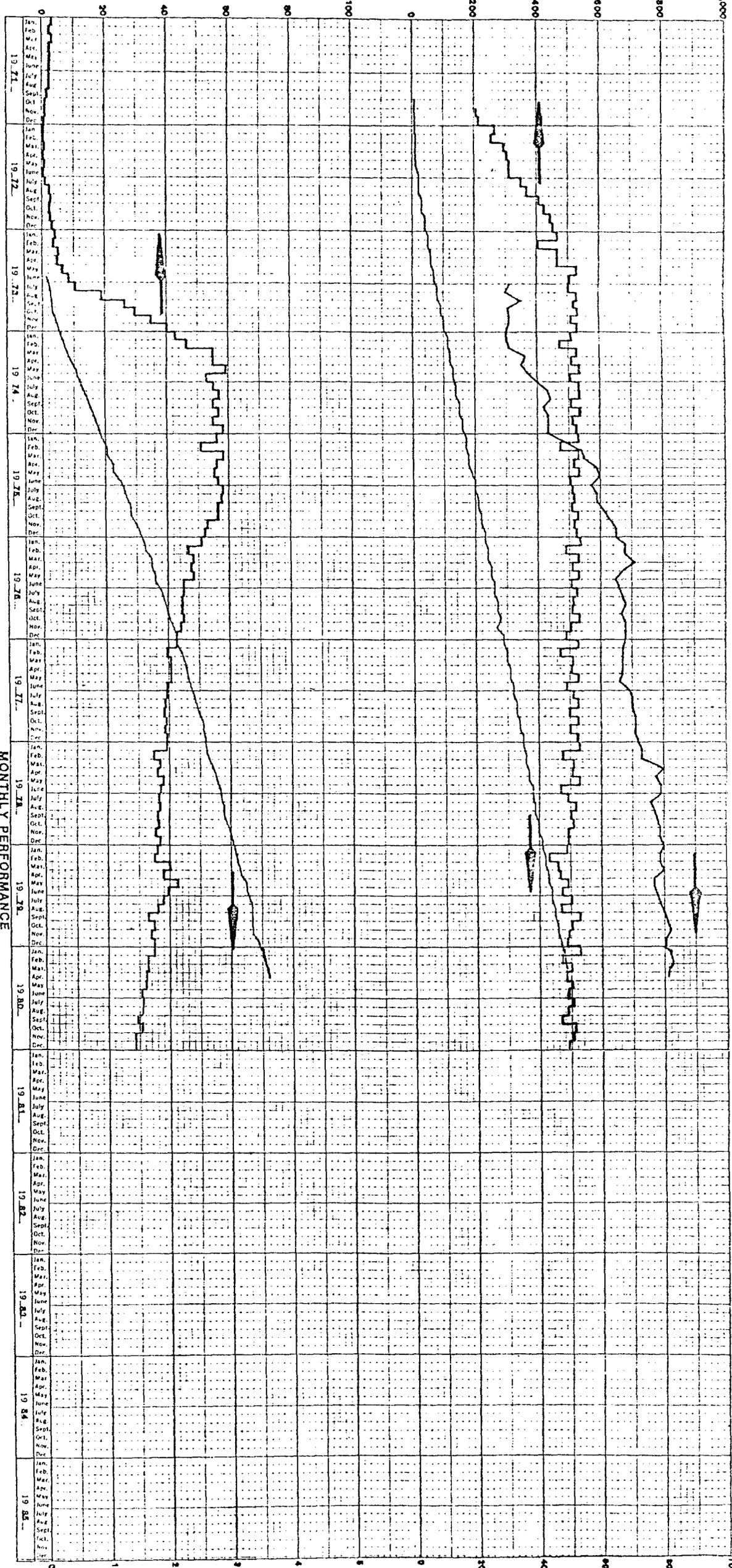
MONTHLY PERFORMANCE  
COOPER JAL UNIT  
LEA COUNTY, NEW MEXICO

MILLIONS OF BARRELS

MILLIONS OF BARRELS

OIL PRODUCTION  
THOUSANDS OF BARRELS

WATER INJECTION  
THOUSANDS OF BARRELS



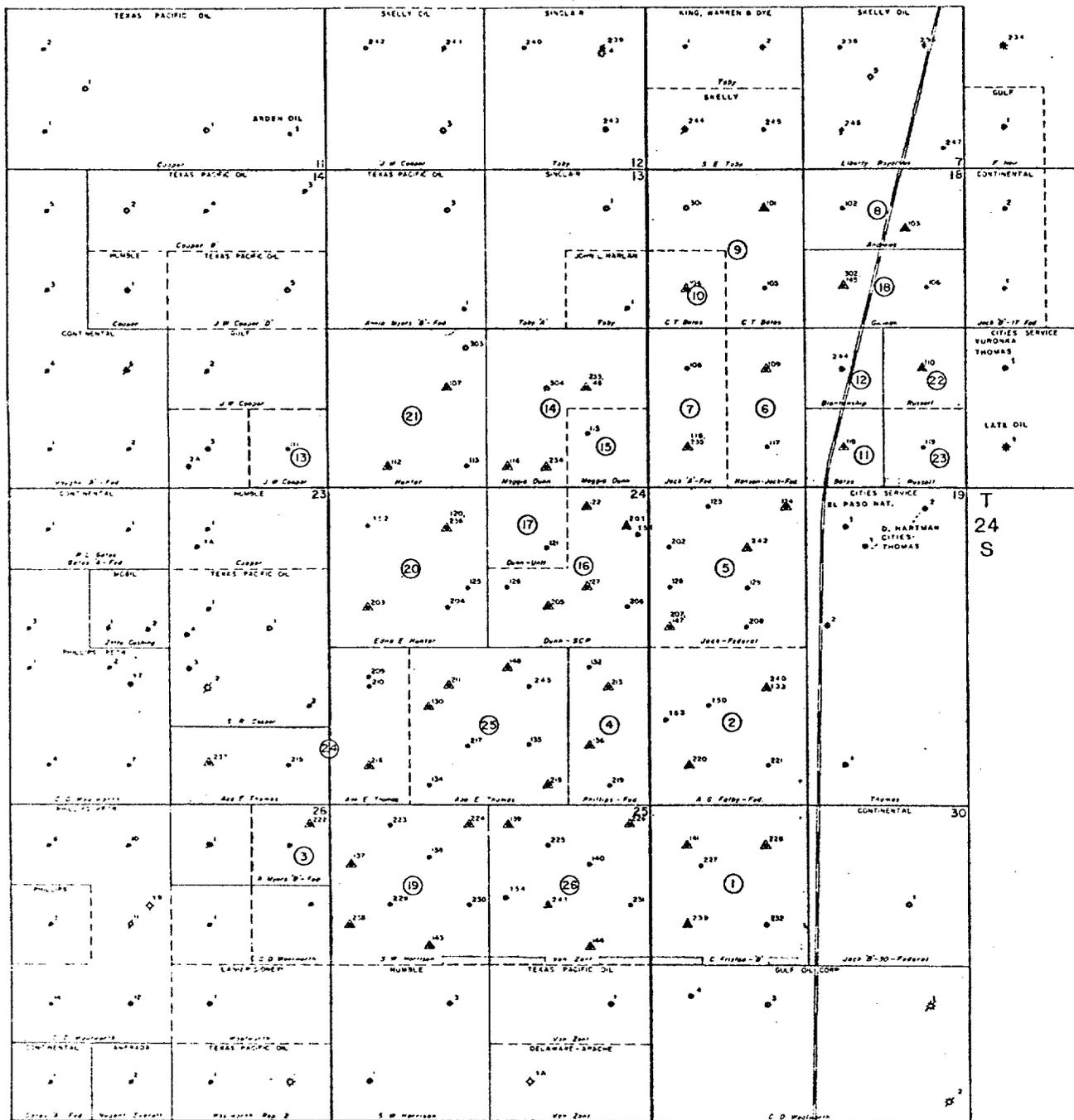
MONTHLY PERFORMANCE  
COOPER JAL UNIT  
LEA COUNTY, NEW MEXICO

CUMULATIVE PRODUCTION  
MILLIONS OF BARRELS

CUMULATIVE INJECTION  
MILLIONS OF BARRELS

R-36-E

R-37-E



LEGEND

- UNIT BOUNDARY
- ① TRACT NUMBER
- ▲ INJECTION WELL
- 100 LANGLIE MATTIX ZONE
- 200 JALMAT OIL ZONE
- 300 JALMAT GAS ZONE

**COOPER JAL UNIT**  
 JALMAT AND LANGLIE MATTIX FIELDS  
 LEA COUNTY, NEW MEXICO

SCALE - 1" = 1000'

0 1000' 2000' 3000'

RESERVE OIL, INC.

UNIT AGREEMENT  
COOPER JAL UNIT  
LEA COUNTY, NEW MEXICO

*28.86 90 700*  
*no* *Stace*  
*71.14 90 700*

BEFORE EXAMINER NUTTER	
OIL CONSERVATION COMMISSION	
<i>Appl</i>	EXHIBIT NO. <u>1</u>
CASE NO. <u>4402</u>	

CERTIFICATION - DETERMINATION

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

A. Approve the attached agreement for the development and operation of the Cooper Jal Unit, Lea County, New Mexico.

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

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

\_\_\_\_\_  
Dated

\_\_\_\_\_  
Regional Oil and Gas Supervisor,  
UNITED STATES GEOLOGICAL SURVEY

Contract Number \_\_\_\_\_

UNIT AGREEMENT  
COOPER JAL UNIT  
LEA COUNTY, NEW MEXICO

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UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION OF THE  
COOPER JAL UNIT  
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 15th day of January, 1970, by and between the parties subscribing, ratifying or consenting hereto, and herein referred to as "parties hereto";

WITNESSETH:

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 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 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 Oil Conservation Commission of the State of New Mexico is authorized by law (Art. 3, Ch. 65, Vol. 9, Part 2. 1953 Stat. Anno.) to approve this agreement, and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the Cooper Jal Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto, to enable institution and consummation of secondary recovery operations to 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 hereinafter defined Unit Area, and agree severally among themselves as follows:

ARTICLE I

ENABLING ACT AND REGULATIONS

1.1 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.

ARTICLE II

DEFINITIONS

2.1 For the purpose of this agreement, the following terms and expressions as used herein shall mean:

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

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

(c) "Secretary" is defined as the Secretary of the Interior of the United States of America.

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

(e) "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.

(f) "Unitized Formation" means all of the Tansill, Yates, Seven Rivers and Queen Formations underlying the Unitized Land; said interval being the equivalent of the continuous interval occurring in Amerada Petroleum Corporation's A. G. Falby No. 1 (located 1,650 feet from the South line and

*Jalmar Oil  
Jalmar Gas  
Langhi Mathy*

990 feet from the West Line of Section 19, Township 24 South, Range 37 East, Lea County, New Mexico) at an indicated depth of 2,890 feet to 3,745 feet as recorded on the Schlumberger Electrical Log taken on December 4, 1948.

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

(h) "Tract" means each parcel of land shown as such and given a tract number in Exhibit "A" and as described in Exhibit "B".

(i) "Tract Participation" is defined as the percentage of participation as is shown on Exhibit "C" for allocating Unitized Substances to a Tract under this agreement.

(j) "Unit Participation" as used herein shall mean the sum of the Tract Participations as shown by Tracts for each Working Interest Owner in Exhibit "C" to the Unit Agreement.

(k) "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. Any interest in Unitized Substances which is a Working Interest as of the date the owner thereof executes or ratifies this agreement, or which at any time thereafter becomes a Working Interest, shall thenceforth be treated as a Working Interest for all purposes of this agreement.

(l) "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 from the Unitized Formation and operation thereof hereunder.

(m) "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 in 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.

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

(o) "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 Article IX infra., and shall be styled "Unit Operating Agreement, Cooper Jal Unit, Lea County, New Mexico".

(p) "Unit Manager" is defined as the person or corporation appointed by the Unit Working Interest Owners, upon resignation or removal of the Unit Operator, to perform the duties of the Unit Operator until the selection and qualification of a successor Unit Operator as provided for in Article VIII hereof.

(q) "Oil and Gas Rights" is defined as the right to explore, develop, and operate lands within the Unit Area for the production of Unitized Substances, or to share in the production so obtained or the proceeds thereof.

(r) "Unit Area" is defined as the lands described by Tracts in Exhibits "A" and "B".

(s) "Unit Operator" is defined as the party designated by Working Interest Owners to develop and operate the Unitized Formation, acting as operator and not as a Working Interest Owner.

(t) "Record Owner" is defined as the holder of the record title to a lease covering Federal Lands according to the applicable records of the Department of the Interior of the United States of America.

(u) "Unit Operations" means all operations conducted by the Unit Operator pursuant to this agreement and the Unit Operating Agreement for or on account of the development and operation of the Unitized Formation for the production of Unitized Substances.

(v) "Unit Equipment" means all personal property, lease and well equipment, plants, and other facilities and equipment taken over or otherwise acquired for the joint account for use in Unit Operations.

(w) "Unit Expense" means all cost, expense, or indebtedness incurred by Unit Operator pursuant to this agreement and the Unit Operating Agreement for or on account of Unit Operations.

### ARTICLE III

#### UNIT AREA AND EXHIBITS

3.1 The following described land is hereby designated as constituting the Unit Area, all of said land being situated in Lea County, New Mexico, to-wit:

Township 24 South, Range 36 East

Township 24 South, Range 37 East

S/2 of Section 13

All of Section 18

SE/4 SE/4 of Section 14

W/2 of Section 19

All of Section 24

NW/4 of Section 30

S/2 SE/4 of Section 23

E/2 NE/4 of Section 26

N/2 of Section 25

containing 2,581 acres, more or less.

3.2 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 and the percentage and kind of ownership in each Tract. Exhibit "C" is a schedule showing the percentage of participation of each Tract on the basis of the commitment of all tracts to this agreement. 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", "B" and "C" shall be revised by the Unit Operator whenever changes in the Unit Area render such revision necessary, or when requested by the Supervisor, and the required

number of copies of such revision shall be filed with the Supervisor.

3.3 If it subsequently appears that any mechanical miscalculation has been made, Unit Operator, with the approval of Working Interest Owners and the Supervisor, may correct the mistake by revising the exhibits to conform to the facts. The revision shall not include any re-evaluation of engineering or geological interpretations used in determining Tract Participation. Any such revision of an exhibit shall be effective at 7:00 A.M. on the effective date of this agreement.

#### ARTICLE IV

##### EXPANSION OF UNIT AREA

4.1 The above described 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 to conform with 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 of the proposed expansion to each Working Interest Owner in the Unit and in the tract proposed to be included in the Unit, setting out the basis for admission, the Unit Participation to be assigned to each tract in the enlarged Unit and other pertinent data. After negotiation (at Working Interest Owners' meeting or otherwise) if Working Interest Owners having in the aggregate eighty percent (80%) Phase II Unit Participation have agreed to such tract or tracts being brought into the Unit, then Unit Operator shall, after preliminary concurrence by the Director:

(1) 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 Unit Participation to be assigned thereto and the effective date thereof; and

(2) Deliver copies of said notice to the Commissioner, 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 (30) day period as set out in (2) immediately above, with the Commission and Supervisor the following:  
(a) Evidence of mailing or delivering copies of such notice of expansion; (b) An application for such expansion; (c) An instrument containing the appropriate joinders in compliance with the participation requirements of Article XIV (Tracts Qualified for Participation); and (d) Copy of any objections received.

(4) There shall be no retroactive allocation or adjustment of Unit expense or of interests in the Unitized Substances produced, or proceeds thereof prior to the effective date of expansion and qualification under Article XIV; however, this limitation shall not prevent an adjustment of investment by reason of the enlargement.

4.2 The expansion shall, after due consideration of all pertinent information and approval by the Supervisor, become effective as of the date prescribed in the notice thereof, preferably the first day of a month subsequent to the date of notice.

4.3 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.

#### ARTICLE V

##### UNITIZED LAND AND UNITIZED SUBSTANCES

5.1 All land committed to this agreement as to the Unitized Formation shall constitute land referred to herein as "Unitized Land" or "land subject to this agreement". All oil, gas, gaseous substances, sulphur contained in gas, condensate, distillate and all associated and constituent liquid or liquefiable hydrocarbons produced from the lands committed to this agreement

as to the Unitized Formation are unitized under the terms of this agreement and herein are called "Unitized Substances". Nothing herein shall be construed to unitize, pool or in any way affect the oil, gas and other minerals that may be produced from any formation other than the Unitized Formation as above described.

## ARTICLE VI

### UNIT OPERATOR

6.1 Reserve Oil and Gas Company 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.

## ARTICLE VII

### RESIGNATION OR REMOVAL OF UNIT OPERATOR

7.1 Unit Operator shall have the right to resign at any time, but such resignation shall not become effective 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 Supervisor, 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.

7.2 The Unit Operator shall be subject to removal by Working Interest Owners having in the aggregate eighty percent (80%) or more of the Phase II Unit Participation remaining after excluding the Phase II Unit

Participation of the Unit Operator. Such removal shall be effective upon notice thereof to the Supervisor.

7.3 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.

7.4 The resignation or removal of Unit Operator under this agreement shall not terminate its right, title or interest as the owner of a Working Interest or other interest in Unitized Substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all wells, equipment, 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 from any liability or duties accruing or performable by it prior to the effective date of such resignation or removal.

#### ARTICLE VIII

#### SUCCESSOR UNIT OPERATOR

8.1 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 approved by the Supervisor. If no successor

Unit Operator is selected and qualified as herein provided, the Director may declare this agreement terminated.

8.2 In selecting a successor Unit Operator the affirmative vote of three or more Working Interest Owners having a total of sixty-five percent (65%) or more of the total voting interest in the Unit shall prevail; provided, that if any one Working Interest Owner has a voting interest of more than thirty-five percent (35%), its negative vote or failure to vote shall not be regarded as sufficient unless supported by the vote of one or more other Working Interest Owners having a total voting interest of at least five percent (5%). If the Unit Operator who is removed votes only to succeed itself or fails to vote, the successor Unit Operator may be selected by the affirmative vote of at least fifty-one percent (51%) of the voting interest remaining after excluding the voting interest of Unit Operator so removed. In voting under this Section 8 each Working Interest Owner shall have a voting interest equal to its Phase II Participation.

#### ARTICLE IX

##### ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT

9.1 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 (3)

true copies of any Unit Operating Agreement executed pursuant to this Article shall be filed with the Supervisor as required prior to approval of this agreement.

## ARTICLE X

### RIGHTS AND OBLIGATIONS OF UNIT OPERATOR

10.1 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 by Unit Operator, 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.

## ARTICLE XI

### PLAN OF OPERATIONS

11.1 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 consistent with good engineering practices expected of a prudent operator. 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, liquid petroleum gases and any one or more other substances or combinations of

substances whether produced from the Unitized Formation or not, and that the location of input wells and the rate of injection therein and the rate of production shall be governed by standards of good geologic and petroleum engineering practices and conservation methods. The Working Interest Owners and the Supervisor shall be furnished periodic reports on the progress of the plan of operation and any revision or changes thereto; provided, however, that any revision of the plan of operation involving a deviation from the initial plan of operation shall be subject to the consent and approval of the Working Interest Owners and the Supervisor.

11.2 The initial plan of operation shall be filed 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. Notwithstanding anything to the contrary, herein contained, if Unit Operator fails to commence Unit Operations for the secondary recovery of Unitized Substances from the Unit Area within six months after the effective date of this agreement or any extension thereto approved by the Supervisor, this agreement shall terminate automatically upon the expiration of said six month period.

11.3 The parties hereto subject to prior rights, if any, grant to the Unit Operator the use of brine or water or both from any formation in and under the Unitized Land for injection into the Unitized Formation insofar as these rights are granted by the oil and gas leases.

## ARTICLE XII

### EASEMENTS OR USE OF SURFACE

12.1 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, except water from any well, lake, pond or irrigation ditch of Royalty Owners, provided that, nothing herein shall be construed as leasing or otherwise conveying to Working Interest Owners a site for a water, gas injection, processing or other plant or camp site.

### ARTICLE XIII

#### TRACT PARTICIPATION

13.1 In Exhibit "C" attached hereto there are listed and numbered the various Tracts within the Unit Area, and set forth opposite each Tract are figures which represent the percentage of participation allocated to each Tract in the Unit Area assuming that all tracts are committed hereto.

13.2 Tract Participation of each Tract shall be as shown within Exhibit "C" and shall be determined as follows:

(a) Phase I Participation: Beginning at 7:00 A. M. on the effective date hereof and remaining in effect until 7:00 A. M. on the first day of the month next following the month in which the cumulative amount of oil produced from the Tansill, Yates, Seven Rivers and Queen Formations underlying all of the Tracts described in Original Exhibit "B" from and after January 1, 1968, equals 1,000,000 barrels, the Tract Participation of each Tract shall be as shown in Phase I of Exhibit "C" and shall be determined from the following formula:

Tract Participation Percentage, Phase I equals 100%

$$\frac{A}{B}$$

Where: A equals total income from oil, casinghead gas and dry gas produced from such Tract from the Unitized Formation during the period January 1, 1967 to January 1, 1968.

B equals the summation of the total income from oil, casinghead gas and dry gas produced from all Tracts

in the Unit Area from the Unitized Formation during  
the period January 1, 1967 to January 1, 1968.

(b) Phase II Participation: Beginning at 7:00 A.M. on the first day of the month next following the date when the 1,000,000 barrels referred to in (a) above shall have been produced, the Tract Participation of each Tract shall be as shown under Phase II of Exhibit "C" and shall be determined from the following formula:

Tract Participation Percentage, Phase II equals 100%

$$\frac{C}{D}$$

Where: C equals the estimated quantity of oil ultimately recoverable from the Unitized Formation underlying each such tract by primary recovery operations.

D equals the summation of the estimated quantity of oil ultimately recoverable from the Unitized Formation underlying all such Tracts by primary recovery operations.

13.3 In the event less than all tracts are qualified for participation on the effective date hereof, the Tract Participations shall be calculated on the basis of all qualified Tracts rather than all Tracts in the Unit Area and Exhibit "C" shall be revised by the Unit Operator accordingly to show the percentage of participation of each tract.

#### ARTICLE XIV

##### TRACTS QUALIFIED FOR PARTICIPATION

14.1 As the objective of this 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 agreement unless the Tract involved is qualified under this Article. On and after the effective date hereof, the Tracts within the Unit Area which shall be entitled to participation (as provided in Article XIII

hereof) in the production of Unitized Substances therefrom shall be those Tracts within the Unit Area as shown on Exhibit "A" and 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 which are otherwise qualified as follows: (The record title owner shall replace the Royalty Interest with respect to Federal lands for the purposes of this Article.)

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

(b) Each Tract as to which Working Interest Owners owning one hundred percent (100%) of the Working Interest therein have become parties hereto and as to which Royalty Owners owning less than seventy-five percent (75%) of the Royalty Interest therein have become parties hereto, and, further, as to which:

(1) All Working Interest Owners in any such Tract have joined in a request for the inclusion of such Tract, and

(2) Seventy-five percent (75%) of the combined voting interests of Working Interest Owners in all Tracts meeting the requirements of paragraph (a) hereof have voted in favor of including such Tract.

For the purpose of this paragraph (b), a Working Interest Owner's "voting interest" shall be equal to the ratio (expressed in percent) which its aggregate Phase I Participation in all Tracts qualifying under paragraph (a) bears to the total Phase I Participation of all Working Interest Owners in all Tracts qualifying under paragraph (a).

(c) Each Tract as to which Working Interest Owners owning less than one hundred percent (100%) of the Working Interest therein have become parties hereto, regardless of the percentage of Royalty Interest therein which is committed hereto, and, further, as to which:

(1) The Working Interest Owner operating any such Tract and all of the other Working Interest Owners in such Tract who have become parties hereto have joined in a request for inclusion of such Tract and at least 85% of such parties have executed and delivered an indemnity agreement indemnifying and agreeing to hold harmless the other Working Interest Owners in the Unit, their successors and assigns, against all claims and demands which arise out of the inclusion of such Tract, which may be made by the owners of Working Interest in such tract who are not parties hereto; and

(2) Seventy-five percent (75%) of the combined voting interest of Working Interest Owners in all Tracts meeting the requirements of paragraph (a) and (b) have voted in favor of the inclusion of such Tract and acceptance of the indemnity agreement.

For the purpose of this paragraph (c), a Working Interest Owner's voting interest shall be equal to the ratio (expressed in percent) which its aggregate Phase I Participation in all Tracts qualifying under paragraphs (a) and (b) bears to the total Phase I participation of all Working Interest Owner's in all Tracts qualifying under paragraphs (a) and (b). Upon qualification of such a Tract, the Unit Participation which would have been attributed to the nonsubscribing owners of the Working Interest in such Tract, had they become parties to this agreement and the Unit Operating Agreement, shall be attributed to the Working Interest Owners in such Tract who have become parties to such agreements, in proportion to their respective Working interests in the Tract.

(d) Each Tract, regardless of the percentage of Working Interest or Royalty Interest therein that has been committed hereto, as to which (1) the Working Interest Owner who operates the Tract has become a party to this agreement and (2) Working Interest Owners having seventy-five percent (75%) of the combined voting interest of Working Interest Owners in all Tracts that meet the requirements of paragraphs (a), (b) and (c) vote in favor of the inclusion of such Tract. For the purpose of this paragraph (d) the voting interest

of a Working Interest Owner shall be equal to the ratio that its Phase I Unit Participation attributable to Tracts that qualify under paragraphs (a), (b) and (c) bears to the total Phase I Unit Participation of all Working Interest Owners attributable to all Tracts that qualify under paragraphs (a), (b) and (c). Upon qualification of such a Tract, the Unit Participation that would have been attributed to the nonsubscribing owners of the Working Interest in such Tract, had they become parties to this agreement and the Unit Operating Agreement shall be attributed to the Working Interest Owners in all Tracts that meet the requirements of paragraphs (a), (b) and (c) in proportion to their respective Unit Participations attributable to the Tracts that qualify under paragraphs (a), (b) and (c).

14.2 If on the effective date of this agreement there is any Tract or Tracts which have not been qualified 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 Supervisor, file therewith, or as soon as practicable, a schedule of those Tracts which are entitled to participate in the production of Unitized Substances. This schedule of participation shall be revised Exhibit "C" and upon approval thereof by the Supervisor shall become a part of this agreement and shall govern the allocation of production of Unitized Substances until the effective date of a new schedule approved by the Supervisor.

#### ARTICLE XV

##### ALLOCATION OF UNITIZED SUBSTANCES

15.1 All Unitized Substances produced and saved (less, save and except any part of such Unitized Substances used in conformity with good operating practices 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 qualified 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, Exhibit "C". The amount of Unitized Substances so allocated to each Tract (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.

15.2 The Unitized Substances allocated to each Tract shall be distributed among, or accounted for, to the parties executing, consenting to or ratifying this agreement who otherwise are entitled to share in the production from such Tract in the same manner, in the same proportion, 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.

15.3 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.

15.4 If the Working Interest and the Royalty Interest in any Tract are 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.

15.5 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 Article XVI hereof, any extra expenditure incurred by Unit Operator by reason of the delivery in kind of any portion of the Unitized Substances shall be borne by the party receiving the same in kind. If a Royalty Owner has the right to take in kind a share of Unitized Substances and fails to do so, the Working Interest Owner whose Working Interest is subject to such Royalty Interest shall be entitled to take in kind such share of the Unitized Substances.

15.6 If any party fails to take in kind or separately dispose of its share of Unitized Substances, Unit Operator shall have the right for the time being and subject to revocation at will by the party owning the share, to sell, or otherwise dispose of such production to itself or to others on a day to day basis at not less than the prevailing market price in the area for like production. The proceeds of the Unitized Substances so disposed of by Unit Operator shall be paid to the party entitled thereto.

15.7 Notwithstanding the foregoing, the Unit Operator shall not make a sale into interstate commerce of any Working Interest Owner's share of gas production without first giving such Working Interest Owner sixty (60) days notice of such intended sale.

15.8 Any Working Interest Owner 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.

15.9 If, after the effective date of this agreement, there is any Tract or Tracts that are subsequently committed hereto, as provided in Article

IV (Expansion of Unit Area) 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 Article XXXII (Non-Joinder and Subsequent Joinder) or if any Tract is excluded from the Unit Agreement as provided for in Article XXX (Loss of Title), the schedule of participation as shown in Exhibit "C", subject to Article XIII (Tract Participation), and Article XIV (Tracts Qualified for Participation), shall be revised by the Unit Operator and distributed to the Working Interest Owners and the Supervisor to show the revised Tract Participation of all the qualified Tracts; and the revised Exhibit "C", upon approval by the Supervisor shall govern all the allocation of production of Unitized Substances from and after the effective date thereof until a revised schedule is approved as hereinabove provided.

15.10 Unit Operator may use as much of the Unitized Substances as may reasonably be deemed necessary for the operation and development of the Unitized Lands, including but not limited to the injection of Unitized Substances into the Unitized Formation, provided such operations are in accordance with a plan of operations approved by the Supervisor.

15.11 No Royalty shall be payable upon or with respect to Unitized Substances used or consumed in the operation or development of the Unitized Land or which may be otherwise unavoidably lost or consumed in production, handling, treating, transportation or storing of Unitized Substances, provided such operations are in accordance with a plan of operations approved by the Supervisor.

#### ARTICLE XVI

#### ROYALTY SETTLEMENT

16.1 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 lessee of any land from their respective lease obligations for the payment of any Royalty due under their leases, except that such Royalty shall be computed on Unitized Substances as allocated to each Tract in accordance with the terms of this Unit Agreement.

16.2 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 runs 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, provided, however, any Tract without a producible well on said effective date shall, for the purposes herein contained, be considered as having one such well thereon.

16.3 If gas obtained from lands not subject to this agreement is introduced into the Unitized Formation, for use in repressuring, stimulation of production or increasing ultimate recovery in conformity with a plan approved pursuant to Article XI (Plan of Operations), a like amount of gas, less appropriate deductions for loss or depletion from any cause, may be withdrawn from the Unitized Formation, Royalty free as to dry gas but not as to the products extracted therefrom; provided such withdrawal shall be pursuant to such conditions and formulas as may be prescribed or approved by the Supervisor; and provided further that such right of withdrawal shall terminate as of the effective date of termination of the Unit Agreement.

16.4 Royalty due the United States shall be computed as provided in the operating regulations and paid in value or delivered in kind as to all

Unitized Substances on the basis of the amounts thereof allocated to Unitized Federal lands as provided herein at the 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 one lease.

16.5 Each Royalty Owner (other than the United States of America) that executes this agreement represents and warrants that it is the owner of a Royalty Interest in a Tract or Tracts within the Unit Area as its 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 other parties shall be adjusted accordingly.

#### ARTICLE XVII

##### RENTAL SETTLEMENT

17.1 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.

#### ARTICLE XVIII

##### CONSERVATION

18.1 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.

#### ARTICLE XIX

##### DRAINAGE

19.1 The Unit Operator shall take such measures as the Supervisor deems appropriate and adequate to prevent drainage of Unitized Substances from Unitized Land by wells on land not subject to this agreement.

#### ARTICLE XX

##### LEASES AND CONTRACTS CONFORMED AND EXTENDED

20.1 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, by his approval hereof, or by the approval hereof by his duly authorized representative, does hereby establish, alter, change or revoke the drilling, producing, rental minimum Royalty and Royalty requirements of Federal leases committed hereto and the regulations of Federal leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement.

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

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

(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 Secretary 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. A suspension of drilling or producing operation on specified lands shall be applicable only to such lands.

(d) Each lease, sub-lease 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) The segregation of any Federal lease committed to this agreement is governed by the following provision in the fourth paragraph of Article 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".

#### ARTICLE XXI

#### COVENANTS RUN WITH LAND

21.1 All terms and conditions herein contained shall be construed to be covenants running with the land with respect to the interest of the parties hereto and their successors in title until this agreement terminates, and any

grant, transfer, conveyance or any passage of any interest in land or leases subject hereto, no matter how accomplished, shall be and hereby is conditioned upon the assumption of all privileges and obligations by such successor in interest. By way of illustration, but not limitation, if any Working Interest Owner shall, after executing this agreement, create any overriding royalty, production payment or any similar interest or interests, the new owner or owners of such interest or interests shall be bound by the terms of this agreement and the Unit Operating Agreement. 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 a 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.

## ARTICLE XXII

### EFFECTIVE DATE AND TERM

22.1 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 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 Tracts with a combined Phase I Unit Participation of at least eighty-five percent (85%), and the execution or ratification of this agreement by Royalty Owners owning Tracts with a combined interest of at least sixty-five percent (65%) of the Royalty Interest in the Unit Area, calculated on the basis of Phase I Unit Participation; and

(b) The approval of this agreement by the Supervisor and Commission.

(c) The filing of at least one counterpart of this agreement for record in the office of the County Clerk of Lea County, New Mexico, by the Unit Operator; and provided further that if (a), (b) and (c) above are not accomplished on or before July 1, 1971, this agreement shall ipso facto expire on said date (hereinafter called "expiration date") and thereafter be of no further force of effect unless prior thereto this agreement has been executed or ratified by Working Interest Owners owning a combined Phase I Participation of at least eighty percent (80%), and that Working Interest Owners owning in the aggregate sixty-five percent (65%) or more of the total Phase I Participation committed to this agreement have decided to extend 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 or effect.

22.2 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.

22.3 The term of this agreement shall be for and during the time that Unitized Substances are produced in quantities sufficient to pay for the cost of producing same from wells on the Unitized Land and so long thereafter as diligent 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 Unitized Substances are produced as aforesaid.

22.4 This agreement may be terminated at any time for any other reason with the approval of the Supervisor by at least three Working Interest Owners owning seventy-five percent (75%) Unit Participation which is in effect at the time the vote is taken. Notice of any such termination shall be given to all parties hereto, and a copy filed by Unit Operator in the office of the County

Clerk of Lea County, New Mexico.

22.5 Upon termination of this agreement, Unit Operations shall cease and the parties hereto shall be governed by the terms and provisions of the leases and contracts affecting the separate Tracts.

22.6 If not otherwise provided by the leases unitized under this agreement, Royalty Owners hereby grant Working Interest Owners a period of six (6) 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.

### ARTICLE XXIII

#### RATE OF PROSPECTING, DEVELOPMENT AND PRODUCTION

23.1 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 and within the limits made or fixed by the Commission 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.

23.2 Powers in this Article vested in the Director shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than fifteen (15) days from notice, and thereafter subject to administrative appeal before becoming final.

### ARTICLE XXIV

#### NON-DISCRIMINATION

24.1 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.

ARTICLE XXV

APPEARANCES

25.1 Unit Operator, after notice to other parties affected, shall have the right to appear for or on behalf of any and all interests affected hereby before the Department and to appeal from any order issued under the rules and regulations of the Department, or to apply for relief from any of said rules and regulations or in any proceedings relative to operations before the Department, 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.

ARTICLE XXVI

NOTICES

26.1 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.

ARTICLE XXVII

NO WAIVER OF CERTAIN RIGHTS

27.1 Nothing in this agreement contained shall be construed as a waiver of any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State wherein said Unitized Lands are located, or of the United States or the rules or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive.

ARTICLE XXVIII

PERSONAL PROPERTY EXCEPTED

28.1 Each of the Working Interest Owners hereto has heretofore individually placed in or on the wells drilled by such Working Interest Owner on its leases or interests and in or on the land covered by said leases or interests certain casing, casing flanges, tubing, rods, pipes, tanks as well as other lease and well equipment or other personal property (to all of which the provisions hereof are applicable whether similar or dissimilar in nature to the foregoing enumeration). As to all of such equipment, the installing Working Interest Owner has the contractual right in and under its respective leases to remove same from the premises, and the installation thereof by said Working Interest Owner was with the intention and understanding that all of such equipment would be and remain personal property and that no part thereof would be or become fixtures to the realty. The Working Interest Owners hereto have dealt separately among themselves and do hereby make a separate agreement with each other with respect to such lease and well equipment and all other such personal property located in or on the well or their respective leases, on the one hand, and the realty, leasehold estates, and the wells (exclusive of all equipment in or on said wells) located on and the Unitized Substances underlying the Unit Area, on the other hand. To that end, the Working Interest Owners have severed, and do hereby sever for all purposes of this agreement, all such lease and well equipment and other such personal property which may be located in or on the respective leases or in or on the wells thereon from the real leasehold estates, and the wells located on and the Unitized Substances underlying the Unit Area. To conform their respective investments in such equipment, Working Interest Owners have made a separate agreement with each other with respect thereto.

#### ARTICLE XXIX

#### UNAVOIDABLE DELAY

29.1 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 obliga-

tions, 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. No Unit obligation which is suspended pursuant to this section shall become due less than thirty (30) days after it has been determined that the suspension is no longer applicable. The determination of creditable "unavoidable delay" time shall be made by Unit Operator subject to the approval of the Supervisor.

### ARTICLE XXX

#### LOSS OF TITLE

30.1 If any Tract of Unitized Land ceases to have sufficient Working Interest or Royalty Interest committed to this agreement to meet the conditions of Article XIV because of failure of title to any party hereto, such Tract shall be regarded as not committed hereto as of 7:00 A.M. on the first day of the calendar month in which such failure of title is finally determined; provided, however, that no such Tract shall be so regarded if same can be re-qualified under said Article XIV within ninety (90) days after the date on which such title failure was finally determined. If any such Tract cannot be so re-qualified, Unit Operator shall recompute the Tract Participation of each Tract of Unitized Land remaining subject to this agreement so that such Tract Participation shall remain in the same ratio one to another. Thereafter, Unit Operator shall revise Exhibits "C" conformably with such recomputation. Each such revised exhibit shall be effective at 7:00 A.M. on 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 such failure shall be governed by the Unit Operating Agreement. If title to a Royalty Interest fails, but the Tract to which it relates remains committed to this agreement, the Royalty Owner whose title failed shall not be entitled to participate hereunder insofar as its participation is based on such

lost Royalty Interest. In the event of a dispute as to the title of any Working or Royalty Interest, or other interest subject hereto, 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.

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

#### ARTICLE XXXI

#### BORDER AGREEMENTS

31.1 Subject to the approval of the Supervisor, the Unit Operator upon the concurrence of at least three Working Interest Owners owning at least sixty-five percent (65%) of Unit Participation which is in effect at the time the vote is taken may enter into a border-protection agreement or agreements with the Working Interest Owners of lands adjacent to the committed Tracts with respect to the operations in the border area for the maximum ultimate recovery, conservation purposes and proper protection of the parties and interests.

#### ARTICLE XXXII

#### JOINDER IN DUAL CAPACITY

32.1 Execution as herein provided by any party either as a Working Interest Owner or as a Royalty Owner shall commit all interests that may be owned or controlled by such party, provided that any party owning a Working Interest must also execute the Unit Operating Agreement for his Working Interest to be committed hereto.

#### ARTICLE XXXIII

#### NON-JOINDER AND SUBSEQUENT JOINDER

33.1 Joinder by any Royalty and Record Owner, at any time, must

be accompanied by appropriate joinder of the corresponding Working Interest Owner in order for the interest of such Royalty and Record Owner to be regarded as 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 committed to this Unit Agreement.

33.2 Any oil or gas interest in the Unitized Formation not committed hereto prior to submission of this agreement for final approval may thereafter be committed hereto upon compliance with the applicable provisions of this Article and of Article XIV (Tracts Qualified for Participation) hereof, at any time up to the effective date hereof on the same basis of participation as provided in said Article XIV, 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.

33.3 It is understood and agreed, however, that from and after the effective date hereof the right of subsequent joinder by a Working Interest Owner as provided in this Article shall be subject to such requirements or approvals and on such basis as may be agreed upon by Working Interest Owners having not less than eighty percent (80%) Unit Participation which is in effect at the time the vote is taken and approved by the Director or Supervisor. Such subsequent 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 proposed Royalty Owner must be evidenced by his execution, ratification or consent 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 proposed Royalty Owner. Except as may be otherwise herein provided, subsequent joinder to this agreement shall be effective at 7:00 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 Supervisor is duly made within sixty (60) days after such filing.

#### ARTICLE XXXIV

##### TAXES

34.1 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 nor to any lessor who has a contract with a lessee which requires his lessee to pay such taxes.

#### ARTICLE XXXV

##### CONFLICT OF SUPERVISION

35.1 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 in and about any matters or things concerning which it is required herein that such concurrence be obtained. The parties hereto, agree that all powers and authority are vested in the Commission in and by any 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.

ARTICLE XXXVI

NO PARTNERSHIP

36.1 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.

ARTICLE XXXVII

PRODUCTION AS OF THE EFFECTIVE DATE

37.1 Unit Operator shall make a proper and timely gauge of all leases and other tanks on Unitized Land in order to ascertain the amount of merchantable oil above the pipeline connection in such tanks as of 7:00 A. M. on the effective date hereof. The oil that is a part of the prior allowable of the wells from which it was produced shall be and remain the property of the Interest Owner entitled thereto, the same as if the Unit had not been formed; and the responsible Working Interest Owner shall promptly remove said oil from Unitized Land. Any such oil not so removed may be sold by Unit Operator for the account of such Working Interest Owner, subject to the payment of all Royalty to Royalty Owners under the applicable 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 regarded as Unitized Substances produced after effective date hereof.

37.2 If, as of 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 regarded as 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.

ARTICLE XXXVIII

COUNTERPARTS

38.1 This agreement may be executed in any number of counter-  
parts, no one of which needs to be executed by all parties and may be ratified  
or consented to by separate instruments in writing specifically referring here-  
to, and shall be binding upon all those parties who have executed such a counter-  
part, 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.

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

ATTEST:

RESERVE OIL AND GAS COMPANY

By John N. Purpice  
Assistant Secretary

By Paul D. Meadows *JD*  
Vice President

Dated: January 21, 1970

THE STATE OF TEXAS    |  
                                  |  
COUNTY OF DALLAS    |

The forgoing instrument was acknowledged before me this 21st day  
of January, 1970, by PAUL D. MEADOWS, Vice President for Reserve Oil  
and Gas Company, on behalf of said corporation.

Margaret Lotz  
Notary Public in and for  
Dallas County, Texas

My Commission Expires:  
June 1, 1971

WORKING INTEREST OWNERS

Date \_\_\_\_\_

Date \_\_\_\_\_