

UNIT OPERATING AGREEMENT
EUNICE MONUMENT SOUTH UNIT
LEA COUNTY, NEW MEXICO

BEFORE EXAMINER CATANACH
OIL CONSERVATION DIVISION

CHEURON EXHIBIT NO. 34

CASE NO. 10059-61

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UNIT OPERATING AGREEMENT
EUNICE MONUMENT SOUTH UNIT
LEA COUNTY, NEW MEXICO

THIS AGREEMENT, entered into as of the 22nd day of June, 1984, 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;

W I T N E S S E T H:

WHEREAS, the parties hereto, as Working Interest Owners have executed that certain agreement entitled "Unit Agreement, Eunice Monument South Unit, Lea County, New Mexico" hereinafter referred to as "Unit Agreement", and which, among other things, provides for a separate agreement to be made and entered into by and between Working Interest Owners to provide for Unit Operations 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 incorporated herein by reference and made a part of this Agreement. The definitions in the Unit Agreement are adopted for all purposes of this Agreement. In the event of any conflict between the Unit Agreement and this Agreement, the Unit Agreement shall prevail.

ARTICLE 2

EXHIBITS

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

2.1.1 Exhibits "A" and "B" of the Unit Agreement.

2.1.2 Exhibit "C", attached hereto, is a summary showing each Working Interest Owner's Working Interest in each Tract, the percentage

of total Unit Participation attributable to each such interest, and the total Unit Participation of each Working Interest Owner.

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

2.1.4 Exhibit "E", attached hereto, is the Accounting Procedure applicable to Unit Operations. In the event of conflict between this agreement and Exhibit "E", this agreement shall prevail.

2.1.5 Exhibit "F", attached hereto, contains Certificate of Compliance provisions provided for in Article 21.

2.1.6 Exhibit "G", attached hereto, is the Gas Balancing Agreement applicable to Unit Operations.

2.2 Revision of Exhibits. Whenever Exhibit A or B are revised, Exhibit C shall be revised accordingly and be effective as of the same date. Unit Operator shall also revise Exhibit C from time to time as required to conform to changes in ownership of which Unit Operator has been notified as provided in the Unit Agreement.

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

ARTICLE 3

SUPERVISION OF OPERATIONS BY WORKING INTEREST OWNERS

3.1 Overall Supervision. Subject to the other terms and provisions of this agreement and of the Unit Agreement, Working Interest Owners shall exercise overall supervision and control of all matters pertaining to the Unit Operations pursuant to this Agreement and the Unit Agreement. In the exercise of such power, 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 Particular Powers and Duties. The Working Interest Owners, using the voting procedures given in Article 4.3, unless otherwise specifically provided in this Agreement, shall decide matters pertaining to Unit Operations which include, but are not limited to the following:

3.2.1 Method of Operation. The kind, character and method of operation, including any type of pressure maintenance, secondary recovery or other enhanced recovery program to be employed.

3.2.2 Drilling of Wells. The drilling, deepening, or sidetracking of any well within the Unit Area for the production of Unitized Substances; and the drilling of any well for injection, salt water disposal or for any other Unit purpose.

3.2.3 Well Workovers and Change of Status. The reworking, recompleting or repairing of any well for the purpose of production of Unitized Substances reasonably estimated to require an expenditure in excess of the expenditure limitation specified in Section 3.2.4 hereinbelow; and the abandonment or change of status of any well in the Unit, or the use of any such well for injection or other purposes.

3.2.4 Expenditures. Making of any single expenditure in excess of thirty-five thousand dollars (\$35,000.00), except as provided in Section 7.9 hereof; provided that approval by Working Interest Owners for the drilling,

sidetracking, reworking, drilling deeper 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 Amendment of Overhead Rates. The amendment of the overhead rates provided for in Section III of Exhibit "E" if, as set forth in Section III.3 of Exhibit "E", such rates are found to be insufficient or excessive.

3.2.6 Disposition of Surplus Facilities. Selling or otherwise disposing of any major item of surplus unit material or equipment, the current list price of new equipment similar thereto being fifteen thousand dollars (\$15,000.00) or more.

3.2.7 Appearance Before a Court or Regulatory Body. The designating of a representative to appear before any court or regulatory body in matters pertaining to unit operations; provided, however, that the authorization by Working Interest Owners of the designation of any such representatives shall not prevent any Working Interest Owner from appearing in person or from designating another representative in its own behalf.

3.2.8 Audit Exceptions. Any unresolved audit exceptions relating to audits as provided for in Exhibit "E".

3.2.9 Assignments to Committees. The appointment or designation of committees or subcommittees necessary for the study of any problem in connection with Unit Operations.

3.2.10 The selection of a successor to the Unit Operator.

3.2.11 The enlargement of the Unit Area.

3.2.12 The adjustment and readjustment of investments.

3.2.13 Acquisition of Wells for Unit Operations.

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 advise Unit Operator in writing the names and addresses of its representative and alternate who are authorized to represent and bind it in respect to any matter pertaining to the development and operation of the Unit Area. Such 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 for the purpose of considering and acting upon any matter pertaining to the development and operation of the Unit Area shall be called by Unit Operator upon its own motion or at the request of two or more Working Interest Owners having a total Unit Participation of not less than ten (10%) percent. No meeting shall be called on less than fourteen (14) days' advance written notice, with agenda for the meeting attached. The Working Interest Owners attending such meeting shall not be prevented from amending items included in the agenda or from deciding such amended item or from deciding other items presented at such meeting. The representative of Unit Operator shall be Chairman of each meeting.

4.3 Voting Procedure. Working Interest Owners shall act upon and determine 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 in effect at the time of the vote.

4.3.2 Vote Required. Unless otherwise provided herein or in the Unit Agreement, Working Interest Owners shall determine all matters by the affirmative vote of four or more Working Interest Owners having a combined voting interest of at least sixty-five percent (65%); however, should any one Working Interest Owner have more than thirty percent (30%) voting interest, its negative vote or failure to vote shall not defeat a motion and such motion shall pass if approved by Working Interest Owners having a majority voting interest, unless two or more additional Working Interest Owners having a combined voting interest of at least five percent (5%) likewise vote against the motion or fail to vote.

4.3.3 Vote at Meeting by Non-Attending Working Interest Owners. Any Working Interest Owner not represented at a meeting may vote on any item included in the agenda of the meeting by letter or telegram addressed to the Chairman of the meeting, provided such vote is received prior to the submission of such item to vote. Such vote shall not be counted with respect to any item on the agenda which is amended at the meeting.

4.3.4 Poll Votes. Working Interest Owners may decide any matter by vote taken by letter or telegram, provided the matter is first submitted in writing to each Working Interest Owner and no meeting on the matter is called, as provided in Paragraph 4.2, within fourteen (14) days after such proposal is dispatched to Working Interest

Owners. Such vote will be final and Unit Operator will give prompt notice of the results of such voting to all Working Interest Owners.

ARTICLE 5

INDIVIDUAL RIGHTS AND PRIVILEGES OF WORKING INTEREST OWNERS

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

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

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

5.2.2 Reports by Request. 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 data pertaining to Unit Operations. The cost of gathering and furnishing data not ordinarily furnished by Unit Operator to all Working Interest Owners shall be charged solely to Working Interest Owners requesting the same.

5.2.3 Audits. The right to audit the accounts of Unit Operator according to the provisions of Exhibit "E".

ARTICLE 6

UNIT OPERATOR

6.1 Unit Operator. Gulf Oil Corporation is hereby designated as the initial Unit Operator.

6.2 Resignation or Removal. Unit Operator may resign at any time. Unit Operator may be removed at any time by the

affirmative vote of Working Interest Owners having eighty percent (80 %) or more of the voting interest remaining after excluding the voting interest of Unit Operator. Such resignation or removal shall not become effective for a period of six (6) months after the resignation or removal, unless a successor Unit Operator has taken over Unit Operations prior to the expiration of such period.

6.3 Selection of Successor. Upon the resignation or removal of Unit Operator, a successor Unit Operator shall be selected by Working Interest Owners as provided in Section 8 of the Unit Agreement.

6.4 Records and Information. The Unit Operator resigning or being removed shall give complete cooperation to the new Unit Operator and shall deliver to its successor all records and information necessary to the discharge of the new Unit Operator's duties and obligations.

ARTICLE 7

POWERS AND DUTIES OF UNIT OPERATOR

7.1 Exclusive Rights to Operate Unit. Subject to the other provisions of this Agreement, and to the orders, directions and limitations rightfully given or imposed by 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 all operations hereunder in a good and workmanlike manner and, in the absence of specific instructions from Working Interest Owners, shall have the right and duty to conduct such operations in the same manner as would a prudent operator under the same or in similar circumstances. Unit Operator shall freely consult with Working Interest Owners and keep them advised of all matters arising in connection with such operations 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 the gross negligence or willful misconduct of Unit Operator.

7.3 Liens and Encumbrances. Unit Operator shall endeavor to keep the land and leases in the Unit Area free from all liens and encumbrances occasioned by its operations hereunder, except the lien of Unit Operator granted hereunder.

7.4 Employees. The number of employees used by Unit Operator in conducting operations hereunder, the selection of such employees, the hours of labor and the compensation for services to be paid any and all such employees shall be determined by Unit Operator. Such employees shall be employed by Unit Operator.

7.5 Records. Unit Operator shall keep true and correct books, accounts and records of its operations hereunder.

7.6 Reports to Working Interest Owners. Unit Operator shall furnish to each Working Interest Owner periodic reports of the development and operation of the Unit Area.

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 each Working Interest Owner, upon written request, a copy of the log of, and copies of engineering and geological data pertaining to, wells drilled by Unit Operator.

7.9 Expenditures. Unit Operator is authorized to make single expenditures not in excess of thirty-five thousand dollars (\$35,000.00) 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 Owner, as promptly as possible, the nature of the emergency and the action taken.

7.10 Wells Drilled by Unit Operator. All wells drilled by Unit Operator shall be at the usual rates prevailing in the area. Unit Operator may employ its own tools and equipment, but

the charge therefor shall not exceed the prevailing rate in the area, and the work shall be performed by Unit Operator under the same terms and conditions as are usual in the area in contracts of independent contractors doing work of a similar nature.

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

ARTICLE 8

TAXES

8.1 Ad Valorem Taxes. Beginning with the first calendar year after the Effective Date hereof, Unit Operator shall make and file all necessary property tax renditions, whether on real or personal property and returns with the proper taxing authorities with respect to all property of each Working Interest Owner used or held by Unit Operator for Unit Operations. Unit Operator shall settle assessments arising therefrom. All such property taxes shall be paid by Unit Operator and charged to the joint account; however, if the interest of a Working Interest Owner is subject to a separately assessed overriding royalty interest production payment or other interest in excess of a one-eighth (1/8) royalty, such Working Interest Owner shall notify Unit Operator of such interest prior to the rendition date and shall be given credit for the reduction in taxes paid resulting therefrom. Any Working Interest Owner dissatisfied with any assessment of its interest in real or personal property shall have the right, at its own expense, and after due notice to the Unit Operator, to protest and resist any such assessment,

8.2 Taxes and Assessments. Each Working Interest Owner shall pay or cause to be paid all production, severance, gathering, windfall profits tax and other taxes and assessments imposed upon or on account of the production or handling of its share of Unitized Substances.

8.3 Income Tax Election. Notwithstanding any provisions herein that the rights and liabilities hereunder are several and not joint or collective, or that this Agreement and operations

hereunder shall not constitute a partnership, if for Federal income tax purposes this Agreement and the operations hereunder are regarded as a partnership, then each of the Parties hereto elects to be excluded from the application of all of the provisions of Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1954, as permitted and authorized by Section 761 of the Code and the regulations promulgated thereunder. Unit Operator is authorized and directed to execute on behalf of each of the Parties hereto such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by Federal Regulations 1.761-1(a). Should there be any requirement that each Party hereto give further evidence of this election, each such Party shall 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 in which the Unit Area is located or any future income tax law of the United States contain provisions similar to those in Subchapter K, Chapter 1, Subtitle A, of the Internal Revenue Code of 1954, under which an election similar to that provided by Section 761 of the Code is permitted, each of the Parties hereto agrees to make such election as may be permitted or required by such laws. In making the foregoing election, each of the Parties states that the income derived by such Party from the operations under this Agreement can be adequately determined without the computation of partnership taxable income.

ARTICLE 9

INSURANCE

9.1 Insurance. Unit Operator, with respect to Unit Operations, shall:

- (a) comply with the Workmen's Compensation Laws of the State,

(b) carry Employer's Liability and other insurance required by the laws of the State, and

(c) provide other insurance as set forth in Exhibit D.

ARTICLE 10

ADJUSTMENT OF INVESTMENTS

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

10.1.1 Wells and Well Equipment. All usable wellbores as defined in Article 11.3, together with the casing, tubing, and downhole equipment up to and including the christmas tree.

10.1.2 Lease and Operating Equipment. All lease and operating equipment, salt water disposal wells and facility systems related to the unitized formation which Working Interest Owners determine to be necessary or desirable for conducting Unit Operations.

10.1.3 Records. A copy of all production and well records pertaining to any well which has historically or is currently producing from the Unitized Formation.

10.2 Inventory and Evaluation of Personal Property. Working Interest Owners shall appoint an inventory committee which shall, as of the Effective Date hereof, or as soon thereafter as feasible, cause to be taken, under the supervision of the Unit Operator and at Unit Expense, joint physical inventories of lease and well equipment within the Unit Area, which inventories shall be used as a basis for determining the controllable items of equipment to be taken over by the Unit Operator hereunder. The Unit Operator shall notify each Working Interest Owner within each separate Tract at least five (5) days prior to the taking of the inventory with respect to said Tract, so that each of said Working Interest Owners may make arrangements to be represented at the taking of the inventory. Such inventories shall exclude all items not of use and value to the Unit and not necessary to Unit Operations. Such

inventories shall include and be limited to those items of equipment normally considered controllable as recommended in the material classification manual in Bulletin No. 6 dated May, 1971, or any amendments thereto, published by the Petroleum Accountants Society of North America, except that certain items normally considered noncontrollable, such as sucker rods and other items as agreed upon by the Working Interest Owners may be included in the inventories in order to insure a more equitable adjustment of investments. Immediately following completion, such inventories shall be priced in accordance with the provision of Exhibit "E", Accounting Procedure, attached hereto and made a part hereof; such pricing shall be performed under the supervision of, by the personnel of and in the offices of the Unit Operator, with Working Interest Owners furnishing such additional pricing help as may be available and necessary. It is specifically provided that with respect to each well taken over for Unit Operations, no value shall be assigned to intangible drilling costs of such well or to the down-hole casing therein.

10.3 Inventory and Valuations. After completion of the inventory and evaluation of property in accordance with the provisions of Section 10.2, Unit Operator shall submit to each Working Interest Owner a copy of the inventory and valuations thereon together with a letter ballot for approval of such inventory and valuations. Within sixty (60) days after receipt of such inventory and valuations each Working Interest Owner shall return such letter ballot to Unit Operator indicating its approval or disapproval thereof. It is agreed that such inventory and valuations shall be binding upon all parties if approved by Working Interest Owners owning as much as sixty-five percent (65%) of the Working Interest in the Unit Area.

10.4 Investment Adjustment. As soon as practicable after approval by Working Interest Owners of the inventory and valuations as provided in Section 10.3, each Working Interest Owner shall be credited with the value of its interest in all personal property so taken over by Unit Operator under Sections 10.1.1 and 10.1.2, and charged with an amount equal to that obtained by multiplying the total value of all such personal property so taken over by Unit Operator under Sections 10.1.1 and 10.1.2 by such Working Interest Owner's Unit Participation, as shown on Exhibit

"C", attached hereto. If the charge against any Working Interest Owner is greater than the amount credited to such Working Interest Owner, the resulting net charge shall be paid and in all other respects be treated as any other item of Unit Expense chargeable against such Working Interest Owner. If the credit to any Working Interest Owner is greater than the amount charged against such Working Interest Owner, the resulting net credit shall be paid to such Working Interest Owner by Unit Operator out of funds received by it in settlement of the net charges described above.

10.5 General Facilities. The acquisition of warehouses, warehouse stocks, lease houses, camps, facilities systems, and office building necessary for Unit Operations shall be by negotiation by and between the owners thereof and Unit Operator, subject to the approval of Working Interest Owners.

10.6 Ownership of Personal Property and Facilities. Each Working Interest Owner, individually, shall, by virtue hereof, own an undivided interest in all personal property and facilities taken over or otherwise acquired by Unit Operator pursuant to this agreement equal to its Unit Participation, shown on Exhibit "C", attached hereto.

ARTICLE 11

WELLBORES

11.1 Demand Wells. Upon the Effective Date of Unitization, or thereafter as demanded by the Unit Operator pursuant to the Unit plan of operations, Working Interest Owners will provide a useable wellbore, as defined in Article 11.3, on each forty acres which would constitute a proration unit within the Unit Area. If any such forty acres is not provided with a useable wellbore upon demand, the owner or owners contributing the forty acre location shall have the option for ninety (90) days to provide a useable wellbore. If a useable wellbore is not provided within the ninety day period, the owner or owners contributing the forty acre location shall within 10 days of the end of such ninety (90) day period remit the sum of one hundred thousand dollars (\$100,000) to the Unit Operator to be applied toward the cost of drilling, completing, and equipping a well on the deficient forty acre location. All costs of drilling, completing, and equipping the well in excess of the \$100,000 shall be charged to the joint account to be

shared by all owners in proportion to their respective Unit Participation percentage. In the event that an owner or owners fail to provide a required useable wellbore, and fail to pay the assessed \$100,000 for each wellbore deficient location within the required time period, such owner or owners shall be in default of payment, and action shall be initiated in accordance with provisions of Article 12.5 of this Agreement.

11.2 Exception to Demand Well Requirement. Any forty acre proration unit which has not contributed oil production from the Unitized Formation for purposes of the Tract Participation formula of Section 13 of the Unit Agreement will not be subject to the requirements of Article 11.1, above.

11.3 Useable Wellbore Definition. A "Useable Wellbore" shall be defined as a wellbore which is (1) suitable for unit operations which shall include being adequately cased to the satisfaction of the Working Interest Owners, down to the top of, or into the Unitized Formation, or through the Unitized Formation but plugged back to a depth no deeper than the base of the Unitized Formation, and (2) clear and free of obstructions from the surface to either the base of the Unitized Formation or to total depth, whichever is shallower, and (3) squeezed off at all non-unitized intervals.

11.3.1 Wellbores Made Useable. After the Effective Date of Unitization, any wellbore demanded by the Unit which requires remedial work to be made "Useable" may be worked over by the well owners, but such work may be witnessed by a representative of Unit Operator. The Working Interest Owners will not be liable for any cost or expense when work is performed by wellbore owners. Wellbore owners may request that remedial work required to make a wellbore "Useable" be performed by the Unit Operator. Following any such written request, Unit Operator will review wellbore records to determine appropriate procedures and cost estimates. If the Unit Operator determines that the required remedial work is technically feasible and can be performed on

a timely basis, Unit Operator at its sole discretion may agree to perform the required work. The wellbore owners shall bear the sole cost, risk, and expense of such remedial work up to a maximum amount of one hundred thousand dollars (\$100,000). If Unit Operator estimates that such remedial work will cost in excess of \$100,000, an AFE for the amount in excess of \$100,000 will be submitted to Working Interest Owners prior to the start of work and such excess shall be charged to the joint account.

11.3.2 Wellbores Accepted as "Useable Wellbores". Notwithstanding paragraph 11.3, any well actively producing as a single completion from the Unitized Formation for at least six (6) consecutive months prior to the Effective Date of unitization shall be accepted as a "Useable Wellbore." Any well which has not actively produced as a single completion from the Unitized Formation for six (6) consecutive months prior to the Effective Date of unitization shall not be accepted as a "Useable Wellbore" until it can be entered by the Unit Operator and assessed pursuant to Article 11.3. Any well not so assessed within two years following the effective date of unitization shall then be deemed a "Useable Wellbore."

ARTICLE 12

DEVELOPMENT AND OPERATING COSTS

12.1 Basis of Charge to Working Interest Owners. Subject to the provisions of Section 12.2 hereof, Unit Operator initially shall pay all Unit Expense. Each Working Interest Owner shall reimburse Unit Operator for its share of Unit Expenses. All charges, credits, and accounting for Unit Expense shall be in accordance with Exhibit "E" attached hereto. Each Working Interest Owner's share of such charges shall be the same as its Unit Participation.

12.2 Advance Billings. Unit Operator shall have the right, at its option, to require other Working Interest Owners to advance their respective proportions of estimated development and operating costs and expenses by submitting to such other Working Interest Owners, on or before the 15th day of any month, an itemized estimate of such costs and expenses for the succeeding month with a request for payment in advance. Within thirty (30) days thereafter, each such other Working Interest Owner shall pay to Unit Operator its proportionate part of such estimate. Adjustment between estimates and the actual costs shall be made by Unit Operator at the close of each calendar month, and the accounts of the Working Interest Owners shall be adjusted accordingly.

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

12.4 Lien and Security Interest of Unit Operator and Working Interest Owners. Each Working Interest Owner grants to Unit Operator a lien upon its Oil and Gas Rights in each Tract, and a security interest in its share of Unitized Substances when extracted and its interest in all Unit Equipment, to secure payment of its share of Unit Expense, together with interest thereon at the Prime rate set by Bank of America for the same period +2% per annum. To the extent that Unit Operator has a security interest under the Uniform Commercial Code of the State, Unit Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Unit Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof. In addition, upon default by any Working Interest Owner in the payment of its share of Unit Expense, Unit Operator shall have the right, without prejudice to other rights or remedies, to collect from the purchaser the proceeds from the sale of such Working Interest Owner's share of Unitized Substances until the amount owed by such Working Interest Owner, plus interest has been paid. Each purchaser shall be entitled to rely upon Unit Operator's written statement concerning the amount of any default. Unit Operator

grants a like lien and security interest to the Working Interest Owners.

12.5 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, the non-defaulting Working Interest Owners shall, upon request by Unit Operator, pay the unpaid amount as if it were Unit Expense in the proportion that the Unit Participation of each such Working Interest Owner bears to the Unit Participation of all such Working Interest Owners. Each Working Interest Owner so paying its share of the unpaid amount shall, to obtain reimbursement thereof, be subrogated to the security rights described in Section 12.4 of this agreement.

12.6 Carved-Out Interest. If any Working Interest Owner shall, after executing this agreement, create an overriding royalty, production payment, net proceeds interest, carried interest, or any other interest out of its Working Interest, such carved-out interest shall be subject to the terms and provisions of this agreement, specifically including, but without limitation, Section 12.4 hereof entitled "Lien and Security Interest of Unit Operator and Working Interest Owners." If the Working Interest Owner creating such carved-out interest (a) fails to pay any Unit Expense chargeable to such Working Interest Owner under this agreement, and the production of Unitized Substances accruing to the credit of such Working Interest Owner is insufficient for that purpose, or (b) withdraws from this agreement under the terms and provisions of Article 17 hereof, the carved-out interest shall be chargeable with a pro rata portion of all Unit Expense incurred hereunder, the same as though carved-out interest were a Working Interest, and Unit Operator shall have the right to enforce against such carved-out interest the lien and all other rights granted in Section 12.4 for the purpose of collecting the Unit Expense chargeable to the carved-out interest.

12.7 Rentals. The Working Interest Owners in each Tract shall pay all rentals, minimum royalty, advance rentals or delay rentals due under the lease thereon and shall concurrently submit to the Unit Operator evidence of payment.

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

ARTICLE 13

NON-UNITIZED FORMATIONS

13.1 Right to Operate. Any Working Interest Owner that now has or hereafter acquires the right to drill for and produce oil, gas, or other minerals from a formation underlying the Unit Area other than the Unitized Formation, shall have the right to do so notwithstanding this Agreement or the Unit Agreement. In exercising the right, however, the Working Interest Owner shall exercise care to prevent unreasonable interference with Unit Operations. No Working Interest Owner other than Unit Operator 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 other Unit Working Interest Owners so

that production of Unitized Substances will not be adversely affected.

13.2 Multiple Completions. No well now or hereafter completed in the Unitized Formation shall ever be completed as a multiple completion with the Unitized Formation unless such multiple completion and subsequent handling of the multiple completion is approved by Working Interest Owners in accordance with the voting procedure described in Article 4.3 of this Agreement.

ARTICLE 14

TITLES

14.1 Warranty and Indemnity. Each Working Interest Owner represents and warrants that it is the owner of the respective Working Interest as shown to be owned by it on appropriate Exhibits to this Agreement and hereby indemnifies and holds the other Working Interest Owners harmless from any loss due to the failure, in whole or in part, of its title to any such interest, except failure of title arising out of operations hereunder; provided, however, that such indemnity and any liability for breach of warranty shall be limited to an amount equal to the net value that had been received from the sale of Unitized Substances attributed hereunder to the interest as to which title failed. Each failure of title will 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.

14.2 Failure of Title Because of Unit Operations. The failure of title to any Working Interest in any Tract because of Unit Operations, including nonproduction from such Tract, shall not change the Unit 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 15

LIABILITY, CLAIMS AND SUITS

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

15.2 Settlements. Unit Operator may settle any single damage claim or suit involving Unit Operations if the expenditure does not exceed ten thousand dollars (\$10,000) and if the payment is in complete settlement of such claim or suit. If the amount required for settlement exceeds the above amount, Working Interest Owners shall determine the further handling of the claim or suit, unless such authority is 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, subject to such limitation as is set forth in Exhibit "E". 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 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 Unit Operator, and the claim or suit shall be treated as any other claim or suit involving Unit Operations.

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 hereof.

ARTICLE 17

WITHDRAWAL OF WORKING INTEREST OWNER

17.1 Withdrawal. A Working Interest Owner may withdraw from this Agreement by transferring, without warranty of title either express or implied, to the Working Interest Owners who do not desire to withdraw all its Oil and Gas Rights, exclusive of Royalty Interests, together with its interest in all Unit Equipment and in all wells used in Unit Operations, provided that such transfer shall not relieve such Working Interest Owner from any obligation or liability incurred prior to the first day of the month following receipt by Unit Operator of such transfer. The delivery of the transfer shall be made to Unit Operator for the transferees. The transferred interest shall be owned by the transferees in proportion to their respective Unit Participations. The transferees, in proportion to the respective interests so acquired, shall pay the transferor for its interest in Unit Equipment, the salvage value thereof less its share of the estimated cost of salvaging same and of plugging and abandoning all wells then being used or held for Unit Operations, as determined by Working Interest Owners. In the event such withdrawing owner's interest in the aforesaid salvage value is less than such owner's share of such estimated costs, the withdrawing owner, as a condition precedent to withdrawal, shall pay the Unit Operator, for the benefit of Working Interest Owners succeeding to its interest, a sum equal to the deficiency. Within sixty (60) days after receiving delivery of the transfer, Unit Operator shall render a final statement to the withdrawing owner for its share of Unit Expense, including any deficiency in salvage value, as determined by Working Interest Owners, incurred as of the first day of the month following the date of receipt of the transfer. Provided all Unit Expense, including any deficiency hereunder, due from the withdrawing owner has been paid in full within thirty (30) days after the rendering of such final statement by the Unit Operator, the transfer shall be effective the first day of the month following its receipt by Unit Operator and, as of such effective date, withdrawing owner shall be relieved from all further obligations and liabilities

hereunder and under the Unit Agreement, and the rights of the withdrawing Working Interest Owner hereunder and under the Unit Agreement shall cease insofar as they existed by virtue of the interest transferred.

17.2 Limitation on Withdrawal. Notwithstanding anything set forth in Article 17.1, Working Interest Owners may refuse to permit the withdrawal of a Working Interest Owner if its Working Interest is burdened by any royalties, overriding royalties, production payments, net proceeds interest, carried interest, or any other interest created out of the Working Interest in excess of one-eighth (1/8th) lessor's royalty, unless the other Working Interest Owners willing to accept the assignment agree to accept the Working Interest subject to such burdens.

ARTICLE 18

ABANDONMENT OF WELLS

18.1 Rights of Former Owners. If Working Interest Owners decide to permanently abandon any well completed in the Unitized Formation within the Unit Area prior to termination of the Unit Agreement, Unit Operator shall give written notice of such fact to the Working Interest Owners of the Tract on which such well is located and said Working Interest Owners shall have the right and option for a period of sixty (60) days after receipt of such notice to notify Unit Operator of their election to take over and own said well and to deepen or plug back said well to a formation other than the Unitized Formation. Within sixty (60) days after said Working Interest Owners have so notified Unit Operator of their desire to take over such well, they shall pay the Unit Operator, for credit to the joint account of the Working Interest Owners, the amount as estimated and fixed by Working Interest Owners to be the net salvage value of the equipment in and on said well, except casing and other equipment originally contributed at no cost. The Working Interest Owners of the Tract, by taking over the well, agree to seal off the Unitized Formation in a manner satisfactory to Working Interest Owners, and upon abandonment to plug the well in compliance with all applicable laws and regulations.

18.2 Plugging. In the event 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 accordance 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 full force and effect so long as the Unit Agreement remains in force and 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 hereof, (b) all personal and real property acquired for the Joint Account of Working Interest Owners 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 desiring to take over

and continue to operate a well or wells located thereon may do so by paying Unit Operator, for the credit of the joint account, the net salvage value, as determined by the Working Interest Owners, of the equipment in and on the well, except casing and other equipment originally contributed at no cost, and by agreeing to properly plug the 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 in compliance with applicable laws and regulations.

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

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

ARTICLE 21

LAWS, REGULATIONS AND CERTIFICATE OF COMPLIANCE

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

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

ARTICLE 22

EXCISE TAX PROVISIONS

22.1 Crude Oil Excise Tax. For the period during which excise taxes are payable under the Crude Oil Windfall Profit Tax Act of 1980 on any party's Unitized Substances, the first crude oil allocated to any Tract after distribution of any incremental tertiary crude as hereinafter provided shall be the tax tier type of crude oil actually produced or considered to have been produced from such Tract during the base period under I.R.C. regulations but not to exceed its Tract Participation share or the amount of such tax tier type of crude oil currently available. Any excess of a tax tier type of crude oil existing after the foregoing specific identification allocation shall be allocated to the remaining Tracts in the Unit which have an underallocation of crude oil in proportion to the amount of their relative underallocations of crude oil. Anything hereinabove notwithstanding, any incremental tertiary oil as defined under I.R.C. Section 4993 shall be allocated to each Tract in accordance with its Tract Participation prior to any other allocation of tax tier type of crude oil under this Article 22.1. In no case shall the sum of the different tax tier types of crude oil allocated to any Tract exceed the total amount of crude oil allocable under its Tract Participation.

22.2 Amendment By Working Interest Owners. This Article 22 may be amended or deleted by vote of the Working Interest Owners using the voting procedure set out in Article 4.3 of this Operating Agreement if in the opinion of the Working Interest Owners (a) application of Article 22 as written becomes unworkable or inequitable as a result of changes in laws or regulations of any governmental agency, or (b) amendment or deletion of this Article 22 is necessary to comply with applicable laws, rules, regulations or orders of any governmental agency having jurisdiction.

ARTICLE 23

GOVERNMENTAL REGULATIONS

23.1 Governmental Regulations. Working Interest Owners agree to release Unit Operator from any and all losses, damages,

injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Unit Operator's interpretation or application of rules, rulings, regulations or orders of any governmental agency or predecessor agencies to the extent Unit Operator's interpretation or application of such rules, rulings, regulations or orders were made in good faith. Working Interest Owners further agree to reimburse Unit Operator for their proportionate share of any amounts Unit Operator may be required to refund, rebate or pay as a result of an incorrect interpretation or application of the above noted rules, rulings, regulations or orders, together with their proportionate part of interest and penalties owing by Unit Operator as a result of such incorrect interpretation or application of such rules, rulings, regulations or orders.

ARTICLE 24

COUNTERPART EXECUTION

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

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

GULF OIL CORPORATION *KTS*

By


Attorney-in-Fact

DATE OF RECORDING:
June 22, 1984

THE STATE OF TEXAS §

COUNTY OF MIDLAND §

The foregoing instrument was acknowledged before me this 22nd
day of June, 19 84, by L. A. Turner,
Attorney-in-Fact, for/of Gulf Oil Corporation,
Pennsylvania, a Pennsylvania corporation, on
behalf of said corporation.

My Commission Expires:

7-30-88

Carolyn D. Larson

EXHIBIT C
 WORKING INTEREST OWNER SUMMARY
 EUNICE MONUMENT SOUTH UNIT
 LEA COUNTY, NEW MEXICO

WORKING INTEREST OWNER	OLD TRACT	NEW TRACT	PERCENT UNIT OWNERSHIP
AMERADA HESS CORPORATION	008	077	0.148770
	055	084	1.153271
-----			-----
AMERADA HESS CORPORATION			1.302041
AMOCO PRODUCTION COMPANY	081	001	2.077190
	082	002	0.230352
	097	003	0.161889
	116	004	0.017721
	080	005	0.063690
	087	006	0.080786
	048	007	1.666127
	059	008	2.264863
	065	009	0.331526
	003	010	0.584461
	004	011	0.027077
	114	058	0.031885
	104	061	0.199372
	105	076	0.074180
	115	101	0.228542
-----			-----
AMOCO PRODUCTION COMPANY			8.039661
APOLLO OIL COMPANY	052	081	0.108986
ATLANTIC RICHFIELD COMPANY	081	001	2.077190
	082	002	0.230352
	097	003	0.161889
	116	004	0.017721
	080	005	0.063690
	087	006	0.080786
	048	007	1.666127
	059	008	2.264863
	065	009	0.331526
	043	027	2.680609
	042	028	0.934498
	046	043	0.634662
	049	044	0.063394
	028	045	0.238845
	072	046	0.135395
	106	047	0.132934
	062	049	0.751002
	023	050	0.050367
	019	059	0.882435
	036A	062	0.158116
	036B	064	0.067881
	002	066	0.512798
	026	068	0.220246
	045	075	0.693134
	105	076	0.087493
	009	078	0.055491
	053	082	0.250057
	054	083	0.192757
	066	087	3.457004
	077	092	0.050973
	084	096	0.363610
	096	099	0.173659
	099	100	0.026594
-----			-----
ATLANTIC RICHFIELD COMPANY			19.708098
BOSS, KENNETH R.	052	081	0.217972
BRADY PRODUCTION	068	089	0.211657
BRUNO, EARL	079	094	0.153687

EXHIBIT C
 WORKING INTEREST OWNER SUMMARY
 EUNICE MONUMENT SOUTH UNIT
 LEA COUNTY, NEW MEXICO

WORKING INTEREST OWNER	OLD TRACT	NEW TRACT	PERCENT UNIT OWNERSHIP
CATRON W.I. ACCT.	049	044	0.063394
	028	045	0.238845
	072	046	0.135395
	106	047	0.132934
-----			-----
CATRON W.I. ACCT.			0.570568
CATRON, J. S. & T. B. CATRON III	050	048	0.018148
CATRON, THOMAS B. III, TRUSTEE	050	048	0.018148
CHEVRON, U.S.A., INC.	081	001	2.077190
	082	002	0.230352
	097	003	0.161889
	116	004	0.017721
	080	005	0.063690
	087	006	0.080786
	048	007	1.666127
	059	008	2.264863
	065	009	0.331526
-----			-----
CHEVRON, U.S.A., INC.			6.894144
CITIES SERVICE COMPANY	013	039	0.244360
	091	041	0.751093
-----			-----
CITIES SERVICE COMPANY			0.995453
CONOCO INC.	081	001	2.077190
	082	002	0.230352
	097	003	0.161889
	116	004	0.017721
	080	005	0.063690
	087	006	0.080786
	048	007	1.666127
	059	008	2.264863
	065	009	0.331526
	075	025	0.474353
	096	026	1.957890
-----			-----
CONOCO INC.			9.326367
CRILE, HERMAN R.	073	072	0.013744
	074	091	0.026231
-----			-----
CRILE, HERMAN R.			0.039975
DENNIS, ETHEL	031	055	0.013819
ELLISON, T. W.	031	055	0.013819
EXXON COMPANY U.S.A.	006	012	0.151224
	021	037	1.962315
	067	088	0.931331
	068	089	0.211657
	069	090	1.604876
-----			-----
EXXON COMPANY U.S.A.			4.861403
FIELDS, BERT JR.	024	063	0.058119

EXHIBIT C
 WORKING INTEREST OWNER SUMMARY
 EUNICE MONUMENT SOUTH UNIT
 LEA COUNTY, NEW MEXICO

WORKING INTEREST OWNER	OLD TRACT	NEW TRACT	PERCENT UNIT OWNERSHIP
GETTY OIL COMPANY	092	023	0.918559
	103	024	0.277424
	088	030	1.328423
	117	031	0.137520
	001	032	0.427150
	089	033	0.169794
	060	038	0.442503
	046	043	0.634662
	090	056	0.186322
	093	060	0.559636
	025	065	0.009005
	012	073	0.081241
	053	082	0.250057
	083	095	0.375553
	085	097	1.415360
098	099	0.086860	
099	100	0.013302	
-----			-----
GETTY OIL COMPANY			7.313371
GULF OIL CORPORATION	095	013	1.055350
	102	014	2.739613
	017	015	3.195507
	035	016	0.682139
	038	017	3.726787
	047	018	1.459570
	063	019	0.426101
	064	020	0.796347
	071	021	0.355963
	094	022	2.683321
	010	029	0.405359
	020	034	3.559765
	034	035	1.701394
	040	036	0.361025
	060	038	0.885006
	039	051	2.723870
	037	057	0.520475
	107	071	0.825987
	005	079	0.714308
056	085	0.185457	
057	086	0.649681	
098	099	0.347319	
099	100	0.053189	
-----			-----
GULF OIL CORPORATION			30.053533
HARTMAN, DOYLE	070	040	0.051033
	113	042	0.032484
-----			-----
HARTMAN, DOYLE			0.083517
HEDDLEY, KENNETH	074	091	0.026231
HENDRIX, JOHN H.	031	055	0.066329
HJDSON, E.R.	024	063	0.004359
	118	063	0.000000
	007	074	0.004353
-----			-----
HJDSON, E.R.			0.008712
HJDSON, E.R. & W.A.	024	063	0.024701
	118	063	0.000000
	007	074	0.024664
-----			-----
HJDSON, E.R. & W.A.			0.049365

EXHIBIT C
 WORKING INTEREST OWNER SUMMARY
 EUNICE MONUMENT SOUTH UNIT
 LEA COUNTY, NEW MEXICO

WORKING INTEREST OWNER	OLD TRACT	NEW TRACT	PERCENT UNIT OWNERSHIP
KLEIN, M.	031	055	0.031783
KLEIN, S. H.	031	055	0.031783
KOCH EXPLORATION COMPANY	044	069	0.326589
LANDRETH PRODUCTION COMPANY	104	061	0.192552
	105	076	0.071642
-----			-----
LANDRETH PRODUCTION COMPANY			0.264194
ME-TEX COMPANIES	050	048	0.254073
PERDEW, W. L. EST.	064	069	0.017189
PFLUGER, CARL	070	040	0.025516
	113	042	0.032484
-----			-----
PFLUGER, CARL			0.058000
S & S ENGINEERING	052	081	0.108986
SHELBY, JEANNE FIELDS	024	063	0.058119
SHELL WESTERN E & P, INC.	033	052	0.237670
	018	053	5.112412
	032	054	0.485839
	027	070	0.287522
	086	098	0.572268
-----			-----
SHELL WESTERN E & P, INC.			6.695711
SJN OIL COMPANY	060	038	0.442503
	051	080	0.498853
	078	093	0.055857
-----			-----
SJN OIL COMPANY			0.997213
TEXACO INC.	022	067	0.635532
TJRNER, F.W. JR. EST.	024	063	0.087179
	118	063	0.000000
-----			-----
TJRNER, F.W. JR. EST.			0.087179
TWO STATES OIL COMPANY	073	072	0.059555
	074	091	0.052462
-----			-----
TWO STATES OIL COMPANY			0.112017
WILBANKS, BRUCE	031	055	0.063565
WISER OIL COMPANY	074	091	0.104924
			=====
			100.000000

EXHIBIT "D"

EUNICE MONUMENT SOUTH UNIT
LEA COUNTY, NEW MEXICO

INSURANCE COVERAGE

- (a) Workmen's Compensation Insurance and Employers' Liability Insurance in accordance with the laws of the state in which the Contract Area is situated;

and,

- (b) Comprehensive General Public Liability in the following amounts:

Bodily Injury:	\$150,000.00 each occurrence \$300,000.00 aggregate
Property Damage:	\$100,000.00 each occurrence, with the exception of the first \$5,000.00 loss which is self-insured \$200,000.00 aggregate

The \$5,000.00 self-insured property damage loss incident to each accident shall be charged to the Joint Account.

EXHIBIT " E "

EUNICE MONUMENT SOUTH UNIT
LEA COUNTY, NEW MEXICO

ACCOUNTING PROCEDURE
JOINT OPERATIONS

I. GENERAL PROVISIONS

1. Definitions

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

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

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

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

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

"Parties" shall mean Operator and Non-Operators.

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

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

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

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

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

2. Statement and Billings

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

3. Advances and Payments by Non-Operators

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)~~ ^{thirty (30)} days after receipt. If payment is not made within such time, the unpaid balance shall bear interest monthly at the rate of twelve percent (12%) 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, plus attorney's fees, court costs, and other costs in connection with the collection of unpaid amounts.

4. Adjustments

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

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 Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to and the adjustments of accounts as provided for in Paragraph 4 of this Section I. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct 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 the Parties or Non-Operators is expressly required under other sections of this Accounting Procedure and if the agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, Operator shall notify all Non-Operators of the Operator's proposal, and the agreement or approval of a majority in interest of the Non-Operators shall be controlling on all Non-Operators.

II. DIRECT CHARGES

Operator shall charge the Joint Account with the following items:

1. **Rentals and Royalties**
 - Lease rentals and royalties paid by Operator for the Joint Operations.
2. **Labor**
 - A. (1) Salaries and wages of Operator's field employees directly employed on the Joint Property in the conduct of Joint Operations.
 - (2) Salaries of first level Supervisors in the field.
 - (3) Salaries and wages of Technical Employees directly employed on the Joint Property if such charges are excluded from the Overhead rates.
 - B. Operator's cost of holiday, vacation, sickness and disability benefits and other customary allowances paid to employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II. Such costs 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. If percentage assessment is used, the rate shall be based on the Operator's cost experience.
 - C. Expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's costs chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II.
 - D. Personal Expenses of those employees whose salaries and wages are chargeable to the Joint Account under Paragraph 2A of this Section II.
3. **Employee Benefits**

Operator's current costs of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost chargeable to the Joint Account under Paragraphs 2A and 2B of this Section II shall be Operator's actual cost not to exceed the percent most recently recommended by the Council of Petroleum Accountants Societies of North America.
4. **Material**

Material purchased or furnished by Operator for use on the Joint Property as provided under Section IV. Only such Material shall be purchased for or transferred to the Joint Property as may be required for immediate use and is reasonably practical and consistent with efficient and economical operations. The accumulation of surplus stocks shall be avoided.
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 the Parties.
 - B. If surplus Material is moved to Operator's warehouse or other storage point, no charge shall be made to the Joint Account for a distance greater than the distance to the nearest reliable supply store, recognized barge terminal, or railway receiving point unless agreed to by the Parties. No charge shall be made to the Joint Account for moving Material to other properties belonging to Operator, unless agreed to by the Parties.
 - C. In the application of Subparagraphs A and B above, there shall be no equalization of actual gross trucking cost of \$400 or less excluding accessorial charges.
6. **Services**

The cost of contract services, equipment and utilities provided by outside sources, except services excluded by Paragraph 9 of Section II and Paragraph 1. ii of Section III. The cost of professional consultant services and contract services of technical personnel directly engaged on the Joint Property if such charges are excluded from the Overhead rates. The cost of professional consultant services or contract services of technical personnel not directly engaged on the Joint Property shall not be charged to the Joint Account unless previously agreed to by the Parties.
7. **Equipment and Facilities Furnished by Operator**
 - A. Operator shall charge the Joint Account for use of Operator owned equipment and facilities at rates commensurate with costs of ownership and operation. Such rates shall include costs of maintenance, repairs, other operating expense, insurance, taxes, depreciation, and interest on investment not to exceed eight per cent (8%) per annum. Such rates shall not exceed average commercial rates currently prevailing in the immediate area of the Joint Property.
 - B. In lieu of charges in Paragraph 7A above, Operator may elect to use average commercial rates prevailing in the immediate area of the Joint Property less 20%. For automotive equipment, Operator may elect to use rates published by the Petroleum Motor Transport Association.
8. **Damages and Losses to Joint Property**

All costs or expenses necessary for the repair or replacement of Joint Property made necessary because of damages or losses incurred by fire, flood, storm, theft, accident, or other cause, except those resulting from Operator's gross negligence or willful misconduct. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after a report thereof has been received by Operator.
9. **Legal Expense**

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

10. 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.

11. Insurance

Net premiums paid for insurance required to be carried for the Joint Operations for the protection of the Parties. In the event Joint Operations are conducted in a state in which Operator may act as self-insurer for 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 at Operator's cost not to exceed manual rates.

12. 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 in the necessary and proper conduct of the Joint Operations.

III. OVERHEAD

1. Overhead - Drilling and Producing Operations

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

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

Unless otherwise agreed to by the Parties, such charge shall be in lieu of costs and expenses of all offices and salaries or wages plus applicable burdens and expenses of all personnel, except those directly chargeable under Paragraph 2A, Section II. The cost and expense of services from outside sources in connection with matters of taxation, traffic, accounting or matters before or involving governmental agencies shall be considered as included in the Overhead rates provided for in the above selected Paragraph of this Section III unless such cost and expense are agreed to by the Parties as a direct charge to the Joint Account.

ii. The salaries, wages and Personal Expenses of Technical Employees and/or the cost of professional consultant services and contract services of technical personnel directly employed on the Joint Property shall () shall not (X) be covered by the Overhead rates.

A. Overhead - Fixed Rate Basis

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

Drilling Well Rate \$ 4,960.00
 Producing Well Rate \$ 496.00

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

(a) Drilling Well Rate

- [1] Charges for onshore drilling wells shall begin on the date the 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 suspension of drilling operations for fifteen (15) or more consecutive days.
- [2] Charges for offshore drilling wells shall begin on the date when drilling or completion equipment arrives on location and terminate on the date the drilling or completion equipment moves off location or rig is released, whichever occurs first, except that no charge shall be made during suspension of drilling operations for fifteen (15) or more consecutive days
- [3] Charges for wells undergoing any type of workover or recompletion for a period of five (5) consecutive days or more shall be made at the drilling well rate. Such charges shall be applied for the period from date workover operations, with rig, commence through date of rig release, except that no charge shall be made during suspension of operations for fifteen (15) or more consecutive days.

(b) Producing Well Rates

- [1] An active well either produced or injected into for any portion of the month shall be considered as a one-well charge for the entire month.
- [2] Each active completion in a multi-completed well in which production is not commingled down hole shall be considered as a one-well charge providing each completion is considered a separate well by the governing regulatory authority.
- [3] An inactive gas well shut in because of overproduction or failure of purchaser to take the production shall be considered as a one-well charge providing the gas well is directly connected to a permanent sales outlet.
- [4] A one-well charge may be made for the month in which plugging and abandonment operations are completed on any well.
- [5] All other inactive wells (including but not limited to inactive wells covered by unit allowable, lease allowable, transferred allowable, etc.) shall not qualify for an overhead charge.

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

B. Overhead - Percentage Basis

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

(a) Development

_____ Percent (%) of the cost of Development of the Joint Property exclusive of costs provided under Paragraph 9 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 9 of Section II, all salvage credits, the value of injected substances purchased for secondary recovery and all taxes and assessments which are levied, assessed and paid upon the mineral interest in and to the Joint Property.

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

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

2. Overhead - Major Construction

To compensate Operator for overhead costs incurred in the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly discernible as a fixed asset required for the development and operation of the Joint Property, Operator shall either negotiate a rate prior to the beginning of construction, or shall charge the Joint Account for Overhead based on the following rates for any Major Construction project in excess of \$25,000:

- A. 5 % of total costs if such costs are more than \$ 25,000 but less than \$ 100,000; plus
 B. 3 % of total costs in excess of \$ 100,000 but less than \$1,000,000; plus
 C. 2 % of total costs in excess of \$1,000,000.

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

3. Amendment of Rates

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

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

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

1. Purchases

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

2. Transfers and Dispositions

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

A. New Material (Condition A)

- (1) Tubular goods, except line pipe, shall be priced at the current new price in effect on date of movement on a maximum carload or barge load weight basis, regardless of quantity transferred, equalized to the lowest published price f.o.b. railway receiving point or recognized barge terminal nearest the Joint Property where such Material is normally available.
- (2) Line Pipe
- (a) Movement of less than 30,000 pounds shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store nearest the Joint Property where such Material is normally available.
- (b) Movement of 30,000 pounds or more shall be priced under provisions of tubular goods pricing in Paragraph 2A (1) of this Section IV.
- (3) Other Material shall be priced at the current new price, in effect at date of movement, as listed by a reliable supply store or f.o.b. railway receiving point nearest the Joint Property where such Material is normally available.

B. Good Used Material (Condition B)

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

- (1) Material moved to the Joint Property
- (a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV.
- (2) Material moved from the Joint Property
- (a) At seventy-five percent (75%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as new Material, or

(b) at sixty-five percent (65%) of current new price, as determined by Paragraph 2A of this Section IV, if Material was originally charged to the Joint Account as good used Material at seventy-five percent (75%) of current new price.

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

C. Other Used Material (Condition C and D)

(1) Condition C

Material which is not in sound and serviceable condition and not suitable for its original function until after reconditioning shall be priced at fifty percent (50%) of current new price as determined by Paragraph 2A of this Section IV. The cost of reconditioning shall be charged to the receiving property, provided Condition C value plus cost of reconditioning does not exceed Condition B value.

(2) Condition D

All other Material, including junk, shall be priced at a value commensurate with its use or at prevailing prices. 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. Operator may dispose of Condition D Material under procedures normally utilized by the Operator without prior approval of Non-Operators.

D. Obsolete Material

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

E. Pricing Conditions

(1) Loading and unloading costs may be charged to the Joint Account at the rate of ~~fifteen~~ ^{twenty-five} cents (~~15¢~~ ^{25¢}) per hundred weight on all tubular goods movements, in lieu of loading and unloading costs sustained, when actual hauling cost of such tubular goods are equalized under provisions of Paragraph 5 of Section II.

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

3. Premium Prices

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

4. Warranty of Material Furnished by Operator

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

V. INVENTORIES

The Operator shall maintain detailed records of Controllable Material.

1. Periodic Inventories, Notice and Representation

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

2. Reconciliation and Adjustment of Inventories

Reconciliation of a physical inventory with the Joint Account shall be made, and a list of overages and shortages shall be furnished to the Non-Operators within six months following the taking of the inventory. Inventory adjustments shall be made by Operator with the Joint Account for overages and shortages, but Operator shall be held accountable only for shortages due to lack of reasonable diligence.

3. Special Inventories

Special Inventories may be taken whenever there is any sale 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 the Parties.

EXHIBIT "F"

EUNICE MONUMENT SOUTH UNIT
LEA COUNTY, NEW MEXICO

CERTIFICATE OF COMPLIANCE

Contractor agrees that, as to all current contracts and purchase orders, as defined below, heretofore issued or entered into by Gulf, as purchaser, for the furnishing of supplies or services by Contractor, and as to each such contract and purchase order, which may hereafter be issued or entered into by Gulf in favor of the Contractor during one year from the date of execution of this Certificate, the Contractor will comply with the Federal Government's Requirements as identified below, and agrees that without further reference thereto the provisions contained in this Certificate shall be a part of each such contract and purchase order.

For the purpose of this Certificate, the words "contract" and "purchase order" shall mean any nonexempt agreement or arrangement between Gulf and the Contractor for the furnishing of supplies or services or for the use of real or personal property, including lease arrangements which, in whole or in part, are necessary to the performance of any one or more contracts between Gulf and the United States of America or under which any portion of the Gulf's obligation under any one or more such contracts is performed, undertaken, or assumed.

Gulf understands and agrees that Contractor's assent to the incorporation of the provisions in this Certificate into every nonexempt contract and purchase order between Gulf and Contractor during the periods specified herein is intended to satisfy Gulf's requirements under the governing executive orders and statutes (reference to which includes amendments and orders superseding in whole or in part) and the rules and regulations issued thereunder. Gulf further understands and agrees that this Certification is not meant to create, nor shall it be construed as creating, any enforceable rights hereunder for any firm, organization or individual who is not a party to any such contract or purchase order between Gulf and Contractor.

NONSEGREGATED FACILITIES

The undersigned bidder, offerer, applicant, seller, contractor, or subcontractor, hereinafter referred to as Contractor, certifies to Gulf and the Federal Government agencies with which it contracts that he does not maintain or provide for his employees any segregated facilities at any of his establishments, and that he does not permit his employees to perform their services at any location, under his control, where segregated facilities are maintained. As used in this certification, the term "segregated facilities" means any waiting rooms, work areas, rest rooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation, and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, creed, color, or national origin, because of habit, local custom, or otherwise.

EMPLOYMENT OF THE HANDICAPPED

Applicable to all contracts and purchase orders exceeding \$2,500, not otherwise exempted: Contractor agrees to comply with Rehabilitation Act of 1973 and all orders, rules, and regulations issued thereunder and amendments thereto.

EQUAL OPPORTUNITY,
VETERANS, AND MINORITY BUSINESS ENTERPRISES

Applicable to all contracts and purchase orders exceeding \$10,000, not otherwise exempted: Contractor agrees to comply with Executive Order 11246 regarding

Equal Opportunity and all orders, rules and regulations issued thereunder or amendments thereto. Contractor agrees to comply with Executive Order 11701 and Vietnam Veteran's Readjustment Act of 1974 and orders, rules, and regulations issued thereunder or amendments thereto. Contractor agrees to comply with Executive Orders 11458 and 11625 regarding Minority Business Enterprises and all orders, rules, and regulations issued thereunder or amendments thereto.

MINORITY BUSINESS ENTERPRISES AND
UTILIZATION OF SMALL BUSINESS CONCERNS
AND SMALL BUSINESS CONCERNS OWNED AND CONTROLLED
BY SOCIALLY AND ECONOMICALLY DISADVANTAGED INDIVIDUALS

Contractor agrees to comply with Executive Order 11625 regarding Minority Business Enterprises and all orders, rules and regulations issued thereunder or amendments thereto.

Applicable to all contracts of over \$10,000 not otherwise exempted:

(A) It is the policy of the United States that small business concerns and small business concerns owned and controlled by socially and economically disadvantaged individuals shall have the maximum practicable opportunity to participate in the performance of contracts let by any Federal agency.

(B) The Contractor hereby agrees to carry out this policy in the awarding of subcontracts to the fullest extent consistent with the efficient performance of this contract. The Contractor further agrees to cooperate in any studies or surveys that may be conducted by the Small Business Administration or the contracting agency which may be necessary to determine the extent of the Contractor's compliance with this clause.

(C) (1) The terms "small business concern" shall mean a small business as defined pursuant to Section 3 of the Small Business Act and in relevant regulations promulgated pursuant thereto.

(2) The term "small business concern owned and controlled by socially and economically disadvantaged individuals" shall mean a small business concern--

(i) which is at least 51 per centum owned by one or more socially and economically disadvantaged individuals; or in the case of any publicly owned business, at least 51 per centum of the stock of which is owned by one or more socially and economically disadvantaged individuals; and

(ii) whose management and daily business operations are controlled by one or more of such individuals.

The contractor shall presume that socially and economically disadvantaged individuals include Black Americans, Hispanic Americans, Native Americans, Asian Pacific Americans, and other minorities, or any other individual found to be disadvantaged by the Small Business Administration pursuant to section 8(a) of the Small Business Act.

(D) Contractors acting in good faith may rely on written representations by their subcontractors as either a small business concern or a small business concern owned and controlled by socially and economically disadvantaged individuals.

SMALL BUSINESS AND SMALL DISADVANTAGED
BUSINESS SUBCONTRACTING (OVER \$500,000 OR
\$1,000,000 FOR CONSTRUCTION OF ANY PUBLIC FACILITY)

Applicable to all contracts over \$500,000 or \$1,000,000 for construction of any public facility not otherwise exempted:

Pursuant to Temporary Regulation 50, Supplement 2(c) where applicable the contractor agrees to negotiate detailed subcontracting plan.

UTILIZATION OF WOMEN-OWNED BUSINESS CONCERNS

Applicable to all contracts over \$10,000 not otherwise exempted:

(A) It is the policy of the United States Government that women-owned businesses shall have the maximum practicable opportunity to participate in the

performance of contracts awarded by any Federal agency.

(B) The Contractor agrees to use his best efforts to carry out this policy in the award of subcontracts to the fullest extent consistent with the efficient performance of this contract. As used in this contract, a "woman-owned business" concern means a business that is at least 51% owned by a woman or women who also control and operate it. "Control" in this context means exercising the power to make policy decisions. "Operate" in this context means being actively involved in the day-to-day management. "Women" mean all women business owners.

WOMEN-OWNED BUSINESS CONCERNS SUBCONTRACTING PROGRAM

Applicable to all contracts over \$500,000 or \$1,000,000 for construction of any public facility not otherwise exempted:

(A) The Contractor agrees to establish and conduct a program which will enable women-owned business concerns to be considered fairly as subcontractors and suppliers under this contract. In this connection, the contractor shall:

1. Designate a liaison officer who will administer the Contractor's "Women-Owned Business Concerns Program".
2. Provide adequate and timely consideration of the potentialities of known women-owned business concerns in all "make-or-buy" decisions.
3. Develop a list of qualified bidders that are women-owned businesses and assure that known women-owned business concerns have an equitable opportunity to compete for subcontracts, particularly by making information on forthcoming opportunities available by arranging solicitations, time for preparation of bids, quantities, specifications, and delivery schedules so as to facilitate the participation of women-owned business concerns.
4. Maintain records showing (i) procedures which have been adopted to comply with the policies set forth in this clause, including the establishment of a source list of women-owned business concerns; (ii) awards to women-owned businesses on the source list by minority and non-minority women-owned business concerns; and (iii) specific efforts to identify and award contracts to women-owned business concerns.
5. Include the "Utilization of Women-Owned Business Concerns" clause in subcontracts which offer substantial subcontracting opportunities.
6. Cooperate in any studies and surveys of the Contractor's women-owned business concerns procedures and practices that the Contracting Officer may from time-to-time conduct.
7. Submit periodic reports of subcontracting to women-owned business concerns with respect to the records referred to in subparagraph 4 above, in such form and manner and at such time (not more often than quarterly) as the Contracting Officer may prescribe.

(B) The Contractor further agrees to insert, in any subcontract hereunder which may exceed \$500,000 or \$1,000,000 in the case of contracts for the construction of any public facility and which offers substantial subcontracting possibilities, provisions which shall conform substantially to the language of this clause, including this paragraph B and to notify the Contracting Officer of the names of such subcontractors.

(C) The Contractor further agrees to require written certification by its subcontractors that they are bona fide women-owned and controlled business concerns in accordance with the definition of a women-owned business concern as set forth in the Utilization Clause 1(b) above at the time of submission of bids or proposals.

The aforementioned Contractor agrees that the provisions of this Certificate of Compliance are hereby incorporated in every nonexempt contract or purchase order between us currently in force or that may be issued during one year from the date of execution of the Operating Agreement.

EXHIBIT " G "

EUNICE MONUMENT SOUTH UNIT
LEA COUNTY, NEW MEXICO

GAS STORAGE AND BALANCING AGREEMENT

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

In accordance with the terms of the Operating Agreement, each party thereto has the right, subject to existing contracts, to take its share of the casinghead gas produced from the Unit Area and market the same. Existing casinghead contracts for the individual tracts shall remain in place and shall be the basis for settlement between the purchasers and the individual parties to this agreement. Settlement volumes will be based on the volume delivered to a purchaser and will be apportioned to the parties in the ratio that a single tract's unit participation bears to the sum of the unit participations of all tracts which are dedicated to that purchaser. In the event any of the parties hereto is not at any time taking or marketing its share of gas or has contracted to sell its share of gas produced from the Unit Area to a purchaser which does not at any time while this agreement is in effect take the full share of gas attributable to the interest of such party, the terms of this agreement shall automatically become effective.

During the period or periods when any party hereto has no market or fails to take its share of gas produced from any tract within the Unit Area, or its purchaser does not take its full share of gas produced from such tract, the other parties shall be entitled to take each month one hundred percent (100%) of the gas production assigned to such tract and shall be entitled to deliver to its or their purchaser all of such gas production.

On a cumulative basis, each purchaser and each party not taking its full share of the gas produced shall be credited with gas in storage equal to its full share of the gas produced under this agreement, less its share of gas used in lease operations, vented or lost, and less that portion such purchaser and such party took. The Operator will maintain current accounts of the gas balances between the various purchasers and between the various parties hereto, and will furnish all purchasers and parties hereto monthly statements showing the total quantity of gas produced, the amount used in lease operations, vented or lost, and the monthly and cumulative over and under account of each purchaser and party hereto. The Operator will, from time to time, adjust the volumes delivered to each purchaser so as to minimize the relative over/short positions of all purchasers and parties.

At all times while gas is produced from the Unit Area, each party hereto will make settlement with the respective royalty owners to whom they are each accountable, just as if each party were taking or delivering to a purchaser its share, and its share only, of total gas production exclusive of gas used in lease operations, vented or lost. Each party hereto agrees to hold each other party harmless from any and all claims for royalty payments asserted by royalty owners to whom each party is accountable. The term "royalty owner" shall include owners of royalty, overriding royalties, production payments, and similar interests.

After notice to the Operator, any party at any time may begin taking or delivering to its purchaser its full share of the gas produced from a tract under which it has gas in storage less such party's share of gas used in operations, vented or lost. In addition to such share, each party, including the Operator, until it has recovered its gas in storage and balanced the gas account as to its interest, shall

be entitled to take or deliver to its purchaser a share of gas determined by multiplying fifty percent (50%) of the interest in the current gas production of the party or parties without gas in storage by a fraction, the numerator of which is the interest in the tract or tracts of such party with gas in storage and the denominator of which is the total percentage interest in such tracts of all parties with gas in storage currently taking or delivering to a purchaser.

Each party taking or delivering gas to its purchaser shall pay any and all production taxes due on such gas.

Should production of gas from the Unit Area be permanently discontinued before the gas account is balanced, settlement will be made between the underproduced and overproduced parties. In making such settlement, the underproduced party or parties will be paid a sum of money, by the overproduced party or parties attributable to the overproduction which said overproduced party received, equal to the proceeds received less applicable taxes theretofore paid for the latest delivery of a volume of gas equal to that for which settlement is made.

Nothing herein shall change or affect each party's obligation to pay its proportionate share of all costs and liabilities incurred, as its share thereof is set forth in the Operating Agreement.

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