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GEOLOGICAL REPORT FOR STAR LAKE UNIT

The proposed Star Lake Unit is located in the southeastern portion of the San Juan Basin in McKinley County, 22 miles southwest of the town of Cuba. The nearest Pennsylvanian tests are Magnolia Petroleum Company Hutchinson No. 1, Section 14, T. 19 N., R. 3 W., N.M.P.M., 12 miles to the northeast, and Shell Wright No. 41-26, Section 26, T. 17 N., R. 3 W., N.M.P.M., 15 miles to the southeast.

Stratigraphy

The oldest rocks exposed in the Star Lake Area are sands and shales of Cretaceous age. The lithology of the pre-Cretaceous strata was determined from well data in the general southeast San Juan Basin, including the two wells mentioned above. The description of the sediments in ascending order follows:

Precambrian System - This system is granite, as indicated by samples and cores from wells in this general area.

Mississippian System - The Mississippian is erratic in its occurrence, ranging in thickness from 0 to 100', but where present, consists of limestone. It is present in the Magnolia Hutchinson well, but absent in the Shell Wright well.

Pennsylvanian System - The Madera and Sandia formations constitute the Pennsylvanian strata in this area. The Sandia is largely a marine sequence of varicolored shales, sandstones and some limestones. The marine Madera formation includes limestones, dolomites, shales and sandstones. Some oil shows have been reported from these strata. The Pennsylvanian is expected to be approximately 1200 feet thick.

Permian System - The Permian is a sequence of sandstone, red-brown siltstones and shales, largely nonmarine, and marine carbonates and evaporite beds. We anticipate a total Permian section of about 1400 feet underlying the Star Lake Unit.

Triassic System - Included in the Triassic are the continental Chinle and Moenkopi formations consisting primarily of red shale and siltstones, and the basal Aqua Zarca sandstone. This system is expected to be about 1175 feet thick in this area.

Jurassic System - The Jurassic Glen Canyon Group and Carmel formation are expected to be very thin, if present, in the area. The porous Entrada sandstone, which is expected to be approximately 100 feet thick, produced oil in the Media field. The Morrison formation, the uppermost part of the Jurassic system, consists of continental sands and shales. The Jurassic is essentially a nonmarine section and is expected to be about 900 feet thick.

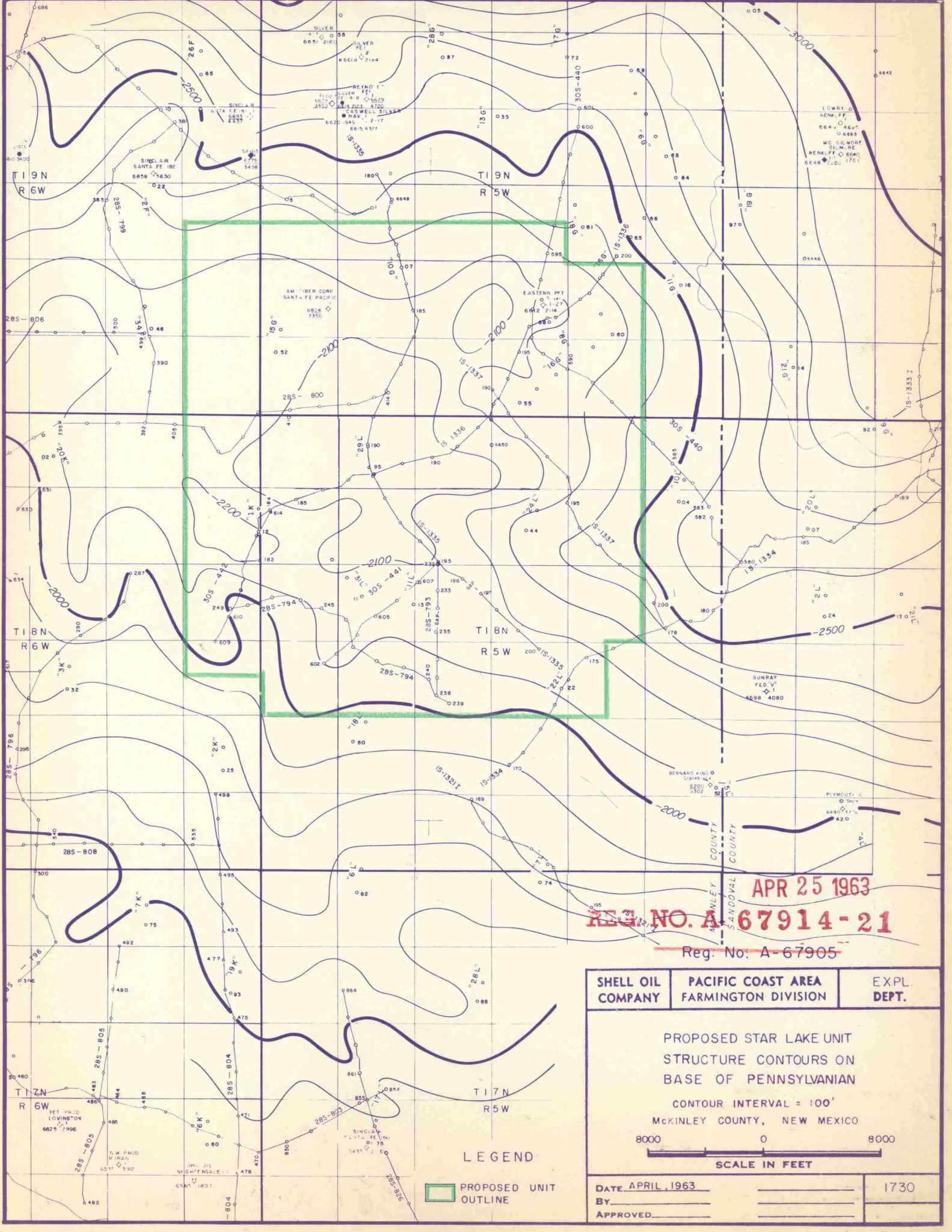
Cretaceous System - Cretaceous sediments in the area are expected to be about 4275 feet thick. This system is a sequence of marine and continental sands and shales and includes many intervals that are productive of oil and gas in fields to the north.

Structure

The structural map accompanying this report is based on seismic data from a reflection near the base of the Pennsylvanian. The contours thereon, which have been corrected to the base of the Pennsylvanian, are considered to accurately represent the configuration of the structure at that horizon. M. F. Abraham plans to drill a 9100-foot Basement test on the apex of the large structural anomaly in the center of the Unit in accordance with the attached Request for Designation of Unit Area. We believe this well will effectively test the hydrocarbon potential of this Unit.

Enclosure:

Basal Pennsylvanian Structure Map



APR 25 1963

REG. NO. A-67914-21

Reg. No. A-67905

SHELL OIL COMPANY	PACIFIC COAST AREA FARMINGTON DIVISION	EXPL. DEPT.
PROPOSED STAR LAKE UNIT STRUCTURE CONTOURS ON BASE OF PENNSYLVANIAN CONTOUR INTERVAL = 100' MCKINLEY COUNTY, NEW MEXICO		
8000 0 8000 SCALE IN FEET		
DATE APRIL, 1963		1730
BY _____		
APPROVED _____		

LEGEND

PROPOSED UNIT
OUTLINE

BEFORE EXAMINER NUTTER	
R	OIL CONSERVATION COMMISSION
<i>Appl</i>	EXHIBIT NO. <u>4</u>
CASE NO.	<u>2819</u>
GEOLOGICAL REPORT FOR STAR LAKE UNIT	

Case 2819

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1 UNIT AGREEMENT

2 FOR THE DEVELOPMENT AND OPERATION OF

3 THE STAR LAKE UNIT AREA

4 COUNTY OF MCKINLEY

5 STATE OF NEW MEXICO

6 No. _____

7
8 THIS AGREEMENT, entered into as of the 15th day of June,
9 1963, by and between the parties subscribing, ratifying, or consenting hereto,
10 and herein referred to as the "parties hereto",

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

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

22 WHEREAS, the rules and regulations governing the leasing of restricted
23 allotted lands for oil and gas promulgated by the Secretary of the Interior (25
24 CFR, Part ~~171~~ 172) under and pursuant to the Act of March 3, 1909, 35 Stat.
25 783, 25 U.S.C. 396, and the oil and gas leases covering said allotted lands
26 provide for the commitment of such leases to a cooperative or unit plan of
27 development or operations; and

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

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

5 WHEREAS, the parties hereto hold sufficient interests in the Star Lake
6 Unit Area covering the land hereinafter described to give reasonably effective
7 control of operations therein; and

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

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

16 1. ENABLING ACT AND REGULATIONS. As to Indian leases the Act of
17 March 3, 1909, and as to Federal leases the Mineral Leasing Act of February 25,
18 1920, as amended, supra, and all valid pertinent regulations, including opera-
19 ting and unit plan regulations, heretofore issued thereunder or valid pertinent
20 and reasonable regulations hereafter issued thereunder are accepted and made a
21 part of this agreement as to Federal lands, provided such regulations are not
22 inconsistent with the terms of this agreement; and as to non-Federal lands and
23 non-Indian lands, the oil and gas operating regulations in effect as of the
24 effective date hereof governing drilling and producing operations, not in-
25 consistent with the terms hereof or the laws of the State in which the non-
26 Federal and non-Indian land is located, are hereby accepted and made a part of
27 this agreement.

28 2. UNIT AREA. The area specified on the map attached hereto marked
29 exhibit "A" is hereby designated and recognized as constituting the unit area,
30 containing 23,959.58 acres, more or less.

31 Exhibit "A" shows, in addition to the boundary of the unit area, the
32 boundaries and identity of tracts and leases in said area to the extent known

1 to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the
2 extent known to the Unit Operator the acreage, percentage, and kind of owner-
3 ship of oil and gas interests in all land in the unit area. However, nothing
4 herein or in said schedule or map shall be construed as a representation by
5 any party hereto as to the ownership of any interest other than such interest
6 or interests as are shown in said map or schedule as owned by such party.
7 Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in
8 the unit area render such revision necessary, or when requested by the Oil and
9 Gas Supervisor, hereinafter referred to as "Supervisor", or the Commissioner of
10 Public Lands, hereinafter referred to as "State Land Commissioner", and not less
11 than seven copies of the revised exhibits shall be filed with the Supervisor,
12 and at least two copies shall be filed with the State Land Commissioner and one
13 copy with the New Mexico Oil Conservation Commission, hereinafter referred to as
14 "Commission" and one copy with the Commissioner of Indian Affairs, hereinafter
15 referred to as "Indian Commissioner".

16 The above-described unit area shall when practicable be expanded to
17 include therein any additional tract or tracts regarded as reasonably necessary
18 or advisable for the purposes of this agreement, or shall be contracted to
19 exclude lands not within any participating area whenever such expansion or con-
20 traction is necessary or advisable to conform with the purposes of this agree-
21 ment. Such expansion or contraction shall be effected in the following manner:

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

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

1 (c) Upon expiration of the 30-day period provided in the preceding
2 item (b) hereof, Unit Operator shall file with the Supervisor and State Land
3 Commissioner evidence of mailing of the notice of expansion or contraction and
4 a copy of any objections thereto which have been filed with the Unit Operator
5 together with an application in sufficient numbers for approval of such expan-
6 sion or contraction, and with appropriate joinders.

7 (d) After due consideration of all pertinent information, the expan-
8 sion or contraction shall, upon approval by the Director and State Land Commis-
9 sioner, become effective as of the date prescribed in the notice thereof.

10 (e) All legal subdivisions of unitized lands (i.e., 40 acres by
11 Government survey or its nearest lot or tract equivalent in instances of
12 irregular surveys; however, unusually large lots or tracts shall be considered
13 in multiples of 40 acres, or the nearest aliquot equivalent thereof, for the
14 purpose of elimination under this subsection) no parts of which are entitled to
15 be in a participating area within 5 years after the first day of the month
16 following the effective date of the first initial participating area established
17 under this unit agreement, shall be eliminated automatically from this agreement,
18 effective as of the first day thereafter, and such lands shall no longer be a
19 part of the unit area and shall no longer be subject to this agreement, unless
20 at the expiration of said 5-year period diligent drilling operations are in
21 progress on unitized lands not entitled to participation, in which event all
22 such lands shall remain subject hereto for so long as such drilling operations
23 are continued diligently, with not more than 90 days' time elapsing between the
24 completion of one such well and the commencement of the next such well, except
25 that the time allowed between such wells shall not expire earlier than 30 days
26 after the expiration of any period of time during which drilling operations are
27 prevented by a matter beyond the reasonable control of Unit Operator as set
28 forth in the section hereof entitled "Unavoidable Delay"; provided that all
29 legal subdivisions of lands not in a participating area and not entitled to be-
30 come participating under the applicable provisions of this agreement within 10
31 years after said first day of the month following the effective date of said
32 first initial participating area shall be eliminated as above specified.

1 Determination of creditable "Unavoidable Delay" time shall be made by Unit
2 Operator and subject to approval of the Director. The Unit Operator shall,
3 within 90 days after the effective date of any elimination hereunder, describe
4 the area so eliminated to the satisfaction of the Director and promptly notify
5 all parties in interest.

6 If conditions warrant extension of the 10-year period specified in
7 this subsection 2(e), a single extension of not to exceed 2 years may be
8 accomplished by consent of the owners of 90% of the current unitized working
9 interests and 60% of the current unitized basic royalty interests (exclusive of
10 the basic royalty interests of the United States), on a total-nonparticipating-
11 acreage basis, respectively, with approval of the Director and the State Land
12 Commissioner, provided such extension application is submitted to the Director
13 and the State Land Commissioner not later than 60 days prior to the expiration
14 of said 10-year period.

15 Any expansion of the unit area pursuant to this section which embraces
16 lands theretofore eliminated pursuant to this subsection 2(e) shall not be con-
17 sidered automatic commitment or recommitment of such lands.

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

23 4. UNIT OPERATOR. M. F. ABRAHAM is hereby designated as Unit Opera-
24 tor and by signature hereto as Unit Operator agrees and consents to accept the
25 duties and obligations of Unit Operator for the discovery, development, and
26 production of unitized substances as herein provided. Whenever reference is
27 made herein to the Unit Operator, such reference means the Unit Operator acting
28 in that capacity and not as an owner of interest in unitized substances, and
29 the term "working interest owner" when used herein shall include or refer to
30 Unit Operator as the owner of a working interest when such an interest is
31 owned by it.

32 5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have

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

13 Unit Operator shall have the right to resign in like manner and sub-
14 ject to like limitations as above provided at any time a participating area
15 established hereunder is in existence, but at any time, for any reason whatso-
16 ever, there is no Unit Operator until a successor Unit Operator is selected and
17 approved as hereinafter provided, the working interest owners shall be jointly
18 responsible for performance of the duties of Unit Operator, and shall not later
19 than 30 days before resignation or removal becomes effective appoint a common
20 agent to represent them in any action to be taken hereunder.

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

24 The Unit Operator may, upon default or failure in the performance of
25 its duties or obligations hereunder, be subject to removal by the same percent-
26 age vote of the owners of working interests determined in like manner as herein
27 provided for the selection of a new Unit Operator. Such removal shall be
28 effective upon notice thereof to the Director and State Land Commissioner.

29 The resignation or removal of Unit Operator under this agreement shall
30 not terminate its right, title, or interest as the owner of a working interest
31 or other interest in unitized substances, but upon the resignation or removal of
32 Unit Operator becoming effective, such Unit Operator shall deliver possession of

1 all equipment, materials, and appurtenances used in conducting the unit opera-
2 tions and owned by the working interest owners to the new duly qualified suc-
3 cessor Unit Operator or to the owners thereof if no such new Unit Operator is
4 elected, to be used for the purpose of conducting unit operations hereunder.
5 Nothing herein shall be construed as authorizing removal of any material,
6 equipment and appurtenances needed for the preservation of any wells.

7 6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender
8 his or its resignation as Unit Operator or shall be removed as hereinabove
9 provided, or a change of Unit Operator is negotiated by working interest owners,
10 the owners of the working interests in the participating area or areas accord-
11 ing to their respective acreage interests in such participating area or areas,
12 or, until a participating area shall have been established, the owners of the
13 working interests according to their respective acreage interests in all uni-
14 tized land, shall by majority vote select a successor Unit Operator; provided,
15 that, if a majority but less than 75 per cent of the working interests qualified
16 to vote are owned by one party to this agreement, a concurring vote of one or
17 more additional working interest owners shall be required to select a new
18 operator. Such selection shall not become effective until (a) a Unit Operator
19 so selected shall accept in writing the duties and responsibilities of Unit
20 Operator, and (b) the selection shall have been filed with the Supervisor and
21 approved by the State Land Commissioner. If no successor Unit Operator is
22 selected and qualified as herein provided, the Director and State Land Commis-
23 sioner at their election may declare this unit agreement terminated.

24 7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit
25 Operator is not the sole owner of working interests, costs and expenses incurred
26 by Unit Operator in conducting unit operations hereunder shall be paid and
27 apportioned among and borne by the owners of working interests, all in accord-
28 ance with the agreement or agreements entered into by and between the Unit
29 Operator and the owners of working interests, whether one or more, separately or
30 collectively. Any agreement or agreements entered into between the working
31 interest owners and the Unit Operator as provided in this section, whether one
32 or more, are herein referred to as the "unit operating agreement". Such unit

1 operating agreement shall also provide the manner in which the working interest
2 owners shall be entitled to receive their respective proportionate and allocated
3 share of the benefits accruing hereto in conformity with their underlying opera-
4 ting agreements, leases, or other independent contracts, and such other rights
5 and obligations as between Unit Operator and the working interest owners as may
6 be agreed upon by Unit Operator and the working interest owners; however, no
7 such unit operating agreement shall be deemed either to modify any of the terms
8 and conditions of this unit agreement or to relieve the Unit Operator of any
9 right or obligation established under this unit agreement, and in case of any
10 inconsistency or conflict between the unit agreement and the unit operating
11 agreement, this unit agreement shall prevail. Three true copies of any unit
12 operating agreement executed pursuant to this section should be filed with the
13 Supervisor, and one true copy with the State Land Commissioner, prior to
14 approval of this agreement.

15 8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise
16 specifically provided herein, the exclusive right, privilege, and duty of exer-
17 cising any and all rights of the parties hereto which are necessary or conven-
18 ient for prospecting for, producing, storing, allocating, and distributing the
19 unitized substances are hereby delegated to and shall be exercised by the Unit
20 Operator as herein provided. Acceptable evidence of title to said rights shall
21 be deposited with said Unit Operator and, together with this agreement, shall
22 constitute and define the rights, privileges, and obligations of Unit Operator.
23 Nothing herein, however, shall be construed to transfer title to any land or to
24 any lease or operating agreement, it being understood that under this agreement
25 the Unit Operator, in its capacity as Unit Operator, shall exercise the rights
26 of possession and use vested in the parties hereto only for the purposes herein
27 specified.

28 9. DRILLING TO DISCOVERY. Within 6 months after the effective date
29 hereof, the Unit Operator shall begin to drill an adequate test well at a
30 location approved by the Supervisor if such location is upon Federal or Indian
31 land or by the State Land Commissioner if such location is upon State land, unless
32 on such effective date a well is being drilled conformably with the terms hereof,

1 and thereafter continue such drilling diligently until the top of the Cambrian
2 formation has been tested or until at a lesser depth unitized substances shall
3 be discovered which can be produced in paying quantities (to wit: quantities
4 sufficient to repay the costs of drilling, and producing operations, with a
5 reasonable profit) or the Unit Operator shall at any time establish to the satis-
6 faction of the Supervisor if on Federal or Indian land or the State Land Com-
7 missioner if on State land that further drilling of said well would be
8 unwarranted or impracticable, provided, however, that Unit Operator shall not
9 in any event be required to drill said well to a depth in excess of 9,100 feet.
10 Until the discovery of a deposit of unitized substances capable of being
11 produced in paying quantities, the Unit Operator shall continue drilling
12 diligently one well at a time, allowing not more than 6 months between the
13 completion of one well and the beginning of the next well, until a well
14 capable of producing unitized substances in paying quantities is completed to
15 the satisfaction of said Supervisor and the State Land Commissioner or until
16 it is reasonably proved that the unitized land is incapable of producing
17 unitized substances in paying quantities in the formations drilled hereunder.
18 Nothing in this section shall be deemed to limit the right of the Unit Operator
19 to resign as provided in section 5 hereof, or as requiring Unit Operator to
20 commence or continue any drilling during the period pending such resignation
21 becoming effective in order to comply with the requirements of this section.
22 The Director and the State Land Commissioner may modify the drilling require-
23 ments of this section by granting reasonable extensions of time when, in their
24 opinion, such action is warranted.

25 Upon failure to comply with the drilling provisions of this section,
26 the Director and the State Land Commissioner may, after reasonable notice to
27 the Unit Operator, and each working interest owner, lessee, and lessor at their
28 last known addresses, declare this unit agreement terminated.

29 10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 months after
30 completion of a well capable of producing unitized substances in paying quanti-
31 ties, the Unit Operator shall submit for the approval of the Supervisor and the
32 State Land Commissioner an acceptable plan of development and operation for the

1 unitized land which, when approved by the Supervisor and the State Land Commis-
2 sioner shall constitute the further drilling and operating obligations of the
3 Unit Operator under this agreement for the period specified therein. Thereafter,
4 from time to time before the expiration of any existing plan, the Unit Operator
5 shall submit for the approval of the Supervisor and the State Land Commissioner
6 a plan for an additional specified period for the development and operation of
7 the unitized land. Any plan submitted pursuant to this section shall provide for
8 the exploration of the unitized area and for the diligent drilling necessary for
9 determination of the area or areas thereof capable of producing unitized sub-
10 stances in paying quantities in each and every productive formation and shall be
11 as complete and adequate as the Supervisor and the State Land Commissioner may
12 determine to be necessary for timely development and proper conservation of the
13 oil and gas resources of the unitized area and shall (a) specify the number and
14 locations of any wells to be drilled and the proposed order and time for such
15 drilling; and (b) to the extent practicable specify the operating practices
16 regarded as necessary and advisable for proper conservation of natural resources.
17 Separate plans may be submitted for separate productive zones, subject to the
18 approval of the Supervisor and the State Land Commissioner. Plans shall be
19 modified or supplemented when necessary to meet changed conditions or to protect
20 the interest of all parties to this agreement. Reasonable diligence shall be
21 exercised in complying with the obligations of the approved plan of development.
22 The Supervisor and the State Land Commissioner are authorized to grant a reason-
23 able extension of the 6-month period herein prescribed for submission of an
24 initial plan of development where such action is justified because of unusual
25 conditions or circumstances. After completion hereunder of a well capable of
26 producing any unitized substance in paying quantities, no further wells, except
27 such as may be necessary to afford protection against operations not under this
28 agreement or such as may be specifically approved by the Supervisor and the
29 State Land Commissioner, shall be drilled except in accordance with a plan of
30 development approved as herein provided.

31 11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well cap-
32 able of producing unitized substances in paying quantities or as soon thereafter

1 as required by the Supervisor or the State Land Commissioner, the Unit Operator
2 shall submit for approval by the Director, the State Land Commissioner, and the
3 Commission a schedule, based on subdivisions of the public land survey or ali-
4 quot parts thereof, of all unitized land then regarded as reasonably proved to
5 be productive of unitized substances in paying quantities; all lands in said
6 schedule on approval of the Director, the State Land Commissioner, and the
7 Commission to constitute a participating area, effective as of the date of
8 completion of such well or the effective date of this unit agreement, which-
9 ever is later. The acreages of both Federal and non-Federal lands shall be
10 based upon appropriate computations from the courses and distances shown on the
11 last approved public-land survey as of the effective date of the initial partici-
12 pating area. Said schedule also shall set forth the percentage of unitized
13 substances to be allocated as herein provided to each unitized tract in the
14 participating area so established, and shall govern the allocation of production
15 from and after the date the participating area becomes effective. A separate
16 participating area shall be established in like manner for each separate pool or
17 deposit of unitized substances or for any group thereof produced as a single
18 pool or zone, and any two or more participating areas so established may be
19 combined into one with the consent of the owners of all working interests in
20 the lands within the participating areas so to be combined, on approval of the
21 Director, the State Land Commissioner, and the Commission. The participating
22 area or areas so established and approved shall be revised from time to time,
23 subject to like approval, whenever such action appears proper as a result of
24 further drilling operations or otherwise, to include additional land then re-
25 garded as reasonably proved to be productive in paying quantities, or to exclude
26 land then regarded as reasonably proved not to be productive in paying quantities,
27 and the percentage of allocation shall also be revised accordingly. The effective
28 date of any revision shall be the first of the month in which is obtained the
29 knowledge or information on which such revision is predicated, provided, how-
30 ever, that a more appropriate effective date may be used if justified by the
31 Unit Operator and approved by the Director. No land shall be exluded from a
32 participating area on account of depletion of the unitized substances.

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

7 In the absence of agreement at any time between the Unit Operator and
8 the Director, the State Land Commissioner, and the Commission as to the proper
9 definition or redefinition of a participating area, or until a participating
10 area has, or areas have, been established as provided herein, the portion of all
11 payments affected thereby may be impounded in a manner mutually acceptable to
12 the owners of working interests, except royalties due the United States, Indians
13 and the State of New Mexico, which shall be determined by the Supervisor for
14 Federal or Indian lands and the State Land Commissioner for State lands, and
15 the amount thereof deposited, as directed by the Supervisor and the State Land
16 Commissioner, respectively, to be held as unearned money until a participating
17 area is finally approved and then applied as earned or returned in accordance
18 with a determination of the sum due as Federal, Indian, and State royalty on the
19 basis of such approved participating area.

20 Whenever it is determined, subject to the approval of the Supervisor
21 as to wells on Federal or Indian land, and of the State Land Commissioner as to
22 wells drilled on State land, that a well drilled under this agreement is not
23 capable of production in paying quantities and inclusion of the land on which
24 it is situated in a participating area is unwarranted, production from such well
25 shall, for the purposes of settlement among all parties other than working in-
26 terest owners, be allocated to the land on which the well is located so long as
27 such land is not within a participating area established for the pool or deposit
28 from which such production is obtained. Settlement for working interest benefits
29 from such a well shall be made as provided in the unit operating agreement.

30 12. ALLOCATION OF PRODUCTION. All unitized substances produced from
31 each participating area established under this agreement, except any part there-
32 of used in conformity with good operating practices within the unitized area for

1 drilling, operating, camp and other production or development purposes, for re-
2 pressuring or recycling in accordance with a plan of development approved by the
3 Supervisor, the State Land Commissioner, and the Commission, or unavoidably lost,
4 shall be deemed to be produced equally on an acreage basis from the several
5 tracts of unitized land of the participating area established for such pro-
6 duction and, for the purpose of determining any benefits accruing under this
7 agreement, each such tract of unitized land shall have allocated to it such
8 percentage of said production as the number of acres of such tract included in
9 said participating area bears to the total acres of unitized land in said par-
10 ticipating area, except that allocation of production hereunder for purposes
11 other than for settlement of the royalty, overriding royalty, or payment out of
12 production obligations of the respective working interest owners, shall be on
13 the basis prescribed in the unit operating agreement whether in conformity with
14 the basis of allocation herein set forth or otherwise. It is hereby agreed that
15 production of unitized substances from a participating area shall be allocated
16 as provided herein regardless of whether any wells are drilled on any particular
17 part or tract of said participating area. If any gas produced from one parti-
18 cipating area is used for repressuring or recycling purposes in another parti-
19 cipating area, the first gas withdrawn from such last-mentioned participating
20 area for sale during the life of this agreement shall be considered to be the
21 gas so transferred until an amount equal to that transferred shall be so produced
22 for sale and such gas shall be allocated to the participating area from which
23 initially produced as constituted at the time of such final production.

24 13. DEVELOPMENT OR OPERATION OF NONPARTICIPATING LAND OR FORMATIONS.

25 Any party hereto owning or controlling the working interests in any unitized
26 land having thereon a regular well location may with the approval of the Super-
27 visor as to Federal or Indian land, and the State Land Commissioner as to State
28 land, and the Commission as to privately-owned land, if any, at such party's
29 sole risk, cost, and expense drill a well to test any formation for which a
30 participating area has not been established or to test any formation for which a
31 participating area has been established if such location is not within said
32 participating area, unless within 90 days of receipt of notice from said party

1 of his intention to drill the well the Unit Operator elects and commences to
2 drill such well in like manner as other wells are drilled by the Unit Operator
3 under this agreement.

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

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

17 14. ROYALTY SETTLEMENT. The United States, the Indians and the State
18 of New Mexico and all royalty owners who, under existing contract, are entitled
19 to take in kind a share of the substances now unitized hereunder produced from
20 any tract, shall hereafter be entitled to the right to take in kind their share
21 of the unitized substances allocated to such tract, and Unit Operator, or in
22 case of the operation of a well by a working interest owner as herein in
23 special cases provided for, such working interest owner, shall make deliveries
24 of such royalty share taken in kind in conformity with the applicable contracts,
25 laws, and regulations. Settlement for royalty interest not taken in kind shall
26 be made by working interest owners responsible therefore under existing contracts,
27 laws, and regulations, on or before the last day of each month for unitized
28 substances produced during the preceding calendar month; provided, however,
29 that nothing herein contained shall operate to relieve the lessees of any land
30 from their respective lease obligations for the payment of any royalties due
31 under their leases.

32 If gas obtained from lands not subject to this agreement is introduced

1 into any participating area hereunder, for use in repressuring, stimulation of
2 production, or increasing ultimate recovery, which shall be in conformity with
3 a plan first approved by the Supervisor, the State Land Commissioner, and the
4 Commission, a like amount of gas, after settlement as herein provided for any
5 gas transferred from any other participating area and with due allowance for
6 loss or depletion from any cause, may be withdrawn from the formation into which
7 the gas was introduced, royalty free as to dry gas, but not as to the products
8 extracted therefrom; provided that such withdrawal shall be at such time as may
9 be provided in the plan of operations or as may otherwise be consented to by the
10 Supervisor, the State Land Commissioner, and the Commission as conforming to
11 good petroleum engineering practice; and provided further, that such right of
12 withdrawal shall terminate on the termination of this unit agreement.

13 Royalty due the United States and Indians shall be computed as provided
14 in the operating regulations and paid in value or delivered in kind as to all
15 unitized substances on the basis of the amounts thereof allocated to unitized
16 Federal and Indian land as provided herein at the rates specified in the respec-
17 tive Federal and Indian leases, or at such lower rate or rates as may be
18 authorized by law or regulation; provided, that for leases on which the royalty
19 rate depends on the daily average production per well, said average production
20 shall be determined in accordance with the operating regulations as though each
21 participating area were a single consolidated lease.

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

32 Rentals on State of New Mexico lands subject to this agreement shall

1 be paid at the rates specified in the respective leases.

2 With respect to any lease on non-Federal or non-Indian or State of New
3 Mexico land containing provisions which would terminate such lease unless drill-
4 ing operations were within the time therein specified commenced upon the land
5 covered thereby or rentals paid for the privilege of deferring such drilling
6 operations, the rentals required thereby shall, notwithstanding any other
7 provision of this agreement, be deemed to accrue and become payable during the
8 term thereof as extended by this agreement and until the required drilling
9 operations are commenced upon the land covered thereby or some portion of such
10 land is included within a participating area.

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

15 17. DRAINAGE. The Unit Operator shall take appropriate and adequate
16 measures to prevent drainage of unitized substances from unitized land by wells
17 on land not subject to this agreement or with the consent of the Director and
18 the State Land Commissioner pursuant to applicable regulations pay a fair and
19 reasonable compensatory royalty as determined by the Supervisor for Federal or
20 Indian lands, or as approved by the State Land Commissioner for State land.

21 18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, con-
22 ditions, and provisions of all leases, subleases, and other contracts relating
23 to exploration, drilling, development, or operation for oil or gas of lands
24 committed to this agreement are hereby expressly modified and amended to the
25 extent necessary to make the same conform to the provisions hereof, but other-
26 wise to remain in full force and effect; and the parties hereto hereby consent
27 that the Secretary as to Federal and Indian leases and the State Land Commissioner
28 as to State leases, shall and by their approval hereof, or by the approval
29 hereof by their duly authorized representatives, do hereby establish, alter,
30 change or revoke the drilling, producing, rental, minimum royalty, and royalty
31 requirements of Federal or Indian leases and State leases committed hereto and
32 the regulations in respect thereto to conform said requirements to the

1 provisions of this agreement, and, without limiting the generality of the
2 foregoing, all leases, subleases, and contracts are particularly modified in
3 accordance with the following:

4 (a) The development and operation of lands subject to this agree-
5 ment under the terms hereof shall be deemed full performance of all obligations
6 for development and operation with respect to each and every part or separately
7 owned tract subject to this agreement, regardless of whether there is any
8 development of any particular part or tract of the unit area, notwithstanding
9 anything to the contrary in any lease, operating agreement or other contract by
10 and between the parties hereto, or their respective predecessors in interest,
11 or any of them.

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

17 (c) Suspension of drilling or producing operations on all unitized
18 lands pursuant to direction or consent of the Secretary and the State Land
19 Commissioner or their duly authorized representatives shall be deemed to con-
20 stitute such suspension pursuant to such direction or consent as to each and
21 every tract of unitized land.

22 (d) Each lease, sublease or contract relating to the exploration,
23 drilling, development or operation for oil or gas of lands other than those of
24 the United States and the Indians committed to this agreement, which, by its
25 terms might expire prior to the termination of this agreement, is hereby ex-
26 tended beyond any such term so provided therein so that it shall be continued
27 in full force and effect for and during the term of this agreement.

28 (e) Any Federal lease for a fixed term of twenty (20) years or any
29 renewal thereof or any part of such lease which is made subject to this agree-
30 ment shall continue in force beyond the term provided therein until the
31 termination hereof. Any other Federal/^{and Indian} lease committed hereto shall continue in
32 force beyond the term so provided therein or by law as to the committed land so

1 long as such lease remains subject hereto, provided that production is had in
2 paying quantities under this unit agreement prior to the expiration date of the
3 term of such lease, or in the event actual drilling operations are commenced on
4 unitized land, in accordance with the provisions of this agreement, prior to the
5 end of the primary term of such lease and are being diligently prosecuted at
6 that time, such lease shall be extended for two years and so long thereafter as
7 oil or gas is produced in paying quantities in accordance with the provisions of
8 the Mineral Leasing Act Revision of 1960.

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

16 (g) The segregation of any Federal lease committed to this agreement
17 is governed by the following provision in the fourth paragraph of Sec. 17 (j) of
18 the Mineral Leasing Act, as amended by the Act of September 2, 1960 (74 Stat.
19 781-784): "Any (Federal) lease heretofore or hereafter committed to any such
20 (unit) plan embracing lands that are in part within and in part outside of the
21 area covered by any such plan shall be segregated into separate leases as to the
22 lands committed and the lands not committed as of the effective date of unitiza-
23 tion: Provided, however, that any such lease as to the nonunitized portion shall
24 continue in force and effect for the term thereof but for not less than two years
25 from the date of such segregation and so long thereafter as oil or gas is pro-
26 duced in paying quantities."

27 (h) Any lease, other than a Federal lease, having only a portion of
28 its lands committed hereto shall be segregated as to the portion committed and
29 the portion not committed, and the provisions of such lease shall apply separately
30 to such segregated portions commencing as of the effective date hereof. In the
31 event any such lease provides for a lump-sum rental payment, such payment shall
32 be prorated between the portions so segregated in proportion to the acreage of
33 the respective tracts.

1 (i) Any lease embracing lands of the State of New Mexico having only
2 a portion of its lands committed hereto, shall be segregated as to the portion
3 committed and the portion not committed, and the provisions of such lease shall
4 apply separately to such segregated portions commencing as of the effective date
5 hereof; provided, however, notwithstanding any of the provisions of this agree-
6 ment to the contrary any lease embracing lands of the State of New Mexico having
7 only a portion of its lands committed hereto shall continue in full force and
8 effect beyond the term provided therein as to all lands embraced in such lease,
9 if oil or gas is discovered and is capable of being produced in paying quanti-
10 ties from some part of the lands embraced in such lease at the expiration of
11 the secondary term of such lease; or if, at the expiration of the secondary term,
12 the lessee or the Unit Operator is then engaged in bona fide drilling or re-
13 working operations on some part of the lands embraced in such lease, the same,
14 as to all lands embraced therein, shall remain in full force and effect so long
15 as such operations are being diligently prosecuted, and if they result in the
16 production of oil or gas, said lease shall continue in full force and effect as
17 to all of the lands embraced therein, so long thereafter as oil or gas in pay-
18 ing quantities is being produced from any portion of said lands.

19 (j) Any Indian lease having only a portion of its lands committed
20 hereto shall be segregated as to the portion committed and the portion not
21 committed, and the provisions of such lease shall apply separately to such segre-
22 gated portions commencing as of the effective date hereof.

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

1 20. EFFECTIVE DATE OF TERM. This agreement shall become effective
2 upon approval by the Secretary or his duly authorized representative and the
3 State Land Commissioner and shall terminate on the expiration of five (5) years
4 from the effective date of this agreement unless (a) such date of expiration is
5 extended by the Director and State Land Commissioner, or (b) it is reasonably
6 determined prior to the expiration of the fixed term or any extension thereof
7 that the unitized land is incapable of production of unitized substances in
8 paying quantities in the formations tested hereunder and after notice of inten-
9 tion to terminate the agreement on such ground is given by the Unit Operator to
10 all parties in interest at their last known addresses, the agreement is termi-
11 nated with the approval of the Director and State Land Commissioner, or (c) a
12 valuable discovery of unitized substances has been made or accepted on unitized
13 land during said initial term or any extension thereof, in which event the
14 agreement shall remain in effect for such term and so long as unitized sub-
15 stances can be produced in quantities sufficient to pay for the cost of
16 producing same from wells on unitized land within any participating area
17 established hereunder and, should production cease, so long thereafter as
18 diligent operations are in progress for the restoration of production or
19 discovery of new production and so long thereafter as the unitized substances
20 so discovered can be produced as aforesaid, or (d) it is terminated as heretofore
21 provided in this agreement.

22 This agreement may be terminated at any time by not less than 75 per
23 centum, on an acreage basis, of the owners of working interests signatory here-
24 to, with the approval of the Director and State Land Commissioner; notice of any
25 such approval to be given by the Unit Operator to all parties hereto.

26 21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The Director
27 is hereby vested with authority to alter or modify from time to time in his
28 discretion the quantity and rate of production under this agreement when such
29 quantity and rate are not fixed pursuant to Federal or State law or does not
30 conform to any state-wide voluntary conservation or allocation program, which is
31 established, recognized, and generally adhered to by the majority of operators
32 in such State, such authority being hereby limited to alteration or modification

1 in the public interest, the purpose thereof and the public interest to be served
2 thereby to be stated in the order of alteration or modification. Without re-
3 gard to the foregoing, the Director is also hereby vested with authority to
4 alter or modify from time to time in his discretion the rate of prospecting
5 and development and the quantity and rate of production under this agreement
6 when such alteration or modification is in the interest of attaining the con-
7 servation objectives stated in this agreement and is not in violation of any
8 applicable Federal or State law; provided, further, that no such alteration or
9 modification shall be effective as to any land of the State of New Mexico as
10 to the rate of prospecting and development in the absence of the specific
11 written approval thereof by the State Land Commissioner and as to any lands
12 of the State of New Mexico or privately-owned lands, if any, subject to this
13 agreement as to the quantity and rate of production in the absence of specific
14 written approval thereof by the Commission.

15 Powers in this section vested in the Director shall only be exercised
16 after notice to Unit Operator and opportunity for hearing to be held not less
17 than 15 days from notice.

18 22. APPEARANCES. Unit Operator shall, after notice to other parties
19 affected, have the right to appear for and on behalf of any and all interests
20 affected hereby before the Department of the Interior, the State Land Commis-
21 sioner, and the Commission and to appeal from orders issued under the regulations
22 of said Department, the State Land Commissioner or Commission, or to apply for
23 relief from any of said regulations or in any proceedings relative to operations
24 before the Department of the Interior, the State Land Commissioner or Commission
25 or any other legally constituted authority; provided, however, that any other
26 interested party shall also have the right at his own expense to be heard in
27 any such proceeding.

28 23. NOTICES. All notices, demands or statements required hereunder
29 to be given or rendered to the parties hereto shall be deemed fully given if
30 given in writing and personally delivered to the party or sent by postpaid
31 registered mail, addressed to such party or parties at their respective addresses
32 set forth in connection with the signatures hereto or to the ratification or

1 consent hereof or to such other address as any such party may have furnished in
2 writing to party sending the notice, demand or statement.

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

9 25. UNAVOIDABLE DELAY. All obligations under this agreement requir-
10 ing the unit Operator to commence or continue drilling or to operate on or
11 produce unitized substances from any of the lands covered by this agreement shall
12 be suspended while, but only so long as, the Unit Operator despite the exercise
13 of due care and diligence is prevented from complying with such obligations, in
14 whole or in part, by strikes, acts of God, Federal, State, or municipal law or
15 agencies, unavoidable accidents, uncontrollable delays in transportation, in-
16 ability to obtain necessary materials in open market, or other matters beyond
17 the reasonable control of the Unit Operator whether similar to matters herein
18 enumerated or not.

19 26. NONDISCRIMINATION. In the performance of work under this agree-
20 ment as to all non-Indian lands the operator agrees to comply with all the
21 provisions of Section 301 (1) to (7) inclusive of Executive Order 10925 (26 F.R.
22 1977) which are incorporated herein by reference. As to Indian lands, the
23 operator shall comply with the terms and conditions of the Indian leases while
24 engaged in operations thereon with respect to the employment of available
25 Indian labor.

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

1 the dispute is finally settled; provided, that, as to Federal, Indian and State
2 land or leases, no payments of funds due the United States, Indians or the State
3 of New Mexico should be withheld, but such funds of the United States and the
4 Indians shall be deposited as directed by the Supervisor, and those due the
5 State of New Mexico with the Commissioner of Public Lands of the State of New
6 Mexico, to be held as unearned money, pending final settlement of the title
7 dispute, and then applied as earned or returned in accordance with such final
8 settlement.

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

11 28. NONJOINDER AND SUBSEQUENT JOINDER. If the owner of any sub-
12 stantial interest in a tract within the unit area fails or refuses to subscribe
13 or consent to this agreement, the owner of the working interest in that tract
14 may withdraw said tract from this agreement by written notice to the Director,
15 the State Land Commissioner, and the Unit Operator prior to the approval of this
16 agreement by the Director. Any oil or gas interests in lands within the unit
17 area not committed hereto prior to submission of this agreement for final
18 approval may thereafter be committed hereto by the owner or owners thereof
19 subscribing or consenting to this agreement, and, if the interest is a working
20 interest, by the owner of such interest also subscribing to the unit operating
21 agreement. After operations are commenced hereunder, the right of subsequent
22 joinder, as provided in this section, by a working interest owner is subject
23 to such requirements or approvals, if any, pertaining to such joinder, as may
24 be provided for in the unit operating agreement. After final approval hereof
25 joinder by a non-working interest owner must be consented to in writing by the
26 working interest owner committed hereto and responsible for the payment of any
27 benefits that may accrue hereunder in behalf of such non-working interest.
28 Joinder by any owner of a non-working interest, at any time, must be accompanied
29 by appropriate joinder by the owner of the corresponding working interest in
30 order for the interest to be regarded as committed hereto. Joinder to the unit
31 agreement by a working-interest owner, at any time, must be accompanied by
32 appropriate joinder to the unit operating agreement, if more than one committed

1 working-interest owner is involved, in order for the interest to be regarded as
2 effectively committed to this unit agreement. Except as may otherwise herein be
3 provided subsequent joinders to this agreement shall be effective as of the
4 first day of the month following the filing with the Supervisor and the Com-
5 mission, and the approval of the State Land Commissioner as to State lands of
6 duly executed counterparts of all or any papers necessary to establish effec-
7 tive commitment of any tract to this agreement unless objection to such joinder
8 is duly made within 60 days by the Director, State Land Commissioner or Commission.

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

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

23 If as a result of any such surrender, the working interest rights as
24 to such lands become vested in any party other than the fee owner of the uni-
25 tized substances, said party shall forfeit such rights and no further benefits
26 from operations hereunder as to said land shall accrue to such party, unless
27 within ninety (90) days thereafter said party shall execute this agreement and
28 the unit operating agreement as to the working interest acquired through such
29 surrender, effective as though such land had remained continuously subject to
30 this agreement and the unit operating agreement. And in the event such agree-
31 ments are not so executed, the party next in the chain of title shall be and
32 become the owner of such working interest at the end of such ninety (90) day

1 period, with the same force and effect as though such working interest had been
2 surrendered to such party.

3 If as the result of any such surrender or forfeiture the working
4 interest rights as to such lands become vested in the fee owner of the unitized
5 substances, such owner may:

6 (1) Execute this agreement and the unit operating agreement as a
7 working interest owner, effective as though such land had remained continuously
8 subject to this agreement and the unit operating agreement.

9 (2) Again lease such lands but only under the condition that the
10 holder of such lease shall within thirty (30) days after such lands are so
11 leased execute this agreement and the unit operating agreement as to each
12 participating area theretofore established hereunder, effective as though such
13 land had remained continuously subject to this agreement and the unit operating
14 agreement.

15 (3) Operate or provide for the operation of such land independently
16 of this agreement as to any part thereof or any oil or gas deposits therein
17 not then included within a participating area.

18 If the fee owner of the unitized substances does not execute this
19 agreement and the unit operating agreement as a working interest owner or again
20 lease such lands as above provided with respect to each existing participating
21 area, within six (6) months after any such surrender or forfeiture, such fee
22 owner shall be deemed to have waived the right to execute the unit operating
23 agreement or lease such lands as to each such participating area, and to have
24 agreed, in consideration for the compensation hereinafter provided, that
25 operations hereunder as to any such participating area or areas shall not be
26 affected by such surrender.

27 For any period the working interest in any lands are not expressly
28 committed to the unit operating agreement as the result of any such surrender
29 or forfeiture, the benefits and obligations of operations accruing to such
30 lands under this agreement and the unit operating agreement shall be shared by
31 the remaining owners of unitized working interests in accordance with their re-
32 spective participating working interest ownerships in any such participating

1 area or areas, and such owners of working interests shall compensate the fee
2 owner of unitized substances in such lands by paying sums equal to the rentals,
3 minimum royalties, and royalties applicable to such lands under the lease in
4 effect when the lands were unitized, as to such participating area or areas.

5 Upon commitment of a working interest to this agreement and the unit
6 operating agreement as provided in this section, an appropriate accounting and
7 settlement shall be made, to reflect the retroactive effect of the commitment,
8 for all benefits accruing to or payments and expenditures made or incurred on
9 behalf of such surrendered working interest during the period between the date
10 of surrender and the date of recommitment, and payment of any moneys found to
11 be owing by such an accounting shall be made as between the parties then signa-
12 tory to the unit operating agreement and this agreement within thirty (30) days
13 after the recommitment. The right to become a party to this agreement and the
14 unit operating agreement as a working interest owner by reason of a surrender or
15 forfeiture as provided in this section shall not be defeated by the nonexistence
16 of a unit operating agreement and in the event no unit operating agreement is in
17 existence and a mutually acceptable agreement between the proper parties thereto
18 cannot be consummated, the Supervisor and State Land Commissioner may prescribe
19 such reasonable and equitable agreement as they deem warranted under the
20 circumstances.

21 Nothing in this section shall be deemed to limit the right of joinder
22 or subsequent joinder to this agreement as provided elsewhere in this agreement.
23 The exercise of any right vested in a working interest owner to reassign such
24 working interest to the party from whom obtained shall be subject to the same
25 conditions as set forth in this section in regard to the exercise of a right to
26 surrender.

27 31. TAXES. The working interest owners shall render and pay for
28 their account and the account of the royalty owners all valid taxes on or
29 measured by the unitized substances in and under or that may be produced,
30 gathered and sold from the land subject to this contract after the effective
31 date of this agreement, or upon the proceeds or net proceeds derived therefrom.
32 The working interest owners on each tract shall and may charge the proper

1 proportion of said taxes to the royalty owners having interests in said tract,
2 and may currently retain and deduct sufficient of the unitized substances or
3 derivative products, or net proceeds thereof from the allocated share of each
4 royalty owner to secure reimbursement for the taxes so paid. No such taxes shall
5 be charged to the United States or the State of New Mexico or to any lessor who
6 has a contract with his lessee which requires the lessee to pay such taxes.

7 IN WITNESS WHEREOF, the parties hereto have executed this agreement
8 on the date set opposite their respective signatures.

9 UNIT OPERATOR AND WORKING INTEREST
10 OWNER

11 M. F. ABRAHAM

12 Witness: James E. Mathews

By M. F. Abraham

13 Date: June 14, 1963

Address: 424 First National Bank
Building
Albuquerque, New Mexico

14 WORKING INTEREST OWNERS

15 SHELL OIL COMPANY

16
17
18 Witness: _____

By _____
Its Attorney in Fact

19 Witness: _____

By _____

20 Date: _____

Address: 1008 West Sixth Street
Los Angeles 54, California

21
22 BRITISH AMERICAN OIL PRODUCING COMPANY

23
24 Witness: _____

By _____

25 Witness: _____

By _____

26 Date: _____

Address: P. O. Box 749
Dallas, Texas

27
28 PAN AMERICAN PETROLEUM CORPORATION

29
30 Witness: _____

By _____

31 Witness: _____

By _____

32 Date: _____

Address: P. O. Box 1410
Fort Worth, Texas

NEW MEXICO

STATE OF NEW MEXICO } ss.
COUNTY OF BERNALILLO }

The foregoing instrument was acknowledged before me this 14th day of June, 19 63 by M. F. Abraham

Ernest H. Zeller
Notary Public in and for said County and State

My Commission expires 4-17-67

STATE OF _____ } ss.
COUNTY OF _____ }

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____ (name of officer), _____ (title of officer or agent), of _____ (name of corporation), a _____ (State or County of incorporation) corporation, on behalf of said corporation.

Notary Public in and for said County and State

My Commission expires _____

STATE OF CALIFORNIA } ss.
COUNTY OF LOS ANGELES }

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____, as Attorney In Fact on behalf of Shell Oil Company, a Delaware corporation.

Notary Public in and for said County and State

My Commission expires _____

1 proportion of said taxes to the royalty owners having interests in said tract,
2 and may currently retain and deduct sufficient of the unitized substances or
3 derivative products, or net proceeds thereof from the allocated share of each
4 royalty owner to secure reimbursement for the taxes so paid. No such taxes shall
5 be charged to the United States or the State of New Mexico or to any lessor who
6 has a contract with his lessee which requires the lessee to pay such taxes.

7 IN WITNESS WHEREOF, the parties hereto have executed this agreement
8 on the date set opposite their respective signatures.

9 UNIT OPERATOR AND WORKING INTEREST
10 OWNER

11 M. F. ABRAHAM

12 Witness: _____

By _____

13 Date: _____

Address: 424 First National Bank
Building
Albuquerque, New Mexico

14
15 WORKING INTEREST OWNERS

16 SHELL OIL COMPANY

17

18 Witness: _____

By *J. E. Moran*
Its Attorney in Fact

19 Witness: _____

By _____

20 Date: JUN 20 1963

Address: 1008 West Sixth Street
Los Angeles 54, California

21
22 BRITISH AMERICAN OIL PRODUCING COMPANY

23

24 Witness: _____

By _____

25 Witness: _____

By _____

26 Date: _____

Address: P. O. Box 749
Dallas, Texas

27
28 PAN AMERICAN PETROLEUM CORPORATION

29

30 Witness: _____

By _____

31 Witness: _____

By _____

32 Date: _____

Address: P. O. Box 1410
Fort Worth, Texas

NEW MEXICO

STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____

Notary Public in and for said County and State
My Commission expires _____

STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____
(name of officer), _____ (title of officer or agent), of _____ (name of corporation), a _____ (State or County of incorporation) corporation, on behalf of said corporation.

Notary Public in and for said County and State
My Commission expires _____

STATE OF CALIFORNIA }
COUNTY OF LOS ANGELES } ss.

The foregoing instrument was acknowledged before me this 20th day of June, 1963, by J. E. MOHR, as Attorney In Fact on behalf of Shell Oil Company, a Delaware corporation.

Mildred M. Crawford
Mildred M. Crawford Notary Public in and for said County and State
My Commission expires December 11 1963

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WORKING INTEREST OWNERS
NORTHWEST PRODUCTION CORPORATION

Witness: _____
Witness: _____
Date: _____

By _____
By _____
Address: P. O. Box 1796
El Paso, Texas

Jim SKELLY OIL COMPANY *App'd as to form for the*

Witness: W B Crownover
Witness: Hester Romine
Date: June 28, 1963

By *A. J. [unclear]*
ATTORNEY-IN-FACT
By _____
Address: P. O. Box 1650
Tulsa, Oklahoma

SUNRAY DX OIL COMPANY

Witness: _____
Witness: _____
Date: _____

By _____
By _____
Address: P. O. Box 2039
Tulsa, Oklahoma

RUTTER AND WILBANKS CORPORATION

Witness: _____
Witness: _____
Date: _____

By _____
By _____
Address: 500 North Big Springs
Midland, Texas


SANTA FE PACIFIC RAILROAD COMPANY


Witness: _____
Witness: _____
Date: _____

By _____
By _____
Address: Attention: Secretary
Room 220
920 Jackson Street
Topeka, Kansas

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ATTEST:

Witness: 
G. W. Jordan, Asst. Secy
Witness: _____
Date: June 18, 1963

WORKING INTEREST OWNERS
NORTHWEST PRODUCTION CORPORATION
By 
J. M. Clark, Vice President *JM*
By _____
Address: P. O. Box 1796
El Paso, Texas

SKELLY OIL COMPANY
By _____
By _____
Address: P. O. Box 1650
Tulsa, Oklahoma

SUNRAY DX OIL COMPANY
By _____
By _____
Address: P. O. Box 2039
Tulsa, Oklahoma

RUTTER AND WILBANKS CORPORATION
By _____
By _____
Address: 500 North Big Springs
Midland, Texas

SANTA FE PACIFIC RAILROAD COMPANY
By _____
By _____
Address: Attention: Secretary
Room 220
920 Jackson Street
Topeka, Kansas

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WORKING INTEREST OWNERS
NORTHWEST PRODUCTION CORPORATION

Witness: _____
Witness: _____
Date: _____

By _____
By _____
Address: P. O. Box 1796
El Paso, Texas

SKELLY OIL COMPANY

Witness: _____
Witness: _____
Date: _____

By _____
By _____
Address: P. O. Box 1650
Tulsa, Oklahoma

SUNRAY DX OIL COMPANY

Witness: _____
Witness: _____
Date: _____

By _____
By _____
Address: P. O. Box 2039
Tulsa, Oklahoma

RUTTER AND WILBANKS CORPORATION

Witness: *W. E. Cook*
Witness: *W. E. Cook*
Date: *6-24-63*

By *W. E. Wilbanks*
By *A. W. Gutter, Jr.*
Address: 500 North Big Springs
Midland, Texas

SANTA FE PACIFIC RAILROAD COMPANY

Witness: _____
Witness: _____
Date: _____

By _____
By _____
Address: Attention: Secretary
Room 220
920 Jackson Street
Topeka, Kansas

NEW MEXICO

STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me this _____ day of _____
_____, 19____ by _____

Notary Public in and for said County and State

My Commission expires _____

STATE OF TEXAS }
COUNTY OF EL PASO } ss.

The foregoing instrument was acknowledged before me this 18th day of June
_____, 1963, by J. M. Clark
(name of officer), Vice President (title of officer or agent), of
Northwest Production Corporation (name of corporation), a
Delaware (State or County of Incorporation) corporation,
on behalf of said corporation.

LEONARD B. BLOOMSBERRY
Notary Public in and for El Paso County, Texas
My Commission Expires June 1, 1965

Leonard B. Bloomsberry
Notary Public in and for said County and State
My Commission expires 6-1-65

STATE OF CALIFORNIA }
COUNTY OF LOS ANGELES } ss.

The foregoing instrument was acknowledged before me this _____ day of _____
_____, 19____, by M. W. SHEPPARD, JR., as Attorney In Fact on behalf
of Shell Oil Company, a Delaware corporation.

Notary Public in and for said County and State

My Commission expires _____

NEW MEXICO

STATE OF TEXAS }
COUNTY OF MIDLAND } ss.

The foregoing instrument was acknowledged before me this 24th day of JUNE, 19 63 by A. W. Rutter, Jr.

Bennie J. Estes

Notary Public in and for said County and State

My Commission expires 6-1-65

STATE OF TEXAS }
COUNTY OF MIDLAND } ss.

The foregoing instrument was acknowledged before me this 24th day of JUNE, 19 63, by G. L. WILBANKS

(name of officer), President (title of officer or agent), of Rutter and Wilbanks Corporation (name of corporation), a Texas (State or County of incorporation) corporation, on behalf of said corporation.

Bennie J. Estes

Notary Public in and for said County and State

My Commission expires 6-1-65

STATE OF CALIFORNIA }
COUNTY OF LOS ANGELES } ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19 _____, by _____, as Attorney In Fact on behalf of Shell Oil Company, a Delaware corporation.

Notary Public in and for said County and State

My Commission expires _____

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WORKING INTEREST OWNERS

LOREN L. HILLMAN

Witness: Doris L. Hill
Witness: Doris L. Hill
Date: June 24, 1963

Loren L. Hillman
Loren L. Hillman
Doris C. Hillman
Doris C. Hillman
by Loren L. Hillman
Her Attorney in Fact
Address: 2975 Wilshire Boulevard
Los Angeles, California

F. J. BRADSHAW

Witness: _____
Date: _____

By _____
Address: 337 Pierpont Avenue
Salt Lake City, Utah

EUGENE G. COUREY

Witness: _____
Date: _____

By _____
Address: 924 Indiana S. E.
Albuquerque, New Mexico

T. H. McELVAIN, JR.

Witness: _____
Date: _____

By _____
Address: P. O. Box 2148
Santa Fe, New Mexico

MABELLE M. MILLER

Witness: _____
Date: _____

By _____
Address: 220 Shelby Street
Santa Fe, New Mexico

GERALD F. SAILOR

Witness: _____
Date: _____

By _____
Address: P. O. Box 56
Universal City, California

NEW MEXICO

STATE OF CALIFORNIA }
COUNTY OF LOS ANGELES } ss.

The foregoing instrument was acknowledged before me this 24th day of June, 1963 by Loren L. Hillman.

Doris L. Herr DORIS L. HERR
Notary Public in and for said County and State
My Commission expires March 29, 1966

STATE OF CALIFORNIA)
COUNTY OF LOS ANGELES) ss.

The foregoing instrument was acknowledged before me this 24th day of June, 1963, by Loren L. Hillman, as Attorney in Fact on behalf of Doris C. Hillman.

Doris L. Herr
Notary Public in and for said County and State. DORIS L. HERR
My Commission expires 3-29-66

STATE OF CALIFORNIA }
COUNTY OF LOS ANGELES } ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____, as Attorney In Fact on behalf of Shell Oil Company, a Delaware corporation.

Notary Public in and for said County and State
My Commission expires _____

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WORKING INTEREST OWNERS
L. L. HILLMAN, INC.

Witness: _____ By _____
Witness: _____ By _____
Date: _____ Address: 2975 Wilshire Boulevard
Los Angeles, California

F. J. BRADSHAW

Witness: _____ By _____
Date: _____ Address: 337 Pierpont Avenue
Salt Lake City, Utah

EUGENE G. COUREY

Witness: Margaret L. Courey By Eugene G. Courey
Date: June 14, 1963 Address: 924 Indiana S. E.
Albuquerque, New Mexico

STATE OF NEW MEXICO
COUNTY OF BERNALILLO } ss.

The foregoing instrument was acknowledged before me this 14th day of June, 19 63 by Eugene G. Courey and Margaret L. Courey

Eugene H. Decca
Notary Public in and for said
County and State
My Commission expires 4-17-67

Witness: _____ By _____
Date: _____ Address: P. O. Box 56
Universal City, California

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WORKING INTEREST OWNERS

L. L. HILLMAN, INC.

Witness: _____

By _____

Witness: _____

By _____

Date: _____

Address: 2975 Wilshire Boulevard
Los Angeles, California

F. J. BRADSHAW

Witness: _____

By _____

Date: _____

Address: 337 Pierpont Avenue
Salt Lake City, Utah

EUGENE G. COUREY

Witness: _____

By _____

Date: _____

Address: 924 Indiana S. E.
Albuquerque, New Mexico

T. H. McELVAIN, JR.

Witness: Elizabeth L. McElvain

By _____

Date: June 20, 1963

Address: P. O. Box 2148
Santa Fe, New Mexico

MABELLE M. MILLER

Witness: Fausto B. Miller

By Fausto B. Miller

Date: 220 Shelby St

Address: 220 Shelby Street
Santa Fe, New Mexico

Santa Fe, N.M.
June 20, 1963

GERALD F. SAILOR

Witness: _____

By _____

Date: _____

Address: P. O. Box 56
Universal City, California

NEW MEXICO

STATE OF NEW MEXICO }
COUNTY OF SANTA FE } ss.

The foregoing instrument was acknowledged before me this 20th day of June, 19 63 by T.H. McElvain, Jr. and wife, Elizabeth R. McElvain; Mabelle M. Miller and husband, Forrest B. Miller.

Deane M. Harwood
Notary Public in and for said
County and State

My Commission expires April 14, 1967

STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19 _____ by _____.

Notary Public in and for said
County and State

My Commission expires _____

STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19 _____ by _____.

Notary Public in and for said
County and State

My Commission expires _____

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WORKING INTEREST OWNERS

L. L. HILLMAN, INC.

Witness: _____
Witness: _____
Date: _____

By _____
By _____
Address: 2975 Wilshire Boulevard
Los Angeles, California

F. J. BRADSHAW

Witness: _____
Date: _____

By _____
Address: 337 Pierpont Avenue
Salt Lake City, Utah

EUGENE G. COUREY

Witness: _____
Date: _____

By _____
Address: 924 Indiana S. E.
Albuquerque, New Mexico

T. H. McELVAIN, JR.

Witness: _____
Date: _____

By _____
Address: P. O. Box 2148
Santa Fe, New Mexico

MABELLE M. MILLER

Witness: _____
Date: _____

By _____
Address: 220 Shelby Street
Santa Fe, New Mexico

GERALD F. SAILOR

Witness: Don N. Babcock
Date: June 18-1963

By Gerald F. Sailor
Address: P. O. Box 56
Universal City, California

NEW MEXICO

STATE OF California }
COUNTY OF Los Angeles } ss.

The foregoing instrument was acknowledged before me this 18th day of June, 1963 by

Gerald F. Saylor
Mildred M. Crawford
Mildred M. Crawford Notary Public in and for said County and State

My Commission expires December 11, 1963

STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____

(name of officer), _____ (title of officer or agent), of _____ (name of corporation), a _____ (State or County of incorporation) corporation, on behalf of said corporation.

Notary Public in and for said County and State

My Commission expires _____

STATE OF CALIFORNIA }
COUNTY OF LOS ANGELES } ss.

The foregoing instrument was acknowledged before me this _____ day of _____

_____, 19____, by _____, as Attorney In Fact on behalf of Shell Oil Company, a Delaware corporation.

Notary Public in and for said County and State

My Commission expires _____

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WORKING INTEREST OWNERS

ILABELLE SHANAHAN

Witness: *[Signature]*
Date: JUN 19 1968

By *Ilabelle Shanahan*
Address: P. O. Box 1272
Salt Lake City, Utah

Witness: _____
Date: _____

By _____
Address: _____

Witness: _____
Date: _____

By _____
Address: _____

Witness: _____
Date: _____

By _____
Address: _____

Witness: _____
Date: _____

By _____
Address: _____

Witness: _____
Date: _____

By _____
Address: _____

NEW MEXICO

STATE OF Utah }
COUNTY OF Salt Lake } ss.

The foregoing instrument was acknowledged before me this 19th day of June, 1962 by

Lakeline Shannah

Theris B. Harrell

Notary Public in and for said
County and State

My Commission expires Sept. 3, 1963

STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me this _____ day of _____

_____, 19____ by _____

_____.

Notary Public in and for said
County and State

My Commission expires _____

STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me this _____ day of _____

_____, 19____ by _____

_____.

Notary Public in and for said
County and State

My Commission expires _____

CONSENT

In consideration of the execution of the Unit Agreement for the Development and Operation of the Star Lake Unit Area, McKinley County, State of New Mexico, by M. F. Abraham, as Unit Operator, and the approval thereof by the Secretary of the Interior or his duly authorized representative, dated June 1, 1963, receipt of a copy of which is hereby acknowledged, the undersigned owners of lands or interests in lands or royalties or other interests in production covered by said Unit Agreement hereby severally, each to the extent of his particular ownership or interest, consent to the inclusion of said lands within the Unit Area therein defined, approve and adopt the terms of said Unit Agreement and any modifications thereof approved by the Secretary of the Interior, or his duly authorized representative, as applicable to said several lands and interests, agree that the drilling and development requirements of all leases and other contracts in which their several rights and interests are created or defined shall be deemed fully performed by performance of the provisions of said Unit Agreement, and agree that payment for or delivery of (whichever may be required under prior agreements) oil and of the proceeds of gas duly made upon the basis of production allocated under said Unit Agreement to the particular lands to which such rights or interests apply, regardless of actual production therefrom, shall constitute full performance of all such obligations to the undersigned existing under such leases or other contracts.

The undersigned also authorize Unit Operator to attach this Consent to the execution copies of said Unit Agreement.

Witness

James E. Mathews

By

M. F. Abraham
M. F. Abraham

Witness

By

Date

June 14, 1963

Address

426 First National Bank Building
Albuquerque, New Mexico

As to Tract No. 2, 4, 6, 8, 10, 12

Witness

By

Witness

By

Date

Address

As to Tract No.

STATE OF

NEW MEXICO

COUNTY OF

BEAVALILLO

} ss.

The foregoing instrument was acknowledged before me this 14th day of

June

, 19 63

by M. F. Abraham

Emily H. Sullivan
Notary Public in and for said County and State

Mr. Commission Expires 4-12-67

CONSENT

In consideration of the execution of the Unit Agreement for the Development and Operation of the Star Lake Unit Area, McKinley County, State of New Mexico, by M. F. Abraham, as Unit Operator, and the approval thereof by the Secretary of the Interior or his duly authorized representative, dated June 1, 1963, receipt of a

copy of which is hereby acknowledged, the undersigned owners of lands or interests in lands or royalties or other interests in production covered by said Unit Agreement hereby severally, each to the extent of his particular ownership or interest, consent to the inclusion of said lands within the Unit Area therein defined, approve and adopt the terms of said Unit Agreement and any modifications thereof approved by the Secretary of the Interior, or his duly authorized representative, as applicable to said several lands and interests, agree that the drilling and development requirements of all leases and other contracts in which their several rights and interests are created or defined shall be deemed fully performed by performance of the provisions of said Unit Agreement, and agree that payment for or delivery of (whichever may be required under prior agreements) oil and of the proceeds of gas duly made upon the basis of production allocated under said Unit Agreement to the particular lands to which such rights or interests apply, regardless of actual production therefrom, shall constitute full performance of all such obligations to the undersigned existing under such leases or other contracts.

The undersigned also authorize Unit Operator to attach this Consent to the execution copies of said Unit Agreement.

Witness

J. J. Hammond 7-2-63

By

Margaret H. Glasebrook
Margaret H. Glasebrook

Witness

J. J. Hammond 7-2-63

By

Margaret H. Glasebrook, Admrx.
L. P. Glasebrook Estate

Date

Address 744 Montclair Drive, N.E.
Albuquerque, New Mexico

As to Tract No. 13414

Witness

By

Witness

By

Date

Address

As to Tract No.

STATE OF NEW MEXICO

COUNTY OF BERNALILLO

) ss.

The foregoing instrument was acknowledged before me this 2nd day of

June

, 19 63

by Margaret H. Glasebrook and Margaret H. Glasebrook
Administratrix of the Estate of L. P. Glasebrook

Stanley G. Smith
Notary Public in and for said County and State

My Commission Expires

7-1-65

CONSENT

In consideration of the execution of the Unit Agreement for the Development and Operation of the Star Lake Unit Area, McKinley County, State of New Mexico, by M. F. Abraham, as Unit Operator, and the approval thereof by the Secretary of the Interior or his duly authorized representative, dated June 1, 1963, receipt of a copy of which is hereby acknowledged, the undersigned owners of lands or interests in lands or royalties or other interests in production covered by said Unit Agreement hereby severally, each to the extent of his particular ownership or interest, consent to the inclusion of said lands within the Unit Area therein defined, approve and adopt the terms of said Unit Agreement and any modifications thereof approved by the Secretary of the Interior, or his duly authorized representative, as applicable to said several lands and interests, agree that the drilling and development requirements of all leases and other contracts in which their several rights and interests are created or defined shall be deemed fully performed by performance of the provisions of said Unit Agreement, and agree that payment for or delivery of (whichever may be required under prior agreements) oil and of the proceeds of gas duly made upon the basis of production allocated under said Unit Agreement to the particular lands to which such rights or interests apply, regardless of actual production therefrom, shall constitute full performance of all such obligations to the undersigned existing under such leases or other contracts.

The undersigned also authorize Unit Operator to attach this Consent to the execution copies of said Unit Agreement.

Witness Rosemary W. Pierce

By *[Signature]*
1101 N. Lincoln

Witness Ellie M. Campbell

By Nancy Pearson Tonkin
Nancy Pearson Tonkin

Date June 18, 1963

Address 1824 West Park
Albuquerque, New Mexico

As to Tract No. 17 & 18

Witness _____

By _____

Witness _____

By _____

Date _____

Address _____

As to Tract No. _____

STATE OF N. M.)
COUNTY OF Bernalillo) ss.

The foregoing instrument was acknowledged before me this 18th day of June, 1963 by Ellie M. Tonkin and Nancy Pearson Tonkin

Rosemary W. Pierce
Notary Public in and for said County and State

CONSENT

In consideration of the execution of the Unit Agreement for the Development and Operation of the Star Lake Unit Area, McKinley County, State of New Mexico, by M. F. Abraham, as Unit Operator, and the approval thereof by the Secretary of the Interior or his duly authorized representative, dated June 1, 1963, receipt of a

copy of which is hereby acknowledged, the undersigned owners of lands or interests in lands or royalties or other interests in production covered by said Unit Agreement hereby severally, each to the extent of his particular ownership or interest, consent to the inclusion of said lands within the Unit Area therein defined, approve and adopt the terms of said Unit Agreement and any modifications thereof approved by the Secretary of the Interior, or his duly authorized representative, as applicable to said several lands and interests, agree that the drilling and development requirements of all leases and other contracts in which their several rights and interests are created or defined shall be deemed fully performed by performance of the provisions of said Unit Agreement, and agree that payment for or delivery of (whichever may be required under prior agreements) oil and of the proceeds of gas duly made upon the basis of production allocated under said Unit Agreement to the particular lands to which such rights or interests apply, regardless of actual production therefrom, shall constitute full performance of all such obligations to the undersigned existing under such leases or other contracts.

The undersigned also authorize Unit Operator to attach this Consent to the execution copies of said Unit Agreement.

Witness _____

By

M. F. Abraham

Witness _____

By

Agatha P. McKenzie

Date June 14, 1963

Address 2909 Mesilla, N.M.
Albuquerque, New Mexico

As to Tract No. 19

Witness _____

By

Mildred P. Wheeler

Witness _____

By

Carl L. Wheeler

Date June 15, 1963

Address 2909 Mesilla, N.M.
Albuquerque, New Mexico

As to Tract No. 19

STATE OF NEW MEXICO)
COUNTY OF BERNALILLO) ss.

The foregoing instrument was acknowledged before me this 17 day of June, 19 63 by M. F. McKenzie and Agatha P. McKenzie,

Mildred P. Wheeler and Carl L. Wheeler

Ernest H. Allen
Notary Public in and for said County and State

My Commission Expires 4-17-63

CONSENT

In consideration of the execution of the Unit Agreement for the development and operation of the Star Lake Unit Area, McKinley County, State of New Mexico, by M. F. Abraham ~~XXXXXXXXXXXX~~, as Unit Operator, and the approval thereof by the Secretary of the Interior or his duly authorized representative, dated the 1st day of June, 19 63, receipt of

a copy of which is hereby acknowledged, the undersigned owners of lands or interests in lands or royalties or other interests in production covered by said Unit Agreement hereby severally, each to the extent of his particular ownership or interest, consent to the inclusion of said lands within the Unit Area therein defined, approve and adopt the terms of said Unit Agreement and any modifications thereof approved by the Secretary of the Interior, or his duly authorized representative, as applicable to said several lands and interests, agree that the drilling and development requirements of all leases and other contracts in which their several rights and interests are created or defined shall be deemed fully performed by performance of the provisions of said Unit Agreement, and agree that payment for or delivery of (whichever may be required under prior agreements) oil and of the proceeds of gas duly made upon the basis of production allocated under said Unit Agreement to the particular lands to which such rights or interests apply, regardless of actual production therefrom, shall constitute full performance of all such obligations to the undersigned existing under such leases or other contracts.

The undersigned also authorize Unit Operator to attach this Consent to the execution copies of said Unit Agreement.

Witness

564 Walker Bank Bldg
Salt Lake City, Utah

Witness

Don M. Balcock

By

R. J. Hollberg, Jr.

By

Lois R. Hollberg

Date

6-20-63

Address P. O. Box 1833
Salt Lake City, Utah

As to Tract No. 20

Witness

By

Witness

By

Date

Address

As to Tract No.

NEW MEXICO

STATE OF OKLAHOMA
COUNTY OF TULSA } ss.

The foregoing instrument was acknowledged before me this 28th day of June
1963 by A. J. O'ROURKE, as Attorney in
Fact on behalf of SKELLY OIL COMPANY.

HAZEL M. BRADY
Notary Public Tulsa County Oklahoma
My Commission Expires January 22, 1965

Notary Public in and for said County and State
My Commission expires _____

STATE OF _____
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me this _____ day of _____
_____, 19____, by _____
(name of officer), _____ (title of officer or agent), of
_____, _____ (name of corporation), a
_____, _____ (State or County of incorporation) corporation,
on behalf of said corporation.

Notary Public in and for said County and State
My Commission expires _____

STATE OF CALIFORNIA
COUNTY OF LOS ANGELES } ss.

The foregoing instrument was acknowledged before me this _____ day of _____
_____, 19____, by _____, as Attorney In Fact on behalf
of Shell Oil Company, a Delaware corporation.

Notary Public in and for said County and State
My Commission expires _____

CONSENT

In consideration of the execution of the Unit Agreement for the Development and Operation of the Star Lake Unit Area, McKinley County, State of New Mexico, by M. F. Abraham, as Unit Operator, and the approval thereof by the Secretary of the Interior or his duly authorized representative, dated June 1, 1963, receipt of a copy of which is hereby acknowledged, the undersigned owners of lands or interests in lands or royalties or other interests in production covered by said Unit Agreement hereby severally, each to the extent of his particular ownership or interest, consent to the inclusion of said lands within the Unit Area therein defined, approve and adopt the terms of said Unit Agreement and any modifications thereof approved by the Secretary of the Interior, or his duly authorized representative, as applicable to said several lands and interests, agree that the drilling and development requirements of all leases and other contracts in which their several rights and interests are created or defined shall be deemed fully performed by performance of the provisions of said Unit Agreement, and agree that payment for or delivery of (whichever may be required under prior agreements) oil and of the proceeds of gas duly made upon the basis of production allocated under said Unit Agreement to the particular lands to which such rights or interests apply, regardless of actual production therefrom, shall constitute full performance of all such obligations to the undersigned existing under such leases or other contracts.

The undersigned also authorize Unit Operator to attach this Consent to the execution copies of said Unit Agreement.

Witness _____

By _____

Witness _____

By _____

Date June 24, 1963

Address

100 North 1st Street
Midland, Texas

As to Tract No. 21422

Witness _____

By _____

Witness _____

By _____

Date _____

Address

As to Tract No.

STATE OF _____)
COUNTY OF _____) ss.
Midland

The foregoing instrument was acknowledged before me this 24th day of

June

19 63

by

~~Virginia S. Rutter and~~
xxxxxxx Virginia S. Rutter and

husband, A. W. Rutter, Jr.

Bennie L. Colles
Notary Public in and for said County and State

My Commission Expires _____

H-1-65

CONSENT

In consideration of the execution of the Unit Agreement for the Development and Operation of the Star Lake Unit Area, McKinley County, State of New Mexico, by M. F. Abraham, as Unit Operator, and the approval thereof by the Secretary of the Interior or his duly authorized representative, dated June 1, 1963, receipt of a copy of which is hereby acknowledged, the undersigned owners of lands or interests in lands or royalties or other interests in production covered by said Unit Agreement hereby severally, each to the extent of his particular ownership or interest, consent to the inclusion of said lands within the Unit Area therein defined, approve and adopt the terms of said Unit Agreement and any modifications thereof approved by the Secretary of the Interior, or his duly authorized representative, as applicable to said several lands and interests, agree that the drilling and development requirements of all leases and other contracts in which their several rights and interests are created or defined shall be deemed fully performed by performance of the provisions of said Unit Agreement, and agree that payment for or delivery of (whichever may be required under prior agreements) oil and of the proceeds of gas duly made upon the basis of production allocated under said Unit Agreement to the particular lands to which such rights or interests apply, regardless of actual production therefrom, shall constitute full performance of all such obligations to the undersigned existing under such leases or other contracts.

The undersigned also authorize Unit Operator to attach this Consent to the execution copies of said Unit Agreement.

Witness James E. Matthews

By John L. Gibbs
John Gibbs

Witness _____

By Billie L. Gibbs

Date June 15, 1963

Address Post Office Box 300
Santa Fe, New Mexico

As to Tract No. 23

Witness _____

By _____

Witness _____

By _____

Date _____

Address _____

As to Tract No. _____

STATE OF NEW MEXICO)
COUNTY OF SANTA FE) ss.

The foregoing instrument was acknowledged before me this 15th day of June, 19 63 by John L. Gibbs and Billie L. Gibbs

James E. Matthews
Notary Public in and for said County and State

My Commission Expires June 24, 1963

CONSENT

In consideration of the execution of the Unit Agreement for the Development and Operation of the Star Lake Unit Area, McKinley County, State of New Mexico, by M. F. Abraham, as Unit Operator, and the approval thereof by the Secretary of the Interior or his duly authorized representative, dated June 1, 1963, receipt of a

copy of which is hereby acknowledged, the undersigned owners of lands or interests in lands or royalties or other interests in production covered by said Unit Agreement hereby severally, each to the extent of his particular ownership or interest, consent to the inclusion of said lands within the Unit Area therein defined, approve and adopt the terms of said Unit Agreement and any modifications thereof approved by the Secretary of the Interior, or his duly authorized representative, as applicable to said several lands and interests, agree that the drilling and development requirements of all leases and other contracts in which their several rights and interests are created or defined shall be deemed fully performed by performance of the provisions of said Unit Agreement, and agree that payment for or delivery of (whichever may be required under prior agreements) oil and of the proceeds of gas duly made upon the basis of production allocated under said Unit Agreement to the particular lands to which such rights or interests apply, regardless of actual production therefrom, shall constitute full performance of all such obligations to the undersigned existing under such leases or other contracts.

The undersigned also authorize Unit Operator to attach this Consent to the execution copies of said Unit Agreement.

Witness _____

By B. J. Bradshaw
F. J. Bradshaw

Witness _____

By _____

Date June 19, 1963

Address 337 Pleasant
Salt Lake City, Utah

As to Tract No. 15

Witness _____

By _____

Witness _____

By _____

Date _____

Address _____

As to Tract No. _____

STATE OF UTAH
COUNTY OF Salt Lake } ss.

The foregoing instrument was acknowledged before me this 19th day of June, 1963 by F. J. Bradshaw and

B. J. Bradshaw

Louis B. Howe
Notary Public in and for said County and State

My Commission Expires Sept. 3, 1963

CONSENT

In consideration of the execution of the Unit Agreement for the Development and Operation of the Star Lake Unit Area, McKinley County, State of New Mexico, by M. F. Abraham, as Unit Operator, and the approval thereof by the Secretary of the Interior or his duly authorized representative, dated June 1, 1963, receipt of a copy of which is hereby acknowledged, the undersigned owners of lands or interests in lands or royalties or other interests in production covered by said Unit Agreement hereby severally, each to the extent of his particular ownership or interest, consent to the inclusion of said lands within the Unit Area therein defined, approve and adopt the terms of said Unit Agreement and any modifications thereof approved by the Secretary of the Interior, or his duly authorized representative, as applicable to said several lands and interests, agree that the drilling and development requirements of all leases and other contracts in which their several rights and interests are created or defined shall be deemed fully performed by performance of the provisions of said Unit Agreement, and agree that payment for or delivery of (whichever may be required under prior agreements) oil and of the proceeds of gas duly made upon the basis of production allocated under said Unit Agreement to the particular lands to which such rights or interests apply, regardless of actual production therefrom, shall constitute full performance of all such obligations to the undersigned existing under such leases or other contracts.

The undersigned also authorize Unit Operator to attach this Consent to the execution copies of said Unit Agreement.

Witness Johnny Pinto
Farmington, N.M.

Witness St. Brumhall
Farmington, New Mexico

Date 6-18-63

By Her right thumb Mark
Ish ne Pah Aka Mrs. Woody Pinto
CH 9415

By _____

Address Star Lake Trading Post
Star Lake, New Mexico

As to Tract No. 28

Witness _____

By _____

Witness _____

By _____

Date _____

Address _____

As to Tract No. _____

STATE OF NEW MEXICO }
COUNTY OF Sandoval } ss.

The foregoing instrument was acknowledged before me this _____ day of June 18th, 19 63 by Ish ne Pah Aka Mrs. Woody Pinto

Sherrill L. Brumhall
Notary Public in and for said County and State
My Commission Expires March 12, 1966

CONSENT

In consideration of the execution of the Unit Agreement for the Development and Operation of the Star Lake Unit Area, McKinley County, State of New Mexico, by M. F. Abraham, as Unit Operator, and the approval thereof by the Secretary of the Interior or his duly authorized representative, dated June 1, 1963, receipt of a copy of which is hereby acknowledged, the undersigned owners of lands or interests in lands or royalties or other interests in production covered by said Unit Agreement hereby severally, each to the extent of his particular ownership or interest, consent to the inclusion of said lands within the Unit Area therein defined, approve and adopt the terms of said Unit Agreement and any modifications thereof approved by the Secretary of the Interior, or his duly authorized representative, as applicable to said several lands and interests, agree that the drilling and development requirements of all leases and other contracts in which their several rights and interests are created or defined shall be deemed fully performed by performance of the provisions of said Unit Agreement, and agree that payment for or delivery of (whichever may be required under prior agreements) oil and of the proceeds of gas duly made upon the basis of production allocated under said Unit Agreement to the particular lands to which such rights or interests apply, regardless of actual production therefrom, shall constitute full performance of all such obligations to the undersigned existing under such leases or other contracts.

The undersigned also authorize Unit Operator to attach this Consent to the execution copies of said Unit Agreement.

The Heirs of Glen De Peh, Deceased

Witness Margaret S. Shorey
Window Rock, Arizona

Witness Sherrell Burnhall
Farmington, New Mexico

Date _____

By Ruth S. Nelson
ACTING General Superintendent - Bureau of
Indian Affairs, Navajo Agency

By _____

Address c/o General Superintendent
Bureau of Indian Affairs
Navajo Agency
Window Rock, Arizona

As to Tract No. 29

Witness _____

By _____

Witness _____

By _____

Date _____

Address _____

As to Tract No. _____

STATE OF Arizona)
COUNTY OF Apache) ss.

The foregoing instrument was acknowledged before me this 26 day of

June

, 19 63 by (Sgd.) Chester G. Wilson

ACTING GENERAL SUPERINTENDENT

Grace E. Sartin
Notary Public in and for said County and State

M. F. Abraham 7/14/64

CONSENT

In consideration of the execution of the Unit Agreement for the Development and Operation of the Star Lake Unit Area, McKinley County, State of New Mexico, by M. F. Abraham, as Unit Operator, and the approval thereof by the Secretary of the Interior or his duly authorized representative, dated June 1, 1963, receipt of a copy of which is hereby acknowledged, the undersigned owners of lands or interests in lands or royalties or other interests in production covered by said Unit Agreement hereby severally, each to the extent of his particular ownership or interest, consent to the inclusion of said lands within the Unit Area therein defined, approve and adopt the terms of said Unit Agreement and any modifications thereof approved by the Secretary of the Interior, or his duly authorized representative, as applicable to said several lands and interests, agree that the drilling and development requirements of all leases and other contracts in which their several rights and interests are created or defined shall be deemed fully performed by performance of the provisions of said Unit Agreement, and agree that payment for or delivery of (whichever may be required under prior agreements) oil and of the proceeds of gas duly made upon the basis of production allocated under said Unit Agreement to the particular lands to which such rights or interests apply, regardless of actual production therefrom, shall constitute full performance of all such obligations to the undersigned existing under such leases or other contracts.

The undersigned also authorize Unit Operator to attach this Consent to the execution copies of said Unit Agreement.

Witness

Jerry Norberto
McGregor N. Mex

By

his right thumb mark
Jose Portillo
9583



Witness

L. Bunchell
Farmington New Mexico

By

Date

6-19-63

Address Tinian Trading Post
Tinian, New Mexico

As to Tract No. 30

Witness

By

Witness

By

Date

Address

As to Tract No.

STATE OF

COUNTY OF

McKinley } ss.

The foregoing instrument was acknowledged before me this ____ day of

19, 1963

by

Jose Portillo

Shirrell L. Bunchell
Notary Public in and for said County and State

My Commission Expires

March 12, 1966

CONSENT

In consideration of the execution of the Unit Agreement for the Development and Operation of the Star Lake Unit Area, McKinley County, State of New Mexico, by M. F. Abraham, as Unit Operator, and the approval thereof by the Secretary of the Interior or his duly authorized representative, dated June 1, 1963, receipt of a

copy of which is hereby acknowledged, the undersigned owners of lands or interests in lands or royalties or other interests in production covered by said Unit Agreement hereby severally, each to the extent of his particular ownership or interest, consent to the inclusion of said lands within the Unit Area therein defined, approve and adopt the terms of said Unit Agreement and any modifications thereof approved by the Secretary of the Interior, or his duly authorized representative, as applicable to said several lands and interests, agree that the drilling and development requirements of all leases and other contracts in which their several rights and interests are created or defined shall be deemed fully performed by performance of the provisions of said Unit Agreement, and agree that payment for or delivery of (whichever may be required under prior agreements) oil and of the proceeds of gas duly made upon the basis of production allocated under said Unit Agreement to the particular lands to which such rights or interests apply, regardless of actual production therefrom, shall constitute full performance of all such obligations to the undersigned existing under such leases or other contracts.

The undersigned also authorize Unit Operator to attach this Consent to the execution copies of said Unit Agreement.

Witness

Luzia Smith Toledo
1501 H. St. E. Albuquerque, N.M.

By

Harriet Thompson
Nath. Le Feb. aka Mrs. George Toledo

CH 9978

Witness

S. Brumhall

By

205 Manana Pl. Farmington N. Mex

Date

6-18-63

Address

Torrion Trading Post
Torrion, New Mexico

As to Tract No. 31

Witness

By

Witness

By

Date

Address

As to Tract No.

STATE OF

NEW MEXICO

COUNTY OF

Sandoval } ss.

The foregoing instrument was acknowledged before me this 18 day of

June

18

, 19

63

by

Nath. Le Feb. aka Mrs. George Toledo

My Commission Expires March 12, 1968

Sherrell L. Brumhall
Notary Public in and for said County and State

CONSENT

In consideration of the execution of the Unit Agreement for the Development and Operation of the Star Lake Unit Area, McKinley County, State of New Mexico, by M. F. Abraham, as Unit Operator, and the approval thereof by the Secretary of the Interior or his duly authorized representative, dated June 1, 1963, receipt of a

copy of which is hereby acknowledged, the undersigned owners of lands or interests in lands or royalties or other interests in production covered by said Unit Agreement hereby severally, each to the extent of his particular ownership or interest, consent to the inclusion of said lands within the Unit Area therein defined, approve and adopt the terms of said Unit Agreement and any modifications thereof approved by the Secretary of the Interior, or his duly authorized representative, as applicable to said several lands and interests, agree that the drilling and development requirements of all leases and other contracts in which their several rights and interests are created or defined shall be deemed fully performed by performance of the provisions of said Unit Agreement, and agree that payment for or delivery of (whichever may be required under prior agreements) oil and of the proceeds of gas duly made upon the basis of production allocated under said Unit Agreement to the particular lands to which such rights or interests apply, regardless of actual production therefrom, shall constitute full performance of all such obligations to the undersigned existing under such leases or other contracts.

The undersigned also authorize Unit Operator to attach this Consent to the execution copies of said Unit Agreement.

Witness

Ray Yazzie
Cuba New Mexico

By

her right hand
Doric C. Yazzie AKA Ah Ke De Pah AKA
Mrs. Ray Yazzie AKA Doris Toledo Yazzie
#9065

Witness

S. Brumhall
Farmington New Mexico

By

Date

6-18-63

Address Torreón Trading Post
Torreón, New Mexico

As to Tract No. 32

Witness

By

Witness

By

Date

Address

As to Tract No.

STATE OF NEW MEXICO

COUNTY OF

Sandoval } ss.

The foregoing instrument was acknowledged before me this _____ day of

June

18

, 19 63

by Doric C. Yazzie AKA Ah Ke De Pah AKA

Mrs. Ray Yazzie AKA Doris Toledo Yazzie

Sherrell F. Brumhall
Notary Public in and for said County and State

My Commission Expires

March 12-1966

CONSENT

In consideration of the execution of the Unit Agreement for the Development and Operation of the Star Lake Unit Area, McKinley County, State of New Mexico, by M. F. Abraham, as Unit Operator, and the approval thereof by the Secretary of the Interior or his duly authorized representative, dated June 1, 1963, receipt of a

copy of which is hereby acknowledged, the undersigned owners of lands or interests in lands or royalties or other interests in production covered by said Unit Agreement hereby severally, each to the extent of his particular ownership or interest, consent to the inclusion of said lands within the Unit Area therein defined, approve and adopt the terms of said Unit Agreement and any modifications thereof approved by the Secretary of the Interior, or his duly authorized representative, as applicable to said several lands and interests, agree that the drilling and development requirements of all leases and other contracts in which their several rights and interests are created or defined shall be deemed fully performed by performance of the provisions of said Unit Agreement, and agree that payment for or delivery of (whichever may be required under prior agreements) oil and of the proceeds of gas duly made upon the basis of production allocated under said Unit Agreement to the particular lands to which such rights or interests apply, regardless of actual production therefrom, shall constitute full performance of all such obligations to the undersigned existing under such leases or other contracts.

The undersigned also authorize Unit Operator to attach this Consent to the execution copies of said Unit Agreement.

Witness _____

By Hendrix C. Cox
Hendrix C. Cox

Witness J. Bunkhall

By Elizabeth L. Cox

Date 6-21-68

Address 106 West Harts
Farmington, New Mexico

As to Tract No. 43

Witness _____

By _____

Witness _____

By _____

Date _____

Address _____

As to Tract No. _____

STATE OF NEW MEXICO }
COUNTY OF SAN JUAN } ss.

The foregoing instrument was acknowledged before me this _____ day of June 21st, 19 68 by Hendrix C. Cox & Elizabeth L. Cox

Sherrill L. Bunkhall
My Commission Expires March 12, 1970 Notary Public in and for said County and State

My Commission Expires _____

EXHIBIT "B"
STAR LAKE UNIT AREA
MCKINLEY COUNTY, NEW MEXICO

<u>Tract No.</u>	<u>Description of Land</u>	<u>No. of Acres</u>	<u>Serial No. & Expiration Date of Lease</u>	<u>Basic Royalty & Percentage</u>	<u>Lessee of Record</u>	<u>O.R.R. & Percentage</u>	<u>Working Interest & Percentage</u>
<u>Federal Land</u>							
1	T. 18 N., R. 5 W., N.M.P.M. Sec. 10: SE/4 Sec. 11: ALL Sec. 14: NE/4, E/2 NW/4, NW/4 NW/4 Sec. 15: N/2	1400.00	SF-080676 7-31-63	U.S. - 12-1/2%	M. F. Abraham	None	M. F. Abraham 100%
2	T. 18 N., R. 5 W., N.M.P.M. Sec. 14: SW/4 NW/4	40.00	SF-080676-A 7-31-63	U.S. - 12-1/2%	Eugene G. Courey	M. F. Abraham 5%	Eugene G. Courey 100%
3	T. 18 N., R. 5 W., N.M.P.M. Sec. 3: Lots 1, 2, 3, 4, S/2 N/2, S/2 Sec. 4: Lots 1, 2, 3, 4, S/2 N/2, SW/4, N/2 SE/4, SW/4 SE/4 Sec. 5: Lots 1, 2, 3, 4, S/2 N/2, S/2 Sec. 6: Lots 1, 2, 3, 4, 5, 6, 7, SE/4 NW/4, S/2 NE/4, E/2 SW/4, SE/4	2460.40	SF-080677 7-31-63	U.S. - 12-1/2%	M. F. Abraham	None	M. F. Abraham 100%
4	T. 18 N., R. 5 W., N.M.P.M. Sec. 4: SE/4 SE/4	40.00	SF-080677-A 7-31-63	U.S. - 12-1/2%	Eugene G. Courey	M. F. Abraham 5%	Eugene G. Courey 100%
5	T. 18 N., R. 5 W., N.M.P.M. Sec. 7: Lots 1, 2, 3, 4, E/2 W/2, E/2 Sec. 8: S/2, NW/4 Sec. 9: ALL Sec. 14: S/2 SW/4, NE/4 SW/4 Sec. 15: S/2 Sec. 17: N/2	2529.96	SF-080678 7-31-63	U.S. - 12-1/2%	M. F. Abraham	None	M. F. Abraham 100%

EXHIBIT "B"
STAR LAKE UNIT AREA
MCINTLEY COUNTY, NEW MEXICO

6	T. 18 N., R. 5 W., N.M.P.M. Sec. 14: NW/4 SW/4	40.00	SF-080678-A 7-31-63	U.S. - 12-1/2%	Eugene G. Courrey	M. F. Abraham 5%	Eugene G. Courrey 100%
7	T. 18 N., R. 5 W., N.M.P.M. Sec. 17: S/2 Sec. 18: Lots 1, 2, 3, 4, E/2 W/2, E/2 Sec. 19: E/2, NE/4 NW/4, Lots 1 & 2 Sec. 20: All Sec. 21: S/2, NE/4	2533.20	SF-080679 7-31-63	U.S. - 12-1/2%	M. F. Abraham	None	M. F. Abraham 100%
8	T. 18 N., R. 5 W., N.M.P.M. Sec. 19: SE/4 NW/4	40.00	SF-080679-A 7-31-63	U.S. - 12-1/2%	Eugene G. Courrey	M. F. Abraham 5%	Eugene G. Courrey 100%
9	T. 18 N., R. 5 W., N.M.P.M. Sec. 22: W/2, SE/4, S/2 NE/4, NW/4 NE/4 Sec. 23: W/2	920.00	SF-080680 7-31-63	U.S. - 12-1/2%	M. F. Abraham	None	M. F. Abraham 100%
10	T. 18 N., R. 5 W., N.M.P.M. Sec. 22: NE/4 NE/4	40.00	SF-080680-A 7-31-63	U.S. - 12-1/2%	Eugene G. Courrey	M. F. Abraham 5%	Eugene G. Courrey 100%
11	T. 18 N., R. 5 W., N.M.P.M. Sec. 19: Lots 3 & 4, SE/4 SW/4	123.52	SF-080681 7-31-63	U.S. - 12-1/2%	M. F. Abraham	None	M. F. Abraham 100%
12	T. 18 N., R. 5 W., N.M.P.M. Sec. 19: NE/4 SW/4	40.00	SF-080681-A 7-31-63	U.S. - 12-1/2%	Eugene G. Courrey	M. F. Abraham 5%	Eugene G. Courrey 100%
13	T. 19 N., R. 5 W., N.M.P.M. Sec. 22: SW/4 Sec. 28: N/2, N/2 S/2, S/2 SE/4 SE/4 SW/4	760.00	NM-0787 9-30-63	U.S. - 12-1/2%	Skelly Oil Co.	M. H. & L. P. Glasebrook \$750 per acre reserved out of 3%	Skelly Oil Co. 100%

EXHIBIT "B"
STAR LAKE UNIT AREA
MCKINLEY COUNTY, NEW MEXICO

3

14	<u>T. 19 N., R. 5 W., N.M.P.M.</u> <u>Sec. 28: SW/4 SW/4</u>	40.00	NM-0787-A 9-30-63	U.S. - 12-1/2%	Sunray DX Oil Co.	M. H. & L. D. Glasebrook - \$750 per acre reserved out of 3%	Sunray DX Oil Co. 100%
15	<u>T. 19 N., R. 5 W., N.M.P.M.</u> <u>Sec. 20: S/2</u> <u>Sec. 34: S/2 SW/4, NW/4 SW/4</u>	440.00	NM-0845 11-30-63	U.S. - 12-1/2%	Mabelle M. Miller	None	Mabelle M. Miller 100%
16	<u>T. 19 N., R. 5 W., N.M.P.M.</u> <u>Sec. 34: NE/4 SW/4</u>	40.00	NM-0845-A 11-30-63	U.S. - 12-1/2%	T. H. McElvain, Jr. None		T. H. McElvain, 100%
17	<u>T. 19 N., R. 5 W., N.M.P.M.</u> <u>Sec. 32: S/2, S/2 N/2,</u> <u>N/2 NW/4, NW/4 NE/4</u>	600.00	NM-01496 9-30-63	U.S. - 12-1/2%	Shell Oil Co.	A. M. & N. P. Tonkin 2-1/2%	Shell Oil Co. 100%
18	<u>T. 19 N., R. 5 W., N.M.P.M.</u> <u>Sec. 32: NE/4 NE/4</u>	40.00	NM-01496-A 9-30-63	U.S. - 12-1/2%	L. L. Hillman & Doris C. Hillman	A. M. & N. P. Tonkin 2-1/2%	L. L. Hillman & Doris C. Hillman 100%
19	<u>T. 19 N., R. 5 W., N.M.P.M.</u> <u>Sec. 21: SE/4</u>	160.00	NM-013444 12-31-63	U.S. - 12-1/2%	Shell Oil Co.	R. E. & Agatha McKenzie; Mildred P. & Carl L. Wheeler - 5%	Shell Oil Co. 100%
20	<u>T. 19 N., R. 5 W., N.M.P.M.</u> <u>Sec. 22: SE/4</u>	160.00	NM-0101795 1-31-73	U.S. - 12-1/2%	Shell Oil Co.	R. J. Holberg, Jr., Lois R. Holberg 3-1/2%	Shell Oil Co. 100%
21	<u>T. 19 N., R. 5 W., N.M.P.M.</u> <u>Sec. 26: S/2</u> <u>Sec. 27: All</u> <u>Sec. 34: N/2, SE/4</u>	1440.00	NM-0101817 1-31-73	U.S. - 12-1/2%	Shell Oil Co.	V. S. Nutter 5%	Shell Oil Co. 100%

EXHIBIT "B"
STAR LAKE UNIT AREA
MCKINLEY COUNTY, NEW MEXICO

4

22	<u>T. 19 N., R. 5 W., N.M.P.M.</u> <u>Sec. 26: NW/4</u>	160.00	NM-0101817-A 1-31-73	U.S. - 12-1/2%	Rutter & Wilbanks Corp.	V. S. Rutter 1%	Rutter & Wilbanks Corp. - 100%
23	<u>T. 19 N., R. 5 W., N.M.P.M.</u> <u>Sec. 35: ALL</u>	640.00	NM-0206613 10-31-71	U.S. - 12-1/2%	Shell Oil Co.**	John Gibbs 4%	Shell Oil Co. 100%
24	<u>T. 18 N., R. 6 W., N.M.P.M.</u> <u>Sec. 24: N/2</u>	320.00	NM-0226881 1-31-72	U.S. - 12-1/2%	F. J. Bradshaw	None	F. J. Bradshaw 100%
25	<u>T. 18 N., R. 6 W., N.M.P.M.</u> <u>Sec. 12: ALL</u>	640.00	NM-0226881 1-31-72	U.S. - 12-1/2%	Shell Oil Co.**	F. J. Bradshaw 5%	Shell Oil Co. 100%
26	<u>T. 19 N., R. 5 W., N.M.P.M.</u> <u>Sec. 21: SW/4</u>	160.00	NM-0273927 6-1-72	U.S. - 12-1/2%	Ilabelle Shanahan	None	Ilabelle Shanahan 100%
27	<u>T. 18 N., R. 6 W., N.M.P.M.</u> <u>Sec. 13: E/2 W/2, E/2</u>	480.00	Open	-	-	-	U.S.A. 100%

27 Federal Tracts - 16,287.08 acres or 67.98% of the Unit Area

Indian Allotted Land

28	<u>T. 19 N., R. 5 W., N.M.P.M.</u> <u>Sec. 26: NE/4</u>	160.00	14-20-603-2694 11-1-67	12-1/2%	British-American Oil Prod. Co.	None	British-American Oil Prod. Co. 100%
29	<u>T. 18 N., R. 5 W., N.M.P.M.</u> <u>Sec. 8: NE/4</u>	160.00	14-20-0603-6900 7-25-72	16-2/3%	Shell Oil Co.	None	Shell Oil Co. 100%
30	<u>T. 18 N., R. 5 W., N.M.P.M.</u> <u>Sec. 10: SW/4</u>	160.00	14-20-0603-6901 5-9-72	16-2/3%	Shell Oil Co.	None	Shell Oil Co. 100%
31	<u>T. 18 N., R. 5 W., N.M.P.M.</u> <u>Sec. 14: SE/4</u>	160.00	14-20-0603-6902 5-9-72	16-2/3%	Shell Oil Co.	None	Shell Oil Co. 100%

Nath Le Pah AKA
Mrs. George Toledo

32	T. 18 N., R. 5 W., N.M.P.M. Sec. 21: NW/4	160.00	14-20-0603-6988 3-19-72	16-2/3% Doris C. Yazzie AKA Ah Ke De Peh AKA Mrs. Ray Yazzie AKA Doris Toledo Yazzie	Sumray DX Oil Co. None	Sumray DX Oil Co. 100%
33	T. 18 N., R. 5 W., N.M.P.M. Sec. 2: Lots 1, 2, 3, 4, S/2 N/2, S/2 Sec. 10: N/2	935.92	None	None	Allottee None	Allottee 100%

6 Indian Allotted Tracts - 1,735.92 acres or 7.25% of the Unit Area

State of New Mexico Land

34	<u>T. 18 N., R. 5 W., N.M.P.M.</u> <u>Sec. 16: NE/4 NW/4</u>	40.00	E-8812 2-11-65	State of N. M. 12-1/2%	Gerald F. Sailor	None	Gerald F. Sailor 100%
35	<u>T. 19 N., R. 6 W., N.M.P.M.</u> <u>Sec. 36: SW/4, S/2 SE/4, NW/4 SE/4</u>	280.00	K-458 5-17-70	State of N. M. 12-1/2%	Northwest Prod. Corp.	None	Northwest Prod. Corp. - 100%
36	<u>T. 19 N., R. 6 W., N.M.P.M.</u> <u>Sec. 36: N/2 N/2, SW/4 NW/4, SW/4 NE/4, NE/4 SE/4</u>	280.00	K-1874 10-17-71	State of N. M. 12-1/2%	Shell Oil Co.	None	Shell Oil Co. 100%
37	<u>T. 18 N., R. 5 W., N.M.P.M.</u> <u>Sec. 16: S/2, S/2 N/2, N/2 NE/4</u>	560.00	K-1964 11-21-71	State of N. M. 12-1/2%	Pan American Pet. Corp.	None	Pan American Pet. Corp. 100%
38	<u>T. 18 N., R. 5 W., N.M.P.M.</u> <u>Sec. 16: NW/4 NW/4</u> <u>T. 19 N., R. 6 W., N.M.P.M.</u> <u>Sec. 36: SE/4 NE/4, SE/4 NW/4</u>	120.00	None	None	State of N. M.	State of N. M. 100%	

5 State of New Mexico Tracts - 1,280.00 acres or 5.34% of the Unit Area

UNIT OPERATING AGREEMENT
STAR LAKE UNIT AREA
COUNTY OF **McKINLEY**
STATE OF **NEW MEXICO**

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UNIT OPERATING AGREEMENT

STAR LAKE UNIT AREA

STATE OF NEW MEXICO

COUNTY OF MCKINLEY

THIS AGREEMENT made as of the.....day of....., 19....., by and among the parties who execute or ratify this agreement or a counterpart hereof,

WITNESSETH:

WHEREAS, the Parties have entered into that certain UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE.....STAR LAKE.....UNIT AREA, County of.....McKinley....., State of.....New Mexico....., dated as of the.....day of....., 19....., and hereinafter referred to as the "Unit Agreement", covering the lands described in Exhibit 1, hereto attached, which lands are referred to in the Unit Agreement and in this agreement as the "Unit Area";

WHEREAS, the Parties enter into this agreement pursuant to Section 7 of the Unit Agreement, NOW, THEREFORE, in consideration of the mutual agreements herein set forth, it is agreed as follows:

ARTICLE 1 DEFINITIONS

1.1 **Unit Agreement Definitions.** The definitions contained in the Unit Agreement are adopted for all purposes of this agreement. In addition, each term listed below shall have the meaning stated therefor, whenever used in this agreement.

1.2 **"Unit Operator"** means.....M. F. ABRAHAM.....and its successors, as the Unit Operator designated in accordance with the Unit Agreement, acting in that capacity and not as an owner of Working Interest.

1.3 **"Party"** means a party to this agreement, including the Party acting as Unit Operator when acting as an owner of Working Interest.

1.4 **"Costs"** means all costs and expenses incurred in the development and operation of the Unit Area pursuant to this agreement or the Unit Agreement and all other expenses that are herein made chargeable as Costs, determined in accordance with the accounting procedure set forth in Exhibit 2 attached hereto, which shall govern in all matters covered thereby, except that in event of inconsistency between said accounting procedure and this agreement, this agreement shall control.

1.5 **"Committed Working Interest"** means a Working Interest which is shown on Exhibit B to the Unit Agreement as owned by a Party and which is committed to the Unit Agreement. Whenever reference is made to a Party "in" or "within" the Unit Area, a participating area, or other area designated pursuant to this agreement, such reference shall mean a Party owning a Committed Working Interest in lands within such area.

1.6 **"Acreage Basis"**, when used to describe the basis of participation by the Parties within the Unit Area, a participating area, or other area designated pursuant to this agreement in voting, Costs, or Production, means participation by each such Party in the proportion that the acreage of its Committed Working Interests in such area bears to the total acreage of the Committed Working Interests of all such Parties therein. For the purposes of this definition, (a) the acreage of the working interest in a tract within the Unit Area shall be the acreage of such tract as set forth in Exhibit B to the Unit Agreement, and (b) if there are two or more undivided working interests in a tract, there shall be apportioned to each such working interest that proportion of the acreage of the tract that such working interest bears to the entire working interest in the tract.

1.7 **"Production"** means all Unitized Substances produced and saved from the Unit Area except so much thereof as is used in the conduct of operations under the Unit Agreement and this agreement.

1.8 **"Lease Burdens"** means the royalty reserved to the lessor in an oil and gas lease, an overriding royalty, a production payment and any similar burden, but does not include a carried working interest, a net profits interest or any other interest which is payable out of profits.

1.9 **"Drilling Party"** means the Party or Parties obligated to bear the Costs incurred in Drilling, Deepening or Plugging Back a well in accordance with this agreement at the commencement of such operation.

1.10 **"Non-Drilling Party"** means a Party who has had the optional right to participate in the Drilling, Deepening or Plugging Back of a well and who has elected not to participate therein.

1.11 **"Drill"** means to perform all operations reasonably necessary and incident to the Drilling of a well, including preparation of roads and drill site, testing, and, if productive of Unitized Substances, completing and equipping for production, including flow lines, treaters, separators and tankage, or plugging and abandoning, if dry.

1.12 **"Deepen or Plug Back"** means to perform all operations reasonably necessary and incident to Deepening or Plugging Back a well, testing, and, if productive of Unitized Substances, completing or recompleting and equipping for production, including flow lines, treaters, separators and tankage, or plugging and abandoning, if dry.

1.13 **"Initial Test Well"** means a test well specifically provided for in Section 9 of the Unit Agreement and described in Exhibit 3 attached hereto.

1.14 **"Subsequent Test Well"** means a test well Drilled after the Drilling of the Initial Test Well or Wells, and before discovery of Unitized Substances in paying quantities in the Unit Area.

1.15 **"Development Well"** means a well Drilled within a participating area and projected to the pool or zone for which the participating area was established.

1.16 **"Exploratory Well"** means a well other than a Development Well Drilled after discovery of Unitized Substances in paying quantities in the Unit Area.

1.17 **"Approval of the Parties"** or **"Direction of the Parties"** mean an approval, authorization or direction which receives the affirmative vote specified in Section 14.2 of the Parties entitled to vote on the giving of such Approval or Direction.

1.18 **"Salvage Value"** of a well means the value of the materials and equipment in or appurtenant to the well determined in accordance with Exhibit 2, less the reasonably estimated Costs of salvaging the same and plugging the well.

1.19 Each Party is herein referred to by the neuter pronoun "it".

ARTICLE 2

NO LIABILITY FOR DRILLING, DEEPENING OR PLUGGING BACK WELLS WITHOUT CONSENT

2.1 **No Liability Without Consent.** No party shall be liable without its consent for any portion of the Costs of Drilling, Deepening or Plugging Back a well except as provided in Section 10.4 with respect to Required Wells, and except as provided in Article 13 dealing with Investment Adjustment. Nothing herein shall be construed to relieve a Party of any obligation assumed by it pursuant to Exhibit 3 to participate in the Costs of the Initial Test Well.

ARTICLE 3

INITIAL TEST WELL

3.1 **Location.** Unit Operator shall begin to Drill the Initial Test Well within the time required by Section 9 of the Unit Agreement or any extension thereof at the location specified in Exhibit 3 attached hereto.

3.2 **Costs of Drilling.** Subject to the Investment Adjustment provisions of Article 13 the Costs of Drilling the Initial Test Well shall be shared by the Parties in the manner and in the proportions specified in said Exhibit 3.

ARTICLE 4
SUBSEQUENT TEST WELLS

4.1 Right to Drill. The Drilling of any Subsequent Test Well shall be on such terms and conditions as the Parties shall agree; provided, however, that in the absence of agreement, such wells may be Drilled under the provisions of Article 9 dealing with Exploratory Wells.

ARTICLE 5
ESTABLISHMENT, REVISION AND CONSOLIDATION OF PARTICIPATING AREAS

5.1 Proposal. Unit Operator shall initiate each proposal for the establishment or revision of a participating area by submitting the proposal in writing to each Party at least 15 days before filing the same with the Director. The date of proposed filing must be shown on the proposal. If the proposal receives the Approval of the Parties within the proposed participating area, then such proposal shall be filed on the date specified in the notice.

5.2 Objections to Proposal. Prior to the proposed filing date any Party may submit to all other Parties written objections to such proposal. If, despite such objections, the proposal receives the Approval of the Parties within the proposed participating area, then the Party making the objections may renew the same before the Director.

5.3 Revised Proposal. If the proposal does not receive the Approval of the Parties within the proposed participating area, then Unit Operator shall submit a revised proposal taking into account the objections made to the first proposal. If no proposal receives the Approval of the Parties within 30 days from the submission of the first proposal, then Unit Operator shall file with the Director a proposal reflecting as nearly as practicable the various views expressed by the Parties.

5.4 Rejection by Director. If a proposal filed by Unit Operator, as above provided, is rejected by the Director, Unit Operator shall initiate a new proposal in the same manner as provided in Section 5.1, and the procedure with respect thereto shall be the same as in the case of an initial proposal.

5.5 Consolidation. Two or more participating areas may be combined as provided in the Unit Agreement.

ARTICLE 6
APPORTIONMENT OF COSTS AND OWNERSHIP AND DISPOSITION OF PRODUCTION AND PROPERTY

6.1 Apportionment and Ownership Within Participating Area. Except as otherwise provided in Article 8 dealing with Development Wells, Part 1 of Exhibit 4 dealing with Exploratory Wells, and Part 2 of Exhibit 4 dealing with Attempted Completion, Deepening and Plugging Back:

A. Costs. All Costs incurred in the development and operation of a participating area for or in connection with production of Unitized Substances from any pool or zone for which such participating area is established shall be borne by the Parties within such participating area on an Acreage Basis determined as of the time such Costs are incurred.

B. Production. All Production from a participating area shall be allocated in accordance with the Unit Agreement to the tracts of land within such participating area. That portion of such Production which is allocated to any such tract shall be owned by the Party or Parties having Committed Working Interest or Interests therein in the same manner and subject to the same conditions as if actually produced from such tract through a well thereon, and as if this agreement and the Unit Agreement had not been executed.

C. Property. All materials, equipment and other property, whether real or personal, the cost of which is chargeable as Costs and which have been acquired in connection with the development or operation of a participating area shall be owned by the Parties within such participating area on an Acreage Basis.

6.2 Ownership and Costs Outside Participating Area. If a well completed as a producer is not included within a participating area, such well, the Production therefrom, and the materials and equipment therein or appurtenant thereto shall be owned by the Party or Parties who constituted the Drilling Party for such well, and all Costs incurred in the operation of the well shall be charged to and borne by such Party or Parties, and all Lease Burdens payable in respect of Production from the well shall be borne and paid by such Party or Parties. If the Drilling Party comprises two or more Parties, apportionment among them of ownership, Costs and Lease Burdens shall be in the same proportions that they bore the Costs incurred in Drilling the well.

6.3 Taking in Kind. Each Party shall currently as produced take in kind or separately dispose of its share of Production and pay Unit Operator for any extra expenditure necessitated thereby. Except as otherwise provided in Section 15.5 dealing with Liens, each Party shall be entitled to receive directly payment for its proportionate share of the proceeds from the sale of its share of Production, and on all purchases or sales each Party shall execute any division order or contract of sale pertaining to its interest.

6.4 Failure to Take in Kind. If any Party fails so to take or dispose of its share, Unit Operator shall have the right for the time being and subject to revocation at will by the Party owning same to purchase for its own account or sell to others such share at not less than the market price prevailing in the area and not less than the price Unit Operator receives for its share of Production, subject to the right of such Party to exercise at any time its right to take in kind or separately dispose of its own share of Production not previously taken by Unit Operator or delivered to others pursuant to this Section 6.4.

6.5 Surplus Materials and Equipment. Materials and equipment acquired by the Parties, or any of them pursuant to this agreement, may be classified as surplus by Unit Operator when deemed by it to be no longer needed in operations hereunder, by giving to each Party owning an interest therein written notice thereof. Such surplus materials and equipment shall be disposed of as follows:

A. Each Party owning an interest therein shall have the right to take in kind its share of surplus tubular goods and other surplus items which are susceptible of division in kind, by written notice given to Unit Operator within thirty (30) days after classification thereof as surplus, except that such right shall not apply to junk or to any item (other than tubular goods) having a replacement cost less than one thousand dollars (\$1,000).

B. Surplus materials and equipment not divided in kind (other than junk and any item other than tubular goods having a replacement cost of less than one thousand dollars (\$1,000)) shall be offered to the Parties owning interests therein and sold to the highest bidder or bidders.

C. Surplus materials and equipment not disposed of in accordance with the preceding provisions of this section shall be disposed of by Unit Operator for the best prices obtainable.

ARTICLE 7
PLANS OF DEVELOPMENT

7.1 Wells and Projects Included. Each plan for the development and operation of the Unit Area which is submitted by Unit Operator to the Supervisor in accordance with the Unit Agreement shall make provision only for such Drilling, Deepening and Plugging Back operations and such other projects as Unit Operator has been authorized to conduct by the Parties chargeable with the Costs incurred therein.

7.2 Notice of Proposed Plan. At least ten (10) days before submitting any such proposed plan to the Supervisor, Unit Operator shall give each Party written notice thereof, together with a copy of the proposed plan.

7.3 Notice of Approval or Disapproval. If and when a proposed plan has been approved or disapproved by the Supervisor, Unit Operator shall give prompt written notice thereof to each Party. In the case of disapproval, Unit Operator shall state in such notice the reasons therefor.

7.4 Amendments. If any Party or Parties shall have elected to proceed with Drilling, Deepening or Plugging Back operation in accordance with the provisions of this agreement, and such operation is not provided for in the then current plan of development as approved by the Supervisor, Unit Operator shall either (a) request the Supervisor to approve an amendment to such plan which will provide for the conduct of such operation, or (b) request the Supervisor to consent to such operation, if his consent is sufficient.

7.5 Cessation of Operations Under Plan. If any such plan as approved by the Supervisor provides for the cessation of any Drilling or other operations therein provided for on the happening of a contingency and if such contingency occurs, Unit Operator shall promptly cease such Drilling or other operations and shall not incur any additional Costs in connection therewith unless and until such Drilling or other operations are again authorized in accordance with this agreement by the Parties chargeable with such Costs.

ARTICLE 8

DRILLING OF DEVELOPMENT WELLS

8.1 Purpose and Procedure. It is the purpose of this Article to set forth the procedure for Drilling a Development Well otherwise than by the written consent of all Parties within the participating area involved. The Drilling of a Development Well pursuant to the procedure herein set forth shall, however, be subject to such Drilling receiving the Approval of the Parties, unless the Drilling of the proposed well is necessary to prevent the loss of Committed Working Interest in the tract of land on which the proposed well is to be Drilled. Vote by any Party in favor of Approval of the Drilling of any such well shall not, however, be deemed an election by such Party to participate in the Costs thereof, but will mean only that such Party considers the Drilling of the well consistent with the ordinary development of the participating area involved and has no objection to the Drilling thereof.

8.2 Notice of Proposed Drilling. Subject to the provisions of Section 8.1, any Party within a participating area may propose the Drilling of a Development Well therein by giving to each of the other Parties within the participating area written notice specifying the location, depth and estimated cost of the proposed well, which location shall conform to any applicable spacing pattern theretofore adopted or then being followed, or an authorized exception thereto.

8.3 Response to Notice. Within thirty (30) days after receipt of such notice, each Party within such participating area shall advise all other Parties therein, in writing, whether or not it wishes to participate in Drilling the proposed well. If all the Parties within such participating area so advise that they wish to participate therein, the proposed well shall be Drilled by Unit Operator for the account of all the Parties within the participating area. If any Party fails to respond to such notice within said thirty (30) day period, it shall be deemed to have elected not to participate in Drilling the proposed well.

8.4 Notice of Election to Drill. Unless all Parties within the participating area agree to participate in response to said notice, then within fifteen (15) days after expiration of said period of thirty (30) days, each Party within the participating area who then desires to have the proposed well Drilled shall give to all other Parties within the participating area written notice of election to proceed with the Drilling of said well. Failure to give such notice shall be deemed an election not to participate in Drilling said well.

8.5 Effect of Election to Drill. If one or more, but not all of the Parties within the participating area so elect to proceed, Unit Operator shall Drill the well for the account of such Party or Parties, who shall constitute the Drilling Party.

8.6 Subsequent Election. If election to Drill the proposed well is made, any Party within the participating area who has not previously elected to participate therein may do so by written notice given to all other Parties within the participating area at any time before operations for Drilling the well are commenced, in which event such Party shall be included in the Drilling Party. However, such Party shall be bound by any and all Directions and Approvals theretofore given by the Drilling Party concerning the Drilling of the well.

8.7 Rights and Obligations of Drilling Party and Non-Drilling Parties. Whenever a Development Well is Drilled otherwise than for the account of all Parties within the participating area involved, the provisions of Article 12 dealing with Rights and Obligations of Drilling Party and Non-Drilling Parties shall be applicable.

ARTICLE 9

EXPLORATORY WELLS

9.1 Procedure for Drilling. The Drilling of Exploratory Wells shall be governed by the provisions of Part 1 of Exhibit 4 hereto attached and made a part hereof.

ARTICLE 10

REQUIRED WELLS

10.1 Definition. For the purpose of this Article a well shall be deemed a required well if the Drilling thereof is required by the final order of an authorized representative of the Department of Interior. Such an order shall be deemed final upon expiration of the time allowed for appeal therefrom without the commencement of appropriate appeal proceedings or, if such proceedings are commenced within said time, upon the final disposition of the appeal. Whenever Unit Operator receives any such order, it shall promptly mail a copy thereof to each of the other Parties; if any such order is appealed, the Party appealing shall give prompt written notice thereof to each of the other Parties, and upon final disposition of the appeal, Unit Operator shall give each of the other Parties prompt written notice of the result thereof.

10.2 Election to Drill. Any Party desiring to Drill, or participate in the Drilling of, a required well shall give to Unit Operator written notice thereof within thirty (30) days after the order requiring such well becomes final or within such lesser time as may be required by such order. If such notice is given within said period, Unit Operator shall Drill the required well for the account of the Party or Parties giving such notice, who shall bear all Costs incurred therein, provided, however, that if the Required Well is a Development Well it shall not be drilled unless it receives the Approval of the Parties. The rights and obligations of such Party or Parties with respect to the ownership of such well, the operating rights therein, the Production therefrom and the bearing of Costs incurred therein shall be the same as if the well had been Drilled for the account of such Party or Parties under Article 8 dealing with Development Wells, if the same is a Development Well, or Article 9 dealing with Exploratory Wells, if the same is an Exploratory Well or a Subsequent Test Well.

10.3 Alternatives to Drilling. If no Party elects to Drill a required well within the period allowed for such election, and if any of the following alternatives is available, the first such alternative which is available shall be followed:

A. Compensatory Royalties. If compensatory royalties may be paid in lieu of Drilling the well and if payment thereof receives, within said period, the Approval of the Parties who would be chargeable with the Costs incurred in Drilling the well, if the well were Drilled as provided in Section 10.4, Unit Operator shall pay such compensatory royalties for the account of said Parties; or

B. Contraction. If the Drilling of the well may be avoided, without other penalty, by contraction of the Unit Area, Unit Operator shall make reasonable effort to effect such contraction with the approval of the Director; or

C. Termination. If the required well is a Subsequent Test Well, the Parties shall join in termination of the Unit Agreement in accordance with its provisions.

10.4 Required Drilling. If none of the foregoing alternatives is available, Unit Operator shall Drill the required well under whichever of the following provisions is applicable:

A. Development Well. If the required well is a Development Well, it shall be Drilled by Unit Operator for the account of all Parties within the participating area in which the well is Drilled; or

B. Exploratory Well. If the required well is an Exploratory Well, it shall be Drilled by Unit Operator for the account of the Party or Parties who would be obligated to bear the Costs thereof in accordance with Part 1 of Exhibit 4.

ARTICLE 11

ATTEMPTED COMPLETION, DEEPENING, PLUGGING BACK AND ABANDONMENT

11.1 Procedure. The attempted completion, Deepening, or Plugging Back of any well not completed as a producer, the abandonment of a producing well and the Deepening or Plugging Back of any well abandoned in the stratum in which it was completed as a producer, shall be governed by the provisions of Part 2 of Exhibit 4 hereto attached and made a part hereof.

ARTICLE 12

RIGHTS AND OBLIGATIONS OF DRILLING PARTY AND NON-DRILLING PARTY

12.1 Scope of Article. Subject to such contrary or inconsistent provisions, if any, as are contained in Exhibit 4, the rights and obligations of the Drilling Party and Non-Drilling Party in respect of a well which is Drilled, Deepened, Plugged Back or completed otherwise than for the account of all Parties entitled to participate therein, shall be governed by the succeeding provisions of this article.

12.2 Relinquishment of Interest by Non-Drilling Party. When a well is Drilled, Deepened, Plugged Back or completed otherwise than for the account of all Parties entitled to participate therein, each Non-Drilling Party shall be deemed to have relinquished to the Drilling Party all of its operating rights and working interest in and to such well. In the case of a Deepening or Plugging Back, if a Non-Drilling Party owned an interest in the well immediately prior to the Deepening or Plugging Back, the Drilling Party shall pay to such Non-Drilling Party its share of the Salvage Value of the well, such payment to be made at the time the well is taken over by the Drilling Party for Deepening or Plugging Back.

12.3 Reversion of Relinquished Interest. If the well is completed as a producer of Unitized Substances, and if the well is a Development Well, or results in the establishment or enlargement of a participating area to include such well, then the operating rights and working interest relinquished by a Non-Drilling Party shall revert to it at such time as the proceeds or market value of that portion of the Production obtained from the well after such relinquishment which is allocated to the acreage of such Non-Drilling Party in the participating area involved (after deducting from such proceeds or market value all Lease Burdens and all taxes upon or measured by Production that are payable up to such time on said portion of the Production from such well) shall equal the total of the following:

A. 100% of that portion of the Costs incurred in operating the well after such relinquishment, and up to such time, that would have been charged to such Non-Drilling Party if the well had been Drilled, Deepened, Plugged Back or completed for the account of all Parties entitled to participate therein.

B. 200% of that portion of the Costs incurred in Drilling, Deepening, Plugging Back or completing the well that would have been charged to such Non-Drilling Party if the well had been Drilled, Deepened, Plugged Back or completed for the account of all Parties entitled to participate therein.

However, if a Deepening or Plugging Back is involved (1) any payment made to such Non-Drilling Party as its share of the Salvage Value of the well in accordance with Section 12.2 shall be added to and deemed part of the Costs incurred in operating the well, for the purposes of Subdivision A above, and (2) if such Non-Drilling Party did not participate in the initial Drilling of the well, but the Drilling Party did participate therein, and if the interest relinquished by such Non-Drilling Party upon the initial Drilling of the well had not reverted to it before such Deepening or Plugging Back, then, for the purposes of Subdivision B above, there shall be added to and deemed part of the Costs incurred in the Deepening or Plugging Back, the then unrecovered portion of the Costs incurred in the initial Drilling of the well down to the pool or zone in which such well is completed as a producer.

12.4 Effect of Reversion. From and after reversion to a Non-Drilling Party of its relinquished interest in a well, such Non-Drilling Party shall share, on an Acreage Basis in the ownership of the well, the operating rights and working interest therein, the materials and equipment in or pertaining to the well, the Production therefrom and the Costs of operating the well.

12.5 Rights and Obligations of Drilling Party. The Drilling Party for whom a well is Drilled, Deepened, Plugged Back or completed shall pay and bear all Costs incurred therein, and shall own the well, the materials and equipment in the well or pertaining thereto, and the production therefrom, subject to reversion to each Non-Drilling Party of its relinquished interest in the well. If the well is a Development Well, or results in the establishment or enlargement of a participating area to include the well, then, until reversion to a Non-Drilling Party of its relinquished interest, the Drilling Party shall pay and bear (a) that portion of the costs incurred in operating the well that otherwise would be chargeable to such Non-Drilling Party, and (b) all Lease Burdens that are payable in respect of that portion of the Production from such well which is allocated to the acreage of such Non-Drilling Party. If the Drilling Party includes two (2) or more Parties, the burdens imposed upon and the benefits accruing to the Drilling Party shall be shared by such Parties on an Acreage Basis among themselves.

ARTICLE 13

ADJUSTMENT ON ESTABLISHMENT OR CHANGE OF PARTICIPATING AREA

13.1 When Adjustment Made. Whenever, in accordance with the Unit Agreement, a participating area is established or revised by contraction or enlargement, and whenever two or more participating areas are combined (the participating area resulting from such establishment, revision or combination being hereinafter referred to as a "resulting area") an adjustment shall be made in accordance with the succeeding provisions of this Article 13, as of the date on which the establishment, revision or combination that creates such resulting area becomes effective, such date being hereinafter referred to as the "effective date" of such resulting area.

13.2 Definitions. As used in this Article 13:

A. "Useable well" within a resulting area means a well which is either (1) completed in and capable of producing unitized substances from a pool or zone for which such resulting area is created, or (2) used as a disposal well, injection well or otherwise, in connection with the production of Unitized Substances from such resulting area.

B. "Intangible value" of a useable well within a resulting area means the amount of Costs incurred in Drilling such well, or Deepening it, down to the deepest pool or zone for which such resulting area is created, and which contribute to the Production of Unitized Substances therefrom and which are properly classified as intangible costs in conformity with accounting practices generally accepted in the industry, reduced at the following rates for each month during any part of which such well has been operated prior to the effective date of such resulting area:

(1) ~~One-half of~~ ^{one} per cent (¹ of 1%) per month for a cumulative total of 150 months, and

(2) None per cent (⁻ %) per month for each month in excess of said cumulative total.

C. "Tangible property" serving a resulting area means any kind of tangible property (whether or not in or pertaining to a well) which has been acquired for use in or in connection with the Production of Unitized Substances from such resulting area or any portion thereof, and the cost of which has been charged as Costs pursuant to this agreement.

D. "Value" of tangible property means the amount of Costs incurred therefor, including Costs incurred in the construction or installation thereof (excepting installation costs properly classified as part of the intangible costs incurred in connection with a well) reduced, in the case of tangible property which is generally regarded as depreciable, at such reasonable rates of depreciation as receive the Approval of the Parties within such resulting area, for the period of time between the acquisition date thereof and the effective date of such resulting area.

13.3 Method of Adjustment on Establishment or Enlargement. As promptly as reasonably possible after the effective date of a resulting area created by establishment or enlargement of a participating area, and as of such effective date an adjustment shall be made in accordance with the following provisions except to the extent otherwise specified in Section 13.6.

A. The intangible value of each useable well within such resulting area on the effective date thereof shall be credited to the Party or Parties who own such well immediately prior to such effective date, in proportion to their respective interests in such well immediately prior to such effective date. The total amount so credited as the intangible value of useable wells shall be charged to all parties within the resulting area on an Acreage Basis.

B. The value of each item of tangible property serving the resulting area on the effective date thereof shall be credited to the Party or Parties who own such item immediately prior to such effective date, in proportion to their respective interests in such item immediately prior to such effective date. The total amount so credited as the value of tangible property shall be charged to all Parties within the resulting area on an Acreage Basis.

C. If a resulting area, on the effective date thereof, is served by any tangible property or useable well, which also serves another participating area or other participating areas, the value of such tangible property and useable well (including intangible value thereof) shall be determined in accordance with Subdivision D of Section 13.2, and such value may be fairly apportioned between such resulting area and such other participating area or areas, provided that such apportionment receives Approval of the Parties in each participating area concerned. That portion of the value of such tangible property and useable well (including intangible value thereof) which is so apportioned to the resulting area shall be included in the adjustment made as of the effective date of such resulting area in the same manner as the value of tangible property serving only the resulting area.

D. The credits and charges above provided for shall be made by Unit Operator, in such manner that an adjustment shall be made for the intangible value of useable wells separate and apart from an adjustment for the value of tangible property. On each such adjustment, each Party who is charged an amount in excess of the amount credited to it, shall pay to Unit Operator the amount of such excess, which shall be considered as Costs chargeable to such Party for all purposes of this agreement, and such amount, when received by Unit Operator, shall be distributed or credited to the Parties who, in such adjustment, are credited with amounts in excess of the amounts charged to them respectively.

13.4 Method of Adjustment on Contraction. As promptly as reasonably possible after the effective date of any contraction of a participating area, an adjustment shall be made with each Party owning a Committed Working Interest in land excluded from the participating area by such contraction (such Committed Working Interest being hereinafter in this section referred to as "excluded interest") in accordance with the following provisions:

A. An adjustment for intangibles shall be made in accordance with Subdivision B hereof and a separate adjustment for tangibles shall be made in accordance with Subdivision C hereof.

B. Such party shall be credited with the sum of (1) the total amount theretofore charged against such Party in respect of its excluded interest in accordance with the accounting procedure set forth in Exhibit 2 as intangible Costs incurred in the development and operation of the participating area prior to the effective date of such contraction, plus (2) the total amount charged against such Party in respect of such excluded interest as intangible value of useable wells in any previous adjustment or adjustments made upon the establishment or revision of such participating area. Such Party shall be charged with the sum of (1) the market value of that portion of the Production from such participating area which, prior to the effective date of such contraction, is delivered to such Party in respect of such excluded interest, less the amount of Lease Burdens and taxes paid or payable on said portion, and (2) the total amount credited to such Party in respect of such excluded interest as intangible value of useable wells, in any previous adjustment or adjustments made upon the establishment or revision of such participating area. Any difference between the amount of said credit and the amount of said charge shall be adjusted as hereinafter provided.

C. Such Party shall be credited with the sum of (1) the total amount theretofore charged against such Party in respect of its excluded interest, in accordance with the accounting procedure set forth in Exhibit 2, as Costs other than intangible Costs incurred in the development and operation of the participating area prior to the effective date of such contraction, plus (2) the total amount charged against such Party in respect of its excluded interest as value of tangible property in any previous adjustment or adjustments made upon the establishment or revision of such participating area, plus (3) the excess, if any, of the credit provided for in Subdivision B of this Section over the charge provided for in said Subdivision B. Such Party shall be charged with the sum of (1) the excess, if any, of the charge provided for said Subdivision B, over the credit therein provided for, plus (2) the total amount credited to such Party in respect of its excluded interest as value of tangible property in any previous adjustment or adjustments made upon the establishment or revision of such participating area.

D. If the charge provided for in Subdivision C of this Section is equal to or greater than the credit therein provided for, no adjustment shall be made with such Party. However, if the credit provided for in said Subdivision C is in excess of the charge therein provided for, such excess shall be charged on an Acreage Basis against the Parties who remain in the participating area after such contraction, and shall be paid by said Parties to Unit Operator upon receipt of invoices therefor. Such payments, when received by Unit Operator, shall be paid by it to the Party owning such excluded interest.

13.5 Ownership of Wells and Tangible Property. From and after the effective date of a resulting area, all useable wells within such resulting area and all tangible property serving such resulting area shall be owned by the Parties within such area on an Acreage Basis, except that (a) in the case of tangible property serving a participating area or participating areas in addition to the resulting area, only that undivided interest therein which is proportionate to that portion of the value thereof which is included in the adjustment above provided for shall be owned by the parties within the resulting area on an Acreage Basis, and (b) if a Party within the resulting area was a Non-Drilling Party for a well which is a useable well within such resulting area on the effective date thereof, and if the relinquished interest of such Non-Drilling Party in such well has not reverted to it prior to such effective date, the Drilling Party for such well shall own the interest therein that would otherwise be owned by such Non-Drilling Party, until reversion to such Non-Drilling Party of its relinquished interest in such well.

13.6 Relinquished Interests of Non-Drilling Parties. If the interest relinquished by a Non-Drilling Party in a well which is a useable well within a resulting area on the effective date thereof has not reverted to it prior to such effective date then insofar, and only insofar, as relates to such well, the adjustments provided for in Section 13.3 shall be subject to the following provisions, wherein the sum of the intangible value of such well, plus the value of the tangible property in or pertaining thereto, is referred to as the "value" of such well:

A. The Drilling Party for such well shall be charged with that part of the value of the well that would otherwise be chargeable to such Non-Drilling Party in respect of (1) such Non-Drilling Party's Committed Working Interest or Interests in the participating area in which the well was Drilled, as such participating area existed when the Drilling of the well was commenced, if the well was Drilled as a Development Well, or (2) the Committed Working Interest or Interests of such Non-Drilling Party which entitled it to participate in the Drilling, Deepening, Plugging Back, or Completion of the well, if it was Drilled, Deepened, Plugged Back or Completed, otherwise than as a Development Well. However, such Non-Drilling Party shall be charged with such part, if any, of the value of such well as is chargeable to it, in accordance with Subdivisions A and B or Section 13.3, in respect of its Committed Working Interests other than those referred to in (1) or (2) above.

B. If that part of the value of such well which would have been credited to such Non-Drilling Party, if the well had been Drilled, Deepened, Plugged Back or Completed for the account of all Parties entitled to participate therein, exceeds the amount provided in Subdivision A above to be charged against the Drilling Party, such excess shall be applied against the reimbursement to which the Drilling Party is entitled out of Production that would otherwise accrue to such Non-Drilling Party. Any balance of such excess over the amount necessary to complete such reimbursement shall be credited to such Non-Drilling Party.

ARTICLE 14

SUPERVISION OF OPERATIONS BY PARTIES

14.1 Right of Supervision. Each operation conducted by Unit Operator under this agreement or the Unit Agreement shall be subject to supervision and control in accordance with the succeeding provisions of this article by the Parties who are chargeable with the Costs thereof.

14.2 Voting Control. In the supervision of an operation conducted by Unit Operator, the Parties chargeable with the Costs of such operation shall have the right to vote thereon in proportion to their respective obligations for such Costs. The Parties having the right to vote on any other matter shall vote thereon on an Acreage Basis. Except as provided in the Unit Agreement and except as otherwise specified herein (particular reference being made to Section 25.1, Consent Required to Commence Secondary Recovery and Pressure Maintenance; Section 27.1, Surrender or Release Within Participating Area, and that portion of Part 2, Exhibit 4 relating to Abandonment of producing wells outside of a participating area), the affirmative vote of Parties having Sixty-five per cent (65%) or more of the voting power on any matter which is proper for action by them shall be binding on all Parties entitled to vote thereon; provided, however, that if one Party voting in the affirmative has Sixty-five per cent (65%) or more but less than One Hundred per cent (100%) of the voting power, the affirmative vote of such Party shall not be binding on the Parties entitled to vote thereon unless its vote is supported by the affirmative vote of at least ONE additional Party; and provided further, that if one Party voting in the negative or failing to vote has more than Thirty-five per cent (35%) but less than fifty per cent (50%) of the voting power, the affirmative vote of the Parties having a majority of the voting power shall be binding on all Parties entitled to vote unless there is a negative vote of at least ONE additional Party. In the event only two Parties are entitled to vote, the vote of the one with the greater interest shall prevail. If only one Party is entitled to vote, such Party's vote shall control. A Party failing to vote shall not be deemed to have voted either in the affirmative or negative. Any Approval or Direction provided for in this agreement which receives the affirmative vote above specified shall be deemed given by and shall be binding on all Parties entitled to vote thereon, except where the vote of a larger percentage is specifically required.

14.3 Meetings. Any matter which is proper for consideration by the Parties or any of them, may be considered at a meeting held for that purpose. A meeting may be called by Unit Operator at any time and a meeting shall be called by Unit Operator upon written request of any Party or Parties having Thirty-five per cent (35%) or more of the voting power on each matter to be considered at the meeting. At least ten (10) days in advance of each meeting, Unit Operator shall give each Party entitled to vote thereat written notice of the time, place and purpose of the meeting.

14.4 Action Without Meeting. In lieu of calling a meeting, Unit Operator may submit any matter which is proper for consideration by the Parties, or any of them, by giving to each such Party written notice by mail or telegraph (or telephone confirmed in writing not later than the next business day), describing in adequate detail the matter so submitted. Each Party entitled to vote on any matter so submitted shall communicate its vote thereon to Unit Operator by mail or telegraph, (or telephone, confirmed in writing not later than the next business day), within such period as may be designated in the notice given by Unit Operator (which period shall not be less than ten (10) nor more than thirty (30) days) provided, however, that if within ten (10) days after submission of such matter, request is made for a meeting in accordance with Section 14.3, such matter shall be considered only at a meeting called for that purpose. If a meeting is not required, then, at the expiration of the period designated in the notice given by it, Unit Operator shall give to each Party entitled to vote thereon written notice stating the tabulation and result of the vote.

14.5 Representatives. Promptly after execution of this agreement, each Party by written notice to all other Parties shall designate a representative authorized to vote for such Party, and may designate an alternate who is authorized to vote for such Party in the absence of its representative. Any such designation of a representative or alternate representative may be revoked at any time by written notice given to all other Parties, provided such notice designates a new representative or alternate representative as the case may be. In addition, any corporate Party may vote through its President, or any of its Vice Presidents, and a Party which is a partnership may vote through any of its partners.

14.6 Audits. An audit shall be made of Unit Operator's records and books of account pertaining to operations hereunder whenever the making of such audit receives the Approval of the Parties (other than the Party acting as Unit Operator) chargeable with the Costs incurred during the period covered by the audit, except that such audit shall not be made more often than once six months. Such audit shall be made by auditors in the employ of said Parties, and the allowance to be made to each Party furnishing an auditor shall be determined by the Approval of said Parties; such allowances shall be paid by said Parties in proportion to their respective participations among themselves in Costs incurred during the period covered by the audit.

14.7 Extraneous Projects. Nothing contained in this agreement shall be deemed to authorize the Parties, by vote or otherwise, to act on any matter or authorize any expenditure unless such matter or expenditure relates to the conduct of operations authorized by the Unit Agreement or this agreement.

ARTICLE 15

UNIT OPERATOR'S POWERS AND RIGHTS

15.1 In General. Subject to the limitations provided for in this agreement, all operations authorized by the Unit Agreement and this agreement shall be managed and conducted by Unit Operator. Unit Operator shall have exclusive custody of all materials, equipment and any other property used in connection with any operation on the Unit Area.

15.2 Employees. All individuals employed by Unit Operator in the conduct of operations hereunder shall be the employees of Unit Operator alone, and their working hours, rates of compensation and all other matters relating to their employment shall be determined solely by Unit Operator.

15.3 Non-Liability. Unit Operator shall not be liable to any other Party for anything done or omitted to be done by it in the conduct of operations hereunder except in case of bad faith.

15.4 Force Majeure. The obligations of Unit Operator hereunder shall be suspended to the extent that, and only so long as, performance thereof is prevented by fire, action of the elements, strikes or other differences with workmen, acts of civil or military authorities, acts of the public enemy, restrictions or restraints imposed by law or by regulation or order of governmental authority, whether federal, state or local, inability to obtain necessary rights of access, or any other cause reasonably beyond control by Unit Operator, whether or not similar to any cause above enumerated. Whenever performance of its obligations is prevented by any such cause, Unit Operator shall give notice thereof to the other Parties as promptly as reasonably possible.

15.5 Lien. Each of the other Parties hereby grants to Unit Operator a lien upon its Committed Working Interests, its interest in all jointly owned materials, equipment and other property and its interest in all Production, as security for payment of Costs chargeable to it, together with any interest payable thereon. Unit Operator shall have the right to bring any action at law or in equity to enforce collection of such indebtedness with or without foreclosure of such lien. In addition, upon default by any Party in the payment of Costs chargeable to it, Unit Operator shall have the right to collect and receive from the purchaser or purchasers thereof the proceeds of such Party's share of Production, up to the amount owing by such Party plus interest at the rate of six per cent (6%) per annum until paid; each such purchaser shall be entitled to rely on Unit Operator's statement concerning the existence and amount of any such default.

15.6 Advances. Unit Operator, at its election, shall have the right from time to time to demand and receive from the other Parties chargeable therewith payment in advance of their respective shares of the estimated amount of the Costs to be incurred during any month, which right may be exercised only by submission to each such Party of a properly itemized statement of such estimated Costs, together with an invoice for its share thereof. Each such statement and invoice for the payment in advance of estimated Costs for any month shall be submitted on or about the twentieth (20th) day of the next preceding month. The amount of each such invoice shall be payable within fifteen (15) days after the mailing thereof, and thereafter shall bear interest at the rate of six per cent (6%) per annum until paid. Proper adjustment shall be made monthly between such advances and Costs, to the end that each Party shall bear and pay its proportionate share of Costs incurred and no more. Unit Operator may request advance payment or security for the total estimated Costs to be incurred in a particular Drilling, Deepening or Plugging Back operation and notwithstanding any other provision of this agreement shall not be obligated to commence such operation unless and until such advance payment is made or Unit Operator is furnished security acceptable to it for the payment thereof by the Party or Parties chargeable therewith.

15.7 Use of Unit Operator's Drilling Equipment. Any Drilling, Deepening or Plugging Back operation conducted hereunder may be conducted by Unit Operator by means of its own tools and equipment provided that the rates to be charged and the applicable terms and conditions are set forth in a form of drilling contract which receives the Approval of the Party or Parties chargeable with the Costs incurred in such operation, except that in any case where the Unit Operator alone constitutes the Drilling Party, such form shall receive the approval of the Parties within the participating area, or other designated area for such well, prior to the commencement of such operation.

15.8 Rights as Party. As an owner of Committed Working Interest, the Party acting as Unit Operator shall have the same rights and obligations hereunder as if it were not the Unit Operator. In each instance where this agreement requires or permits a Party to give a notice, consent or approval to the Unit Operator, such notice, consent or approval shall be deemed properly given by the Party acting as Unit Operator if and when given to all other Parties entitled to give or receive such notice, consent or approval.

ARTICLE 16

UNIT OPERATOR'S DUTIES

16.1 Specific Duties. In the conduct of operations hereunder, Unit Operator shall:

A. **Drilling of Wells.** Drill, Deepen or Plug Back a well or wells only in accordance with the provisions of this agreement;

B. **Compliance with Laws and Agreements.** Comply with the provisions of the Unit Agreement, all applicable laws and governmental regulations (whether federal, state or local), and Directions by the Parties pursuant to this agreement; in case of conflict between such Directions and the provisions of the Unit Agreement or such laws or regulations, the provisions of the Unit Agreement or such laws or regulations shall govern;

C. **Consultation with Parties.** Consult freely with the Parties within the area affected by any operation hereunder, and keep them advised of all matters arising in operations hereunder which Unit Operator deems important, in the exercise of its best judgment;

D. **Payment of Costs.** Pay all Costs incurred in operations hereunder promptly as and when due and payable, and keep the Committed Working Interests and all property used in connection with operations under this agreement free from liens which may be claimed for the payment of such Costs, except any such lien which it disputes, in which event Unit Operator may contest the disputed lien upon giving written notice thereof to the Parties affected thereby;

E. **Records.** Keep full and accurate records of all Costs incurred, and controllable materials and equipment, which records, and receipts and vouchers in support thereof, shall be available for inspection by authorized representatives of the other Parties at reasonable intervals during usual business hours at the office of Unit Operator;

F. **Information.** Furnish to each of the other Parties who makes timely written request therefor (1) copies of Unit Operator's authorizations for expenditure or itemizations of estimated expenditures in excess of Five Thousand Dollars (\$5,000.00), (2) copies of all drilling reports, well logs, basic engineering data, tank tables, gauge reports and run tickets, (3) reports of stock on hand at the first of each month, and (4) samples of cores or cuttings taken from wells Drilled hereunder, to be delivered at the well in containers furnished by the Party requesting same, and (5) such other and additional information or reports as may be required by Direction of the Parties within the area affected;

G. **Access to Unit Area.** Permit each of the other Parties, through its duly authorized employees or agents, but at such Party's sole risk and expense, to have access to the Unit Area at all times, and to the derrick floor of each well Drilled or being Drilled hereunder, for the purpose of observing operations conducted hereunder and inspecting

materials, equipment or other property used in connection with operations under this agreement, and to have access at reasonable times to information and data in the possession of Unit Operator concerning the Unit Area.

16.2 Insurance.

A. **Unit Operator's.** Unit Operator shall comply with the Workmen's Compensation Law of the state in which the Unit Area is located. Unit Operator shall also maintain in force at all times with respect to operations hereunder such other insurance, if any, as may be required by law. In addition, Unit Operator shall maintain such other insurance, if any, as is described in Exhibit 5 hereto attached or as receives the Approval of the Parties from time to time. Unit Operator shall carry no other insurance for the benefit of the Parties except as above specified. Upon written request of any Party, Unit Operator shall furnish evidence of insurance carried by it with respect to operations hereunder.

B. **Contractor's.** Unit Operator shall require all contractors engaged in operations under this agreement to comply with the Workmen's Compensation Law of the state in which the Unit Area is located and to maintain such insurance as is required by Direction of the Parties.

C. **Automotive Equipment.** In the event Automobile Public Liability insurance is specified in said Exhibit 5 or subsequently receives the Approval of the Parties, no direct charge shall be made by Unit Operator for premiums paid for such insurance for Operator's fully owned automotive equipment.

16.3 **Non-Discrimination.** In connection with the performance of work under this agreement, the Unit Operator agrees not to discriminate against any employee or applicant for employment because of race, religion, color, or national origin. The aforesaid provision shall include, but not be limited to, the following: employment, upgrading, demotion, or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Unit Operator agrees to post hereafter in conspicuous places, available for employees and applicants for employment, notices to be provided by the contracting officer setting forth the provisions of the nondiscrimination clause.

The Unit Operator agrees to insert the foregoing provision in all subcontracts hereunder, except subcontracts for standard commercial supplies or raw materials.

16.4 **Drilling Contracts.** Each Drilling, Deepening or Plugging Back operation conducted hereunder, and not performed by Unit Operator with its own tools and equipment in accordance with Section 15.7 dealing with Use of Unit Operator's Drilling Equipment, shall be performed by a reputable drilling contractor having suitable equipment and personnel under written contract between Unit Operator and the contractor, at the most favorable rates and on the most favorable terms and conditions bid by any such contractor after soliciting bids, if bids are obtainable, but otherwise at rates and on terms and conditions receiving the Approval of the Parties.

16.5 **Uninsured Losses.** Any and all payments made by Unit Operator in the settlement or discharge of any liability to third persons (whether or not reduced to judgment) arising out of an operation conducted hereunder and not covered by insurance herein provided to be maintained by Unit Operator shall be charged as Costs and borne by the Party or Parties for whose account such operation was conducted.

ARTICLE 17

LIMITATIONS ON UNIT OPERATOR

17.1 **Specific Limitations.** In the conduct of operations hereunder, Unit Operator shall not, without first obtaining the Approval of the Parties:

A. **Change in Operations.** Make any substantial change in the basic method of operation of any well, except in the case of an emergency.

B. **Limit on Expenditures.** Undertake any project reasonably estimated to require an expenditure in excess of Five Thousand Dollars (\$5,000.00); provided, however, that (1) Unit Operator is authorized to make all usual and customary operating expenditures that are required in the normal course of producing operations, (2) whenever Unit Operator is authorized to conduct a Drilling, Deepening or Plugging Back operation, or to undertake any other project, in accordance with this agreement, Unit Operator shall be authorized to make all reasonable and necessary expenditures in connection therewith and (3) in case of emergency, Unit Operator may make such immediate expenditures as may be necessary for the protection of life or property, but notice of such emergency shall be given to all other Parties as promptly as reasonably possible.

C. **Partial Relinquishment.** Make any partial relinquishment of its rights as Unit Operator or appoint any sub-operator.

D. **Settlement of Claims.** Pay in excess of Five Hundred Dollars (\$500.00) in the settlement of any claim (other than Workmen's Compensation claims) for injury to or death of persons, or for loss of or damage to property.

E. **Determinations.** Make any of the determinations provided in the Unit Agreement to be made by Unit Operator, except as otherwise specified in this agreement.

ARTICLE 18

TITLES

18.1 **Representations of Ownership.** Each Party represents to all other Parties that to the best of its knowledge and belief its ownership of Working Interests in the Unit Area is that set out in Exhibit B of the Unit Agreement. If it develops that any such ownership is incorrectly stated, the rights and responsibilities of the Parties shall be governed by the provisions of this Article 18, but such erroneous statement shall not be a cause for cancelling or terminating this agreement.

18.2 Title Papers to be Furnished.

A. **Lease Papers.** Each Party, after executing this agreement, shall upon request promptly furnish Unit Operator, and any other Party requesting same, with photostatic copies of all leases, assignments, options and other contracts which it has in its possession relating to its Committed Working Interests.

B. **Title Papers for Initial Test Well.** Promptly after the effective date of this agreement each Party within the area described as the Title Examination Area in Exhibit 3 shall at its own expense furnish Unit Operator with the following title material relating to all lands within such area in which it owns Committed Working Interests covering the same:

- (1) Abstracts of title based upon the county records certified to current date,
- (2) All lease papers, or photostatic copies thereof, mentioned in Section 18.2A which the Party has in its possession, and which have not been previously furnished to Unit Operator,
- (3) Copies of any title opinions which the Party has in its possession,
- (4) If federal lands are involved, status reports of current date setting forth the entries found in the district land office and the Washington, D. C. land office of the Bureau of Land Management for the lands involved, and also a certified copy of the serial register for the federal leases involved,
- (5) If state lands are involved, status reports of current date showing the entries pertaining to the land involved found in the records of such state,
- (6) If Indian lands are involved, status reports for the land involved showing the entries found in the office of the Superintendent of the Indian Agency and the area office for such Indian lands and in the Bureau of Indian Affairs in Washington, D. C.

C. **Title Papers for Subsequent Wells.** Any Party who proposes the Drilling of a Subsequent Test Well or Exploratory Well shall, at the time of giving notice for such proposed well, designate a title examination area not exceeding 2,560.00 acres and not including any lands within a participating area. When the drilling of a Development Well receives the Approval of the Parties within the participating area in which it is located, a title examination area which covers lands outside any participating area may be designated by the Approval of such Parties. Each Party within any such title examination area shall at its own expense and upon request furnish Unit Operator with the title materials listed in Section 18.2B not previously furnished, relating to all lands within such area in which it owns Committed Working Interests.

D. **Title Papers on Establishment or Enlargement of a Participating Area.** Upon the establishment or the enlargement of a participating area, each Party shall promptly at its own expense furnish Unit Operator all the title materials listed in Section 18.2B relating to all its Committed Working Interests in the lands lying within such participating area as established or enlarged.

18.3 Title Examination. Unit Operator shall, without charge to the other Parties, conduct the examination of the title papers received pursuant to Section 18.2 B, C and D, and shall distribute copies of its title opinions to all Parties as soon as they are prepared. After a title examination has been completed and a reasonable time not exceeding thirty (30) days has been allowed for any necessary curative work, Unit Operator shall submit to each Party a report concerning the title examination with written recommendation for approval or disapproval of the title to each Committed Working Interest involved. Such curative work as is performed to meet title requirements concerning a Committed Working Interest shall be performed by and at the expense of the Party claiming such interest.

18.3 Title Committee. Promptly after the effective date of this agreement a Title Committee shall be formed. It shall consist of a representative of each Party who desires to be represented on the Title Committee. Each such Party shall designate its representative by written notice to Unit Operator within fifteen (15) days after receipt of written request from Unit Operator so to do. Each Party shall have the privilege of changing its representatives at will and of designating a representative at a later date if it originally elects not to do so.

18.4 Duties of Title Committee. As soon as received, Unit Operator shall deliver to the Title Committee all title papers received pursuant to Section 18.2B, C or D. The Title Committee shall arrange to have the same examined promptly by attorneys selected by it and shall distribute copies of title opinions to all Parties as soon as they are prepared. After a title examination has been completed and a reasonable time not exceeding thirty (30) days has been allowed for any necessary curative work, the Title Committee shall submit to each Party a report concerning the title examination with written recommendation for approval or disapproval of the title to each Committed Working Interest involved.

18.5 Expense of Title Examination and Curative Work. All expenses incurred at the direction of the Title Committee in examination of titles to an area designated pursuant to Section 18.2 shall be charged as Costs incurred in Drilling the well for which title examination is made and all expenses incurred in examination of titles upon establishment or enlargement of a participating area shall be charged as Costs incurred in the operation of such participating area as established or enlarged. Such curative work as is performed to meet title requirements concerning a Committed Working Interest shall be performed by and at the expense of the Party claiming such interest.

18.6 Withdrawal from Drilling Party. Any Party included in the Drilling Party for a well for which title examination is made as above provided, who has disapproved title to a Committed Working Interest which has been examined in connection with the Drilling of such well may withdraw from the Drilling Party by giving written notice of such withdrawal to all other Parties included in the Drilling Party within fifteen (15) days after the recommendation of the Title Committee on a title examination made in connection with the Drilling of the well, and the drilling of such well shall not be commenced until the expiration of said fifteen (15) day period.

In the event any Party so withdraws, the proposed well shall not be drilled unless within fifteen (15) days after the giving of such notice of withdrawal, a Party or Parties included in the Drilling Party agrees in writing to bear that proportion of the Costs incurred in Drilling such well that would have been borne by the withdrawing Party.

18.7 Approval of Titles on Establishment or Enlargement of a Participating Area. Within fifteen (15) days after the receipt of the recommendation of the Title Committee on title examination made upon the establishment or enlargement of a participating area, each Party within the participating area as established or enlarged shall notify each of the other Parties therein whether it accepts or rejects title to each Committed Working Interest within such participating area as established or enlarged. Any Party rejecting title shall state the reasons therefor in writing.

If title to a Committed Working Interest is rejected by any Party by notice given as above provided, the Parties within the participating area as established or enlarged shall vote in accordance with Article 14 dealing with Supervision of Operations by Parties, on the Approval of such title. If, on such vote, the title receives the Approval of the Parties, such title shall be deemed Approved; if not, it shall be deemed disapproved. If no Party has rejected title to a Committed Working Interest by notice given as above provided, then title to such interest shall be deemed Approved without vote of the Parties.

18.8 Effect of Disapproval of Title on Establishment or Enlargement of Participating Area. If title to the Committed Working Interest in a tract within a participating area is disapproved as provided in Section 18.7, the Party claiming such Committed Working Interest may, within thirty (30) days after such disapproval provide indemnity in such terms and in such amount as receives the Approval of the Parties (other than the indemnifying Party) within such participating area, on an Acreage Basis among themselves. In the absence of such indemnity, the proceeds of the Production from such tract or of the Production allocated thereto (whichever is the greater) to the extent attributable to such Committed Working Interest, after deducting Lease Burdens payable thereon, shall be paid to Unit Operator and held in suspense until title to such Committed Working Interest receives the Approval of the Parties within such participating area or until such time as such Committed Working Interest is lost through title failure; provided, however, that Unit Operator shall apply such proceeds in payment of Costs incurred in the development or operation of such participating area to the extent chargeable in respect of such Committed Working Interest.

18.9 Failure of Title to Committed Working Interest. If title to a Committed Working Interest fails in whole or in part, such Committed Working Interest shall no longer be subject to this agreement and the following provisions shall apply:

A. Loss of Production. The Party whose title has failed shall not be entitled to receive, after the date of such title failure, any Production that would otherwise accrue to such interest. If Unit Operator holds in suspense in accordance with Section 18.8 the proceeds of any Production on account of such Committed Working Interest, such proceeds shall be distributed either to the Parties or to others as their respective interests may appear.

B. Loss of Ownership in Wells and Property. Such interest as the Party claiming such Committed Working Interest may have in wells, materials, equipment and other property on account of such Committed Working Interest shall pass to and vest in the other Parties owning the same in proportion to their respective interests therein among themselves.

C. Liabilities to Third Parties. Any liability to account to third parties for prior production of Unitized Substances which arises by reason of such title failure shall be borne by the Parties in the same proportions in which they shared in such prior Production. Any and all other liabilities to third parties shall be borne by the Party claiming the Committed Working Interest title to which has failed.

D. Reimbursement for Investment. If at the time of such title failure the tract affected thereby is within a participating area, the Party whose Committed Working Interest therein has been lost shall be credited with the same amount as would be credited to it for the interest owned by it, by reason of such Committed Working Interest, in useable wells and tangible property within such participating area (other than useable wells and tangible property located on the tract affected by the title failure, to the extent affected by the title failure) if at such time an investment adjustment were made for the participating area in accordance with Section 13.3 dealing with Method of Adjustment. If the amount so credited is in excess of the proceeds or market value of that portion of the Production from such participating area which was received by such Party prior to the title failure, by reason of such Committed Working Interest after deducting Lease Burdens paid in respect of said portion, then after such title failure such Party shall (1) be entitled to that portion of the Production from such participating area as then constituted or thereafter revised which it would have received had title to such Committed Working Interest not failed, less Lease Burdens payable on said portion and (2) be charged with a like portion of its Costs incurred in the operation of wells within such participating area, until such time as the proceeds or market value of said portion of Production, less said portion of operating Costs, shall equal such excess; provided, however, that such Party shall not have any voice in the conduct or supervision of operations within such participating area or in any revision of such participating area other than such as it may be entitled to by reason of ownership of Committed Working Interests within the participating area that are not affected by the title failure.

18.10 Joinder by True Owner. A true owner of a working interest title to which has failed may join in this Agreement or enter upon a separate operating agreement with the Parties to this agreement upon such terms and conditions as receive the Approval of the Parties within the Unit Area.

ARTICLE 10 UNLEASED INTERESTS

19.1 Treated as Leased. If a Party owns in fee all or any part of the oil and gas rights in any tract within the Unit Area which is not subject to any oil and gas lease, or other contract in the nature thereof, such Party shall be deemed to own a Committed Working Interest in such tract and also a royalty interest therein in the same manner as if such Party's oil and gas rights in such tract were covered by the form of oil and gas lease attached hereto as Exhibit 6.

19.2 Execution of Lease. In any provision hereof where reference is made to an assignment or conveyance by any Party of its Committed Working Interest to any other Party, such references as to any Party owning an unleased interest shall be interpreted to mean that such Party shall execute an oil and gas lease to such other Party on the form attached hereto as Exhibit 6, which shall satisfy the requirement for assignment or conveyance of a Committed Working Interest.

ARTICLE 20
RENTALS AND LEASE BURDENS

20.1 Rentals. Each Party shall be obligated to pay any and all rentals and other sums (other than Lease Burdens) payable upon or in respect of its Committed Working Interests, subject, however, to the right of each Party to surrender any of its Committed Working Interests in accordance with Article 27. Upon request, each Party shall furnish to Unit Operator satisfactory evidence of the making of such payments. However, no Party shall be liable to any other Party for unintentional failure to make any such payments provided it has acted in good faith.

20.2 Lease Burdens. The Party or Parties entitled to receive the Production allocated to a tract of land within a participating area shall be obligated to make any and all payments, whether in cash or in kind, accruing to any and all Lease Burdens, net profits interests, carried interests and any similar interest payable in respect of such Production or the proceeds thereof, except as provided in Article 22 dealing with Withdrawal of Tracts and Uncommitted Interests. The Party or Parties entitled to receive the Production from a well completed as a producer but not included within a participating area shall be obligated to pay all Lease Burdens payable in respect of such Production and each such Party shall be obligated to pay any net profits interest, carried interest and similar interests payable in respect of its share of such production.

20.3 Loss of Committed Working Interest. If a Committed Working Interest is lost through failure to make any payment above provided to be made by the Party owning the same, such loss shall be borne entirely by such Party; provided, however, if the Committed Working Interest so lost covers land within a participating area the provisions of Subdivisions A, B, C and D of Section 18.9 dealing with Failure of Title to Committed Working Interest shall apply.

ARTICLE 21
TAXES

21.1 Payment. Any and all ad valorem taxes payable upon the Committed Working Interests (and upon Lease Burdens which are not payable by the owners thereof) or upon materials, equipment or other property acquired and held by Unit Operator hereunder, and any and all taxes (other than income taxes) upon or measured by Unitized Substances produced from the Unit Area which are not payable by the purchaser or purchasers thereof or by the owner of Lease Burdens, shall be paid by Unit Operator as and when due and payable.

21.2 Apportionment. Taxes upon materials, equipment and other property acquired and held by Unit Operator hereunder shall be charged to and borne by the Parties owning the same in proportion to their respective interests therein. All other taxes paid by Unit Operator shall be charged to and borne by the Parties in proportion to their ownership in the Committed Working Interests or Unitized Substances (as the case may be) upon which or in respect of which such taxes are paid. All reimbursements from owners of Lease Burdens, whether obtained in cash or by deduction from Lease Burdens, on account of any taxes paid for such owners shall be paid or credited to the Parties in the same proportions as such taxes were charged to such Parties.

21.3 Transfer of Interests. In the event of a transfer by one Party to another under the provisions of this agreement of any Committed Working Interest or of any interest in any well or in the materials and equipment in any well or in the event of the reversion of any relinquished interest as in this agreement provided the taxes above mentioned assessed against the interest transferred or reverted for the taxable period in which such transfer or reversion occurs shall be apportioned between such Parties so that each shall bear the percentage of such taxes which is proportionate to that portion of the taxable period during which it owned such interest.

21.4 Notices and Returns. Each Party shall promptly furnish Unit Operator with copies of notices, assessments, levies or tax statements received by it pertaining to the taxes to be paid by Unit Operator. Unit Operator shall make such returns, reports and statements as may be required by law in connection with any taxes above provided to be paid by it and shall furnish copies to the parties upon request. It shall notify the Parties of any tax which it does not propose to pay before such tax becomes delinquent.

ARTICLE 22
WITHDRAWAL OF TRACTS AND UNCOMMITTED INTERESTS

22.1 Limitation on Right of Withdrawal. Not less than five (5) days before filing the Unit Agreement for final Departmental approval, Unit Operator shall notify each Party in writing of intention to file, specifying in such notice, to the best of Unit Operator's knowledge, the status of ownership of unitized lands and Lease Burdens on Production therefrom. If the owner of any substantial interest in a tract within the Unit Area has then failed or refused to join in the Unit Agreement, the Party or Parties owning Committed Working Interests in such tract shall have the right to withdraw such tract from the Unit Area in accordance with the Unit Agreement; provided, however, that such right shall not be exercised until after at least ten (10) days prior written notice to all other Parties within the Unit Area and such right shall not be exercised if within said period of ten days the non-withdrawal of such tract receives the Direction of the Parties who at the time of the giving of such notice have executed this agreement.

22.2 The Effect of Non-Withdrawal at Direction of Parties. If the non-withdrawal of a tract receives the Direction of the Parties as above provided and if such tract is included within a participating area, the following provisions shall apply:

A. Any and all payments and liabilities to the owners of uncommitted interests in such tract that are in excess of the payments that would accrue to such owners had they executed the Unit Agreement shall be borne and shared on an Acreage Basis by the Parties within the participating area in which the tract is located.

B. If the payments that would accrue to the owners of uncommitted interests in such tract if they had joined in the Unit Agreement are in excess of the payments actually accruing to them such excess shall be shared by all Parties within the participating area on an Acreage Basis.

22.3 Voluntary Non-Withdrawal. If the Party or Parties owning Committed Working Interests in a tract voluntarily fails to exercise the right to withdraw such tract in accordance with the Unit Agreement, all payments and liabilities accruing to the owners of uncommitted interests in such tract shall be paid and borne by such Party or Parties.

ARTICLE 23
COMPENSATORY ROYALTIES

23.1 Notice. Whenever demand is made in accordance with the Unit Agreement for the payment of compensatory royalties, Unit Operator shall give written notice thereof to each Party affected by the demand, as hereinafter provided.

23.2 Demand for Failure to Drill a Development Well. If the demand for compensatory royalty results from the failure to Drill a Development Well and such well is not drilled, then Unit Operator shall pay such compensatory royalty. Such payment shall be charged as Costs incurred in operations within such participating area.

23.3 Demand for Failure to Drill a Well Other than a Development Well. If the demand for compensatory royalty results from the failure to Drill a well other than a Development Well and an election to Drill in order to avoid payment of Compensatory Royalties is not made by any Party owning a Committed Working Interest in the tract upon which such a well may be Drilled, then Unit Operator shall pay such compensatory royalty. Such payment shall be chargeable to and borne by the Parties who would be obligated to bear the Costs of such well if the well were Drilled as a Required Well in accordance with Section 10.4B.

ARTICLE 24
SEPARATE MEASUREMENT AND SALVAGE

24.1 Separate Measurement. If a well completed as a producer of Unitized Substances is in or included in a participating area but is not owned on an Acreage Basis by all the Parties within such participating area and if, within thirty (30) days after request by any interested Party, a method of measuring the Production from such well without necessitating additional facilities does not receive the Approval of the Parties, then Unit Operator shall install such additional tankage, flow lines or other facilities for separate measurement of the Unitized Substances produced from such well as Unit Operator may deem suitable. The Costs of such facilities for separate measurement shall be charged to and borne by the Drilling Party for such well and treated as Costs incurred in operating such well notwithstanding any other provisions of this agreement.

24.2 Salvaged Materials. If any materials and equipment are salvaged from a well completed as a producer after being Drilled, Deepened or Plugged Back otherwise than for the account of all the Parties entitled to participate therein before reversion to the Non-Drilling Parties of their relinquished interests in the well, the proceeds derived from sale

thereof, or, if not sold, the Salvage Value thereof, shall be treated in the same manner as proceeds of Production from such well for the purpose of determining reversion to Non-Drilling Parties of their relinquished interests in such well.

ARTICLE 25

SECONDARY RECOVERY AND PRESSURE MAINTENANCE

25.1 **Consent Required.** Unit Operator shall not undertake any program of secondary recovery or pressure maintenance involving injection of gas, water or other substance by any method, whether now known or hereafter devised, without first obtaining the consent of not less than Two Parties in the aggregate owning not less than Ninety per cent (90%) of the Committed Working Interests on an Acreage Basis in the participating area affected by any such program. After the Parties have voted to undertake a program of secondary recovery or pressure maintenance in accordance with this section, the conduct of such a program shall be subject to supervision by the Parties by vote as set forth in Article 14.

25.2 **Above Ground Facilities.** This agreement shall not be deemed to require any Party to participate in the construction or operation of any gasoline plant, sulphur recovery plant, dewaxing plant or other above ground facilities to process or otherwise treat Production, other than such facilities as may be required for treating Production in ordinary lease operations and such facilities as may be required in the conduct of operations authorized under Section 25.1.

ARTICLE 26

TRANSFERS OF INTEREST

26.1 **Restriction on Zone Transfers.** No Party shall assign, mortgage or transfer its Committed Working Interest in any tract committed to this agreement as to less than all formations underlying said tract without first receiving the Approval of the Parties within the Unit Area; provided, however, that such restriction shall not apply to a transfer by any Party of any part of its Committed Working Interest in any tract or tracts after the Drilling of the Initial Test Well or Wells and prior to the discovery of Unitized Substances in paying quantities under a farmout arrangement in consideration of the Drilling of a well within the Unit Area, free of expense to the other Parties, and upon the further condition that if such well results in the Production of Unitized Substances in paying quantities, such well and the Production therefrom will be shared by the Parties within the participating area established for such well in the same manner as if the well had been Drilled for the account of all Parties within such participating area.

26.2 **Sale by Unit Operator.** If Unit Operator sells all its Committed Working Interests, it shall resign and a new Unit Operator shall be selected as provided in the Unit Agreement.

26.3 **Assumption of Obligations.** No transfer of any Committed Working Interests shall be effective unless the same is made expressly subject to the Unit Agreement and this agreement and the transferee agrees in writing to assume and perform all obligations of the transferor under the Unit Agreement and this agreement insofar as relates to the interest assigned, except that such assumption of obligations shall not be required in case of a transfer by mortgage or deed of trust as security for indebtedness.

26.4 **Effective Date.** A transfer of Committed Working Interests shall not be effective as between the Parties until the first day of the month next following the delivery to Unit Operator of the original or a certified copy of the instrument of transfer conforming to the requirements of Section 26.3. In no event shall a transfer of Committed Working Interests relieve the transferring Party of any obligations accrued hereunder prior to said effective date, for which purpose any obligation assumed by the transferor to participate in the Drilling, Deepening or Plugging Back of a well prior to such effective date shall be deemed an accrued obligation.

ARTICLE 27

RELEASE FROM OBLIGATIONS AND SURRENDER

27.1 **Surrender or Release Within Participating Area.** A Committed Working Interest covering land within a participating area shall not be surrendered except with the consent of all Parties within such participating area. However, a Party who owns a Committed Working Interest in land within a participating area and who is not at the time committed to participate in the Drilling, Deepening or Plugging Back of a well within such participating area may be relieved of further obligations with respect to such participating area as then constituted by executing and delivering to Unit Operator an assignment conveying to all other Parties within such participating area all Committed Working Interests owned by such Party in lands within the participating area, together with the entire interest of such Party in any and all wells, materials, equipment and other property within or pertaining to such participating area.

27.2 **Procedure on Surrender Outside Participating Area.** Whenever a Party desires to surrender its Committed Working Interest in any tract which is not within any participating area, such Party shall give to all other Parties written notice thereof describing such Committed Working Interest. The Parties receiving such notice, or any of them, shall have the right at their option to take from the Party desiring to surrender an assignment of such Committed Working Interest by giving to the Party desiring to surrender written notice of election so to do within thirty (30) days after receipt of the notice of the desire to surrender. If such election is made as above provided, the Party or Parties taking the assignment (which shall be taken by them in proportion to the acreage of their Committed Working Interests among themselves in the Unit Area) shall pay to the assigning Party its share of the Salvage Value of any wells owned by the Parties and then located on the land covered by such Committed Working Interest, which payment shall be made on receipt of the assignment. If no Party elects to take such assignment within such thirty (30) day period, then the Party or Parties owning such Committed Working Interest may surrender the same if surrender thereof can be made in accordance with the Unit Agreement.

27.3 **Accrued Obligations.** A Party making an assignment or surrender in accordance with Section 27.1 or 27.2 shall not be relieved of its liability for any obligation accrued hereunder at the time the assignment or surrender is made, or of obligation to bear its share of the Costs incurred in any Drilling, Deepening or Plugging Back operation in which such Party has elected to participate prior to the making of such assignment or surrender, except to the extent that the Party or Parties receiving such assignment shall assume, with the Approval of the Parties, any and all obligations of the assigning Party hereunder and under the Unit Agreement.

ARTICLE 28

SEVERAL, NOT JOINT LIABILITY

28.1 **Liability.** The liability of the Parties hereunder shall be several and not joint or collective. Each Party shall be responsible only for its obligations as herein set out.

28.2 **No Partnership Created.** It is not the intention of the Parties to create, nor shall this agreement or the Unit Agreement be construed as creating a mining or other partnership or association between the Parties, or to render them liable as partners or associates.

28.3 **Election.** Each of the Parties hereby elects to be excluded from the application of Subchapter K of Chapter 1 of Subtitle A of the Internal Revenue Code of 1954 or such portion or portions thereof as may be permitted or authorized by the Secretary of the Treasury of the United States or his delegate insofar as such Subchapter or any portion or portions thereof may be applicable to the Parties. If any present or future income tax laws of the state or states in which the Unit Area is located, or any future income tax law of the United States, contain, or shall hereafter contain, provisions similar to those contained in the Subchapter of the Internal Revenue Code of 1954 above referred to under which a similar election is permitted, each of the Parties hereby elects to be excluded from the application of such laws. Accordingly, each Party hereby authorizes and directs Unit Operator to execute such an election or elections on its behalf and file the same with the proper administrative office or agency. If requested by Unit Operator, each Party agrees to execute and join in such instruments as are necessary to make such elections effective.

ARTICLE 29

NOTICES

29.1 **Giving and Receipt.** Except as otherwise specified herein, any notice, consent or statement herein provided or permitted to be given by Unit Operator or a Party to the Parties shall be given in writing by United States mail or by telegraph, properly addressed to each Party to whom given, with postage or charges prepaid, or by delivery thereof in person to the Party to whom given; however, if delivered to a corporate Party, it shall not be deemed given unless delivered personally to an executive officer of such Party or to its representative designated pursuant to Section 14.5 dealing with Representatives. A notice given under any provision hereof shall be deemed given only when received by the Party to whom such notice is directed, except that any notice given by United States registered mail or by telegraph,

properly addressed to the Party to whom given with all postage and charges prepaid, shall be deemed given to and received by the Party to whom directed forty-eight (48) hours after such notice is deposited in the United States mails or twenty-four (24) hours after such notice is filed with an operating telegraph company for immediate transmission by telegraph, and also except that a notice to Unit Operator shall not be deemed given until actually received by it.

29.2 Proper Addresses. Each Party's proper address shall be deemed to be the address set forth under or opposite its signature hereto unless and until such Party specifies another post office address within the continental limits of the United States by not less than ten (10) days prior written notice to all other Parties.

ARTICLE 30

EXECUTED IN COUNTERPARTS AND RATIFICATION

30.1 Counterparts. This agreement may be executed in counterparts and all such counterparts taken together shall be deemed to constitute one and the same instrument.

30.2 Ratification. This agreement may be executed by the execution and delivery of a good and sufficient instrument of ratification, adopting and entering into this agreement. Such ratification shall have the same effect as if the Party executing it had executed this agreement or a counterpart hereof.

ARTICLE 31

SUCCESSORS AND ASSIGNS

31.1 Covenants. This agreement shall be binding on and inure to the benefit of all Parties signing the same, their heirs, devisees, personal representatives, successors and assigns and their successors in interest, whether or not it is signed by all the Parties listed below. The terms hereof shall constitute a covenant running with the lands and the Committed Working Interests of the Parties.

ARTICLE 32

HEADINGS FOR CONVENIENCE

32.1 Headings. The table of contents and the headings used in this agreement are inserted for convenience only and shall be disregarded in construing this agreement.

ARTICLE 33

RIGHT OF APPEAL

33.1 Not Waived. Nothing contained in this agreement shall be deemed to constitute the waiver by any Party of any right it would otherwise have to contest the validity of any law or any order or regulation of governmental authority (whether federal, state or local) relating to or affecting the conduct of operations within the Unit Area or to appeal from any such order.

ARTICLE 34

SUBSEQUENT JOINDER

34.1 Prior to the Commencement of Operations. Prior to the commencement of operations under the Unit Agreement, all owners of Working Interests in the Unit Area who have joined in the Unit Agreement shall be privileged to execute or ratify this agreement.

34.2 After Commencement of Operations. After commencement of operations under the Unit Agreement, any Working Interest in land within the Unit Area which is not then committed hereto may be committed to this agreement and to the Unit Agreement upon such reasonable terms and conditions as may receive the Approval of the Parties.

ARTICLE 35

CARRIED INTERESTS

35.1 Treatment of. If any working interest shown on Exhibit B of the Unit Agreement and committed thereto is a carried working interest, such interest shall, if the carrying party executes this agreement be deemed to be, for the purpose of this agreement, a Committed Working Interest owned by the carrying party.

ARTICLE 36

EFFECTIVE DATE AND TERM

36.1 Effective Date. This agreement shall become effective on the effective date of the Unit Agreement except that the provisions of Section 22.1 dealing with Limitation on Right of Withdrawal shall be operative prior to such effective date.

36.2 Term. The term of this agreement shall be the same as the term of the Unit Agreement and shall terminate concurrently therewith.

36.3 Effect of Termination. Termination of this agreement shall not relieve any Party of its obligations then accrued hereunder. Notwithstanding termination of this agreement the provisions hereof relating to the charging and payment of Costs and the disposition of materials and equipment shall continue in force until all materials and equipment owned by the Parties have been disposed of and until final accounting between Unit Operator and the Parties. Termination of this agreement shall automatically terminate all rights and interests acquired by virtue of this agreement in lands within the Unit Area except such transfers of Committed Working Interests as have been evidenced by formal written instruments of transfer.

36.4 Effect of Signature. When this agreement is executed by two Parties, execution by each shall be deemed consideration for execution by the other and each Party theretofore or thereafter executing this agreement shall thereupon become and remain bound hereby until the termination of this agreement. However, if the Unit Agreement does not become effective within twelve (12) months from and after the date of this agreement, then at the expiration of said period, this agreement shall terminate.

ARTICLE 37
OTHER PROVISIONS

Other provisions, if any, are:

37.1 Terms and provisions of Section 26.1 of Article 26 hereof shall not apply to any assignments or transfers made pursuant to contractual commitments existing on or prior to the effective date hereof.

IN WITNESS WHEREOF, this agreement has been executed by the undersigned parties as of the day and year first above written.

AS UNIT OPERATOR AND WORKING INTEREST OWNER

M. F. ABRAHAM

Date of Execution:

By

M. F. Abraham

June 14, 1963

Address: 424 First National
Bank Building
Albuquerque, New Mexico

WORKING INTEREST OWNERS

SHELL OIL COMPANY

Date of Execution:

By

Its Attorney in Fact

Address: 1008 West Sixth Street
Los Angeles 54, California

BRITISH AMERICAN OIL PRODUCING COMPANY

Date of Execution:

By

President

Address: P. O. Box 749
Dallas, Texas

ATTEST:

Secretary

PAN AMERICAN PETROLEUM CORPORATION

Date of Execution:

By

President

Address: P. O. Box 1410
Fort Worth, Texas

ATTEST:

Secretary

NORTHWEST PRODUCTION CORPORATION

Date of Execution:

By

President

Address: P. O. Box 1796
El Paso, Texas

ATTEST:

Secretary

NEW MEXICO

STATE OF NEW MEXICO
COUNTY OF BERNALILLO } ss.

The foregoing instrument was acknowledged before me this 14th day of June
1963 by M. F. Abraham

Evelyn H. Fellis
Notary Public in and for said County and State

My Commission expires 4-12-67

STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____ (name of officer), _____ (title of officer or agent), of _____ (name of corporation), a _____ (State or County of incorporation) corporation, on behalf of said corporation.

Notary Public in and for said County and State

My Commission expires

STATE OF CALIFORNIA } ss.
COUNTY OF LOS ANGELES }

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____, as Attorney In Fact on behalf of Shell Oil Company, a Delaware corporation.

Notary Public in and for said County and State

My Commission expires

1 IN WITNESS WHEREOF, this agreement has been executed by the undersigned
2 parties as of the day and year first above written.

3 AS UNIT OPERATOR AND WORKING INTEREST OWNER
4 M. F. ABRAHAM

5 Date of Execution: By _____
6 _____

7 Address: 424 First National
8 Bank Building
9 Albuquerque, New Mexico

10 WORKING INTEREST OWNERS
11 SHELL OIL COMPANY

12 Date of Execution: By JS [Signature]
13 JUL 17 1963 Its Attorney in Fact

14 Address: 1008 West Sixth Street
15 Los Angeles 54, California

16 BRITISH AMERICAN OIL PRODUCING COMPANY

17
18 Date of Execution: By _____
19 President

20 Address: P. O. Box 749
21 Dallas, Texas
22 ATTEST: _____
23 Secretary

24 PAN AMERICAN PETROLEUM CORPORATION

25 Date of Execution: By _____
26 President

27 Address: P. O. Box 1410
28 Fort Worth, Texas
29 ATTEST: _____
30 Secretary

31 NORTHWEST PRODUCTION CORPORATION

32 Date of Execution: By _____
33 President

Address: P. O. Box 1796
El Paso, Texas
ATTEST: _____
Secretary

NEW MEXICO

STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me this _____ day of _____
_____, 19____, by _____

Notary Public in and for said County and State

My Commission expires _____

STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me this _____ day of _____
_____, 19____, by _____
(name of officer), _____ (title of officer or agent), of
_____ (name of corporation), a
_____ (State or County of incorporation) corporation,
on behalf of said corporation.

Notary Public in and for said County and State

My Commission expires _____

STATE OF CALIFORNIA }
COUNTY OF LOS ANGELES } ss.

The foregoing instrument was acknowledged before me this 20th day of June, 1963, by J. E. TONR, as Attorney In Fact on behalf
of Shell Oil Company, a Delaware corporation.

Mildred M. Crawford
Mildred M. Crawford Notary Public in and for said County and State

My Commission expires December 11, 1967

1 IN WITNESS WHEREOF, this agreement has been executed by the undersigned
2 parties as of the day and year first above written.

3 AS UNIT OPERATOR AND WORKING INTEREST OWNER

4 M. F. ABRAHAM

5 Date of Execution:

By _____

6
7 Address: 424 First National
8 Bank Building
Albuquerque, New Mexico

9 WORKING INTEREST OWNERS

10 SHELL OIL COMPANY

11
12 Date of Execution:

By _____
Its Attorney in Fact

13
14 Address: 1008 West Sixth Street
15 Los Angeles 54, California

16 BRITISH AMERICAN OIL PRODUCING COMPANY

17
18 Date of Execution:

By _____
President

19
20 Address: P. O. Box 749
21 Dallas, Texas

ATTEST: _____
Secretary

22 PAN AMERICAN PETROLEUM CORPORATION

23
24 Date of Execution:

By _____
President

25
26 Address: P. O. Box 1410
27 Fort Worth, Texas

ATTEST: _____
Secretary

28 NORTHWEST PRODUCTION CORPORATION

29
30 Date of Execution:

By J. M. Clark
Vice President

31 June 18, 1963

32 Address: P. O. Box 1796
El Paso, Texas

ATTEST: [Signature]
Asst. Secretary

NEW MEXICO

STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me this _____ day of _____
_____, 19____ by _____

Notary Public in and for said County and State
My Commission expires _____

STATE OF **TEXAS** }
COUNTY OF **EL PASO** } ss.

The foregoing instrument was acknowledged before me this **18th** day of **June**
_____, 19**63**, by **J. M. Clark**
(name of officer), **Vice President** (title of officer or agent), of
Northwest Production Corporation (name of corporation), a
Delaware (State or County of incorporation) corporation,
on behalf of said corporation.

BERNARD S. BILLINGSLEY
Notary Public in and for El Paso County
My Commission Expires June 1, 1966

Bernard S. Billingsley
Notary Public in and for said County and State
My Commission expires **6-1-65**

STATE OF CALIFORNIA }
COUNTY OF LOS ANGELES } ss.

The foregoing instrument was acknowledged before me this _____ day of _____
_____, 19____, by _____, as Attorney In Fact on behalf
of Shell Oil Company, a Delaware corporation.

Notary Public in and for said County and State
My Commission expires _____

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See WORKING INTEREST OWNERS *App'd as to form Sec'd*
SKELLY OIL COMPANY

Date of Execution:
June 28, 1963

By *A. H. [Signature]*
[Redacted] ATTORNEY-IN-FACT
[Redacted]:
[Redacted]

Address: P. O. Box 1650
Tulsa, Oklahoma

SUNRAY DX OIL COMPANY

Date of Execution:

By _____
President

Address: P. O. Box 2039
Tulsa, Oklahoma

ATTEST: _____
Secretary

RUTTER AND WILBANKS CORPORATION

Date of Execution:

By _____
President

Address: 500 North Big Springs
Midland, Texas

ATTEST: _____
Secretary

SANTA FE PACIFIC RAILROAD COMPANY

Date of Execution:

By _____
President

Address: Attention Secretary
Room 220
920 Jackson Street
Topeka, Kansas

ATTEST: _____
Secretary

L. L. HILLMAN, INC.

Date of Execution:

By _____
President

Address: 2975 Wilshire Boulevard
Los Angeles, California

ATTEST: _____
Secretary

NEW MEXICO

STATE OF OKLAHOMA
COUNTY OF TULSA } ss.

The foregoing instrument was acknowledged before me this 28th day of June, 1963 by A. J. O'ROURKE, as Attorney in Fact on behalf of SKELLY OIL COMPANY.

HAZEL M. BRADY
Notary Public Tulsa County Oklahoma
My Commission Expires January 22, 1965

[Signature]
Notary Public in and for said County and State
My Commission expires _____

STATE OF _____
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____ (name of officer), _____ (title of officer or agent), of _____ (name of corporation), a _____ (State or County of Incorporation) corporation, on behalf of said corporation.

Notary Public in and for said County and State
My Commission expires _____

STATE OF CALIFORNIA
COUNTY OF LOS ANGELES } ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____, as Attorney In Fact on behalf of Shell Oil Company, a Delaware corporation.

Notary Public in and for said County and State
My Commission expires _____

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WORKING INTEREST OWNERS
SKELLY OIL COMPANY

Date of Execution:

Address: P. O. Box 1650
Tulsa, Oklahoma

By _____
President
ATTEST: _____
Secretary

SUNRAY DX OIL COMPANY

Date of Execution:

Address: P. O. Box 2039
Tulsa, Oklahoma

By _____
President
ATTEST: _____
Secretary

RUTTER AND WILBANKS CORPORATION

Date of Execution:
6 24 63
Address: 500 North Big Springs
Midland, Texas

By *L. L. Hillman*
President
ATTEST: *H. J. Rutter*
Secretary

SANTA FE PACIFIC RAILROAD COMPANY

Date of Execution:

Address: Attention Secretary
Room 220
920 Jackson Street
Topeka, Kansas

By _____
President
ATTEST: _____
Secretary

L. L. HILLMAN, INC.

Date of Execution:

Address: 2975 Wilshire Boulevard
Los Angeles, California

By _____
President
ATTEST: _____
Secretary

NEW MEXICO

STATE OF TEXAS }
COUNTY OF MIDLAND } ss.

The foregoing instrument was acknowledged before me this 24th day of JUNE, 19 63 by A. W. Rutter, Jr.

Bennie I. Estes

Notary Public in and for said County and State

My Commission expires 6-1-65

STATE OF TEXAS }
COUNTY OF MIDLAND } ss.

The foregoing instrument was acknowledged before me this 24th day of JUNE, 19 63, by G. L. WILBANKS
(name of officer), President (title of officer or agent), of
Ritter and Wilbanks Corporation (name of corporation), a
Texas (State or County of incorporation) corporation,
on behalf of said corporation.

Bennie I. Estes

Notary Public in and for said County and State

My Commission expires 6-1-65

STATE OF CALIFORNIA }
COUNTY OF LOS ANGELES } ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19 _____, by _____, as Attorney In Fact on behalf of Shell Oil Company, a Delaware corporation.

Notary Public in and for said County and State

My Commission expires _____

WORKING INTEREST OWNERS
SKELLY OIL COMPANY

Date of Execution:

Address: P. O. Box 1650
Tulsa, Oklahoma

By _____
President

ATTEST: _____
Secretary

SUNRAY OIL COMPANY

Date of Execution:

Address: P. O. Box 2039
Tulsa, Oklahoma

By _____
President

ATTEST: _____
Secretary

RUTTER AND WILBANKS CORPORATION

Date of Execution:

Address: 500 North Big Springs
Midland, Texas

By _____
President

ATTEST: _____
Secretary

SANTA FE PACIFIC RAILROAD COMPANY

Date of Execution:

Address: Attention Secretary
Room 220
920 Jackson Street
Topeka, Kansas

By _____
President

ATTEST: _____
Secretary

LOREN L. HILLMAN

Date of Execution:

June 24-1963
Address: 2975 Wilshire Boulevard
Los Angeles, California

Loren L. Hillman
Loren L. Hillman

Doris C. Hillman
Doris C. Hillman

by Loren L. Hillman
Attorney in Law

NEW MEXICO

STATE OF CALIFORNIA }
COUNTY OF LOS ANGELES } ss.

The foregoing instrument was acknowledged before me this 24th day of JUNE, 1963, by Loren L. Hillman.

Doris L. Herr DORIS L. HERR
Notary Public in and for said County and State
My Commission expires MARCH 29, 1966

STATE OF CALIFORNIA)
COUNTY OF LOS ANGELES) ss.

The foregoing instrument was acknowledged before me this 24th day of June, 1963, by Loren L. Hillman, as Attorney in Fact on behalf of Doris C. Hillman.

Doris L. Herr
Notary Public in and for said
County and State. DORIS L. HERR
My Commission expires 3-29-66

STATE OF CALIFORNIA }
COUNTY OF LOS ANGELES } ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by D. E. CLARK, Manager, Land Department, Los Angeles Office of Shell Oil Company, a Delaware corporation, on behalf of said corporation.

Notary Public in and for said County and State
My Commission expires _____

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WORKING INTEREST OWNERS

Witness:

F. J. BRADSHAW

By _____

Date of Execution:

Address: 337 Pierpont Avenue
Salt Lake City, Utah

Witness:

EUGENE G. COUREY

By Eugene G. Courcy

Date of Execution:

Address: 924 Indiana, S.E.
Albuquerque, New Mexico

June 14, 1963

STATE OF NEW MEXICO
COUNTY OF BERNALILLO } ss.

The foregoing instrument was acknowledged before me this 14th day of June, 19 63 by Eugene G. Courcy and Margaret L. Courcy

Eugene H. J. Allen
Notary Public in and for said
County and State
My Commission expires 4-17-67

Date of Execution:

Address: P. O. Box 56
Universal City, California

Witness:

ILABELLE SHANAHAN

By _____

Date of Execution:

Address: P. O. Box 1272
Salt Lake City, Utah

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Witness:

Date of Execution:

Witness:

Date of Execution:

~~Witness:~~
Elizabeth R. McElvain
Date of Execution:
June 22, 1963

~~Witness:~~
Theresa Miller
Date of Execution:
June 24, 1963

Witness:

Date of Execution:

Witness:

Date of Execution:

WORKING INTEREST OWNERS
F. J. BRADSHAW
By _____
Address: 337 Pierpont Avenue
Salt Lake City, Utah

EUGENE G. COUREY
By _____
Address: 924 Indiana, S. E.
Albuquerque, New Mexico

T. H. McELVAIN, JR.
By *T. H. McElvain Jr.*
Address: P. O. Box 2148
Santa Fe, New Mexico

MABELLE M. MILLER
By _____
Address: 220 Shelby Street
Santa Fe, New Mexico

GERALD F. SAILOR
By _____
Address: P. O. Box 56
Universal City, California

ILABELLE SHANAHAN
By _____
Address: P. O. Box 1272
Salt Lake City, Utah

NEW MEXICO

STATE OF NEW MEXICO }
COUNTY OF SANTA FE } ss.

The foregoing instrument was acknowledged before me this 20th day of June, 1963 by T.H. McElvain, Jr. and wife, Elizabeth R. McElvain; Mabelle M. Miller and husband, Forrest B. Miller.

Deane M. Howell
Notary Public in and for said
County and State

My Commission expires April 14, 1967

STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____.

Notary Public in and for said
County and State

My Commission expires _____

STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19____ by _____.

Notary Public in and for said
County and State

My Commission expires _____

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Date of Execution:

WORKING INTEREST OWNERS

F. J. BRADSHAW

By

Address: 337 Pierpont Avenue
Salt Lake City, Utah

EUGENE G. COUREY

By

Address: 924 Indiana, S. E.
Albuquerque, New Mexico

T. H. McELVAIN, JR.

By

Address: P. O. Box 2148
Santa Fe, New Mexico

MABELLE M. MILLER

By

Address: 220 Shelby Street
Santa Fe, New Mexico

GERALD F. SAILOR

By

Address: P. O. Box 56
Universal City, California

ILABELLE SHANAHAN

By

Address: P. O. Box 1272
Salt Lake City, Utah

NEW MEXICO

STATE OF California }
COUNTY OF Los Angeles } ss.

The foregoing instrument was acknowledged before me this 18th day of June, 1963, by

Gerald F. Sailor

Mildred M. Crawford

Mildred M. Crawford Notary Public in and for said County and State

My Commission expires December 11, 1963

STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____ (name of officer), _____ (title of officer or agent), of _____ (name of corporation), a _____ (State or County of incorporation) corporation, on behalf of said corporation.

Notary Public in and for said County and State

My Commission expires _____

STATE OF CALIFORNIA }
COUNTY OF LOS ANGELES } ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____, as Attorney In Fact on behalf of Shell Oil Company, a Delaware corporation.

Notary Public in and for said County and State

My Commission expires _____

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Date of Execution:

6-27-63

WORKING INTEREST OWNERS

F. J. BRADSHAW

By _____

Address: 337 Pierpont Avenue
Salt Lake City, Utah

EUGENE G. COUREY

By _____

Address: 924 Indiana, S.E.
Albuquerque, New Mexico

T. H. McELVAIN, JR.

By _____

Address: P. O. Box 2148
Santa Fe, New Mexico

MABELLE M. MILLER

By _____

Address: 220 Shelby Street
Santa Fe, New Mexico

GERALD F. SAILOR

By _____

Address: P. O. Box 56
Universal City, California

ILABELLE SHANAHAN

By Ilabelle Shanahan

Address: P. O. Box 1272
Salt Lake City, Utah

NEW MEXICO

STATE OF NM }
COUNTY OF Salt Lake } ss.

The foregoing instrument was acknowledged before me this 27th day of January, 1963 by

Stabelle Thompson

Charles B. Harmon

Notary Public in and for said
County and State

My Commission expires Sept. 3, 1963

STATE OF _____ }
COUNTY OF _____ } ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____

(name of officer), _____ (title of officer or agent), of _____ (name of corporation), a _____ (State or County of incorporation) corporation, on behalf of said corporation.

Notary Public in and for said
County and State

My Commission expires _____

STATE OF CALIFORNIA }
COUNTY OF LOS ANGELES } ss.

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by M. W. SHEPPARD, JR., Manager, Land Department, Los Angeles Office of Shell Oil Company, a Delaware corporation, on behalf of said corporation.

Notary Public in and for said
County and State

My Commission expires _____

EXHIBIT 1

ATTACHED TO AND MADE A PART OF THE UNIT OPERATING
AGREEMENT FOR THE STAR LAKE UNIT AREA, MCKINLEY
COUNTY, NEW MEXICO, DATED THE

Unit Area: The area specified on the plat attached to the related Unit Agreement and marked Exhibit "A" is hereby designated and recognized as constituting the Unit Area.

Exhibit "A" shows in addition to the boundary of the Unit Area, the identity of tracts and leases in said area to the extent known to the Unit Operator.

Attached to and made a part of the Star Lake Unit Operating Agreement dated

ACCOUNTING PROCEDURE

(UNIT AND JOINT LEASE OPERATIONS)

I. GENERAL PROVISIONS

1. Definitions

"Joint property" as herein used shall be construed to mean the subject area covered by the agreement to which this "Accounting Procedure" is attached.

"Operator" as herein used shall be construed to mean the party designated to conduct the development and operation of the subject area for the joint account of the parties hereto.

"Non-Operator" as herein used shall be construed to mean any one or more of the non-operating parties.

2. Statements and Billings

Operator shall bill Non-Operator on or before the last day of each month for its proportionate share of costs and expenditures during the preceding month. Such bills will be accompanied by statements, reflecting the total costs and charges as set forth under SubparagraphC..... below:

A. Statement in detail of all charges and credits to the joint account.

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

C. Statements as follows:

(1) Detailed statement of material ordinarily considered controllable by operators of oil and gas properties;

(2) Statement of ordinary charges and credits to the joint account summarized by appropriate classifications indicative of the nature thereof; and

(3) Detailed statement of any other charges and credits.

3. Payments by Non-Operator

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

4. Adjustments

Payment of any such bills shall not prejudice the right of Non-Operator to protest or question the correctness thereof. Subject to the exception noted in Paragraph 5 of this section I, all statements rendered to Non-Operator 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 Non-Operator takes written exception thereto and makes claim on Operator for adjustment. Failure on the part of Non-Operator to make claim on Operator for adjustment within such period shall establish the correctness thereof and preclude the filing of exceptions thereto or making of claims for adjustment thereon. The provisions of this paragraph shall not prevent adjustments resulting from physical inventory of property as provided for in Section VI, Inventories, hereof.

5. Audits

A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the accounting hereunder for any calendar year within the twenty-four (24) month period following the end of such calendar year, provided, however, that Non-Operator must take written exception to and make claim upon the Operator for all discrepancies disclosed by said audit within said twenty-four (24) month period. Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct joint or simultaneous audits in a manner which will result in a minimum of inconvenience to the Operator.

II. DEVELOPMENT AND OPERATING CHARGES

Subject to limitations hereinafter prescribed, Operator shall charge the joint account with the following items:

1. Rentals and Royalties

Delay or other rentals, when such rentals are paid by Operator for the joint account; royalties, when not paid directly to royalty owners by the purchaser of the oil, gas, casinghead gas, or other products.

2. Labor

A. Salaries and wages of Operator's employees directly engaged on the joint property in the development, maintenance, and operation thereof, including salaries or wages paid to geologists and other employees who are temporarily assigned to and directly employed on a drilling well.

B. Operator's cost of holiday, vacation, sickness and disability benefits, and other customary allowances applicable to the salaries and wages chargeable under Subparagraph 2 A and Paragraph 11 of this Section II. Costs under this Subparagraph 2 B may be charged on a "when and as paid basis" or by "percentage assessment" on the amount of salaries and wages chargeable under Subparagraph 2 A and Paragraph 11 of this Section II. If percentage assessment is used, the rate shall be based on the Operator's cost experience.

C. Costs of expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to Operator's labor cost of salaries and wages as provided under Subparagraphs 2 A, 2 B, and Paragraph 11 of this Section II.

3. Employee Benefits

Operator's current cost of established plans for employees' group life insurance, hospitalization, pension, retirement, stock purchase, thrift, bonus, and other benefit plans of a like nature, applicable to Operator's labor cost, provided that the total of such charges shall not exceed ten per cent (10%) of Operator's labor costs as provided in Subparagraphs A and B of Paragraph 2 of this Section II and in Paragraph 11 of this Section II.

4. Material

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

5. Transportation

Transportation of employees, equipment, material, and supplies necessary for the development, maintenance, and operation of the joint property subject to the following limitations:

A. If material is moved to the joint property from vendor's or from the Operator's warehouse or other properties, no charge shall be made to the joint account for a distance greater than the distance from the nearest reliable supply store or railway receiving point where such material is available, except by special agreement with Non-Operator.

EXHIBIT 2

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 from the nearest reliable supply store or railway receiving point, except by special agreement with Non-Operator. No charge shall be made to the joint account for moving material to other properties belonging to Operator, except by special agreement with Non-Operator.

6. Service

- A. Outside Services:
The cost of contract services and utilities procured from outside sources.
- B. Use of Operator's Equipment and Facilities:
Use of and service by Operator's exclusively owned equipment and facilities as provided in Paragraph 5 of Section III entitled "Operator's Exclusively Owned Facilities."

7. Damages and Losses to Joint Property and Equipment

All costs or expenses necessary to replace or repair damages or losses incurred by fire, flood, storm, theft, accident, or any other cause not controllable by Operator through the exercise of reasonable diligence. Operator shall furnish Non-Operator written notice of damages or losses incurred as soon as practicable after report of the same has been received by Operator.

8. Litigation Expense

- All costs and expenses of litigation, or legal services otherwise necessary or expedient for the protection of the joint interests, including attorneys' fees and expenses as hereinafter provided, together with all judgments obtained against the parties or any of them on account of the joint operations under this agreement, and actual expenses incurred by any party or parties hereto in securing evidence for the purpose of defending against any action or claim prosecuted or urged against the joint account or the subject matter of this agreement.
- A. If a majority of the interests hereunder shall so agree, actions or claims affecting the joint interests hereunder may be handled by the legal staff of one or more of the parties hereto; and a charge commensurate with cost of providing and furnishing such services rendered may be made against the joint account; but no such charge shall be made until approved by the legal departments of or attorneys for the respective parties hereto.
 - B. Fees and expenses of outside attorneys shall not be charged to the joint account unless authorized by the majority of the interests hereunder.

9. Taxes

All taxes of every kind and nature assessed or levied upon or in connection with the properties which are the subject of this agreement, the production therefrom or the operation thereof, and which taxes have been paid by the Operator for the benefit of the parties hereto.

10. Insurance and Claims

- A. Premiums paid for insurance required to be carried for the benefit of the joint account, together with all expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including legal services, not recovered from insurance carrier.
- B. If no insurance is required to be carried, all actual expenditures incurred and paid by Operator in settlement of any and all losses, claims, damages, judgments, and any other expenses, including legal services, shall be charged to the joint account.

11. District and Camp Expense (Field Supervision and Camp Expense)

A pro rata portion of the salaries and expenses of Operator's production superintendent and other employees serving the joint property and other properties of the Operator in the same operating area, whose time is not allocated directly to the properties, and a pro rata portion of the cost of maintaining and operating a production office known as Operator's Division office located at or near to be determined (or a comparable office if location changed), and necessary suboffices (if any), maintained for the convenience of the above-described office, and all necessary camps, including housing facilities for employees if required, used in the conduct of the operations on the joint property and other properties operated in the same locality. The expense of, less any revenue from, these facilities should be inclusive of depreciation or a fair monthly rental in lieu of depreciation on the investment. Such charges shall be apportioned to all properties served on some equitable basis consistent with Operator's accounting practice.

Costs to be apportioned on a well basis, with one (1) drilling well being equal to six (6) producing wells.

12. Administrative Overhead

Operator shall have the right to assess against the joint property covered hereby the following management and administrative overhead charges, which shall be in lieu of all expenses of all offices of the Operator not covered by Section II, Paragraph 11, above, including salaries and expenses of personnel assigned to such offices, except that salaries of geologists and other employees of Operator who are temporarily assigned to and directly serving on the joint property will be charged as provided in Section II, Paragraph 2, above. Salaries and expenses of other technical employees assigned to such offices will be considered as covered by overhead charges in this paragraph unless charges for such salaries and expenses are agreed upon between Operator and Non-Operator as a direct charge to the joint property.

WELL BASIS (Rate Per Well Per Month)

Well Depth	DRILLING WELL RATE	PRODUCING WELL RATE (Use Completion Depth)		
	Each Well	First Five	Next Five	All Wells Over Ten
0-7000'	\$ 250	\$ 50	\$ 40	\$ 30
7000-11000'	350	60	50	40
Over-11000'	450	75	60	50

- A. Overhead charges for drilling wells shall begin on the date each well is spudded and terminate when it is on production or is plugged, as the case may be, except that no charge shall be made during the suspension of drilling operations for fifteen (15) or more consecutive days.
- B. In connection with overhead charges, the status of wells shall be as follows:
 - (1) Injection wells for recovery operations, such as for repressure or water flood, shall be included in the overhead schedule the same as producing oil wells.
 - (2) Water supply wells utilized for water flooding operations shall be included in the overhead schedule the same as producing oil wells.
 - (3) Producing gas wells shall be included in the overhead schedule the same as producing oil wells.

EXHIBIT 2

- (4) Wells permanently shut down but on which plugging operations are deferred shall be dropped from the overhead schedule at the time the shutdown is effected. When such wells are plugged, overhead shall be charged at the producing well rate during the time required for the plugging operation.
- (5) Wells being plugged back, drilled deeper, or converted to a source or input well shall be included in the overhead schedule the same as drilling wells.
- (6) Temporarily shut-down wells (other than by governmental regulatory body) which are not produced or worked upon for a period of a full calendar month shall not be included in the overhead schedule; however, wells shut in by governmental regulatory body shall be included in the overhead schedule only in the event the allowable production is transferred to other wells on the same property. In the event of a unit allowable, all wells capable of producing will be counted in determining the overhead charge.
- (7) Wells completed in dual or multiple horizons shall be considered as two wells in the producing overhead schedule.
- (8) Lease salt water disposal wells shall not be included in the overhead schedule unless such wells are used in a secondary recovery program on the joint property.
- C. The above overhead schedule for producing wells shall be applied to the total number of wells operated under the Operating Agreement to which this accounting procedure is attached, irrespective of individual leases.
- D. It is specifically understood that the above overhead rates apply only to drilling and producing operations and are not intended to cover the construction or operation of additional facilities such as, but not limited to, gasoline plants, compressor plants, repressuring projects, salt water disposal facilities, and similar installations. If at any time any or all of these become necessary to the operation, a separate agreement will be reached relative to an overhead charge and allocation of district expense.
- E. The above specific overhead rates may be amended from time to time by agreement between Operator and Non-Operator if, in practice, they are found to be insufficient or excessive.

13. Operator's Fully Owned Warehouse Operating and Maintenance Expense

(Describe fully the agreed procedure to be followed by the Operator.)

None

14. Other Expenditures

Any expenditure, other than expenditures which are covered and dealt with by the foregoing provisions of this Section II, incurred by the Operator for the necessary and proper development, maintenance, and operation of the joint property.

III. BASIS OF CHARGES TO JOINT ACCOUNT

1. Purchases

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

2. Material Furnished by Operator

Material required for operations shall be purchased for direct charge to joint account whenever practicable, except that Operator may furnish such material from Operator's stocks under the following conditions:

A. New Material (Condition "A")

- (1) New material transferred from Operator's warehouse or other properties shall be priced f.o.b. the nearest reputable supply store or railway receiving point, where such material is available, at current replacement cost of the same kind of material. This will include material such as tanks, pumping units, sucker rods, engines, and other major equipment. Tubular goods, two-inch (2") and over, shall be priced on car-load basis effective at date of transfer and f.o.b. railway receiving point nearest the joint account operation, regardless of quantity transferred.
- (2) Other material shall be priced on basis of a reputable supply company's preferential price list effective at date of transfer and f.o.b. the store or railway receiving point nearest the joint account operation where such material is available.
- (3) Cash discount shall not be allowed.

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

- (1) Material which is in sound and serviceable condition and is suitable for reuse without reconditioning shall be classed as Condition "B" and priced at seventy-five per cent (75%) of new price.
- (2) Material which cannot be classified as Condition "B" but which,
 - (a) After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or
 - (b) Is serviceable for original function but substantially not suitable for reconditioning,shall be classed as Condition "C" and priced at fifty per cent (50%) of new price.
- (3) Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use.
- (4) Tanks, buildings, and other equipment involving erection costs shall be charged at applicable percentage of knocked-down new price.

3. Premium Prices

Whenever materials and equipment are not readily obtainable at the customary supply point and at prices specified in Paragraphs 1 and 2 of this Section III 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 materials on the basis of the Operator's direct cost and expense incurred in procuring such materials, in making it suitable for use, and in moving it to the location, provided, however, that notice in writing is furnished to Non-Operator of the proposed charge prior to billing the Non-Operator for the material and/or equipment acquired pursuant to this provision, whereupon Non-Operator shall have the right, by so electing and notifying Operator within 10 days after receiving notice from the Operator, to furnish in kind, or in tonnage as the parties may agree, at the location, nearest railway receiving point, or Operator's storage point within a comparable distance, all or part of his share of material and/or equipment suitable for use and acceptable to the Operator. Transportation costs on any such material furnished by Non-Operator, at any point other than at the location, shall be borne by such Non-Operator. If, pursuant to the provisions of this paragraph, any Non-Operator furnishes material and/or equipment in kind, the Operator shall make appropriate credits therefor to the account of said Non-Operator.

4. Warranty of Material Furnished by Operator

Operator does not warrant the material furnished beyond or back of the dealer's or manufacturer's guaranty; and in case of defective material, credit shall not be passed until adjustment has been received by Operator from the manufacturers or their agents.

5. Operator's Exclusively Owned Facilities

The following rates shall apply to service rendered to the joint account by facilities owned exclusively by Operator:

- A. Water, fuel, power, compressor and other auxiliary services at rates commensurate with cost of providing and furnishing such service to the joint account but not exceeding rates currently prevailing in the field where the joint property is located.

EXHIBIT 2

- B. Automotive equipment at rates commensurate with cost of ownership and operation. Such rates should generally be in line with the schedule of rates adopted by the Petroleum Motor Transport Association, or some other recognized organization, as recommended uniform charges against joint account operations and revised from time to time. Automotive rates shall include cost of oil, gas, repairs, insurance, and other operating expense and depreciation; and charges shall be based on use in actual service on, or in connection with, the joint account operations. Truck and tractor rates may include wages and expenses of driver.
- C. A fair rate shall be charged for the use of drilling and cleaning-out tools and any other items of Operator's fully owned machinery or equipment which shall be ample to cover maintenance, repairs, depreciation, and the service furnished the joint property; provided that such charges shall not exceed those currently prevailing in the field where the joint property is located. Pulling units shall be charged at hourly rates commensurate with the cost of ownership and operation, which shall include repairs and maintenance, operating supplies, insurance, depreciation, and taxes. Pulling unit rates may include wages and expenses of the operator.
- D. A fair rate shall be charged for laboratory services performed by Operator for the benefit of the joint account, such as gas, water, core, and any other analyses and tests; provided such charges shall not exceed those currently prevailing if performed by outside service laboratories.
- E. Whenever requested, Operator shall inform Non-Operator in advance of the rates it proposes to charge.
- F. Rates shall be revised and adjusted from time to time when found to be either excessive or insufficient.

IV. DISPOSAL OF LEASE EQUIPMENT AND MATERIAL

The Operator shall be under no obligation to purchase interest of Non-Operator in surplus new or secondhand material. The disposition of major items of surplus material, such as derricks, tanks, engines, pumping units, and tubular goods, shall be subject to mutual determination by the parties hereto; provided Operator shall have the right to dispose of normal accumulations of junk and scrap material either by transfer or sale from the joint property.

1. Material Purchased by the Operator or Non-Operator

Material purchased by either the Operator or Non-Operator shall be credited by the Operator to the joint account for the month in which the material is removed by the purchaser.

2. Division in Kind

Division of material in kind, if made between Operator and Non-Operator, shall be in proportion to their respective interests in such material. Each party will thereupon be charged individually with the value of the material received or receivable by each party, and corresponding credits will be made by the Operator to the joint account. Such credits shall appear in the monthly statement of operations.

3. Sales to Outsiders

Sales to outsiders of material from the joint property shall be credited by Operator to the joint account at the net amount collected by Operator from vendee. Any claims by vendee for defective material or otherwise shall be charged back to the joint account if and when paid by Operator.

V. BASIS OF PRICING MATERIAL TRANSFERRED FROM JOINT ACCOUNT

Material purchased by either Operator or Non-Operator or divided in kind, unless otherwise agreed, shall be valued on the following basis:

1. New Price Defined

New price as used in the following paragraphs shall have the same meaning and application as that used above in Section III, "Basis of Charges to Joint Account."

2. New Material

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

3. Good Used Material

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

- A. At seventy-five per cent (75%) of current new price if material was charged to joint account as new, or
- B. At sixty-five per cent (65%) of current new price if material was originally charged to the joint property as secondhand at seventy-five per cent (75%) of new price.

4. Other Used Material

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

- A. After reconditioning will be further serviceable for original function as good secondhand material (Condition "B"), or
- B. Is serviceable for original function but substantially not suitable for reconditioning.

5. Bad-Order Material

Material and equipment (Condition "D"), which is no longer usable for its original purpose without excessive repair cost but is further usable for some other purpose, shall be priced on a basis comparable with that of items normally used for that purpose.

6. Junk

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

7. Temporarily Used Material

When the use of material is temporary and its service to the joint account does not justify the reduction in price as provided in Paragraph 3 B, above, such material shall be priced on a basis that will leave a net charge to the joint account consistent with the value of the service rendered.

VI. INVENTORIES

1. Periodic Inventories, Notice and Representation

At reasonable intervals, inventories shall be taken by Operator of the joint account material, which shall include all such material as is ordinarily considered controllable by operators of oil and gas properties.

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-Operator may be represented when any inventory is taken.

Failure of Non-Operator to be represented at an inventory shall bind Non-Operator to accept the inventory taken by Operator, who shall in that event furnish Non-Operator with a copy thereof.

2. Reconciliation and Adjustment of Inventories

Reconciliation of inventory with charges to the joint account shall be made by each party at interest, and a list of overages and shortages shall be jointly determined by Operator and Non-Operator.

Inventory adjustments shall be made by Operator with the joint account for overages and shortages, but Operator shall be held accountable to Non-Operator only for shortages due to lack of reasonable diligence.

3. Special Inventories

Special inventories may be taken, at the expense of the purchaser, whenever there is any sale or change of interest in the joint property; and it shall be the duty of the party selling to notify all other parties hereto as quickly as possible after the transfer of interest takes place. In such cases, both the seller and the purchaser shall be represented and shall be governed by the inventory so taken.

EXHIBIT NO. 3

UNIT OPERATING AGREEMENT
STAR LAKE UNIT AREA
McKINLEY COUNTY, NEW MEXICO

1. Location: The location of the Initial Test Well shall be on some portion of the following described tract of land, to wit:

T. 18 N., R. 5 W., N.M.P.M.
Section 5: NW/4 NW/4 (Lot 4)

provided, however, that in the event it becomes necessary, in the opinion of the Unit Operator, to change said location, such change may be made with the approval of the parties in accordance with Article 14.2 hereof.

2. Projected Depth: Said Initial Test Well shall be drilled with due diligence, in a good and workmanlike manner, in accordance with Section 9 of the Unit Agreement.
3. Costs of Drilling Initial Test Well: Subject to the investment adjustment provisions of Article 13 hereof, all costs of drilling the Initial Test Well shall be borne by the Parties within the designated Title Examination Area, hereinafter described, on an Acreage Basis, except as otherwise agreed by Unit Operator and any other Committed Working Interest Owners. Any cash contributions toward the cost of drilling the Initial Test Well received by Unit Operator shall be shared on an Acreage Basis by the Parties paying the costs of the well.
4. Title Examination Area: The following described lands are designated as the Title Examination Area for the said Initial Test Well:

T. 18 N., R. 5 W., N.M.P.M.
Section 5: NW/4 NW/4 (Lot 4)

Title shall be examined to all lands included in the Title Examination Area and acceptance of Title to such lands by Unit Operator shall be sufficient for drilling the Initial Test Well, provided, however, that no such approval of title shall be binding upon the other Working Interest Owners for purposes of allocation of costs hereunder unless title is approved as provided in Section 18.7 of Article 18.

EXHIBIT 4

Attached to and made a part of that certain agreement entitled Unit

Operating Agreement STAR LAKE

Unit Area, County of McKINLEY, State of NEW MEXICO

Dated the day of, 1963

PART 1

DRILLING OF EXPLORATORY WELLS

1. **Notice of Proposed Drilling.** Any Party desiring the Drilling of an Exploratory Well on land in which it owns a Committed Working Interest shall designate an area, herein called a Drilling Block, not to exceed acres, which, on the basis of available geological information will, in its judgment, be proved productive by the drilling of such well. Unit Operator and each Party within the Drilling Block shall be furnished with a plat and description of the area so designated, together with written notice of the location, objective formation, maximum depth, and estimated cost of the proposed well. The location of the proposed well shall conform to any applicable spacing pattern then existing or an authorized exception thereto. The Drilling Block shall include no land in an established participating area for the objective formation for the well to be drilled thereon nor any land included in a proposal therefor filed with the Director, nor any land within an active, previously designated Drilling Block for such formation. The Drilling Block shall be considered active for ninety (90) days after the designation thereof and if a well is commenced thereon within such period until either:

A. The completion of the well, if it is completed otherwise than as a producer of unitized substances in paying quantities, or;

B. The filing with the Director of a proposal for the establishment or revision of a participating area if the drilling of the well results in the filing of such proposal.

2. **Basis of Participation.** Each Party within the Drilling Block shall be entitled to participate in the Costs of the proposed well on an Acreage Basis, but shall be required to do so only if it notifies the other Parties of its willingness so to participate as hereinafter in this Article provided.

3. **Exclusion of Land From Proposed Drilling Block.** Within thirty (30) days after receipt of such notice, any part of the land included in the proposed Drilling Block may be excluded therefrom at the Direction of the Parties therein. In such event the proposed Drilling Block as reduced by the exclusion of such land shall be established as the Drilling Block. In the absence of any such Direction then at the expiration of said period, the proposed Drilling Block shall be established as the Drilling Block.

4. **Preliminary Notice to Join in Drilling.** Within ten (10) days after the establishment of the Drilling Block, each Party within such Drilling Block shall in writing advise all other Parties therein whether or not it wishes to participate in the Drilling of the proposed well. If any Party fails to give such advice within the prescribed time, it shall be deemed to have elected not to participate in Drilling such proposed well. If all the Parties within the Drilling Block so advise that they wish to participate therein, the Unit Operator shall Drill the proposed well for the account of all such Parties.

5. **Notice of Election to Drill.** Unless all Parties within the Drilling Block agree to participate in Drilling such well, then, within fifteen (15) days after the expiration of the ten-day period last above provided in Section 4, each Party within the Drilling Block then desiring to have the proposed well Drilled, shall give to all other Parties therein written notice of its election to proceed with the Drilling of said well. Failure to give such notice shall be deemed an election not to participate in Drilling the well.

6. **Effect of Election to Drill.** If one or more, but not all of the Parties, elect to proceed with the Drilling of the well, Unit Operator shall drill the well for the account of such Party or Parties on an Acreage Basis among themselves who shall constitute the Drilling Party.

Any Party within the Drilling Block who has not previously elected to participate in the proposed well may do so by written notice given to all other Parties within the Drilling Block at any time before operations for the Drilling of the well are commenced, in which event such Party shall be included in the Drilling Party. However, such Party shall be bound by any and all Directions and Approvals theretofore given by the Drilling Party concerning the Drilling of the well.

7. **Rights and Obligations of Drilling Party and Non-Drilling Party.** If the well results in the establishment or enlargement of a participating area to include such well and if by reason thereof there is included in such participating area any land within the Drilling Block in which a Non-Drilling Party owns a Committed Working Interest, then such Non-Drilling Party as of the effective date of such inclusion shall be deemed to have relinquished to the Drilling Party and the Drilling Party shall own all of the operating rights and working interests in such well, and the materials and equipment pertaining thereto, which such Non-Drilling Party would otherwise own, and that portion of production from such well which is allocated to all of the acreage of such Non-Drilling Party within such participating area until such time as the proceeds or market value of said portion of the production from such well (after deducting all Lease Burdens and all taxes upon or measured by production which are payable in respect of said portion up to such time) shall equal the sum of the following:

A. One hundred per cent (100%) of that portion of the Costs incurred in operation of the well up to such time that would have been chargeable to Non-Drilling Party with respect to its Committed Working Interest in the participating area but for the relinquishment aforesaid, and,

B. Two Hundred per cent (200.....%) of that portion of the Costs incurred by Drilling Party in Drilling the well that would have been chargeable to such Non-Drilling Party had it initially participated in the Drilling of such well on an Acreage Basis and had the Drilling Block included only such of the lands included in the Drilling Block as originally designated which are included within the participating area. At such time the interest relinquished by Non-Drilling Party in such well shall revert to it. Except as above in this section provided the provisions of Article 12 dealing with Rights and Obligations of Drilling Party and Non-Drilling Party shall apply.

8. **Required Drilling.** If an Exploratory Well is Drilled as a required well in accordance with Section 10.4 B, the Drilling block for such well shall consist of all forty acre subdivisions and lots of the Public Land Survey of which more than one-half of the surface area is within a distance of 251.0 feet from the proposed bottom hole location of such well, but excluding therefrom all lands within a participating area theretofore established for the pool or zone to which the well is to be Drilled.

PART 2

ATTEMPTED COMPLETION, DEEPENING, PLUGGING BACK AND ABANDONMENT

1. **Wells Not Completed as Producers.** The attempted completion, Deepening or Plugging Back of wells not completed as producers at their projected depths, shall be governed by the following provisions, except that said provisions shall not apply to a particular well if every Party entitled to the notice provided for in Subdivision A hereof has consented to abandonment and plugging of such well:

A. **Notice by Unit Operator.** Before abandoning a Development Well which has been Drilled to its projected depth but not completed as a producer, Unit Operator shall give notice thereof to each Party within the participating area involved. After a well other than a Development Well has reached its projected depth and been tested, but before production pipe has been set therein, Unit Operator shall give notice thereof to each Party who participated in Drilling the well, and to each additional Party, if any, who was entitled to participate therein, but elected not to do so. Each notice provided for in this section shall be given by telegraph or telephone.

B. Right to Attempt Completion, Deepen or Plug Back. Each Party who participated in the Drilling of a well concerning which notice is given in accordance with Subdivision A hereof, and any other Party owning a Committed Working Interest in the tract of land on which the well is located, may initiate a proposal to attempt the completion of, or to Deepen or Plug Back such well; provided, however, that if the well was Drilled as a Development Well, a proposal to Deepen or Plug Back the well may be initiated only by a Party owning a Committed Working Interest in the tract of land on which the well is located. In order to be entitled to participate in a proposed operation, a Party must have the right to initiate the same or must own a Committed Working Interest in the Drilling block theretofore established for such well or, if no Drilling block has theretofore been established for such well, in the Drilling Block established for such Deepening or Plugging Back operation as provided in the following paragraph C.

C. Time and Manner of Initiating Proposal. A period of twenty-four (24) hours (exclusive of Saturdays, Sundays and holidays) from and after receipt of the notice referred to in Subdivision A of this paragraph 1 shall be allowed within which a Party may initiate a proposal to complete, Deepen or Plug Back and, except in the case of a proposal to complete a well Drilled as a Development well, designate a Drilling Block for such proposed operation, if one has not previously been designated for such well. Any such proposal shall be initiated by giving notice thereof by telephone or telegraph to each Party entitled to participate in the proposed operation. If no such proposal is initiated within the period allowed therefor, Unit Operator shall abandon and plug the well.

D. Election. If a proposal is initiated each Party entitled to participate in any completing, Deepening or Plugging Back operation proposed in accordance with Subdivision C above shall have a period of twenty-four (24) hours (exclusive of Saturdays, Sundays and holidays) from and after receipt of notice of the initiation of any such operation within which (either at a meeting or by telephone) to establish a Drilling Block if the establishment of a Drilling Block is necessary for the proposed operations (following the same procedures in establishing a Drilling Block as the procedures provided for in Part 1 of the Exhibit 4 for the establishment of a Drilling Block for an Exploratory Well) and to notify Unit Operator by telephone or telegraph whether or not it elects to participate in the proposed operation. The failure of a Party to signify its election within the time required shall be deemed to constitute an election not to participate in the proposed operation.

E. Effect of Election. The Party or Parties electing to participate in an attempt to complete, or to Deepen or Plug Back, a well as above provided shall constitute the Drilling Party for such operation. Each Party who is entitled to make such election but fails to do so as above provided, shall be deemed to have elected not to participate in such operation, and shall be a Non-Drilling Party in respect of such operation. Such operation shall be conducted by Unit Operator for the account of the Party or Parties constituting the Drilling Party on an acreage basis among themselves, subject, however, to the provisions of paragraph 4 of Part 2 of this Exhibit 4, dealing with Conflicts, and paragraph 5 of Part 2 of this Exhibit 4 dealing with Deepening or Plugging Back to Participating Area.

F. Stand-By Rig Time. Stand-by time paid for the rig on a well until expiration of the period of forty-eight (48) hours allowed for the initiation of and election to participate in an attempt to complete, or to Deepen or Plug Back, such well, shall be charged and borne as part of the Costs incurred in Drilling the well. Thereafter such stand-by time shall be charged to and borne by the Party or Parties who elect to participate in the attempt to complete, or to Deepen or Plug Back, the well, whether or not such Party or Parties shall proceed with such operation. However, if the Party or Parties making such election do not proceed with the operation, the Costs incurred in plugging the well shall be charged and borne as part of the Costs incurred in Drilling the well.

2. Abandonment of Producing Wells. A well completed as a producer of Unitized Substances within a participating area shall be abandoned for plugging if and when abandonment thereof receives the Approval of the Parties within such participating area, subject, however, to the provisions of paragraph 3 hereof concerning Deepening, or Plugging Back Abandoned Producing Wells. The abandonment of a well completed as a producer but not included in a participating area shall be governed by the following provisions:

A. Consent Required. Such a well shall not be abandoned for production from the pool or zone in which it is completed except with the consent of all Parties then owning the well.

B. Abandonment Procedure. If the abandonment of such a well receives the Approval of the Parties who own the well, but is not consented to by all such Parties, Unit Operator shall give written notice thereof to each Party then having an interest in the well who did not join in such Approval. Any such non-joining Party who objects to abandonment of the well (herein called non-abandoning Party) may give written notice thereof to all other Parties (herein called abandoning Parties) then having interests in the well, provided such notice is given within thirty (30) days after receipt of the notice given by Unit Operator. If such objection is so made, the non-abandoning Party or Parties shall forthwith pay to the abandoning Parties their respective shares of the Salvage Value of the well. Upon the making of such payment, the abandoning Parties shall be deemed to have relinquished unto the non-abandoning Party or Parties all their operating rights and working interest in the well, but only with respect to the pool or zone in which it is then completed, and all their interest in the materials and equipment in or pertaining to the well. If there is more than one non-abandoning Party, the interest so relinquished shall be owned by the non-abandoning Parties, each in the proportion that its interest in the well bears to the combined interest therein of all non-abandoning Parties immediately prior to such relinquishment.

C. Rights and Obligations of Non-Abandoning Party. After the relinquishment above provided for, such well shall be operated by Unit Operator for the account of the non-abandoning Party or Parties, who shall own all Production therefrom and shall bear all Costs, Lease Burdens and other burdens thereafter incurred in operating the well and plugging it when abandoned (unless the well is taken over for Deepening or Plugging Back as hereinafter provided), and also the Costs of any additional tankage, flow lines or other facilities needed to measure separately the Unitized Substances produced from the well; said operating Costs shall include an overhead charge computed at the highest per well rate applicable to the operation of a single producing well in accordance with Exhibit 2, if such rate is provided.

D. Option to Repurchase Materials. If a well taken over by the non-abandoning Party or Parties as above provided is abandoned for plugging within six (6) months after relinquishment by the abandoning Parties of their interests therein, each abandoning Party shall have the right at its option to repurchase that portion of the materials and equipment salvaged from the well equal to the interest relinquished by it to the non-abandoning Party or Parties, at the value fixed therefor in accordance with Subdivision B of this section. Said option may be exercised only by written notice given to Unit Operator and the non-abandoning Party or Parties within fifteen (15) days after receipt of the notice given by Unit Operator pursuant to paragraph 3 hereof.

3. Deepening or Plugging Back Abandoned Producing Wells. Before abandoning for plugging any well completed as a producer of Unitized Substances, Unit Operator shall, (A) if the well is within a Participating Area, give written notice thereof to the Party or Parties owning Committed Working Interests in the tract of land on which the well is located, or (B) if the well is not within a Participating Area, give written notice thereof to each Party then owning an interest in the well and to each additional Party, if any, owning Committed Working Interests in the tract of land upon which the well is located. If no Drilling Block has previously been established for such well and a Party receiving such notice desires the Deepening or Plugging Back thereof, it shall, within fifteen (15) days after receipt of such notice, proceed with the establishment of a Drilling Block for such well as provided in paragraphs 1 and 3 of Part 1 of this Exhibit 4. Within ten (10) days after receipt of such notice, if a Drilling Block has previously been established for such well, or, if not previously established, within ten (10) days after a Drilling Block is established for such well, the Party desiring the Deepening or Plugging Back of such well shall give notice thereof in accordance with paragraph 4 of Part 1 of this Exhibit 4 and all of the provisions of paragraphs 4, 5 and 6 of Part 1 of this Exhibit 4 shall apply in the same manner as if the proposed Deepening or Plugging Back were the Drilling of an Exploratory Well, subject, however, to the provisions of paragraph 4 of Part 1 of this Exhibit 4, dealing with Conflicts, and paragraph 5 of Part 1 of this Exhibit 4, dealing with Deepening or Plugging Back to a Participating Area. If no Party gives notice of desire to Deepen or Plug Back such well within said period of ten (10) days, or if such notice is given but no Party elects to proceed with the Deepening or Plugging Back of the well within the time limited therefor, Unit Operator shall abandon and plug the well for the account of the Party or Parties owning the well.

4. Conflicts. If conflicting elections to attempt completion, Deepen, or Plug Back are made in accordance with the preceding provisions of Part 2 of this Exhibit 4, preference shall be given first to a completion attempt and then to Deepening. However, if a completion attempt, a Deepening or Plugging Back does not result in completion of the well as a producer, Unit Operator shall again give notice in accordance with Subdivision A of paragraph 1 of Part 2 of this Exhibit 4 before abandoning the well for plugging.

5. Deepening or Plugging Back to Participating Area. If a well within the surface boundaries of a participating area is to be Deepened or Plugged Back to a pool or zone for which such participating area has been established, such op-

eration may be conducted only if it receives the Approval of the Parties within such participating area, and upon such terms and conditions as may be specified in such Approval.

6. Rights and Obligations of Drilling Party and Non-Drilling Parties. Whenever an attempt to complete a well Drilled as a Development Well is made otherwise than for the account of all Parties entitled to participate therein, the provisions of Article 12 dealing with Rights and Obligations of Drilling Party and Non-Drilling Parties shall apply.

Whenever either (1) an attempted completion of a well which was not Drilled as a Development well is made or (2) a well is Deepened or Plugged Back, otherwise than for the account of all Parties entitled to participate therein, the provisions of paragraph 7 of Part 1 of this Exhibit 4 dealing with Rights and Obligations of Drilling Party and Non-Drilling Parties shall apply to the operations conducted the same as if such operations comprised Drilling operations.

EXHIBIT 5

ATTACHED TO AND MADE A PART OF THE UNIT OPERATING
AGREEMENT FOR THE STAR LAKE UNIT AREA, MCKINLEY
COUNTY, NEW MEXICO.

Unit Operator shall, during all times while operations are conducted hereunder, carry and require all of its contractors and subcontractors to carry comprehensive general liability insurance for the benefit of the Parties hereto, as follows:

- (a) Bodily injury liability insurance with limits of not less than \$100,000.00 for death of or injury to one person and not less than \$300,000.00 for death of or injury to more than one person in any one accident; and property damage liability insurance, with a limit of not less than \$100,000.00 for any one accident, for loss of or destruction of or damage to property.
- (b) Automobile public liability and property damage insurance, if not included in the insurance referred to in subsection (a) above, in like amounts as therein specified.

All premiums applicable to the aforesaid insurance protection shall be chargeable as Costs hereunder. All losses not covered by insurance against the above-mentioned hazards shall be borne by the Party or Parties for whose account operations resulting in such uninsured loss were conducted.

Each Party hereto shall maintain at its own expense and for its sole benefit such fire and extended coverage insurance as it deems necessary.

THIS AGREEMENT, entered into this _____ day of _____, 19____, between _____, of _____, and _____, hereinafter called "LESSOR" (whether one or more), and _____, "LESSEE", does witness:

1. That LESSOR, for and in consideration of a rental of _____ Dollars (\$ _____), paid in advance upon the execution hereof, receipt of which as full and adequate consideration for all rights granted herein is hereby acknowledged, and of the covenants and agreements hereinafter contained to be paid, kept, and performed by LESSEE, has this day granted, demised, leased, and let, and hereby grants, demises, leases, and lets exclusively unto LESSEE for the purpose of investigating, exploring, and prospecting, by geophysical and other methods, and drilling, mining and operating for and producing oil, gas, casinghead gas, and casinghead gasoline, laying pipe lines, building tanks, stations, power lines, telephone lines and other structures thereon to find, produce, save, store, treat, transport, and take care of all of such substances, and for housing and boarding employees in its operations on said land or adjacent land, the following described tract of land in _____ County, _____, to-wit:

_____ said land or adjacent land, the following described tract of land owned or claimed by LESSOR in said section or sections in which the above described land is situated or in adjoining sections, and adjacent to the above described land.
2. Subject to the other provisions herein contained, this lease shall remain in force for a primary term of ten (10) years from this date (said term being hereinafter referred to as "Primary Term"), and as long thereafter as oil, gas, casinghead gas, or operations are being prosecuted as hereinafter provided.
3. LESSEE shall deliver to the credit of LESSOR as royalty, free of cost, in the pipe line to which LESSEE may connect its wells, the equal one-eighth part of all oil produced and saved by LESSEE from the leased premises, or, from time to time, at LESSEE's option, may pay to LESSOR for such one-eighth royalty all oil produced and saved by LESSEE from each well where gas only is found and used by LESSEE off the premises, one-eighth of the market value of such gas at the well. If such gas is sold by the LESSEE, then LESSEE shall pay LESSOR, as royalty, one-eighth of the net proceeds derived from the sale of such gas at the well, and by making his own connections with the well, the use of said gas to be at LESSOR's sole risk and expense.
4. LESSEE shall pay LESSOR, as royalty, for gas produced from any oil well and used by LESSEE for the manufacture of gasoline or any other product, one-eighth of the net proceeds derived from the sale thereof.
5. LESSEE shall pay LESSOR, as royalty, for gas produced from any oil well and used by LESSEE for the manufacture of gasoline or any other product, one-eighth of the market value of said gas, as such, at the mouth of the well. If said gas is sold by LESSEE, then LESSEE shall pay LESSOR, as royalty, one-eighth of the net proceeds derived from the sale thereof.
6. LESSEE has paid rental hereunder to and including the _____ day of _____, 19____. If operations for the drilling of a well for oil or gas are not commenced on said land on or before the last mentioned date, LESSEE on or before said date shall pay or tender to LESSOR or to the credit of LESSOR in _____ Bank, _____, or its successors (which bank and its successors are LESSOR's agent and shall continue as the depository for all rentals and royalty payable hereunder regardless of changes in ownership of said land or of the oil and gas, or of the rentals or royalty to accrue hereunder), a rental in the sum of _____ Dollars (\$ _____), which shall cover the privilege of deferring commencement of operations for the drilling of a well for a period of one year from said date. Hereafter, upon the payment or tender in like manner annually of a rental in the same amount, the commencement of operations for the drilling of a well on the leased premises may be further deferred for successive periods of one year each during the Primary Term hereof. All payments or tenders of rental may be made by check or draft of LESSEE, or of any assignee thereof, mailed or delivered to LESSOR, or his assigns, or to said bank or to refuse to accept any payment, LESSEE shall not be held in default for failure to make such payment until thirty (30) days after LESSOR shall deliver to LESSEE a proper recordable instrument naming another bank as agent to receive such payment or tenders. Notwithstanding the death of LESSOR or any successor in interest, the payment or tender of rentals in the manner provided above shall be binding on the heirs, devisees, executor, and administrators of such person.
7. If, at any time during the Primary Term hereof, LESSEE shall drill a dry hole on said land when oil or gas is not being produced from the leased premises, or if at any time after the discovery of oil or gas on the leased premises production of oil and gas thereon shall cease during the Primary Term hereof, LESSEE, within twelve (12) months from the expiration of the last rental period for which rental was paid or during which oil or gas was produced or drilling operations were in progress, shall either commence operations for the drilling of another well, resume the production of oil or gas, or commence or resume the payment of rentals in the amount and in the manner above provided. And it is agreed that upon such commencement or resumption of production of oil or gas, or commencement or resumption of operations, LESSEE shall continue in force just as though there had been no interruption in the rental payments. If at the expiration of the Primary Term oil, gas, casinghead gas, or casinghead gasoline is not being produced on said land but LESSEE has commenced operations for representing, reworking, drilling, deepening, or plugging back a well thereon, this lease shall remain in force so long as such operations are prosecuted with due diligence, and if such operations result in the production of oil, gas, casinghead gas, or casinghead gasoline, so long thereafter as oil, gas, casinghead gas, or casinghead gasoline is produced from said land. If, after the expiration of the Primary Term of this lease, production on the leased premises shall cease from any cause, this lease shall not terminate if LESSEE with due diligence commences operations for representing, reworking, drilling, deepening, or plugging back a well thereon, and this lease shall remain in force so long as such operations are prosecuted with due diligence, and if production resulting therefrom, then as long as there is oil, gas, casinghead gas, or casinghead gasoline is produced from said land, after as oil, gas, casinghead gas, or casinghead gasoline is produced from said land, after as oil, gas, casinghead gas, or casinghead gasoline is produced from said premises. For the purposes of this paragraph, it is agreed that operations shall be deemed commenced or prosecuted with due diligence so long as there is no delay or cessation thereof for a greater period than sixty (60) consecutive days.
8. LESSEE shall have the right to represent oil or gas bearing formations by injecting air, liquid or gaseous substances therein, and, in connection therewith, shall be privileged to drill and equip and recover wells, erect and install such structures and equipment, and inject such substances, as LESSEE considers necessary for representing purposes. LESSEE shall also have the right to dispose of brine or other waste substances produced by it in its operations on the leased premises by injecting such brine or other waste substances through its well, or wells, drilled on said premises into any subsurface formations other than fresh water bearing formations.
9. In case LESSOR owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties and rentals herein provided for shall be paid LESSOR only in the proportion which his interest bears to the whole and undivided fee.
10. LESSEE shall have the right to use, free of cost, gas, oil and water found on said land for its operations thereon, except water from the wells of LESSOR. When required by LESSOR, LESSEE shall bury pipe lines below plow depth and shall pay for damage directly and immediately caused by its operations to growing crops therefore planted on said land. No well shall be drilled nearer than two hundred (200) feet to the house or barn now on said premises without the written consent of LESSOR. LESSEE shall have the right at any time during or after the expiration of this lease to remove all machinery, fixtures, houses, buildings, and other structures or property placed on said premises, including the right to draw and remove all casing.
11. This lease and all of the terms, provisions and covenants hereof shall extend to and be binding on all of the heirs, devisees, executors, administrators, successors and assigns of said LESSOR and said LESSEE. The estate of either party hereto may be assigned in whole or in part but no change of ownership in the land or in the rentals or royalties shall be binding on LESSEE until after it has been furnished with the written transfer or assignment of a certain copy thereof. Regardless of ownership of the said land, or of portions thereof, the leased premises shall be developed and operated as one lease, and the well shall be no obligation on LESSEE or its assigns to offset wells on separate tracts into which the land covered by this lease is now or may be hereafter divided by sale, devise, or otherwise, or to furnish separate measuring or receiving tanks.
12. It is hereby agreed that, in the event this lease shall be assigned as an entirety or as to a part or as to parts of the above described lands, LESSEE and any subsequent assignor shall be released from all liability hereunder arising or accruing subsequent to the date of such assignment as to the part or parts so assigned, and should the holder or owner of this lease as to any part or parts of the leased premises fail or make default in any of the covenants, conditions or obligations of this lease, express or implied, such failure or default shall not operate to defeat or affect this lease insofar as it covers a part or parts of said land upon which LESSEE or any assignee hereof shall make payment of said rentals, or otherwise comply with the terms and provisions of this lease. If at any time there be as many as four parties entitled to rentals or royalties, LESSEE may withhold payments thereof unless and until all parties designate, in writing, in a recordable instrument to be filed with LESSEE, a common agent to receive all payments due hereunder and to execute division and transfer orders on behalf of said parties and their respective successors in title.
13. LESSEE may at any time surrender this lease as to all or any part of the above described lands by recording a proper instrument of surrender in the office of the _____ of the _____, said county. Upon surrender as to any part of such lands the rental specified above shall be proportionately reduced on an acreage basis and LESSEE shall have reasonable and convenient easements for then existing pipe lines, pole lines and roadways over the lands surrendered for the purpose of continuing operations on lands retained. It is agreed that this lease shall never terminate or be forfeited or cancelled for failure to perform in whole or in part any of its implied covenants, conditions or obligations until it shall have first been judicially determined that such failure exists, and any decree of termination, cancellation, or forfeiture shall be in the alternative and shall provide for termination, cancellation or forfeiture unless LESSEE comply with the implied covenants, conditions or obligations herein, or obligations breached within a reasonable time to be determined by the court. In the event LESSOR considers that LESSEE has not complied with all its covenants, conditions or obligations hereunder, both express and implied, LESSOR shall notify LESSEE in writing, setting out specifically in what respects it is claimed that LESSEE has breached this contract, and LESSEE shall not be liable to LESSOR for any damages caused by our breach of any such covenant, condition or obligation, express or implied, according more than sixty days prior to the receipt by LESSEE of the aforesaid written notice of such breach. Neither the service of said notice nor the doing of any acts by LESSEE aimed to perform all its obligations hereunder, an admission or presumption that LESSEE has failed to perform all its obligations hereunder.
14. LESSOR hereby warrants and agrees to defend the title to the land herein described and agrees that LESSEE, at its option, may pay and discharge any taxes, mortgages, or other liens existing, levied, or assessed on or against the above described lands, and, in the event it exercises such option, LESSEE shall be subrogated to the rights of any holder or holders thereof and may reimburse itself by applying against the amount required in the discharge of any such mortgage, tax, or other lien, any royalty or rentals accruing hereunder.
15. No part of the surface of the leased premises shall, without the consent of the LESSEE, be let, granted, or licensed by the LESSOR to any other party for the erection, construction, location or maintenance of structures, tanks, pits, reservoirs, equipment, machinery, or pipe lines for purpose of or in connection with the exploration, development or operation of or for oil and/or gas on adjacent land or the storage or production of oil and/or gas produced therefrom.
16. This lease shall not be terminated, in whole or in part, nor shall LESSEE be held liable in damages, for failure to comply with the express or implied covenants, conditions, rules, or regulations. If, at the end of the Primary Term hereof, such term has not been extended by production or drilling as in this lease provided, and LESSEE, by reason of any of the above recited causes, is unable to drill a well on the leased premises for oil or gas, the Primary Term and the rental provision hereof shall be extended automatically from year to year until the first anniversary hereof occurring ninety (90) or more days following the removal of such delay-causes. During any period that LESSEE is unable to produce and/or market any products from the leased premises by reason of any of the above recited causes, this lease shall remain in full force and effect.